

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 2006.

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 2006 are set out on pages 78 to 79 of the annual report.

In view of the rapid growth in the Group’s business and strong operating performance during 2006, the Board of Directors recommends the payment of a final dividend of RMB0.18 per ordinary share, totaling approximately RMB2.3 billion for the year ended 31 December 2006.

Summary of Financial Information

Please refer to the Financial Summary on pages 171 to 172 for the summary of the operating results, assets and liabilities of the Group for the five years ended 31 December 2006.

Loans

Please refer to Notes 16,17,20 and 21 to the financial statements for details of the borrowings of the Group as at 31 December 2006.

Convertible Bonds

Please refer to Note 17 to the financial statements for details of the convertible bonds of the Group as at 31 December 2006.

Bonds

Please refer to Note 20 to the financial statements for details of the short-term bonds of the Group as at 31 December 2006.

Capitalised Interest

Please refer to Note 6 to the financial statements for details of the Group's capitalised interest for the year ended 31 December 2006.

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 2006.

Charge on Assets

As of 31 December 2006, no property, plant and equipment was pledged to banks as loan security.

Reserves

Please refer to pages 80 to 81 of the annual report for the movements in the reserves of the Group and the Company for the year ended 31 December 2006.

Subsidiaries

Please refer to Note 22 to the financial statements for details of the Company's subsidiaries as at 31 December 2006.

Changes in Shareholders' Equity

Please refer to page 80 to 81 of the annual report for the Consolidated Statement of Changes in Equity.

Housing Benefits

Please refer to Note 27 to the financial statements for details of the housing benefits provided to employees of the Group.

Retirement Benefits

Please refer to Note 26 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 2006.

Purchases from the largest supplier for the year ended 31 December 2006 represented approximately 7% of the Group’s total purchases. The total purchases attributable to the five largest suppliers of the Group for the year ended 31 December 2006 accounted for approximately 28% of the total purchases of the Group for the year 2006.

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 2006.

Connected Transactions

Please refer to Note 33 to the financial statements for a summary of the connected transactions entered into by members of the Group for the year ended 31 December 2006.

The independent non-executive directors of the Company confirmed that all continuing connected transactions referred to in Note 33.1, to which the Group was a party during 2006:

- (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 continuing connected transactions referred to in Note 33.1 to the financial statements of the Company for 2006:

- (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; and
- (4) have not exceeded their respective upper limits set for the year ended 31 December 2006.

Share Capital

Please refer to Note 15 to the financial statements for details of the share capital of the Company for the year ended 31 December 2006.

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:

- (1) share options may be granted to employees including executive directors of the Group and any of the non-executive directors;
- (2) 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);
- (3) 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;
- (4) 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

- (5) 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.

On 15 February 2006, the Company 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. The exercise price of the share options is HK\$6.35 per share. The closing price per share on 15 February 2006 immediately before the grant is HK\$6.35. The Company used the Black-Scholes valuation model to determine the fair value of share options granted during the period. The fair value of an option is determined based on different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

Up to 31 December 2006, 290,098,000 share options had been granted and remain valid under the Share Option Scheme of the Company, of which 11,316,000 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 2006 are governed by the amended terms of the Share Option Scheme as stated herein.

As of 31 December 2006, 127,993,200 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:

- (1) 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);
- (2) 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
- (3) No further options can be granted under the scheme.

Up to 31 December 2006, 24,178,000 share options had been granted and remain valid under the Pre-Global Offering Share Option Scheme of the Company, of which 789,600 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 2006 are governed by the amended terms of the Pre-Global Offering Share Option Scheme as stated herein.

Up to 31 December 2006, 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 effective on 1 January 2005, the Group expenses the cost of share options in the income statement. Under the transitional provisions set out in paragraph 53 of HKFRS 2, the Group is not required to apply HKFRS 2 to share options granted on or before 7 November 2002. 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 29 to the financial statements for an additional description, financial impact and valuation of the respective share option schemes.

Repurchase, Sale or Redemption of Listed Shares of the Company

For the year ended 31 December 2006, neither the Company nor any of its subsidiaries repurchased, 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 2006:

	Ordinary shares held		Other interests held	Percentage of total issued shares
	Directly	Indirectly		
(i) China United Telecommunications Corporation ("Unicom Group") ¹	—	9,725,000,020	—	76.69%
(ii) China United Telecommunications Corporation Limited ("A Share Company") ¹	—	9,725,000,020	—	76.69%
(iii) China Unicom (BVI) Limited ("China Unicom (BVI)") ¹	9,725,000,020	—	—	76.69%
(iv) SK Telecom Co., Ltd ("SK Telecom") ²	—	—	899,745,075	7.10%

Notes:

1. 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 SFO, 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.
2. SK Telecom has an interest in 899,745,075 shares in the Company's issued shares by virtue of its ownership of the convertible bonds issued by the Company. Please refer to Note 17 to the financial statements for details of the convertible bonds.

Apart from the foregoing, as at 31 December 2006 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 15 to the financial statements for the shareholding position of the Company's shares as at 31 December 2006.

Composition of the Board

The directors during the year were:

Executive directors:

Chang Xiaobing (Chairman)

Shang Bing

Tong Jilu

Li Jianguo (appointed on 1 April 2006)

Yang Xiaowei (appointed on 1 April 2006)

Li Zhengmao (appointed on 1 April 2006)

Li Gang (appointed on 1 April 2006)

Zhang Junan (appointed on 1 April 2006)

Li Qiuhong (resigned on 1 April 2006)

Lo Wing Yan, William (resigned on 1 April 2006)

Ye Fengping (resigned on 1 April 2006)

Non-executive directors:

Lu Jianguo (appointed on 1 April 2006)

Liu Yunjie (resigned on 1 April 2006)

Independent non-executive directors:

Wu Jinglian

Shan Weijian

Cheung Wing Lam, Linus

Wong Wai Ming (appointed on 19 January 2006)

In accordance with the Articles of Association, Mr. Shang Bing, Ms. Li Jianguo, Mr. Yang Xiaowei, Mr. Wu Jinglian and Mr. Shan Weijian are subject to 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 pages 12 to 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. Shang Bing does not have any other relationship with any directors, senior management or substantial or controlling shareholders of the Company. As at 29 March 2007 (the “Latest Practicable Date”), except for holding a total number of 1,688,400 share options granted under the Company’s share option schemes, Mr. Shang 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. Shang 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. Shang is subject to retirement by rotation in annual general meetings in accordance with the articles of association of the Company. Mr. Shang will receive a remuneration package including a basic salary of HK\$92,310 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. Shang has been determined with reference to his duties and responsibilities in the Company, his experience and the prevailing market conditions. Mr. Shang 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 1,340,000 share options granted under the Company’s share option schemes. 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

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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 914,000 share options granted under the Company’s share option schemes, 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. Wu Jinglian 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 876,000 share options granted under the Company’s share option schemes, Mr. Wu does not have any other interest in the shares of the Company within the meaning of Part XV of the SFO.

Mr. Wu 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. Wu is subject to retirement by rotation in annual general meetings in accordance with the articles of association of the Company. Mr. Wu 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\$40,000 for being the Chairman of the Remuneration Committee. Other than the aforesaid fees, Mr. Wu is not entitled to any bonus or other emoluments. Mr. Wu 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. Shan Weijian 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 584,000 share options granted under the Company's share option schemes, Mr. Shan does not have any other interest in the shares of the Company within the meaning of Part XV of the SFO.

Mr. Shan 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. Shan is subject to retirement by rotation in annual general meetings in accordance with the articles of association of the Company. Mr. Shan will receive an annual fee of HK\$300,000 as fees for being a non-executive director and an annual fee of HK\$70,000 for being a member of the Audit Committee. Other than the aforesaid fees, Mr. Shan is not entitled to any bonus or other emoluments. Mr. Shan 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.

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Directors' Interests and Short Positions in Shares, and Remuneration

As at 31 December 2006, 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 SFO) 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 2006, the following Directors of the Company held the following ordinary shares of HK\$0.10 of the Company:

Name of director	Capacity	Ordinary shares held	Percentage of total issued shares
Li Zhengmao	Beneficial owner (personal)	20,000	0.0002%
Cheung Wing Lam, Linus	Beneficial owner (personal)	200,000	0.0016%

As at 31 December 2006, the following directors, past directors and chief executive of the Company held the following interests under the Pre-Global Offering Share Option Scheme and the Share Option Scheme:

Name of Directors/ past Directors	Capacity and Nature	Date of Options Granted ⁴	Price per Share to be Paid on Exercise of Options (HK\$)	No. of Options Outstanding as at 1 January 2006 ¹	No. of Options Granted During 2006 ¹	No. of Options Exercised During 2006 ¹	No. of Options Outstanding as at 31 December 2006 ¹	Remuneration for Year 2006 (RMB '000)
Existing Directors								
Chang Xiaobing	Beneficial owner (Personal)	21 December 2004	6.20	526,000	—	—	526,000	4,571
		15 February 2006	6.35	—	800,000	—	800,000	
Shang Bing	Beneficial owner (Personal)	22 June 2000	15.42	204,400	—	—	204,400	4,771
		10 July 2002	6.18	292,000	—	—	292,000	
		21 May 2003	4.30	292,000	—	220,000	72,000	
		20 July 2004	5.92	292,000	—	—	292,000	
		21 December 2004	6.20	128,000	—	—	128,000	
		15 February 2006	6.35	—	700,000	—	700,000	
Tong Jilu	Beneficial owner (Personal)	30 June 2001	15.42	292,000	—	—	292,000	4,020
		10 July 2002	6.18	292,000	—	—	292,000	
		21 May 2003	4.30	292,000	—	220,000	72,000	
		20 July 2004	5.92	292,000	—	—	292,000	
		15 February 2006	6.35	—	500,000	—	500,000	
	Beneficial owner (Spouse)	21 May 2003	4.30	32,000	—	—	32,000	
		20 July 2004	5.92	32,000	—	—	32,000	
		15 February 2006	6.35	—	40,000	—	40,000	

Name of Directors/ past Directors	Capacity and Nature	Date of Options Granted ⁴	Price per Share to be Paid on Exercise of Options (HK\$)	No. of Options Outstanding as at 1 January 2006 ¹	No. of Options Granted During 2006 ¹	No. of Options Exercised During 2006 ¹	No. of Options Outstanding as at 31 December 2006 ¹	Remuneration for Year 2006 (RMB '000)
Li Jianguo ²	Beneficial owner (Personal)	30 June 2001	15.42	292,000	—	—	292,000	2,756
		10 July 2002	6.18	176,000	—	—	176,000	
		21 May 2003	4.30	292,000	—	212,000	80,000	
		20 July 2004	5.92	292,000	—	—	292,000	
		15 February 2006	6.35	—	500,000	—	500,000	
Yang Xiaowei ²	Beneficial owner (Personal)	10 July 2002	6.18	122,000	—	—	122,000	2,686
		21 May 2003	4.30	204,000	—	204,000	—	
		20 July 2004	5.92	292,000	—	—	292,000	
		15 February 2006	6.35	—	500,000	—	500,000	
Li Zhengmao ²	Beneficial owner (Personal)	22 June 2000	15.42	292,600	—	—	292,600	2,257
		10 July 2002	6.18	176,000	—	—	176,000	
		21 May 2003	4.30	100,000	—	100,000	—	
		20 July 2004	5.92	292,000	—	—	292,000	
		15 February 2006	6.35	—	500,000	—	500,000	
Li Gang ²	Beneficial owner (Personal)	15 February 2006	6.35	—	500,000	—	500,000	1,791
Zhang Junan ²	Beneficial owner (Personal)	15 February 2006	6.35	—	500,000	—	500,000	1,791
Lu Jianguo ²	Beneficial owner (Personal)	22 June 2000	15.42	292,600	—	—	292,600	1,525
		10 July 2002	6.18	292,000	—	—	292,000	
		21 May 2003	4.30	292,000	—	292,000	—	
		20 July 2004	5.92	292,000	—	—	292,000	
		15 February 2006	6.35	—	500,000	—	500,000	
Wu Jinglian	Beneficial owner (Personal)	10 July 2002	6.18	292,000	—	—	292,000	420
		21 May 2003	4.30	292,000	—	—	292,000	
		20 July 2004	5.92	292,000	—	—	292,000	
Shan Weijian	Beneficial owner (Personal)	21 May 2003	4.30	292,000	—	—	292,000	379
		20 July 2004	5.92	292,000	—	—	292,000	
Cheung Wing Lam, Linus	Beneficial owner (Personal)	20 July 2004	5.92	292,000	—	—	292,000	400
Wong Wai Ming ²	Beneficial owner (Personal)	—	—	—	—	—	—	390

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Name of Directors/ past Directors	Capacity and Nature	Date of Options Granted ⁴	Price per Share to be Paid on Exercise of Options (HK\$)	No. of Options Outstanding as at 1 January 2006 ¹	No. of Options Granted During 2006 ¹	No. of Options Exercised During 2006 ¹	No. of Options Outstanding as at 31 December 2006 ¹	Remuneration for Year 2006 (RMB '000)
Past Directors								
Li QiuHong ³	Beneficial owner (Personal)	22 June 2000	15.42	204,400	—	—	N/A	584
		10 July 2002	6.18	204,000	—	—	N/A	
		21 May 2003	4.30	204,000	—	—	N/A	
		20 July 2004	5.92	204,000	—	—	N/A	
		15 February 2006	6.35	—	280,000	—	N/A	
Lo Wing Yan, William ³	Beneficial owner (Personal)	21 May 2003	4.30	88,000	—	—	N/A	611
		20 July 2004	5.92	262,000	—	—	N/A	
		15 February 2006	6.35	—	280,000	—	N/A	
Ye Fengping ³	Beneficial owner (Personal)	30 June 2001	15.42	136,000	—	—	N/A	349
		10 July 2002	6.18	132,000	—	—	N/A	
		21 May 2003	4.30	204,000	—	—	N/A	
		20 July 2004	5.92	262,000	—	—	N/A	
		15 February 2006	6.35	—	280,000	—	N/A	
Liu Yunjie ³	Beneficial owner (Personal)	22 June 2000	15.42	292,600	—	—	N/A	81
		21 May 2003	4.30	292,000	—	—	N/A	
		20 July 2004	5.92	292,000	—	—	N/A	

Notes:

- Each option gives the holder the right to subscribe for one share.
- 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 2007. Mr. Lu Jianguo was appointed as non-executive director on 1 April 2006.
- Mr. Li QiuHong, 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. Particulars of share options are as follows:

Date of options granted	The period during which an option may be exercised
Options granted under the Pre-Global Offering Share Option Scheme:	
22 June 2000	22 June 2002 to 21 June 2010
Options granted under the Share Option Scheme:	
30 June 2001	30 June 2001 to 22 June 2010
10 July 2002	10 July 2003 to 9 July 2008 (in respect of 40% of the options granted) 10 July 2004 to 9 July 2008 (in respect of 30% of the options granted) 10 July 2005 to 9 July 2008 (in respect of the remaining 30% of the options granted)
21 May 2003	21 May 2004 to 20 May 2009 (in respect of 40% of the options granted) 21 May 2005 to 20 May 2009 (in respect of 30% of the options granted) 21 May 2006 to 20 May 2009 (in respect of the remaining 30% of the options granted)
30 May 2003	21 May 2004 to 20 May 2009 (in respect of 40% of the options granted) 21 May 2005 to 20 May 2009 (in respect of 30% of the options granted) 21 May 2006 to 20 May 2009 (in respect of the remaining 30% of the options granted)
20 July 2004	20 July 2005 to 19 July 2010 (in respect of 40% of the options granted) 20 July 2006 to 19 July 2010 (in respect of 30% of the options granted) 20 July 2007 to 19 July 2010 (in respect of the remaining 30% of the options granted)
21 December 2004	21 December 2005 to 20 December 2010 (in respect of 40% of the options granted) 21 December 2006 to 20 December 2010 (in respect of 30% of the options granted) 21 December 2007 to 20 December 2010 (in respect of the remaining 30% of the options granted)
15 February 2006	15 February 2008 to 14 February 2012 (in respect of 50% of the options granted) 15 February 2009 to 14 February 2012 (in respect of the remaining 50% of the options granted)

Apart from the foregoing, at no time during 2006 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 2006, 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 2006, 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 25 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 2006, the Company employed approximately 120 and 53,000 staff in Hong Kong and China, respectively. Also, we employed approximately 60,000 temporary staff in China. Employee benefit expenses were RMB6.65 billion (2005: RMB5.62 billion).

The Company endeavors to keep its employees' remuneration in line with market trend and being competitive. Employees' remuneration is determined in accordance with the Company's remuneration and bonus system based on their performance. The Company also provides comprehensive benefit packages and career development opportunities for its employees, including retirement benefits, housing benefits, internal and external training programmes, varying based on their individual needs.

The Company has share option schemes, under which the Company may grant share options for subscribing for its shares to eligible staff.

Strategic Alliance Framework Agreement with SK Telecom and Issue of Convertible Bonds

The Company entered into a Strategic Alliance Framework Agreement (“SAFA”) with SK Telecom on 20 June 2006, pursuant to which the Company and SK Telecom agreed to cooperate on the further development of CDMA cellular communications services in China. The Company has agreed to appoint SK Telecom as the Company’s sole and exclusive partner in relation to its CDMA cellular communications business operations in mainland China for a maximum term of 18 months in the areas of CDMA handsets, value-added services and related business platform, markets, information technology infrastructure and network technologies.

At the same time, the Company has also entered into a subscription agreement (the “Subscription Agreement”) with SK Telecom, whereby SK Telecom agreed to subscribe and pay for the US dollar denominated bonds (the “Convertible Bonds”) to be issued at par by the Company in an aggregate principal amount of US\$1 billion. The three-year Convertible Bonds bear zero interest, with a conversion price of HK\$8.63 per share and a maturity date of 5 July 2009. Upon the fulfillment of the conditions set forth in the Subscription Agreement, the Convertible Bonds were issued on 5 July 2006.

On 5 July 2008 (the Put Option Date), each bondholder will have the right at such holder’s option, to require the Company to redeem all or some only of the Convertible Bonds of such holder on the Put Option Date at 102.82% of the principal amount. Unless previously redeemed, converted, or purchased and cancelled, the Convertible Bonds will be redeemed at 104.26% of its principal amount on 5 July 2009.

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 all 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 29.

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 Hong Kong Stock Exchange during the year and as at the date of this report.

Donations

For the year ended 31 December 2006, the Group made charitable and other donations totalling approximately RMB9,970,000 million.

Auditors

PricewaterhouseCoopers were appointed as the auditors of the Company for the year ended 31 December 2006 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 2007.

By Order of the Board

Chang Xiaobing

Chairman and Chief Executive Officer

Hong Kong,
29 March 2007