

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 2005.

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 2005 are set out on pages 74 to 75 of the financial statements.

In view of the rapid growth in the Group's business and strong operating performance during 2005, the Board of Directors recommends the payment of a final dividend of RMB0.11 per ordinary share, totaling approximately RMB1.38 billion for the year ended 31 December 2005.

Summary of financial information

Please refer to the Financial Summary on pages 179 to 180 for the summary of the operating results, assets and liabilities of the Group for the five years ended 31 December 2005.

Loans

Please refer to Notes 15 and 19 to the financial statements for details of the bank loans of the Group as at 31 December 2005.

Bonds

Please refer to Note 18 to the financial statements for details of the bonds of the Group as at 31 December 2005.

Capitalised Interest

Please refer to Note 26 to the financial statements for details of the Group's capitalised interest for the year ended 31 December 2005.

Property, plant and equipment

Please refer to Note 6 to the financial statements for changes in the property, plant and equipment of the Group and the Company for the year ended 31 December 2005.

Charge on assets

As of 31 December 2005, no property, plant and equipment was pledged to banks as loan security.

Reserves

Please refer to pages 76 to 77 of the financial statements for the movements in the reserves of the Group and the Company for the year ended 31 December 2005.

Subsidiaries

Please refer to Note 20 to the financial statements for details of the Company's subsidiaries as at 31 December 2005.

Changes in shareholders' equity

Please refer to page 76 to 77 of the financial statements on the Statement of Changes in Equity.

Housing benefits

Please refer to Note 25 to the financial statements for details of the housing benefits provided to employees of the Group.

Retirement benefits

Please refer to Note 24 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 2005.

Purchases from the largest supplier for the year ended 31 December 2005 represented approximately 8% of the Group's total purchases. The total purchases attributable to the five largest suppliers of the Group for the year ended 31 December 2005 accounted for approximately 29% of the total purchases of the Group for the year 2005.

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 2005.

Connected transactions

Please refer to Note 32 to the financial statements for a summary of the connected transactions entered into by members of the Group for the year ended 31 December 2005.

The independent non-executive Directors of the Company confirmed that all connected transactions referred to in Note 32, to which the Group was a party during 2005:

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 board of directors has received a letter from the auditors of the Company stating that all the connected transactions subject to waivers referred to in note 32 to the financial statements of the Company for 2005:

1. have received the approval of the Company's board of directors;
2. were in accordance with the pricing policy on the transactions involving provision of goods and services;
3. have been entered into in accordance with the relevant agreements governing the connected transactions subject to waivers; and
4. have not exceeded their respective upper limits set for the financial year ended 31 December 2005.

Share capital

Please refer to Note 14 to the financial statements for details of the share capital of the Company for the year ended 31 December 2005.

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 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 2005, 233,292,400 share options had been granted and remain valid under the Share Option Scheme of the Company, of which 6,730,000 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 2005 are governed by the amended terms of the Share Option Scheme as stated herein.

As of 31 December 2005, 21,269,200 options granted under the Share Option Scheme have been exercised.

On 15 February, 2006, the Company further granted 167,466,000 share options under the Share Option Scheme, of which 2,840,000 share options were granted to the then existing Directors and 3,000,000 share options were granted to senior management who were later appointed as Directors of the Company on 1 April 2006. For the impact of the granting on directors' interests in shares, please refer to the paragraph "Directors' interests and short positions in shares, and remuneration".

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 2005, 24,309,600 share options had been granted and remain valid under the Pre-Global Offering Share Option Scheme of the Company, of which 701,400 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 2005 are governed by the amended terms of the Pre-Global Offering Share Option Scheme as stated herein.

Up to 31 December 2005, no options granted under the Pre-Global Offering Share Option Scheme have been exercised.

Financial impact and valuation of share options granted

Upon the adoption of HKFRS 2, the Group changed its accounting policy for share-based payment. Effective on 1 January 2005, the Group expenses the cost of share options in the income statement. The cost of share options granted after 7 November 2002 and not yet vested on 1 January 2005 was expensed retrospectively in the income statements of the respective periods. The Group recognised share-based employee compensation costs based on the estimated fair value of share options at the grant date by using the Black-Scholes valuation model.

Please also refer to Note 28 to the financial statements for an additional description, financial impact and valuation of the respective share option schemes.

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 pages 174 to 175.

Purchase, sale or redemption of shares

For the year ended 31 December 2005, 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 Hong Kong Securities and Futures Ordinance (the "SFO") as at 31 December 2005:

		Ordinary shares held		Percentage of total issued shares
		Held directly	Held Indirectly	
(i)	China United Telecommunications Corporation ("Unicom Group")	—	9,725,000,020	77.34%
(ii)	China United Telecommunications Corporation Limited ("A Share Company")	—	9,725,000,020	77.34%
(iii)	China Unicom (BVI) Limited ("China Unicom (BVI)")	9,725,000,020	—	77.34%

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 2005 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 SFO.

Please also refer to Note 14 to the financial statements for the shareholding position of the Company's shares as at 31 December 2005.

COMPOSITION OF THE BOARD

The directors during the financial year were:

Executive directors:

Chang Xiaobing (Chairman)

Shang Bing

Tong Jilu

Li Qihong (appointed on 19 July 2005)

Lo Wing Yan, William

Ye Fengping

Zhao Le (resigned on 19 July 2005)

Non-executive director:

Liu Yunjie

Independent non-executive directors:

Wu Jinglian

Shan Weijian

Cheung Wing Lam, Linus

Craig O. McCaw (retired on 12 May 2005)

C. James Judson (alternate director to Craig O. McCaw, retired on 12 May 2005)

On 19 January 2006, Mr. Wong Wai Ming was appointed as independent non-executive director.

On 1 April 2006, Mr. Li Qihong, Mr. Lo Wing Yan, William and Mr. Ye Fengping resigned as executive directors; Mr. Liu Yunjie resigned as non-executive director; Ms. Li Jianguo, Mr. Yang Xiaowei, Mr. Li Zhengmao, Mr. Li Gang and Mr. Zhang Junan were appointed as executive directors; and Mr. Lu Jianguo was appointed as non-executive director.

In accordance with the Articles of Association, 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 are subject to election or re-election due to retirement by rotation at the forthcoming annual general meeting of the Company. The personal biographies of the directors are set out in the section headed "Biographical Details of Directors" on P.13 to P.16 of this annual report. Additional information to be disclosed by the proposed Directors pursuant to Rule 13.51(2) of the Listing Rules is set out below for the shareholders' consideration.

Save as disclosed in the section headed “Biographical Details of Directors”, Mr. Chang Xiaobing does not have any other relationship with any directors, senior management or substantial or controlling shareholders of the Company. As at 23 March 2006 (the “Latest Practicable Date”), except for holding a total number of 1,326,000 share options granted under the Company’s share option scheme, Mr. Chang does not have any other interest in the shares of the Company within the meaning of Part XV of the SFO.

The terms of services agreed between Mr. Chang and the Company do not provide for a specified length of service and do not expressly require the Company to give more than one year’s notice period or to make payments equivalent to more than one year’s emoluments to terminate the service. Mr. Chang is subject to retirement by rotation in annual general meetings in accordance with the articles of association of the Company. Mr. Chang will receive a remuneration package including a basic salary of HK\$107,700 per month plus a housing allowance, as well as a discretionary bonus and discretionary grant of share options as may be recommended by the Remuneration Committee of the Company and determined by the Board with reference to his working performance. The remuneration of Mr. Chang has been determined with reference to his duties and responsibilities in the Company, his experience and the prevailing market conditions. Mr. Chang has confirmed that there is no other matter that needs to be brought to the attention of the shareholders of the Company pursuant to rule 13.51(2) of Chapter 13 of the Listing Rules.

Save as disclosed in the section headed “Biographical Details of Directors”, Mr. Tong Jilu does not have any other relationship with any directors, senior management or substantial or controlling shareholders of the Company. As at the Latest Practicable Date, except for holding a total number of 1,668,000 share options granted under the Company’s share option scheme, Mr. Tong does not have any other interest in the shares of the Company within the meaning of Part XV of the SFO.

The terms of services agreed between Mr. Tong and the Company do not provide for a specified length of service and do not expressly require the Company to give more than one year's notice period or to make payments equivalent to more than one year's emoluments to terminate the service. Mr. Tong is subject to retirement by rotation in annual general meetings in accordance with the articles of association of the Company. Mr. Tong will receive a remuneration package including a basic salary of HK\$69,200 per month plus a housing allowance, as well as a discretionary bonus and discretionary grant of share options as may be recommended by the Remuneration Committee of the Company and determined by the Board with reference to his working performance. The remuneration of Mr. Tong has been determined with reference to his duties and responsibilities in the Company, his experience and the prevailing market conditions. Mr. Tong has confirmed that there is no other matter that needs to be brought to the attention of the shareholders of the Company pursuant to rule 13.51(2) of Chapter 13 of the Listing Rules.

Save as disclosed in the section headed "Biographical Details of Directors", Ms. Li Jianguo does not have any other relationship with any directors, senior management or substantial or controlling shareholders of the Company. As at the Latest Practicable Date, except for holding a total number of 1,552,000 share options granted under the Company's share option scheme. Ms. Li does not have any other interest in the shares of the Company within the meaning of Part XV of the SFO.

The terms of services agreed between Ms. Li and the Company do not provide for a specified length of service and do not expressly require the Company to give more than one year's notice period or to make payments equivalent to more than one year's emoluments to terminate the service. Ms. Li is subject to retirement by rotation in annual general meetings in accordance with the articles of association of the Company. Ms. Li will receive a remuneration package including a basic salary of HK\$57,700 per month plus a housing allowance, as well as a discretionary bonus and discretionary grant of share options as may be recommended by the Remuneration Committee of the Company and determined by the Board with reference to her working performance. The remuneration of Ms. Li has been determined with reference to her duties and responsibilities in the Company, her experience and the prevailing market conditions. Ms. Li has confirmed that there is no other matter that needs to be brought to the attention of the shareholders of the Company pursuant to rule 13.51(2) of Chapter 13 of the Listing Rules.

Save as disclosed in the section headed “Biographical Details of Directors”, Mr. Yang Xiaowei does not have any other relationship with any directors, senior management or substantial or controlling shareholders of the Company. As at the Latest Practicable Date, except for holding a total number of 1,118,000 share options granted under the Company’s share option scheme, Mr. Yang does not have any other interest in the shares of the Company within the meaning of Part XV of the SFO.

The terms of services agreed between Mr. Yang and the Company do not provide for a specified length of service and do not expressly require the Company to give more than one year’s notice period or to make payments equivalent to more than one year’s emoluments to terminate the service. Mr. Yang is subject to retirement by rotation in annual general meetings in accordance with the articles of association of the Company. Mr. Yang will receive a remuneration package including a basic salary of HK\$57,700 per month plus a housing allowance, as well as a discretionary bonus and discretionary grant of share options as may be recommended by the Remuneration Committee of the Company and determined by the Board with reference to his working performance. The remuneration of Mr. Yang has been determined with reference to his duties and responsibilities in the Company, his experience and the prevailing market conditions. Mr. Yang has confirmed that there is no other matter that needs to be brought to the attention of the shareholders of the Company pursuant to rule 13.51(2) of Chapter 13 of the Listing Rules.

Save as disclosed in the section headed “Biographical Details of Directors”, Mr. Li Zhengmao does not have any other relationship with any directors, senior management or substantial or controlling shareholders of the Company. As at the Latest Practicable Date, except for holding 20,000 shares of the Company and a total number of 1,360,600 share options granted under the Company’s share option scheme. Mr. Li does not have any other interest in the shares of the Company within the meaning of Part XV of the SFO.

The terms of services agreed between Mr. Li and the Company do not provide for a specified length of service and do not expressly require the Company to give more than one year's notice period or to make payments equivalent to more than one year's emoluments to terminate the service. Mr. Li is subject to retirement by rotation in annual general meetings in accordance with the articles of association of the Company. Mr. Li will receive a remuneration package including a basic salary of HK\$57,700 per month plus a housing allowance, as well as a discretionary bonus and discretionary grant of share options as may be recommended by the Remuneration Committee of the Company and determined by the Board with reference to his working performance. The remuneration of Mr. Li has been determined with reference to his duties and responsibilities in the Company, his experience and the prevailing market conditions. Mr. Li has confirmed that there is no other matter that needs to be brought to the attention of the shareholders of the Company pursuant to rule 13.51(2) of Chapter 13 of the Listing Rules.

Save as disclosed in the section headed "Biographical Details of Directors", Mr. Li Gang does not have any other relationship with any directors, senior management or substantial or controlling shareholders of the Company. As at the Latest Practicable Date, except for holding a total number of 500,000 share options granted under the Company's share option scheme, Mr. Li does not have any other interest in the shares of the Company within the meaning of Part XV of the SFO.

The terms of services agreed between Mr. Li and the Company do not provide for a specified length of service and do not expressly require the Company to give more than one year's notice period or to make payments equivalent to more than one year's emoluments to terminate the service. Mr. Li is subject to retirement by rotation in annual general meetings in accordance with the articles of association of the Company. Mr. Li will receive a remuneration package including a basic salary of HK\$57,700 per month plus a housing allowance, as well as a discretionary bonus and discretionary grant of share options as may be recommended by the Remuneration Committee of the Company and determined by the Board with reference to his working performance. The remuneration of Mr. Li has been determined with reference to his duties and responsibilities in the Company, his experience and the prevailing market conditions. Mr. Li has confirmed that there is no other matter that needs to be brought to the attention of the shareholders of the Company pursuant to rule 13.51(2) of Chapter 13 of the Listing Rules.

Save as disclosed in the section headed “Biographical Details of Directors”, Mr. Zhang Junan does not have any other relationship with any directors, senior management or substantial or controlling shareholders of the Company. As at the Latest Practicable Date, except for holding a total number of 500,000 share options granted under the Company's share option scheme. Mr. Zhang does not have any other interest in the shares of the Company within the meaning of Part XV of the SFO.

The terms of services agreed between Mr. Zhang and the Company do not provide for a specified length of service and do not expressly require the Company to give more than one year's notice period or to make payments equivalent to more than one year's emoluments to terminate the service. Mr. Zhang is subject to retirement by rotation in annual general meetings in accordance with the articles of association of the Company. Mr. Zhang will receive a remuneration package including a basic salary of HK\$57,700 per month plus a housing allowance, as well as a discretionary bonus and discretionary grant of share options as may be recommended by the Remuneration Committee of the Company and determined by the Board with reference to his working performance. The remuneration of Mr. Zhang has been determined with reference to his duties and responsibilities in the Company, his experience and the prevailing market conditions. Mr. Zhang has confirmed that there is no other matter that needs to be brought to the attention of the shareholders of the Company pursuant to rule 13.51(2) of Chapter 13 of the Listing Rules.

Save as disclosed in the section headed “Biographical Details of Directors”, Mr. Lu Jianguo does not have any other relationship with any directors, senior management or substantial or controlling shareholders of the Company. As at the Latest Practicable Date, except for holding a total number of 1,668,600 share options granted under the Company's share option scheme. Mr. Lu does not have any other interest in the shares of the Company within the meaning of Part XV of the SFO.

Mr. Lu has not entered into any directors' service contract with the Company and there is no term expressly provides for the Company to give more than one year's notice period or to make payments equivalent to more than one year's emoluments to terminate the service. Mr. Lu is subject to retirement by rotation in annual general meetings in accordance with the articles of association of the Company. Mr. Lu will receive an annual fee of HK\$300,000 as fees for being a non-executive director, as well as an annual fee of HK\$20,000 for being a member of the Remuneration Committee. Other than the aforesaid fees, Mr. Lu is not entitled to any bonus or other emoluments. Mr. Lu has confirmed that there is no other matter that needs to be brought to the attention of the shareholders of the Company pursuant to rule 13.51(2) of Chapter 13 of the Listing Rules.

Save as disclosed in the section headed “Biographical Details of Directors”, Mr. Cheung Wing Lam, Linus does not have any other relationship with any directors, senior management or substantial or controlling shareholders of the Company. As at the Latest Practicable Date, except for holding a total number of 292,000 share options granted under the Company’s share option scheme, Mr. Cheung does not have any other interest in the shares of the Company within the meaning of Part XV of the SFO.

Mr. Cheung has not entered into any directors’ service contract with the Company and there is no term expressly provides for the Company to give more than one year’s notice period or to make payments equivalent to more than one year’s emoluments to terminate the service. Mr. Cheung is subject to retirement by rotation in annual general meetings in accordance with the articles of association of the Company. Mr. Cheung will receive an annual fee of HK\$300,000 as fees for being a non-executive director, an annual fee of HK\$70,000 for being a member of the Audit Committee as well as an annual fee of HK\$20,000 for being a member of the Remuneration Committee. Other than the aforesaid fees, Mr. Cheung is not entitled to any bonus or other emoluments. Mr. Cheung has confirmed that there is no other matter that needs to be brought to the attention of the shareholders of the Company pursuant to rule 13.51(2) of Chapter 13 of the Listing Rules.

Save as disclosed in the section headed “Biographical Details of Directors”, Mr. Wong Wai Ming does not have any other relationship with any directors, senior management or substantial or controlling shareholders of the Company. As at the Latest Practicable Date, Mr. Wong does not have any other interest in the shares of the Company within the meaning of Part XV of the SFO.

Mr. Wong has not entered into any directors’ service contract with the Company and there is no term expressly provides for the Company to give more than one year’s notice period or to make payments equivalent to more than one year’s emoluments to terminate the service. Mr. Wong is subject to retirement by rotation in annual general meetings in accordance with the articles of association of the Company. Mr. Wong will receive an annual fee of HK\$300,000 as fees for being a non-executive director, an annual fee of HK\$100,000 for being Chairman of the Audit Committee. Other than the aforesaid fees, Mr. Wong is not entitled to any bonus or other emoluments. Mr. Wong has confirmed that there is no other matter that needs to be brought to the attention of the shareholders of the Company pursuant to rule 13.51(2) of Chapter 13 of the Listing Rules.

Directors' interests and short positions in shares, and remuneration

As at 31 December 2005, the interests and short positions of the Directors and past Directors 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 2005, the following Directors, past Directors and chief executive of the Company held the following share options under the Pre-Global Offering Share Option Scheme and the Share Option Scheme:

Name of Directors/ past Directors	No. of Options Outstanding As At 1 January 2005 ¹	No. of Options Granted During 2005 ¹	No. of Options Exercised During 2005	No. of Options Outstanding As At 31 December 2005	Other remuneration for the Year 2005 RMB'000
Chang Xiaobing	526,000	—	—	526,000	4,213
Shang Bing	1,208,400	—	—	1,208,400	3,513
Tong Jilu	1,168,000	—	—	1,168,000	2,845
Li Qihong ⁵	N/A ²	—	—	816,400	1,013
Lo Wing Yan, William ⁵	554,000	—	204,000	350,000	2,877
Ye Fengping ⁵	734,000	—	—	734,000	2,145
Liu Yunjie ⁵	876,600	—	—	876,600	316
Wu Jinglian	876,000	—	—	876,000	316
Shan Weijian	584,000	—	—	584,000	316
Cheung Wing Lam, Linus	292,000	—	—	292,000	316
Zhao Le ³	816,400	—	—	N/A	1,226
Craig O. McCaw ⁴	876,000	—	—	N/A	114

Report of the Directors

Subsequent to 31 December 2005, the Company granted the following share options under the Share Option Scheme to the following Directors and past Directors of the Company on 15 February 2006:

Name of Directors/past Directors	No. of Options Outstanding As At 1 January 2006 ¹	No. of Options Granted on 15 February 2006 ¹
Chang Xiaobing	526,000	800,000
Shang Bing	1,208,400	700,000
Tong Jilu	1,168,000	500,000
Li Qihong ^{2 and 5}	816,400	280,000
Lo Wing Yan, William ⁵	350,000	280,000
Ye Fengping ⁵	734,000	280,000
Li Jianguo ⁶	1,052,000	500,000
Yang Xiaowei ⁶	618,000	500,000
Li Zhengmao ⁶	860,600	500,000
Li Gang ⁶	—	500,000
Zhang Junan ⁶	—	500,000
Lu Jianguo ⁶	1,168,600	500,000

1. Each option gives the holder the right to subscribe for one share.
2. Mr. Li Qihong was appointed as executive director on 19 July 2005.
3. Mr. Zhao Le resigned as executive director on 19 July 2005.
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. Li Qihong, 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.
6. 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.

Apart from the foregoing, at no time during 2005 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 2005, 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 2005, 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 23 to the financial statements for details of the emoluments of the Directors and senior management of the Company.

Employee and remuneration policy

As at 31 December 2005, the Group employed approximately 70 and 53,000 staff in Hong Kong and China respectively. Employee benefit expenses were RMB5.62 billion (2004: RMB4.62 billion). The Group ensures that its employees' remuneration is in line with the market trend and competitive. Employees' remuneration is determined based on the performance of employees in accordance with the Group's remuneration and bonus system. The Group also provides comprehensive benefit packages and career development opportunities for its staff, including retirement benefits, housing benefits, internal and external training programmes according to individual needs.

The Company has a share option scheme under which the Company offers share options for subscribing its shares to eligible staff.

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 considers the independent non-executive directors to be independent.

Corporate Governance Report

Report on the Company's corporate governance are set out in "Corporate Governance Report" on pages 17 to 25.

Material legal proceedings

We are not involved in any material litigation, arbitration or administrative proceedings. So far as we are aware, no such litigation, arbitration or administrative proceedings are pending or threatened.

Public float

Based on the publicly available information and so far as Directors are aware, the Company has maintained the specified amount of public float as required by the Stock Exchange during the year and as at the date of this report.

Donations

For the year ended 31 December 2005, the Group made charitable and other donations totalling approximately RMB8,900,000.

Auditors

PricewaterhouseCoopers were appointed as the auditors of the Company for the year ended 31 December 2005 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 2006.

By Order of the Board

Chang Xiaobing

Chairman and Chief Executive Officer

Hong Kong, 23 March 2006