

CHINA UNICOM LTD  
Form 6-K  
August 15, 2008

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**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 6-K**  
**Report of Foreign Private Issuer**  
**Pursuant to Rule 13a-16 or 15d-16 of**  
**the Securities Exchange Act of 1934**  
**For the Month of August 2008**  
**Commission File Number 1-15028**  
**China Unicom Limited**

(Exact Name of Registrant as Specified in Its Charter)  
75/F, The Center,  
99 Queen's Road Central, Hong Kong  
(Address of principal executive offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F  Form 40-F

(Indicate by check mark if the registrant is submitting the Form 6-K on paper as permitted by Regulation S-T Rule 101(b)(1): )

(Indicate by check mark if the registrant is submitting the Form 6-K on paper as permitted by Regulation S-T Rule 101(b)(7): )

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes  No

(If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):82-\_\_\_\_.)

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### Signature

#### Part I

##### EXHIBIT 1 Circular

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## EXHIBITS

### Exhibit Number

- |   |  |
|---|--|
| 1 | Circular dated August 15, 2008 for (1) Very Substantial Acquisition Relating to the Proposed Merger of China Unicom Limited and China Netcom Group Corporation (Hong Kong) Limited by way of a Scheme of Arrangement of China Netcom Group Corporation (Hong Kong) Limited Under Section 166 of the Hong Kong Companies Ordinance; (2) Mandate to Issue China Unicom Limited Shares; (3) Adoption of Special Purpose Unicom Share Option Scheme; (4) New Continuing Connected Transactions; (5) Proposed Amendment to Articles of Association; and (6) Proposed Change of Company Name |
| 2 | Announcement dated August 15, 2008 in respect of the Notice of Extraordinary General Meeting   |
| 3 | Option Proposal in relation to the Proposed Merger of China Unicom Limited and China Netcom Group Corporation (Hong Kong) Limited by Way of a Scheme of Arrangement of China Netcom Group Corporation (Hong Kong) Limited under Section 166 of the Hong Kong Companies Ordinance   |

## FORWARD-LOOKING STATEMENTS

The circular, announcement and proposal, constituting Exhibits 1, 2 and 3 to this Form 6-K, contain forward-looking statements that are, by their nature, subject to significant risks and uncertainties. Such forward-looking statements include, without limitation, the Company's operating strategy and future plan; its restructuring plan; its capital expenditure plan; its future business condition and financial results; its abilities to upgrade and expand networks and increase network efficiency; its ability to improve existing services and offer new services; its ability to develop new technology applications; its ability to leverage its position as an integrated telecommunications operator and expand into new businesses and new markets; future growth of market demand for the Company's services; and future regulatory and other developments in the PRC telecommunications industry.

Such forward-looking statements reflect the current views of the Company with respect to future events. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors that may be beyond the Company's control, including, without limitation, any changes in the regulatory regime and significant policies for the PRC telecommunications industry, including changes in the structure or functions of the

primary industry regulator, the Ministry of Industry and Information Technology, or the MII (which has assumed the regulatory functions of the former Ministry of Information Industry), or any changes in the regulatory policies of the MII, the State-owned Assets Supervision and Administration Commission and other relevant government authorities of the PRC; any decisions by the PRC government in relation to the technology standards and licenses of third generation mobile telecommunication; the results of the ongoing restructuring of the PRC

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telecommunications industry; any changes in the effects of competition on the demand and price of the Company's telecommunications services; the effect of the Company's restructuring and the integration of the Company and China Netcom Group Corporation (Hong Kong) Limited following the completion of the proposed merger; any changes in telecommunications and related technologies and applications based on such technologies; and any changes in political, economic, legal and social conditions in the PRC including the PRC government's policies with respect to economic growth, consolidations or restructuring of and other structural changes in the PRC telecommunications industry, foreign exchange, foreign investment and entry by foreign companies into the PRC telecommunications market. Please also see the "Risk Factors" section of the Company's latest Annual Report on Form 20-F, as filed with the Securities and Exchange Commission.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHINA  
UNICOM  
LIMITED  
(Registrant)

Date: August 15, 2008

By: /s/ Chang Xiaobing  
Name: Chang Xiaobing  
Title: Chairman and Chief  
Executive Officer

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Exhibit 1

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**If you are in any doubt** as to any aspect of this Circular or as to the action to be taken, you should consult a licensed securities dealer or other registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or otherwise transferred** all your shares in China Unicom Limited, you should at once hand this Circular together with the accompanying form of proxy to the purchaser or the transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this Circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Circular.

This Circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of China Unicom Limited.

**CHINA UNICOM LIMITED**

*(incorporated in Hong Kong with limited liability)*

**(Stock Code: 0762)**

- (1) VERY SUBSTANTIAL ACQUISITION RELATING TO  
THE PROPOSED MERGER OF CHINA UNICOM LIMITED AND  
CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED  
BY WAY OF A SCHEME OF ARRANGEMENT OF  
CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED  
UNDER SECTION 166 OF THE HONG KONG COMPANIES ORDINANCE**
- (2) MANDATE TO ISSUE CHINA UNICOM LIMITED SHARES**
- (3) ADOPTION OF SPECIAL PURPOSE UNICOM SHARE OPTION SCHEME**
- (4) NEW CONTINUING CONNECTED TRANSACTIONS**
- (5) PROPOSED AMENDMENT TO ARTICLES OF ASSOCIATION**
- (6) PROPOSED CHANGE OF COMPANY NAME**

**Lead Financial Adviser to China Unicom Limited**

**Financial Adviser to China Unicom Limited**

**Independent Financial Adviser to the Independent Board Committee,  
the Unicom Shareholders and the Independent Unicom Shareholders**

All capitalised terms used in this Circular have the meanings set out in the section headed "Definitions" on pages 1 to 9 of this Circular.

A letter from the Board is set out on pages 10 to 56 of this Circular. A letter from the Independent Board Committee containing its advice to the Unicom Shareholders and the Independent Unicom Shareholders on the terms of the relevant Non-exempt New Continuing Connected Transactions is set out on pages 57 and 58 of this Circular. A letter from Merrill Lynch, the independent financial adviser to the Independent Board Committee, the Unicom Shareholders and Independent Unicom Shareholders, containing its advice to the Independent Board Committee, the Unicom Shareholders and the Independent Unicom Shareholders on the terms of the relevant Non-exempt New Continuing Connected Transactions is set out on pages 59 to 71 of this Circular.

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A notice convening the Unicom EGM to be held at The Island Ballroom B, Level 5, Island Shangri-La Hotel, Hong Kong, Two Pacific Place, Supreme Court Road, Central, Hong Kong on Tuesday, 16 September 2008 at 5:00 p.m. (or immediately after the conclusion or adjournment of the First Unicom EGM) is set out on pages N-1 to N-4 of this Circular. Whether or not you are able to attend the Unicom EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed on it as soon as practicable and in any event by not later than 48 hours before the time appointed for holding the Unicom EGM. The completion and return of the form of proxy will not preclude you from attending and voting in person at the Unicom EGM should you so wish.

15 August 2008

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**FORWARD-LOOKING STATEMENTS**

**FORWARD-LOOKING STATEMENTS**

All statements, other than statements of historical facts included in this Circular, are or may be forward-looking statements. Forward-looking statements include, but are not limited to, those using words such as seek, expect, anticipate, estimate, believe, intend, project, plan, strategy, forecast and similar expressions or future-oriented verbs such as will, would, should, could, may and might. These statements reflect Unicom's current expectations, beliefs, hopes, intentions or strategies regarding the future and assumptions in light of currently available information. Such forward-looking statements are not guarantees of future performance or events and involve known and unknown risks and uncertainties.

Accordingly, actual results may differ materially from those described in such forward-looking statements as a result of a number of factors, including, without limitation, any changes in the regulatory regime and significant policies for the PRC telecommunications industry, including changes in the structure or functions of the primary industry regulator, the Ministry of Industry and Information Technology (which has assumed the regulatory functions of the former Ministry of Information Industry), or any changes in the regulatory policies of the Ministry of Industry and Information Technology, the State-owned Assets Supervision and Administration Commission and other relevant government authorities of the PRC; any decisions by the PRC government in relation to the technology standards and licences of third generation mobile telecommunication; the results of the on-going restructuring of the PRC telecommunications industry; any changes in the effects of competition on the demand and price of Unicom's and Netcom's telecommunications services; the integration of Unicom and Netcom following the implementation of the Scheme; any changes in telecommunications and related technologies and applications based on such technologies; and any changes in political, economic, legal and social conditions in the PRC including the PRC government's policies with respect to economic growth, consolidations or restructuring of and other structural changes in the PRC telecommunications industry, foreign exchange, foreign investment and entry by foreign companies into the PRC telecommunications market. Investors in Unicom should not place undue reliance on such forward-looking statements, and Unicom does not undertake any obligation to update publicly or revise any forward-looking statements.

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**DEFINITIONS**

*In this Circular, the following expressions have the meanings set out below unless the content requires otherwise:*

2-Step Approach	:	the approach to be adopted in the entering into of all connected transactions of Unicom that require the approval of the Independent Unicom Shareholders, details of which are set out in paragraph 6(d) headed Amended 2006 Continuing Connected Transactions in the Letter from the Board
3G	:	third generation mobile system, the next generation of mobile network infrastructure that utilises the 2GHz spectrum
acting in concert	:	has the meaning given to it in the Takeovers Code
ADS Proposal	:	the proposal to the Netcom ADS Holders for the cancellation of the Scheme Shares underlying their Netcom ADSs in exchange for 3.016 new Unicom ADSs for every Netcom ADS cancelled
ADS Voting Instruction Card	:	the white voting instruction card for use by Unicom ADS Holders for providing instructions to the Unicom Depository as to how to vote the Unicom Shares underlying their Unicom ADSs in connection with the Unicom EGM
ADSs	:	American Depositary Shares
Amended 2006 Continuing Connected Transactions	:	the existing continuing connected transactions between Unicom and its subsidiaries and Unicom Parent, which will be amended with effect from the Effective Date to include CNC China as a party and to facilitate the business and operations of the Enlarged Group, which are described in paragraph 6(d) headed Amended 2006 Continuing Connected Transactions in the Letter from the Board
Announcement	:	the announcement dated 2 June 2008 jointly issued by Unicom and Netcom in relation to, among other things, the proposed merger of Unicom and Netcom by way of a scheme of arrangement of Netcom under Section 166 of the Hong Kong Companies Ordinance and the Proposals
Articles of Association	:	the articles of association of Unicom adopted on 1 June 2000 and amended pursuant to a special resolution passed on 12 May 2004
associate	:	has the meaning given to it in the Listing Rules
Board	:	the board of directors of Unicom
CDMA	:	Code Division Multiple Access technology, which is a digital transmission technology that accommodates higher throughput by using various coding sequences to mix and separate voice and data signals for wireless

communication

CDMA Business : the CDMA business owned and operated by CUCL together with the relevant assets of CUCL and the rights and liabilities of CUCL relating to its CDMA subscribers and the shareholding interests of Unicom in certain subsidiaries which operate CDMA-related businesses

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**DEFINITIONS**

CDMA Business Disposal	:	the proposed disposal by CUCL and Unicom of the CDMA Business to China Telecom
CDMA Network Purchase Option	:	the option granted by Unicom New Horizon to CUCL to purchase the CDMA network pursuant to the terms set out in the Unicom CDMA Lease
China Netcom System Integration	:	China Netcom Group System Integration Limited Corporation , a company established under the laws of the PRC and an indirect wholly-owned subsidiary of Netcom
China Telecom	:	China Telecom Corporation Limited , a joint stock limited company incorporated under the laws of the PRC with limited liability and whose shares and ADSs are listed on the Hong Kong Stock Exchange and the New York Stock Exchange, respectively
CICC	:	China International Capital Corporation (Hong Kong) Limited, the lead financial adviser to Unicom in connection with the Proposals
Circular	:	this circular dated 15 August 2008
CNC China	:	China Netcom (Group) Company Limited , formerly known as China Netcom Corporation Limited, a company established in the PRC with limited liability as a wholly foreign owned enterprise and a wholly-owned subsidiary of Netcom
Concert Party Agreement	:	the agreement which is anticipated to be entered into between Unicom BVI and Netcom BVI and pursuant to which they will become parties acting in concert in respect of Unicom only after the completion of the Scheme
connected person	:	has the meaning given to it in the Listing Rules
Court Meeting	:	a meeting of the Netcom Shareholders convened at the direction of the High Court at which the Scheme will be voted upon, which will be held on 17 September 2008 at 4:00 p.m. (Hong Kong time), and any adjournment thereof
CUCL	:	China Unicom Corporation Limited , a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of Unicom
Director(s)	:	director(s) of Unicom
Disinterested Netcom Shareholders	:	Netcom Shareholders other than Unicom and those Netcom Shareholders acting in concert with Unicom
Effective Date	:	

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the date on which the Scheme becomes effective in accordance with the Hong Kong Companies Ordinance, which is expected to be 15 October 2008

Enlarged Group : the Unicom Group and the Netcom Group

Executive : the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director

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**DEFINITIONS**

Exempt Principal Traders	:	certain members of the respective group of companies to which JPMorgan and Citigroup belong holding Netcom Securities in their capacity as exempt principal traders under the Takeovers Code
Existing Netcom Continuing Connected Transactions	:	the existing continuing connected transactions of Netcom entered into between Netcom and its subsidiaries and Netcom Parent, which are described in paragraph 6(b) headed Existing Netcom Continuing Connected Transactions in the Letter from the Board
Existing Unicom Continuing Transactions	:	the existing continuing transactions between CUCL and Netcom Parent, which are described in paragraph 6(c) headed Existing Unicom Continuing Transactions in the Letter from the Board
Explanatory Statement	:	the explanatory statement set out on pages 57 to 93 of the Scheme Document, which is set out in Appendix IV to this Circular, and issued in compliance with Section 166A of the Hong Kong Companies Ordinance
First Unicom EGM	:	the extraordinary general meeting of Unicom to be held at 4:30 p.m. on Tuesday, 16 September 2008 at the same place as the Unicom EGM to consider and, if thought fit, to approve the CDMA Business Disposal and the waiver of the CDMA Network Purchase Option and the termination of the Unicom CDMA Lease
Fully Diluted Netcom Share Capital	:	the total number of Netcom Shares in issue and which would be in issue if all of the outstanding Netcom Options had been exercised
GHz	:	Gigahertz, a unit of measure of frequency; 1 GHz is equal to 1,000 MHz
GSM	:	global cellular system for mobile communications, being a digital mobile cellular telephone system operating in the 900 MHz, 1800 MHz and 1900 MHz frequency band based on digital transmission and cellular network architecture with roaming
HIBOR	:	Hong Kong Interbank Offered Rate
High Court	:	the High Court of Hong Kong
HK\$	:	Hong Kong dollars, the lawful currency of Hong Kong
Hong Kong	:	the Hong Kong Special Administrative Region of the PRC
Hong Kong Companies Ordinance:		Companies Ordinance, Chapter 32 of the Laws of Hong Kong
Hong Kong Stock Exchange	:	The Stock Exchange of Hong Kong Limited



Independent Board Committee : the independent committee of the Board, which consists of all of the independent non-executive Directors, being Mr. Wu Jinglian, Mr. Shan Weijian, Mr. Cheung Wing Lam, Linus and Mr. Wong Wai Ming, which has been established for the purpose of advising the Unicom Shareholders and the Independent Unicom Shareholders on the terms of the relevant Non-exempt New Continuing Connected Transactions

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**DEFINITIONS**

Independent Unicom Shareholders:	the Unicom Shareholders other than Unicom BVI and its associates
JPMorgan	: J.P. Morgan Securities (Asia Pacific) Limited, the financial adviser to Unicom in connection with the Proposals
Last Trading Date	: 23 May 2008, being the last trading day prior to the suspension of trading in Netcom Shares and Unicom Shares on the Hong Kong Stock Exchange pending the issue of the Announcement
Latest Practicable Date	: the latest practicable date prior to the printing of this Circular for the purpose of ascertaining certain information contained herein, being 11 August 2008 (New York time) for information relating to the Netcom ADSs and the Unicom ADSs and 12 August 2008 (Hong Kong time) for other information
Letter from the Board	: the letter from the Board set out on pages 10 to 56 of the Circular
Listing Rules	: Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Merrill Lynch	: Merrill Lynch (Asia Pacific) Limited, the independent financial adviser to the Independent Board Committee, the Unicom Shareholders and the Independent Unicom Shareholders on the terms of the relevant Non-exempt New Continuing Connected Transactions
MHz	: Megahertz, a unit of measure of frequency; 1 MHz is equal to one million cycles per second
Netcom	: China Netcom Group Corporation (Hong Kong) Limited, a company incorporated under the laws of Hong Kong with limited liability and whose Netcom Shares and Netcom ADSs are listed on the Hong Kong Stock Exchange and the New York Stock Exchange, respectively
Netcom ADS Deposit Agreement	: the Deposit Agreement dated 9 November 2004 entered into between Netcom, the Netcom Depository and all holders and beneficial owners of Netcom ADSs
Netcom ADS Holders	: holders of Netcom ADSs
Netcom ADSs	: ADSs which are issued by the Netcom Depository and traded on the New York Stock Exchange, each representing ownership of 20 Netcom Shares
Netcom BVI	: China Netcom Group Corporation (BVI) Limited, a company incorporated under the laws of the British Virgin Islands and the immediate controlling shareholder of Netcom

Netcom Depositary : Citibank, N.A., a national banking association organised under the laws of the United States and acting in its capacity as depositary under the Netcom ADS Deposit Agreement

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**DEFINITIONS**

Netcom EGM	:	the extraordinary general meeting of Netcom convened for the implementation of the Scheme, which will be held on 17 September 2008 at 4:30 p.m. (Hong Kong time) (or immediately after the conclusion or adjournment of the Court Meeting), and any adjournment thereof
Netcom Group	:	Netcom and its subsidiaries
Netcom Optionholders	:	holders of Netcom Options
Netcom Options	:	outstanding options to acquire Netcom Shares granted under the Netcom Share Option Scheme
Netcom Parent	:	China Network Communications Group Corporation , a state-owned enterprise established under the laws of the PRC
Netcom Securities	:	Netcom Shares, Netcom ADSs, Netcom Options and any other options, derivatives, warrants or other securities convertible or exchangeable into Netcom Shares which are issued by Netcom
Netcom Share Option Scheme	:	the Share Option Scheme adopted by Netcom on 30 September 2004, as amended from time to time
Netcom Shareholders	:	holders of Netcom Shares
Netcom Shares	:	ordinary shares of US\$0.04 each in the capital of Netcom
New Continuing Connected Transactions	:	the new continuing connected transactions of Unicom with effect from the Effective Date, comprising the Existing Netcom Continuing Connected Transactions, the Existing Unicom Continuing Transactions and the Amended 2006 Continuing Connected Transactions
New Horizon Communications	:	China Netcom Group New Horizon Communications Corporation Limited , a company incorporated in the PRC and an indirect wholly-owned subsidiary of Netcom
New Transfer Agreement	:	has the meaning given to it in paragraph 6(a) headed Introduction in the Letter from the Board
Non-exempt New Continuing Connected Transactions	:	(a) the Existing Netcom Continuing Connected Transactions under: <ul style="list-style-type: none"> <li>(i) the Domestic Interconnection Settlement Agreement 2008-2010;</li> <li>(ii) the International Long Distance Voice Services Settlement Agreement 2008-2010; and</li> </ul>

(iii) the Engineering and Information Technology Services Agreement  
2008-2010;

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**DEFINITIONS**

- (b) the Existing Unicom Continuing Transactions under:
    - (i) the Framework Agreement for Interconnection Settlement; and
    - (ii) the Framework Agreement for Engineering and Information Technology Services; and
  - (c) the Amended 2006 Continuing Connected Transactions relating to the supply of telephone cards, interconnection arrangements, provision of international telecommunications network gateway, provision of operator-based value-added services, provision of value-added telecommunications services, provision of 10010/10011 customer services and provision of agency services,
- and in respect of the transactions set out in paragraphs (a)(i), (a)(ii), (b)(i) and (c), no annual caps are to be proposed

Option Proposal	:	the proposal to all of the Netcom Optionholders whereby they will be granted Special Unicom Options in consideration for the cancellation of their outstanding Netcom Options at the Scheme Record Time
Option Proposal Letter	:	the letter setting out the terms of the Option Proposal and the details of the Special Purpose Unicom Share Option Scheme sent separately to the Netcom Optionholders
Options Exercise Deadline	:	4:30 p.m. on Friday, 10 October 2008, being the latest time for Netcom Optionholders to exercise their Netcom Options in order to qualify for entitlements under the Scheme
PRC or China	:	the People's Republic of China excluding, for the purpose of this Circular only, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
Proposals	:	the Share Proposal, the ADS Proposal and the Option Proposal and the conditions thereof, as described in this Circular and in the Scheme Document, which is set out in Appendix IV to this Circular, and, in the case of the Option Proposal, in the Option Proposal Letter
Proposed Change of Company Name	:	the proposed change of Unicom's company name, the details of which are set out in paragraph 8 headed "Proposed Change of Company Name" in the Letter from the Board
RMB	:	Renminbi, the lawful currency of the PRC
Scheme	:	

the scheme of arrangement under Section 166 of the Hong Kong Companies Ordinance between Netcom and the Scheme Shareholders involving the cancellation of all of the Scheme Shares, details of which are set out on pages S-1 to S-6 of the Scheme Document, which is set out in Appendix IV to this Circular, with or subject to any modification thereof or addition thereto or condition approved or imposed by the High Court

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**DEFINITIONS**

Scheme Document	:	the document dated 15 August 2008 jointly issued by Netcom and Unicom in relation to the Scheme, including each of the letters, statements, appendices and notices in it, which is set out in Appendix IV to this Circular, as may be amended or supplemented from time to time
Scheme Record Time	:	5:00 p.m. (Hong Kong time) on a trading day of the Hong Kong Stock Exchange and immediately preceding the Effective Date, which is expected to be 14 October 2008
Scheme Shareholders	:	holders of the Scheme Shares
Scheme Shares	:	all the Netcom Shares in issue and such further Netcom Shares as may be issued prior to the Scheme Record Time
SEC	:	the Securities and Exchange Commission in the United States
Second New Comprehensive Services Agreement	:	has the meaning given to it in paragraph 6(a) headed "Introduction" in the Letter from the Board
See-Through Price	:	the price of an outstanding Netcom Option determined by deducting the exercise price of the relevant Netcom Option from the value of HK\$27.87 of a Scheme Share under the Share Proposal, being the closing price of each Netcom Share of HK\$27.05 on the Hong Kong Stock Exchange on the Last Trading Date plus a 3% premium over such closing price
SFC	:	Securities and Futures Commission in Hong Kong
SFO	:	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
Share Exchange Ratio	:	the exchange ratio of 1.508 Unicom Shares for every Scheme Share cancelled under the Scheme
Share Proposal	:	the proposal to the Netcom Shareholders for the cancellation of all of the Scheme Shares pursuant to the Scheme based on the Share Exchange Ratio
SK Telecom	:	SK Telecom Co., Ltd., a company incorporated in the Republic of Korea with limited liability and listed on the Stock Market Division of the Korea Exchange and whose ADSs are listed on the New York Stock Exchange
Special Purpose Unicom Share Option Scheme	:	a share option scheme containing substantially the same terms as the Netcom Share Option Scheme, which is proposed to be adopted by Unicom at the Unicom EGM, a summary of the principal terms of which is set out in Appendix II to this Circular
Special Unicom Options	:	



options proposed to be granted by Unicom under the Special Purpose  
Unicom Share Option Scheme to Netcom Optionholders pursuant to the  
Option Proposal

substantial shareholder : has the meaning given to it in the Listing Rules

Takeovers Code : The Code on Takeovers and Mergers issued by the SFC

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**DEFINITIONS**

Telecoms Restructuring Announcement	:	has the meaning given to it in paragraph 2 headed "Background" in the Letter from the Board
Telefónica	:	Telefónica Internacional, S.A.U., a company incorporated in Spain
trading day	:	a day on which the Hong Kong Stock Exchange is open for the business of dealings in securities
Unicom	:	China Unicom Limited, a company incorporated under the laws of Hong Kong with limited liability and whose Unicom Shares and Unicom ADSs are listed on the Hong Kong Stock Exchange and the New York Stock Exchange, respectively
Unicom A Share Company	:	China United Telecommunications Corporation Limited, a company incorporated under the laws of the PRC and whose shares are listed on the Shanghai Stock Exchange
Unicom ADS Deposit Agreement	:	the Deposit Agreement dated 22 June 2000 entered into between Unicom, the Unicom Depositary and all holders and beneficial owners of Unicom ADSs
Unicom ADS Holders	:	holders of Unicom ADSs
Unicom ADSs	:	ADSs which are issued by the Unicom Depositary and traded on the New York Stock Exchange, each representing ownership of 10 Unicom Shares
Unicom BVI	:	China Unicom (BVI) Limited, a company incorporated in the British Virgin Islands and the immediate controlling shareholder of Unicom
Unicom CDMA Lease	:	the CDMA lease agreement dated 26 October 2006 entered into between Unicom A Share Company (the rights and obligations of Unicom A Share Company under this agreement were subsequently transferred to CUCL), Unicom New Horizon and Unicom Parent, pursuant to which Unicom New Horizon agreed to lease capacity on the CDMA network to CUCL
Unicom Depositary	:	The Bank of New York Mellon, a national banking association organised under the laws of the United States and acting in its capacity as depositary under the Unicom ADS Deposit Agreement
Unicom EGM	:	the extraordinary general meeting of Unicom, notice of which is set out on pages N-1 to N-4 of this Circular, and any adjournment thereof
Unicom Group	:	Unicom and its subsidiaries
Unicom New Horizon	:	

Unicom New Horizon Mobile Telecommunications Company Limited , a  
company incorporated in the PRC with limited liability and a  
wholly-owned subsidiary of Unicom Parent

Unicom Optionholders : holders of Unicom Options  
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**DEFINITIONS**

Unicom Options	:	outstanding options to acquire Unicom Shares granted under the Unicom Share Option Schemes
Unicom Parent	:	China United Telecommunications Corporation , a state-owned enterprise established under the laws of the PRC
Unicom Share Option Schemes	:	the Pre-Global Offering Share Option Scheme and the Share Option Scheme, both of which were adopted by Unicom on 1 June 2000, as amended from time to time
Unicom Shareholders	:	holders of Unicom Shares
Unicom Shares	:	ordinary shares of HK\$0.10 each in the capital of Unicom
United States or US	:	the United States of America, its territories and possessions, any State of the United States, and the District of Columbia
US Securities Act	:	the US Securities Act of 1933, as amended, including the related rules and regulations promulgated thereunder
US\$	:	United States dollars, the lawful currency of the United States
%	:	per cent.

*This Circular contains translations between Renminbi and Hong Kong dollar amounts at RMB0.879 = HK\$1.00, being the exchange rate prevailing on 12 August 2008. The translations should not be taken as a representation that the Renminbi could actually be converted into Hong Kong dollars at that rate or at all.*

*The English language text of this Circular and the accompanying form of proxy shall prevail over the Chinese language text in the event of any inconsistency.*

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**LETTER FROM THE BOARD**

**CHINA UNICOM LIMITED**  
*(incorporated in Hong Kong with limited liability)*  
**(Stock Code: 0762)**

*Executive Directors:*

Chang Xiaobing (*Chairman*)  
Tong Jilu  
Li Gang  
Zhang Junan

*Registered Office:*

75th Floor, The Center  
99 Queen's Road Central  
Hong Kong

*Non-Executive Directors:*

Lu Jianguo  
Lee Suk Hwan

*Independent Non-Executive Directors:*

Wu Jinglian  
Shan Weijian  
Cheung Wing Lam, Linus  
Wong Wai Ming

15 August 2008

*To the Unicom Shareholders*

Dear Sir or Madam,

**1. INTRODUCTION**

The purpose of this Circular is to provide you with further information in relation to:

- (1) the very substantial acquisition relating to the Proposals;
  - (2) the mandate to issue Unicom Shares;
  - (3) the adoption of the Special Purpose Unicom Share Option Scheme;
  - (4) the New Continuing Connected Transactions;
  - (5) the proposed amendment to the Articles of Association; and
  - (6) the Proposed Change of Company Name,
- and to seek your approval for the resolutions set out in the notice of Unicom EGM on pages N-1 to N-4 of this Circular.

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**LETTER FROM THE BOARD**

On 2 June 2008, the boards of directors of Unicom and Netcom jointly announced that Unicom had formally presented the Proposals to the board of directors of Netcom and requested the board of directors of Netcom to put forward the Proposals to the Netcom Shareholders for consideration of the merger of Unicom and Netcom by way of a scheme of arrangement of Netcom under Section 166 of the Hong Kong Companies Ordinance. As at the date of this letter, Unicom neither owns nor has any interest in any Netcom Shares. The background to the Proposals is set out in paragraph 2 headed Background below.

CICC is the lead financial adviser and JPMorgan is the financial adviser to Unicom in connection with the Proposals.

The Proposals constitute a very substantial acquisition for Unicom under the Listing Rules and are subject to the approval of the Unicom Shareholders.

In connection with the Proposals, Unicom will (a) allot and issue Unicom Shares as consideration for the Share Proposal and the ADS Proposal and (b) adopt the Special Purpose Unicom Share Option Scheme and grant Special Unicom Options pursuant to the Special Purpose Unicom Share Option Scheme as consideration for the Option Proposal. The allotment and issue of the Unicom Shares and the adoption of the Special Purpose Unicom Share Option Scheme are subject to the approval of the Unicom Shareholders.

Upon completion of the Proposals and the Scheme becoming effective, Netcom will become a wholly-owned subsidiary of Unicom and Netcom BVI will have a shareholding interest in Unicom of approximately 29.49% (assuming that none of the outstanding Unicom Options and Netcom Options are exercised) or 28.98% (assuming that all of the outstanding Unicom Options and Netcom Options are exercised) and therefore, Netcom BVI and its associates will become connected persons of Unicom. Accordingly, the existing continuing connected transactions between Netcom and its subsidiaries, namely CNC China and China Netcom System Integration (which will become subsidiaries of Unicom), and Netcom Parent will become new continuing connected transactions of Unicom with effect from the Effective Date.

In addition, there are existing continuing transactions between certain subsidiaries of Unicom and Netcom Parent. Upon completion of the Proposals and the Scheme becoming effective, such existing continuing transactions will become new continuing connected transactions of Unicom with effect from the Effective Date. CUCL and Netcom Parent have entered into certain framework agreements to record the principles governing, and the principal terms of, such existing continuing transactions. Furthermore, the terms of the existing continuing connected transactions between Unicom and Unicom Parent relating to the provision of services between the parties are proposed to be amended with effect from the Effective Date to include CNC China as a party and to facilitate the business and operations of the Enlarged Group.

Of the New Continuing Connected Transactions, the Non-exempt New Continuing Connected Transactions (save for the Amended 2006 Continuing Connected Transactions relating to the supply of telephone cards, interconnection arrangements, provision of international telecommunications network gateway, provision of operator-based value-added services, provision of value-added telecommunications services, provision of 10010/10011 customer services and provision of agency services, for which no annual caps are proposed) are subject to the approval of the Unicom Shareholders. The Amended 2006 Continuing Connected Transactions relating to the supply of telephone cards, interconnection arrangements, provision of international telecommunications network gateway, provision of operator-based value-added services, provision of value-added telecommunications services, provision of 10010/10011 customer services and provision of agency services are subject to the approval of the Independent Unicom Shareholders.

The Independent Board Committee has been established to advise the Unicom Shareholders and the Independent Unicom Shareholders, and Merrill Lynch has been appointed as the independent financial adviser to advise the Independent Board Committee, the Unicom Shareholders and the Independent Unicom Shareholders, in each case on the terms of the relevant Non-exempt New Continuing Connected Transactions. The text of the letter from the Independent Board Committee is set out on pages 57 and 58 of this Circular and the text of the letter of Merrill Lynch

is set out on pages 59 to 71 of this Circular.

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**LETTER FROM THE BOARD**

In addition, the Board has proposed that the Articles of Association be amended to give the Board greater flexibility to deal with any fractional Unicom Shares which arise as a result of an issue of Unicom Shares by Unicom.

Furthermore, conditional upon the Scheme becoming effective, the Board has proposed that Unicom's company name be changed from China Unicom Limited to China Unicom (Hong Kong) Limited with effect from the Effective Date.

Each of the proposed amendment to the Articles of Association and the Proposed Change of Company Name is subject to the approval of the Unicom Shareholders at the Unicom EGM by way of a special resolution.

None of the Unicom Shareholders has a material interest in the Proposals, the allotment and issue of the Unicom Shares as consideration for the Share Proposal and the ADS Proposal, the adoption of the Special Purpose Unicom Share Option Scheme, the transactions under the Domestic Interconnection Settlement Agreement 2008-2010, the Framework Agreement for Interconnection Settlement, the International Long Distance Voice Services Settlement Agreement 2008-2010, the Engineering and Information Technology Services Agreement 2008-2010 and the Framework Agreement for Engineering and Information Technology Services, the proposed amendment to the Articles of Association and the Proposed Change of Company Name. Accordingly, none of the Unicom Shareholders are required to abstain from voting at the Unicom EGM on the resolutions relating to such matters. However, notwithstanding the foregoing, an executive director of Netcom and an independent non-executive director of Netcom who hold 602,000 Unicom Shares and 6,000 Unicom Shares, respectively, have each undertaken to Netcom to abstain from voting at the Unicom EGM on the resolutions relating to such matters.

As at the Latest Practicable Date, Unicom BVI, a subsidiary of Unicom Parent, had a shareholding interest in Unicom of approximately 71.17% and Unicom BVI and its associates (including Unicom Parent) are therefore connected persons of Unicom. As Unicom BVI is regarded as having a material interest in the Amended 2006 Continuing Connected Transactions relating to the supply of telephone cards, interconnection arrangements, provision of international telecommunications network gateway, provision of operator-based value-added services, provision of value-added telecommunications services, provision of 10010/10011 customer services and provision of agency services, Unicom BVI and its associates will abstain from voting on the resolution relating to such matters. In addition, an executive director of Netcom and an independent non-executive director of Netcom who hold 602,000 Unicom Shares and 6,000 Unicom Shares, respectively, have each undertaken to Netcom to abstain from voting at the Unicom EGM on the resolution relating to such matters, notwithstanding that they do not have a material interest in such matters.

**2. BACKGROUND**

On 24 May 2008, the Ministry of Industry and Information Technology, the National Development and Reform Commission and the Ministry of Finance of the PRC jointly issued the Announcement on Deepening the Reform of the Structure of the Telecommunications Sector (the Telecoms Restructuring Announcement) which stated, among other things, (i) that the PRC government would deepen the reform of the structure of the telecommunications sector and encourage the formation of three market competitors with each having nationwide network resources, relatively comparable strength and scale as well as full service operation capabilities, (ii) that the allocation of telecommunications resources would be further optimised and the competition structure would be improved, and (iii) that three 3G licences would be granted once the contemplated restructuring had been completed.

On 25 May 2008, in response to the Telecoms Restructuring Announcement, Unicom and Netcom separately announced that they were in discussions regarding a merger.

As stated above, on 2 June 2008, the boards of directors of Unicom and Netcom jointly announced that Unicom had formally presented the Proposals to the board of directors of Netcom and requested the board of directors of Netcom to put forward the Proposals to the Netcom Shareholders for consideration.



**Table of Contents****LETTER FROM THE BOARD****3. THE PROPOSALS**

Unicom is making the Proposals on the terms and conditions set out in the Scheme Document. A summary of the key terms and conditions of the Proposals is set out below. You are urged to read carefully the Scheme Document, a copy of which is set out in Appendix IV to this Circular.

**(a) The Share Proposal and the Scheme**

The Share Proposal will be implemented by way of the Scheme. Under the Scheme, the Scheme Shares (including the Netcom Shares to be issued pursuant to the exercise of the outstanding Netcom Options prior to the Options Exercise Deadline) will be cancelled and, in consideration thereof, all of the Scheme Shareholders whose names appear on the register of members of Netcom at the Scheme Record Time will be entitled, save as regards fractional entitlements, to receive:

**For every Scheme Share cancelled****1.508 new Unicom Shares**

Under the Share Proposal, the share capital of Netcom will, on the Effective Date, be reduced by cancelling and extinguishing the Scheme Shares. Immediately thereafter, the authorised share capital of Netcom will be increased to the amount prior to the cancellation of the Scheme Shares by the creation of new Netcom Shares and such Netcom Shares, being in the same number as the cancelled Scheme Shares, will be issued to Unicom and/or its nominees at par, credited as fully paid with the reserve arising from the cancellation of the Scheme Shares.

The Share Exchange Ratio of 1.508 Unicom Shares for every Scheme Share cancelled was determined by Unicom on the basis of the closing price of each Netcom Share of HK\$27.05 on the Hong Kong Stock Exchange on the Last Trading Date plus a 3% premium over such closing price, and the closing price of each Unicom Share of HK\$18.48 on the Hong Kong Stock Exchange on the Last Trading Date.

Following the completion of the Scheme, Unicom Shareholders and Unicom ADS Holders will own a smaller percentage of Unicom than they currently own. For details on the issue of Unicom Shares as consideration for the Share Proposal and the ADS Proposal, please refer to the discussion under paragraph 3(o) headed "Effects of the Proposals on the Shareholding Structures of Netcom and Unicom" and paragraph 4 headed "Mandate to Issue Unicom Shares" below.

**(b) The ADS Proposal**

Pursuant to the ADS Proposal, which is conditional upon the Scheme becoming effective, the Scheme Shares underlying the Netcom ADSs will be cancelled along with all of the other Scheme Shares pursuant to the Scheme and, in consideration thereof, all of the Netcom ADS Holders will be entitled to receive:

**For every Netcom ADS cancelled****3.016 new Unicom ADSs**

As at the Latest Practicable Date, there were 7,098,720 Netcom ADSs outstanding. Each Netcom ADS represents 20 Netcom Shares and each Unicom ADS represents 10 Unicom Shares.

The consideration for the ADS Proposal is equivalent to the consideration for the Share Proposal and is calculated using the Share Exchange Ratio and taking into account the number of Netcom Shares represented by a Netcom ADS and the number of Unicom Shares represented by a Unicom ADS.

**(c) The Option Proposal**

As at the Latest Practicable Date, there were 125,836,260 Netcom Options outstanding. If all of such Netcom Options are exercised, a total of 125,836,260 Netcom Shares will be issued. If any Netcom Option is exercised resulting in Netcom Shares being issued prior to or at the Scheme Record Time, such Netcom Shares will constitute Scheme Shares and their holders will be eligible to receive the consideration for the cancellation of their Scheme Shares under the Scheme.

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Pursuant to the Option Proposal, which is conditional upon the Scheme becoming effective, Unicom will grant Netcom Optionholders Special Unicom Options in consideration for the cancellation of their outstanding Netcom Options at the Scheme Record Time (whether vested or not). To the extent that Netcom Optionholders do not exercise their outstanding Netcom Options prior to the Options Exercise Deadline, their Netcom Options that remain outstanding at the Scheme Record Time (whether vested or not) will, subject to the Scheme becoming effective, be cancelled by the board of directors of Netcom and such Netcom Optionholders will automatically be granted Special Unicom Options in consideration for the cancellation of their outstanding Netcom Options.

The number of Special Unicom Options that will be granted to each Netcom Optionholder and the exercise price of a Special Unicom Option will be determined in accordance with the formula set out below:

$$\begin{aligned} \text{Number of Special Unicom Options} &= A \times B \\ \text{Exercise price of each Special Unicom Option} &= C / A \end{aligned}$$

where:

**A** is the Share Exchange Ratio;

**B** is the number of outstanding Netcom Options held by a Netcom Optionholder at the Scheme Record Time; and

**C** is the exercise price of an outstanding Netcom Option held by a Netcom Optionholder at the Scheme Record Time.

The above formula ensures that the value of the Special Unicom Options received by a Netcom Optionholder is equivalent to the See-Through Price of that Netcom Optionholder's outstanding Netcom Options, that is, the value determined by deducting the exercise price of the relevant Netcom Option from the value of HK\$27.87 of a Scheme Share under the Share Proposal, being the closing price of each Netcom Share of HK\$27.05 on the Hong Kong Stock Exchange on the Last Trading Date plus a 3% premium over such closing price.

The Special Unicom Options will be granted by Unicom pursuant to the Special Purpose Unicom Share Option Scheme, which is proposed to be adopted by Unicom at the Unicom EGM. Please refer to paragraph 5 headed

Adoption of Special Purpose Unicom Share Option Scheme below for further details of the Special Purpose Unicom Share Option Scheme.

**(d) Total Consideration**

On the basis of the value of HK\$26.78 for every Scheme Share cancelled under the Share Proposal (being the value of 1.508 Unicom Shares based on the weighted average traded price of each Unicom Share of HK\$17.76 on the Hong Kong Stock Exchange on the Last Trading Date), the entire issued share capital of 6,699,197,200 Netcom Shares as at the Last Trading Date (assuming that none of the outstanding Netcom Options as at the Last Trading Date had been exercised) would be valued at approximately HK\$179,404,501,016 and the Fully Diluted Netcom Share Capital of 6,825,034,460 Netcom Shares as at the Last Trading Date would be valued at approximately HK\$182,774,422,839.

On the basis of the value of HK\$23.55 for every Scheme Share cancelled under the Share Proposal (being the value of 1.508 Unicom Shares based on the weighted average traded price of each Unicom Share of HK\$15.62 on the Hong Kong Stock Exchange on the Latest Practicable Date), the entire issued share capital of 6,699,197,200 Netcom Shares as at the Latest Practicable Date (assuming that none of the outstanding Netcom Options as at the Latest Practicable Date had been exercised) would be valued at approximately HK\$157,766,094,060 and the Fully Diluted Netcom Share Capital of 6,825,033,460 Netcom Shares as at the Latest Practicable Date would be valued at approximately HK\$160,729,537,983.

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**LETTER FROM THE BOARD**

**(e) New Unicom Shares and New Unicom ADSs**

Unicom will seek the approval of the Unicom Shareholders at the Unicom EGM for the allotment and issue by Unicom of Unicom Shares pursuant to the Share Proposal and the ADS Proposal. Please refer to paragraph 4 headed Mandate to Issue Unicom Shares below for further details.

The Unicom Shares and the Unicom ADSs to be issued pursuant to the Share Proposal and the ADS Proposal, respectively, will be issued free from all liens, charges and encumbrances and together with all rights attaching to them, including the right to receive all dividends and other distributions, if any, declared, made or paid on or after the date of their issue and will rank *pari passu* with the existing Unicom Shares and Unicom ADSs, respectively.

The Unicom Shares to be issued pursuant to the Share Proposal and the ADS Proposal, including the Unicom Shares underlying the Unicom ADSs to be issued pursuant to the ADS Proposal, will be issued in reliance upon the exemption from the registration requirements of the US Securities Act provided by Section 3(a)(10) thereof.

An application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Unicom Shares to be issued pursuant to the Share Proposal and the ADS Proposal and the Unicom Shares to be issued upon the exercise of the Special Unicom Options. In addition, Unicom will make an application to the New York Stock Exchange to list the Unicom ADSs representing the Unicom Shares to be issued pursuant to the ADS Proposal.

**(f) Fractions**

Under the Share Proposal and the ADS Proposal, fractions of Unicom Shares and Unicom ADSs will not be issued to the Scheme Shareholders and the Netcom ADS Holders, respectively. Fractional entitlements of Scheme Shareholders to Unicom Shares will be aggregated and sold in the market with the proceeds paid to Unicom for its own benefit. Fractional entitlements of Netcom ADS Holders to Unicom ADSs will be aggregated and sold with the proceeds paid, after deduction of the fees and expenses of the seller, to the respective Netcom ADS Holders.

Under the Option Proposal, fractions of Special Unicom Options will not be granted to the Netcom Optionholders.

**(g) Undertakings**

Netcom BVI has given an irrevocable undertaking to Unicom to vote in favour of all of the resolutions for the approval of the Scheme and any related matters for its implementation to be proposed at the Court Meeting and the Netcom EGM. Netcom BVI is legally and beneficially interested in an aggregate of 4,647,449,014 Netcom Shares, representing approximately 69.37% of the issued share capital of Netcom as at the Latest Practicable Date. Under the irrevocable undertaking, Netcom Parent has also undertaken to use its best endeavours to procure the performance by Netcom BVI of its obligations under the irrevocable undertaking.

Netcom BVI has also received an irrevocable instruction to vote in favour of all of the resolutions for the approval of the Scheme and any related matters for its implementation at the Court Meeting and the Netcom EGM in respect of the 149,683,549 Netcom Shares, representing approximately 2.23% of the issued share capital of Netcom as at the Latest Practicable Date, which Netcom BVI holds as trustee on behalf of a state-owned entity.

In addition, Telefónica has given an irrevocable undertaking to Unicom to vote in favour of all of the resolutions for the approval of the Scheme and any related matters for its implementation to be proposed at the Court Meeting and the Netcom EGM in respect of its holding of 333,971,305 Netcom Shares, representing approximately 4.99% of the issued share capital of Netcom as at the Latest Practicable Date.

Under the terms of the irrevocable undertakings given by Netcom BVI and Telefónica and the irrevocable instruction received by Netcom BVI, all of them would lapse (a) if the Announcement had not been released by 30 June 2008 or (b) if Unicom announced, with the consent of the Executive and before the posting of the Scheme Document, that it did not intend to proceed with the Scheme or (c) if the Scheme lapses or is withdrawn in accordance with its terms or (d) in the event of a higher competing offer for Netcom made by a third party.

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In addition to these conditions, the undertakings given by Netcom BVI and the irrevocable instruction received by Netcom BVI would also lapse if the Scheme is not approved at the Court Meeting or the Netcom EGM. Furthermore, the undertaking given by Telefónica would likewise lapse (a) if the Scheme is not approved at the Court Meeting or the Netcom EGM by 30 November 2008 or (b) if since the date of the undertaking, there is been a material adverse change in the business, financial or trading position of Unicom or (c) in the event that the independent financial adviser appointed by the independent board committee of Netcom did not render an opinion that the Proposals were fair and reasonable.

**(h) Possible Concert Party Agreement**

Each of Unicom and Netcom has been informed by Unicom BVI and Netcom BVI, respectively, that they are not and have never been parties acting in concert with each other or with or in respect of either Unicom or Netcom. Each of Unicom and Netcom has further been informed that Unicom BVI and Netcom BVI intend to enter into the Concert Party Agreement upon or shortly after the last occurrence of (i) the Proposals and the issue of Unicom Shares being duly approved by the requisite majority of the Unicom Shareholders at the Unicom EGM, (ii) the Scheme being duly approved by the requisite majority of the Disinterested Netcom Shareholders other than the Exempt Principal Traders at the Court Meeting and (iii) the special resolutions being duly passed with the requisite majority of the Netcom Shareholders at the Netcom EGM. Pursuant to the Concert Party Agreement, Unicom BVI and Netcom BVI will agree to cooperate actively to obtain or consolidate control of Unicom following the completion of the Scheme. Thus, Unicom BVI and Netcom BVI will only become parties acting in concert in respect of Unicom following the completion of the Scheme but not before. In addition, following the completion of the Scheme, Unicom BVI and Netcom BVI will also be presumed to be acting in concert with each other in respect of Unicom pursuant to class (1) of the definition of "acting in concert" in the Takeovers Code.

On 26 May 2008, the State-owned Assets Supervision and Administration Commission notified each of Unicom Parent and Netcom Parent, the respective ultimate parent companies of Unicom and Netcom, that, among other things, it may, depending on the outcome of any proposed merger of Unicom and Netcom, consider a merger of Unicom Parent and Netcom Parent. Each of Unicom Parent and Netcom Parent has confirmed to Unicom and Netcom, respectively, that it has not received any notice or other indication and that it is not otherwise aware of the timing or any term of or condition to such merger. On this basis, any merger of Unicom Parent and Netcom Parent will not result in any change of control of Unicom or Netcom and will not give rise to any implication under Rule 26 of the Takeovers Code.

**(i) Conditions of the Proposals and the Scheme**

The Share Proposal and the Scheme are subject to the satisfaction or waiver, as applicable, of the conditions set out in paragraph 4 headed "Conditions of the Proposals and the Scheme" in the Explanatory Statement on pages 62 to 65 of the Scheme Document, which is set out in Appendix IV to this Circular. All of these conditions will have to be satisfied or waived, as applicable, on or before 30 November 2008 (or such later date as Unicom and Netcom may agree and the High Court may allow), otherwise the Proposals, including the Scheme, will lapse. Unicom and Netcom have agreed to extend the date for all of the conditions to be satisfied or waived, as applicable, from 30 September 2008 (as stated in the Announcement) to 30 November 2008 to accommodate the timetable of the High Court for the Court Hearing. As at the Latest Practicable Date, none of these conditions have been satisfied. Assuming that all of these conditions are satisfied or waived, as applicable, it is expected that the Scheme will become effective on or before 31 October 2008.

Each of the ADS Proposal and the Option Proposal will be conditional upon the Scheme becoming effective.

**The Unicom Shareholders, the Unicom ADS Holders, the Unicom Optionholders and all potential investors in Unicom should be aware that the implementation of the Proposals, including the Scheme, is subject to the conditions referred to above being satisfied or waived, as applicable, and thus, the Proposals, including the Scheme, may or may not become effective. The Unicom Shareholders, the Unicom ADS Holders and the Unicom Optionholders and all potential investors in Unicom should therefore exercise caution when dealing in**

**the Unicom Shares, the Unicom ADSs or the Unicom Options or other securities of Unicom. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.**

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**LETTER FROM THE BOARD**

**(j) Reasons For and Benefits of the Proposed Merger**

The management of Unicom and Netcom believe that there are strong commercial reasons for the proposed merger. After the proposed merger, the Enlarged Group is expected to take steps to establish a leading position in the 3G wireless industry, integrate its wireless and fixed-line businesses and build a strong market position in the ten provinces in Northern China where the Netcom Group has operations, which is expected to enhance the Enlarged Group's brand recognition and increase its overall competitiveness, business scale and shareholder value. For further details, please refer to paragraph 6 headed "Reasons For and Benefits of the Proposed Merger" in the Explanatory Statement on pages 65 to 68 of the Scheme Document, which is set out in Appendix IV to this Circular.

**(k) Business Strategies of the Enlarged Group**

The business strategies of the Enlarged Group are set out in paragraph 7 headed "Business Strategies of the Enlarged Group" in the Explanatory Statement on pages 68 and 69 of the Scheme Document, which is set out in Appendix IV to this Circular.

**(l) Intentions of Unicom With Regard to Netcom**

The intentions of Unicom with regard to Netcom are set out in paragraph 8 headed "Intentions of Unicom With Regard to Netcom" in the Explanatory Statement on pages 69 and 70 of the Scheme Document, which is set out in Appendix IV to this Circular.

**(m) Comparisons of Value**

Details of the various comparisons of the value for each Netcom Share and each Netcom ADS under the Share Proposal and the ADS Proposal, respectively, are set out in paragraph 9 headed "Comparisons of Value" in the Explanatory Statement on pages 70 to 72 of the Scheme Document, which is set out in Appendix IV to this Circular.

**(n) Financial Effects of the Proposals**

The unaudited pro forma consolidated financial information of the Enlarged Group, which has been prepared for the purpose of illustrating the financial effects of the Proposals and the CDMA Business Disposal, is set out in Appendix III to the Scheme Document, which is set out in Appendix IV to this Circular.

**(o) Effects of the Proposals on the Shareholding Structures of Netcom and Unicom**

Following the completion of the Scheme, Unicom Shareholders and Unicom ADS Holders will own a smaller percentage of Unicom than they currently own and will have reduced voting power in Unicom immediately after the Effective Date.

Further details of the effect of the Proposals on the shareholding structures of Netcom and Unicom are set out in paragraph 11 headed "Effects of the Proposals on the Shareholding Structures of Netcom and Unicom" in the Explanatory Statement on pages 73 to 75 of the Scheme Document, which is set out in Appendix IV to this Circular.

**(p) Information on Netcom**

General information on Netcom is set out in paragraph 13 headed "Information on Netcom" in the Explanatory Statement on page 76 of the Scheme Document and Appendix IV to the Scheme Document, which is set out in Appendix IV to this Circular. Financial information on the Netcom Group is set out in Appendix I to the Scheme Document, which is set out in Appendix IV to this Circular.

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**LETTER FROM THE BOARD**

**(q) Information on Unicom**

General information on Unicom is set out in paragraph 14 headed "Information on Unicom" in the Explanatory Statement on pages 76 to 80 of the Scheme Document and Appendix V to the Scheme Document, which is set out in Appendix IV to this Circular. Financial information on the Unicom Group is set out in Appendix I to this Circular and on pages II-1 to II-106 of Appendix II to the Scheme Document, which is set out in Appendix IV to this Circular.

**(r) Risk Factors**

You should carefully consider the factors set out in paragraph 16 headed "Risk Factors" in the Explanatory Statement on pages 80 to 82 of the Scheme Document, which is set out in Appendix IV to this Circular, in deciding whether to vote in favour of or against the resolution to approve the Proposals. These factors should be considered in conjunction with the other information included in this Circular and the Scheme Document.

**(s) Listing Rules Implications**

As the highest of the percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the implementation of the Proposals is more than 100%, the Proposals constitute a very substantial acquisition for Unicom under the Listing Rules and are subject to the approval of the Unicom Shareholders.

**(t) Additional Information**

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, Netcom and its substantial shareholders are third parties independent of Unicom and connected persons of Unicom.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, none of the Netcom Shareholders are connected persons of Unicom and accordingly, the Proposals do not constitute a connected transaction for Unicom.

The implementation of the Proposals will not result in a change of control of Unicom.

**4. MANDATE TO ISSUE UNICOM SHARES**

In connection with the Proposals, Unicom will allot and issue Unicom Shares as consideration for the Share Proposal and the ADS Proposal.

Based on the Share Exchange Ratio and 6,699,197,200 Netcom Shares in issue as at the Latest Practicable Date and assuming that none of the outstanding Netcom Options had been exercised, the maximum number of Unicom Shares that Unicom will issue under the Share Proposal, including those underlying the Unicom ADSs to be issued under the ADS Proposal, is 10,102,389,377. This represents approximately 73.93% of the existing issued share capital of Unicom of 13,664,951,945 Unicom Shares as at the Latest Practicable Date, and approximately 42.51% of the enlarged issued share capital of Unicom of 23,767,341,322 Unicom Shares immediately following the issue of the Unicom Shares (assuming that none of the outstanding Unicom Options had been exercised) and approximately 42.11% of the enlarged issued share capital of Unicom of 23,991,888,922 Unicom Shares immediately following the issue of the Unicom Shares (assuming that all of the outstanding Unicom Options had been exercised).

Based on the Share Exchange Ratio and 6,825,033,460 Netcom Shares in issue as at the Latest Practicable Date and assuming that all of the outstanding Netcom Options had been exercised, the maximum number of Unicom Shares that Unicom will issue under the Share Proposal, including those underlying the Unicom ADSs to be issued under the ADS Proposal, is 10,292,150,457. This represents approximately 75.32% of the existing issued share capital of Unicom of 13,664,951,945 Unicom Shares as at the Latest Practicable Date, and approximately 42.96% of the enlarged issued share capital of Unicom of 23,957,102,402 Unicom Shares

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**LETTER FROM THE BOARD**

immediately following the issue of the Unicom Shares (assuming that none of the outstanding Unicom Options had been exercised) and approximately 42.56% of the enlarged issued share capital of Unicom of 24,181,650,002 Unicom Shares immediately following the issue of the Unicom Shares (assuming that all of the outstanding Unicom Options had been exercised).

The allotment and issue of the Unicom Shares is subject to the approval of the Unicom Shareholders at the Unicom EGM pursuant to Rule 13.36(1)(a) of the Listing Rules.

An application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Unicom Shares to be issued pursuant to the Share Proposal and the ADS Proposal. In addition, Unicom will make a listing application to the New York Stock Exchange to list the new Unicom ADSs representing the new Unicom Shares to be issued pursuant to the ADS Proposal.

**5. ADOPTION OF SPECIAL PURPOSE UNICOM SHARE OPTION SCHEME**

**(a) Purpose**

The Special Purpose Unicom Share Option Scheme is proposed to be adopted by Unicom at the Unicom EGM in connection with the Proposals. Pursuant to the Option Proposal, which is conditional upon the Scheme becoming effective, Unicom will grant Netcom Optionholders Special Unicom Options pursuant to the Special Purpose Unicom Share Option Scheme in consideration for the cancellation of their outstanding Netcom Options at the Scheme Record Time (whether vested or not). To the extent that Netcom Optionholders do not exercise their outstanding Netcom Options prior to the Options Exercise Deadline, their Netcom Options that remain outstanding at the Scheme Record Time (whether vested or not) will, subject to the Scheme becoming effective, be cancelled by the board of directors of Netcom and such Netcom Optionholders will automatically be granted Special Unicom Options in consideration for the cancellation of their outstanding Netcom Options. The Special Unicom Options will not be granted to any director, chief executive or substantial shareholder of Unicom or to any of their respective associates.

The Special Purpose Unicom Share Option Scheme will provide Unicom with a means to incentivise and retain the Netcom Optionholders, who are middle to senior management staff of the Netcom Group and to encourage them to diligently achieve an enhancement in the value of Unicom.

**(b) Terms of the Special Purpose Unicom Share Option Scheme**

The terms of the Special Purpose Unicom Share Option Scheme will be substantially the same as the terms of the Netcom Share Option Scheme, save for the following:

- (a) the exercise price of a Special Unicom Option granted will be such price as will result in the value of the new Special Unicom Options received by the Netcom Optionholders being equivalent to the See-Through Price; and
- (b) other than the Special Unicom Options to be granted pursuant to the Option Proposal, no further Special Unicom Options will be granted under the Special Purpose Unicom Share Option Scheme.

A summary of the principal terms of the Special Purpose Unicom Share Option Scheme is set out in Appendix II to this Circular.

Unicom applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirement of Rule 17.03(9) of the Listing Rules so that the exercise price of the Special Unicom Options granted under the Special Purpose Unicom Share Option Scheme will be the price described in paragraph 3(c) headed "The Option Proposal" above instead of a price to be determined by reference to the closing price or the five day average closing price of a Unicom Share prior to the date of grant of the Special Unicom Options as required by Rule 17.03(9) of the Listing Rules. The reasons for the waiver application are that (i) the Option Proposal ensures that the Netcom Optionholders will receive a consideration for their outstanding Netcom Options which is comparable to the consideration which the Scheme Shareholders



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will receive for the cancellation of their Scheme Shares, (ii) the Option Proposal is a unique case and strict compliance with the requirement of Rule 17.03(9) of the Listing Rules would be unfair and impractical and (iii) the Option Proposal would also ensure that the Netcom Optionholders are incentivised to remain in the employment of the Enlarged Group following the completion of the Scheme.

Save for the waiver from strict compliance with the requirement of Rule 17.03(9) of the Listing Rules, the Special Purpose Unicom Share Option Scheme will comply with the requirements of Chapter 17 of the Listing Rules.

**(c) Details of the Outstanding Netcom Options and the New Special Unicom Options**

As at the Latest Practicable Date, there were 125,836,260 Netcom Options outstanding. If all of such Netcom Options are exercised, a total of 125,836,260 Netcom Shares will be issued. Details of the outstanding Netcom Options are set out below:

<b>Date of Grant of Netcom Options</b>	<b>Exercise Price (HK\$)</b>	<b>Number of Outstanding Netcom Options<sup>(1)</sup></b>
22 October 2004 ( 2004 Netcom Options <sup>(2)</sup> )	HK\$8.40	66,864,360
6 December 2005 ( 2005 Netcom Options <sup>(3)</sup> )	HK\$12.45	58,971,900
<b>Total</b>		<b>125,836,260</b>

*Notes:*

(1) Each Netcom Option gives the holder the right to subscribe for one Netcom Share.

(2) For the 2004 Netcom Options:

40% are exercisable from 17 May 2006 to 16 November 2010;

a further 20% are exercisable from 17 May 2007 to 16 November 2010;

an additional further 20% are exercisable from 17 May 2008 to 16 November 2010; and

the remaining 20% of which are exercisable from 17 May 2009 to 16 November 2010.

(3) For the 2005 Netcom Options:

40% are exercisable from 6 December 2007 to 5 December 2011;

a further 20% are exercisable from 6 December 2008 to 5 December 2011;

an additional further 20% are exercisable from 6 December 2009 to 5 December 2011; and

the remaining 20% of which are exercisable from 6 December 2010 to 5 December 2011.

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Assuming that none of the outstanding Netcom Options as at the Latest Practicable Date is exercised or lapses prior to the Scheme Record Time, pursuant to the Option Proposal, Unicom will grant to the Netcom Optionholders in aggregate approximately 189,761,079 Special Unicom Options, which will be exercisable into 189,761,079 Unicom Shares, representing approximately 1.39% of the existing issued share capital of Unicom of 13,664,951,945 Unicom Shares as at the Latest Practicable Date. Assuming that the Scheme becomes effective on 15 October 2008, the letters granting the Netcom Optionholders the Special Unicom Options pursuant to the Option Proposal are expected to be despatched on or before 25 October 2008.

Details of the new Special Unicom Options to be granted pursuant to the Option Proposal are set out below:

	<b>Approximate Number of Special Unicom Options to be Granted<sup>(1)</sup></b>	<b>Exercise Price of Special Unicom Options to be Granted</b>
<b>Special Unicom Options Granted in Consideration for the Cancellation of</b>		
66,864,360 outstanding 2004 Netcom Options with an exercise price of HK\$8.40 <sup>(2)</sup>	100,831,454	HK\$5.57
58,971,900 outstanding 2005 Netcom Options with an exercise price of HK\$12.45 <sup>(3)</sup>	88,929,625	HK\$8.26
<b>Total</b>	<b>189,761,079</b>	

*Notes:*

- (1) Each new Special Unicom Option gives the holder the right to subscribe for one Unicom Share. Fractions of Special Unicom Options will not be granted to the Netcom Optionholders.
- (2) For the new Special Unicom Options to be granted in

consideration  
for the  
cancellation of  
the 2004  
Netcom Options  
pursuant to the  
Option  
Proposal:

- (a) 100% of the Special Unicom Options granted in respect of the outstanding 2004 Netcom Options held by the Netcom Optionholders at the Scheme Record Time which are exercisable from 17 May 2006 to 16 November 2010 may be exercised at any time from the Effective Date to 16 November 2010;
  - (b) 100% of the Special Unicom Options granted in respect of the outstanding 2004 Netcom Options held by the Netcom Optionholders at the Scheme Record Time which are exercisable from 17 May 2007 to 16 November 2010 may be exercised at any time from the Effective Date to 16 November 2010;
  - (c) 100% of the Special Unicom Options granted in respect of the outstanding 2004 Netcom Options held by the Netcom Optionholders at the Scheme Record Time which are exercisable from 17 May 2008 to 16 November 2010 may be exercised at any time from the Effective Date to 16 November 2010; and
  - (d) 100% of the Special Unicom Options granted in respect of the outstanding 2004 Netcom Options held by the Netcom Optionholders at the Scheme Record Time which are exercisable from 17 May 2009 to 16 November 2010 may be exercised at any time from 17 May 2009 to 16 November 2010.
- (3) For the new Special Unicom Options to be granted in consideration for the cancellation of the 2005 Netcom Options pursuant to the Option Proposal:
- (a) 100% of the Special Unicom Options granted in respect of the outstanding 2005 Netcom Options held by the Netcom Optionholders at the Scheme Record Time which are exercisable from 6 December 2007 to 5 December 2011 may be exercised at any time from the Effective Date to 5 December 2011;
  - (b) 100% of the Special Unicom Options granted in respect of the outstanding 2005 Netcom Options held by the Netcom Optionholders at the Scheme Record Time which are exercisable from 6 December 2008 to 5 December 2011 may be exercised at any time from 6 December 2008 to 5 December 2011;

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(c) 100% of the Special Unicom Options granted in respect of the outstanding 2005 Netcom Options held by the Netcom Optionholders at the Scheme Record Time which are exercisable from 6 December 2009 to 5 December 2011 may be exercised at any time from 6 December 2009 to 5 December 2011; and

(d) 100% of the Special Unicom Options granted in respect of the outstanding 2005 Netcom Options held by the Netcom Optionholders at the Scheme Record Time which are exercisable from 6 December 2010 to 5 December 2011 may be exercised at any time from 6 December 2010 to 5 December 2011.

The weighted average value per Special Unicom Option to be granted in consideration for the cancellation of each outstanding 2004 Netcom Option as at the Latest Practicable Date is HK\$9.82 based on the Black-Scholes option pricing model using the following assumptions:

Exercise price per Unicom Share underlying the Special Unicom Option	HK\$5.57
Risk-free interest rate with reference to Hong Kong Exchange Fund Notes	2.41%
Expected stock price volatility with reference to historical volatility of Unicom Shares	48%
Expected dividend yield with reference to historical dividend yield of Unicom	2%
Expected life of each Special Unicom Option	0.1-0.9 years

The weighted average value per Special Unicom Option to be granted in consideration for the cancellation of each outstanding 2005 Netcom Option as at the Latest Practicable Date is HK\$7.39 based on the Black-Scholes option pricing model using the following assumptions:

Exercise price per Unicom Share underlying the Special Unicom Option	HK\$8.26
Risk-free interest rate with reference to Hong Kong Exchange Fund Notes	2.79%
Expected stock price volatility with reference to historical volatility of Unicom Shares	43%
Expected dividend yield with reference to historical dividend yield of Unicom	2%
Expected life of each Special Unicom Option	0.5-2.5 years

As the Black-Scholes valuation model requires the input of subjective assumptions, including the volatility of the share price, change in subjective assumptions can materially affect the fair value estimate.

**(d) Conditions of the Proposed Adoption of the Special Purpose Unicom Share Option Scheme**

The adoption of the Special Purpose Unicom Share Option Scheme by Unicom is subject to the satisfaction of the following conditions:

- (a) the approval of the Unicom Shareholders having been obtained at the Unicom EGM for the adoption of the Special Purpose Unicom Share Option Scheme;
- (b) the Hong Kong Stock Exchange having granted its approval for the listing of, and permission to deal in, the Unicom Shares to be issued upon the exercise of the Special Unicom Options; and
- (c) the Scheme becoming effective.

An application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Unicom Shares to be issued upon the exercise of the Special Unicom Options.

Subject to the satisfaction of the conditions referred to above, the Special Purpose Unicom Share Option Scheme will take effect from the Effective Date and will terminate on 30 September 2014, being the date falling 10 years after the date of the adoption of the Netcom Share Option Scheme.

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As at the Latest Practicable Date, Netcom BVI and its associates (which includes Netcom Parent, being the parent company of Netcom BVI) did not have any shareholding interest in Unicom. As at the Latest Practicable Date, Netcom BVI had a shareholding interest in Netcom of approximately 69.37% and accordingly, Netcom BVI and its associates are connected persons of Netcom. Upon completion of the Proposals and the Scheme becoming effective, Netcom will become a wholly-owned subsidiary of Unicom and Netcom BVI will have a shareholding interest in Unicom of approximately 29.49% (assuming that none of the outstanding Unicom Options and Netcom Options are exercised) or 28.98% (assuming that all of the outstanding Unicom Options and Netcom Options are exercised) and therefore, Netcom BVI and its associates will become connected persons of Unicom. Accordingly, the existing continuing connected transactions between Netcom and its subsidiaries, namely, CNC China and China Netcom System Integration (which will become subsidiaries of Unicom), and Netcom Parent (the Existing Netcom Continuing Connected Transactions ) will become new continuing connected transactions of Unicom with effect from the Effective Date.

In addition, there are existing continuing transactions between certain subsidiaries of Unicom and Netcom Parent (the Existing Unicom Continuing Transactions ). Upon completion of the Proposals and the Scheme becoming effective, the Existing Unicom Continuing Transactions will become new continuing connected transactions of Unicom with effect from the Effective Date. CUCL and Netcom Parent have entered into certain framework agreements to record the principles governing, and the principal terms of, the Existing Unicom Continuing Transactions.

Furthermore, pursuant to an agreement dated 12 August 2008 entered into between Unicom Parent and Unicom A Share Company (the Second New Comprehensive Services Agreement ) and a transfer agreement dated 12 August 2008 entered into between Unicom A Share Company, CUCL and CNC China (the New Transfer Agreement ), the terms of the continuing connected transactions between Unicom and Unicom Parent that were approved on 1 December 2006 by the Independent Unicom Shareholders at the time, the details of which were set out in the circular issued to the Unicom Shareholders dated 10 November 2006, will be amended with effect from the Effective Date (the Amended 2006 Continuing Connected Transactions ) to include CNC China as a party and to facilitate the business and operations of the Enlarged Group.

Of the New Continuing Connected Transactions, the Non-exempt New Continuing Connected Transactions (save for the Amended 2006 Continuing Connected Transactions relating to the supply of telephone cards, interconnection arrangements, provision of international telecommunications network gateway, provision of operator-based value-added services, provision of value-added telecommunications services, provision of 10010/10011 customer services and provision of agency services, for which no annual caps are proposed) are subject to the approval of the Unicom Shareholders. The Amended 2006 Continuing Connected Transactions relating to the supply of telephone cards, interconnection arrangements, provision of international telecommunications network gateway, provision of operator-based value-added services, provision of value-added telecommunications services, provision of 10010/10011 customer services and provision of agency services are subject to the approval of the Independent Unicom Shareholders.

**(b) Existing Netcom Continuing Connected Transactions**

Details of the Existing Netcom Continuing Connected Transactions, which were set out in the circular issued by Netcom to the Netcom Shareholders dated 9 November 2007 and approved by the Netcom Shareholders in general meeting on 6 December 2007 and which will become New Continuing Connected Transactions of Unicom with effect from the Effective Date, are summarised below.

**(1) *Domestic Interconnection Settlement Agreement 2008-2010***

New Horizon Communications, CNC China and Netcom Parent entered into the Domestic Interconnection Settlement Agreement on 12 September 2005. The Domestic Interconnection Settlement Agreement was valid until 31

December 2007 and could be renewed with the same terms for further periods of three years. On 6 November 2007, CNC China entered into a renewal agreement with Netcom Parent (the  
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Domestic Interconnection Settlement Agreement 2008-2010 ) whereby the parties agreed to continue the existing transactions under the Domestic Interconnection Settlement Agreement for a term of three years commencing on 1 January 2008. If CNC China notifies Netcom Parent at least three months prior to the expiration of the Domestic Interconnection Settlement Agreement 2008-2010 of its intention to renew the Domestic Interconnection Settlement Agreement 2008-2010, such agreement can be renewed with the same terms for further periods of three years.

Pursuant to the Domestic Interconnection Settlement Agreement 2008-2010, the parties agreed to interconnect the network of Netcom Parent on the one hand and that of CNC China on the other and settle the charges received in respect of domestic long distance voice services within their respective service regions on a quarterly basis.

For domestic long distance voice services between Netcom Parent and CNC China, the telephone operator in the location of the calling party makes a settlement payment to the telephone operator in the location of the called party at the rate of RMB0.06 per minute, irrespective of whether the call terminates within the network of either Netcom Parent or CNC China or outside the network of either Netcom Parent or CNC China.

The rate of RMB0.06 per minute mentioned above shall be adjusted with reference to the relevant standards, tariffs or policies promulgated by the relevant regulatory authorities in China from time to time.

In case where the call terminates outside the network of either Netcom Parent or CNC China, the settlement payment was at the rate of RMB0.09 per minute under the Domestic Interconnection Settlement Agreement dated 12 September 2005. Pursuant to the Domestic Interconnection Settlement Agreement 2008-2010, the parties to the agreement agreed that such rate would be reduced to RMB0.06 per minute and that such reduction would take retrospective effect from 1 April 2007. It was expected that such reduction would result in CNC China making less settlement payment to Netcom Parent.

(2) International Long Distance Voice Services Settlement Agreement 2008-2010

CNC China and Netcom Parent entered into the International Long Distance Voice Services Settlement Agreement on 12 September 2005. The International Long Distance Voice Services Settlement Agreement was valid until 31 December 2007 and could be renewed with the same terms for further periods of three years. On 6 November 2007, CNC China entered into a renewal agreement with Netcom Parent (the International Long Distance Voice Services Settlement Agreement 2008-2010 ) whereby the parties agreed to continue the existing transactions under the International Long Distance Voice Services Settlement Agreement for a term of three years commencing on 1 January 2008. If CNC China notifies Netcom Parent at least three months prior to the expiration of the International Long Distance Voice Services Settlement Agreement 2008-2010 of its intention to renew the International Long Distance Voice Services Settlement Agreement 2008-2010, such agreement can be renewed with the same terms for further periods of three years.

Pursuant to the International Long Distance Voice Services Settlement Agreement 2008-2010, the parties agreed to interconnect the networks of Netcom Parent and CNC China and settle the charges received in respect of international long distance voice services on a quarterly basis.

For outbound international calls, Netcom Parent reimburses CNC China for any amount it has paid to overseas telecommunications operators. The revenues received by Netcom Parent less the amount paid to overseas telecommunications operators are shared between Netcom Parent and CNC China in proportion to the estimated costs incurred by Netcom Parent and CNC China in connection with the provision of outbound international long distance voice services.



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For inbound international calls, the revenues received by CNC China from overseas telecommunications operators (other than Netcom and its controlled entities) less the amount paid to Netcom Parent at the rate of RMB0.06 per minute (irrespective of whether the call terminates within the network of Netcom Parent or within the network of other operators) are shared between Netcom Parent and CNC China in proportion to the estimated costs incurred by Netcom Parent and CNC China in connection with the provision of inbound international long distance voice services.

The rate of RMB0.06 per minute mentioned above shall be adjusted with reference to the relevant standards, tariffs or policies promulgated by the relevant regulatory authorities in China from time to time.

In case where an inbound international call terminates within the network of operators other than Netcom Parent, an amount calculated at the rate of RMB0.09 per minute was paid to Netcom Parent under the International Long Distance Voice Services Settlement Agreement dated 12 September 2005. Pursuant to the International Long Distance Voice Services Settlement Agreement 2008-2010, the parties to the agreement agreed that such rate would be reduced to RMB0.06 per minute and that such reduction would take retrospective effect from 1 April 2007. It was expected that such reduction would result in CNC China sharing a larger amount of revenue for inbound international calls.

(3) *Engineering and Information Technology Services Agreement 2008-2010*

New Horizon Communications, CNC China and Netcom Parent entered into the Engineering and Information Technology Services Agreement on 12 September 2005. The Engineering and Information Technology Services Agreement was valid until 31 December 2007 and could be renewed with the same terms for further periods of three years. On 6 November 2007, CNC China entered into a renewal agreement with Netcom Parent (the Engineering and Information Technology Services Agreement 2008-2010 ) whereby the parties agreed to continue the existing transactions under the Engineering and Information Technology Services Agreement for a term of three years commencing on 1 January 2008. If CNC China notifies Netcom Parent at least three months prior to the expiration of the Engineering and Information Technology Services Agreement 2008-2010 of its intention to renew the Engineering and Information Technology Services Agreement 2008-2010, such agreement can be renewed with the same terms for further periods of three years.

The Engineering and Information Technology Services Agreement 2008-2010 governs the arrangements with respect to the provision of certain engineering and information technology-related services to CNC China by Netcom Parent. These services include:

- (a) the provision of planning, surveying and design services in relation to telecommunications engineering projects;
- (b) the provision of construction services in relation to telecommunications engineering projects;
- (c) the provision of supervision services in relation to telecommunications engineering projects; and
- (d) the provision of information technology services, including office automation, software testing, network upgrade, new business development and support system development.

The charges payable for engineering and information technology-related services described above are determined with reference to market rates. In addition, where the value of any single item of engineering design or supervision-related service exceeds RMB0.5 million or where the value of any single item of engineering construction-related service exceeds RMB2 million, the award of such services will be subject to tender. The charges are settled between CNC China and Netcom Parent as and when the relevant services are provided.

For the three years ended 31 December 2005, 2006 and 2007, the total service charges paid by CNC China to Netcom Parent in respect of engineering and information technology-related services amounted to RMB2,649 million, RMB2,546 million and RMB2,067 million, respectively.

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(4) Master Sharing Agreement 2008-2010

New Horizon Communications, CNC China and Netcom Parent entered into the Master Sharing Agreement on 12 September 2005. The Master Sharing Agreement was valid until 31 December 2007 and could be renewed with the same terms for further periods of three years. On 6 November 2007, CNC China entered into a renewal agreement with Netcom Parent (the Master Sharing Agreement 2008-2010 ) whereby the parties agreed to continue the existing transactions under the Master Sharing Agreement for a term of three years commencing on 1 January 2008. If CNC China notifies Netcom Parent at least three months prior to the expiration of the Master Sharing Agreement 2008-2010 of its intention to renew the Master Sharing Agreement 2008-2010, such agreement can be renewed with the same terms for further periods of three years.

Pursuant to the Master Sharing Agreement 2008-2010:

- (a) CNC China will provide customer relationship management services for large enterprise customers of Netcom Parent;
- (b) CNC China will provide network management services to Netcom Parent;
- (c) CNC China will share with Netcom Parent the services provided by administrative and managerial staff in respect of central management of the business operations, financial control, human resources and other related matters of both CNC China and Netcom Parent;
- (d) CNC China will provide to Netcom Parent supporting services, such as billing and settlement provided by the business support centre;
- (e) Netcom Parent will provide to CNC China supporting services, including telephone card production, development and related services;
- (f) Netcom Parent will provide to CNC China certain other shared services, including advertising, publicity, research and development, business hospitality, maintenance and property management;
- (g) Netcom Parent will provide certain office space in its headquarters to CNC China for use as its principal executive office; and
- (h) CNC China and Netcom Parent will share the revenues received by Netcom Parent from other operators whose networks interconnect with the Internet backbone network of Netcom Parent and will share the monthly connection fee that Netcom Parent pays to the State Internet Switching Centre.

CNC China and Netcom Parent own certain equipment and facilities forming the Internet backbone network of China. This Internet backbone network interconnects with the networks of other operators. Such interconnection generates revenues which are settled with Netcom Parent and shared between Netcom Parent and CNC China under the Master Sharing Agreement 2008-2010.

The services set out in paragraphs (a) to (g) above and the revenue and fee set out in paragraph (h) above are shared between CNC China and Netcom Parent on an on-going basis from time to time. The costs of the services provided under the Master Sharing Agreement 2008-2010 are not directly related to the volumes of business or revenues of the parties. Accordingly, the aggregate costs incurred by CNC China or Netcom Parent for the provision of the services set out in paragraphs (a) to (g) above and the revenue and fee receivable and payable by Netcom Parent as referred to in paragraph (h) above are apportioned between CNC China and Netcom Parent according to their respective total assets value as shown in their respective financial statements on an annual basis.



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The total amounts received by CNC China from Netcom Parent in respect of services set out in paragraphs (a) to (d) above and in respect of revenue set out in paragraph (h) above for the three years ended 31 December 2005, 2006 and 2007 amounted to RMB89 million, RMB121 million and RMB125 million, respectively. The total amounts paid by CNC China to Netcom Parent in respect of services set out in paragraphs (e) to (g) above and in respect of the fee set out in paragraph (h) above for the three years ended 31 December 2005, 2006 and 2007 amounted to RMB279 million, RMB448 million and RMB477 million, respectively.

(5) Property Leasing Agreement 2008-2010

New Horizon Communications, CNC China and Netcom Parent entered into the Property Leasing Agreement on 12 September 2005. The Property Leasing Agreement was valid until 31 December 2007 and could be renewed with the same terms for further periods of three years. On 6 November 2007, CNC China entered into a renewal agreement with Netcom Parent (the Property Leasing Agreement 2008-2010 ) whereby the parties agreed to continue the existing transactions under the Property Leasing Agreement for a term of three years commencing on 1 January 2008. If CNC China notifies Netcom Parent at least three months prior to the expiration of the Property Leasing Agreement 2008-2010 of its intention to renew the Property Leasing Agreement 2008-2010, such agreement can be renewed with the same terms for further periods of three years.

Pursuant to the Property Leasing Agreement 2008-2010:

- (a) CNC China leases to Netcom Parent a total of 54 buildings and units with an aggregate floor area of approximately 4,300 square metres located throughout CNC China's service regions, for use as offices and other ancillary purposes; and
- (b) Netcom Parent leases to CNC China a total of 22 parcels of land with an aggregate site area of approximately 26,700 square metres and 42,097 buildings and units with an aggregate floor area of approximately 9,264,000 square metres located throughout CNC China's service regions, for use as offices, telecommunications equipment sites and other ancillary purposes.

The charges payable by CNC China and by Netcom Parent under the Property Leasing Agreement 2008-2010 are based on market rates or the depreciation charges and taxes in respect of each property, provided that such depreciation charges and taxes shall not be higher than the market rates. The charges are payable quarterly in arrears and are subject to review every year to take into account the then prevailing market rates of the properties leased in that year.

For the three years ended 31 December 2005, 2006 and 2007, the rental charges that CNC China paid to Netcom Parent amounted to RMB655 million, RMB680 million and RMB634 million, respectively. For the year ended 31 December 2005, the rental charge paid by Netcom Parent to CNC China was negligible and for the two years ended 31 December 2006 and 2007, the rental charges paid by Netcom Parent to CNC China amounted to RMB2 million and RMB1 million, respectively.

(6) Materials Procurement Agreement 2008-2010

New Horizon Communications, CNC China and Netcom Parent entered into the Materials Procurement Agreement on 12 September 2005. The Materials Procurement Agreement was valid until 31 December 2007 and could be renewed with the same terms for further periods of three years. On 6 November 2007, CNC China entered into a renewal agreement with Netcom Parent (the Materials Procurement Agreement 2008-2010 ) whereby the parties agreed to continue the existing transactions under the Materials Procurement Agreement for a term of three years commencing on 1 January 2008. If CNC China notifies Netcom Parent at least three months prior to the expiration of the Materials Procurement Agreement 2008-2010 of its intention to renew the Materials Procurement Agreement 2008-2010, such agreement can be renewed with the same terms for further periods of three years.

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Pursuant to the Materials Procurement Agreement 2008-2010:

- (a) CNC China may request Netcom Parent to act as its agent for the procurement of imported and domestic telecommunications equipment and other domestic non-telecommunications equipment;
- (b) CNC China may purchase from Netcom Parent certain products, including cables, modems and yellow pages telephone directories; and
- (c) Netcom Parent will provide to CNC China storage and transportation services related to the procurement and purchase of materials or equipment under the agreement.

Commission and/or charges for the domestic materials procurement services referred to in paragraph (a) above should not exceed the maximum rate of 3% of the contract value. Commission and/or charges for the above imported materials procurement services should not exceed the maximum rate of 1% of the contract value. The price for the purchase of Netcom Parent's products referred to in paragraph (b) above is determined with reference to the following pricing principles and limits:

the government fixed price;

where there is no government fixed price but a government guidance price exists, the government guidance price;

where there is neither a government fixed price nor a government guidance price, the market price; or

where none of the above is applicable, the price to be agreed between the relevant parties and determined on a cost-plus basis.

Commission charges for the storage and transportation services referred to in paragraph (c) above are to be determined with reference to market rates.

Payments under the Materials Procurement Agreement 2008-2010 will be made as and when the relevant equipment or products have been procured and delivered.

For the three years ended 31 December 2005, 2006 and 2007, the total commission and/or charges paid by CNC China to Netcom Parent in respect of the domestic and imported materials procurement services amounted to RMB1,529 million, RMB1,292 million and RMB668 million, respectively. The amount of total commission and/or charges paid by CNC China under the Materials Procurement Agreement for the year ended 31 December 2007 has dropped by a far margin as Netcom has put in place effective measures to control its capital expenditures, in particular in fixed assets investments. However, with the 2008 Beijing Olympic Games and the network quality enhancement project in the next few years, it is expected that the commission and/or charges payable by CNC China under the Materials Procurement Agreement 2008-2010 cannot be maintained at the low level in the year ended 31 December 2007.

(7) *Ancillary Telecommunications Services Agreement 2008-2010*

New Horizon Communications, CNC China and Netcom Parent entered into the Ancillary Telecommunications Services Agreement on 12 September 2005. The Ancillary Telecommunications Services Agreement was valid until 31 December 2007 and could be renewed with the same terms for further periods of three years. On 6 November 2007, CNC China entered into a renewal agreement with Netcom Parent (the Ancillary Telecommunications Services Agreement 2008-2010) whereby the parties agreed to continue the existing transactions under the Ancillary Telecommunications Services Agreement for a term of three years commencing on 1 January 2008. If CNC China notifies Netcom Parent at least three months prior to the expiration of the Ancillary Telecommunications Services Agreement 2008-2010 of its intention to renew the Ancillary Telecommunications Services Agreement 2008-2010, such agreement can be renewed with the same terms for further periods of three

years.

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The Ancillary Telecommunications Services Agreement 2008-2010 governs the arrangements with respect to the provision of ancillary telecommunications services to CNC China by Netcom Parent. These services include certain telecommunications pre-sale, on-sale and after-sale services such as assembling and repairing of certain telecommunications equipment, sales agency services, printing and invoice delivery services, maintenance of telephone booths, customers acquisition and servicing and other customers services.

The charges payable for the services described above are determined with reference to the following pricing principles and limits:

the government fixed price;

where there is no government fixed price but a government guidance price exists, the government guidance price;

where there is neither a government fixed price nor a government guidance price, the market price; or

where none of the above is applicable, the price to be agreed between the relevant parties and determined on a cost-plus basis.

The service charges are settled between CNC China and Netcom Parent as and when the relevant services are provided.

For the three years ended 31 December 2005, 2006 and 2007, the total services charges paid by CNC China to Netcom Parent for ancillary telecommunications services amounted to RMB486 million, RMB408 million and RMB448 million, respectively.

(8) Support Services Agreement 2008-2010

New Horizon Communications, CNC China and Netcom Parent entered into the Support Services Agreement on 12 September 2005. The Support Services Agreement was valid until 31 December 2007 and could be renewed with the same terms for further periods of three years. On 6 November 2007, CNC China entered into a renewal agreement with Netcom Parent (the Support Services Agreement 2008-2010) whereby the parties agreed to continue the existing transactions under the Support Services Agreement for a term of three years commencing on 1 January 2008. If CNC China notifies Netcom Parent at least three months prior to the expiration of the Support Services Agreement 2008-2010 of its intention to renew the Support Services Agreement 2008-2010, such agreement can be renewed with the same terms for further periods of three years.

Pursuant to the Support Services Agreement 2008-2010, Netcom Parent provides CNC China with various support services, including equipment leasing (other than equipment covered under the Telecommunications Facilities Leasing Agreement 2008-2010) and maintenance services, motor vehicles services, security services, basic construction agency services, research and development services, employee training services and advertising services and other support services.

The charges payable for the services described above are determined with reference to the following pricing principles and limits:

the government fixed price;

where there is no government fixed price but a government guidance price exists, the government guidance price;

where there is neither a government fixed price nor a government guidance price, the market price; or

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where none of the above is applicable, the price to be agreed between the relevant parties and determined on a cost-plus basis.

The service charges are settled between CNC China and Netcom Parent as and when the relevant services are provided.

For the three years ended 31 December 2005, 2006 and 2007, the total support service charges paid by CNC China to Netcom Parent amounted to RMB1,154 million, RMB737 million and RMB536 million, respectively.

(9) *Telecommunications Facilities Leasing Agreement 2008-2010*

New Horizon Communications, CNC China and Netcom Parent entered into the Telecommunications Facilities Leasing Agreement on 12 September 2005. The Telecommunications Facilities Leasing Agreement was valid until 31 December 2007 and could be renewed with the same terms for further periods of three years. On 6 November 2007, CNC China entered into a renewal agreement with Netcom Parent (the Telecommunications Facilities Leasing Agreement 2008-2010 ) whereby the parties agreed to continue the existing transactions under the Telecommunications Facilities Leasing Agreement for a term of three years commencing on 1 January 2008. If CNC China notifies Netcom Parent at least three months prior to the expiration of the Telecommunications Facilities Leasing Agreement 2008-2010 of its intention to renew the Telecommunications Facilities Leasing Agreement 2008-2010, such agreement can be renewed with the same terms for further periods of three years.

Pursuant to the Telecommunications Facilities Leasing Agreement 2008-2010:

- (a) Netcom Parent leases inter-provincial fiber optic cables within CNC China's service regions to CNC China;
- (b) Netcom Parent leases certain international telecommunications resources (including international telecommunications channel gateways, international telecommunications service gateways, international submarine cable capacity, international land cables and international satellite facilities) to CNC China; and
- (c) Netcom Parent leases certain other telecommunications facilities required by CNC China for its operations.

The rental charges for the leasing of inter-provincial fiber optic cables, international telecommunications resources and other telecommunications facilities were based on the annual depreciation charges of such fiber optic cables, resources and telecommunications facilities provided that such charges would not be higher than market rates. CNC China shall be responsible for the on-going maintenance of such inter-provincial fiber optic cables and international telecommunications resources. CNC China and Netcom Parent shall determine and agree which party is to provide maintenance service to the telecommunications facilities referred to in paragraph (c) above. Unless otherwise agreed by CNC China and Netcom Parent, such maintenance service charges would be borne by CNC China. If Netcom Parent shall be responsible for maintaining any telecommunications facilities referred to in paragraph (c) above, CNC China shall pay to Netcom Parent the relevant maintenance service charges which shall be agreed between the parties and determined on a cost-plus basis. The net rental charges and service charges due to Netcom Parent under the Telecommunications Facilities Leasing Agreement 2008-2010 will be settled between CNC China and Netcom Parent on a quarterly basis.

For the three years ended 31 December 2005, 2006 and 2007, the total charges paid by CNC China to Netcom Parent for the lease of telecommunications facilities amounted to RMB300 million, RMB382 million and RMB309 million, respectively.



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(10) Information and Communications Technology Agreement 2008-2010

China Netcom System Integration and Netcom Parent entered into the Information and Communications Technology Agreement on 7 November 2006. On 6 November 2007, the Information and Communications Technology Agreement was terminated with effect from 31 December 2007 and China Netcom System Integration and Netcom Parent signed a new agreement (the Information and Communications Technology Agreement 2008-2010 ) on the same terms and conditions as the Information and Communications Technology Agreement.

Pursuant to the Information and Communications Technology Agreement 2008-2010:

- (a) China Netcom System Integration (and its subsidiaries) provides information and communications technology services to Netcom Parent (and its subsidiaries (other than the Netcom Group)), which include system integration services, software development services, operational maintenance services, consultancy services, equipment leasing-related services and product sales and distribution related services; and
- (b) China Netcom System Integration will also subcontract services ancillary to the provision of information and communications technology services, namely, the system installation and configuration services, to the subsidiaries and branches of Netcom Parent in Netcom Parent's southern service region in the PRC.

The charges payable for the services provided under the Information and Communications Technology Agreement 2008-2010 are determined with reference to the following pricing principles and limits:

the government fixed price;

where there is no government fixed price but a government guidance price exists, the government guidance price; or

where there is neither a government fixed price nor a government guidance price, the market price.

In relation to the charges payable for the services provided under the Information and Communications Technology Agreement 2008-2010 that are to be determined with reference to the market price:

if the value of any single item of system installation and configuration services provided by Netcom Parent (and its subsidiaries) to China Netcom System Integration (and its subsidiaries) exceeds RMB0.3 million, the award of such services will be subject to tender; or

if the value of any single item of system integration, software development, operational maintenance, consultancy and equipment leasing-related services exceeds RMB0.5 million, or where the value of any single item of product sales and distribution related services exceeds RMB2 million, the award of such services shall be subject to tender.

The Information and Communications Technology Agreement 2008-2010 is effective from 1 January 2008 and expires after 31 December 2010. If the parties agree, the Information and Communications Technology Agreement 2008-2010 can be renewed with the same terms for further periods of three years.

For the two years ended 31 December 2006 and 2007, the total consideration received by China Netcom System Integration (and its subsidiaries) from Netcom Parent under the Information and Communications Technology Agreement amounted to RMB36 million and RMB107 million, respectively. For the same periods, the total consideration paid by China Netcom System Integration (and its subsidiaries) to Netcom Parent under the Information and Communications Technology Agreement was negligible.

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China Netcom System Integration entered into an agreement with China Netcom Beijing Communications Corporation, a wholly-owned subsidiary of Netcom Parent, on 5 December 2007, pursuant to which it agreed to acquire the entire equity interest of Beijing Telecom Planning and Design Institute Co., Ltd (the Institute ) from China Netcom Beijing Communications Corporation. Details of this agreement were set out in an announcement issued by Netcom dated 5 December 2007. The acquisition was completed on 31 December 2007. Accordingly, the transactions between CNC China and the Institute prior to 31 December 2007 are regarded as connected transactions of Netcom, whereas the transactions between the CNC China and the Institute after 31 December 2007 are not regarded as connected transactions of Netcom.

**(c) Existing Unicom Continuing Transactions**

Details of the Existing Unicom Continuing Transactions which will become New Continuing Connected Transactions of Unicom with effect from the Effective Date are summarised below.

(1) *Framework Agreement for Interconnection Settlement*

CUCL and Netcom Parent entered into a framework agreement (the Framework Agreement for Interconnection Settlement ) on 12 August 2008 to record the principles governing, and the principal terms of, the existing continuing transactions between the parties whereby the parties agreed to interconnect the network of Netcom Parent on the one hand and that of CUCL on the other and settle charges received in respect of domestic long distance voice services within their respective service regions and international long distance voice services.

Within the local networks, when a CUCL mobile telephone customer calls a Netcom Parent fixed-line customer, or when customers of the two operators make inter-network calls to various call centres, the telephone operator in the location of the calling party makes a settlement payment to the telephone operator in the location of the called party at the rate of RMB0.06 per minute.

When a CUCL mobile telephone user chooses to use Netcom Parent's domestic or international long distance call services, or when a Netcom Parent local fixed-line user chooses to use CUCL's domestic or international long distance call services, the telephone operator in the location of the called party makes a settlement payment to the telephone operator in the location of the calling party at the rate of RMB0.06 per minute.

For domestic long distance voice services, Internet protocol voice services from one operator to another, and for international voice services, international Internet protocol voice services from one operator to another, the telephone operator in the location of the calling party makes a settlement payment to the telephone operator in the location of the called party at the rate of RMB0.06 per minute.

However, for domestic long distance voice services between the parties where the calling party is unable to choose to use a third party operator, the settlement payment rate will be RMB0.34 per minute if the call is made between 0:00 and 07:00 hours and RMB0.54 per minute if the call is made between 07:00 and 23:59 hours. For calls that need to be transferred to a third party operator, the settlement rate for the transfer will be RMB0.03 per minute.

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(2) Framework Agreement for Engineering and Information Technology Services

CUCL and Netcom Parent entered into a framework agreement (the Framework Agreement for Engineering and Information Technology Services ) on 12 August 2008 to record the principles governing, and the principal terms of, the existing continuing transactions between the parties relating to the provision of certain engineering and information technology-related services to CUCL by Netcom Parent. These services include:

- (a) the provision of planning, surveying and design services in relation to telecommunications engineering projects;
- (b) the provision of construction services in relation to telecommunications engineering projects;
- (c) the provision of supervision services in relation to telecommunications engineering projects; and
- (d) the provision of information technology services, including office automation, software testing, network upgrade, new business development and support system development.

The charges payable for engineering and information technology-related services described above are determined with reference to market rates. The award of such services is subject to the PRC Law on Invitation and Submission of Bids. The charges are settled between CUCL and Netcom Parent as and when the relevant services are provided.

For the three years ended 31 December 2005, 2006 and 2007, the total service charges paid by CUCL to Netcom Parent in respect of engineering and information technology-related services amounted to RMB7 million, RMB41 million and RMB36 million, respectively.

(3) Framework Agreement for Property Leasing

CUCL and Netcom Parent entered into a framework agreement (the Framework Agreement for Property Leasing ) on 12 August 2008 to record the principles governing, and the principal terms of, the existing continuing transactions between the parties relating to the leasing of properties (including offices and storage facilities) by CUCL from Netcom Parent.

The rental charges payable by CUCL to Netcom Parent are based on market rates or the depreciation charges and taxes in respect of each property, provided that such depreciation charges and taxes shall not be higher than the market rates. The rental charges are payable quarterly in arrears and are subject to review every year to take into account the then prevailing market rates of the properties leased in that year.

For each of the three years ended 31 December 2005, 2006 and 2007, the rent paid by CUCL to Netcom Parent was negligible.

(4) Framework Agreement for Ancillary Telecommunications Services

CUCL and Netcom Parent entered into a framework agreement (the Framework Agreement for Ancillary Telecommunications Services ) on 12 August 2008 to record the principles governing, and the principal terms of, the existing continuing transactions between the parties relating to the provision of ancillary telecommunications services to CUCL by Netcom Parent.

These services include certain telecommunications pre-sale, on-sale and after-sale services such as assembling and repairing of certain telecommunications equipment, sales agency services, printing and invoice delivery services, maintenance of telephone booths, customers acquisition and servicing and other customers services.

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The charges payable for the services described above are determined with reference to the following pricing principles and limits:

the government fixed price;

where there is no government fixed price but a government guidance price exists, the government guidance price;

where there is neither a government fixed price nor a government guidance price, the market price; or

where none of the above is applicable, the price to be agreed between the relevant parties and determined on a cost-plus basis.

The service charges are settled between CUCL and Netcom Parent as and when the relevant services are provided.

For the three years ended 31 December 2005, 2006 and 2007, the total services charges paid by CUCL to Netcom Parent for ancillary telecommunications services amounted to RMB19 million, RMB7 million and RMB10 million, respectively.

(5) *Framework Agreement for Support Services*

CUCL and Netcom Parent entered into a framework agreement (the Framework Agreement for Support Services ) on 12 August 2008 to record the principles governing, and the principal terms of, the existing continuing transactions between the parties relating to the provision of various support services to CUCL by Netcom Parent, including equipment leasing and maintenance services, motor vehicles services, security services, basic construction agency services, research and development services, employee training services, advertising services and other support services.

The charges payable for the services described above are determined with reference to the following pricing principles and limits:

the government fixed price;

where there is no government fixed price but a government guidance price exists, the government guidance price;

where there is neither a government fixed price nor a government guidance price, the market price; or

where none of the above is applicable, the price to be agreed between the relevant parties and determined on a cost-plus basis.

The service charges are settled between CUCL and Netcom Parent as and when the relevant services are provided.

For the year ended 31 December 2005, the total support service charges paid by CUCL to Netcom Parent were negligible. For the two years ended 31 December 2006 and 2007, the total support service charges paid by CUCL to Netcom Parent amounted to RMB1 million and RMB2 million, respectively.

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(6) *Framework Agreement for Telecommunications Facilities Leasing*

CUCL and Netcom Parent entered into a framework agreement (the Framework Agreement for Telecommunications Facilities Leasing ) on 12 August 2008 to record the principles governing, and the principal terms of, the existing continuing transactions between the parties relating to the lease by Netcom Parent of certain international telecommunications resources and certain other telecommunications facilities to CUCL.

Pursuant to the Framework Agreement for Telecommunications Facilities Leasing:

(a) Netcom Parent leases inter-provincial fiber optic cables within CUCL's service regions to CUCL;

(b) Netcom Parent leases certain international telecommunications resources (including international telecommunications channel gateways, international telecommunications service gateways, international submarine cable capacity, international land cables and international satellite facilities) to CUCL; and

(c) Netcom Parent leases certain other telecommunications facilities required by CUCL for its operations.

The rental charges for the leasing of inter-provincial fiber optic cables, international telecommunications resources and other telecommunications facilities were based on the annual depreciation charges of such fiber optic cables, resources and telecommunications facilities provided that such charges would not be higher than market rates. CUCL shall be responsible for the on-going maintenance of such inter-provincial fiber optic cables and international telecommunications resources. CUCL and Netcom Parent shall determine and agree which party is to provide maintenance services to the telecommunications facilities referred to in paragraph (c) above. Unless otherwise agreed by CUCL and Netcom Parent, such maintenance service charges would be borne by CUCL. If Netcom Parent shall be responsible for maintaining any telecommunications facilities referred to in paragraph (c) above, CUCL shall pay to Netcom Parent the relevant maintenance service charges which shall be agreed between the parties and determined on a cost-plus basis. The net rental charges and service charges due to Netcom Parent under the Framework Agreement for Telecommunications Facilities Leasing will be settled between CUCL and Netcom Parent on a quarterly basis.

For the three years ended 31 December 2005, 2006 and 2007, the total charges paid by CUCL to Netcom Parent for the lease of telecommunications facilities amounted to RMB4 million, RMB20 million and RMB30 million, respectively.

**(d) Amended 2006 Continuing Connected Transactions**

***Introduction***

The Board refers to the circular issued by Unicom to the Unicom Shareholders dated 10 November 2006 which sets out the details of certain continuing connected transactions between Unicom and Unicom Parent under the New Comprehensive Services Agreement and the Transfer Agreement (both as defined in the circular issued by Unicom to the Unicom Shareholders dated 10 November 2006), pursuant to which Unicom Parent agreed to provide various services to CUCL. Such continuing connected transactions were approved on 1 December 2006 by the Independent Unicom Shareholders at the time.

The Board has proposed that the terms of such continuing connected transactions be amended with effect from the Effective Date, by way of the Second New Comprehensive Services Agreement and the New Transfer Agreement, to include CNC China as a party and to facilitate the business and operations of the Enlarged Group.

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***Details of the 2-Step Approach***

Under the 2-Step Approach, a relevant connected transaction will be structured to consist of an initial agreement and a further agreement as follows:

- (i) the entering into of an initial agreement (the Initial Agreement) in connection with the relevant connected transaction between Unicom Parent or its subsidiaries (not including Unicom A Share Company or any of its subsidiaries) and Unicom A Share Company. The Initial Agreement will constitute a connected transaction of Unicom A Share Company but not of Unicom. The Initial Agreement will contain the following terms:
  - (A) completion of the Initial Agreement will be subject to the following conditions:
    - the successful transfer of all rights and obligations of Unicom A Share Company under the Initial Agreement to Unicom or its subsidiaries; and
    - the approval of the Independent Unicom Shareholders of the Further Agreement (as defined below).

The Initial Agreement would therefore only be implemented with the approval of the Independent Unicom Shareholders (in addition to the approval of the independent shareholders of Unicom A Share Company); and

- (B) Unicom Parent or its subsidiaries (not including Unicom A Share Company or any of its subsidiaries) will agree and acknowledge in the Initial Agreement that all rights and obligations under the Initial Agreement can be transferred to Unicom or its subsidiaries and no further consent from Unicom Parent or its subsidiaries for such transfer is required; and
- (ii) the entering into of a further agreement between Unicom A Share Company and Unicom or its subsidiaries (the Further Agreement) to transfer all the rights and obligations of Unicom A Share Company under the Initial Agreement to Unicom or its subsidiaries. The Further Agreement will constitute a connected transaction of Unicom under the Listing Rules, but not a connected transaction of Unicom A Share Company requiring independent shareholders' approval under PRC laws and regulations and the listing rules of the Shanghai Stock Exchange.

The Further Agreement, being a connected transaction of Unicom, will be submitted to the Independent Unicom Shareholders for approval at the same time as the Initial Agreement is submitted to the independent shareholders of Unicom A Share Company for approval.

***Second New Comprehensive Services Agreement and New Transfer Agreement***

Pursuant to the 2-Step Approach described above, on 12 August 2008, the following agreements were entered into:

- (i) Unicom Parent and Unicom A Share Company entered into the Second New Comprehensive Services Agreement pursuant to which Unicom Parent agreed to (by itself or through its subsidiaries) enter into various services arrangements with Unicom A Share Company, including the supply of telephone cards, provision of equipment procurement services, interconnection arrangements, mutual provision of premises, provision of international telecommunications network gateway, provision of operator-based value-added services, provision of value-added telecommunications services, provision of 10010/10011 customer services, provision of agency services and provision of engineering design and technical services on the basis that Unicom A Share Company will have the right to transfer its rights and obligations under the Second New Comprehensive Services Agreement to its operating subsidiaries. Unicom Parent (by itself or through its subsidiaries) and Unicom A Share Company agreed to supply services to each other on arm's length terms and on terms no less favourable than the terms of the supply of such services to any other third party. Under the Second New Comprehensive Services Agreement, Unicom Parent has undertaken not to take any further steps

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to develop its fixed-line business in the geographical locations where Unicom A Share Company and its operating subsidiaries conduct such business. Save for such fixed-line business, Unicom Parent has undertaken not to compete with Unicom A Share Company and its operating subsidiaries in the existing businesses conducted by Unicom A Share Company and its operating subsidiaries in the PRC under the Second New Comprehensive Services Agreement; and

- (ii) Unicom A Share Company, CUCL and CNC China entered into the New Transfer Agreement pursuant to which Unicom A Share Company agreed to transfer to CUCL and CNC China all of its rights and obligations under the Second New Comprehensive Services Agreement. Under the New Transfer Agreement, Unicom A Share Company will cease to be a party to the Second New Comprehensive Services Agreement and CUCL and CNC China will each become a party to it in place of Unicom A Share Company. Following the transfer, CUCL and CNC China will each exercise and enjoy all the rights of Unicom A Share Company arising under the Second New Comprehensive Services Agreement as if each of CUCL and CNC China had at all times been a party to the Second New Comprehensive Services Agreement.

Completion of the Second New Comprehensive Services Agreement is conditional upon the Second New Comprehensive Services Agreement having been approved by the independent shareholders of Unicom A Share Company and the Scheme becoming effective. Completion of the New Transfer Agreement is conditional upon the New Transfer Agreement having been approved by the Independent Unicom Shareholders and the Scheme becoming effective. Upon the completion of the Second New Comprehensive Services Agreement and the New Transfer Agreement, the New Comprehensive Services Agreement and the Transfer Agreement (both as defined in the circular issued by Unicom to the Unicom Shareholders dated 10 November 2006) shall automatically terminate. The Second New Comprehensive Services Agreement shall be for a term of three years. Unless CUCL and CNC China notify Unicom Parent at least 60 days prior to the expiration of such agreement of their intention not to renew such agreement, such agreement shall automatically be renewed for a further period of three years.

***Amended 2006 Continuing Connected Transactions***

Details of the Amended 2006 Continuing Connected Transactions are summarised below.

(1) ***Supply of telephone cards***

Unicom Parent (or its subsidiaries) will provide various kinds of telephone cards, including subscriber identity module cards, Internet protocol telephone cards, long-distance calling cards and rechargeable calling cards, for each of CUCL's and CNC China's various networks. Unicom Parent shall ensure that the quality of its telephone cards complies with the standards set by the government authorities.

Charges for the supply of these cards are based on the actual cost (including the cost of purchasing specific telephone cards, manufacturing cost and the cost of issuing specific telephone cards) incurred by Unicom Parent or its subsidiaries in supplying the cards together with a margin over cost to be agreed from time to time, but in any case not to exceed 20% of the cost and subject to appropriate volume discounts. Under the Second New Comprehensive Services Agreement, prices and volumes will be reviewed by the parties on an annual basis.

For the year ended 31 December 2007 and for the three months ended 31 March 2008, the total charges paid by the Unicom Group to a subsidiary of Unicom Parent for the purchase of telephone cards pursuant to the New Comprehensive Services Agreement amounted to approximately RMB690 million and RMB236 million, respectively.

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(2) *Provision of equipment procurement services*

Unicom Parent has agreed to provide comprehensive procurement services to each of CUCL and CNC China through its subsidiary or subsidiaries. Unicom Parent will procure foreign and domestic telecommunications equipment and other materials required in the operation of each of CUCL's and CNC China's various networks and will provide services on management and consultation of tenders and agency services.

In addition, Unicom Parent has also agreed to indemnify each of CUCL and CNC China for any loss caused by any negligence, default, act or omission of Unicom Parent or its subsidiaries in respect of equipment procurement under the Second New Comprehensive Services Agreement. The aggregate liability of Unicom Parent for any claim under the Second New Comprehensive Services Agreement shall not exceed the total amount of agency services fees paid to Unicom Parent under the Second New Comprehensive Services Agreement.

Charges for these services are calculated at the rate of:

- (a) 0.55% of the contract value of those procurement contracts up to and including US\$30 million and 0.35% of the contract value of those procurement contracts over US\$30 million, in the case of imported equipment; and
- (b) 0.25% of the contract value of those procurement contracts up to and including RMB200 million and 0.15% of the contract value of those procurement contracts over RMB200 million, in the case of domestic equipment.

For the year ended 31 December 2007 and for the three months ended 31 March 2008, the total agency fees paid by the Unicom Group to a subsidiary of Unicom Parent for procurement services of domestic and international telecommunications equipment and other materials pursuant to the New Comprehensive Services Agreement amounted to approximately RMB18 million and RMB2 million, respectively.

(3) *Interconnection arrangements*

CUCL, CNC China and Unicom Parent have agreed to interconnect various telecommunications networks of each of CUCL and CNC China and various telecommunications networks of Unicom Parent.

The parties have agreed to conduct settlement in accordance with the settlement standard stipulated in the Notice Concerning the Issue of the Measures on Settlement of Interconnection between Public Telecommunications Networks and Sharing of Relaying Fees (Xin Bu Dian 2003 No. 454) promulgated by the Ministry of Information and Industry of the PRC on 28 October 2003.

The parties have further agreed that if the settlement method (and its amendment from time to time) formulated by the relevant government authorities in respect of similar settlement between the networks is more favourable to each of CUCL and CNC China when compared with the above interconnection settlement arrangements, settlement shall be conducted pursuant to the more favourable settlement method.

For the year ended 31 December 2007, interconnection revenue and interconnection expense from interconnection conducted by the Unicom Group pursuant to the New Comprehensive Services Agreement were approximately RMB109 million and approximately RMB6 million, respectively.

For the three months ended 31 March 2008, interconnection revenue and interconnection expense from interconnection conducted by the Unicom Group pursuant to the New Comprehensive Services Agreement were approximately RMB6 million and RMB1 million, respectively.

Previously, the Netcom Group had interconnection arrangements with Unicom Parent. These arrangements shall terminate automatically on the Effective Date.



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For the year ended 31 December 2007, the interconnection revenue and interconnection expense from interconnection conducted by the Netcom Group were approximately RMB7 million and RMB7 million, respectively.

For the three months ended 31 March 2008, the interconnection revenue and interconnection expense from interconnection conducted by the Netcom Group were approximately RMB1 million and RMB1 million, respectively.

(4) Mutual provision of premises

CUCL, CNC China and Unicom Parent (including itself or any of its subsidiaries) will provide to each other premises (including premises, buildings, air conditioning, electricity, power generating equipment and other relevant auxiliary facilities) belonging to CUCL, CNC China or Unicom Parent (including itself or any of its subsidiaries), or leased to CUCL, CNC China or Unicom Parent (including itself or any of its subsidiaries) by third parties upon the request of any of the three parties from time to time.

Apart from cases where the premises have been leased from independent third parties, the use fees or the rental amount in each case is based on the lower of depreciation costs and market prices for similar premises in that locality. However, any of CUCL, CNC China or Unicom Parent (including itself or any of its subsidiaries) may choose to charge each other market prices for premises rented to the other party or parties.

In addition to the rental amount, for buildings, CUCL, CNC China or Unicom Parent (including itself or any of its subsidiaries) shall pay as scheduled water and electricity tariffs, air conditioning charges and other expenses actually consumed or used, together with the property management fees for the leased buildings in accordance with such price or fee standards stipulated by the pricing authority. Apart from the rental amount and disbursements described above and other expenses incurred as a result of any breach of the provision, the party providing the lease guarantees that the other party shall not be requested to pay any other expenses, including any taxes payable by the party providing the lease.

In cases where the premises have been leased from an independent third party, the use fees or the rental amount is the amount that is payable under the head lease. Charges for any air-conditioning and electricity are included in the rental amount. In the case of shared premises, the use fees or the rental amount is split in proportion to the respective areas occupied by the parties.

For the year ended 31 December 2007 and for the three months ended 31 March 2008, the total rental charges for premises leased by Unicom Parent to the Unicom Group pursuant to the New Comprehensive Services Agreement amounted to approximately RMB31 million and RMB8 million, respectively, whereas the total rental charges for premises leased by the Unicom Group to Unicom Parent pursuant to the New Comprehensive Services Agreement amounted to approximately RMB17 million and RMB3 million, respectively.

(5) Provision of international telecommunications network gateway

Unicom Parent will provide international access to CUCL's and CNC China's international long distance call services through its gateways at Shanghai, Guangzhou and Beijing. Unicom Parent has undertaken not to provide international telecommunications network gateway services to other third parties.

Charges for these services are based on the costs of Unicom Parent to operate and maintain the international telecommunications network gateway facilities (including depreciation) which have been included in the management accounts of Unicom Parent verified and audited by local auditors, and a margin of 10% over such costs. CUCL and CNC China will retain all the revenue arising from the provision of international long distance call services for their own benefit.

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For the year ended 31 December 2007 and for the three months ended 31 March 2008, the total charges paid by the Unicom Group to Unicom Parent for the international telecommunications network gateway services pursuant to the New Comprehensive Services Agreement amounted to approximately RMB15 million and RMB2 million, respectively.

(6) Provision of operator-based value-added services

Unicom Parent (or its subsidiaries) will use its operator-based network, equipment and operators to provide operator-based comprehensive value-added services to CUCL and CNC China, including, but are not limited to, Unicom Assistant and operator-based message services.

Pursuant to the Second New Comprehensive Services Agreement, CUCL and CNC China shall retain 40% of the revenue generated from operator-based value-added services provided to the Enlarged Group's subscribers (and actually received by CUCL and CNC China) and allocate 60% of such revenue to Unicom Parent for settlement, on the condition that such proportion for Unicom Parent shall not be higher than the average proportion for independent operator-based value-added telecommunications content providers who provide operator-based value-added telecommunications content to the Enlarged Group in the same region.

For the year ended 31 December 2007 and for the three months ended 31 March 2008, the total revenue allocated by the Unicom Group to a wholly-owned subsidiary of Unicom Parent in relation to the provision of operator-based value-added services pursuant to the New Comprehensive Services Agreement amounted to approximately RMB360 million and RMB94 million, respectively.

(7) Provision of value-added telecommunications services

Unicom Parent (or its subsidiaries) will provide the customers of CUCL and CNC China various types of value-added telecommunications services.

CUCL and CNC China shall retain a portion of the revenue generated from the value-added services provided to the Enlarged Group's subscribers (and actually received by CUCL and CNC China) and allocate a portion of such revenue to Unicom Parent for settlement, on the condition that such proportion allocated to Unicom Parent shall not be higher than the average proportion for independent value-added telecommunications content providers who provide value-added telecommunications content to the Enlarged Group in the same region. The percentage of revenue to be allocated to Unicom Parent by each of CUCL and CNC China will vary depending on the types of value-added services provided to the Enlarged Group.

For the year ended 31 December 2007 and for the three months ended 31 March 2008, the total revenue allocated by the Unicom Group to Unicom Parent in relation to value-added services for cellular subscribers pursuant to the New Comprehensive Services Agreement amounted to approximately RMB54 million and RMB49 million, respectively.

(8) Provision of 10010/10011 customer services

Unicom Parent (or its subsidiaries) will provide the following customer services to CUCL and CNC China:

- (a) business inquiries;
- (b) tariff inquiries;
- (c) account maintenance;
- (d) complaints handling; and
- (e) customer interview and subscriber retention.

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The service fees payable by CUCL and CNC China to Unicom Parent shall be calculated on the basis of the costs of the customer service plus a profit margin of not more than 10%. The costs of the customer services will be the cost per operator seat multiplied by the number of effectively operating operator seats:

- (a) The cost per operator seat in economically developed metropolises, such as Beijing, Shanghai and Guangdong, shall be the Actual Cost per Operator Seat (as defined below) in such area for the previous year. The cost per operator seat in areas apart from those economically developed metropolises shall be the lower of the Actual Cost per Operator Seat in the same region and the nationwide (excluding Beijing, Shanghai and Guangdong) average of Actual Cost per Operator Seat (as defined below) plus 10%, in each case, for the previous year.

The Actual Cost per Operator Seat comprises wages, administration expenses, operation and maintenance expenses, depreciation of equipment and leasing fees for premises attributable to the customer service. The Actual Cost per Operator Seat in a certain area shall be the product of dividing the costs of Unicom Parent providing 10010/10011 services (as confirmed in the audit report issued by an external audit firm) in the same region for the previous year by the average number of monthly operator seats of Unicom Parent for the previous year. Such audit report and relevant supporting documents shall be provided to each of CUCL, CNC China and their auditors.

- (b) Determination of the number of effectively operating operator seats: Unicom Parent shall notify the number of operator seats of the previous month to CUCL and CNC China before the tenth day of each month. CUCL and CNC China shall confirm the number of effectively operating operator seats within five working days based on the criteria as set out in the Service Standard for Telecommunications Operations (for Trial Implementation) published by the Ministry of Information and Industry. The number of effectively operating operator seats will be subject to final confirmation by CUCL and CNC China.

For the year ended 31 December 2007 and for the three months ended 31 March 2008, the total charges paid by the Unicom Group to Unicom Parent for the customer services pursuant to the New Comprehensive Services Agreement amounted to approximately RMB853 million and RMB209 million, respectively.

**(9) Provision of agency services**

Unicom Parent (or its subsidiaries) will provide subscriber development services to CUCL and CNC China by telephone or through other channels by utilising its paging network, equipment and operators.

The pricing standard for the agency fees is that the agency fees chargeable to CUCL and CNC China shall not exceed the average of agency fees chargeable by independent third party agents providing subscriber development services to CUCL and CNC China in the same region.

For the year ended 31 December 2007 and for the three months ended 31 March 2008, the total agency fees paid by the Unicom Group to Unicom Parent pursuant to the New Comprehensive Services Agreement amounted to approximately RMB116 million and RMB42 million, respectively.

**(10) Provision of engineering design and technical services**

Unicom Parent (or its subsidiaries) will provide engineering design and technical services to CUCL and CNC China based on their demands and requirements.

CUCL and CNC China shall select the providers of engineering design services and technical services by way of public tender. Unicom Parent shall ensure that the provider of such services shall possess qualifications and conditions which are not inferior to those of an independent third party and shall participate in the tendering process on an equal footing with any independent third party.

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The service standard for engineering design and technical services provided by Unicom Parent to CUCL and CNC China shall not be less favourable than those similar services provided by an independent third party to CUCL and CNC China.

The pricing standard for the engineering design services shall be implemented with reference to but shall not be higher than those set out in the Standard Fees on Engineering, Exploration and Design Services promulgated and implemented by the original State Planning Commission and the Ministry of Construction in 2002 and other relevant national standards. In addition, such pricing standard shall not be higher than those adopted by an independent third party providing similar services in the same industry in the PRC.

The pricing standard for the technical services shall be implemented with reference to but shall not be higher than those set out in the Notice of the State Planning Commission Concerning Printing and Issuance of the Interim Provisions on the Consulting Fee for Front End Work of Construction Projects promulgated by the State Planning Commission in 1999 and other relevant national standards. In addition, such pricing standard shall not be higher than those adopted by an independent third party providing similar services in the same industry in the PRC.

For the year ended 31 December 2007 and for the three months ended 31 March 2008, the total service fees paid by the Unicom Group to Unicom Parent in relation to the provision of engineering design and technical services pursuant to the New Comprehensive Services Agreement amounted to approximately RMB58 million and RMB16 million, respectively.

Previously, the Netcom Group had arrangements with Unicom Parent under which Unicom Parent or its subsidiaries would provide engineering design and technical services to the Netcom Group. These arrangements shall terminate automatically on the Effective Date.

For the year ended 31 December 2007, approximately RMB4 million was paid by the Netcom Group to Unicom Parent for engineering design and technical services. For the three months ended 31 March 2008, the amount paid by the Netcom Group to Unicom Parent for engineering design and technical services was negligible.

CUCL entered into an agreement with Unicom Parent on 16 November 2007 pursuant to which CUCL agreed to acquire the GSM cellular telecommunications assets and business and the CDMA cellular telecommunications business of the Guizhou Branch of Unicom Parent. The acquisition was completed on 31 December 2007. Accordingly, the transactions between CUCL and the Guizhou Branch of Unicom Parent prior to 31 December 2007 are regarded as connected transactions of Unicom, whereas the transactions between CUCL and the Guizhou Branch of Unicom Parent after 31 December 2007 are not regarded as connected transactions of Unicom.

**(e) Reasons For and Benefits of the New Continuing Connected Transactions**

Upon completion of the Proposals and the Scheme becoming effective, Netcom will become a wholly-owned subsidiary of Unicom and Netcom BVI will have a shareholding interest in Unicom of approximately 29.49% (assuming that none of the outstanding Unicom Options and Netcom Options are exercised) or 28.98% (assuming that all of the outstanding Unicom Options and Netcom Options are exercised). Therefore, Netcom BVI and its associates (including Netcom Parent, being the parent company of Netcom BVI) will become connected persons of Unicom. Accordingly, the Existing Netcom Continuing Connected Transactions between Netcom and its subsidiaries (which will become subsidiaries of Unicom) on the one hand and Netcom Parent on the other hand will become New Continuing Connected Transactions with effect from the Effective Date.

In addition, upon completion of the Proposals and the Scheme becoming effective, the Existing Unicom Continuing Transactions will become New Continuing Connected Transactions with effect from the Effective Date.

The Board believes that the services provided by Netcom Parent and Unicom Parent pursuant to the New Continuing Connected Transactions are essential to the on-going operation of the Enlarged Group's business

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activities. The terms, conditions and charges of the services are determined in accordance with the appropriate tariffs and standards prescribed by the relevant PRC regulatory authorities and/or by reference to market rates and/or by reference to the cost of providing the respective services or facility. Due to the long-standing cooperation between Netcom Parent and the Netcom Group, Netcom Parent has developed an in-depth understanding of the Netcom Group's general business needs and is therefore able to provide high quality services to meet the Netcom Group's demand. Therefore, such service arrangements with Netcom Parent will enable the Enlarged Group to receive high quality services at competitive prices and in a timely manner.

Furthermore, the Amended 2006 Continuing Connected Transactions will lay the foundations for the future business integration between the Unicom Group and the Netcom Group.

In addition, there are no independent third party service providers for certain services currently provided by Netcom Parent to the Netcom Group and by Unicom Parent to the Unicom Group, including interconnection settlement, international long distance voice services settlement and provision of international telecommunications network gateway.

**(f) Proposed Annual Caps for the New Continuing Connected Transactions**

The proposed annual caps for the New Continuing Connected Transactions (other than those under the Domestic Interconnection Settlement Agreement 2008-2010, the International Long Distance Voice Services Settlement Agreement 2008-2010, the Framework Agreement for Interconnection Settlement and the supply of telephone cards, interconnection arrangements, provision of international telecommunications network gateway, provision of operator-based value-added services, provision of value-added telecommunications services, provision of

10010/10011 customer services and provision of agency services under the Second New Comprehensive Services Agreement, for which no annual caps are proposed) for each of the years ending 31 December 2008, 2009 and 2010 are set out below:

New Continuing Connected Transactions <sup>(1)</sup>	Proposed Annual Cap	Payment of consideration	Unicom Shareholders approval required?
1. Domestic Interconnection Settlement Agreement 2008-2010	No annual cap for each of the years ending 31 December 2008, 2009 and 2010	Payable by CNC China and Netcom Parent	Yes
2. International Long Distance Voice Services Settlement Agreement 2008-2010	No annual cap for each of the years ending 31 December 2008, 2009 and 2010	Payable by CNC China and Netcom Parent	Yes
3. Framework Agreement for Interconnection Settlement	No annual cap for each of the years ending 31 December 2008, 2009 and 2010	Payable by CUCL and Netcom Parent	Yes
4. Engineering and Information Technology Services Agreement	RMB4,400 million for each of the years ending 31 December 2008, 2009 and	Payable by CNC China and CUCL	Yes

2008-2010 and Framework 2010  
Agreement for Engineering  
and Information  
Technology Services<sup>(2)</sup>

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<b>New Continuing Connected Transactions<sup>(1)</sup></b>	<b>Proposed Annual Cap</b>	<b>Payment of consideration</b>	<b>Shareholders Unicom approval required?</b>
5. Master Sharing Agreement 2008-2010	RMB690 million for each of the years ending 31 December 2008, 2009 and 2010	Payable by CNC China	No
	RMB200 million for each of the years ending 31 December 2008, 2009 and 2010	Payable by Netcom Parent	No
6. Property Leasing Agreement 2008-2010 and Framework Agreement for Property Leasing <sup>(2)</sup>	RMB1,050 million for each of the years ending 31 December 2008, 2009 and 2010	Payable by CNC China and CUCL	No
	RMB10 million for each of the years ending 31 December 2008, 2009 and 2010	Payable by Netcom Parent	No
7. Materials Procurement Agreement 2008-2010	RMB1,500 million for each of the years ending 31 December 2008, 2009 and 2010	Payable by CNC China	No
8. Ancillary Telecommunications Services Agreement 2008-2010 and Framework Agreement for Ancillary Telecommunications Services <sup>(2)</sup>	RMB1,000 million for each of the years ending 31 December 2008, 2009 and 2010	Payable by CNC China and CUCL	No
9. Support Services Agreement 2008-2010 and Framework Agreement for Support Services <sup>(2)</sup>	RMB1,500 million for each of the years ending 31 December 2008, 2009 and 2010	Payable by CNC China and CUCL	No
10. Telecommunications Facilities Leasing	RMB600 million for each of the years ending 31	Payable by CNC China and CUCL	No

Agreement 2008-2010 and Framework Agreement for Telecommunications Facilities Leasing <sup>(2)</sup>	December 2008, 2009 and 2010
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<b>New Continuing Connected Transactions<sup>(1)</sup></b>	<b>Proposed Annual Cap</b>	<b>Payment of consideration</b>	<b>Unicom Shareholders approval required?</b>
11. Information and Communications Technology Agreement 2008-2010	RMB270 million for each of the years ending 31 December 2008, 2009 and 2010	Payable by China Netcom System Integration (and its subsidiaries)	No
	For each of the years ending 31 December 2008, 2009 and 2010, RMB800 million, RMB850 million and RMB850 million, respectively	Payable by Netcom Parent	No
12. Supply of Telephone Cards under the Second New Comprehensive Services Agreement	No annual cap for each of the years ending 31 December 2008, 2009 and 2010	Payable by CUCL and CNC China	Yes (Independent Unicom Shareholders approval required)
13. Provision of Equipment Procurement Services under the Second New Comprehensive Services Agreement	For each of the years ending 31 December 2008, 2009 and 2010, RMB75 million, RMB350 million and RMB550 million, respectively	Payable by CUCL and CNC China	No
14. Interconnection Arrangements under the Second New Comprehensive Services Agreement	No annual cap for each of the years ending 31 December 2008, 2009 and 2010	Payable by CUCL, CNC China and Unicom Parent	Yes (Independent Unicom Shareholders approval required)
15. Mutual Provision of Premises under the Second New Comprehensive Services Agreement	For each of the years ending 31 December 2008, 2009, 2010, RMB45 million, RMB80 million and RMB120 million, respectively	Payable by CUCL and CNC China	No

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For each of the years ending 31 December 2008, 2009, 2010, RMB80 million, RMB100 million and RMB120 million, respectively	Payable by Unicom Parent	No
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<b>New Continuing Connected Transactions<sup>(1)</sup></b>	<b>Proposed Annual Cap</b>	<b>Payment of consideration</b>	<b>Unicom Shareholders approval required?</b>
16. Provision of International Telecommunications Network Gateway under the Second New Comprehensive Services Agreement	No annual cap for each of the years ending 31 December 2008, 2009 and 2010	Payable by CUCL and CNC China	Yes (Independent Unicom Shareholders approval required)
17. Provision of Operator-based Value-Added Services under the Second New Comprehensive Services Agreement	No annual cap for each of the years ending 31 December 2008, 2009 and 2010	Payable by CUCL and CNC China	Yes (Independent Unicom Shareholders approval required)
18. Provision of Value-Added Telecommunications Services under the Second New Comprehensive Services Agreement	No annual cap for each of the years ending 31 December 2008, 2009 and 2010	Payable by CUCL and CNC China	Yes (Independent Unicom Shareholders approval required)
19. Provision of 10010/10011 Customer Services under the Second New Comprehensive Services Agreement	No annual cap for each of the years ending 31 December 2008, 2009 and 2010	Payable by CUCL and CNC China	Yes (Independent Unicom Shareholders approval required)
20. Provision of Agency Services under the Second New Comprehensive Services Agreement	No annual cap for each of the years ending 31 December 2008, 2009 and 2010	Payable by CUCL and CNC China	Yes (Independent Unicom Shareholders approval required)
21. Provision of Engineering Design and Technical Services under the Second New Comprehensive Services Agreement	For each of the years ending 31 December 2008, 2009 and 2010, RMB403 million, RMB750 million and RMB1,000 million,	Payable by CUCL and CNC China	No

respectively

*Notes:*

- (1) These transactions are grouped and categorised according to the category under which the transaction falls.
  
- (2) Pursuant to Rule 14A.25 of the Listing Rules, the transaction grouped under each of these categories is constituted by aggregating the respective Existing Netcom Continuing Connected Transaction and the Existing Unicom Continuing Transaction falling under the same category as if they were one transaction.

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The bases for the proposed annual caps for the New Continuing Connected Transactions (other than those under the Domestic Interconnection Settlement Agreement 2008-2010, the International Long Distance Voice Services Settlement Agreement 2008-2010, the Framework Agreement for Interconnection Settlement and the supply of telephone cards, interconnection arrangements, provision of international telecommunications network gateway, provision of operator-based value-added services, provision of value-added telecommunications services, provision of 10010/10011 customer services and provision of agency services under the Second New Comprehensive Services Agreement, for which no annual caps are proposed) are set out below.

(1) *Engineering and Information Technology Services Agreement 2008-2010 and Framework Agreement for Engineering and Information Technology Services*

Pursuant to Rule 14A.25 of the Listing Rules, the transactions under the Engineering and Information Technology Services Agreement 2008-2010 and the Framework Agreement for Engineering and Information Technology Services are aggregated and treated as if they were one transaction.

The existing annual cap for the service charges payable by CNC China to Netcom Parent under the Engineering and Information Technology Services Agreement 2008-2010 for each of the three years ending 31 December 2008, 2009 and 2010 is RMB4,400 million.

The Netcom Group's strategic goal is that CNC China is to become the leading service provider of broadband communications services and multi-media services in China by 2010. Separately, in order to enhance the service quality of its network, Netcom plans to replace the copper cables in certain parts of its service regions and install fiber optic cables for its new network. This project has commenced and will take three to five years to complete. The amount of assets investments involved in this project can be very substantial and may reach RMB15 billion. As the subsidiaries of Netcom Parent are very experienced in telecommunications engineering construction projects, it is expected that these entities would have a good chance of winning projects involving the replacement of cables. Hence, the extent and volume of the engineering and information technology-related services that CNC China expected Netcom Parent to provide in the next three years would increase substantially when compared with the volume of services provided in previous years.

The award of services pursuant to both the Engineering and Information Technology Services Agreement 2008-2010 and the Framework Agreement for Engineering and Information Technology Services is subject to the PRC Law on Invitation and Submission of Bids.

Based on the historical service charges paid by each of CNC China and CUCL to Netcom Parent, the total amount payable by CNC China and CUCL to Netcom Parent for the provision of engineering and information technology-related services in each of the three years ending 31 December 2008, 2009 and 2010 is not expected to exceed RMB4,400 million, being the same as the existing annual cap for the service charges payable by CNC China to Netcom Parent under the Engineering and Information Technology Services Agreement 2008-2010. Accordingly, this amount has been set as the proposed annual cap for this continuing connected transaction.

(2) *Master Sharing Agreement 2008-2010*

The existing annual cap for the amount payable to CNC China by Netcom Parent under the Master Sharing Agreement 2008-2010 for each of the three years ending 31 December 2008, 2009 and 2010 is RMB200 million whereas the existing annual cap for the amount payable by CNC China to Netcom Parent under the Master Sharing Agreement 2008-2010 for each of the three years ending 31 December 2008, 2009 and 2010 is RMB690 million. The proposed annual caps for this continuing connected transaction will remain the same as the existing annual cap.

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(3) Property Leasing Agreement 2008-2010 and Framework Agreement for Property Leasing

Pursuant to Rule 14.25 of the Listing Rules, the transactions under the Property Leasing Agreement 2008-2010 and the Framework Agreement for Property Leasing are aggregated and treated as if they were one transaction.

Based on the historical rental charges paid by each of CNC China and CUCL to Netcom Parent, the total amount payable by CNC China and CUCL to Netcom Parent for rental charges in each of the three years ending 31 December 2008, 2009 and 2010 is not expected to exceed RMB1,050 million, being the same as the existing annual cap for the rental charges payable by CNC China to Netcom Parent under the Property Leasing Agreement 2008-2010. Accordingly, this amount has been set as the proposed annual cap for this continuing connected transaction.

Based on the historical rental charges paid by Netcom Parent to each of CNC China and CUCL, the total amount payable by Netcom Parent to CNC China and CUCL for rental charges in each of the three years ending 31 December 2008, 2009 and 2010 is not expected to exceed RMB10 million, being the same as the existing annual cap for the rental charges payable by Netcom Parent to CNC China under the Property Leasing Agreement 2008-2010. Accordingly, this amount has been set as the proposed annual cap for this continuing connected transaction.

(4) Materials Procurement Agreement 2008-2010

The existing annual cap for the commission and/or charges payable by CNC China to Netcom Parent under the Materials Procurement Agreement 2008-2010 for each of the three years ending 31 December 2008, 2009 and 2010 is RMB1,500 million.

Based on the historical commission and/or charges paid by CNC China to Netcom Parent and with reference to the level of commission charges set out in the Materials Procurement Agreement 2008-2010, including both commissions and purchase prices, the total amount payable by CNC China to Netcom Parent for each of the three years ending 31 December 2008, 2009 and 2010 is not expected to exceed RMB1,500 million, being the same as the existing annual cap for the commission and/or charges payable by CNC China to Netcom Parent under the Materials Procurement Agreement 2008-2010. Accordingly, this amount has been set as the proposed annual cap for this continuing connected transaction.

(5) Ancillary Telecommunications Services Agreement 2008-2010 and Framework Agreement for Ancillary Telecommunications Services

Pursuant to Rule 14A.25 of the Listing Rules, the transactions under the Ancillary Telecommunications Services Agreement 2008-2010 and the Framework Agreement for Ancillary Telecommunications Services are aggregated and treated as if they were one transaction.

The existing annual cap for the service charges payable by CNC China to Netcom Parent under the Ancillary Telecommunications Services Agreement 2008-2010 for each of the three years ending 31 December 2008, 2009 and 2010 is RMB1,000 million.

Based on the historical service charges paid and the estimated extent and volume of ancillary telecommunications services required from Netcom Parent, the total amount payable by CNC China and CUCL to Netcom Parent for the provision of ancillary telecommunications services in each of the three years ending 31 December 2008, 2009 and 2010 is not expected to exceed RMB1,000 million, being the same as the existing annual cap for the service charges payable by CNC China to Netcom Parent under the Ancillary Telecommunications Services Agreement 2008-2010. Accordingly, this amount has been set as the proposed annual cap for this continuing connected transaction.

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(6) Support Services Agreement 2008-2010 and Framework Agreement for Support Services

Pursuant to Rule 14A.25 of the Listing Rules, the transactions under the Support Services Agreement 2008-2010 and the Framework Agreement for Support Services are aggregated and treated as if they were one transaction.

The existing annual cap for the service charges payable by CNC China to Netcom Parent under the Support Services Agreement 2008-2010 for each of the three years ending 31 December 2008, 2009 and 2010 is RMB1,500 million.

Based on the historical service charges paid and the estimated extent and volume of support services required from Netcom Parent, the total amount payable by CNC China and CUCL to Netcom Parent for the provision of support services in each of the three years ending 31 December 2008, 2009 and 2010 is not expected to exceed RMB1,500 million, which is the same as the existing annual cap for service charges payable by CNC China to Netcom Parent under the Support Services Agreement 2008-2010. Accordingly, this amount has been set as the proposed annual cap for this continuing connected transaction.

(7) Telecommunications Facilities Leasing Agreement 2008-2010 and Framework Agreement for Telecommunications Facilities Leasing

Pursuant to Rule 14A.25 of the Listing Rules, the transactions under the Telecommunications Facilities Leasing Agreement 2008-2010 and the Framework Agreement for Telecommunications Facilities Leasing are aggregated and treated as if they were one transaction.

The existing annual cap for the charges payable by CNC China to Netcom Parent under the Telecommunications Facilities Leasing Agreement 2008-2010 for each of the three years ending 31 December 2008, 2009 and 2010 is RMB600 million.

Based on the annual depreciation charges, the current market rates and the expected telecommunications facilities required to be leased from Netcom Parent, the total amount payable by CNC China and CUCL to Netcom Parent in each of the three years ending 31 December 2008, 2009 and 2010 is not expected to exceed RMB600 million, being the same as the existing annual cap for charges payable by CNC China to Netcom Parent under the Telecommunications Facilities Leasing Agreement 2008-2010. Accordingly, this amount has been set as the proposed annual cap for this continuing connected transaction.

(8) Information and Communications Technology Agreement 2008-2010

The existing annual caps for the consideration payable to China Netcom System Integration (and its subsidiaries) by Netcom Parent pursuant to the Information and Communications Technology Agreement 2008-2010 for the three years ending 31 December 2008, 2009 and 2010 are RMB800 million, RMB850 million and RMB850 million, respectively, whereas the existing annual cap for the consideration payable by China Netcom System Integration (and its subsidiaries) to Netcom Parent pursuant to the Information and Communications Technology Agreement 2008-2010 for each of the three years ending 31 December 2008, 2009 and 2010 is RMB270 million. The proposed annual cap for this continuing connected transaction will remain the same as the existing annual cap.

(9) Provision of Equipment Procurement Services pursuant to the Second New Comprehensive Services Agreement

The existing annual caps for the charges payable by CUCL for equipment procurement services for each of the two years ending 31 December 2008 and 2009 are RMB75 million and RMB95 million, respectively. Upon the completion of the proposed merger, the Enlarged Group is expected to obtain a 3G licence. As a result of the proposed merger, the wireless capital expenditure of the Enlarged Group is expected to be very substantial and may reach RMB100 billion in 2009 and 2010. As Unicom Parent and its subsidiaries have an in-depth understanding of CUCL's general business needs, it is expected that the extent and volume of the equipment procurement related services that Unicom Parent and its subsidiaries will provide to the Enlarged Group in the next two years will increase substantially, as compared to the

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volume of such services provided by Unicom Parent and its subsidiaries to the Unicom Group previously. Based on these considerations, the total amount payable by CUCL and CNC China in respect of equipment procurement services for each of the three years ending 31 December 2008, 2009 and 2010 is not expected to exceed RMB75 million, RMB350 million and RMB550 million, respectively. Accordingly, these amounts have been set as the proposed annual caps for this continuing connected transaction.

(10) *Mutual Provision of Premises pursuant to the Second New Comprehensive Services Agreement*

The existing annual caps for the rent payable by CUCL for the provision of premises for each of the two years ending 31 December 2008 and 2009 are RMB45 million and RMB55 million, respectively. As the market rates of the properties leased have increased since 2006, the total charges payable by the Enlarged Group to Unicom Parent and by Unicom Parent to CUCL and CNC China are expected to increase accordingly. Furthermore, the number of properties leased between the Enlarged Group and Unicom Parent is expected to increase upon the completion of the construction of certain buildings of Unicom Parent and certain interconnection auxiliary facilities of the Enlarged Group. Based on these considerations, the total amount payable by CUCL and CNC China in respect of the provision of premises for each of the three years ending 31 December 2008, 2009 and 2010 is not expected to exceed RMB45 million, RMB80 million and RMB120 million, respectively. Accordingly, these amounts have been set as the proposed annual caps for this continuing connected transaction.

The existing annual caps for the rent payable by Unicom Parent for the provision of premises for each of the two years ending 31 December 2008 and 2009 are RMB80 million and RMB95 million, respectively. Based on the historical rent paid and the projected rent that Unicom Parent will have to pay, the total amount payable by Unicom Parent in respect of the provision of premises for each of the three years ending 31 December 2008, 2009 and 2010 is not expected to exceed RMB80 million, RMB100 million and RMB120 million, respectively. Accordingly, these amounts have been set as the proposed annual caps for this continuing connected transaction.

(11) *Provision of Engineering Design and Technical Services pursuant to the Second New Comprehensive Services Agreement*

The existing annual caps for the charges payable by CUCL for the engineering design and technical services for each of the two years ending 31 December 2008 and 2009 are RMB403 million and RMB427 million, respectively. Upon the completion of the proposed merger, the Enlarged Group is expected to obtain a 3G licence. As a result of the proposed merger, the wireless capital expenditure of the Enlarged Group is expected to be very substantial and may reach RMB100 billion in 2009 and 2010. As Unicom Parent and its subsidiaries have an in-depth understanding of CUCL's general business needs and are very experienced in providing engineering design and technical services in the telecommunications industry, it is expected that the extent and volume of the engineering design and technical services that Unicom Parent and its subsidiaries will provide to the Enlarged Group in the next two years will increase substantially, as compared to the volume of such services provided by Unicom Parent and its subsidiaries to the Unicom Group previously. Based on these considerations, the total amount payable by CUCL and CNC China in respect of the provision of engineering design and technical services for each of the three years ending 31 December 2008, 2009 and 2010 is not expected to exceed RMB403 million, RMB750 million and RMB1,000 million, respectively. Accordingly, these amounts have been set as the proposed annual caps for this continuing connected transaction.

**(g) Continuing Connected Transactions for which no Annual Caps are Proposed**

Unicom has made an application to the Hong Kong Stock Exchange that no annual caps be proposed for the transactions under the Domestic Interconnection Settlement Agreement 2008-2010, the International Long Distance Voice Services Settlement Agreement 2008-2010, the Framework Agreement for Interconnection Settlement and the supply of telephone cards, interconnection arrangements, provision of international telecommunications network gateway, provision of operator-based value-added services, provision of



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value-added telecommunications services, provision of 10010/10011 customer services and provision of agency services under the Second New Comprehensive Services Agreement. Such transactions will be subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and the independent shareholders' approval requirement under Rule 14A.48 of the Listing Rules.

(1) *The Domestic Interconnection Settlement Agreement 2008-2010, the International Long Distance Voice Services Settlement Agreement 2008-2010 and the Framework Agreement for Interconnection Settlement*

Special circumstances exist for the Domestic Interconnection Settlement Agreement 2008-2010, the International Long Distance Voice Services Settlement Agreement 2008-2010 and the Framework Agreement for Interconnection Settlement and no annual cap is proposed in respect of the transactions contemplated thereunder for the following reasons:

- (i) any growth in the domestic and international long distance voice services will necessarily result in increased transaction volumes under the Domestic Interconnection Settlement Agreement 2008-2010, the International Long Distance Voice Services Settlement Agreement 2008-2010 and the Framework Agreement for Interconnection Settlement which Unicom will not be able to control as such increase depends entirely on customer usage. Any annual caps on these transactions will therefore potentially limit the Enlarged Group's ability to conduct or expand its business in the ordinary course; and
- (ii) the settlement rates in respect of long distance voice services are determined with reference to the relevant standards, tariffs or policies promulgated by the relevant regulatory authorities in China, which are subject to change from time to time, and Unicom is not in a position to set the settlement rates at its discretion.

(2) *The Amended 2006 Continuing Connected Transactions relating to the supply of telephone cards, interconnection arrangements, provision of international telecommunications network gateway, provision of operator-based value-added services, provision of value-added telecommunications services, provision of 10010/10011 customer services and provision of agency services*

Special circumstances exist for the Amended 2006 Continuing Connected Transactions in relation to the supply of telephone cards, interconnection arrangements, provision of international telecommunications network gateway, provision of operator-based value-added services, provision of value-added telecommunications services, provision of 10010/10011 customer services and provision of agency services and no annual cap is proposed in respect of such transactions for the following reasons.

- (i) **Supply of telephone cards:** The Enlarged Group's revenue will depend heavily on the sales of such telephone cards. Sales of these telephone cards will also be instrumental in enabling the Enlarged Group to increase its subscriber base. Growth in the Enlarged Group's subscriber base will in turn increase the demand for these telephone cards. The Enlarged Group's ability to obtain these telephone cards is fundamental to its operations. Any annual cap on the supply of telephone cards will potentially limit the Enlarged Group's ability to conduct or expand its business in the ordinary course.
- (ii) **Interconnection arrangements:** The Enlarged Group's revenue will depend on growth in call revenue and in its subscriber base on its various networks. Any such growth will necessarily result in increased transaction volumes, which Unicom will not be able to control as it depends entirely on subscriber usage. Any annual cap on the interconnection arrangements will potentially limit the Enlarged Group's ability to conduct or expand its business in the ordinary course. Furthermore, the settlement rates for such interconnection are determined with reference to the relevant standard tariff or policies promulgated by the relevant regulatory authorities in China, which are subject to change from time to time. Unicom is not in a position to set the settlement rates at its discretion.

(iii)

**Provision of international telecommunications network gateway:** The Enlarged Group's revenue will depend heavily on call revenue, including international call revenue. The provision of international call service by Unicom Parent depends on the use of the international telecommunications network gateway provided by Unicom Parent. Any growth of the use of the Enlarged Group's international call service will necessarily result in the increased use of the

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international telecommunications network gateway, which Unicom will not be able to control as it depends entirely on subscriber usage. Any annual cap on the provision of international telecommunications network gateway will potentially limit the Enlarged Group's ability to conduct or expand its business in the ordinary course.

- (iv) **Provision of operator-based value-added services:** The Enlarged Group's revenue will depend on growth in call revenue and in its subscriber base on its various networks. Any such growth will necessarily result in increased use of these operator-based value-added services, which Unicom will not be able to control as it depends entirely on subscriber usage. Any annual cap on the provision of operator-based value-added services will potentially limit the Enlarged Group's ability to conduct or expand its business in the ordinary course. As the charges for these operator-based value-added services will contribute to the revenue of the Enlarged Group, imposing an annual cap on the provision of operator-based value-added services could also limit the Enlarged Group's revenue.
- (v) **Provision of value-added telecommunications services:** The Enlarged Group's revenue will depend on growth in call revenue and in its subscriber base on its various networks. Any such growth will necessarily result in increased use of these value-added telecommunications services, which Unicom will not be able to control as it depends entirely on subscriber usage. Any annual cap on the provision of value-added telecommunications services will potentially limit the Enlarged Group's ability to conduct or expand its business in the ordinary course. As the charges for these value-added telecommunications services will contribute to the revenue of the Enlarged Group, imposing an annual cap on the provision of value-added telecommunications services could also limit the Enlarged Group's revenue.
- (vi) **Provision of 10010/10011 customer services:** The Enlarged Group's revenue growth will depend heavily on the growth of its subscriber base. Any such growth will result in the increased use of customer service, which Unicom will not be able to control as it depends entirely on subscriber usage. Any annual cap on the provision of 10010/10011 customer services will hamper the Enlarged Group's ability to provide normal customer services to its users and undermine the operations of the Enlarged Group.
- (vii) **Provision of agency services:** Increased competition in the telecommunications sector in China has increased the need for subscriber development strategies and means. Effective agency services provided by Unicom Parent (or its subsidiaries) will be essential to the Enlarged Group's continuing growth. Any annual cap on the charges incurred for agency services will severely limit the Enlarged Group's growth potential.

**(h) Listing Rules Implications****(1) Transactions Exempt from Independent Shareholders' Approval Requirement**

It is expected that each of the proposed annual caps for the years 2008 to 2010 for each category of New Continuing Connected Transactions under (i) the Master Sharing Agreement 2008-2010, (ii) the Property Leasing Agreement 2008-2010 and the Framework Agreement for Property Leasing, (iii) the Materials Procurement Agreement 2008-2010, (iv) the Ancillary Telecommunications Services Agreement 2008-2010 and the Framework Agreement for Ancillary Telecommunications Services, (v) the Support Services Agreement 2008-2010 and the Framework Agreement for Support Services, (vi) the Telecommunications Facilities Leasing Agreement 2008-2010 and the Framework Agreement for Telecommunications Facilities Leasing, (vii) the Information and Communications Technology Agreement 2008-2010 and (viii) the provision of equipment procurement services, mutual provision of premises and provision of engineering and technical services under the Second New Comprehensive Services Agreement will be less than the 2.5% threshold under Rule 14A.34 of the Listing Rules. Accordingly, these transactions will be exempt from the independent shareholders' approval requirement under the Listing Rules, but such

transactions will still be subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

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**LETTER FROM THE BOARD**

(2) *Non-exempt New Continuing Connected Transactions*

As the proposed annual cap for the years 2008 to 2010 for the category of New Continuing Connected Transactions under the Engineering and Information Technology Services Agreement 2008-2010 and the Framework Agreement for Engineering and Information Technology Services will exceed the 2.5% threshold under Rule 14A.34 of the Listing Rules, these transactions will constitute non-exempt continuing connected transactions under Rule 14A.35 of the Listing Rules and will be subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and the independent shareholders' approval requirement under Rule 14A.48 of the Listing Rules.

In addition, as no annual caps are proposed for the transactions under the Domestic Interconnection Settlement Agreement 2008-2010, the International Long Distance Voice Services Settlement Agreement 2008-2010, the Framework Agreement for Interconnection Settlement and the supply of telephone cards, interconnection arrangements, provision of international telecommunications network gateway, provision of operator-based value-added services, provision of value-added telecommunications services, provision of 10010/10011 customer services and provision of agency services under the Second New Comprehensive Service Agreement, these transactions will also constitute non-exempt continuing connected transactions under Rule 14A.35 of the Listing Rules and will be subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and the independent shareholders' approval requirement under Rule 14A.48 of the Listing Rules.

**(i) Additional Information**

The Independent Board Committee has been established to advise the Unicom Shareholders and the Independent Unicom Shareholders, and Merrill Lynch has been appointed as the independent financial adviser to advise the Independent Board Committee, the Unicom Shareholders and the Independent Unicom Shareholders, in each case on the terms of the relevant Non-exempt New Continuing Connected Transactions. The text of the letter from the Independent Board Committee is set out on pages 57 and 58 of this Circular and the text of the letter from Merrill Lynch is set out on pages 59 to 71 of this Circular.

**7. PROPOSED AMENDMENT TO ARTICLES OF ASSOCIATION**

The Articles of Association currently permit the Board to deal with fractional Unicom Shares only in certain circumstances. The Board has proposed that the Articles of Association be amended in order to give the Board greater flexibility to deal with any fractional Unicom Shares which arise as a result of an issue of Unicom Shares by Unicom.

It is proposed that the Articles of Association be amended to add the following new Article 13A immediately after the existing Article 13:

Whenever any fractions arise as a result of an issue of shares by the Company, the Board may, on behalf of the members, deal with the fractional shares in such manner as it thinks fit. In particular, without limitation, the Board may sell the fractional shares to which any members would otherwise become entitled to any person and may retain the net proceeds of sale for the benefit of the Company or distribute the net proceeds of sale in due proportion among those members so entitled. For this purpose, the Board may authorise any person to execute and deliver as transferor a form of transfer or other instrument or instruction of transfer of the fractional shares to the purchaser thereof, who shall not be bound to see to the application of the purchase money.

Pursuant to the Articles of Association and applicable law, the proposed amendment to the Articles of Association is subject to the approval of the Unicom Shareholders by way of a special resolution at the Unicom EGM.

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**LETTER FROM THE BOARD**

**8. PROPOSED CHANGE OF COMPANY NAME**

Conditional upon the Scheme becoming effective, the Board has proposed that Unicom's company name be changed from China Unicom Limited to China Unicom (Hong Kong) Limited with effect from the Effective Date.

The Proposed Change of Company Name is to reflect the business, operations and identity of the Enlarged Group following the completion of the proposed merger. The Board believes that it is in the commercial interest and corporate benefit of Unicom to adopt a name that reflects the business, operations and identity of the Enlarged Group.

The Proposed Change of Company Name is subject to the satisfaction of the following conditions:

(a) the approval of the Unicom Shareholders having been obtained at the Unicom EGM for the Proposed Change of Company Name;

(b) the Scheme becoming effective; and

(c) the issuance of the certificate of change of name by the Registrar of Companies in Hong Kong.

The stock trading name currently used by Unicom will remain unchanged.

Upon the Proposed Change of Company Name becoming effective, all existing certificates of title in relation to the Unicom Shares and the Unicom ADSs in issue and bearing the current name of Unicom will continue to be evidence of title to the Unicom Shares and the Unicom ADSs and will be valid for trading, settlement and registration purposes and the rights of the Unicom Shareholders and the Unicom ADS Holders will not be affected as a result of the change of Unicom's company name. If the Proposed Change of Company Name becomes effective, any issue of certificates of title in relation to the Unicom Shares and the Unicom ADSs will be in Unicom's new company name and the Unicom Shares and the Unicom ADSs will be traded on the Hong Kong Stock Exchange and the New York Stock Exchange in the new company name.

**9. UNICOM EGM**

A notice of the Unicom EGM to be held at The Island Ballroom B, Level 5, Island Shangri-La Hotel, Hong Kong, Two Pacific Place, Supreme Court Road, Central, Hong Kong on Tuesday, 16 September 2008 at 5:00 p.m. (or immediately after the conclusion or adjournment of the First Unicom EGM) is set out on pages N-1 to N-4 of this Circular at which (1) ordinary resolutions will be proposed to approve the Proposals, the allotment and issue of the Unicom Shares as consideration for the Share Proposal and the ADS Proposal, the adoption of the Special Purpose Unicom Share Option Scheme and the Non-exempt New Continuing Connected Transactions and (2) special resolutions will be proposed to approve the proposed amendment to the Articles of Association and the Proposed Change of Company Name. The vote of the Unicom Shareholders at the Unicom EGM will be taken by way of a poll.

None of the Unicom Shareholders has a material interest in the Proposals, the allotment and issue of the Unicom Shares as consideration for the Share Proposal and the ADS Proposal, the adoption of the Special Purpose Unicom Share Option Scheme, the transactions under the Domestic Interconnection Settlement Agreement 2008-2010, the Framework Agreement for Interconnection Settlement, the International Long Distance Voice Services Settlement Agreement 2008-2010, the Engineering and Information and Technology Services Agreement 2008-2010 and the Framework Agreement for Engineering and Information Technology Services, the proposed amendment to the Articles of Association and the Proposed Change of Company Name. Accordingly, none of the Unicom Shareholders are required to abstain from voting at the Unicom EGM on the resolutions relating to such matters. However, notwithstanding the foregoing, an executive director of Netcom and an independent non-executive director of Netcom who hold 602,000 Unicom Shares and 6,000 Unicom Shares, respectively, have each undertaken to Netcom to abstain from voting at the Unicom EGM on the resolutions relating to such matters.

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**LETTER FROM THE BOARD**

As at the Latest Practicable Date, Unicom BVI, a subsidiary of Unicom Parent, had a shareholding interest in Unicom of approximately 71.17% and Unicom BVI and its associates (including Unicom Parent) are therefore connected persons of Unicom. As Unicom BVI is regarded as having a material interest in the Amended 2006 Continuing Connected Transactions relating to the supply of telephone cards, interconnection arrangements, provision of international telecommunications network gateway, provision of operator-based value-added services, provision of value-added telecommunications services, provision of 10010/10011 customer services and provision of agency services, Unicom BVI and its associates will abstain from voting on the resolution relating to such matters. In addition, an executive director of Netcom and an independent non-executive director of Netcom who hold 602,000 Unicom Shares and 6,000 Unicom Shares, respectively, have each undertaken to Netcom to abstain from voting at the Unicom EGM on the resolution relating to such matters, notwithstanding that they do not have a material interest in such matters.

A form of proxy for use at the Unicom EGM is enclosed. Whether or not you are able to attend the Unicom EGM, you are requested to complete and return the enclosed form of proxy to Unicom's registered office at 75th Floor, The Center, 99 Queen's Road Central, Hong Kong, as soon as practicable and in any event by not later than 48 hours before the time appointed for holding the Unicom EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Unicom EGM should you so wish.

**10. RECOMMENDATIONS**

The Board considers the terms of the Proposals, the allotment and issue of the Unicom Shares as consideration for the Share Proposal and the ADS Proposal and the terms of the Special Purpose Unicom Share Option Scheme to be fair and reasonable and in the interests of Unicom and the Unicom Shareholders as a whole, and therefore **recommends the Unicom Shareholders to vote in favour of resolution B set out in the notice of the Unicom EGM** on pages N-1 to N-4 of this Circular.

The Board further considers that the proposed amendment to the Articles of Association and the Proposed Change of Company Name are in the interests of Unicom and the Unicom Shareholders as a whole, and therefore **recommends the Unicom Shareholders to vote in favour of resolutions A and H set out in the notice of the Unicom EGM** on pages N-1 to N-4 of this Circular.

The Directors (including the independent non-executive Directors) believe that the terms of the New Continuing Connected Transactions, other than the Non-exempt New Continuing Connected Transactions, are on normal commercial terms, have been entered into in the ordinary and usual course of business of the Unicom Group and are fair and reasonable and in the interests of the Unicom Shareholders as a whole. The Directors (including the independent non-executive Directors) also believe that the proposed annual caps for the New Continuing Connected Transactions, other than the Non-exempt New Continuing Connected Transaction, for each of the three years ending 31 December 2008, 2009 and 2010 are fair and reasonable.

The Directors (excluding the independent non-executive Directors whose views are separately set out in the letter from the Independent Board Committee set out on pages 57 and 58 of this Circular, after taking into account the advice from Merrill Lynch set out in the letter from Merrill Lynch set out in this Circular) believe that the terms of the Non-exempt New Continuing Connected Transactions are on normal commercial terms, have been entered into in the ordinary and usual course of business of the Unicom Group and are fair and reasonable and in the interests of the Unicom Shareholders as a whole. The Directors (excluding the independent non-executive Directors) further consider (1) that the proposed annual caps for the Non-exempt New Continuing Connected Transactions (other than the Domestic Interconnection Settlement Agreement 2008-2010, the International Long Distance Voice Services Settlement Agreement 2008-2010, the Framework Agreement for Interconnection Settlement and the supply of telephone cards, interconnection arrangements, provision of international telecommunications network gateway, provision of operator-based value-added services, provision of value-added telecommunications services, provision of 10010/10011 customer services and provision of agency services under the Second New Comprehensive Services Agreement) for each of the three years ending





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**LETTER FROM THE BOARD**

31 December 2008, 2009 and 2010 and (2) that no annual caps being proposed for the transactions under the Domestic Interconnection Settlement Agreement 2008-2010, the International Long Distance Voice Services Settlement Agreement 2008-2010, the Framework Agreement for Interconnection Settlement and the supply of telephone cards, interconnection arrangements, provision of international telecommunications network gateway, provision of operator-based value-added services, provision of value-added telecommunications services, provision of 10010/10011 customer services and provision of agency services under the Second New Comprehensive Service Agreement, are fair and reasonable.

The Directors (excluding the independent non-executive Directors) therefore **recommend the Unicom Shareholders to vote in favour of resolutions C, D, E and F set out in the notice of the Unicom EGM** on pages N-1 to N-4 of this Circular.

The Directors (excluding the independent non-executive Directors) further **recommend the Independent Unicom Shareholders to vote in favour of resolution G set out in the notice of the Unicom EGM** on pages N-1 to N-4 of this Circular.

**11. ADDITIONAL INFORMATION**

You are urged to read carefully (1) the letter from the Independent Board Committee set out on pages 57 and 58 of this Circular, (2) the letter from Merrill Lynch, the independent financial adviser to the Independent Board Committee, the Unicom Shareholders and the Independent Unicom Shareholders set out on pages 59 to 71 of this Circular, (3) the Scheme Document set out in Appendix IV to this Circular and (4) the notice of the Unicom EGM set out on pages N-1 to N-4 of this Circular. In addition, a form of proxy for the Unicom EGM is enclosed with this Circular.

**12. WHERE YOU CAN FIND ADDITIONAL INFORMATION**

In addition to the documents available for inspection as set forth in Appendix III to this Circular, each of Unicom and Netcom also publishes its annual and interim reports, corporate announcements and other corporate communications on their websites at [www.chinaunicom.com.hk](http://www.chinaunicom.com.hk) and [www.china-netcom.com](http://www.china-netcom.com), respectively, and on the Hong Kong Stock Exchange's website, [www.hkexnews.hk](http://www.hkexnews.hk). Information published by Unicom and Netcom on the Hong Kong Stock Exchange's website can be found on such website by reference to their respective stock codes or stock names.

Each of Unicom and Netcom files annual and other reports and submits other information with the SEC. The SEC maintains an Internet website that contains reports and other materials that are filed through the SEC's Electronic Data Gathering, Analysis and Retrieval (EDGAR) System. This system can be accessed at [www.sec.gov](http://www.sec.gov). Information filed by Unicom and Netcom with the SEC can be found by reference to their respective corporate names or SEC file numbers. You may also read and copy any documents filed by Unicom and Netcom at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C. 20549, the United States of America. You can call the SEC at 1-800-SEC-0330 (within the United States) or 1-202-551-8090 (outside the United States) for further information on the public reference room and its copy charges.

You should rely only on the information contained or incorporated by reference in this Circular to vote your Unicom Shares at the Unicom EGM. Neither Unicom, CICC, JP Morgan, Merrill Lynch nor any of their respective affiliates has authorised anyone to provide you with information that is different from what is contained in this Circular. This Circular is dated 15 August 2008. No assumption should be made that the information contained in this Circular is accurate as at any date other than the Latest Practicable Date, and neither the despatch of this Circular to the Unicom Shareholders or the Unicom ADS Holders shall create any implication to the contrary.

By Order of the Board  
**China Unicom Limited**  
**Chang Xiaobing**  
*Chairman*



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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

**CHINA UNICOM LIMITED**  
*(incorporated in Hong Kong with limited liability)*  
**(Stock Code: 0762)**

15 August 2008

*To the Unicom Shareholders and the Independent Unicom Shareholders*

Dear Sir and Madam,

**NON-EXEMPT NEW CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular (the Circular ) dated 15 August 2008 issued by Unicom to the Unicom Shareholders of which this letter forms a part. Terms defined in the Circular shall have the same meaning when used in this letter unless the context otherwise requires.

We have been appointed as the Independent Board Committee to make a recommendation to the Unicom Shareholders as to whether, in our view, the terms of the transactions contemplated under (i) the Domestic Interconnection Settlement Agreement 2008-2010, (ii) the International Long Distance Voice Services Settlement Agreement 2008-2010, (iii) the Engineering and Information Technology Services Agreement 2008-2010, (iv) the Framework Agreement for Interconnection Settlement and (v) the Framework Agreement for Engineering and Information Technology Services, are fair and reasonable so far as the Unicom Shareholders are concerned. We have further been appointed to make a recommendation to the Independent Unicom Shareholders as to whether, in our view, the terms of the transactions contemplated under the Amended 2006 Continuing Connected Transactions relating to the supply of telephone cards, interconnection arrangements, provision of international telecommunications network gateway, provision of operator-based value-added services, provision of value-added telecommunications services, provision of 10010/10011 customer services and provision of agency services, are fair and reasonable so far as the Independent Unicom Shareholders are concerned.

Merrill Lynch has been appointed as the independent financial adviser to the Independent Board Committee, the Unicom Shareholders and the Independent Unicom Shareholders on the fairness and reasonableness of the terms of the relevant Non-exempt New Continuing Connected Transactions. The text of the letter of advice from Merrill Lynch containing their recommendation and the principal factors they have taken into account in arriving at their recommendation are set out on pages 59 to 71 of this Circular.

Having considered the information set out in the Letter from the Board and the principal factors, reasons and recommendation set out in the letter from Merrill Lynch, we are of the opinion that the terms of the Non-exempt New Continuing Connected Transactions are on normal commercial terms and will be entered into in the ordinary and usual course of business of the Enlarged Group. We are also of the opinion that the transactions contemplated under (i) the Domestic Interconnection Settlement Agreement 2008-2010, (ii) the International Long Distance Voice Services Settlement Agreement 2008-2010, (iii) the Engineering and Information Technology Services Agreement 2008-2010, (iv) the Framework Agreement for Interconnection Settlement, and (v) the Framework Agreement for Engineering and Information Technology Services are fair and reasonable so far as the interests of the Unicom Shareholders are concerned. We are further of the opinion that the terms of the transactions contemplated under the Amended 2006 Continuing Connected Transactions relating

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

to the supply of telephone cards, interconnection arrangements, provision of international telecommunications network gateway, provision of operator-based value-added services, provision of value-added telecommunications services, provision of 10010/10011 customer services and provision of agency services are fair and reasonable so far as the interests of the Independent Unicom Shareholders are concerned.

We consider that it is fair and reasonable not to propose annual caps for the transactions contemplated under the Domestic Interconnection Settlement Agreement 2008-2010, the International Long Distance Voice Services Settlement Agreement 2008-2010, the Framework Agreement for Interconnection Settlement and the Amended 2006 Continuing Connected Transactions relating to the supply of telephone cards, interconnection arrangements, provision of international telecommunications network gateway, provision of operator-based value-added services, provision of value-added telecommunications services, provision of 10010/10011 customer services and provision of agency services. In addition, we consider that the proposed annual cap of RMB4,400 million for the transactions aggregated under the Engineering and Information Technology Services Agreement 2008-2010 and the Framework Agreement for Engineering and Information Technology Services Agreement for each of the three years ending 31 December 2008, 2009 and 2010 is fair and reasonable.

Accordingly, we recommend that the Unicom Shareholders vote in favour of resolutions C, D, E and F set out in the notice of the Unicom EGM on pages N-1 to N-4 of this Circular to approve the transactions contemplated under (i) the Domestic Interconnection Settlement Agreement 2008-2010, (ii) the International Long Distance Voice Services Settlement Agreement 2008-2010, (iii) the Engineering and Information Technology Services Agreement 2008-2010, (iv) the Framework Agreement for Interconnection Settlement and (v) the Framework Agreement for Engineering and Information Technology Services. We further recommend that the Independent Unicom Shareholders vote in favour of resolution G set out in the notice of Unicom EGM on pages N-1 to N-4 of this Circular to approve the transactions contemplated under the Amended 2006 Continuing Connected Transactions relating to the supply of telephone cards, interconnection arrangements, provision of international telecommunications network gateway, provision of operator-based value-added services, provision of value-added telecommunications services, provision of 10010/10011 customer services and provision of agency services.

Yours faithfully,  
**Cheung Wing Lam, Linus**  
*(Chairman of the Committee)*  
**Wu Jinglian**  
**Shan Weijian**  
**Wong Wai Ming**  
*Independent Board Committee*

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**LETTER FROM MERRILL LYNCH**

*The following is the text of a letter from Merrill Lynch, the independent financial adviser to the Independent Board Committee, the Unicom Shareholders and the Independent Unicom Shareholders in respect of the relevant Non-exempt New Continuing Connected Transactions, which has been prepared for the purpose of inclusion in this Circular.*

15 August 2008

The Independent Board Committee, the Unicom Shareholders and  
the Independent Unicom Shareholders  
China Unicom Limited  
75th Floor, The Center  
99 Queen's Road Central  
Hong Kong

*To the Independent Board Committee, the Unicom Shareholders and  
the Independent Unicom Shareholders*

Dear Sirs and Madams,

**NON-EXEMPT NEW CONTINUING CONNECTED TRANSACTIONS**

**1. INTRODUCTION**

Merrill Lynch (Asia Pacific) Limited ( **Merrill Lynch** ) has been appointed by Unicom to act as the independent financial adviser to advise the Independent Board Committee, the Unicom Shareholders and the Independent Unicom Shareholders, pursuant to the requirements of the Listing Rules, in each case on the terms of the relevant Non-exempt New Continuing Connected Transactions, details of which are set out in the Circular.

Unless otherwise defined or the context otherwise requires, all terms defined in the Circular shall have the same meanings when used in this letter.

**2. BASIS OF ADVICE**

In formulating our opinions and recommendations, we have relied on the information and materials supplied to us by Unicom and Netcom, and the opinions expressed by, and the representations of, the management of Unicom and Netcom. We have assumed and received confirmation from Unicom that all the information, materials and representations so supplied including all information, materials and representations referred to or contained in the Circular, for which the Directors and Unicom are solely and wholly responsible, were true, accurate, complete and not misleading at the time they were supplied or made, and remained so up to the date of the Circular. We have also assumed that no material fact or information has been omitted from the information and materials supplied and have assumed and received confirmation from Unicom that the representations made and opinions expressed have been made in good faith and have been arrived at after due and careful consideration having made all reasonable enquiries. No representation or warranty, expressed or implied, is made by us on the accuracy, truth or completeness of such information, materials, opinions and/or representations. Finally, we have assumed that the Circular contains a true, accurate, complete and not misleading description of the principal terms of the agreements in relation to the Non-exempt New Continuing Connected Transactions.

Whilst we have taken reasonable steps to satisfy the requirements under Rule 13.80 of the Listing Rules, we have not carried out any independent verification of the information, opinions or representations given or made by or on behalf of Unicom, Netcom and/or their respective advisers, nor have we conducted an independent investigation into or an independent evaluation or appraisal of the business affairs or assets and liabilities of Unicom or any of the other parties involved in the Non-exempt New Continuing Connected Transactions.

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**LETTER FROM MERRILL LYNCH**

Where information in this letter relating to Unicom and/or Netcom has been extracted from published or otherwise publicly available sources, the sole responsibility of Merrill Lynch has been to ensure that such information has been correctly extracted from the relevant sources.

We have been engaged as the independent financial adviser to provide solely financial advice to the Independent Board Committee, the Unicom Shareholders and the Independent Unicom Shareholders. We do not express any opinion on the future prospects of Unicom and/or the Enlarged Group, and have not provided advice concerning the structure, timing, feasibility, or any other aspect of the Non-exempt New Continuing Connected Transactions. Furthermore, we do not comment on the merits or otherwise of the Non-exempt New Continuing Connected Transactions or any other business plan, transaction or strategy of Unicom and/or the Enlarged Group other than to form an opinion as to the fairness and reasonableness of the Non-exempt New Continuing Connected Transactions for the purpose of making a recommendation to the Independent Board Committee, the Unicom Shareholders and the Independent Unicom Shareholders. Any evaluation of and/or comment on the strategic or commercial merits of the Non-exempt New Continuing Connected Transactions or on the prospects of Unicom and/or the Enlarged Group remain the sole responsibility of the Directors. In addition, we express no opinion as to whether the Non-exempt New Continuing Connected Transactions will be completed or achieved.

Our opinion is necessarily based upon, among other things, market, economic, industry and other conditions as they existed and could be evaluated upon, and on the information publicly available to us as at the date of this letter. We have no obligation to update our opinion to take into account events occurring after the date of this letter. As a result, circumstances could develop in the future that, if known at the time we rendered our opinion, would have altered our opinion. We assume no responsibility or liability in such circumstances.

In rendering our advice and giving our recommendation, we have not had regard to the general or specific investment criteria, financial situation, risk profile, tax position, objectives, needs or constraints of any Unicom Shareholder. We would recommend any Unicom Shareholder who may require advice in relation to any aspect of the Circular, or as to the action to be taken in respect of the Non-exempt New Continuing Connected Transactions, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser. The opinion contained in this letter is only intended to provide one of the bases on which the Independent Board Committee may make its recommendation to the Unicom Shareholders and the Independent Unicom Shareholders on how to vote, and on which they may decide how to vote, in respect of the relevant Non-exempt New Continuing Connected Transactions.

Unicom has been separately advised by its own professional advisers with respect to the Non-exempt New Continuing Connected Transactions and the preparation of the Circular (other than this letter). We have had no role or involvement and have not provided and will not provide any advice (financial or otherwise) whatsoever in the preparation, review or verification of the Circular (other than this letter). Accordingly, we take no responsibility for and express no views, whether expressly or implicitly, on the contents of the Circular (other than this letter).

Nothing contained in this letter should be construed as an opinion or view as to the trading price or market trends of the Unicom Shares or any other securities of Unicom at any particular time in the past, present or future. We are not expressing any opinion herein as to the price at which the Unicom Shares or any other securities of Unicom may trade upon approval and completion or rejection of the Non-exempt New Continuing Connected Transactions or on the trading prospects or future financial or other performance of Unicom. Furthermore, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Unicom Shares or any other securities of Unicom.

Whilst a copy of this letter in its entirety may be reproduced in the Circular, none of Unicom, the Directors or any other person may reproduce, disseminate or quote this letter (or any part thereof) for any other purpose at any time and in any manner without the prior written consent of Merrill Lynch. In the event of inconsistency, the English text of this letter shall prevail over the Chinese translation of this letter.

Our opinion in relation to the Non-exempt New Continuing Connected Transactions should be considered in the context of the entirety of this letter and the Circular.



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**LETTER FROM MERRILL LYNCH**

**3. ELIGIBILITY TO GIVE ADVICE**

Apart from (a) normal professional fees for our financial advisory services to Unicom as the independent financial adviser to the independent board committee, the Unicom shareholders and the independent Unicom shareholders in respect of (i) the relevant Non-exempt New Continuing Connected Transactions, (ii) the Transfer Agreement (as defined in Unicom's circular dated 1 August 2008) and (iii) related advice; and (b) the indemnity given to us and our affiliates and their respective directors, officers, employees, agents and controlling persons by Unicom against certain liabilities and expenses in connection with our appointment, no arrangement exists whereby we will receive any fees or benefits from Unicom or any of its associates (as defined under the Listing Rules).

As at 8 August 2008, as far as we know, companies associated with Merrill Lynch were beneficially interested in an aggregate shareholding of 12,921,512 Unicom Shares. The above aggregate interests represent approximately 0.1% of the issued share capital of Unicom.

We do not consider that the above interests affect the objectivity or impartiality of our advice, given that the interests so held in Unicom are no different from that of the other Unicom Shareholders and Independent Unicom Shareholders in relation to the relevant Non-exempt New Continuing Connected Transactions. We consider ourselves independent and qualified to give independent financial advice to the Independent Board Committee, the Unicom Shareholders and the Independent Unicom Shareholders in relation to the relevant Non-exempt New Continuing Connected Transactions in accordance with Rule 13.84 of the Listing Rules.

**4. PRINCIPAL FACTORS AND REASONS**

In arriving at our opinion, we have taken into consideration the following principal factors and reasons:

**(a) Background**

The Independent Board Committee, the Unicom Shareholders and the Independent Unicom Shareholders should refer to paragraph 6 headed "New Continuing Connected Transactions" in the Letter from the Board contained in the Circular for an overview of the Existing Netcom Continuing Connected Transactions, the Existing Unicom Continuing Transactions and the Amended 2006 Continuing Connected Transactions.

Upon completion of the Proposals and the Scheme becoming effective, Netcom will become a wholly-owned subsidiary of Unicom and Netcom BVI will have a shareholding interest in Unicom of approximately 29.49% (assuming that none of the outstanding Unicom Options and Netcom Options are exercised) or 28.98% (assuming that all of the outstanding Unicom Options and Netcom Options are exercised) and therefore, Netcom BVI and its associates will become connected persons of Unicom. Accordingly, the Existing Netcom Continuing Connected Transactions (being existing continuing connected transactions between Netcom and its subsidiaries and Netcom Parent, details of which were set out in the circular dated 9 November 2007 issued by Netcom to the Netcom shareholders at the time and approved by the independent Netcom shareholders at the time on 6 December 2007) will become New Continuing Connected Transactions of Unicom with effect from the Effective Date.

In addition, the Existing Unicom Continuing Transactions (being existing continuing transactions between CUCL and Netcom Parent) will become New Continuing Connected Transactions of Unicom with effect from the Effective Date. CUCL and Netcom Parent have entered into certain framework agreements to record the principles governing, and the principal terms of, the Existing Unicom Continuing Transactions.

Furthermore, pursuant to the Second New Comprehensive Services Agreement between Unicom Parent and Unicom A Share Company and the New Transfer Agreement between Unicom A Share Company, CUCL and CNC China, the terms of the Amended 2006 Continuing Connected Transactions (being existing continuing connected transactions between Unicom and its subsidiaries and Unicom Parent, details of which were set out in the circular dated 10 November 2006 issued by Unicom to the Unicom shareholders at the time and approved by the independent Unicom shareholders at the time on 1 December 2006) will be amended with effect from the Effective Date to include CNC China as a party and to facilitate the business and operations of the Enlarged Group.



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**LETTER FROM MERRILL LYNCH**

Of the New Continuing Connected Transactions, only the Non-exempt New Continuing Connected Transactions are subject to the approval of the Unicom Shareholders or the Independent Unicom Shareholders. The Non-exempt New Continuing Connected Transactions are:

- (i) the Existing Netcom Continuing Connected Transactions under:
  - (1) the Domestic Interconnection Settlement Agreement 2008-2010;
  - (2) the International Long Distance Voice Services Settlement Agreement 2008-2010; and
  - (3) the Engineering and Information Technology Services Agreement 2008-2010 (together, the **Non-exempt Existing Netcom Continuing Connected Transactions** );
- (ii) the Existing Unicom Continuing Transactions under:
  - (1) the Framework Agreement for Interconnection Settlement; and
  - (2) the Framework Agreement for Engineering and Information Technology Services (together, the **Non-exempt Existing Unicom Continuing Transactions** ); and
- (iii) the Amended 2006 Continuing Connected Transactions under the Second New Comprehensive Services Agreement and the New Transfer Agreement relating to the:
  - (1) supply of telephone cards;
  - (2) interconnection arrangements;
  - (3) provision of international telecommunications network gateway;
  - (4) provision of operator-based value-added services;
  - (5) provision of value-added telecommunications services;
  - (6) provision of 10010/10011 customer services; and
  - (7) provision of agency services (together, the **Non-exempt Amended 2006 Continuing Connected Transactions** ).

As far as Unicom is aware, none of the Unicom Shareholders have a material interest in the transactions under the Domestic Interconnection Settlement Agreement 2008-2010, the International Long Distance Voice Services Settlement Agreement 2008-2010, the Engineering and Information Technology Services Agreement 2008-2010, the Framework Agreement for Interconnection Settlement and the Framework Agreement for Engineering and Information Technology Services. Accordingly, none of the Unicom Shareholders are required to abstain from voting at the Unicom EGM on the resolutions relating to such matters. However, notwithstanding the foregoing, an executive director of Netcom and an independent non-executive director of Netcom who hold 602,000 Unicom Shares and 6,000 Unicom Shares, respectively, have each undertaken to Netcom to abstain from voting at the Unicom EGM on the resolutions relating to such matters.

As Unicom BVI is regarded as having a material interest in the Non-exempt Amended 2006 Continuing Connected Transactions, Unicom BVI and its associates will abstain f