

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

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Part III

EXHIBIT 3 Option Proposal Letter

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 Depositary 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 Depositary 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"> (i) the Domestic Interconnection Settlement Agreement 2008-2010; (ii) the International Long Distance Voice Services Settlement Agreement 2008-2010; and

(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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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.

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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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(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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(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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(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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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:

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

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:

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

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:

- the approval of the Unicom Shareholders having been obtained at the Unicom EGM for the adoption of the Special Purpose Unicom Share Option Scheme;
- 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
- 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 ⁽¹⁾	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⁽²⁾

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New Continuing Connected Transactions⁽¹⁾	Proposed Annual Cap	Payment of consideration	Shareholders Unicom approval required?
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 ⁽²⁾	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 ⁽²⁾	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 ⁽²⁾	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 December 2008, 2009 and
Framework Agreement for 2010
Telecommunications
Facilities Leasing⁽²⁾

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New Continuing Connected Transactions⁽¹⁾	Proposed Annual Cap	Payment of consideration	Unicom Shareholders approval required?
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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New Continuing Connected Transactions⁽¹⁾	Proposed Annual Cap	Payment of consideration	Unicom Shareholders approval required?
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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(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 and www.china-netcom.com, respectively, and on the Hong Kong Stock Exchange's website, 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. 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 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.

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Unicom has made an application to the Hong Kong Stock Exchange that no annual caps be proposed for:

- (i) the transactions under the Domestic Interconnection Settlement Agreement 2008-2010;
- (ii) the transactions under the International Long Distance Voice Services Settlement Agreement 2008-2010;
- (iii) the transactions under the Framework Agreement for Interconnection Settlement; and
- (iv) the Non-exempt Amended 2006 Continuing Connected Transactions.

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 requirements under Rule 14A.48 of the Listing Rules.

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. This amount has been set as the proposed annual cap for the continuing connected transactions under the Engineering and Information Technology Services Agreement 2008-2010 and the Framework Agreement for Engineering and Information Technology Services for each of the three years ending 31 December 2008, 2009 and 2010.

(b) Non-exempt Existing Netcom Continuing Connected Transactions

(1) Domestic Interconnection Settlement Agreement 2008-2010

The Independent Board Committee and the Unicom Shareholders should refer to paragraph 6(b)(1) headed Domestic Interconnection Settlement Agreement 2008-2010 in the Letter from the Board contained in the Circular for an overview of the Domestic Interconnection Settlement Agreement 2008-2010.

We consider the terms of the Domestic Interconnection Settlement Agreement 2008-2010 to be fair and reasonable on the basis that:

- (i) the terms and conditions of the Domestic Interconnection Settlement Agreement 2008-2010 are materially consistent with the terms and conditions of the original Domestic Interconnection Settlement Agreement, being the agreement between New Horizon Communications, CNC China and Netcom Parent entered into on 12 September 2005 and valid until 31 December 2007 (the **Domestic Interconnection Settlement Agreement 2005-2007**), and there have been no material changes to date in the market conditions or other factors affecting the business of the relevant parties that would render the reasons underlying the fairness and reasonableness of the Domestic Interconnection Settlement Agreement 2005-2007 to become invalid;
- (ii) the interconnection settlement rate of RMB0.06 per minute in respect of domestic long distance voice services is in accordance with the relevant standards, tariffs or policies promulgated by the relevant regulatory authorities in China at present and will be adjusted from time to time in accordance with the relevant standards, tariffs or policies promulgated by the relevant regulatory authorities in China; and
- (iii) we have been informed by the management of Netcom that the interconnection settlement rate in respect of domestic long distance voice services is also in line with the interconnection settlement rates in respect of domestic long distance voice services adopted by comparable telecommunications service operators in China.

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We concur with Unicom's reasons for not proposing annual caps for the Domestic Interconnection Settlement Agreement 2008-2010, which are described by Unicom in paragraph 6(g) headed "Continuing Connected Transactions for which no Annual Caps are Proposed" in the Letter from the Board contained in the Circular, and consider that it is fair and reasonable for no annual caps to be proposed for the transactions contemplated under the Domestic Interconnection Settlement Agreement 2008-2010 on the basis that:

- (i) the terms and conditions of the Domestic Interconnection Settlement Agreement 2008-2010 are materially consistent with the terms and conditions of the Domestic Interconnection Settlement Agreement 2005-2007 and no annual caps were proposed for the Domestic Interconnection Settlement Agreement 2005-2007, and there have been no material changes to date in the market conditions or other factors affecting the business of the relevant parties that would render the reasons for not proposing annual caps for the Domestic Interconnection Settlement Agreement 2005-2007 to become invalid;
- (ii) any growth in the demand for domestic long distance voice services will necessarily result in increased transaction volumes under the Domestic Interconnection Settlement Agreement 2008-2010 which the Enlarged Group will not be able to control as such increase depends entirely on customer usage;
- (iii) any annual caps on these transactions would, therefore, potentially limit the Enlarged Group's ability to conduct or expand its business in the ordinary course;
- (iv) the interconnection settlement rates in respect of domestic 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 interconnection settlement rates in respect of domestic long distance voice services at its own discretion; and
- (v) we have been informed by the management of Netcom that the treatment of proposing no annual caps is consistent with similar interconnection agreements in respect of domestic long distance voice services in the telecommunications services industry in China.

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

The Independent Board Committee and the Unicom Shareholders should refer to paragraph 6(b)(2) headed "International Long Distance Voice Services Settlement Agreement 2008-2010" in the Letter from the Board contained in the Circular for an overview of the International Long Distance Voice Services Settlement Agreement 2008-2010.

We consider the terms of the International Long Distance Voice Services Settlement Agreement 2008-2010 to be fair and reasonable on the basis that:

- (i) the terms and conditions of the International Long Distance Voice Services Settlement Agreement 2008-2010 are materially consistent with the terms and conditions of the original International Long Distance Voice Services Settlement Agreement, being the agreement between CNC China and Netcom Parent entered into on 12 September 2005 and valid until 31 December 2007 (the **International Long Distance Voice Services Settlement Agreement 2005-2007**), and there have been no material changes to date in the market conditions or other factors affecting the business of the relevant parties that would render the reasons underlying the fairness and reasonableness of the International Long Distance Voice Services Settlement Agreement 2005-2007 to become invalid;

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- (ii) the interconnection settlement rate of RMB0.06 per minute in respect of international long distance voice services is in accordance with the relevant standards, tariffs or policies promulgated by the relevant regulatory authorities in China at present and will be adjusted from time to time in accordance with the relevant standards, tariffs or policies promulgated by the relevant regulatory authorities in China;
- (iii) we have been informed by the management of Netcom that the interconnection settlement rate of RMB0.06 per minute in respect of international long distance voice services is also in line with the interconnection settlement rates in respect of international long distance voice services adopted by comparable telecommunications service operators in China; and
- (iv) the sharing of net revenues between Netcom Parent and CNC China is based on the estimated proportionate costs incurred by Netcom Parent and CNC China in connection with the provision of the relevant international long distance voice services.

We concur with Unicom's reasons for not proposing annual caps for the International Long Distance Voice Services Settlement Agreement 2008-2010, which are described by Unicom in paragraph 6(g) headed "Continuing Connected Transactions for which no Annual Caps are Proposed" in the Letter from the Board contained in the Circular, and consider that it is fair and reasonable for no annual caps to be proposed for the transactions contemplated under the International Long Distance Voice Services Settlement Agreement 2008-2010 on the basis that:

- (i) the terms and conditions of the International Long Distance Voice Services Settlement Agreement 2008-2010 are materially consistent with the terms and conditions of the International Long Distance Voice Services Settlement Agreement 2005-2007 and no annual caps were proposed for the International Long Distance Voice Services Settlement Agreement 2005-2007, and there have been no material changes to date in the market conditions or other factors affecting the business of the relevant parties that would render the reasons for not proposing annual caps for the International Long Distance Voice Services Settlement Agreement 2005-2007 to become invalid;
- (ii) any growth in the demand for international long distance voice services will necessarily result in increased transaction volumes under the International Long Distance Voice Services Settlement Agreement 2008-2010 which the Enlarged Group will not be able to control as such increase depends entirely on customer usage;
- (iii) any annual caps on these transactions would, therefore, potentially limit the Enlarged Group's ability to conduct or expand its business in the ordinary course;
- (iv) the interconnection settlement rates in respect of international 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 interconnection settlement rates in respect of international long distance voice services at its own discretion; and
- (v) we have been informed by the management of Netcom that the treatment of proposing no annual caps is consistent with similar interconnection agreements in respect of international long distance voice services in the telecommunications services industry in China.

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

The Independent Board Committee and the Unicom Shareholders should refer to paragraph 6(b)(3) headed "Engineering and Information Technology Services Agreement 2008-2010" in the Letter from the Board contained in the Circular for an overview of the Engineering and Information Technology Services Agreement 2008-2010.

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We consider the terms of the Engineering and Information Technology Services Agreement 2008-2010 to be fair and reasonable on the basis that:

- (i) the terms and conditions of the Engineering and Information Technology Services Agreement 2008-2010 are materially consistent with the terms and conditions of the original Engineering and Information Technology Services Agreement, being the agreement between New Horizon Communications, CNC China and Netcom Parent entered into on 12 September 2005 and valid until 31 December 2007 (the **Engineering and Information Technology Services Agreement 2005-2007**), and there have been no material changes to date in the market conditions or other factors affecting the business of the relevant parties that would render the reasons underlying the fairness and reasonableness of the Engineering and Information Technology Services Agreement 2005-2007 to become invalid;
- (ii) the charges payable for engineering and information technology-related services are determined with reference to market rates;
- (iii) when the value of any single item of engineering design or supervision-related service exceeds RMB0.5 million or when the value of any single item of engineering construction-related service exceeds RMB2 million, the award of such service contracts shall be subject to tender;
- (iv) the award of services pursuant to the Engineering and Information Technology Services Agreement 2008-2010 is subject to the PRC Law on Invitation and Submission of Bids; and
- (v) we have been informed by the management of Netcom that similar engineering and information technology services agreements between telecommunications service providers in China are also determined with reference to market rates.

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. Please refer to paragraph 4(c)(2) below for our opinion on the proposed annual cap.

(c) Non-exempt Existing Unicom Continuing Transactions

(1) Framework Agreement for Interconnection Settlement

The Independent Board Committee and the Unicom Shareholders should refer to paragraph 6(c)(1) headed Framework Agreement for Interconnection Settlement in the Letter from the Board contained in the Circular for an overview of the Framework Agreement for Interconnection Settlement.

We consider the terms of the Framework Agreement for Interconnection Settlement to be fair and reasonable on the basis that:

- (i) we have been informed by the management of Unicom that the terms and conditions of the Framework Agreement for Interconnection Settlement are materially consistent with the principles governing, and the principal terms of, the existing continuing transactions between CUCL and Netcom Parent and that such principles and principal terms were negotiated on an arm's length basis;
- (ii) the interconnection settlement rates of RMB0.06 per minute, RMB0.34 per minute, RMB0.54 per minute and RMB0.03 per minute (described in paragraph 6(c)(1) headed Framework Agreement for Interconnection Settlement in the Letter from the Board contained in the Circular) are in accordance with the relevant standards, tariffs or policies promulgated by the relevant regulatory authorities in China at present; and
- (iii)

we have been informed by the management of Unicom that these interconnection settlement rates are also in line with the interconnection settlement rates adopted by comparable telecommunications service operators in China.

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We concur with Unicom's reasons for not proposing annual caps for the Framework Agreement for Interconnection Settlement, which are described by Unicom in paragraph 6(g) headed "Continuing Connected Transactions for which no Annual Caps are Proposed" in the Letter from the Board contained in the Circular, and consider that it is fair and reasonable for no annual caps to be proposed for the transactions contemplated under the Framework Agreement for Interconnection Settlement on the basis that:

- (i) we have been informed by the management of Unicom that the terms and conditions of the Framework Agreement for Interconnection Settlement are materially consistent with the principles governing, and the principal terms of, the existing continuing transactions between CUCL and Netcom Parent and that such principles and principal terms were negotiated on an arm's length basis;
- (ii) any growth in the demand for domestic and international long distance voice services will necessarily result in increased transaction volumes under the Framework Agreement for Interconnection Settlement which Unicom will not be able to control as such increase depends entirely on customer usage;
- (iii) any annual caps on these transactions would, therefore, potentially limit the Enlarged Group's ability to conduct or expand its business in the ordinary course;
- (iv) the interconnection settlement rates in respect of domestic and international 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 interconnection settlement rates at its own discretion; and
- (v) we have been informed by the management of Unicom that the treatment of proposing no annual caps is consistent with similar interconnection agreements between operators in the telecommunications services industry in China.

(2) *Framework Agreement for Engineering and Information Technology Services*

The Independent Board Committee and the Unicom Shareholders should refer to paragraph 6(c)(2) headed "Framework Agreement for Engineering and Information Technology Services" in the Letter from the Board contained in the Circular for an overview of the Framework Agreement for Engineering and Information Technology Services.

We consider the terms of the Framework Agreement for Engineering and Information Technology Services to be fair and reasonable on the basis that:

- (i) we have been informed by the management of Unicom that the terms and conditions of the Framework Agreement for Engineering and Information Technology Services are materially consistent with the principles governing, and the principal terms of, the existing continuing transactions between CUCL and Netcom Parent and that such principles and principal terms were negotiated on an arm's length basis;
- (ii) the terms of the Framework Agreement for Engineering and Information Technology Services are materially consistent with the terms of the Engineering and Information Technology Services Agreement 2008-2010, which we believe are fair and reasonable on the basis of the reasons stated in paragraph 4(b)(3) above of this letter);
- (iii) the award of services pursuant to the Framework Agreement for Engineering and Information Technology Services is subject to the PRC Law on Invitation and Submission of Bids;
- (iv) the charges payable for engineering and information technology-related services are determined with reference to market rates; and

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- (v) we have been informed by the management of Unicom that similar engineering and information technology services agreements between telecommunications service providers in China are also determined with reference to market rates.

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.

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. 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.

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. This amount has been set as the proposed annual cap for the continuing connected transactions under the Engineering and Information Technology Services Agreement 2008-2010 and the Framework Agreement for Engineering and Information Technology Services for each of the three years ending 31 December 2008, 2009 and 2010.

We consider the bases and factors that Unicom has taken into account in determining the annual cap for the transactions aggregated under the Engineering and Information Technology Services Agreement 2008-2010 and the Framework Agreement for Engineering and Information Technology Services for each of the three years ending 31 December 2008, 2009 and 2010 to be fair and reasonable on the basis that:

- (i) we have been informed by the management of Unicom and Netcom that the annual cap has been determined by reference to the nature of the transactions contemplated under the Engineering and Information Technology Services Agreement 2008-2010 and the Framework Agreement for Engineering and Information Technology Services, the existing scale and operations of the Enlarged Group's businesses as well as management's estimates of the future business plan of the Enlarged Group;
- (ii) we have been informed by the management of Unicom and Netcom that the annual cap has been set so as not to hinder the ability of the Enlarged Group to conduct its business in the ordinary course and to allow the Enlarged Group to benefit from potential growth opportunities;
- (iii) historical service charges paid by the Enlarged Group to Netcom Parent for the provision of engineering and information technology-related services for each of the three years ended 31 December 2005, 2006 and 2007 were below the proposed annual cap;
- (iv) the annual cap is the same as the annual cap for the service charges payable by CNC China to Netcom Parent under the Engineering and Information Technology Services Agreement 2008-2010; and
- (v) the extent and volume of the engineering and information technology-related services that Netcom Parent may provide to the Enlarged Group could increase substantially when compared to historical volumes as a result of the strategic goals of the Enlarged Group as outlined in paragraph 6(f)(1) headed "Engineering and Information Technology Services Agreement 2008-2010 and Framework Agreement for Engineering and Information Technology Services" in the Letter from the Board contained in the Circular.

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(d) Non-exempt Amended 2006 Continuing Connected Transactions

The Independent Board Committee and the Independent Unicom Shareholders should refer to paragraph 6(d) headed "Amended 2006 Continuing Connected Transactions" in the Letter from the Board contained in the Circular for an overview of the Non-exempt Amended 2006 Continuing Connected Transactions.

We consider the terms of the Non-exempt Amended 2006 Continuing Connected Transactions to be fair and reasonable on the basis that:

- (i) the terms of the Non-exempt Amended 2006 Continuing Connected Transactions are materially consistent with the terms of the continuing connected transactions between Unicom 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, and there have been no material changes to date in the market conditions or other factors affecting the business of the relevant parties that would render the reasons underlying the fairness and reasonableness of such continuing connected transactions to become invalid;
- (ii) we have been informed by the management of Unicom that the terms, conditions and charges of the Non-exempt Amended 2006 Continuing Connected Transactions have been determined after arm's length negotiations between the relevant parties;
- (iii) the terms, conditions and charges of the Non-exempt Amended 2006 Continuing Connected Transactions have been determined:
 - (1) in accordance with the relevant standards, tariffs or policies promulgated by the relevant regulatory authorities in China; and/or
 - (2) by reference to market rates; and/or
 - (3) by reference to the cost plus margin of providing the respective service; and/or
 - (4) by reference to a percentage of the contract value;
- (iv) the terms of the supply of services to the Enlarged Group under the Non-exempt Amended 2006 Continuing Connected Transactions shall be no less favourable than the terms of the supply of such services to any other third party; and
- (v) the Second New Comprehensive Services Agreement and the New Transfer Agreement are intended to facilitate the business and operations of the Enlarged Group.

We concur with Unicom's reasons for not proposing annual caps for the Non-exempt Amended 2006 Continuing Connected Transactions, which are described by Unicom in paragraph 6(g) headed "Continuing Connected Transactions for which no Annual Caps are Proposed" in the Letter from the Board contained in the Circular, and consider that it is fair and reasonable for no annual caps to be proposed for the Non-exempt Amended 2006 Continuing Connected Transactions on the basis that:

- (i) the revenues of the Enlarged Group depend on growth in its customer base and usage on its various networks and any such growth will necessarily result in:
 - (1) an increased requirement for the supply of telephone cards by Unicom Parent to the Enlarged Group;
 - (2) increased volumes under the interconnection arrangements;

- (3) an increased utilisation of Unicom Parent's international telecommunications network gateway;
- (4) an increased demand for operator-based value-added services;
- (5) an increased demand for value-added telecommunications services;

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(6) an increased demand for 10010/10011 customer services; and

(7) an increased demand for agency services.

These are factors beyond the control of the Enlarged Group and Unicom Parent as they depend on the growth of the customer base of the Enlarged Group and the usage of its customers, and it is, therefore, difficult to determine appropriate annual caps for these transactions without potentially hindering the operations and the growth of the Enlarged Group in the ordinary course;

(ii) charges for the operator-based value-added services and value-added telecommunications services will contribute to the revenues of the Enlarged Group. Any annual caps on the provision of such services could limit the Enlarged Group's revenues. As for the provision of agency services, increased competition in the telecommunications services 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 caps on the charges incurred for agency services will severely limit the Enlarged Group's growth potential;

(iii) we have been informed by the management of Unicom that the terms, conditions and charges of the Non-exempt Amended 2006 Continuing Connected Transactions have been determined after arm's length negotiations between the relevant parties;

(iv) the terms, conditions and charges of the Non-exempt Amended 2006 Continuing Connected Transactions have been determined:

(1) in accordance with the relevant standards, tariffs or policies promulgated by the relevant regulatory authorities in China at present and will be adjusted from time to time in accordance with the relevant standards, tariffs or policies promulgated by the relevant regulatory authorities in China; and/or

(2) by reference to market rates; and/or

(3) by reference to the cost plus margin of providing the respective service; and/or

(4) by reference to a percentage of the contract value; and

(v) the terms of the supply of services to the Enlarged Group under the Non-exempt Amended 2006 Continuing Connected Transactions shall be no less favourable than the terms of the supply of such services to any other third party.

5. SUMMARY

Having considered, among other things, the above principal factors and reasons, and based upon and subject to the foregoing, we are of the opinion as at the date of this letter that:

(i) the terms of the Non-exempt New Continuing Connected Transactions are on normal commercial terms, will be entered into in the ordinary and usual course of business of the Enlarged Group, are fair and reasonable and in the interests of Unicom and the Unicom Shareholders as a whole;

(ii) it is fair and reasonable for no annual caps to be proposed for the transactions contemplated under:

(1) the Domestic Interconnection Settlement Agreement 2008-2010;

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

- (3) the Framework Agreement for Interconnection Settlement;
 - (4) the Non-exempt Amended 2006 Continuing Connected Transactions; and
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(iii) the annual cap for transactions contemplated under the Engineering and Information Technology Services Agreement 2008-2010 and the Framework Agreement for Engineering and Information Technology Services for each of the three years ending 31 December 2008, 2009 and 2010 is fair and reasonable.

Accordingly, we advise the Independent Board Committee to recommend the Unicom Shareholders to vote in favour of resolutions C, D, E and F set out in the notice of the Unicom EGM and we advise the Unicom Shareholders to vote in favour of these resolutions. Furthermore, we advise the Independent Board Committee to recommend the Independent Unicom Shareholders to vote in favour of resolution G set out in the notice of the Unicom EGM and we advise the Independent Unicom Shareholders to vote in favour of this resolution.

The opinion set forth herein is based solely on public information and information provided to us by Unicom, Netcom and/or their respective advisers.

Yours faithfully,
for and on behalf of
MERRILL LYNCH (ASIA PACIFIC) LIMITED
Daniel Newman
Managing Director

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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.

2. FINANCIAL INFORMATION ON THE UNICOM GROUP AND UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION ON THE ENLARGED GROUP

Financial information on the Unicom Group is set out in Appendix II to the Scheme Document, which is set out in Appendix IV to this Circular. The unaudited pro forma consolidated financial information of the Enlarged Group which has been prepared to illustrate 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.

3. ADDITIONAL FINANCIAL INFORMATION**(a) Indebtedness**

At the close of business on 30 June 2008, being the latest practicable date for the purpose of this indebtedness statement, the Enlarged Group had the following outstanding borrowings:

Short-term debts

	Interest rate and final maturity	<i>RMB million</i>
Short-term bank loans		
Renminbi denominated	Interest rates ranging from 5.10% to 6.56% per annum with maturity through 28 December 2008	24,789
HK dollar denominated	Interest rates ranging from 2.21% to 4.47% per annum with maturity through 10 June 2009	5,539
Current portion of long-term bank loans, finance lease obligations and amounts due to Netcom Parent, Netcom BVI and its subsidiary		8,741
		39,069

Long-term debts

	Interest rate and final maturity	<i>RMB million</i>
Long-term bank loans		
Renminbi denominated	Interest rates ranging from 2.40% to 10.08% per annum with maturity through 29 January 2022	16,563
US dollar denominated	Interest rates ranging from 1.50% to 6.15% per annum with maturity through 30 September 2039	3,969

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	Interest rate and final maturity	<i>RMB million</i>
Long-term bank loans		
Japanese Yen denominated	Interest rate is 2.12% per annum with maturity through 7 January 2014	217
Euro denominated	Interest rates ranging from 0.50% to 6.87% per annum with maturity through 15 February 2034	405
HK dollar denominated	Interest rate is 3.71% per annum with maturity through 31 December 2008	9
Amounts due to Netcom Parent, Netcom BVI and its subsidiary	Interest rates ranging from 2.71% to 5.27% per annum with maturity through 16 December 2010	5,278
Finance lease obligations		54
Less: Current portion of long-term bank loans, finance lease obligations and amounts due to Netcom Parent, Netcom BVI and its subsidiary		(8,741)
Corporate bonds		
Renminbi denominated	Interest rate is 4.50% per annum with maturity through 7 June 2017	2,000
		19,754

All the short-term bank loans as at 30 June 2008 were unsecured. Among the long-term bank loans as at 30 June 2008, RMB137 million were secured by corporate guarantees granted by third parties. The corporate bonds are secured by a corporate guarantee granted by Bank of China Limited.

At the close of business on 30 June 2008, the Enlarged Group had operating lease commitments amounting to approximately RMB9.9 billion, of which approximately RMB3.5 billion was related to the CDMA network capacity lease.

Save as aforesaid and apart from intra-group liabilities, the Enlarged Group did not have, at the close of business on 30 June 2008, any debt securities and other borrowings or any mortgages, charges, debentures, loan capital issued and outstanding or authorised or otherwise created but unissued, bank overdrafts, loans, liabilities under acceptance (other than normal trade bills) or other similar indebtedness, hire purchase and finance lease commitments or any guarantees or other material contingent liabilities.

The completion of the CDMA Business Disposal will give rise to a mandatory prepayment under the terms of the syndicated loan agreement relating to a syndicated term loan facility granted to Unicom, which is included in the long-term bank loans in the table of indebtedness set out above. The reduction in the shareholding of Unicom BVI in Unicom following the completion of the Scheme will give rise to an event of default under the terms of the same syndicated loan agreement. Unicom is currently in discussions with its lenders for waivers to be granted in respect of

the prepayment and the event of default described above and associated covenants. If such waivers are not granted by Unicom's lenders and if either the CDMA Business Disposal or the Scheme is completed, Unicom will be required to repay the entire principal amount outstanding under such loan facility together with accrued interest on completion of the CDMA Business Disposal or the Scheme. The principal

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amount outstanding under such loan facility is expected to be US\$200 million at the time the CDMA Business Disposal or the Scheme is completed and, under the terms of the syndicated loan agreement, such amount is otherwise scheduled for repayment in September 2010. If Unicom is required to repay the outstanding principal amount as stated above, it expects to have sufficient cash resources available to fund such payment.

(b) Working Capital

Taking into account the financial resources available to the Enlarged Group, including internally generated funds and available banking facilities, the Directors are of the opinion that the Enlarged Group will have sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this Circular.

(c) No Material Adverse Change

On 2 June 2008, the boards of directors of Unicom and Netcom jointly announced that Unicom formally presented the Proposals to the board of directors of Netcom to put forward the Proposals to the Netcom Shareholders to consider the merger of Unicom and Netcom by way of a scheme of arrangement under Section 166 of the Hong Kong Companies Ordinance. Please refer to the Scheme Document set out in Appendix IV to this Circular for further details of the Proposals and the Scheme.

On 27 July 2008, Unicom and its wholly-owned subsidiary, CUCL, entered into an agreement to sell the CDMA business to China Telecom for a cash consideration of RMB43.8 billion (approximately HK\$49.8 billion), which is subject to adjustment. The CDMA Business Disposal is a separate and independent transaction from the Proposals. Please refer to the paragraph 14 headed "Information on Unicom CDMA Business Disposal and Related Transactions" in the Explanatory Statement in the Scheme Document, which is set out in Appendix IV to this Circular.

Save as disclosed above, the Directors are not aware of any material changes in the financial or trading position of the Unicom Group since 31 December 2007, being the date to which the latest published audited financial statements of the Unicom Group were made up.

(d) Financial and Trading Prospects of the Unicom Group

China's telecommunications industry has undergone rapid growth and recently became the largest market in the world in terms of the number of fixed-line and wireless subscribers. Relatively low penetration rates, combined with robust macroeconomic conditions, are expected to result in sustainable and rapid growth of the telecommunications industry in China over the next few years.

In response to the changes in the competitive landscape and regulatory policies in China's telecommunications industry, operators are seeking restructuring opportunities. Upon the completion of the restructuring initiatives contemplated in the Telecoms Restructuring Announcement, there will be three main telecommunications operators with more comparable scale and resources, and with capability to offer fully integrated telecommunications services. This is expected to lead to a more balanced competition environment and better resource allocation within China's telecommunications industry. In addition, the expected issuance of 3G wireless licences should result in new opportunities for Unicom and other telecommunications operators.

Unicom has agreed to dispose of the CDMA Business to China Telecom and is pursuing the merger with Netcom. If the proposed transactions are completed, the Enlarged Group is expected to become an integrated telecom full service provider offering mobile, fixed-line, broadband and Internet, and value-added services. The combination of the resources in 3G wireless, broadband and fixed-line businesses, and continued technological innovation, are expected to improve the Enlarged Group's brand perception and competitive positioning.

If the proposed transactions are completed, the Enlarged Group will discontinue its CDMA business operations. For wireless services, the Enlarged Group will focus on the development of its GSM and future 3G businesses. With the planned expansion of network coverage, improvement of transmission capacity and service quality, it is anticipated that the Enlarged Group will enhance its competitive advantage in its GSM business.

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Meanwhile, the Enlarged Group is expected to be granted a 3G licence after the completion of the proposed merger. By investing in research and development of 3G services, the Enlarged Group is expected to facilitate its transition from GSM to 3G technology and enable it to establish leading 3G services in China. These investments are expected to enhance the Enlarged Group's service capabilities in the wireless sector and expand its customer base, improve user mix, and thus achieve a stable revenue growth. The cash proceeds from the sale of the CDMA Business are expected to be used to increase the investment in the GSM network to expand coverage of the GSM network, improve IT support systems and the value-added business platform and enhance the customer service quality of the GSM business, and to lay a foundation for the future development of 3G business.

Based on the subscriber base of Unicom and Netcom as at 30 June 2008, the Enlarged Group is expected to have a combined total subscriber base of approximately 259 million users, including 128 million GSM subscribers, 109 million local access users and 23.36 million broadband users, which represents cross-selling and bundling opportunities that may potentially lead to increase in customer loyalty, reduction of churn rate and, ultimately, increase in the Enlarged Group's market share. The economies of scale offered by the effective integration of the resources of Unicom and Netcom in sales and marketing, distribution channels and network coverage are expected to allow the Enlarged Group to realise the synergies from reducing sales and marketing costs, operating and maintenance costs, administration costs as well as capital expenditures.

The Directors expect that the synergies of the merger will be realised gradually after the completion of the proposed transactions. The scale, resources and enhanced financial strength that are expected to result from an integration of the Enlarged Group should enable the Enlarged Group to improve its market position and increase shareholders' value.

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**SUMMARY OF THE PRINCIPAL TERMS OF
THE SPECIAL PURPOSE UNICOM SHARE OPTION SCHEME**

The following is a summary of the principal terms of the Special Purpose Unicom Share Option Scheme.

1. Purpose of the Special Purpose Unicom Share Option Scheme

The Special Purpose Unicom Share Option Scheme is proposed to be adopted by Unicom in connection with the Proposals and provides 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.

2. Eligible Participants

Only Netcom Optionholders who hold Netcom Options at the Scheme Record Time (whether vested or not) (the Eligible Participants) shall be entitled to be granted Special Unicom Options.

3. Maximum Number of Unicom Shares

The total number of Special Unicom Options to be granted by Unicom to all Eligible Participants under the Special Purpose Unicom Share Option Scheme shall be equal to the product of (a) the Share Exchange Ratio and (b) the number of Netcom Options outstanding as at the Scheme Record Time. The maximum number of Unicom Shares which may be issued upon the exercise of all Special Unicom Options to be granted under the Special Purpose Unicom Share Option Scheme and any other share option schemes of Unicom must not in aggregate exceed 10% of the issued share capital of Unicom as at the date of approval of the Special Purpose Unicom Share Option Scheme.

4. Maximum Entitlement of Each Eligible Participant

The number of Special Unicom Options which shall be granted to an Eligible Participant shall not exceed such number of Special Unicom Options determined in accordance with the formula set out in paragraph 5(b) below.

5. Grant of Special Unicom Options

- (a) The Board shall grant the Special Unicom Options to the Eligible Participants no later than 10 days after the Effective Date.
- (b) The number of Special Unicom Options to be granted by the Board to an Eligible Participant and the exercise price of such Special Unicom Options shall be determined in accordance with the following formula:

$$\text{Number of Special Unicom Options} = A \times B$$

$$\text{Exercise price of each Special Unicom Option} = C / A$$

where:

A is the Share Exchange Ratio;

B is the number of outstanding Netcom Options held by an Eligible Participant at the Scheme Record Time;
and

C is the exercise price of an outstanding Netcom Option held by an Eligible Participant at the Scheme Record Time,

provided that fractions of Special Unicom Options will not be granted to any Eligible Participant.

Based on the formula set out above, the exercise price of a Special Purpose 2004 Unicom Option (as defined below) is HK\$5.57 and the exercise price of a Special Purpose 2005 Unicom Option (as defined below) is HK\$8.26.

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**SUMMARY OF THE PRINCIPAL TERMS OF
THE SPECIAL PURPOSE UNICOM SHARE OPTION SCHEME**

(c) No amount is payable on acceptance of the grant of a Special Unicom Option.

6. Exercise of Special Unicom Options

(a) The Special Unicom Options may only be exercised in accordance with the vesting schedules referred to in paragraphs 6(b) and 6(c) below.

(b) Special Unicom Options granted to Eligible Participants in respect of the Netcom Options granted to them on 22 October 2004 (the 2004 Netcom Options) and held by them as at the Scheme Record Time (the Special Purpose 2004 Unicom Options) shall be effective from the Effective Date until 16 November 2010. Any Special Purpose 2004 Unicom Option not exercised by 16 November 2010 shall lapse automatically. The Special Purpose 2004 Unicom Options shall only be exercised in batches in accordance with the vesting schedule below. The maximum number of Special Purpose 2004 Unicom Options that can be exercised at each tier shall not exceed the limits set out below:

(i) 100% of the Special Purpose 2004 Unicom Options granted in respect of the outstanding 2004 Netcom Options held by the Eligible Participants 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 (the First Tier);

(ii) 100% of the Special Purpose 2004 Unicom Options granted in respect of the outstanding 2004 Netcom Options held by the Eligible Participants 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 (the Second Tier);

(iii) 100% of the Special Purpose 2004 Unicom Options granted in respect of the outstanding 2004 Netcom Options held by the Eligible Participants 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 (the Third Tier); and

(iv) 100% of the Special Purpose 2004 Unicom Options granted in respect of the outstanding 2004 Netcom Options held by the Eligible Participants 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 (the Fourth Tier).

(c) Options granted to Eligible Participants in respect of the 2005 Netcom Options granted to them on 6 December 2005 (the 2005 Netcom Options) and held by them as at the Scheme Record Time (the Special Purpose 2005 Unicom Options) shall be effective from the Effective Date until 5 December 2011. Any Special Purpose 2005 Unicom Option not exercised by 5 December 2011 shall lapse automatically. The Special Purpose 2005 Unicom Options shall only be exercised in batches in accordance with the vesting schedule below. The maximum number of Special Purpose 2005 Unicom Options that can be exercised at each tier shall not exceed the limits set out below:

(i) 100% of the Special Purpose 2005 Unicom Options granted in respect of the outstanding 2005 Netcom Options held by the Eligible Participants 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 (the First Tier);

(ii) 100% of the Special Purpose 2005 Unicom Options granted in respect of the outstanding 2005 Netcom Options held by the Eligible Participants at the Scheme Record Time which are exercisable from 6

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December 2008 to 5 December 2011 may be exercised at any time from 6 December 2008 to 5 December 2011 (the Second Tier);

- (iii) 100% of the Special Purpose 2005 Unicom Options granted in respect of the outstanding 2005 Netcom Options held by the Eligible Participants 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 (the Third Tier); and

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**SUMMARY OF THE PRINCIPAL TERMS OF
THE SPECIAL PURPOSE UNICOM SHARE OPTION SCHEME**

- (iv) 100% of the Special Purpose 2005 Unicom Options granted in respect of the outstanding 2005 Netcom Options held by the Eligible Participants 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 Fourth Tier).

7. Performance Targets

- (a) The exercise of a portion of the Special Unicom Options of the Eligible Participants (excluding Eligible Participants who were senior management and directors of Netcom prior to the Effective Date) exercisable at each tier pursuant to the vesting schedule referred to in paragraph 6 above (the Adjustable Options) shall be subject to the results of the performance review of the grantee in respect of the year immediately preceding the commencement of the relevant tier as measured against Unicom's performance review plan. Part or all of the Adjustable Options shall be subject to cancellation depending upon the results of the performance review. The Adjustable Options shall be determined by Unicom with reference to the number of Special Unicom Options exercisable at each tier, the expected yield of each Special Unicom Option and the difference between the average price of the Unicom Shares in the year immediately preceding the commencement of the relevant tier and the exercise price of the Special Unicom Options.
- (b) In the event that the grantee is to be demoted, his unvested Special Unicom Options pursuant to the vesting schedule will be reduced to reflect his new position and the reduced Special Unicom Options will automatically lapse.

8. Ranking of Unicom Shares

The Unicom Shares allotted and issued upon the exercise of a Special Unicom Option will rank *pari passu* in all respect with the Unicom Shares in issue on the date on which the Special Unicom Option is duly exercised (the Exercise Date), other than the rights and benefits attached to the Unicom Shares prior to the Exercise Date.

9. Rights Attaching to Special Unicom Options

Special Unicom Options which are outstanding shall not be entitled to any dividend and voting rights.

10. Adjustments to the Exercise Price and the Number of Unicom Shares Subject to the Special Unicom Options

In the event of a capitalisation issue, rights issue, sub-division or consolidation of Unicom Shares or reduction of capital, the Board has the right to make corresponding alterations to the number of Unicom Shares involved in the Special Unicom Options granted under the Special Purpose Unicom Share Option Scheme and the exercise price, provided that the proportion of the total number of Unicom Shares involved in the Special Purpose Unicom Share Option Scheme to the total number of issued Unicom Shares shall remain unchanged. Such adjustments shall give the Eligible Participants the same proportion of the issued share capital to which they would have been entitled prior to such alteration, and no adjustment shall be made the effect of which would be to enable Unicom Shares to be issued at less than its nominal value.

11. Rights on Cessation of Employment

- (a) If the grantee of a Special Unicom Option ceases to be an employee because of misconduct or criminal conviction, all the Special Unicom Options granted (irrespective of whether such Special Unicom Options are exercisable in accordance with the relevant vesting schedule) (the Effective Options) not yet exercised shall lapse on the date of cessation of his employment and such Effective Options shall in no circumstances be exercisable.
- (b) If the grantee of a Special Unicom Option is transferred internally to Unicom Parent and its controlled entities, Netcom Parent and its controlled entities, or Unicom and its subsidiaries, the grantee shall be entitled to exercise the Special Unicom Options in accordance with the vesting schedule and the Special

Purpose Unicom Share Option Scheme.

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**SUMMARY OF THE PRINCIPAL TERMS OF
THE SPECIAL PURPOSE UNICOM SHARE OPTION SCHEME**

- (c) If the grantee of a Special Unicom Option is transferred out of Unicom with Unicom's consent (for reason other than paragraph 11(b) above), the grantee may, at any time within 90 days of the date of the cessation of his employment, exercise the Special Unicom Options which are exercisable as at the date of the cessation of his employment as well as the Special Unicom Options which are exercisable at the tier immediately following the tier that applies to the grantee at the date of cessation of his employment. Any such Special Unicom Options which are not exercised within the 90-day period shall lapse automatically. All the Special Unicom Options exercisable at later tiers shall lapse automatically.
- (d) If the grantee of a Special Unicom Option retires, the grantee may, at any time within 90 days of the date of his retirement, exercise the Effective Options which have not yet been exercised. Any such Effective Options which are not exercised within the 90-day period shall lapse automatically.
- (e) If the grantee of a Special Unicom Option ceases to be an employee for any reason other than death, loss of capacity or any of the reasons as referred to under paragraphs 11(a), 11(b), 11(c) or 11(d) above and for reason of his resignation, all of his Effective Options not yet exercised shall lapse on the date of cessation of his employment.

12. Rights on Death

If the grantee of a Special Unicom Option dies and none of the grounds for cessation of employment as referred to in paragraph 11(a) above has occurred, Effective Options granted (but not yet exercised) shall be vested in the grantee's estate and the grantee's personal representatives or authorised persons shall be entitled to exercise such Effective Options within 90 days of the date of the grantee's death. Any such Effective Options which are not exercised within the 90-day period shall lapse automatically.

13. Rights on Loss of Capacity

The guardian of the grantee of a Special Unicom Option or authorised persons may, at any time during the period within 90 days of the date of the loss of capacity of such grantee, exercise the Effective Options granted to such grantee but not yet exercised as at the date of the loss of capacity of such grantee. Any such Effective Options which are not exercised within the 90-day period shall lapse automatically.

14. Rights on Change of Control

- (a) If, following the Effective Date and the issue of Unicom Shares pursuant to the Scheme, (i) any person, entity or organisation acquires or becomes the holder of 30% or more of the Unicom Shares in issue or the voting rights attached to Unicom's issued securities (or such percentage of voting rights as may be prescribed under the Takeovers Code to trigger a mandatory general offer requirement), (ii) Unicom is a party to any material reorganisation, merger or acquisition which has been unanimously approved by the Unicom Shareholders or (iii) Unicom is liquidated or reorganised (each a "change of control"), the Effective Options which are held by the grantee but outstanding shall become immediately exercisable for a period of 12 months from the date on which the change of control occurs.
- (b) The following circumstances shall not be regarded as a change of control for the purpose of paragraph 14(a)(i) above:
 - (i) the acquiring person(s), entity(ies) or organisation(s) is/are connected with Unicom within the definition of the Hong Kong Companies Ordinance;
 - (ii) the Unicom Shares or the voting rights (as the case may be) are acquired by Unicom; and
 - (iii)

the Unicom Shares or the voting rights (as the case may be) are acquired by the employee share option scheme established or supervised by Unicom (or by the related trust funds).

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**SUMMARY OF THE PRINCIPAL TERMS OF
THE SPECIAL PURPOSE UNICOM SHARE OPTION SCHEME**

15. Cancellation of Special Unicom Options

- (a) The Board may resolve to cancel any Special Unicom Options granted but not yet exercised.
- (b) Lapsed Special Unicom Options shall be automatically cancelled on the date of lapse.
- (c) The increase in the number of Special Unicom Options exercisable by a grantee as a result of another tier of the vesting schedule applying (for example, (A) when the First Tier applies, the Special Unicom Options exercisable at the First Tier shall be deemed as the increase in the number of Special Unicom Options exercisable by the grantee and (B) when the Second Tier applies, the Special Unicom Options exercisable at the Second Tier shall be the increase in the number of Special Unicom Options exercisable by the grantee) shall be subject to cancellation upon the happening of any of the following events:
 - (i) the annual performance review of Unicom for the year preceding the commencement of the relevant tier shows that Unicom is unable to meet the performance review targets;
 - (ii) the issuance of a negative opinion by Unicom's accountants or Unicom's accountants being unable to issue an opinion on the financial reports in respect of the year preceding the commencement of the relevant tier; or
 - (iii) where the Supervisory Panel or the audit authorities for State-owned enterprises of the State Council have raised material objections to the results or the annual report of Unicom in respect of the year preceding the commencement of the relevant tier.

16. Period of the Special Purpose Unicom Share Option Scheme

Unless the Board terminates the Special Purpose Unicom Share Option Scheme in accordance with its power under the terms of the Special Purpose Unicom Share Option Scheme, the Special Purpose Unicom Share Option Scheme will remain in effect during the period commencing on the Effective Date and ending on 30 September 2014 (inclusive), being the date falling 10 years after the date on which the Netcom Share Option Scheme was adopted, and will automatically terminate upon the expiration of such period.

17. Termination of the Special Purpose Unicom Share Option Scheme

The Board may at any time terminate the Special Purpose Unicom Share Option Scheme, and in such event the Special Unicom Options granted under the Special Purpose Unicom Share Option Scheme (to the extent not already exercised) may still be exercised pursuant to the rules of the Special Purpose Unicom Share Option Scheme or may be cancelled by the Board pursuant to paragraph 15(a) above.

18. Rights are Personal to the Grantee

A Special Unicom Option is personal to the grantee and neither the Special Unicom Option nor any relevant rights may be transferred, assigned or otherwise disposed of by the grantee to any other person, except for the transmission of a Special Unicom Option on the death of a grantee to his personal representatives or authorised persons. Any breach of the foregoing by a grantee shall entitle Unicom to cancel any Special Unicom Option granted to such grantee to the extent not already exercised.

19. Lapse of a Special Unicom Option

A Special Unicom Option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (a) the expiry of the period referred to in paragraph 6(b) or 6(c) above (as the case may be);
- (b) the occurrence of the event referred to in paragraph 7(b) above;
- (c) the expiry of the periods or dates referred to in paragraphs 11, 12, 13 and 14(a) above;

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**SUMMARY OF THE PRINCIPAL TERMS OF
THE SPECIAL PURPOSE UNICOM SHARE OPTION SCHEME**

- (d) the date on which the Board resolves to cancel the Special Unicom Option granted pursuant to paragraph 15(a) above; and
- (e) the date on which the Board exercises Unicom's right to cancel the Special Unicom Option by reason of a breach of paragraph 18 above in respect of that or any other Special Unicom Option.

20. Amendments to the Special Purpose Unicom Share Option Scheme

- (a) The Board may amend any of the provisions of the Special Purpose Unicom Share Option Scheme and the terms of the Special Unicom Options (including amendments in order to comply with changes in legal or regulatory requirements) at any time.
- (b) Any alterations to the matters set out in the Listing Rules which are to the advantage of grantees of Special Unicom Options shall only be made with the approval of Unicom Shareholders in general meeting.
- (c) Any alterations to the terms and conditions of the Special Purpose Unicom Share Option Scheme which are of a material nature shall be approved by the Unicom Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Special Purpose Unicom Share Option Scheme.
- (d) Any change to the authority of the Board in relation to alteration of the terms of the Special Purpose Unicom Share Option Scheme shall be approved by the Unicom Shareholders in general meeting.
- (e) The amended Special Purpose Unicom Share Option Scheme or the terms thereof shall comply with the relevant requirements of the Listing Rules.

21. General

- (a) The Special Purpose Unicom Share Option Scheme shall be effective on the Effective Date.
- (b) The Special Purpose Unicom Share Option Scheme shall be administered and interpreted by the Remuneration Committee of Unicom subject to the Listing Rules. The Human Resources Department of Unicom shall be responsible for the implementation of the Special Purpose Unicom Share Option Scheme, and the formulation of the implementation rules of each grant which shall be put forward to the Board for approval.
- (c) The Special Purpose Unicom Share Option Scheme and all Special Unicom Options granted shall be governed by, and construed in accordance with, Hong Kong law.

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This Circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to Unicom.

Save for (i) the information on Netcom set out page 17 of this Circular, (ii) the details of the outstanding Netcom Options set out on page 20 of this Circular, (iii) the information on the Existing Netcom Continuing Connected Transactions set out on pages 23 to 32 of this Circular, (iv) the information relating to the interconnection arrangements between the Netcom Group and Unicom Parent and the interconnection revenue and interconnection expense from interconnection conducted by the Netcom Group set out on pages 38 and 39 of this Circular and the information relating to the provision of engineering design and technical services provided by Unicom Parent to the Netcom Group and the amounts paid by the Netcom Group to Unicom Parent in relation to the provision of engineering design and technical services set out on pages 41 and 42 of this Circular, (v) the financial information on the Netcom Group set out in Appendix I on page 69 of this Circular and (vi) the information in the Scheme Document for which the directors of Netcom are responsible, as stated in Appendix IV of the Scheme Document on page IV-4 of the Scheme Document, which is set out in Appendix IV of this Circular (collectively, the Extracted Netcom Information), the Directors collectively and individually accept full responsibility for the accuracy of the information contained in this Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this Circular (other than the Extracted Netcom Information) misleading.

The Extracted Netcom Information contained or expressed in this Circular have been extracted or summarised from public documents and/or the Scheme Document. The Directors collectively and individually accept full responsibility for the correct and fair reproduction or presentation of such information and opinions and the accuracy of the summary of such information and opinions and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no facts in respect of the Extracted Netcom Information not contained in this Circular the omission of which would make any such information and opinions in this Circular misleading.

2. SHARE CAPITAL

(a) As at the Latest Practicable Date, the authorised and issued share capital of Unicom were as follows:

Authorised Share Capital:	HK\$
30,000,000,000 Unicom Shares	3,000,000,000
 Issued and Fully Paid-up Share Capital:	
13,664,951,945 Unicom Shares	1,366,495,195

(b) All the Unicom Shares rank *pari passu* in all respects as regards rights to capital, dividends and voting.

Table of Contents**APPENDIX III****GENERAL INFORMATION****3. DISCLOSURE OF INTERESTS**

As at the Latest Practicable Date, the following Directors and chief executive of Unicom had, or were deemed to have, interests or short positions in the Unicom Shares, underlying Unicom Shares or debentures of Unicom or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to Unicom and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO), or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to Unicom and the Hong Kong Stock Exchange:

Name of Director	Capacity and Nature	Date of Grant of Unicom Options	Exercise Price	Number of Outstanding Unicom Options⁽¹⁾⁽²⁾	% of Total Issued Unicom Shares
Chang Xiaobing	Beneficial owner (Personal)	21 December 2004	HK\$6.20	526,000	
		15 February 2006	HK\$6.35	800,000	
				1,326,000	0.010%
Tong Jilu	Beneficial owner (Personal)	30 June 2001	HK\$15.42	292,000	
		20 July 2004	HK\$5.92	92,000	
		15 February 2006	HK\$6.35	500,000	
	Beneficial owner (Spouse)	20 July 2004	HK\$5.92	32,000	
		15 February 2006	HK\$6.35	40,000	
				956,000	0.007%
Li Gang	Beneficial owner (Personal)	15 February 2006	HK\$6.35	500,000	0.004%
Zhang Junan	Beneficial owner (Personal)	15 February 2006	HK\$6.35	500,000	0.004%
Lu Jianguo	Beneficial owner (Personal)	22 June 2000	HK\$15.42	292,600	
		20 July 2004	HK\$5.92	292,000	
		15 February 2006	HK\$6.35	500,000	
				1,084,600	0.008%

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Wu Jinglian	Beneficial owner (Personal)	21 May 2003	HK\$4.30	292,000	
		20 July 2004	HK\$5.92	292,000	
				584,000	0.004%

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Name of Director	Capacity and Nature	Date of Grant of Unicom Options	Exercise Price	Number of Outstanding Unicom Options⁽¹⁾⁽²⁾	% of Total Issued Unicom Shares
Shan Weijian	Beneficial owner (Personal)	21 May 2003	HK\$4.30	292,000	
		20 July 2004	HK\$5.92	292,000	
Total				584,000 5,534,600	0.004% 0.041%

Notes:

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

(2) Particulars of the Unicom Options are as follows:

Date of Grant	Exercise Period
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Options granted pursuant to the Unicom Pre-Global Offering Share Option Scheme

22 June 2000	22 June 2002 to 21 June 2010
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Options granted pursuant to the Unicom Share Option Scheme

30 June 2001	30 June 2001 to 22 June 2010
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21 May 2003	21 May 2004 to 20 May 2009 (in respect of 40% of the Unicom Options granted)
	21 May 2005 to 20 May 2009 (in respect of 30% of the Unicom Options granted)
	21 May 2006 to 20 May 2009 (in respect of the remaining 30% of the Unicom Options granted)

20 July 2004	20 July 2005 to 19 July 2010 (in respect of 40% of the Unicom Options granted)
	20 July 2006 to 19 July 2010 (in respect of 30% of the Unicom Options granted)
	20 July 2007 to 19 July 2010 (in respect of the remaining 30% of the Unicom Options granted)

21	21 December 2005 to 20 December 2010 (in respect of 40% of the Unicom Options granted)
December 2004	21 December 2006 to 20 December 2010 (in respect of 30% of the Unicom Options granted)
	21 December 2007 to 20 December 2010 (in respect of the remaining 30% of the Unicom Options granted)
15 February 2006	15 February 2008 to 14 February 2012 (in respect of 50% of the Unicom Options granted)
	15 February 2009 to 14 February 2012 (in respect of the remaining 50% of the Unicom Options granted)

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Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any interests or short positions in the Unicom Shares, underlying Unicom Shares or debentures of Unicom or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to Unicom and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO), or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to Unicom and the Hong Kong Stock Exchange.

As at the Latest Practicable Date, none of the Directors or any of the experts named in paragraph 8 headed "Experts and Consents" in this Appendix III had any direct or indirect interest in any assets which, since 31 December 2007 (being the date of the latest published audited financial statements of Unicom), have been acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

None of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date and which is significant to the business of the Enlarged Group taken as a whole.

As at the Latest Practicable Date, none of the Directors or their associates had an interest in any business which competes or is likely to compete, either directly or indirectly, with the Enlarged Group's business.

4. INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at the Latest Practicable Date, so far as the Directors were aware, the following persons were, directly or indirectly, interested in 5% or more of the issued share capital carrying rights to vote at general meetings of Unicom (the "Substantial Shareholders"):

Long Position

	Unicom Shares Held		Percentage of Total Issued Unicom Shares
	Directly	Indirectly	
(i) Unicom Parent ⁽¹⁾		9,725,000,020	71.17%
(ii) Unicom A Share Company ⁽¹⁾		9,725,000,020	71.17%
(iii) Unicom BVI ⁽¹⁾	9,725,000,020		71.17%
(iv) SK Telecom	899,745,075		6.58%

Note:

- (1) Due to the fact that Unicom Parent and Unicom A Share Company directly or indirectly control one-third or more of the

voting rights in the shareholders meetings of Unicom BVI, in accordance with the SFO, the interests of Unicom BVI are deemed to be, and have therefore been included in, the interests of Unicom Group and Unicom A Share Company.

Save as disclosed herein, there is no person known to the Directors or chief executive of Unicom who, as at the Latest Practicable Date, has an interest or short position in the Unicom Shares and underlying Unicom Shares which would fall to be disclosed to Unicom under the provisions of Divisions 2 and 3 under Part XV of the SFO.

Information relating to the shareholding structure of Netcom is set out on page 73 of the Scheme Document, which is set out in Appendix IV of this Circular.

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Save as disclosed herein, there is no person known to the Directors or chief executive of Unicom who, as at the Latest Practicable Date, is directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group.

As at the Latest Practicable Date, the following Directors are the directors or employees of companies which have interests or short positions in the Unicom Shares and underlying Unicom Shares that would fall to be disclosed to Unicom pursuant to the provisions of Divisions 2 and 3 under Part XV of the SFO:

Directors	Positions held in Substantial Shareholders
Chang Xiaobing	Chairman of Unicom Parent Chairman of Unicom A Share Company Director of Unicom BVI
Tong Jilu	Director, Vice President and Chief Accountant of Unicom Parent Director of Unicom A Share Company
Li Gang	Director and Vice President of Unicom Parent
Zhang Junan	Director and Vice President of Unicom Parent
Lu Jianguo	Director of Unicom A Share Company

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had, or is proposed to have, a service contract with any member of the Enlarged Group (excluding contracts expiring or determinable by the employer within one year without compensation (other than statutory compensation)).

6. MATERIAL CONTRACTS

The following material contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Enlarged Group after the date two years before the date of this circular up to and including the Latest Practicable Date:

- (1) a strategic alliance agreement entered into between Netcom and Telefónica dated 14 November 2005, and as amended by an agreement between Netcom and Telefónica dated 12 November 2006, in connection with the cooperation of Netcom and Telefónica in certain areas, including, among others, management exchange, international business including voice and IP peering, call centres, mobile services, technological assistance in the areas of VAS, IPTV solution, mobile content and other related areas as well as the co-operation in the purchase of technology, end user equipment and infrastructure;
- (2) the Unicom CDMA Lease;
- (3) a transfer agreement dated 26 October 2006 entered into between Unicom A Share Company and CUCL pursuant to which Unicom A Share Company agreed to transfer all of its rights and obligations under the Unicom CDMA Lease to CUCL;
- (4) a comprehensive services agreement dated 26 October 2006 (the 2006 Comprehensive Services Agreement) entered into between Unicom A Share Company and Unicom Parent pursuant to which Unicom Parent agreed to (by itself or through the subsidiaries of Unicom Parent) enter into various service arrangements with Unicom A Share Company (the rights and obligations of Unicom A Share Company under that

agreement were subsequently transferred to CUCL);
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- (5) a transfer agreement dated 26 October 2006 entered into between Unicom A Share Company and CUCL pursuant to which Unicom A Share Company agreed to transfer all of its rights and obligations under the Comprehensive Services Agreement to CUCL;
- (6) a framework agreement dated 19 December 2006 entered into between Unicom Huasheng Telecommunications Technology Co., Ltd., an indirect subsidiary of Unicom, and the Guizhou branch of Unicom Parent for Unicom Huasheng Telecommunications Technology Co., Ltd. to procure the supply of CDMA mobile handsets from the Guizhou branch of Unicom Parent for a consideration of the aggregate price set out in the relevant supply notices for the period from 1 January 2006 to 31 December 2008. The amount payable by Unicom Huasheng Telecommunications Technology Co., Ltd. under the agreement will not be more than RMB180 million for the year ending 31 December 2008;
- (7) an asset transfer agreement dated 15 January 2007 entered into between Netcom Parent and China Netcom (Group) Company Limited in relation to the disposal of the telecommunications operations of China Netcom (Group) Company Limited in Shanghai Municipality and Guangdong Province and related assets and liabilities to Netcom Parent at a total cash consideration of RMB3.5 billion;
- (8) an asset transfer agreement dated 16 November 2007 entered into between CUCL and Unicom Parent in connection with the acquisition by CUCL of the GSM cellular telecommunications assets and business and the CDMA cellular telecommunications business, comprising the relevant assets, rights and obligations of the Guizhou Branch of Unicom Parent (Unicom Guizhou Assets), from Unicom Parent for a cash consideration of RMB880 million;
- (9) a supplemental agreement dated 16 November 2007 entered into between Unicom New Horizon, Unicom Parent, CUCL and Unicom A Share Company in connection with the acquisition of the Unicom Guizhou Assets and the Unicom CDMA Lease;
- (10) an equity interest transfer agreement entered into between China Netcom Group System Integration Limited Corporation and China Netcom Group Beijing Communications Corporation on 5 December 2007, pursuant to which China Netcom System Integration Limited Corporation agreed to acquire the entire equity interest of Beijing Telecommunications Planning and Designing Institute Corporation Limited from China Netcom Group Beijing Communications Corporation for a total consideration of RMB298,915,300;
- (11) a loan agreement entered into between Netcom and Netcom BVI dated on 17 December 2007, pursuant to which Netcom BVI extended a loan of HK\$83 million to Netcom at an annual interest rate of 6 months HIBOR plus 0.1%;
- (12) a loan agreement entered into between Netcom and China Netcom Corporation (BVI) Limited dated on 17 December 2007, pursuant to which China Netcom Corporation (BVI) Limited extended a loan of HK\$347 million to Netcom at an annual interest rate of 6 months HIBOR plus 0.1%;
- (13) an irrevocable undertaking dated 1 June 2008 entered into between Telefónica and Unicom pursuant to which Telefónica has undertaken to Unicom to, among other things, vote in favour of all resolutions to approve the Scheme at the Court Meeting;
- (14)

an irrevocable undertaking dated 1 June 2008 entered into between Netcom BVI, Netcom Parent and Unicom pursuant to which Netcom BVI has undertaken to Unicom to, among other things, vote in favour of all resolutions to approve the Scheme at the Court Meeting;

- (15) the framework agreement dated 2 June 2008 entered into between Unicom, CUCL and China Telecom relating to the CDMA Business Disposal;
- (16) the definitive agreement dated 27 July 2008 entered into between Unicom, CUCL and China Telecom relating to the CDMA Business Disposal;

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- (17) an option waiver and lease termination agreement dated 27 July 2008 (the Option Waiver and Lease Termination Agreement) entered into between Unicom Parent, Unicom New Horizon and Unicom A Share Company (the rights and obligations of Unicom A Share Company under that agreement were subsequently transferred to CUCL) relating to the waiver by CUCL of its right to exercise its option to purchase the CDMA network from Unicom New Horizon pursuant to the Unicom CDMA Lease and the termination of the Unicom CDMA Lease;
- (18) a transfer agreement dated 27 July 2008 entered into between Unicom A Share Company and CUCL pursuant to which Unicom A Share Company agreed to transfer all of its rights and obligations under the Option Waiver and Lease Termination Agreement to CUCL;
- (19) the Framework Agreement for Interconnection Settlement;
- (20) the Framework Agreement for Engineering and Information Technology Services;
- (21) the Framework Agreement for Property Leasing;
- (22) the Framework Agreement for Ancillary Telecommunications Services;
- (23) the Framework Agreement for Support Services;
- (24) the Framework Agreement for Telecommunications Facilities Leasing;
- (25) the Second New Comprehensive Services Agreement; and
- (26) the New Transfer Agreement.

7. LITIGATION

As at the Latest Practicable Date, none of the members of the Enlarged Group was engaged in any litigation of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

8. EXPERTS AND CONSENTS

- (a) The names and qualifications of the professional advisers to Unicom who have been named in this Circular or given their opinion or advice which are contained in this Circular are set out below:

Name	Qualification
China International Capital Corporation (Hong Kong) Limited	A corporation licensed under the SFO to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities
Citigroup Global Markets Asia Limited	A corporation licensed under the SFO to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities
J.P. Morgan Securities (Asia Pacific) Limited	A registered institution under the SFO licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7

(providing automated trading services) regulated activities, and a restricted licence bank
under the Banking Ordinance, Chapter 155 of the Laws of Hong Kong
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Name	Qualification
Merrill Lynch (Asia Pacific) Limited	A corporation licensed under the SFO to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities
N M Rothschild & Sons (Hong Kong) Limited	A corporation licensed under the SFO to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities

PricewaterhouseCoopers Certified Public Accountants

- (b) Each of CICC, Citigroup Global Markets Asia Limited and JPMorgan has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of references to its name in the form and context in which they respectively appear.
- (c) Each of Merrill Lynch, PricewaterhouseCoopers and N M Rothschild & Sons (Hong Kong) Limited has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of the text of its letter or opinion (as the case may be) and references to its name in the form and context in which they respectively appear.
- (d) Save as disclosed herein, as at the Latest Practicable Date, none of Merrill Lynch, PricewaterhouseCoopers and N M Rothschild & Sons (Hong Kong) Limited has any shareholding in any member of the Unicom Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Unicom Group.

9. GENERAL

- (a) The company secretary and qualified accountant of Unicom is Ms. Chu Ka Yee (Fellow Member of The Association of Chartered Certified Accountants (FCCA), Associate Member of The Institute of Chartered Accountants in England and Wales (ACA), Certified Public Accountant (CPA) of the Hong Kong Institute of Certified Public Accountants).
- (b) The registered office and head office of Unicom is 75th Floor, The Center, 99 Queen's Road Central, Hong Kong.
- (c) Hong Kong Registrars Limited, the share registrar of Unicom, is at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

10. PROCEDURES FOR DEMANDING A POLL BY UNICOM SHAREHOLDERS

Pursuant to Article 69 of the Articles of Association, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:

- (a) the chairman of the meeting; or
- (b) at least three Unicom Shareholders present in person (or in the case of a Unicom Shareholder being a corporation, by its duly authorised representative) or by proxy and entitled to vote at the meeting; or
- (c) any Unicom Shareholder or Unicom Shareholders present in person (or in the case of a Unicom Shareholder being a corporation, by its duly authorised representative) or by proxy and representing in the aggregate not

less than one-tenth of the total voting rights of all Unicom Shareholders having the right to attend and vote at the meeting; or

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- (d) any Unicom Shareholder or Unicom Shareholders present in person (or in the case of a Unicom Shareholder being a corporation, by its duly authorised representative) or by proxy and holding Unicom Shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all Unicom Shares conferring that right.

Unless a poll is so demanded and the demand is not withdrawn, a declaration by the chairman of the meeting that a resolution has, on a show of hands, been carried unanimously or by a particular majority or lost shall be final and conclusive, and an entry to that effect in the minute book of Unicom shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded for or against such resolution.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at Freshfields Bruckhaus Deringer, 11th Floor, Two Exchange Square, Central, Hong Kong during normal business hours on any business day for a period of 14 days from the date of this Circular:

- (a) the Memorandum and the Articles of Association of Unicom;
- (b) the annual reports of each of Unicom and Netcom for the two financial years ended 31 December 2006 and 2007;
- (c) the announcement dated 21 April 2008 made by Netcom of its unaudited consolidated revenues for the three months ended 31 March 2008;
- (d) the announcement dated 24 April 2008 made by Unicom of its unaudited consolidated results for the three months ended 31 March 2008;
- (e) the letter from the Board;
- (f) the letter from the Independent Board Committee, the text of which is set out on pages 57 and 58 of this Circular;
- (g) the letter from Merrill Lynch to the Independent Board Committee, the Unicom Shareholders and the Independent Unicom Shareholders, the text of which is set out on pages 59 to 71 of this Circular;
- (h) the unaudited pro forma consolidated financial information of the Enlarged Group, the text of which is set out in Appendix III to the Explanatory Statement of the Scheme Document, which is set out in Appendix IV to this Circular;
- (i) the accountant's report from PricewaterhouseCoopers in respect of the unaudited pro forma consolidated financial information of the Enlarged Group, the text of which is set out in Appendix III to the Explanatory Statement of the Scheme Document, which is set out in Appendix IV to this Circular;
- (j) the letter from N M Rothschild & Sons (Hong Kong) Limited, the text of which is set out on pages 23 to 53 of the Scheme Document, which is set out in Appendix IV to this Circular;
- (k) the material contracts referred to in paragraph 6 headed "Material Contracts" in this Appendix III;
- (l) the written consents referred to in paragraph 8 headed "Experts and Consents" in this Appendix III;

- (m) the Domestic Interconnection Settlement Agreement 2008-2010;
- (n) the International Long Distance Voice Services Settlement Agreement 2008-2010;
- (o) the Engineering and Information Technology Services Agreement 2008-2010;
- (p) the Master Sharing Agreement 2008-2010;

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- (q) the Property Leasing Agreement 2008-2010;
- (r) the Materials Procurement Agreement 2008-2010;
- (s) the Ancillary Telecommunications Services Agreement 2008-2010;
- (t) the Support Services Agreement 2008-2010;
- (u) the Telecommunications Facilities Leasing Agreement 2008-2010;
- (v) the Information and Communications Technology Agreement 2008-2010;
- (w) the proposed rules of the Special Purpose Unicom Share Option Scheme;
- (x) the Scheme Document;
- (y) the circular to Unicom Shareholders dated 1 August 2008 relating to the CDMA Business Disposal; and
- (z) this Circular.

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APPENDIX IV

SCHEME DOCUMENT

**References in this Appendix IV to page numbers are to pages of the attached
Scheme Document and not to pages of this Circular**

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THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this document 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 transferred all your shares in China Netcom Group Corporation (Hong Kong) Limited, you should at once hand this document and the accompanying forms 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 document, 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 document.

None of the Securities and Exchange Commission, any state securities commission or any other regulatory authority of the United States of America has approved or disapproved the securities referred to in this document or passed upon the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States of America.

CHINA UNICOM LIMITED

(incorporated in Hong Kong with limited liability)
(Stock Code: 0762)

**CHINA NETCOM GROUP CORPORATION
(HONG KONG) LIMITED**

(incorporated in Hong Kong with limited liability)
(Stock Code: 0906)

**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**

**Lead Financial Adviser to
China Unicom Limited**

**Exclusive Financial Adviser to
China Netcom Group Corporation (Hong Kong)
Limited**

**Financial Adviser to
China Unicom Limited**

**Independent Financial Adviser to
the Independent Board Committee of
China Netcom Group Corporation (Hong Kong)
Limited**

All capitalised terms used in this document have the meanings set out in the section headed "Definitions" on pages 1 to 7 of this document.

A letter from the Board is set out on pages 15 to 20 of this document. An Explanatory Statement regarding the Scheme and the Proposals is set out on pages 57 to 93 of this document. A letter from the Independent Board Committee containing its advice to the Disinterested Netcom Shareholders, the Netcom ADS Holders and the Netcom

Optionholders in respect of the Proposals is set out on pages 21 and 22 of this document. A letter from N M Rothschild & Sons (Hong Kong) Limited, the independent financial adviser to the Independent Board Committee, containing its advice to the Independent Board Committee in respect of the Proposals is set out on pages 23 to 56 of this document.

The actions to be taken by the Netcom Shareholders, the Netcom ADS Holders and the Netcom Optionholders are set out in the section headed "Actions to be Taken" on pages i and ii of this document.

Notices convening the Court Meeting and the Netcom EGM to be held at The Ballroom, Island Shangri-La, Hong Kong on 17 September 2008 at respectively 4:00 p.m. and 4:30 p.m. (or immediately after the conclusion or adjournment of the Court Meeting) are set out on pages N-1 to N-4 of this document. Whether or not you are able to attend the Court Meeting or the Netcom EGM, you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting and the enclosed **white** form of proxy in respect of the Netcom EGM, in accordance with the instructions respectively printed on them, and to deposit them at Netcom's registered office at Room 6701, The Center, 99 Queen's Road Central, Hong Kong, as soon as possible but in any event not later than the times and dates set out in the section headed "Actions to be Taken" on pages i and ii of this document. The **pink** form of proxy in respect of the Court Meeting may alternatively be handed to the Chairman of the Court Meeting at the Court Meeting if it is not so deposited.

If you are a Netcom ADS Holder, you are urged to execute and return the ADS Voting Instruction Card to the Netcom Depository by 10:00 a.m. on 10 September 2008 (New York time) in order to instruct the Netcom Depository, in accordance with the terms of the Netcom ADS Deposit Agreement and the ADS Voting Instruction Card, to vote the Netcom Shares underlying the Netcom ADSs. If you wish to attend the Court Meeting and the Netcom EGM (whether in person or by proxy) or be entitled to be present in person or be represented by counsel at the Court Hearing to support or oppose the petition to sanction the Scheme, you must surrender your Netcom ADSs and withdraw the Netcom Shares in accordance with the terms of the Netcom ADS Deposit Agreement. Netcom will pay to the Netcom Depository the fees for the cancellation of your Netcom ADSs, but you may incur taxes and other charges in connection with such surrender and withdrawal.

This document is jointly issued by China Netcom Group Corporation (Hong Kong) Limited and China Unicom Limited.

15 August 2008

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ACTIONS TO BE TAKEN

ACTIONS TO BE TAKEN BY NETCOM SHAREHOLDERS

Completion of Forms of Proxy

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the Netcom EGM are enclosed with this document.

Whether or not you are able to attend the Court Meeting or the Netcom EGM, if you are a Disinterested Netcom Shareholder (other than an Exempt Principal Trader), you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting in accordance with the instructions printed on it and if you are a Netcom Shareholder, you are strongly urged to complete and sign the enclosed **white** form of proxy in respect of the Netcom EGM in accordance with the instructions printed on it, and to deposit them, together with the power of attorney or other authority (if any) under which they are signed or notarially certified copy of such power of attorney or other authority, at Netcom's registered office at Room 6701, The Center, 99 Queen's Road Central, Hong Kong. **The pink form of proxy for use at the Court Meeting should be deposited not later than 4:00 p.m. on 15 September 2008 and, in order to be valid, the white form of proxy for use at the Netcom EGM should be deposited not later than 4:30 p.m. on 15 September 2008.** The **pink** form of proxy in respect of the Court Meeting may alternatively be handed to the Chairman of the Court Meeting at the Court Meeting if it is not so deposited. The completion and return of a form of proxy for the Court Meeting or the Netcom EGM will not preclude you from attending and voting in person at the Court Meeting or the Netcom EGM. In such event, the relevant form of proxy will be deemed to have been revoked.

Determining Entitlements to Vote at the Court Meeting and the Netcom EGM

For the purpose of determining the entitlements of the Disinterested Netcom Shareholders to attend and vote at the Court Meeting and the Netcom Shareholders to attend and vote at the Netcom EGM, the register of members of Netcom will be closed from 12 September 2008 to 17 September 2008 (both days inclusive) and during such period, no transfer of Netcom Shares will be effected. In order to qualify to vote at the Court Meeting and the Netcom EGM, all transfers accompanied by the relevant share certificates must be lodged with the share registrar of Netcom in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. (Hong Kong time) on 11 September 2008.

ACTIONS TO BE TAKEN BY NETCOM ADS HOLDERS

Completion of ADS Voting Instruction Card

If you are a Netcom ADS Holder, you cannot vote at the Court Meeting or the Netcom EGM directly, but as a registered Netcom ADS Holder as at 5:00 p.m. on 14 August 2008 (New York time), you may instruct the Netcom Depository to vote the Netcom Shares underlying your Netcom ADSs in accordance with the terms of the Netcom ADS Deposit Agreement and the ADS Voting Instruction Card. An ADS Voting Instruction Card is enclosed for this purpose and must be completed, signed and returned in accordance with the instructions printed on it as soon as possible but in any event so as to be received by the Netcom Depository **not later than the ADS Voting Instruction Deadline**. ADS Voting Instruction Cards may be returned to the Netcom Depository at its offices located at Citigroup Shareholder Services, P.O. Box 43099, Providence RI 02940-5000, the United States of America. You may not change the voting instructions indicated on your completed ADS Voting Instruction Card unless you notify the Netcom Depository of such change in writing prior to the ADS Voting Instruction Deadline. If you hold Netcom ADSs indirectly through a financial intermediary, you must follow the procedures of the financial intermediary through which you hold your Netcom ADSs if you wish to vote.

Voting at the Court Meeting and the Netcom EGM and Attending the Court Hearing

If you are a Netcom ADS Holder and wish to attend and vote at the Court Meeting and the Netcom EGM directly, you must surrender your Netcom ADSs and withdraw the Netcom Shares represented by such Netcom ADSs in accordance with the terms of the Netcom ADS Deposit Agreement prior to 3:00 p.m. on 2 September 2008 (New York time). Furthermore, if you are a Netcom ADS Holder and wish to be entitled to be present in person or be represented by counsel at the Court Hearing to support or oppose the petition for the sanction of the Scheme, you must

surrender your Netcom ADSs and withdraw the Netcom Shares represented by such Netcom

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ACTIONS TO BE TAKEN

ADSs in accordance with the terms of the Netcom ADS Deposit Agreement prior to 3:00 p.m. on 9 October 2008 (New York time) so that you can be registered as a Netcom Shareholder prior to the Court Hearing. If you hold Netcom ADSs indirectly through a financial intermediary and wish to attend and vote at the Court Meeting and the Netcom EGM directly or be present in person or represented by counsel at the Court Hearing, you must contact the financial intermediary through which you hold your Netcom ADSs and request it to surrender the Netcom ADSs beneficially owned by you and to withdraw the Netcom Shares. Netcom will pay to the Netcom Depository the fees for the cancellation of your Netcom ADSs, but you may incur taxes and other charges in connection with such surrender and withdrawal. In order to cancel your Netcom ADSs and withdraw the underlying Netcom Shares, you should contact the Netcom Depository at Citigroup Shareholder Services, P.O. Box 43099, Providence RI 02940-5000, the United States of America or by telephone at 1-877-248-4237 between 8:30 a.m. and 6:00 p.m. (New York time) Monday to Friday. Netcom ADS Holders who intend to surrender their Netcom ADSs in the foregoing manner should not return their ADS Voting Instruction Card.

The Netcom Depository will provide Netcom ADS Holders with copies of this document and the ADS Voting Instruction Card, which, among other things, will contain instructions as to the actions to be taken by Netcom ADS Holders in order to be registered as Netcom Shareholders and be entitled to directly attend and vote at the Court Meeting and the Netcom EGM and to be present in person or be represented by counsel at the Court Hearing. If you would like further information on surrendering your Netcom ADSs or have any questions relating to this document or the completion and return of the ADS Voting Instruction Card, please contact the Netcom Depository at 1-877-248-4237 between 8:30 a.m. and 6:00 p.m. (New York time) Monday to Friday. The helpline cannot provide advice on the merits of the Scheme or the Proposals or give any financial advice.

ACTIONS TO BE TAKEN BY NETCOM OPTIONHOLDERS

The Option Proposal Letter, which sets out the terms of the Option Proposal and the details of the Special Purpose Unicom Share Option Scheme, will be despatched to the Netcom Optionholders on the same day as the date of despatch of this document. Netcom Optionholders are urged to read the instructions and other terms and conditions of the Option Proposal set out in the Option Proposal Letter.

ACTIONS TO BE TAKEN BY HOLDERS OF NETCOM SHARES HELD THROUGH TRUST OR CCASS

Netcom will not recognise any person holding any Netcom Shares in trust. If you are a beneficial owner whose Netcom Shares are held in trust by, or registered in the name of, a trustee or nominee (other than HKSCC Nominees Limited), you should provide the registered holder with instructions or make arrangements with him in relation to the manner in which your Netcom Shares should be voted at the Court Meeting and the Netcom EGM. Such instructions or arrangements should be given or made in advance of the aforementioned latest time for the deposit of forms of proxy in respect of the Court Meeting and the Netcom EGM in order to enable him to have sufficient time to complete the forms of proxy and to submit them by the relevant deadline stated above.

If you are a beneficial owner whose Netcom Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you must, unless you are an Investor Participant, contact your broker, custodian, nominee, or other relevant person who is, or has, in turn, deposited such Netcom Shares with, an Other CCASS Participant regarding voting instructions to be given to such persons if you wish to vote at the Court Meeting or at the Netcom EGM. You should contact your broker, custodian, nominee or other relevant person in advance of the latest time for the deposit of forms of proxy in respect of the Court Meeting and the Netcom EGM in order to enable such broker, custodian, nominee or other relevant person to have sufficient time to provide HKSCC with instructions or make arrangements with HKSCC in relation to the manner in which your Netcom Shares should be voted at the Court Meeting and the Netcom EGM.

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IMPORTANT NOTICE

NOTICE TO US INVESTORS

The Proposals relate to the securities of Netcom and Unicom, both of which are incorporated under the laws of Hong Kong. The Proposals will be effected pursuant to a scheme of arrangement under Hong Kong law. Accordingly, the Scheme is subject to the disclosure requirements, rules and practices applicable to Hong Kong schemes of arrangement, and the information disclosed in this document may not be the same as that which would have been disclosed if this document had been prepared for the purpose of complying with the requirements of US federal securities laws or in accordance with the laws or regulations of any other jurisdiction. The financial information included in this document has not been, and will not be, prepared in accordance with US GAAP and thus may not be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with US GAAP.

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

It may be difficult for US holders of Netcom Shares or Netcom ADSs to enforce their rights and any claim arising out of US securities laws, since Netcom and Unicom are incorporated outside of the United States, some or all of their respective officers and directors are resident outside of the United States and a substantial portion of their respective assets are located outside the United States. US holders of Netcom Shares or Netcom ADSs may not be able to sue a foreign company or its officers or directors in a foreign court for violations of US securities laws, or enforce against them a judgement rendered by a US court. Further, it may be difficult to compel a foreign company and its affiliates to subject themselves to a US court's jurisdiction.

This document will be despatched to the Netcom Shareholders and the Netcom Depositary will arrange for the despatch of copies of this document to Netcom ADS Holders at no cost to them. In addition, the Netcom Shareholders and the Netcom ADS Holders may obtain free copies of this document at the website maintained by the SEC at www.sec.gov or at the website maintained by the Hong Kong Stock Exchange at www.hkexnews.hk.

FORWARD-LOOKING STATEMENTS

All statements, other than statements of historical facts included in this document, 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 or Netcom's (as may be) 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 ongoing 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 and Netcom should not place undue reliance on such forward-looking statements, and neither Unicom nor Netcom undertake any obligation to update publicly or revise any forward-looking statements.

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DEFINITIONS

In this document, the following expressions have the meanings respectively set opposite them unless the content requires otherwise:

3G	:	third generation mobile system, the next generation of mobile network infrastructure that utilises the 2GHz spectrum
ABLP	:	AllianceBernstein L.P., a Delaware limited partnership in the United States
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 Netcom ADS Holders for providing instructions to the Netcom Depositary as to how to vote the Netcom Shares underlying their Netcom ADSs in connection with the Court Meeting and the Netcom EGM
ADS Voting Instruction Deadline	:	10:00 a.m. (New York time) on 10 September 2008 (or such other time and date as shall have been determined by the Netcom Depositary), being the deadline for the receipt of the ADS Voting Instruction Card by the Netcom Depositary from the Netcom ADS Holders
ADSs	:	American Depositary Shares
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
Board	:	the board of directors of Netcom
CCASS	:	the Central Clearing and Settlement System established and operated by HKSCC
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

CDMA Business Disposal	:	the proposed disposal by CUCL and Unicom of the CDMA Business to China Telecom
CDMA Business Disposal Agreement	:	the definitive agreement dated 27 July 2008 entered into between Unicom, CUCL and China Telecom relating to the CDMA Business Disposal
CDMA Business Disposal Framework Agreement	:	the framework agreement dated 2 June 2008 entered into between Unicom, CUCL and China Telecom relating to the CDMA Business Disposal

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DEFINITIONS

China Telecom	: China Telecom Corporation Limited , a joint stock 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
Citigroup	: Citigroup Global Markets Asia Limited, the exclusive financial adviser to Netcom in connection with the Proposals
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
Court Hearing	: the hearing of the petition by the High Court for the sanction of the Scheme and the confirmation of the capital reduction of Netcom
Court Meeting	: a meeting of the Netcom Shareholders convened at the direction of the High Court, notice of which is set out on pages N-1 and N-2 of this document, and any adjournment thereof
CUCL	: China Unicom Corporation Limited, a company incorporated under the laws of the PRC with limited liability and a wholly-owned subsidiary of Unicom
Disinterested Netcom Shareholders	: Netcom Shareholders other than Unicom and those Netcom Shareholders acting in concert with Unicom
Effective Date	: 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
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
Explanatory Statement	: the explanatory statement set out on pages 57 to 93 of this document and issued in compliance with Section 166A of the Hong Kong Companies Ordinance

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

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DEFINITIONS

HK\$:	Hong Kong dollars, the lawful currency of Hong Kong
HKFRS	:	Hong Kong Financial Reporting Standards
HKSCC	:	Hong Kong Securities Clearing Company Limited
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 established for the purpose of advising the Disinterested Netcom Shareholders, the Netcom ADS Holders and the Netcom Optionholders in respect of the Proposals
Investor Participant	:	a person admitted to participate in CCASS as an investor participant
JPMorgan	:	J.P. Morgan Securities (Asia Pacific) Limited, the financial adviser to Unicom in connection with the Proposals
Last ADS Trading Date	:	22 May 2008, being the last trading day prior to the suspension of trading in Netcom ADSs and Unicom ADSs on the New York Stock Exchange pending the issue of the Announcement
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 document 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
Listing Rules	:	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
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

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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 Depositary 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 Depositary 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

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DEFINITIONS

Netcom Depository	:	Citibank, N.A., a national banking association organised under the laws of the United States and acting in its capacity as depository under the Netcom ADS Deposit Agreement
Netcom Director(s)	:	the director(s) of Netcom
Netcom EGM	:	the extraordinary general meeting of Netcom, notice of which is set out on pages N-3 and N-4 of this document, 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
NYSE Rules	:	the rules of the New York Stock Exchange governing New York Stock Exchange listed companies
OFTA	:	Office of the Telecommunications Authority of Hong Kong
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

- Other CCASS Participant : a broker, custodian, nominee or other relevant person who is, or has deposited Netcom Shares with, a CCASS participant
- PRC or China : the People's Republic of China excluding, for the purpose of this document 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 document and, in the case of the Option Proposal, in the Option Proposal Letter
- Relevant Period : the period commencing from 2 December 2007 (being the date falling six months prior to the date of the Announcement) and ending on the Latest Practicable Date

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DEFINITIONS

RMB	: Renminbi, the lawful currency of the PRC
Rothschild	: N M Rothschild & Sons (Hong Kong) Limited, the independent financial adviser to the Independent Board Committee in respect of the Proposals
Scheme	: the scheme of arrangement under Section 166 of the Hong Kong Companies Ordinance between Netcom and the Scheme Shareholders, details of which are set out on pages S-1 to S-6 of this document, with or subject to any modification thereof or addition thereto or condition approved or imposed by the High Court
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
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
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

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
Takeovers Code	: The Code on Takeovers and Mergers issued by the SFC
Telecommunications Ordinance	: Telecommunications Ordinance, Chapter 106 of the Laws of Hong Kong
Telefónica	: Telefónica Internacional, S.A.U., a company incorporated in Spain

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DEFINITIONS

trading day	:	a day on which the Hong Kong Stock Exchange or the New York Stock Exchange (as the case may be) 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 Depository and all holders and beneficial owners of Unicom ADSs
Unicom ADSs	:	ADSs which are issued by the Unicom Depository 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 (whose rights and obligations under that agreement were subsequently transferred to CUCL), Unicom New Horizon and Unicom Parent, pursuant to which Unicom New Horizon agreed to lease capacity on its CDMA network to CUCL
Unicom Depository	:	The Bank of New York Mellon, a national banking association organised under the laws of the United States and acting in its capacity as depository under the Unicom ADS Deposit Agreement
Unicom Director(s)	:	the director(s) of Unicom
Unicom EGM	:	the extraordinary general meeting of Unicom convened for the purpose of approving, among other things, the Proposals and the adoption of the Special Purpose Unicom Share Option Scheme, which will be held on 16 September 2008, 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 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 Securities	: Unicom Shares, Unicom ADSs, Unicom Options and any other options, derivatives, warrants or other securities convertible or exchangeable into Unicom Shares which are issued by Unicom
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

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DEFINITIONS

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 GAAP	:	generally accepted accounting principles in the United States
US Securities Act	:	the US Securities Act of 1933, as amended, including the related rules and regulations promulgated thereunder
US Securities Exchange Act	:	the US Securities Exchange Act of 1934, as amended, including the related rules and regulations promulgated thereunder
US\$ or US dollars	:	United States dollars, the lawful currency of the United States
%	:	per cent.

This document 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.

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QUESTIONS AND ANSWERS

The following are some of the questions you, as a Netcom Shareholder, a Netcom ADS Holder or a Netcom Optionholder, may have and the answers to those questions. **However, you are urged to read this entire document, including the Appendices, and if you are a Netcom Optionholder, the Option Proposal Letter, carefully.**

1. What is the purpose of this document? What is the Court Meeting and the Netcom EGM? What is the Court Hearing?

The purpose of this document is to provide you with further information regarding the Proposals and, in particular, the Scheme, and the expected timetable, to give you notices of the Court Meeting and the Netcom EGM and to inform you of the date and place of the Court Hearing.

At the Court Meeting, the Scheme will be voted on by the Disinterested Netcom Shareholders other than the Exempt Principal Traders and at the Netcom EGM, the capital reduction of Netcom and the issue of the Netcom Shares to Unicom in connection with the Scheme will be voted on by all of the Netcom Shareholders.

At the Court Hearing, the High Court will hear the petition for the sanction of the Scheme and the confirmation of the capital reduction of Netcom. The Court Hearing will take place on 14 October 2008 after the Court Meeting and the Netcom EGM. An announcement will also be made of the date and time of the Court Hearing.

2. What are the Proposals and the Scheme?

The Proposals comprise of the Share Proposal, the ADS Proposal and the Option Proposal. Please see paragraph 3 headed "Summary of the Proposals" in the Explanatory Statement for a discussion of the Proposals and the consideration you will be entitled to receive under the Proposals and paragraph 4 headed "Conditions of the Proposals and the Scheme" in the Explanatory Statement for a discussion of the conditions of the Proposals and the Scheme.

The Scheme is a 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. Upon the Scheme becoming effective, the Scheme will be binding on Netcom and all of the Scheme Shareholders, regardless of whether such Scheme Shareholders attended or voted at the Court Meeting or the Netcom EGM, and Netcom will become a wholly-owned subsidiary of Unicom.

3. What is the position of the Independent Board Committee with regard to the Proposals?

The Independent Board Committee, having considered the terms of the Proposals and taken into account the advice of Rothschild, considers that the terms of the Share Proposal, the ADS Proposal and the Option Proposal are fair and reasonable so far as the Disinterested Netcom Shareholders, the Netcom ADS Holders and the Netcom Optionholders, respectively, are concerned.

4. What vote is required from the Netcom Shareholders in order for the Scheme to be approved?

The Scheme must be approved (by way of poll) by a majority in number representing not less than three-fourths in value of the Netcom Shares held by the Disinterested Netcom Shareholders (other than the Exempt Principal Traders) who are present and voting either in person or by proxy at the Court Meeting, provided that the number of votes cast against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all of the Netcom Shares held by the Disinterested Netcom Shareholders, including the Exempt Principal Traders.

In addition to the vote for approving the Scheme at the Court Meeting, a special resolution would need to be passed by a majority of not less than three-fourths of the votes cast by the Netcom Shareholders present and

voting in person or by proxy at the Netcom EGM to (a) approve and give effect to the reduction of the issued share capital of Netcom by cancelling and extinguishing the Scheme Shares and (b) approve the issue of the Netcom Shares to Unicom in connection with the Scheme.

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QUESTIONS AND ANSWERS

5. How will the votes at the Court Meeting and the Netcom EGM be counted?

At the Court Meeting, the Disinterested Netcom Shareholders (other than the Exempt Principal Traders) who are present and voting either in person or by proxy will be entitled to vote all of their respective Scheme Shares in favour of the Scheme or against it. Alternatively, the Disinterested Netcom Shareholders other than the Exempt Principal Traders may vote some of their Scheme Shares in favour of the Scheme and any or all of the balance of their Scheme Shares against the Scheme.

The majority in number requirement will be met if the number of such Disinterested Netcom Shareholders voting in favour of the Scheme exceeds the number of such Disinterested Netcom Shareholders voting against the Scheme. For the purpose of calculating the majority in number requirement, if a Disinterested Netcom Shareholder votes all of his Netcom Shares in favour of the Scheme (or against the Scheme), he will be counted as one Disinterested Netcom Shareholder voting in favour of the Scheme (or against the Scheme) in respect of the number of his Netcom Shares so voted. If a Disinterested Netcom Shareholder elects to vote a portion of his Netcom Shares in favour of the Scheme and the balance of his Netcom Shares against the Scheme, he will be counted as one Disinterested Netcom Shareholder voting in favour of the Scheme in respect of the number of the Netcom Shares voted in favour of the Scheme, and one Disinterested Netcom Shareholder voting against the Scheme in respect of the number of the Netcom Shares voted against the Scheme. As a result, any Disinterested Netcom Shareholder voting both in favour of the Scheme and against the Scheme will cancel himself out in terms of calculating the majority in number requirement.

If a proxy has been appointed to represent more than one Disinterested Netcom Shareholder at the Court Meeting, for the purpose of calculating the majority in number requirement, he will be counted as one Disinterested Netcom Shareholder for each of the Disinterested Netcom Shareholders he represents.

Individual Netcom ADS Holders who have not become Netcom Shareholders will therefore not be counted individually for the purposes of calculating the majority in number requirement. Rather, the Netcom Depositary, as the sole registered holder of the Netcom Shares underlying the Netcom ADSs, will be counted as one Disinterested Netcom Shareholder for such purposes or if it votes both for and against the Scheme, as two Disinterested Netcom Shareholders.

At the Netcom EGM, every Netcom Shareholder present and voting either in person or by proxy will be entitled to vote all of his Netcom Shares in favour of the special resolution for the capital reduction of Netcom and the issue of the Netcom Shares to Unicom in connection with the Scheme or against it. Alternatively, such Netcom Shareholders may vote some of their Shares in favour of and some against the special resolution. At the Netcom EGM, the special resolution will be passed if the value of the Netcom Shares voted in favour of it is at least three-fourths of the total value of the Netcom Shares voted at the Netcom EGM.

6. I am a Netcom Shareholder. How do I vote on the Proposals?

If you are a Netcom Shareholder, you may, if you are a Disinterested Netcom Shareholder other than an Exempt Principal Trader, vote in person or by proxy at the Court Meeting (during which the Scheme will be voted on) and you may vote in person or by proxy at the Netcom EGM (during which the capital reduction of Netcom and the issue of Netcom Shares to Unicom in connection with the Scheme will be voted on).

Whether or not you are able to attend the Court Meeting or the Netcom EGM, if you are a Disinterested Netcom Shareholder other than an Exempt Principal Trader, you are strongly urged to complete and sign the

enclosed **pink** form of proxy in respect of the Court Meeting, in accordance with the instructions printed on it, and if you are a Netcom Shareholder, you are strongly urged to complete and sign the enclosed **white** form of proxy in respect of the Netcom EGM, in accordance with the instructions printed on it, and to deposit them at the Netcom's registered office at Room 6701, The Center, 99 Queen's Road Central, Hong Kong. **The pink form of proxy for use at the**

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QUESTIONS AND ANSWERS

Court Meeting should be deposited not later than 4:00 p.m. on 15 September 2008 and, in order to be valid, the white form of proxy for use at the Netcom EGM should be deposited not later than 4:30 p.m. on 15 September 2008. The pink form of proxy in respect of the Court Meeting may alternatively be handed to the Chairman of the Court Meeting at the Court Meeting if it is not so deposited.

The completion and return of a form of proxy for the Court Meeting or the Netcom EGM will not preclude you from attending and voting in person at the Court Meeting or the Netcom EGM. In such event, the relevant form of proxy will be deemed to have been revoked.

7. I am a Netcom ADS Holder. How do I vote on the Proposals?

Since Netcom ADS Holders are not Netcom Shareholders, you cannot vote at the Court Meeting or the Netcom EGM directly. However, as a Netcom ADS Holder, you can instruct the Netcom Depository to vote the Netcom Shares underlying your Netcom ADSs by completing and returning the ADS Voting Instruction Card to the Netcom Depository **by not later than the ADS Voting Instruction Deadline** at its offices located at Citigroup Shareholder Services, P.O. Box 43099, Providence RI 02940-5000, the United States of America.

If you hold your Netcom ADSs indirectly through a financial intermediary, you must follow the relevant procedures provided by the financial intermediary through which you hold your Netcom ADSs if you wish to vote the Netcom Shares underlying your Netcom ADSs.

If you wish to attend and vote at the Court Meeting and the Netcom EGM directly, you must surrender your Netcom ADSs and withdraw the Netcom Shares represented by such Netcom ADSs in accordance with the terms of the Netcom ADS Deposit Agreement prior to 3:00 p.m. on 2 September 2008 (New York time). Netcom will pay to the Netcom Depository the fees for the cancellation of your Netcom ADSs, but you may incur taxes and other charges in connection with such surrender and withdrawal.

8. If my Netcom Shares or Netcom ADSs are held in street names by my financial intermediary, will my financial intermediary vote my Netcom Shares or those underlying my Netcom ADSs for me?

Your financial intermediary should send you directions on how to provide it with instructions to vote your Netcom Shares or the Netcom Shares underlying your Netcom ADSs. If you do not provide your financial intermediary with instructions on how to vote your Netcom Shares (whether in the form of Netcom Shares or represented by Netcom ADSs), your financial intermediary will not vote them at the Court Meeting and the Netcom EGM. You should therefore ensure that your financial intermediary is provided with instructions on how to vote your Netcom Shares or the Netcom Shares underlying your Netcom ADSs by the deadlines set by your financial intermediary. If you do not give voting instructions to your financial intermediary, you will not be counted as having voted at the Court Meeting and the Netcom EGM unless you have the Netcom Shares (including any Netcom Shares underlying your Netcom ADSs) registered in your name and appear in person or by proxy at the Court Meeting and the Netcom EGM.

9. Can I change my vote after I have submitted my proxy with voting instructions?

Yes. If you are registered as a Netcom Shareholder, there are two ways in which you may revoke your proxy and change your vote in respect of the resolutions to be voted on at the Court Meeting or the Netcom EGM:

- (a) you may notify Netcom in writing of the revocation of your proxy and deposit a new form of proxy, provided that such revised form of proxy is deposited not less than 48 hours before the time for holding the Court Meeting or the Netcom EGM or, in the case of the pink form of proxy in respect of the Court Meeting, it may be handed to the Chairman of the Court Meeting at the Court Meeting; or

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QUESTIONS AND ANSWERS

(b) you may attend and vote at the Court Meeting or the Netcom EGM in person and in such event, your relevant form of proxy will be deemed to have been revoked.
If you hold Netcom ADSs, you may not change the voting instructions indicated on your completed ADS Voting Instruction Card unless you notify the Netcom Depository of such change in writing prior to the ADS Voting Instruction Deadline.

If you have instructed a financial intermediary to vote your Netcom Shares or the Netcom Shares underlying your Netcom ADSs, you must follow the directions received from such financial intermediary to change your vote or revoke your proxy.

10. I am a Netcom ADS Holder. How can I be present in person or be represented by counsel at the Court Hearing?

At the Court Hearing, which will take place after the approval of the Scheme at the Court Meeting, the High Court will hear the petition for the sanction of the Scheme and the confirmation of the capital reduction of Netcom.

Since Netcom ADS Holders are not Netcom Shareholders, you cannot directly be present in person or be represented by counsel at the Court Hearing to support or oppose the petition for the sanction of the Scheme. However, if you wish to be entitled to be present in person or be represented by counsel at the Court Hearing to support or oppose the petition, you can do so by surrendering your Netcom ADSs and withdrawing the Netcom Shares represented by such Netcom ADSs in accordance with the terms of the Netcom ADS Deposit Agreement prior to 3:00 p.m. on 9 October 2008 (New York time) so that you can be registered as a Netcom Shareholder prior to the Court Hearing. Netcom will pay to the Netcom Depository the fees for the cancellation of your Netcom ADSs, but you may incur taxes and other charges in connection with such surrender and withdrawal. In order to cancel your Netcom ADSs and withdraw the underlying Netcom Shares, you should contact the Netcom Depository at Citigroup Shareholder Services, P.O. Box 43099, Providence RI 02940-5000, the United States of America or by telephone at 1-877-248-4237 between 8:30 a.m. and 6:00 p.m. (New York time) Monday to Friday.

11. What is the location, date and time of the Court Meeting and the Netcom EGM?

The Court Meeting and the Netcom EGM will be held at The Ballroom, Island Shangri-La, Hong Kong on 17 September 2008 at respectively 4:00 p.m. and 4:30 p.m. (or immediately after the conclusion or adjournment of the Court Meeting).

12. What is the location, date and time of the Court Hearing?

The Court Hearing will be held at the High Court at the High Court Building, 38 Queensway, Hong Kong and is expected to take place on 14 October 2008 at 9:30 a.m. An announcement will be made of the exact date and time of the Court Hearing.

13. Who should I call if I have additional questions?

If a registered or beneficial owner of Netcom Shares in Hong Kong has questions concerning administrative matters, such as dates, documentation and procedures relating to the Proposals, please call the share registrar of Netcom, Computershare Hong Kong Investor Services Limited, at (852) 2862 8648 between 9:00 a.m. and 6:00 p.m. (Hong Kong time) Monday to Friday from 15 August 2008 to 17 September 2008.

If you are a Netcom ADS Holder and have questions concerning administrative matters, such as dates, documentation and procedures relating to the Proposals, please call the Netcom Depository at 1-877-248-4237 between 8:30 a.m. and 6:00 p.m. (New York time) Monday to Friday.

These helplines cannot and will not provide advice on the merits of the Proposals or the Scheme or give any financial or legal advice, and will not be soliciting proxies or votes in respect of the resolutions to be voted on at the Court Meeting and the Netcom EGM.

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EXPECTED TIMETABLE

	Hong Kong time (unless otherwise stated)
Latest time to surrender Netcom ADSs to the Netcom Depository and withdraw the underlying Netcom Shares in order to vote directly at the Court Meeting and the Netcom EGM ⁽¹⁾	3:00 p.m. on Tuesday, 2 September 2008 <i>(New York time)</i>
ADS Voting Instruction Deadline for receipt by the Netcom Depository of completed ADS Voting Instruction Cards from Netcom ADS Holders ⁽²⁾	10:00 a.m. on Wednesday, 10 September 2008 <i>(New York time)</i>
Latest time for lodging transfers of Netcom Shares in order to qualify for attending and voting at the Court Meeting and the Netcom EGM	before 4:30 p.m. on Thursday, 11 September 2008
Register of members of Netcom closed for determination of entitlements of Disinterested Netcom Shareholders other than the Exempt Principal Traders to attend and vote at the Court Meeting and of Netcom Shareholders to attend and vote at the Netcom EGM ⁽³⁾	Friday, 12 September 2008 to Wednesday, 17 September 2008 (both days inclusive)
Latest time for lodging forms of proxy in respect of:	
Court Meeting ⁽⁴⁾	4:00 p.m. on Monday, 15 September 2008
Netcom EGM ⁽⁴⁾	4:30 p.m. on Monday, 15 September 2008
Court Meeting ⁽⁵⁾	4:00 p.m. on Wednesday, 17 September 2008
Netcom EGM ⁽⁵⁾	4:30 p.m. on Wednesday, 17 September 2008 (or immediately after the conclusion or adjournment of the Court Meeting)
Announcement of the results of the Court Meeting and the Netcom EGM published on the Hong Kong Stock Exchange website	not later than 7:00 p.m. on Wednesday, 17 September 2008
Announcement of the date and time of the Court Hearing published on the Hong Kong Stock Exchange website and in The South China Morning Post, the Hong Kong Economic Times, The Wall Street Journal and The Asian Wall Street	Thursday, 2 October 2008

Journal

Last day for dealings in the Netcom Shares	Monday, 6 October 2008
Last day for dealings in the Netcom ADSs	Monday, 6 October 2008
Latest time to surrender Netcom ADSs to the Netcom Depositary and withdraw the underlying Netcom Shares in order to become a Netcom Shareholder and appear at the Court Hearing	3:00 p.m. on Thursday, 9 October 2008 <i>(New York time)</i>

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EXPECTED TIMETABLE

Latest time for lodging transfers of Netcom Shares and for the Netcom Optionholders to exercise their Netcom Options in order to qualify for entitlements under the Scheme	before 4:30 p.m. on Friday, 10 October 2008
Court Hearing ⁽⁶⁾	Tuesday, 14 October 2008
Scheme Record Time	5:00 p.m. on Tuesday, 14 October 2008
Announcement of (1) the results of the Court Hearing and the Netcom EGM and (2) the intention to withdraw the listing of the Netcom Shares and the Netcom ADSs from the Hong Kong Stock Exchange and the New York Stock Exchange, respectively, published on the Hong Kong Stock Exchange website	Tuesday, 14 October 2008
Announcement of (1) the results of the Court Hearing and the Netcom EGM and (2) the intention to withdraw the listing of the Netcom Shares and the Netcom ADSs from the Hong Kong Stock Exchange and the New York Stock Exchange, respectively, published in The Wall Street Journal and The Asian Wall Street Journal	Wednesday, 15 October 2008
Effective Date ⁽⁷⁾	Wednesday, 15 October 2008
Withdrawal of the listing of the Netcom Shares on the Hong Kong Stock Exchange	9:30 a.m. on Wednesday, 15 October 2008
Announcement of (1) the Effective Date and (2) the withdrawal of the listing of the Netcom Shares on the Hong Kong Stock Exchange published on the Hong Kong Stock Exchange website	Wednesday, 15 October 2008
Expected withdrawal of the listing of the Netcom ADSs on the New York Stock Exchange	9:30 a.m. on Wednesday, 15 October 2008 <i>(New York time)</i>
Certificates for the new Unicom Shares and the new Unicom ADSs issued and letters granting the Special Unicom Options pursuant to the Proposals to be despatched on or before	Saturday, 25 October 2008
Period during which odd lot trading arrangement in relation to the Unicom Shares is provided	Monday, 27 October 2008 to Friday, 14 November 2008
Netcom Shareholders, Netcom ADS Holders and Netcom Optionholders should note that the timetable, which is mainly dependent on the date of the Court Hearing, is subject to change. Further announcement(s) will be made in the event that there is any change to the timetable.	

Notes:

- (1) Netcom ADS Holders who wish to surrender their Netcom ADSs and withdraw the underlying Netcom Shares in order to become Netcom Shareholders should contact the Netcom Depositary at Citigroup Shareholder Services, P.O. Box 43099, Providence RI 02940-5000, the United States of America or by telephone at 1-877-248-4237 between 8:30 a.m. and 6:00 p.m. (New York time) Monday to Friday.

- (2) ADS Voting Instruction Cards should be returned to the Netcom Depositary in accordance with the instructions printed on them as soon as possible and in any event not later than 10:00 a.m. (New York time) on 10 September 2008.

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EXPECTED TIMETABLE

- (3) The closure of the register of members of Netcom is not for the purpose of determining entitlements under the Scheme.

- (4) Forms of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at Netcom's registered office at Room 6701, The Center, 99 Queen's Road Central, Hong Kong, as soon as possible and in any event not later than the times and dates stated above. The pink form of proxy in respect of the Court Meeting may alternatively be handed to the Chairman of the Court Meeting at the Court

Meeting if it is not so deposited. In order to be valid, the white form of proxy for the Netcom EGM must be deposited by the time and date stated above. Completion and return of a form of proxy for the Court Meeting or the Netcom EGM will not preclude a Disinterested Netcom Shareholder and a Netcom Shareholder, respectively, from attending the relevant meeting and voting in person. In such event, the relevant form of proxy will be deemed to have been revoked.

- (5) The Court Meeting and the Netcom EGM will be held at The Ballroom, Island Shangri-La, Hong Kong at the times and dates specified above. Notice of the Court Meeting is set out on pages N-1 and N-2 of this document

and Notice of the Netcom EGM is set out on pages N-3 and N-4 of this document.

(6) The Court Hearing will be held at the High Court at the High Court Building, 38 Queensway, Hong Kong.

(7) The Scheme will become effective upon all 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 this document having been satisfied or waived, as applicable.

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LETTER FROM THE BOARD

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED
(incorporated in Hong Kong with limited liability)
(Stock Code: 0906)

Executive Directors:

ZUO Xunsheng (*Chairman*)
LI Jianguo
LI Fushen

Registered Office:

Room 6701, The
Center
99 Queen's Road
Central
Hong Kong

Non-executive Directors:

YAN Yixun
Cesareo ALIERTA IZUEL
José María ÁLVAREZ-PALLETE

Independent Non-executive Directors:

John Lawson THORNTON
QIAN Yingyi
HOU Ziqiang
Timpson CHUNG Shui Ming

15 August 2008

To the Netcom Shareholders, the Netcom ADS Holders and the Netcom Optionholders

Dear Sir or Madam,

**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**

1. INTRODUCTION

On 2 June 2008, the boards of directors of Unicom and Netcom jointly announced that Unicom had formally presented the Proposals to the Board and requested the Board 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 to the Proposals" in the Explanatory Statement on page 57 of this document.

The Proposals involve the cancellation of all of 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 and the Netcom Shares underlying the Netcom ADSs) and all of the Netcom ADSs and the Netcom Options outstanding at the Scheme Record Time. Upon the Scheme becoming effective, Netcom will become a wholly-owned subsidiary of Unicom and the listings of the Netcom Shares and the Netcom ADSs on the Hong Kong Stock Exchange and the New York Stock Exchange, respectively, will be withdrawn.

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Unicom has appointed CICC as its lead financial adviser and JPMorgan as its financial adviser in connection with the Proposals. Netcom has appointed Citigroup as its exclusive financial adviser in connection with the Proposals.

In compliance with Rule 2.1 of the Takeovers Code, the Board has established the Independent Board Committee, comprising all of the independent non-executive Netcom Directors, being Mr. Timpson Chung Shui Ming, Mr. John Lawson Thornton, Dr. Qian Yingyi and Mr. Hou Ziqiang, to advise the Disinterested Netcom Shareholders, the Netcom ADS Holders and the Netcom Optionholders in respect of the Share Proposal, the ADS Proposal and the Option Proposal, respectively. Rothschild has been appointed as the independent financial adviser to advise the Independent Board Committee in respect of the Proposals. Three of the non-executive Netcom Directors, Mr. Cesareo Alierta Izuel, Mr. José María Álvarez-Pallete and Mr. Yan Yixun, are not on the Independent Board Committee due to their direct or indirect interests in the Proposals as representative directors of certain Netcom Shareholders and, therefore, they do not satisfy the independent board committee criteria set out in Rule 2.8 of the Takeovers Code.

The Independent Board Committee, having considered the terms of the Share Proposal and the ADS Proposal and taken into account the advice of Rothschild, considers that the terms of the Share Proposal and the ADS Proposal are fair and reasonable so far as the Disinterested Netcom Shareholders and the Netcom ADS Holders are concerned and recommends the Disinterested Netcom Shareholders other than the Exempt Principal Traders to, and the Netcom ADS Holders to instruct the Netcom Depository holding the Netcom Shares on their behalf to, vote in favour of the resolution to approve the Scheme at the Court Meeting and the special resolution to approve and give effect to the Scheme at the Netcom EGM. The Independent Board Committee, having considered the terms of the Option Proposal and taken into account the advice of Rothschild, also considers that the terms of the Option Proposal are fair and reasonable so far as the Netcom Optionholders are concerned.

The purpose of this document is to provide you with further information regarding the Proposals and, in particular, the Scheme, to give you notices of the Court Meeting and the Netcom EGM and to inform you of the date and place of the Court Hearing. Your attention is also drawn to (1) the letter from the Independent Board Committee set out on pages 21 and 22 of this document, (2) the letter from Rothschild, the independent financial adviser to the Independent Board Committee, set out on pages 23 to 56 of this document, (3) the Explanatory Statement set out on pages 57 to 93 of this document and (4) the terms of the Scheme set out on pages S-1 to S-6 of this document.

2. SUMMARY OF THE PROPOSALS**The Share Proposal and the Scheme**

It is proposed that, subject to the satisfaction or waiver, as applicable, of the conditions of the Share Proposal as described in the Explanatory Statement, the Share Proposal will be implemented by way of the Scheme pursuant to which 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.

Table of Contents**LETTER FROM THE BOARD**

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 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 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.

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.

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 and such Netcom Optionholders will automatically be granted Special Unicom Options in consideration for the cancellation of their outstanding Netcom Options.

The Option Proposal Letter, which sets out the terms of the Option Proposal and the details of the Special Purpose Unicom Share Option Scheme, will be despatched to the Netcom Optionholders on the same day as the despatch of this document.

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LETTER FROM THE BOARD

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.

3. 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 of the Share Proposal set out in paragraph 4 headed "Conditions of the Proposals and the Scheme" in the Explanatory Statement on pages 62 to 65 of this document. 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. 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 also be conditional upon the Scheme becoming effective.

4. REASONS FOR AND BENEFITS OF THE PROPOSED MERGER

You are urged to read carefully paragraph 6 headed "Reasons for and Benefits of the Proposed Merger" in the Explanatory Statement on pages 65 to 68 of this document.

5. BUSINESS STRATEGIES OF THE ENLARGED GROUP

You are referred to paragraph 7 headed "Business Strategies of the Enlarged Group" in the Explanatory Statement on pages 68 and 69 of this document.

6. INTENTIONS OF UNICOM WITH REGARD TO NETCOM

You are referred to paragraph 8 headed "Intentions of Unicom with Regard to Netcom" in the Explanatory Statement on pages 69 and 70 of this document.

7. INFORMATION ON NETCOM AND UNICOM

Your attention is drawn to paragraph 13 headed "Information on Netcom" in the Explanatory Statement on page 76 of this document and the sections headed "Financial Information on the Netcom Group" and "General Information on Netcom" in Appendices I and IV, respectively, to the Explanatory Statement in this document.

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LETTER FROM THE BOARD

Your attention is also drawn to paragraph 14 headed "Information on Unicom" in the Explanatory Statement on pages 76 to 80 of this document and the sections headed "Financial Information on the Unicom Group" and "General Information on Unicom" in Appendices II and V, respectively, to the Explanatory Statement in this document.

8. OVERSEAS NETCOM SHAREHOLDERS, NETCOM ADS HOLDERS AND NETCOM OPTIONHOLDERS

Overseas holders of Netcom Securities are requested to read specifically paragraph 20 headed "Overseas Netcom Shareholders, Netcom ADS Holders and Netcom Optionholders" in the Explanatory Statement on pages 84 and 85 of this document.

9. INFORMATION FOR NETCOM SHAREHOLDERS AND NETCOM ADS HOLDERS IN THE UNITED STATES

Your attention is drawn to paragraph 21 headed "Information for Netcom Shareholders and Netcom ADS Holders in the United States" in the Explanatory Statement on pages 85 and 86 of this document.

10. COURT MEETING AND NETCOM EGM

Notices convening the Court Meeting and the Netcom EGM to be held at The Ballroom, Island Shangri-La, Hong Kong on 17 September 2008 at respectively 4:00 p.m. and 4:30 p.m. (or immediately after the conclusion or adjournment of the Court Meeting) are set out on pages N-1 to N-4 of this document.

The High Court has directed that the Court Meeting be held for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme, with or without modification. The Scheme will be subject to the approval by the Disinterested Netcom Shareholders other than the Exempt Principal Traders at the Court Meeting in the manner referred to in paragraph 4 headed "Conditions of the Proposals and the Scheme" in the Explanatory Statement on pages 62 to 65 of this document.

Immediately following the Court Meeting, the Netcom EGM will be held for the purpose of considering and, if thought fit, passing a special resolution to approve the implementation of the Scheme. All Netcom Shareholders will be entitled to attend and vote on such special resolution at the Netcom EGM.

11. ACTIONS TO BE TAKEN

The actions which you are required to take in relation to the Proposals are set out in the earlier section headed "Actions to be Taken" on pages i and ii of this document.

12. TAXATION, EFFECTS AND LIABILITIES

It is emphasised that none of Unicom, Netcom, CICC, JPMorgan, Citigroup, Rothschild and any of their respective directors or associates or any other person involved in the Scheme and the Proposals accept responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of the implementation or otherwise of the Scheme and the Proposals. Accordingly, you are asked to read paragraph 22 headed "Taxation" in the Explanatory Statement appearing on pages 86 to 91 of this document and if you are in any doubt as to any aspect of this document or as to the action to be taken, you should consult an appropriately qualified professional adviser.

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LETTER FROM THE BOARD

13. FURTHER INFORMATION

You are urged to read carefully (1) the letter from the Independent Board Committee set out on pages 21 and 22 of this document, (2) the letter from Rothschild, the independent financial adviser to the Independent Board Committee, set out on pages 23 to 56 of this document and (3) the Explanatory Statement in relation to the Scheme set out on pages 57 to 93 of this document and the Appendices thereto. In addition, the terms of the Scheme are set out on pages S-1 to S-6 of this document. Netcom Optionholders are urged to read carefully the Option Proposal Letter.

Yours faithfully,
For and on behalf of the Board of
China Netcom Group Corporation (Hong Kong)
Limited
Zuo Xunsheng
Chairman

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LETTER FROM THE INDEPENDENT BOARD COMMITTEE

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED
(incorporated in Hong Kong with limited liability)

15 August 2008

*To the Disinterested Netcom Shareholders,
the Netcom ADS Holders and the Netcom Optionholders*

Dear Sir or Madam,

**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**

We refer to the document dated 15 August 2008 jointly issued by Netcom and Unicom in relation to the Proposals (the Scheme Document), of which this letter forms part. Terms defined in the Scheme Document shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to give a recommendation to the Disinterested Netcom Shareholders, the Netcom ADS Holders and the Netcom Optionholders in respect of the Share Proposal, the ADS Proposal and the Option Proposal, respectively. Rothschild has been appointed by us as our independent financial adviser in respect of the Share Proposal, the ADS Proposal and the Option Proposal.

Having considered the terms of the Share Proposal and the ADS Proposal and taken into account the advice of Rothschild, in particular the factors, reasons and recommendations as set out in the letter from Rothschild in the Scheme Document, we consider that the terms of the Share Proposal and the ADS Proposal are fair and reasonable so far as the Disinterested Netcom Shareholders and the Netcom ADS Holders are concerned. Accordingly, we recommend the Disinterested Netcom Shareholders other than the Exempt Principal Traders to, and the Netcom ADS Holders to instruct the Netcom Depository holding the Netcom Shares on their behalf to, vote in favour of the resolution to approve the Scheme at the Court Meeting and the special resolution to approve and give effect to the Scheme at the Netcom EGM.

Having considered the terms of the Option Proposal and taken into account the advice of Rothschild, in particular the factors, reasons and recommendations as set out in the letter from Rothschild in the Scheme Document, we consider that the terms of the Option Proposal are fair and reasonable so far as the Netcom Optionholders are concerned.

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LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee draws the attention of the Disinterested Netcom Shareholders, the Netcom ADS Holders and the Netcom Optionholders to (1) the letter from the Board set out on pages 15 to 20 of the Scheme Document, (2) the Explanatory Statement set out on pages 57 to 93 of the Scheme Document and the Appendices thereto and (3) the letter from Rothschild set out on pages 23 to 56 of the Scheme Document.

Yours faithfully,
Timpson Chung Shui Ming
John Lawson Thornton
Qian Yingyi
Hou Ziqiang
Independent Board Committee

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LETTER FROM ROTHSCHILD

The following is the text of a letter of advice from Rothschild, the independent financial adviser appointed to advise the Independent Board Committee, which has been prepared for the purpose of incorporation into this document, setting out its advice to the Independent Board Committee in respect of the Proposals.

15 August 2008

To the independent board committee of

China Netcom Group Corporation (Hong Kong) Limited

Dear Sirs,

**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**

We refer to our engagement to advise the Independent Board Committee with respect to the Proposals and the Scheme, details of which are contained in the scheme document jointly issued by Netcom and Unicom dated 15 August 2008 (the Scheme Document) of which this letter forms a part. Rothschild has been appointed as the independent financial adviser to advise the Independent Board Committee as to (a) whether or not the terms of the Share Proposal and the Scheme are fair and reasonable so far as the Disinterested Netcom Shareholders are concerned, (b) whether or not the terms of the ADS Proposal are fair and reasonable so far as the Netcom ADS Holders are concerned, and (c) whether or not the terms of the Option Proposal are fair and reasonable so far as the Netcom Optionholders are concerned; and to (a) advise the Disinterested Netcom Shareholders as to how they should vote on the Scheme at the Court Meeting and the Netcom EGM, and (b) advise the Netcom ADS Holders as to how they should direct the Netcom Depository to vote the Netcom Shares held on their behalf at the Court Meeting and the Netcom EGM.

The terms used in this letter shall have the same meanings as defined in the Scheme Document unless the context otherwise requires.

In accordance with Rule 2.1 of the Takeovers Code, the Board has established the Independent Board Committee comprising all of the independent non-executive Netcom Directors, namely Mr. Timpson Chung Shui Ming, Mr. John Lawson Thornton, Dr. Qian Yingyi and Mr. Hou Ziqiang, for the purpose of advising the Disinterested Netcom Shareholders, the Netcom ADS Holders and the Netcom Optionholders in respect of the Share Proposal, the ADS Proposal and the Option Proposal, respectively. Other than members of the Independent Board Committee, none of the executive directors or non-executive directors of Netcom is considered independent for the purpose of giving any advice or recommendation to the Disinterested Netcom Shareholders, the Netcom ADS Holders and the Netcom Optionholders in respect of the Share Proposal, the ADS Proposal and the Option Proposal, respectively.

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LETTER FROM ROTHSCHILD

In formulating our recommendation, we have relied on the information and facts supplied to us by Netcom and have assumed that any information and representations made to us are true, accurate and complete in all material respects as at the date hereof and that they may be relied upon. We have also assumed that all information, representations and opinions contained or referred to in the Scheme Document are complete in all material respects, fair and reasonable and have relied on them.

We have been advised by the management of Netcom that no material facts have been omitted and we are not aware of any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate, incomplete or misleading. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the management of Netcom. The Netcom Directors (in respect of the information on the Netcom Group, Netcom Parent and Netcom BVI only) and the Unicom Directors (in respect of information other than that in relation to the Netcom Group, Netcom Parent and Netcom BVI) have jointly and severally accepted full responsibility for the accuracy of the information contained in the Scheme Document and have confirmed, having made all reasonable enquiries, that, to the best of their knowledge, opinions expressed in the Scheme Document have been arrived at after due and careful consideration and there are no other facts not contained in the Scheme Document, the omission of which would make any statement in relation to the Netcom Group, Netcom Parent and Netcom BVI (in respect of the Netcom Directors) and the other statements otherwise (in respect of the Unicom Directors) in the Scheme Document misleading. We believe that we have reviewed sufficient information to reach an informed view in order to provide a reasonable basis for our advice. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Netcom Group, the Unicom Group or the Enlarged Group.

We have not considered the tax consequences on the Disinterested Netcom Shareholders, the Netcom ADS Holders and the Netcom Optionholders of their acceptances or non-acceptances of the Proposals since these are particular to their own individual circumstances. In particular, holders of the Netcom Shares, the Netcom ADSs and the Netcom Options who are residents outside of Hong Kong, or subject to overseas taxes or Hong Kong taxation on securities dealing should consider their own tax position with regard to the Proposals and, if in any doubt, should consult their own professional advisers.

TERMS OF THE PROPOSALS

The terms of the Proposals are set out in the Letter from the Board and the Explanatory Statement in the Scheme Document. In summary, the Proposals involve the cancellation of all of 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 and the Netcom Shares underlying the Netcom ADSs) and all of the Netcom ADSs and the Netcom Options outstanding at the Scheme Record Time. The Proposals consist of three components and involve the following principal steps:

The Share Proposal:

Each Scheme Shareholder will be entitled to receive 1.508 new Unicom Shares in exchange for every Scheme Share (including the Netcom Shares to be issued pursuant to the exercise of the outstanding Netcom Options prior to the Options Exercise Deadline) cancelled. The Share Exchange Ratio of 1.508 new 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; and

The Share Proposal will be implemented by way of a scheme of arrangement of Netcom under Section 166 of the Hong Kong Companies Ordinance, subject to the satisfaction or waiver, as applicable, of the conditions of the Proposals and the Scheme as described in the Explanatory Statement 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. Assuming that all of the conditions of the Proposals and the Scheme are satisfied or waived, as applicable, it is expected that the Scheme will become effective on or before 31 October 2008.

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The ADS Proposal:

Each Netcom ADS Holder will be entitled to receive 3.016 new Unicom ADSs for every Netcom ADS in exchange for the cancellation of the Scheme Shares underlying each Netcom ADS (by applying the same Share Exchange Ratio as the Share Proposal); and

The ADS Proposal will be conditional upon the Scheme becoming effective. Upon the Scheme becoming effective, Unicom intends to cause Netcom to apply for the delisting of the Netcom ADSs from the New York Stock Exchange.

The Option Proposal:

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) using 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 holder's outstanding Netcom Options.

Upon the Scheme becoming effective, Netcom will become a wholly-owned subsidiary of Unicom and the listings of the Netcom Shares and the Netcom ADSs on the Hong Kong Stock Exchange and the New York Stock Exchange, respectively, will be withdrawn.

BACKGROUND AND APPROACH TO OUR ANALYSES

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, that:

- (a) 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;
- (b) the allocation of telecommunications resources would be further optimised and the competition structure would be improved; and
- (c) three 3G licences would be granted once the contemplated restructuring had been completed.

Due to uncertainties surrounding the telecoms industry restructuring and 3G licence issuance in China, and the difficulties in assessing the impact of 3G on the businesses and operations of the Enlarged Group (after completion of the Proposals and the CDMA Business Disposal), we have only considered 3G and its implications in terms of potential synergies and risks for the Enlarged Group.

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On 25 May 2008, in response to the Telecoms Restructuring Announcement, Netcom and Unicom separately announced that they were in discussions regarding a merger. On 2 June 2008, the boards of directors of Netcom and Unicom jointly announced that Unicom formally presented the Proposals to the Board and requested the Board to put forward the Proposals to the Netcom Shareholders for consideration. As such, the Proposals form an integral part of the overall telecoms industry restructuring in China.

On 27 July 2008, Unicom, CUCL (a wholly-owned subsidiary of Unicom) and China Telecom entered into the CDMA Business Disposal Agreement pursuant to which CUCL and Unicom will dispose the CDMA Business to China Telecom for a cash consideration of RMB43.8 billion (subject to adjustment) payable in three instalments. The CDMA Business Disposal is subject to various conditions, including, among other things, (a) the approval of the Unicom Shareholders and the shareholders of Unicom A Share Company for the CDMA Business Disposal, (b) the approval of the independent Unicom Shareholders and the non-affiliated shareholders of Unicom A Share Company for the waiver by CUCL of the option to purchase the CDMA network from Unicom New Horizon and the termination of the Unicom CDMA Lease, (c) the approval of the independent shareholders of China Telecom for the leasing of capacity on the CDMA network by China Telecommunications Corporation to China Telecom, and (d) the receipt of any other necessary regulatory or corporate approvals for the completion of the CDMA Business Disposal.

In assessing the terms of the Proposals, we have used the Share Exchange Ratio as a principal means to evaluate whether or not the terms of the Proposals are fair and reasonable. Our analyses compare the Share Exchange Ratio by using the public market analysis and the comparable trading companies analysis. There is however a limitation in that such information is either historical or pro forma (given the structural change to the Unicom Group under the CDMA Business Disposal) and does not necessarily reflect how the Enlarged Group (with or without the CDMA Business) would have performed during the period in question. In addition, since the CDMA Business Disposal is a separate and independent transaction from the Proposals and is subject to conditions, we have conducted our analyses under two scenarios as there was no certainty to the completion of the CDMA Business Disposal at the time of issue of this advice letter. The two scenarios are based on the possible outcomes of the CDMA Business Disposal, namely:

(a) Scenario A the CDMA Business Disposal will be completed before the Effective Date; and

(b) Scenario B the CDMA Business Disposal will not be completed at all.

As noted from paragraph 14 headed "Information on Unicom" in the Explanatory Statement, assuming the approvals of the respective shareholders of Unicom and China Telecom referred to above are obtained and all of the other conditions of the CDMA Business Disposal are satisfied or waived, as applicable, completion of the CDMA Business Disposal will take place on 1 October 2008 (or such other date as the parties thereto may agree) and before the Effective Date.

PRINCIPAL FACTORS AND REASONS

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

1. Reasons for and benefits of the proposed merger

Netcom is a leading broadband and fixed-line telecommunications operator in the PRC with service regions covering the area of Beijing Municipality, Tianjin Municipality, Hebei Province, Henan Province, Shandong Province, Liaoning Province, Heilongjiang Province, Jilin Province, Inner Mongolia Autonomous Region and Shanxi Province. In its service regions (mainly the northern part of China), Netcom provides fixed-line voice and value-added services, broadband and other Internet-related services, information and communications technology services, business and data communications services and advertising and media services.

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The mobile voice services market in China is growing rapidly while the traditional fixed-line voice services market is declining in the competitive telecommunications landscape. The substitution of fixed-line voice services by mobile voice services has accelerated in 2007. As demonstrated from Table 1 below, the subscriber numbers for mobile telephony has been growing compared to declining subscriber numbers for fixed-line.

Table 1 Subscriber numbers

	As at 31 December		
	2007	2006	2005
	<i>(million)</i>	<i>(million)</i>	<i>(million)</i>
Fixed line subscribers			
Netcom	110.8	114.0	114.7
<i>Growth</i>	-2.8%	-0.6%	6.6%
China Telecom	220.3	223.0	210.1
<i>Growth</i>	-1.2%	6.1%	12.6%
Mobile subscribers			
Unicom (GSM)	120.6	106.9	95.9
<i>Growth</i>	12.8%	11.5%	<i>n.a.1</i>
Unicom (CDMA)	41.9	37.3	33.5
<i>Growth</i>	12.3%	11.3%	<i>n.a.1</i>
China Mobile (Hong Kong) Limited (China Mobile)	369.3	301.2	246.7
<i>Growth</i>	22.6%	22.1%	20.8%

Source: Annual reports of the respective companies and Form 20-Fs filed by Netcom and Unicom with the SEC for the fiscal year ended 31 December 2007

Notes:

1. The respective numbers of Unicom GSM and CDMA subscribers as at 31 December 2004 are not publicly available and the respective growth rates for 2005 are therefore not available.

2. China Tietong Telecommunication Corporation (China Tietong) is not included in Table 1 above since it is not listed and has limited public information available. According to its website, China Tietong s number of fixed-line subscribers in 2006 was approximately 18.2 million.

The recent financial performance of Netcom, as discussed in paragraph 2 headed Business and financial performance The Netcom Group Financial performance below, illustrates the difficult operating environment Netcom faces as a standalone fixed-line operator. These developments are expected to continue to affect the growth prospects for fixed-line telephony products within Netcom s service regions. Recognising this, Netcom has been investing to provide broadband and information and communication technologies (ICT) services using its network, as these are growing industry segments which may counter the erosion of its traditional fixed-line voice revenues. Furthermore, as noted from the Chairman s Statement in Netcom s annual report for the year ended 31 December 2007, Netcom stated that it will persevere in the pursuit of licenses for mobile services and IPTV services which will pave the way for the Company to become a comprehensive broadband communications and multimedia service provider . Considering the above and taking into account that the Proposals offer Netcom immediate access to a mobile platform with an existing network, sales and distribution channel as well as approximately 120.6 million GSM accounts as at 31 December 2007, the Proposals (being an integral part of the overall telecoms industry restructuring in China) appear to be in line with the business

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direction and objectives stated by the management of Netcom. We believe an entry into the mobile market through the Proposals would address Netcom's needs more effectively than obtaining a greenfield mobile licence which in any case would appear challenging given the PRC government's plan as described in the Telecoms Restructuring Announcement.

As stated in the Explanatory Statement, the management of Unicom and Netcom believe that there are strong commercial reasons for the proposed merger. As noted from paragraph 6 headed "Reasons for and benefits of the proposed merger" in the Explanatory Statement, 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 10 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. The directors of Unicom and Netcom believe that through effective integration, synergies of the proposed merger will be realised gradually after completion of the Proposals and the CDMA Business Disposal. We have discussed the anticipated synergies with representatives of Unicom and Netcom and set out below is a summary of our comments in this regard (please also refer to paragraph 6 headed "Reasons for and benefits of the proposed merger" in the Explanatory Statement for details of the anticipated synergies and paragraph 7 headed "Business strategies of the Enlarged Group" in the Explanatory Statement for details of the business strategies of the Enlarged Group):

(a) Provide a full spectrum of telecommunications services

We agree with the rationale presented in the Explanatory Statement that by consolidating its businesses and underlying supporting systems, the Enlarged Group should be in a position to provide integrated and customised telecommunications services and products that address the different needs of its diverse customer base.

Moreover, according to the Explanatory Statement, a combination of the two companies' respective resources and expertise in the wireless and fixed-line businesses can enhance the Enlarged Group's innovation capabilities. We regard the potential for new products and services innovation as well as the customer demand for such products as reasonable.

(b) Reinforce brand recognition and market position

It is reasonable to believe that the proposed merger would place the Enlarged Group in a position to secure a 3G licence, and hence provide the Enlarged Group with a means of providing high-quality value-added data and mobile entertainment services. It is further possible, though uncertain, that these additional data and entertainment services could help maintain wireless average revenue per user (ARPU) at a stable level and strengthen the brand recognition of the Enlarged Group.

Based on the subscriber base as at 30 June 2008, Unicom had approximately 128 million GSM users whilst Netcom had approximately 109 million fixed-line users and approximately 23.36 million broadband users. The management of Unicom and Netcom believe that the provision of 3G services and the combination of the Unicom and Netcom subscriber bases may result in an enhanced brand recognition, market perception, and economies of scale.

While it is unclear how the combination of the two subscriber bases per se can directly translate into foreseeable growth, we believe it is reasonable for the management of Unicom and Netcom to target a reduction of customer churn and increased market share via bundling and cross-selling products. The provision of technologically more advanced 3G products and the marketing of the Enlarged Group's brand across an enlarged customer base may also lead to an increase in the recognition and quality perception of the Enlarged Group's products and services and thereby potentially help to improve customer retention.

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(c) Multi-faceted resource sharing

It is highlighted in the Explanatory Statement that the Enlarged Group might be able to take advantage of multi-faceted resource sharing, in particular through its combined client, sales and marketing, procurement, and network.

As mentioned in (b) above, it is reasonable to believe that cross-selling and bundling opportunities can be used to try to improve customer retention and market share improvement. This could potentially be executed more effectively by a rationalised and more fully-controlled sales and distribution network which is less dependent on agency channels. However, the extent of cost synergies may become limited if there is an overlap of stores and potential re-branding expenses, which have to be taken into account when examining potentially reduced marketing expenditures from the promotion of a single brand. As noted in the Explanatory Statement, the Enlarged Group is expected to benefit from strengthened bargaining power with its suppliers and reduced procurement costs. The Explanatory Statement states the Enlarged Group will consolidate its major supplier resources. If there are or can be common suppliers to Netcom and Unicom for the provision of both companies' respective services, it is reasonable to assume that the proposed merger could drive economies of scale and synergies in procurement. However, the extent to which this is feasible, both in terms of common suppliers and existing contracts, is currently uncertain. It is possible that additional benefits may derive for Unicom's wireless business from access to Netcom's fixed-line network by improving transmission and termination costs. However, the ability to realise these synergies is highly uncertain. Furthermore, even if realisable, the benefits and cost savings identified by the management of Unicom and Netcom may however be limited to the extent that Netcom is not a national operator and certain scale economies may therefore occur only within Netcom's regional footprint. It follows that we believe there are reasonable grounds for synergies to result from a combination of resources as outlined in the Explanatory Statement.

(d) Enhanced human capital

In accordance with the Explanatory Statement, we concur that the proposed merger could create a pool of skilled professionals with expertise in wireless, fixed-line and broadband products and services and thereby create a potential opportunity for mutually beneficial knowledge-transfers. It is possible that potential further cost synergies may derive from a repositioning of some back-office headcounts to other key business areas such as marketing and sales and that a combined human resource pool better meets the development needs of the Enlarged Group as well as of each employee.

(e) Optimised capital structure with enhanced financing capacity

The proposed merger should reduce the relative leverage of the Enlarged Group compared to Netcom's current capital structure and the CDMA Business Disposal should further reduce the Enlarged Group's relative leverage in comparison to Netcom's current stand-alone capital structure.

Whilst it is not possible for us to fully comment on the anticipated synergies as expected by the management of Unicom and Netcom in the absence of a detailed implementation plan and timetable which we understand is being formulated and deliberated, we in-principle concur that the anticipated synergies as set out in the Explanatory Statement are feasible. The management of Unicom and Netcom do not expect the benefits as set out in the Explanatory Statement would be materially adversely affected if the proposed CDMA Business Disposal is not completed.

Netcom Shareholders should note that any synergies would likely only be realised upon the completion of the Proposals and potentially after a successful and timely post-merger integration of Netcom's and Unicom's operations. Netcom Shareholders should also note that there are substantial execution risks associated with the implementation of a post-merger integration of the two businesses and that as a result of the Proposals and the transformation of Netcom into an integrated full-service operator, Netcom Shareholders will have exposure to the Enlarged Group with a very different risk profile to that of Netcom today. Please refer to paragraph 6 headed 'Risk profile' below for our assessment of the new risks profile of the Enlarged Group and paragraph 16 headed 'Risk factors' in the Explanatory Statement for details.

Table of Contents**LETTER FROM ROTHSCHILD****2. Business and financial performance****(a) The Netcom Group****(i) Business**

Netcom is a provider of fixed-line telephone services, broadband, other Internet-related services, and business and data communications services in 10 northern municipalities, provinces and autonomous region in the PRC. Netcom's principal services includes fixed-line voice and value-added services, including local, domestic long distance, international long distance and fixed-line value added services; broadband and other Internet-related services, including access services like X digital subscriber line (XDSL), local area network (LAN), dialup, wireless, as well as broadband content and applications services; ICT services, including information technology (IT) and communication technology (CT) based integrated solutions. Netcom has a dominant position in its market with approximately 90.4% of the fixed-line market share and 88.9% of the broadband market share in its service region as at 31 December 2007.

(ii) Financial performance

The following is a summary of the audited consolidated income statements of the Netcom Group's continuing operations for the three years ended 31 December 2007.

Table 2 Summary of audited consolidated income statement

	For the year ended 31 December		
	2007	2006	2005
		<i>(Restated)</i>	<i>(Restated)</i>
	<i>(RMB</i>	<i>(RMB</i>	<i>(RMB</i>
	<i>million)</i>	<i>million)</i>	<i>million)</i>
Revenue	84,005	84,194	83,927
Operating expenses	(66,739)	(64,643)	(62,868)
Other income	1,221	621	
Interest income	113	135	134
Dividend income			29
Deficit on revaluation of fixed assets		(1,335)	
Finance costs	(3,333)	(3,767)	(3,346)
Profit before taxation	15,267	15,205	17,876
Taxation	(3,796)	(3,727)	(3,526)
Profit for the year from continuing operations	11,471	11,478	14,350
Earnings per Netcom Share from continuing operations attributable to the Netcom Shareholders (RMB)			
Basic	1.72	1.74	2.18
Diluted	1.70	1.72	2.17
Dividend per Netcom Share (HK\$)	0.592	0.553	0.466

Source: Annual report of Netcom for

*the year ended 31
December 2007*

Table of Contents**LETTER FROM ROTHSCHILD****Revenue**

The Netcom Group's revenues have been relatively flat over the past three years ended 31 December 2007 despite holding a continued dominant position in its market. Table 3 below sets out a breakdown of the Netcom Group's revenue for the three years ended 31 December 2007.

Table 3 Revenue breakdown

	For the year ended 31 December					
	2007		2006		2005	
	(RMB million)	(%)	(RMB million) (Restated)	(%)	(RMB million) (Restated)	(%)
Fixed-line telephone services	59,226	70.5%	66,462	78.9%	69,729	83.1%
Broadband services	13,835	16.5%	9,916	11.8%	7,289	8.7%
Other Internet-related services	532	0.6%	516	0.6%	556	0.7%
Managed data services	1,284	1.5%	1,413	1.7%	1,621	1.9%
Leased line income	2,521	3.0%	2,540	3.0%	2,376	2.8%
ICT services	3,990	4.8%	855	1.0%	186	0.2%
Other services	2,617	3.1%	2,492	3.0%	2,170	2.6%
	84,005	100.0%	84,194	100.0%	83,927	100.0%

Source: Annual report of Netcom for the year ended 31 December 2007

Revenues of the Netcom Group increased slightly from approximately RMB83,927 million for the year ended 31 December 2005 to approximately RMB84,005 million for the year ended 31 December 2007 and revenue from fixed-line telephone services segment remained as the major revenue contributor.

However, intensification of migration from fixed-line to mobile communications has resulted in negative growth in the Netcom Group's fixed-line subscriber base from approximately 114.7 million subscribers in 2005 to approximately 110.8 million subscribers in 2007 which in turn led to lower volume of usage, downward adjustment of realised tariff and overall decline in revenue from the fixed-line telephone services segment to approximately RMB59,226 million for the year ended 31 December 2007 (2006: RMB66,462 million and 2005: RMB69,729 million).

The decline was partially offset by the strong growth in revenue from broadband and ICT services which increased from approximately RMB7,475 million for the year ended 31 December 2005 to approximately RMB17,825 million for the year ended 31 December 2007 (representing a compound annual growth rate (CAGR) of approximately 54.4%). The growth in revenue from the broadband services was largely attributable to the increase in the number of broadband subscribers from approximately 11.0 million subscribers in 2005 to approximately 19.8 million subscribers in 2007 (representing a CAGR of approximately 34.2%) and sustained growth in ARPU. The growth in revenue from the ICT service was largely due to strengthening capability to provide total solutions to large corporations and government which resulted in increase in the number of contracts signed. Contribution from the broadband and ICT services accounted for approximately 21.3% of the revenue of the Netcom Group for the year ended 31 December 2007 (2006: 12.8% and 2005: 8.9%) as a result of efforts put into the development of innovative businesses

by the Netcom Group.

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The unaudited revenue of the Netcom Group for the three months ended 31 March 2008 was approximately RMB20,487 million.

Other income

For the years ended 31 December 2006 and 2007, approximately RMB621 million and RMB1,221 million were recorded respectively as other income to reflect the subsidy income for reinvesting the profit distributions received from a subsidiary in the PRC to that subsidiary.

Earnings before interest, tax, depreciation and amortisation (EBITDA) and EBITDA margin

EBITDA of the Netcom Group amounted to approximately RMB45,387 million, RMB45,085 million and RMB43,982 million for the years ended 31 December 2005, 2006 and 2007, respectively. The decline was due to increase in operating expenses from approximately RMB62,868 million for the year ended 31 December 2005 to RMB64,643 million in 2006 to RMB66,739 million in 2007. EBITDA margins were approximately 54.1%, 53.5% and 52.4% for the years ended 31 December 2005, 2006 and 2007, respectively (EBITDA of the Netcom Group is defined as earnings before interest income, finance costs, taxation, depreciation, amortisation, dividend income and deficit on revaluation of fixed assets).

If excluding the effect of the other income (being a non-recurring item), the adjusted EBITDA would amount to approximately RMB45,387 million, RMB44,464 million and RMB42,761 million for the years ended 31 December 2005, 2006 and 2007, respectively. The adjusted EBITDA margins were approximately 54.1%, 52.8% and 50.9% for the years ended 31 December 2005, 2006 and 2007, respectively.

Net profit from continuing operations and net profit margin

Net profit from continuing operations amounted to approximately RMB14,350 million, RMB11,478 million and RMB11,471 million for the years ended 31 December 2005, 2006 and 2007, respectively. The main reason for the decrease in net profit in 2006 when compared to 2005 was that a deficit on revaluation of fixed assets of approximately RMB1,335 million was recognised as an expense in 2006. Net profit margins were approximately 17.1%, 13.6% and 13.7% for the years ended 31 December 2005, 2006 and 2007, respectively.

If excluding the effect of the other income, the adjusted net profit would amount to approximately RMB14,350 million, RMB10,857 million and RMB10,250 million for the years ended 31 December 2005, 2006 and 2007, respectively. The adjusted net profit margins would be approximately 17.1%, 12.9% and 12.2% for the years ended 31 December 2005, 2006 and 2007, respectively.

Indebtedness

Total debt of the Netcom Group was approximately RMB82,130 million, RMB79,154 million and RMB61,726 million as at 31 December 2005, 2006 and 2007, respectively. The reduction in debt was mainly due to repayment of debts by using the Netcom Group's free cash-flow and proceeds from the disposal of assets, liabilities and operations of telecommunications in the branches in Guangdong Province and Shanghai Municipality in the PRC by a wholly-owned subsidiary of Netcom (namely China Netcom (Group) Company Limited). Net debt of the Netcom Group was approximately RMB77,065 million, RMB71,426 million and RMB56,331 million as at 31 December 2005, 2006 and 2007, respectively. The net gearing ratio (calculated by dividing net debt by shareholder's equity) reduced from approximately 121.8% as at 31 December 2005 to approximately 96.3% as at 31 December 2006 and further to approximately 68.7% as at 31 December 2007.

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Netcom's prospects as a stand-alone fixed-line operator will depend on its ability to stabilise revenue from fixed-line services and on its ability to position Netcom as a leading provider of growing broadband and ICT services.

This trend of fixed-to-mobile substitution will potentially accelerate with mobile calling tariffs already approaching fixed-line tariffs. Despite the fact that mobile telecommunications operators accounted for 90.3% of the net increase in the revenue of the telecommunications industry, mobile penetration in the PRC of 40.0% at the end of the year 2007 is still significantly below penetration levels in many other developed countries, where penetration levels have reached over 100% for some countries (Source: Mobile World Database).

Netcom also has the opportunity to benefit from the growing demand for broadband services and ICT solutions by residential and business customers, respectively. During 2007, the number of Internet users in the PRC increased by approximately 53.3% to 210 million according to the annual report of Netcom for the year ended 31 December 2007. Demand continues to grow in China, and increasingly so among younger, low-income and rural households. Netcom has the opportunity to increase ARPU and profit margins by meeting the demand for new content offerings and applications as part of its stated strategic aim of transforming into a broadband communications and multimedia services provider. However, as next generation mobile technologies become available at competitive prices, some of these benefits may be eroded by mobile broadband offerings gaining market share as for example experienced in some 3G-enabled countries. Netcom also has established a long-term goal of becoming one of China's leading ICT service providers as well as a network information specialist for government and corporate customers. The implementation of an effective ICT strategy could enhance Netcom's growth profile by benefiting from increasing demand for outsourced data services such as corporate network operations and server capacities.

(b) *The Unicom Group***(i) *Business***

Unicom, through its subsidiaries, is principally engaged in GSM and CDMA cellular businesses in 31 provinces, municipalities and autonomous regions in the PRC, the provision of international and domestic long distance calls, data and Internet services and other related telecommunications value-added businesses. Unicom also operates certain CDMA mobile communications business in the Macau Special Administrative Region. As at 31 December 2007, Unicom had a total of approximately 162.5 million subscribers for its GSM and CDMA cellular businesses, representing an annual growth rate of approximately 12.7% and a market share in the service areas of approximately 29.7%. The total number of GSM subscribers and CDMA subscribers were approximately 120.6 million and 41.9 million, respectively.

(ii) *Financial performance*

The following is a summary of the audited consolidated income statements of the Unicom Group for the three years ended 31 December 2007.

Table of Contents**LETTER FROM ROTHSCHILD****Table 4 Summary of audited consolidated income statement**

	For the year ended 31 December		
	2007	2006	2005
	(RMB million)	(Restated) (RMB million)	(Restated) (RMB million)
Revenue	99,539	95,348	88,038
Operating costs and expenses	(83,906)	(81,492)	(77,306)
Cost of telecommunications products sold	(5,032)	(4,915)	(3,674)
Realised/unrealised loss on changes in fair value of derivative component of convertible bonds	(569)	(2,397)	
Other gains	2,923	21	35
Profit before taxation	12,955	6,565	7,093
Income tax expenses	(3,654)	(2,764)	(2,170)
Profit for the year	9,301	3,801	4,923
Attributable to:			
Equity holders of Unicom	9,300	3,801	4,923
Minority interest	1		
Earnings per Unicom Share for profit attributable to the equity holders of Unicom (RMB)			
Basic	0.713	0.302	0.392
Diluted	0.707	0.300	0.390
Dividend per Unicom Share (RMB)	0.20	0.18	0.11

Source: Annual report of Unicom for the year ended 31 December 2007

Revenue

The Unicom Group's revenue has been growing steadily over the past three years ended 31 December 2007 mainly driven by the increase in its GSM cellular business. Table 5 below sets out a breakdown of the Unicom Group's revenue for the three years ended 31 December 2007.

Table of Contents**LETTER FROM ROTHSCHILD****Table 5 Revenue breakdown**

	For the year ended 31 December					
	2007		2006		2005	
	(RMB million)	(%)	(RMB million)	(%)	(RMB million)	(%)
GSM business	62,775	63.1%	59,882	62.8%	52,618	59.8%
CDMA Business	27,730	27.9%	27,877	29.2%	28,089	31.9%
Data and Internet business	2,626	2.6%	2,320	2.4%	3,000	3.4%
Long distance business	1,508	1.5%	1,015	1.1%	1,472	1.7%
Sales of telecommunications products	4,900	4.9%	4,254	4.5%	2,859	3.2%
	99,539	100.0%	95,348	100.0%	88,038	100.0%

Source: Annual report of Unicom for the year ended 31 December 2007

Revenues of the Unicom Group increased from approximately RMB88,038 million for the year ended 31 December 2005 to approximately RMB99,539 million for the year ended 31 December 2007 primarily due to revenue growth in its GSM business.

Revenue from Unicom's GSM cellular business increased from approximately RMB52,618 million for the year ended 31 December 2005 to approximately RMB62,775 million for the year ended 31 December 2007 (representing a CAGR of approximately 9.2%). The increase was mainly due to increase in the number of subscribers, growth in minutes of usage and revenue from GSM value-added services.

For the same period, revenue from Unicom's CDMA Business declined slightly from approximately RMB28,089 million for the year ended 31 December 2005 to approximately RMB27,730 million for the year ended 31 December 2007 despite increase in the number of subscribers. The decline was mainly caused by the ARPU of mass market customers being relatively low and the revenue from the existing high-end customers was also significantly affected as a result of tariff reduction caused by the implementation of the new Calling-Party-Pays tariff policy.

The number of GSM subscribers increased from approximately 95.9 million subscribers in 2005 to approximately 120.6 million subscribers in 2007 (representing a CAGR of approximately 12.1%) while the number of CDMA subscribers increased from approximately 33.5 million subscribers in 2005 to approximately 41.9 million subscribers in 2007 (representing a CAGR of approximately 11.8%). Revenue from sales of telecommunication products relating to the CDMA Business increased to approximately RMB4,900 million (2006: RMB4,254 million and 2005: RMB2,859 million) mainly due to the increase of CDMA subscribers during the same period.

The unaudited revenue of the Unicom Group for the three months ended 31 March 2008 was approximately RMB25,489 million, representing an increase of approximately 5.6% from the unaudited revenue of approximately RMB24,126 million for the three months ended 31 March 2007.

Table of Contents**LETTER FROM ROTHSCHILD****Unrealised loss on changes in fair value of derivative component of convertible bonds**

The Unicom Group recorded unrealised losses on changes in fair value of derivative component of convertible bonds of approximately RMB2,397 million and RMB569 million in each of the years ended 31 December 2006 and 2007, respectively. Convertible bonds in an aggregate principal amount of US\$1,000 million were issued to SK Telecom on 5 July 2006 and fully converted on 20 August 2007.

Other gains

Unicom recorded other gains of approximately RMB35 million, RMB21 million and RMB2,923 million for each of the years ended 31 December 2005, 2006 and 2007. During 2007, Unicom reinvested the undistributed profits into a subsidiary and was granted a refund on a portion of the taxes previously paid by the subsidiary amounted to approximately RMB2,781 million. Such refund was recorded as part of the other gains for the year ended 31 December 2007.

EBITDA and EBITDA margin

EBITDA of the Unicom Group amounted to approximately RMB28,760 million, RMB29,648 million and RMB35,359 million for the years ended 31 December 2005, 2006 and 2007, respectively. EBITDA margins were approximately 32.7%, 31.1% and 35.5% for the years ended 31 December 2005, 2006 and 2007, respectively (EBITDA of the Unicom Group is defined as earnings before finance gains/(costs), interest income, taxation, depreciation and amortisation).

If excluding the effect of the unrealised loss on changes in fair value of derivative component of convertible bonds and other gains from tax refund (both being non-recurring items), the adjusted EBITDA would amount to approximately RMB28,760 million, RMB32,045 million and RMB33,147 million for the years ended 31 December 2005, 2006 and 2007. The adjusted EBITDA margin was maintained at similar level at approximately 32.7%, 33.6% and 33.3% for the years ended 31 December 2005, 2006 and 2007, respectively.

EBITDA margin for the GSM business were approximately 48.8%, 44.6% and 44.5% for the years ended 31 December 2005, 2006 and 2007, respectively and the EBITDA margin for the CDMA Business were approximately 1.5%, 5.7% and 5.6% for the years ended 31 December 2005, 2006 and 2007, respectively.

Net profit and net profit margin

Net profit of the Unicom Group amounted to approximately RMB4,923 million, RMB3,801 million and RMB9,301 million for the years ended 31 December 2005, 2006 and 2007, respectively. The increase in net profit from 2005 to 2007 was mainly due to the same reason as the increase in revenue as stated above. In addition, the net profits for the years ended 31 December 2006 and 2007 were impacted by the recognition of the unrealised loss on changes in fair value of derivative component of convertible bonds as stated above. Net profit margins were approximately 5.6%, 4.0% and 9.3 % for the years ended 31 December 2005, 2006 and 2007, respectively.

If excluding the effect of the unrealised loss on changes in fair value of derivative component of convertible bonds and other gains from tax refund, the adjusted net profit would amount to approximately RMB4,923 million, RMB6,198 million and RMB7,089 million for the years ended 31 December 2005, 2006 and 2007. The adjusted net profit margins were approximately 5.6%, 6.5% and 7.1 % for the years ended 31 December 2005, 2006 and 2007, respectively.

The unaudited net profit of the Unicom Group for the three months ended 31 March 2008 was approximately RMB2,023 million, representing an increase of approximately 1.6% from the unaudited net profit of approximately RMB1,991 million for the three months ended 31 March 2007.

Table of Contents**LETTER FROM ROTHSCHILD****Indebtedness**

According to the annual report of Unicom for the year ended 31 December 2007, the total interest-bearing debt for the Unicom Group were approximately RMB25,646 million and RMB3,858 million as at 31 December 2006 and 2007, respectively. According to Appendix II to the Explanatory Statement, the total interest-bearing debt was approximately RMB35,042 million as at 31 December 2005. The reduction in debt in 2007 was primarily due to the conversion of US\$1,000 million worth of convertible bonds into Unicom Shares by SK Telecom and the repayment of an aggregate of approximately RMB10,961 million of short-term bonds and long-term bank loans by Unicom. As a result, the Unicom Group was at a net cash position as at 31 December 2007. Net debt for the Unicom Group was approximately RMB13,207 million as at 31 December 2006 and the net gearing ratio was approximately 16.5% as at 31 December 2006. (Note: Information to calculate the gearing ratio as at 31 December 2005 is not publicly available.)

(iii) *Future prospects*

On 27 July 2008, Unicom, CUCL (a wholly-owned subsidiary of Unicom) and China Telecom entered into the CDMA Business Disposal Agreement pursuant to which CUCL and Unicom will dispose of the CDMA Business. It is noted from the announcement issued by Unicom in connection with the CDMA Business Disposal dated 28 July 2008 that, in the interest of reducing the complexity facing Unicom's operations and management, and deploying resources to enhance focus on the development of Unicom's GSM business and relevant brands so as to maximise the shareholder value and return on investment, the Unicom Directors proposed the CDMA Business Disposal. The Unicom Directors also believe that the CDMA Business Disposal can better focus Unicom's financial and operational resources on the enhancement of its GSM business and the future development of 3G services and better position the Enlarged Group (after completion of the proposed merger) to execute a balanced business development plan, to enhance its long term competitiveness, and to achieve a more distinct strategic positioning.

Upon completion of the CDMA Business Disposal, Unicom expects to realise an estimated gain before tax of approximately RMB37.56 billion under HKFRS.

In connection with the CDMA Business Disposal, in order to optimise the allocation of resources, to avoid duplication, to facilitate management and to enhance the efficiency of the operation of the integrated assets, CUCL and China Telecommunications Corporation plan to swap certain assets with each other based on the principle of equality and reciprocity and in accordance with applicable regulatory requirements.

In the event that the CDMA Business Disposal does not proceed, Unicom will continue to operate and manage both the GSM and the CDMA cellular businesses. In both scenarios (i.e. with and without the CDMA Business Disposal), Unicom (after the proposed merger) is set to benefit from the continuing trend of fixed-to-mobile substitution in China and the expected increase in mobile penetration from approximately 40.0% at the end of the year 2007 compared to penetration rates of above 100% in other more developed countries.

Unicom stated that it intends to increase projected subscriber growth by expanding more into rural areas and by improving the quality and capacity of its GSM network. Unicom's further capital expenditure investments in infrastructure and technology could offer the opportunity to maintain and potentially increase Unicom's mobile market share. Unicom's focus on a potential 3G network upgrade has the potential to add incremental ARPU through the ability to offer improved value-added services. The launch of 3G by Unicom could also potentially improve Unicom's competitive position within the telecommunications industry in China as 3G represents a new basis for competition in terms of network strength and service differentiation. However, it should be noted that any competitive advantage for Unicom would likely depend on the successful completion of the CDMA Business Disposal, the Proposals, the overall telecoms industry restructuring, Unicom receiving a 3G licence, and the technology, conditions and obligations associated with a 3G licence, if awarded, and the nature of any 3G licences awarded to Unicom's competitors.

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Unicom has established separate operating units for the GSM and CDMA operations in 2007. If the CDMA Business Disposal does not materialise, it remains unclear as to whether the implemented corporate structure continues to be optimal and to what extent the management wishes to divert resources from its current focus on GSM back to the CDMA operations.

Please refer to paragraph 14 headed "Information on Unicom" in the Explanatory Statement for further details.

(c) The Enlarged Group

Table 6 below sets out the proportions of some key historical financials for the year ended 31 December 2007 contributed by the Netcom Group and the Unicom Group, respectively, compared to the proportion of the equity of the Enlarged Group allocated to the Netcom Shareholders under two scenarios. The table below should be read in conjunction with the "Unaudited pro forma consolidated financial information on the Enlarged Group" set out in Appendix III to the Explanatory Statement.

Table 6 Contribution analysis**Scenario A the CDMA Business Disposal will be completed before the Effective Date**

	Netcom Group¹		Unicom Group		Pro forma adjustments²		Enlarged Group	
	<i>(RMB million)</i>	<i>(%)</i>	<i>(RMB million)</i>	<i>(%)</i>	<i>(RMB million)</i>	<i>(%)</i>	<i>(RMB million)</i>	<i>(%)</i>
Revenue	84,081	55.84%	67,673	44.94%	(1,178)	(0.78)%	150,576	100.00%
EBITDA	42,761 ₃	58.06%	31,212 ₄	42.38%	(320)	(0.44)%	73,653	100.00%
Net profit	10,250 ₃	63.18%	6,292 ₄	38.79%	(320)	(1.97)%	16,222	100.00%
Net asset value	82,052	40.24%	122,175	59.92%	(320)	(0.16)%	203,907	100.00%
Net debt/(cash)	56,331	n.m.	(31,288)	n.m.			25,043	n.m.
Equity holdings on the Effective Date ⁵ (Shares)	10,102,389,377	42.51%	13,664,951,945	57.49%			23,767,341,322	100.00%

Scenario B the CDMA Business Disposal will not be completed at all

	Netcom Group¹		Unicom Group		Pro forma adjustments⁶		Enlarged Group	
	<i>(RMB million)</i>	<i>(%)</i>	<i>(RMB million)</i>	<i>(%)</i>	<i>(RMB million)</i>	<i>(%)</i>	<i>(RMB million)</i>	<i>(%)</i>
Revenue	84,081	46.19%	99,539	54.68%	(1,579)	(0.87)%	182,041	100.00%
EBITDA	42,761 ₃	56.57%	33,147 ₄	43.85%	(320)	(0.42)%	75,588	100.00%
Net profit	10,250 ₃	60.23%	7,089 ₄	41.65%	(320)	(1.88)%	17,019	100.00%
Net asset value	82,052	45.85%	97,213	54.33%	(320)	(0.18)%	178,945	100.00%
Net debt/(cash)	56,331	n.m.	(3,462)	n.m.			52,869	n.m.
	10,102,389,377	42.51%	13,664,951,945	57.49%			23,767,341,322	100.00%

Equity
holdings on
the
Effective
Date⁵
(Shares)

*Source: Appendix III to
the Explanatory
Statement and
Rothschild
analyses*

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Notes:

1. The financials of the continuing operations of the Netcom Group only.
2. Please refer to note 4 to the Unaudited pro forma consolidated financial information on the Enlarged Group set out in Appendix III to the Explanatory Statement.
3. The EBITDA and net profit from continuing operations of the Netcom Group have been adjusted to exclude the other income relating to subsidy income received from reinvestment of the profit distributions received from a subsidiary in the PRC to that subsidiary of approximately RMB1,221 million for the year ended 31 December 2007.
4. The EBITDA and net profit of the Unicom Group have been adjusted to exclude the unrealised loss on

changes in fair value of derivative component of convertible bonds of approximately RMB569 million and the other gains from tax refund on reinvestment in a subsidiary of approximately RMB2,781 million for the year ended 31 December 2007 and do not include gain from the CDMA Business Disposal.

5. The shareholding in the Enlarged Group is extracted from paragraph 11 of the Explanatory Statement assuming the Scheme becomes effective and none of the outstanding Netcom Options had been exercised. The number of Netcom Shares shown in this table is the number of new Unicom Share assumed to be issued pursuant to the Share Proposal (i.e. 6,699,197,200 Netcom Shares in issue as at the Latest Practicable Date multiplied by the Share Exchange Ratio).
6. Please refer to note 5 to the Unaudited pro forma consolidated

financial information on the Enlarged Group set out in Appendix III to the Explanatory Statement.

7. n.m. denotes not meaningful.

Under Scenario A, Unicom would realise an estimated one-off gain from the CDMA Business Disposal which in turn would lead to a substantial enhancement in net profit attributable to the Netcom Shareholders as a whole. However, Netcom Shareholders should note that such gain is one-off in nature and if such gain were excluded, the Netcom Group would, as illustrated in Table 6 above, contribute over 50% of revenue, EBITDA and net profit to the Enlarged Group under both scenarios (except that the Netcom Group would contribute approximately 46.19% of revenue to the Enlarged Group under Scenario B) whilst the Netcom Shareholders would get approximately 42.51% of the equity of the Enlarged Group. This implies that the Proposals (under both scenarios) would result in a dilution in the revenue, EBITDA and net profit attributable to the Netcom Shareholders on a pro forma basis. We believe the dilution to be acceptable after considering the following:

- (i) following the telecoms industry restructuring as contemplated in the Telecoms Restructuring Announcement, it is envisaged that there will be three main telecommunications operators (of which Unicom (post-merger) will be one of them) with more comparable resources, strength and scale, and with capability to offer full telecommunications services which, in turn, is expected to lead to a more balanced competitive environment and better resource allocation within China's telecommunications industry. The expected issuance of 3G licences should result in new opportunities for Unicom and other telecommunications operators;
- (ii) Netcom's operational and financial performance in recent years has been affected by increasingly rapid mobile substitution. An entry into the mobile market through the Proposals should address Netcom's needs effectively and is in line with the stated business direction and objectives of Netcom;
- (iii) the synergies anticipated from the proposed merger (as set out in paragraph 6 headed 'Reasons for and benefits of the proposed merger' in the Explanatory Statement) are not reflected in the historical pro forma consolidated financials of the Enlarged Group. Factoring in the synergies anticipated from the proposed merger, the Enlarged Group should lead to greater growth opportunities for the Netcom Shareholders than Netcom would offer as a standalone entity in its current structure;

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- (iv) as at 31 December 2007, the Netcom Group had net debt of approximately RMB56,331 million whilst the Unicom Group had net cash of approximately RMB3,462 million. The gearing position of the Enlarged Group should, therefore, reduce as a result of the Proposals (although in a much greater extent under Scenario A since the Unicom Group will receive cash proceeds of RMB43.8 billion from the CDMA Business Disposal).

3. Analysis of the Share Exchange Ratio

(a) Public market analysis

The Share Proposal is an all-share transaction with no cash alternative. As the market value of the Unicom Shares and the Netcom Shares vary according to their trading price performance, we have analysed the historical exchange ratio by dividing the closing share price of the Netcom Shares with the closing share price of the Unicom Shares on a daily basis over the period from 24 May 2007 (being the day which is one year prior to the Last Trading Date) up to and including the Last Trading Date (the One-Year Period) and up to and including the Latest Practicable Date (see Chart 7 below). We have compared the prices from 24 May 2007 and up to and including the Latest Practicable Date as we consider that it would better reflect the prevailing market indication of the underlying value of the Netcom Shares and the Unicom Shares. The Share Exchange Ratio is higher than the One-Year Period average historical exchange ratio of approximately 1.437 times.

Chart 7 Historical exchange ratio

Source: Bloomberg

Table 8 below shows the premium/discount and change in capital value on a per share basis based on the Share Exchange Ratio when compared to historical prices of the Netcom Shares and the Unicom Shares during the One-Year Period.

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Table 8 Premium/discount and change in capital value based on the Share Exchange Ratio

One year prior to the Last Trading Date (i.e.the One-Year Period)	Netcom Share price	Unicom Share price	Historical exchange ratio¹	Premium/ (discount) of the Share Exchange Ratio over/to the historical exchange ratio	Implied Netcom Share price²	Increase
30-day ³	HK\$23.77	HK\$16.72	1.422 times	6.0%	HK\$25.21	HK\$1.44
60-day ³	HK\$23.33	HK\$16.88	1.382 times	9.1%	HK\$25.46	HK\$2.13
90-day ³	HK\$23.56	HK\$17.25	1.366 times	10.4%	HK\$26.01	HK\$2.45
120-day ³	HK\$23.59	HK\$17.03	1.385 times	8.9%	HK\$25.68	HK\$2.09
Simple average				8.6%		HK\$2.03

Source of closing prices: Bloomberg

Notes:

1. Closing price of the Netcom Shares divided by the closing price of the Unicom Shares.
2. Closing price of the Unicom Shares multiplied by the Share Exchange Ratio.
3. Average closing price for the 30, 60, 90 and 120 trading days immediately prior to and including the Last Trading Date.

The prices of the Netcom Shares and the Unicom Shares are largely linked to the Share Exchange Ratio after the Announcement. The exchange ratio based on the closing prices on the Latest Practicable Date was approximately 1.488 times. Based on Table 8 above, the Share Exchange Ratio is at approximately 8.6% premium (or an increase of

approximately HK\$2.03 in capital value on a per share basis) over the historical exchange ratio over the One-Year Period.

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Chart 9 below shows the daily closing prices of the Netcom Shares and the Netcom ADSs from 24 May 2005 and up to and including the Latest Practicable Date.

Chart 9 Daily closing prices of the Netcom Shares and the Netcom ADSs

Source: Bloomberg

Note: Each Netcom ADS represents 20 Netcom Shares. The closing prices of the Netcom ADSs as shown in Chart 9 above have been divided by 20 to derive the closing prices on a per Netcom Share basis and converted from US\$ into HK\$ by using an exchange rate of HK\$7.80 for every US\$1.

Since the transacted prices of the Netcom ADS (as illustrated by Chart 9 above) do not differ significantly from the Netcom Shares, we are of the view that the prices of the Netcom ADS are fully represented by those of the Netcom Shares, and vice versa. As such, we have not conducted separate analyses on the ADS Proposal.

Chart 10 below shows the daily closing prices of the Unicom Shares for the Three-Year Period and up to and including the Latest Practicable Date. During the period under review, the business of Unicom primarily consists of the GSM and CDMA cellular businesses.

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Chart 10 Daily closing prices of the Unicom Shares

Source: Bloomberg

Chart 11 below shows the daily closing prices of the Netcom Shares relative to the Unicom Shares and the Hang Seng Index for the Three-Year Period and up to and including the Latest Practicable Date.

Chart 11 Netcom Share price performance relative to the Unicom Shares and the Hang Seng Index

Source: Bloomberg

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Note: The opening price of the Unicom Shares and the opening index of the Hang Seng Index as shown in Chart 11 above were rebased to match the latest closing price of the Netcom Shares on 24 May 2005, with the subsequent movements in the Unicom Shares and the Hang Seng Index presented by reference to such rebased opening position of the Netcom Shares.

As illustrated in the charts above, the price of the Netcom Shares increased by approximately 154.0% during the Three-Year Period despite flat/declining reported earnings by the Netcom Group since the year ended 31 December 2005. The price of the Unicom Shares increased by an even greater percentage at approximately 200.5% in the Three-Year Period on the back of growing reported earnings by the Unicom Group. The price of the Unicom Shares on a relative basis has consistently traded above the Netcom Shares since 26 June 2007. We believe the out-performance of the Unicom Shares over the Netcom Shares can be attributable to the growing preference or demand for mobile phones over fixed-line telephones in the PRC, leading the market to expect stronger growth from Unicom than that of Netcom (being a fixed-line operator in Northern China). Robust organic growth in usage for Unicom was in sharp contrast with the continuous loss of fixed-line customers and drop in usage for Netcom. Notwithstanding declining financial and operational performance of Netcom, the Netcom Share price has increased by approximately 33.6% during the One-Year Period compared to an increase of approximately 59.9% and 20.4% respectively of the Unicom Share price and the Hang Seng Index during the same period. We have benchmarked against the Hang Seng Index (of which Netcom has been a constituent stock since 6 March 2006 and Unicom has been a constituent stock since 1 June 2001) in our comparison in order to compare performance with the overall market performance in Hong Kong.

Based on our news search, we have noted that press reports on a possible restructuring of the PRC telecom sector and the timing of 3G licence issuance can be traced back to as early as 2001. In addition, the structure of the restructuring as described in the press reports and research reports issued by securities brokers since 2005 is largely similar to the Proposals and the CDMA Business Disposal. In view of the above, it is reasonable to believe that the positive share price movement of the Netcom Shares and in particular the Unicom Shares has, to a certain extent, reflected the Proposals and the CDMA Business Disposal.

For the period from 3 June 2008 (i.e. after resumption of trading following the release of the Announcement) and up to the Latest Practicable Date, the Netcom Share price dropped by approximately 15.0% from the closing price of HK\$27.05 on the Last Trading Date to close at HK\$23.00 on the Latest Practicable Date and the Unicom Share price dropped by approximately 16.3% from the closing price of HK\$18.48 on the Last Trading Date to close at HK\$15.46 on the Latest Practicable Date. We believe the decrease in price of the Netcom Shares (as well as the Unicom Shares) could be attributable to a combination of factors, including, among other things, (1) the overall poor market sentiment in the Hong Kong stock market as affected by external factors such as record high oil prices (the Hang Seng Index closed at 21,640.89 on the Latest Practicable Date down by approximately 11.2% from 3 June 2008); (2) profit-taking by investors; and (3) growing focus on the integration challenges.

As noted in the charts above, the highest closing price of the Netcom Shares and the Unicom Shares over the Three-Year Period were HK\$27.05 per Netcom Share on the Last Trading Date and HK\$19.58 per Unicom Share on 18 February 2008, respectively. A comparison of the historical prices of the Netcom Shares and the Unicom Shares is set out in paragraph 9 headed "Comparisons of value" in the Explanatory Statement.

(b) Comparable trading companies analysis***Netcom***

We have reviewed the trading multiples of companies comparable to Netcom (the "Netcom Comparable Companies"). Since the Netcom Group is mainly engaged in fixed-line and broadband operations in the PRC, the Netcom Comparable Companies we have chosen are quoted, regional, fixed-line operators with significant revenue generated from the fixed-line business (over 60% for the purpose of this

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analysis) within a single market. In selecting the Netcom Comparable Companies, we have taken into account their business activities, respective size and market exposures. We note that there is not a single comparable company which is perfectly comparable as a result of different operating markets, metrics, management and regulations. The companies we have selected based on the above criteria are China Telecom, KT Corporation and Telekom Malaysia Berhad (Telekom Malaysia). To the best of our knowledge, this list is a fair representation of companies comparable to Netcom.

We have compared the enterprise value (EV)/EBITDA and PER multiples (being the most commonly used multiples in the telecommunications sector) of Netcom and the Netcom Comparable Companies as at the Last Trading Date and the Latest Practicable Date, and our analysis is summarised in the following table.

Table 12 Trading multiples of the Netcom Comparable Companies

Company	Listing	As at the Last Trading Date		As at the Latest Practicable Date	
		EV/ EBITDA ¹ (Times)	PER ¹ (Times)	EV/ EBITDA ¹ (Times)	PER ¹ (Times)
China Telecom	Hong Kong	5.7	18.1	4.4	13.0
KT Corporation	Korea	4.5	13.0	4.3	12.2
Telekom Malaysia	Kuala Lumpur	4.7	10.7	5.0	11.6
Simple average		5.0	13.9	4.6	12.3
Netcom		5.1	15.7	4.5	13.4

Sources: Bloomberg and the latest published financial statements of the respective companies

Notes:

1. Based on the EBITDA and net profit for the year ended 31 December 2007. In respect of the Netcom Group, the EBITDA and net profit have been adjusted to exclude the other income relating to subsidy income received from reinvestment of the profit distributions received from a subsidiary in the PRC to that subsidiary. EV is defined as the equity value plus net debt and minority interests less cash and cash equivalents and interests in associates.
2. Exchange rates into HK\$ as at the Last Trading Date were used.

The EV/EBITDA multiple of Netcom as at the Last Trading Date and the PER multiples of Netcom as at the Last Trading Date and the Latest Practicable Date were higher than the average of the trading multiples of the Netcom Comparable Companies. The EV/EBITDA multiple of Netcom as at the Latest Practicable Date was lower than the

average but within the range of the trading multiples of the Netcom Comparable Companies.

Unicom

In selecting the companies comparable to Unicom (the Unicom Comparable Companies), we have adopted similar selection criteria as for Netcom whereby the Unicom Comparable Companies we have chosen are quoted, regional operators with significant revenue generated from wireless services (over 60% for the purpose of this analysis) within a single market with a mobile penetration rate of at least 30%. In selecting the Unicom Comparable Companies, we have taken into account their business activities, respective size and market exposures. We note that there is not a single comparable company which is perfectly comparable as a result of different operating markets, metrics, management and regulations. The

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companies have selected based on the above criteria are Advanced Info Service Public Company Limited (Advanced Info Service), China Mobile, Digi.com Berhad (Digi.com), PT Indosat Tbk (Indosat), Globe Telecom Incorporated (Globe Telecom), Philippine Long Distance Telephone Company (PLDT) and PT Telekomunikasi Indonesia Tbk (PT Telekom). To the best of our knowledge, this list is a fair representation of companies comparable to Unicom.

We have compared the EV/EBITDA and PER multiples of Unicom and the Unicom Comparable Companies as at the Last Trading Date and the Latest Practicable Date, and our analysis is summarised in the following table. We have, for illustrative purpose only, also compared the EV/EBITDA and PER multiples of Unicom post the CDMA Business Disposal (i.e. Scenario A).

Table 13 Trading multiples of the Unicom Comparable Companies

Company	Listing	As at the Last Trading Date		As at the Latest Practicable Date	
		EV/EBITDA ¹ (Times)	PER ¹ (Times)	EV/EBITDA ¹ (Times)	PER ¹ (Times)
Advanced Info Service	Bangkok	7.1	17.7	6.6	16.4
China Mobile	Hong Kong	10.7	25.6	7.9	19.3
Digi.com	Kuala Lumpur	8.6	17.4	8.6	17.4
Globe Telecom	Philippines	4.7	12.6	4.5	11.8
Indosat	Indonesia	4.7	15.8	4.8	16.2
PLDT	Philippines	5.7	12.9	5.8	13.0
PT Telkom	Indonesia	5.2	13.5	4.5	11.8
Simple average		6.7	16.5	6.1	15.1
Unicom					
Scenario A		6.2	35.7	5.0	29.9
Scenario B		6.7	31.7	5.6	26.5

Sources: Bloomberg and the latest published consolidated financial statements of the respective companies

Notes:

1. Based on the EBITDA and net profit for the year ended 31 December 2007. In respect of the Unicom Group, the EBITDA and net profit have been adjusted to exclude the unrealised loss on changes in fair value of derivative component of convertible bonds and the other gains from tax refund on reinvestment in a subsidiary. EV is defined as the equity value plus net debt and minority interests less cash and cash equivalents and interests in associates.

2.

EBITDA and net profit of the Unicom Group adjusted to exclude contribution from the CDMA Business and other inter-company transactions between the Netcom Group and the Unicom Group.

3. Exchange rates into HK\$ as at the Last Trading Date were used.

Under both scenarios, the EV/EBITDA multiples of Unicom implied by the closing price as at the Last Trading Date and the Latest Practicable Date were lower than the average but within the range of the trading multiples of the Unicom Comparable Companies but the PER multiples of Unicom as at the Last Trading Date and the Latest Practicable Date were higher than the average of the trading multiples of the Unicom Comparable Companies.

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The Unicom Shares trade at a premium over the Netcom Shares both in terms of EV/EBITDA and PER multiples. A possible explanation for Unicom's higher multiple is the growth potential of Unicom's mobile operations when compared to Netcom's lower growth fixed-line operation (please refer to paragraph 2 headed "Business and financial performance" above for details of the past performance of the Netcom Group and the Unicom Group).

If we use the average EV/EBITDA and PER multiples of the Netcom Comparable Companies and the Unicom Comparable Companies to derive an implied share exchange ratio as an additional means to evaluate the Share Exchange Ratio, the implied share exchange ratio as at the Last Trading Date using (i) the average EV/EBITDA multiple would be approximately 1.326 times under Scenario A and 1.413 times under Scenario B, and (ii) the average PER multiple would be approximately 2.805 times under Scenario A and 2.490 times under Scenario B. The implied share exchange ratio under Scenario A as at the Last Trading Date using the average PER multiple would be approximately 1.973 times if the proceeds from the CDMA Business Disposal are recognised in this calculation. Given that the Share Proposal is an all share-transaction with no cash alternative and the Share Exchange Ratio is determined with reference to the closing prices as at the Last Trading Date, we believe it is more appropriate to evaluate the Share Exchange Ratio using public market analysis.

(c) Comparable transactions analysis

Whilst looking at recent precedent transactions is considered to be an appropriate benchmark for relative valuation, we are not aware of any directly comparable all-share transactions of a relevant size within the telecommunications industry in China and Hong Kong during the past four years and hence have been unable to identify any reliable transaction benchmark to the Proposals. Furthermore, due to incomparable circumstances that could range from specific industry conditions, different growth prospects and unique shareholding structures, we believe it is not meaningful to look at transactions across other geographies or industry sectors. Therefore, we have based our opinion on the other analyses presented in this letter.

The Share Proposal is structured as an all share-transaction such that the Netcom Shareholders are offered an opportunity to continue to remain invested in the Enlarged Group and share benefits as anticipated by the management of Netcom and Unicom as set out in paragraph 6 headed "Reasons for and benefits of the proposed merger" in the Explanatory Statement. Having considered the above and in particular:

the prices used to determine the Share Exchange Ratio were at historical highs of the Netcom Shares and the Unicom Shares over the Three-Year Period;

the Share Exchange Ratio is at approximately 8.6% premium (or an increase of approximately HK\$2.03 in capital value on a per share basis) over the historical exchange ratio during the One-Year Period using the public market analysis method; and

the Unicom Shares trade at a premium over the Netcom Shares both in terms of EV/EBITDA and PER multiples as at the Last Trading Date and the Latest Practicable Date using the comparable trading companies analysis,

we consider the Share Exchange Ratio to be fair and reasonable.

Table of Contents**LETTER FROM ROTHSCHILD****4. Dividend and yield**

Table 14 below sets out the dividend per share, dividend payout ratio and the dividend yields of Netcom and Unicom for the year ended 31 December 2007.

Table 14 Dividend yield of Netcom and Unicom

For the financial year ended 31 December 2007	Netcom	Unicom
Dividend per share	HK\$0.592	HK\$0.205 ¹
Dividend payout ratio ²	37.5%	36.8%
Dividend yield based on the closing price on the Latest Practicable Date	2.6%	1.3%
Implied dividend yield based on the closing price on the Last Trading Date	2.2%	1.1%

Sources: Bloomberg and the respective annual reports of Netcom and Unicom for the year ended 31 December 2007

Notes:

1. Converted from RMB into HK\$ by using the exchange rate of RMB0.975 for every HK\$1.
2. Dividend per share divided by basic earnings per share (after excluding the effect of the other income of approximately RMB1,221 million in the net profit of Netcom and excluding the effect of the unrealised loss on changes in fair value of derivative component of convertible bonds of RMB569 million and the other gains from tax refund of RMB2,781 million in the net profit of Unicom).

Based on the comparison above, we note that Unicom had a similar dividend payout ratio as Netcom (both as adjusted to exclude non-recurring items) but an investment in the Netcom Shares had offered a higher dividend yield than the dividend yield offered by the Unicom Shares. However, there is no assurance that Netcom or Unicom will continue to pay similar dividend in the future and the future dividend payment of the Enlarged Group will depend on its dividend policy to be determined by the board of directors of the Enlarged Group.

5. Historical trading volume

Table 15 below sets out the trading volume of the Netcom Shares and the Unicom Shares per month and the monthly trading volume as a percentage of the Netcom Shares and the Unicom Shares held by the public for the period 1 May 2007 to 31 July 2008.

Table of Contents**LETTER FROM ROTHSCHILD****Table 15 Liquidity analysis**

	Netcom		Unicom	
	Monthly trading volume of the Netcom Shares		Monthly trading volume of the Unicom Shares	
	as a percentage of float of Netcom¹		as a percentage of float of Unicom²	
	Monthly trading volume of the Netcom Shares (million shares)		Monthly trading volume of the Unicom Shares (million shares)	
2007				
May	241.6	11.8%	206.6	5.2%
June	254.1	12.4%	369.4	9.4%
July	229.8	11.2%	284.0	7.2%
August	263.1	12.8%	354.1	9.0%
September	306.4	14.9%	368.4	9.4%
October	547.9	26.7%	473.4	12.0%
November	390.3	19.0%	440.2	11.2%
December	208.1	10.1%	486.4	12.3%
Average monthly trading volume (1 May 2007 to 31 December 2007)	305.2	14.9%	372.8	9.5%
2008				
January	333.8	16.3%	585.7	14.9%
February	208.4	10.2%	504.0	12.8%
March	267.4	13.0%	490.0	12.4%
April	242.5	11.8%	494.5	12.6%
May	212.3	10.3%	377.1	9.6%
June	376.8	18.4%	1,077.9	27.4%
July	155.4	7.6%	414.1	10.5%
Average monthly trading volume (1 January 2008 to 31 July 2008)	256.7	12.5%	563.3	14.3%

Source: Bloomberg

Notes:

1. Based on
2,051,748,185

Netcom Shares,
being
6,699,197,200
Netcom Shares
in issue as at the
Latest
Practicable Date
less a total of
4,647,449,015
Netcom Shares
held by Netcom
BVI.

2. Based on
3,939,951,925
Unicom Shares,
being
13,664,951,945
Unicom Shares
in issue as at the
Latest
Practicable Date
less a total of
9,725,000,020
Unicom Shares
held by Unicom
Parent.

Both the Netcom Shares and the Unicom Shares are Hang Seng Index constituents and have active trading records. Based on the closing prices of the Netcom Shares and the Unicom Shares on the Latest Practicable Date, the Enlarged Group would have a combined free float market capitalisation of approximately HK\$109,590.2 million and rank 16 amongst all the Hang Seng Index constituents (currently, Netcom ranked 31 and Unicom ranked 25 in the Hang Seng Index). As such, the Unicom Shares should continue to have active trading liquidity after the Scheme becomes effective.

Table of Contents**LETTER FROM ROTHSCHILD****6. Risk profile**

Disinterested Netcom Shareholders should also carefully consider the risk factors as set out in paragraph 16 headed Risk factors in the Explanatory Statement when making their voting decisions. As the risk profile of the Enlarged Group after completion of the Proposals is likely to be different from that of Netcom in its current form, we have set out below a discussion on the risk profile of the Enlarged Group based on our assessment.

(a) Risks related to competition

The entry into the mobile market exposes Netcom to an intensely competitive market versus its current market where it dominates with over 90% market share in its service regions. Currently, Unicom is the number two player in a two-player mobile market and lags significantly behind China Mobile in terms of number of customers, revenues, profit and network reach and density. With the proposed acquisition of Unicom's CDMA Business by China Telecom and the issuance of 3G licences after industry restructuring, competition may well increase in the market. Netcom has not been exposed to major competition thus far and also has not been in a number two position in its market. As such, the competitive risk profile of the Enlarged Group is different to that of Netcom. It is worth noting, however, that whilst Netcom operates in a far less competitive market than the mobile market, Netcom's business is itself in increasing competition with the mobile operators, as customers switch from fixed-line to mobile services. As such, arguably, Netcom Shareholders are already to some degree exposed to competition in the broader telecommunications market, as witnessed by its eroding fixed-line customer base.

(b) Risks related to 3G licensing and network roll-out

Currently, the timing of 3G licence award is uncertain. This means that any potential 3G upside could be delayed, and additionally that any 3G costs could also be delayed, thereby having implications for the Unicom business going forward. The nature of Netcom's exposure to licensing risk and technology risk would also change. In particular, as a result of the Proposals, Netcom would be exposed to 3G risk which manifests itself in several ways.

Firstly, in the instance that the Enlarged Group is awarded a 3G licence, the technology associated with the 3G licence which the Enlarged Group receives, is currently uncertain. There are multiple 3G technology standards with certain standards more widely adopted than others. The 3G standard which the Enlarged Group adopts may have significant implications for the cost of 3G network rollout, the range and cost of 3G terminals, the ability of the Enlarged Group's customers to roam on 3G networks overseas and the ability to host inbound 3G roaming. As such, the technology standard adopted could have implications for market share, revenues, operating costs and the capital expenditure requirements of the Enlarged Group.

Secondly, the conditions of any 3G licence award are uncertain and could require significant capital expenditure commitment, potentially in areas which are not economically attractive for 3G rollout. 3G obligations could therefore have a major impact on the Enlarged Group's cash flow for several years.

Whilst the 3G business as a whole is largely unproven and will require substantial capital investment, it should also be noted that 3G is also an opportunity for the Enlarged Group to improve its positioning in the mobile market.

(c) Risks related to the successful integration of Netcom and Unicom and realisation of potential synergies

The management of Netcom and Unicom refer to benefits of the proposed merger in the Explanatory Statement. There is no assurance of an effective integration of Netcom and Unicom and, even if the proposed merger is executed in an efficient, effective and timely manner, there is no assurance that the Enlarged Group's performance, revenues, profits or shareholder value will be superior to those which would

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have been achieved by each entity independently. In particular, the reasons for and benefits of the proposed merger related to potential synergies from a combination may not materialise or may be delayed due to several factors, some of which may be outside the control of Netcom and Unicom. These factors include, among other things:

difficulties in integrating the operations of Netcom and Unicom, including information systems, personnel, policies and procedures, and overlapping operations, subsidiaries and branch networks;

unforeseen contingent risks or latent liabilities relating to the proposed merger that may become apparent in the future;

difficulties in managing a much larger business;

failure to complete or to timely complete the CDMA Business Disposal or to achieve the benefits anticipated from such disposal;

diversion of management's attention from day-to-day business as a result of the need to deal with integration issues;

loss of key personnel; and/or

increase in competition in the PRC telecommunications industry resulting from the ongoing restructuring of the PRC telecommunications industry which, among other things, may require an increase in marketing efforts.

Any of the above could adversely impact the anticipated benefits from the proposed merger and could materially adversely affect the future business performance and financial condition of the Enlarged Group. Furthermore, there could be significant costs and inefficiencies incurred by the Enlarged Group as a result of the proposed merger.

(d) *Risks related to the CDMA Business Disposal*

With regard to the Proposals, Unicom's CDMA Business Disposal to China Telecom is a potential risk to the value of the Enlarged Group. If the sale of the CDMA Business is not realised at RMB43.8 billion or if the CDMA Business is retained and its value is below RMB43.8 billion, there is a risk to the share price of Unicom post-merger.

Netcom Shareholders should note that according to paragraph 5 headed "Indebtedness" in Appendix II to the Explanatory Statement, the CDMA Business Disposal will give rise to mandatory prepayment under the terms of the syndicated loan agreement relating to a syndicated term loan facility granted to Unicom. The reduction in the shareholding of Unicom BVI in Unicom following the completion of the Scheme will give rise to an event of default under the terms of the same syndicated loan agreement. If waivers of such prepayment and such event of default are not granted by the lenders to Unicom and if either the CDMA Business Disposal or the Scheme is completed, Unicom will be required to prepay the entire principal amount outstanding under such loan facility together with accrued interest on completion of the CDMA Business Disposal or the Scheme. The principal amount outstanding under such loan facility is expected to be US\$200 million at the time when the CDMA Business Disposal or the Scheme is completed and, under the terms of the syndicated loan agreement, such amount is otherwise scheduled for repayment in September 2010. If Unicom is required to prepay the principal amount as stated above, it expects to have sufficient cash resources available to fund such payment.

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Accordingly, as is evident from the above, the Enlarged Group will have a different risk profile and Unicom Share price may be subject to significant volatility. Therefore, Netcom Shareholders should carefully consider the nature of key businesses of the Enlarged Group and the risks associated with holding an investment in shares of Unicom post-merger. In addition, due to the regulated nature and high-technology characteristics of the Unicom business, the Enlarged Group's performance will be subject to a number of factors, some of which are beyond the control of the Enlarged Group. There is still considerable uncertainty as to the benefits of a rapid and large exposure to the mobile market in China. Netcom Shareholders should therefore consider their own investment and risk-taking objectives in assessing the terms of the Proposals. Moreover, there is no assurance that the current price level of the Netcom Shares and the Unicom Shares will be sustainable, particularly for those Netcom Shareholders who may be seeking to dispose of their investments in the market in the future.

7. The ADS Proposal

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 which each Netcom ADS represents and the number of the Unicom Shares which each Unicom ADS represents. Chart 9 above shows the daily closing prices of the Netcom ADSs for the Three-Year Period and up to and including the Latest Practicable Date.

8. The Option Proposal

Pursuant to the Option Proposal, which is conditional upon the Scheme becoming effective, Unicom will grant Netcom Optionholders Special Unicom Option in consideration for the cancellation of their outstanding Netcom Options at the Scheme Record Time (whether vested or not). The number of Special Unicom Option that will be granted to each Netcom Optionholder and the exercise price of a Special Unicom Option will be determined by a formula which ensures that the value of the Special Unicom Option received by a Netcom Optionholder is equivalent to the See-Through Price of that holder's outstanding Netcom Options. In other words, the Netcom Optionholders will receive a consideration for their Netcom Options that is comparable to the consideration which the Netcom Shareholders will receive for their Scheme Shares.

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. 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 Special Unicom Option 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.

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 and such Netcom Optionholders will automatically be granted Special Unicom Options in consideration for the cancellation of their outstanding Netcom Options. Please refer to paragraph 3 headed Summary of the Proposals The Option Proposal in the Explanatory Statement for further details. Netcom Optionholders should also refer to the Option Proposal Letter.

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FURTHER CONSIDERATIONS

(a) Conditions

The Share Proposal is, and the Scheme will become effective and binding on Netcom and all of the Scheme Shareholders, subject to the satisfaction or waiver, as applicable, of the conditions as set out in paragraph 4 headed Conditions of the Proposals and the Scheme in the Explanatory Statement 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. In particular, the Share Proposal is subject to, among other things, approval of the Proposals by the Unicom Shareholders at a general meeting, the approval of the Scheme by the Disinterested Netcom Shareholders at the Court Meeting and the Netcom EGM, and the Court's sanction of the Scheme. Further details of the conditions are set out in the Explanatory Statement.

Assuming that all of the 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 is conditional upon the Scheme becoming effective.

(b) Intentions of Unicom with regard to Netcom

After the completion of the proposed merger, Unicom intends to continue with the existing business of Netcom and to take measures to integrate the two companies and improve the operating and financial performance of the Enlarged Group. Unicom has no intention to introduce any major changes to the business of Netcom or to redeploy any fixed assets of the Netcom Group. In addition, Unicom does not intend to discontinue the employment of any of the employees of the Netcom Group and intends to maintain the stability of its workforce. Unicom intends that the management teams of Unicom and Netcom be integrated and utilised to an optimal capacity in order to realise the synergies of the combined businesses of the Enlarged Group.

Please refer to paragraph 8 headed Intentions of Unicom with regard to Netcom in the Explanatory Statement for further details.

(c) Undertakings

Each of Netcom BVI and 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 respective legal and beneficial shareholding interest in Netcom. In addition, 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 interest in Netcom which Netcom BVI holds as trustee on behalf of a state-owned entity. Please refer to paragraph 5 headed Undertakings in the Explanatory Statement for further details.

(d) Possible Concert Party Agreement

Netcom Shareholders should refer to paragraph 15 headed Possible Concert Party Agreement in the Explanatory Statement for details of the Concert Party Agreement which Unicom BVI and Netcom BVI intend to enter into following the completion of the Scheme to cooperate actively to obtain or consolidate control of Unicom.

(e) Fractions and odd lots

Netcom Shareholders should refer to paragraph 3 headed Summary of the Proposals Fractions and paragraph 19 headed Trading of odd lots of Unicom Shares in the Explanatory Statement for details about arrangement regarding fractions of new Unicom Shares and new Unicom ADSs and odd lots of Unicom Shares, respectively.

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SUMMARY

Having considered the above principal factors and reasons, we draw your attention to the following in arriving at our recommendation:

- (a) Following the telecommunications industry restructuring as contemplated in the Telecoms Restructuring Announcement, it is envisaged that there will be three main telecommunications operators (of which Unicom (post-merger) will be one of them) with more comparable resources, strength and scale, and with capability to offer full telecommunications services which, in turn, is expected to lead to a more balanced competitive environment and better resource allocation within China's telecommunications industry. The expected issuance of 3G licences should result in new opportunities for Unicom and other telecommunications operators;
- (b) Netcom's operational and financial performance in recent years has been affected by increasingly rapid mobile substitution. Recognising this, Netcom has been investing to provide broadband and ICT services using its network but the increase in revenue from such initiatives has not been enough to compensate for the loss in revenue from its fixed-line services. The Proposals offer Netcom immediate access to a mobile platform and are considered to be in line with the business direction and objectives as noted from the Chairman's Statement in Netcom's annual report for the year ended 31 December 2007 which stated that Netcom will persevere in the pursuit of licenses for mobile services and IPTV services which will pave the way for the Company to become a comprehensive broadband communications and multimedia service provider ;
- (c) Through the Proposals, Netcom will become part of a larger group offering a full spectrum of wireless, fixed, Internet and broadband and data value adding services. The management of Unicom and Netcom believe that the proposed merger has strong commercial reasons. 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 10 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. The directors of Unicom and Netcom believe that through effective integration, synergies of the proposed merger will be realised gradually after completion of the the Proposals and the CDMA Business Disposal (as discussed in details in paragraph 1 headed 'Reasons for and benefits of the proposed merger' above);
- (d) We have discussed the anticipated synergies with representatives of Unicom and Netcom and in-principle concur that the anticipated synergies as set out in the Explanatory Statement are feasible (recognising that any synergies would likely only be realised upon the completion of the Proposals and potentially after a successful and timely post-merger integration of Netcom's and Unicom's operations). The management of Unicom and Netcom do not expect the benefits as set out in the Explanatory Statement would be materially adversely affected if the proposed CDMA Business Disposal is not completed;
- (e) If the estimated one-off gain from the CDMA Business Disposal were excluded, the Netcom Group would, as illustrated in Table 6 above, contribute over 50% of revenue, EBITDA and net profit to the Enlarged Group under both scenarios (except that the Netcom Group would contribute approximately 46.19% of revenue to the Enlarged Group under Scenario B) whilst the Netcom Shareholders would get approximately 42.51% of the equity of the Enlarged Group. This implies that the Proposals

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(under both scenarios) would result in a dilution in the revenue, EBITDA and net profit attributable to the Netcom Shareholders on a pro forma basis. We believe the dilution to be acceptable after considering the following:

the synergies anticipated from the proposed merger are not reflected in the historical pro forma consolidated financials of the Enlarged Group. Factoring in the synergies anticipated from the proposed merger, the Enlarged Group should lead to greater growth opportunities for the Netcom Shareholders than Netcom would offer as a standalone entity in its current structure; and

the gearing position of the Enlarged Group should reduce as a result of the Proposals (although in a much greater extent under Scenario A since the Unicom Group will receive a cash proceed of RMB43.8 billion from the CDMA Business Disposal);

- (f) The Share Exchange Ratio of 1.508 new 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:

the prices used to determine the Share Exchange Ratio were at historical highs of the Netcom Shares and the Unicom Shares over the Three-Year Period;

the Share Exchange Ratio is at approximately 8.6% premium (or an increase of approximately HK\$2.03 in capital value on a per share basis) over the historical exchange ratio during the One-Year Period using the public market analysis method (see Table 8 above); and

the Unicom Shares trade at a premium over the Netcom Shares both in terms of EV/EBITDA and PER multiples as at the Last Trading Date and the Latest Practicable Date using the comparable trading companies analysis;

- (g) Unicom had a similar dividend payout ratio as Netcom (both as adjusted to exclude non-recurring items) for the year ended 31 December 2007 but an investment in the Netcom Shares had offered a higher dividend yield than the dividend yield offered by the Unicom Shares. The future dividend payment of the Enlarged Group will depend on its dividend policy to be determined by the board of directors of the Enlarged Group; and
- (h) Both the Netcom Shares and the Unicom Shares are Hang Seng Index constituents and have active trading records. The Unicom Shares should continue to have good trading liquidity after the Scheme becomes effective.

RECOMMENDATIONS

The Share Proposal

Having considered the above principal factors and reasons, we consider the terms of the Share Proposal to be fair and reasonable so far as the Disinterested Netcom Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Disinterested Netcom Shareholders to vote in favour of the resolution to approve the Scheme at the Court Meeting, as well as to recommend the Disinterested Netcom Shareholders (other than the Exempt Principal Traders) to vote in favour of the special resolution to approve and give effect to the Scheme at the Netcom EGM.

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The ADS Proposal

In reference to our opinion that the terms of the Share Proposal are fair and reasonable, we consider that the terms of the ADS Proposal are also fair and reasonable so far as the Netcom ADS Holders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Netcom ADS Holders to instruct the Netcom Depository to vote the Netcom Shares held on their behalf in favour of the resolution to approve the Scheme at the Court Meeting and the special resolution to approve and give effect to the Scheme at the Netcom EGM.

The Option Proposal

In reference to our opinion that the terms of the Share Proposal are fair and reasonable, we consider that the terms of the Option Proposal are also fair and reasonable so far as the Netcom Optionholders are concerned.

Yours very truly,

For and on behalf of

N M Rothschild & Sons (Hong Kong) Limited

Kelvin Chau
Managing Director

Catherine Yien
Director

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EXPLANATORY STATEMENT

This Explanatory Statement constitutes the statement required under Section 166A of the Hong Kong Companies Ordinance.

SCHEME OF ARRANGEMENT

1. INTRODUCTION

On 2 June 2008, the boards of directors of Unicom and Netcom jointly announced that Unicom had formally presented the Proposals to the Board and requested the Board 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.

The Proposals involve the cancellation of all of 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 and the Netcom Shares underlying the Netcom ADSs) and all of the Netcom ADSs and the Netcom Options outstanding at the Scheme Record Time. Upon the Scheme becoming effective, Netcom will become a wholly-owned subsidiary of Unicom and the listings of the Netcom Shares and the Netcom ADSs on the Hong Kong Stock Exchange and the New York Stock Exchange, respectively, will be withdrawn.

Implementation of the Proposals will be carried out in accordance with Hong Kong laws, the Takeovers Code, US federal securities laws and the requirements of the Hong Kong Stock Exchange and the New York Stock Exchange.

The purpose of this Explanatory Statement is to explain the terms and effects of the Proposals and, in particular, the Scheme and to provide the Netcom Shareholders, the Netcom ADS Holders and the Netcom Optionholders with other relevant information in relation to the Proposals and the Scheme.

Your attention is drawn to (1) the letter from the Board set out on pages 15 to 20 of this document, (2) the letter from the Independent Board Committee set out on pages 21 and 22 of this document, (3) the letter from Rothschild, the independent financial adviser to the Independent Board Committee, set out on pages 23 to 56 of this document and (4) the terms of the Scheme set out on pages S-1 to S-6 of this document.

2. BACKGROUND TO THE PROPOSALS

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 and requested the Board to put forward the Proposals to the Netcom Shareholders for consideration.

Table of Contents**EXPLANATORY STATEMENT****3. SUMMARY OF THE PROPOSALS****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.

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 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 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.

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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.

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.

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 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. 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 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.

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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 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 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.

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.

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:

Special Unicom Options Granted in Consideration for the Cancellation of	Approximate Number of Special Unicom Options to be Granted⁽¹⁾	Exercise Price of Special Unicom Options to be Granted
66,864,360 outstanding Netcom Options granted on 22 October 2004 with an exercise price of HK\$8.40 (2004 Netcom Options ⁽²⁾)	100,831,454	HK\$5.57
58,971,900 outstanding Netcom Options granted on 6 December 2005 with an exercise price of HK\$12.45 (2005 Netcom Options ⁽³⁾)	88,929,625	HK\$8.26

Total

189,761,079

60

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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;
 - (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 Option Proposal Letter, which sets out the terms of the Option Proposal and the details of the Special Purpose Unicom Share Option Scheme, will be despatched to the Netcom Optionholders on the same day as the despatch of this document.

Other than the Netcom Shares, the Netcom ADSs and the Netcom Options, there are no other options, derivatives, warrants or other securities convertible or exchangeable into Netcom Shares which are issued by Netcom.

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.

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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.

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. 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.

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.

4. CONDITIONS OF THE PROPOSALS AND THE SCHEME

The Share Proposal is, and the Scheme will become effective and binding on Netcom and all of the Scheme Shareholders, subject to the satisfaction or waiver, as applicable, of the following conditions:

- (a) the approval of the Unicom Shareholders in general meeting having been obtained in accordance with the Listing Rules and the NYSE Rules for (i) the Proposals, (ii) the allotment and issue by Unicom of Unicom Shares pursuant to the Share Proposal and the ADS Proposal and (iii) the adoption of the Special Purpose Unicom Share Option Scheme;
- (b) the approval of the Scheme (by way of poll) by a majority in number representing not less than three-fourths in value of the Netcom Shares held by the Disinterested Netcom Shareholders (other than the Exempt Principal Traders) who are present and voting either in person or by proxy at the Court Meeting, provided that the number of votes cast against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all of the Netcom Shares held by the Disinterested Netcom Shareholders, including the Exempt Principal Traders;

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- (c) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Netcom Shareholders present and voting in person or by proxy at the Netcom EGM to (i) give effect to the reduction of the share capital of Netcom by cancelling and extinguishing the Scheme Shares and (ii) issue the Netcom Shares to Unicom;
- (d) the sanction of the Scheme (with or without modifications) and the confirmation of the reduction of the share capital of Netcom by the High Court under Sections 166 and 60, respectively, of the Hong Kong Companies Ordinance (with Netcom having advised the High Court before the Court Hearing that the Unicom Shares will be issued by Unicom in reliance on the exemption from the registration requirements of the US Securities Act provided by Section 3(a)(10) thereof based on the High Court's sanctioning of the Scheme, and in reliance on applicable exemptions under US state securities laws);
- (e) a copy of the order of the High Court sanctioning the Scheme and confirming the reduction of the share capital of Netcom, together with a minute approved by the High Court containing the particulars required by Section 61 of the Hong Kong Companies Ordinance, being delivered to and registered by the Registrar of Companies in Hong Kong;
- (f) the Hong Kong Stock Exchange having granted its approval 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 which may be issued upon the exercise of the Special Unicom Options;
- (g) the New York Stock Exchange having granted its approval for the listing of the Unicom ADSs representing the Unicom Shares to be issued pursuant to the ADS Proposal;
- (h) all filings with, notices to and waivers from any governmental or regulatory body in connection with the Proposals having been made or obtained and, if applicable, any waiting periods under any applicable antitrust or similar laws and regulations having expired or terminated;
- (i) all authorisations, consents and approvals (including approval in-principle) of any governmental or regulatory body in relation to the Proposals having been obtained and remaining in full force and effect pursuant to the provisions of any laws or regulations in Hong Kong, the PRC, the United States and other relevant jurisdictions;
- (j) all third party consents in relation to the Proposals required pursuant to any agreement to which any member of the Netcom Group is a party (where any failure to obtain a consent would have a material adverse effect on the business of the Netcom Group taken as a whole) having been obtained or waived by the relevant party;
- (k) no relevant government, governmental, quasi-governmental, statutory or regulatory body, court or agency having granted any order or made any decision that would make the Proposals void, unenforceable or illegal, or restrict or prohibit the implementation of, or impose any additional material conditions or obligations with respect to, the Proposals (other than such orders or decisions as would not have a material adverse effect on the legal ability of Unicom to proceed with or consummate the Proposals);
- (l) confirmation from OFTA that the Proposals will not have, or be likely to have, the effect of substantially lessening competition in a telecommunications market in Hong Kong as referred to in Section 7P of the

Telecommunications Ordinance, to the extent that such confirmation is reasonably considered necessary by Unicom and Netcom;

- (m) subject to Note 2 to Rule 30.1 of the Takeovers Code, no event having occurred which would make the Proposals or the cancellation of the Scheme Shares or any of the Netcom Options void, unenforceable or illegal or which would prohibit the implementation of the Proposals or impose any additional material conditions or obligations with respect to the Proposals or any part thereof or on the cancellation of the Scheme Shares or any of the Netcom Options;

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- (n) subject to Note 2 to Rule 30.1 of the Takeovers Code, since the date of the Announcement, there having been no material adverse change in the business, financial or trading position of each of the Unicom Group or the Netcom Group;
- (o) save in connection with the implementation of the Proposals, the listing of the Unicom Shares and the Netcom Shares on the Hong Kong Stock Exchange and the listing of the Unicom ADSs and the Netcom ADSs on the New York Stock Exchange not having been withdrawn, and no indication having been received from the SFC or the Hong Kong Stock Exchange or the SEC or the New York Stock Exchange to the effect that the listing of the Unicom Shares or the Netcom Shares on the Hong Kong Stock Exchange or the listing of the Unicom ADSs or the Netcom ADSs on the New York Stock Exchange will or is likely to be withdrawn; and
- (p) save for the payment of a final dividend of HK\$0.592 for each Netcom Share as approved by the Netcom Shareholders at the annual general meeting of Netcom held on 22 May 2008, since the date of the Announcement and up to the Effective Date, Netcom not having declared, made or paid any dividend or distribution of any kind, and not having agreed or proposed to declare, make or pay any dividend or distribution of any kind.

The condition in paragraph (b) above is the combined effect of Section 166 of the Hong Kong Companies Ordinance and Rule 2.10 of the Takeovers Code. Insofar as the statutory requirement for the sanction of the Scheme by the High Court is concerned, a resolution for the approval of the Scheme will be deemed to have been passed if a majority in number representing three-fourths in value of the Netcom Shareholders present and voting either in person or by proxy at the Court Meeting vote in favour of the Scheme.

Under Rule 2.10 of the Takeovers Code, however, such a resolution will only be considered to have been passed if (1) the Scheme is approved by at least 75% of the votes attaching to the Netcom Shares held by the Disinterested Netcom Shareholders other than the Exempt Principal Traders that are cast either in person or by proxy at the Court Meeting and (2) the number of votes cast against the resolution is not more than 10% of the votes attaching to all of the Netcom Shares held by the Disinterested Netcom Shareholders, including the Exempt Principal Traders.

As at the Latest Practicable Date, there were 6,699,197,200 Netcom Shares in issue, all of which were held by the Disinterested Netcom Shareholders. Assuming that none of the parties acting in concert with Unicom become Netcom Shareholders after the Latest Practicable Date and that none of the outstanding Netcom Options are exercised after the Latest Practicable Date, 10% of such Netcom Shares would amount to 669,919,720 Netcom Shares.

The Exempt Principal Traders are certain members of the respective group of companies to which JPMorgan and Citigroup belong holding Netcom Securities. The Exempt Principal Traders are not presumed to be parties acting in concert with Unicom in relation to the Proposals under the Takeovers Code notwithstanding their connections with either JPMorgan or Citigroup. However, the Exempt Principal Traders are prohibited under Rule 35.4 of the Takeovers Code from voting the Netcom Shares beneficially owned by them at the Court Meeting although they are Disinterested Netcom Shareholders and, as such, their Netcom Shares will form part of the Scheme Shares.

None of the conditions (a) to (m) and (o) above can be waived by Unicom or Netcom. Netcom does not have the right to waive any of the conditions. Unicom reserves the right to waive both or either of conditions (n) or (p) above. All of the 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 above 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 the conditions referred to above have been satisfied. Assuming that all of the above conditions are satisfied or waived, as applicable, it is expected that the Scheme will become effective on or before 31 October 2008.

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

The Netcom Shareholders, the Netcom ADS Holders, the Netcom Optionholders and all potential investors in Netcom should be aware that the implementation of the Proposals, including the Scheme, is subject to the conditions set out above being satisfied or waived, as applicable, and thus, the Proposals, including the Scheme, may or may not become effective. The Netcom Shareholders, the Netcom ADS Holders, the Netcom Optionholders and all potential investors in Netcom should therefore exercise caution when dealing in the Netcom Shares, the Netcom ADSs or the Netcom Options or other securities of Netcom. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.

5. 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 this 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.

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 a material adverse change in the business, financial or trading position of Unicom or (c) in the event that Rothschild did not render an opinion that the Proposals were fair and reasonable.

6. 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.

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(1) Provide a full spectrum of telecommunications services

(a) Provide a full spectrum of integrated services and products

If the proposed merger is completed, the Enlarged Group is expected to have the capability to deliver a full spectrum of telecommunications services. By effectively consolidating its businesses and underlying supporting systems, the Enlarged Group is expected to be able to provide integrated and customised telecommunications services and products to address the different needs of its diverse customer base.

(b) Combine the expertise in wireless and fixed-line businesses to enhance innovation capabilities

By integrating the Netcom Group's and the Unicom Group's extensive resources and expertise in wireless and fixed-line businesses, the Enlarged Group is expected to be able to enhance its innovation capabilities, thereby enabling it to deliver better products and services that integrate wireless and fixed-line services and are in line with the overall development and trend of the global telecommunications industry.

(2) Reinforce brand recognition and market position

The proposed merger is expected to improve the Enlarged Group's business capabilities, enabling it to secure a licence to conduct business with 3G technology, which is advanced telecommunications technology with broad applications. In addition to the Enlarged Group's intended focus on GSM and future 3G businesses, it is intended that the Enlarged Group will take steps to enhance the quality and service level of its wireless network and take steps to launch high quality, cutting edge 3G services, which are expected to help maintain wireless average revenue per user (ARPU) at a stable level and strengthen the brand recognition of the Enlarged Group.

At the same time, by integrating wireless and fixed-line technologies and enhancing its broadband capability, the Enlarged Group expects to further drive growth in the wireless and broadband areas of its businesses, provide high quality integrated broadband products and services and effectively promote the Enlarged Group's brand name.

In addition, it is expected that the Enlarged Group will have a significantly larger subscriber base, which is expected to enable it to achieve economies of scale and enhance its brand awareness. Furthermore, the broader presence and coverage of marketing and customer service networks are expected to effectively enhance the Enlarged Group's brand recognition and market position.

(3) Multi-faceted resource sharing

(a) Client

Based on the subscriber base of Unicom and Netcom as at 30 June 2008, the Enlarged Group is expected to have a combined total subscriber base of 259 million users, including 128 million GSM users, 109 million local access users and 23.36 million broadband users. The Enlarged Group is expected to have a multi-tiered and diversified client base, which will include government, corporate, household and individual clients. By fully utilising its client base, particularly the government and corporate clients in the ten provinces in Northern China where the Netcom Group has operations, the Enlarged Group is expected to have more cross-selling and bundling opportunities, which may result in increased revenue and enhanced client loyalty.

(b) Sales and marketing

The proposed merger is expected to enable the Enlarged Group to improve and increase the coverage of its distribution channels nationwide, especially in the ten provinces in Northern China where the Netcom Group has operations. Based on the number of sales outlets of Unicom and Netcom as at 30 June 2008, the number of self-operated sales outlets of the Enlarged Group is expected to exceed 18,000, among which 5,000 were previously operated by Unicom and over 13,000 were previously operated by Netcom. By fully consolidating and utilising its distribution channels, the Enlarged Group is expected to reduce its overall dependence on agency channels, effectively increasing its control over its distribution channels and improving its operating efficiency.

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The Enlarged Group is expected to have a larger client base and enhanced sales distribution channels to implement its sales and marketing initiatives, and create opportunities for innovation and development of customised marketing strategies to address different market needs. Furthermore, it is expected that the Enlarged Group may improve its marketing and sales efficiency and reduce marketing expenditures by implementing unified advertising strategies for a single brand.

(c) Procurement

The Enlarged Group's increased scale and centralised supply chain management are expected to strengthen its bargaining power and reduce its procurement costs.

The proposed merger is expected to help the Enlarged Group to consolidate its major supplier resources, optimise its supplier relationships and improve its business and technology development through greater collaboration with its suppliers.

(d) Network

Based on the network resources of Unicom and Netcom as at 31 May 2008 and 30 June 2008, the Enlarged Group is expected to have approximately 5.74 million kilometres of long distance fiber optic cables, 0.92 million kilometres of transmission pipes, 1.44 million kilometres of pole lines, 0.17 million wireless base stations and 0.43 million PHS base stations.¹ If the proposed merger is completed, it is expected that the Enlarged Group will facilitate resource sharing across its different networks and reduce leasing, operating and maintenance costs, while enhancing its network coverage and transmission quality.

At the same time, it is intended the Enlarged Group will fully utilise its existing resources to conduct centralised planning for future investments in backbone, transmission network, base stations and intranet stations, thereby minimising repetitive construction to achieve cost savings.

(4) Enhanced human capital

After the proposed merger, the Enlarged Group is expected to have access to enhanced expertise in the areas of wireless, fixed-line and broadband, which may enable it to tap into Unicom's and Netcom's complementary human capital and enhance its talent pools. By fully leveraging on its human capital, the Enlarged Group is expected to further enhance its overall competitiveness and lay a strong foundation for its long-term development.

The proposed merger is expected to enable the Enlarged Group to centralise its human resources functions. By repositioning certain back office employees, the Enlarged Group is expected to be able to focus on committing its human resources to key business areas, such as sales and marketing.

After the proposed merger, the Enlarged Group is expected to have access to strong human resources and the capability to optimise human capital development planning based on existing staff structure and future development needs.

(5) Optimised capital structure with enhanced financing capacity

The proposed merger of Unicom and Netcom and the CDMA Business Disposal are expected to enable the Enlarged Group to reduce its combined debt levels, optimise its capital structure and enhance its financing capacity. Furthermore, the expected improvement to its overall financial strength will enable the Enlarged Group to optimise its investment strategy and increase investment in key business areas, such as wireless, broadband, value-added services and related businesses.

In addition, the Enlarged Group is expected to be able to effectively access the domestic and international capital markets in order to diversify its funding sources, resulting in stronger support for its future business development.

1 Statistics on transmission pipes, pole lines and PHS base stations as at 31

May 2008.
Wireless base
stations include
GSM only and
GSM and
CDMA shared
base stations.

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The management of Unicom and Netcom do not expect that the benefits referred to above would be materially adversely affected if the proposed CDMA Business Disposal is not completed.

7. BUSINESS STRATEGIES OF THE ENLARGED GROUP

China's telecommunications industry has experienced rapid growth in recent years. In 2007, the aggregate revenue of China's telecommunications industry reached RMB1,854.5 billion. In terms of the number of wireless and fixed-line subscribers, China has emerged as the largest telecommunications market in the world. A favourable and stable macroeconomic environment combined with relatively low penetration rate is expected to drive further growth in China's telecommunications industry in the next few years. In particular, the improving living standards in China and the increase in demand for 3G, broadband and value-added services are expected to continue to provide a favourable environment for the future growth of the Enlarged Group.

By combining the resources and business strengths of Unicom and Netcom in different areas, and upon obtaining a licence for mature 3G technology, it is intended that the Enlarged Group will aim to become a world-class provider of broadband communications and information services, establishing competitive advantages in technology, products and services, providing professional and multi-tiered information services and satisfying the changing and diverse needs of China's telecommunications market.

To achieve this, the Enlarged Group will focus on implementing the following business strategies:

(1) Establish a cutting edge 3G business and enhance brand image and core competence

It is intended that the Enlarged Group will continue to improve the service quality of its GSM business, which is expected to be a strong foundation for the development of its 3G business. Upon being granted a 3G licence, it is planned that the Enlarged Group would invest in a 3G network as well as in related businesses, provide high quality services and products by combining the technology, product maturity and advantages of 3G, particularly in the areas of data and various value-added services, establish a market leading position in the domestic 3G market and further promote the overall brand image of the Enlarged Group. The Enlarged Group is expected to rely on the improved capabilities in integrated wireless communications services to actively explore existing and newly developed middle-to high-end markets and aims to capture a one-third share of the future 3G market in terms of number of subscribers, optimise the structure of its client base, increase its business income and enhance its profitability.

(2) Leverage on full service advantage in driving product innovation and market expansion

As the telecommunications operator with balanced full-service capabilities in China's telecommunications market, it is envisaged that the Enlarged Group would leverage on its technical expertise and business development abilities in both wireless and fixed-line areas to drive the integration of wireless and fixed-line technologies and businesses, and take measures to establish a mature and integrated full service operation system. At the same time, by referring to international experience and active innovation, the Enlarged Group is expected to provide various high value-added integrated telecommunications solutions, which will address different customer needs in wireless and fixed-line telecommunications.

(3) Fully develop broadband multimedia business and accelerate the conversion into an information service provider

It is planned that the Enlarged Group would continue to invest in its broadband business, enhance the development model of combining access and content and combine Internet-based applications, content, data and multimedia, all of which are expected to be the driving forces for future development of the broadband business, thereby enhancing the competitiveness of the Enlarged Group in broadband business. It is intended that the Enlarged Group would take advantage of the opportunities provided by the PRC's government's initiatives of Accelerating the Integration of Information and Industrialisation to actively develop information and communication technology services to satisfy the information service needs of local government and corporate clients.

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(4) Optimise investments and increase network coverage and service levels

It is planned that the Enlarged Group would use its strong cash flow after the proposed merger to optimise its investment portfolio by increasing investment in key business areas, such as wireless, broadband, value-added services and information support systems, and improve network coverage and optimise communications quality. The management of Unicom expects the wireless capital expenditure of the Enlarged Group in 2008 to increase by approximately 100% compared to the 2008 wireless capital expenditure announced by Unicom. The total 2009 and 2010 wireless capital expenditure of the Enlarged Group is estimated to amount to RMB100 billion and will primarily be allocated to the development of the 3G business.

It is intended that the Enlarged Group would implement differentiated investment strategies, with its 2G business focusing on increasing depth and breadth, its 3G business focusing on key areas and its fixed-line business focusing on investment return. It is intended that the Enlarged Group would promote its integrated network service capabilities by implementing centralised investment planning and fully utilising and optimising existing network resource.

(5) Integrate client and distribution channel resources and enhance marketing efficiencies

It is intended that the Enlarged Group would leverage on its multi-tiered and diverse client base and is expected to increase cross-selling and bundling sale opportunities in order to increase its market share among all types of clients, in particular government and corporate clients in the ten provinces in Northern China. It is envisaged that the Enlarged Group would utilise its own distribution channels to increase the proportion of sales through its own distribution channels and enhance direct sale capabilities, resulting in stronger control over various distribution channels and improvement of its overall sales capabilities.

In addition, the Enlarged Group will develop unified advertising and promotion strategies in order to enhance marketing efficiencies.

(6) Improve service quality and enhance a customer-centric culture

It is planned that the Enlarged Group would integrate the customer service resources of both Unicom and Netcom and provide customised and innovative services based on different customers' needs. At the same time, it is intended that the Enlarged Group would improve operational efficiency, enhance service interface platform, optimise service workflow, increase service capability and quality and further enhance a customer-centric culture.

The directors of Unicom and Netcom believe that the effective implementation of the above business strategies would enable the Enlarged Group to become a world-class broadband communications and information services provider with integrated wireless and fixed-line technologies, and fully realising its potential in the expanding telecommunications market in China.

8. INTENTIONS OF UNICOM WITH REGARD TO NETCOM

If the Scheme is approved and the Proposals becomes effective, Unicom intends to continue with the existing business of Netcom and has no intention to introduce any major changes to the business of Netcom or to redeploy any fixed assets of the Netcom Group.

After the completion of the proposed merger of Unicom and Netcom, the Enlarged Group is expected to be an integrated telecommunications operator offering wireless, fixed-line, broadband, data and value added services to its subscribers, and is expected to be granted a 3G licence. Unicom intends to take measures to combine the experience and technologies of the Unicom Group and the Netcom Group in the wireless and fixed-line businesses, to promote business innovation and competitiveness and to improve operating and financial performance through developing targeted business strategies according to the dynamic market developments.

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Furthermore, Unicom intends to fully utilise the network and hardware resources of Unicom and Netcom to effectively expand network coverage, increase network capacity, and improve transmission quality. Unicom also intends to share customer resources and create more cross-selling and bundling sales opportunities. In addition, Unicom intends to integrate the sales channels of Unicom and Netcom and establish a unified national network of sales, distribution and services, particularly in the ten provinces in Northern China where Netcom has operations.

Unicom does not intend to discontinue the employment of any of the employees of the Netcom Group and intends to maintain the stability of the Netcom Group's workforce. Unicom intends that the management teams of Unicom and Netcom be integrated and utilised to an optimal capacity in order to realise the synergies of the combined businesses of the Enlarged Group.

Upon the completion of the proposed merger, Mr. Chang Xiaobing will become the Chairman and Chief Executive Officer of the Enlarged Group. The management of the Enlarged Group is expected to be mainly drawn from the existing management of Unicom and Netcom.

Unicom and Netcom have established a joint working team led by Mr. Chang Xiaobing to focus on the integration of Unicom and Netcom so as to ensure a smooth implementation of the business strategies of the Enlarged Group following the completion of the proposed merger. The integration work is expected to commence immediately after the proposed merger has been completed and the majority of the integration work is expected to be completed within one year. Upon the completion of the proposed merger, Unicom will change its company name to China Unicom (Hong Kong) Limited, with China Unicom as its short name.

9. COMPARISONS OF VALUE**Capital Value**

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 value of each Netcom Share of HK\$26.78 under the Share Proposal represents:

- (a) a premium of approximately 4.4% over the weighted average traded price of each Netcom Share of HK\$25.66 on the Hong Kong Stock Exchange on the Last Trading Date;
- (b) a premium of approximately 9.7% over the average closing price of HK\$24.41 of each Netcom Share based on the daily closing prices of Netcom Shares as quoted on the Hong Kong Stock Exchange for the five trading days immediately prior to and including the Last Trading Date;
- (c) a premium of approximately 8.6% over the average closing price of HK\$24.66 of each Netcom Share based on the daily closing prices of Netcom Shares as quoted on the Hong Kong Stock Exchange for the ten trading days immediately prior to and including the Last Trading Date;
- (d) a premium of approximately 12.7% over the average closing price of HK\$23.77 of each Netcom Share based on the daily closing prices of Netcom Shares as quoted on the Hong Kong Stock Exchange for the 30 trading days immediately prior to and including the Last Trading Date;
- (e) a premium of approximately 14.8% over the average closing price of HK\$23.33 of each Netcom Share based on the daily closing prices of Netcom Shares as quoted on the Hong Kong Stock Exchange for the 60 trading days immediately prior to and including the Last Trading Date;
- (f) a premium of approximately 17.5% over the average closing price of HK\$22.80 of each Netcom Share based on the daily closing prices of Netcom Shares as quoted on the Hong Kong Stock Exchange for the 180 trading days immediately prior to and including the Last Trading Date; and

- (g) a premium of approximately 16.4% over the closing price of each Netcom Share of HK\$23.00 on the Hong Kong Stock Exchange on the Latest Practicable Date.

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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 value of each Netcom Share of HK\$23.55 under the Share Proposal represents:

- (a) a discount of approximately 8.2% to the weighted average traded price of each Netcom Share of HK\$25.66 on the Hong Kong Stock Exchange on the Last Trading Date;
- (b) a premium of approximately 1.8% over the weighted average traded price of each Netcom Share of HK\$23.14 on the Hong Kong Stock Exchange on the Latest Practicable Date;
- (c) a premium of approximately 1.5% over the average closing price of HK\$23.20 of each Netcom Share based on the daily closing prices of Netcom Shares as quoted on the Hong Kong Stock Exchange for the five trading days immediately prior to and including the Latest Practicable Date;
- (d) a premium of approximately 0.3% over the average closing price of HK\$23.49 of each Netcom Share based on the daily closing prices of Netcom Shares as quoted on the Hong Kong Stock Exchange for the ten trading days immediately prior to and including the Latest Practicable Date;
- (e) a premium of approximately 2.6% over the average closing price of HK\$22.95 of each Netcom Share based on the daily closing prices of Netcom Shares as quoted on the Hong Kong Stock Exchange for the 30 trading days immediately prior to and including the Latest Practicable Date;
- (f) a premium of approximately 2.4% over the average closing price of HK\$22.99 of each Netcom Share based on the daily closing prices of Netcom Shares as quoted on the Hong Kong Stock Exchange for the 60 trading days immediately prior to and including the Latest Practicable Date; and
- (g) a premium of approximately 1.7% over the average closing price of HK\$23.16 of each Netcom Share based on the daily closing prices of Netcom Shares as quoted on the Hong Kong Stock Exchange for the 180 trading days immediately prior to and including the Latest Practicable Date.

Based on the weighted average traded price of each Unicom ADS of US\$20.97 on the New York Stock Exchange on the Last ADS Trading Date, the value of each Netcom ADS of US\$63.25 under the ADS Proposal represents:

- (a) a premium of approximately 2.2% over the weighted average traded price of each Netcom ADS of US\$61.88 on the New York Stock Exchange on the Last ADS Trading Date;
- (b) a premium of approximately 4.1% over the average closing price of US\$60.74 of each Netcom ADS based on the daily closing prices of Netcom ADSs as quoted on the New York Stock Exchange for the five trading days immediately prior to and including the Last ADS Trading Date;
- (c) a premium of approximately 0.8% over the average closing price of US\$62.76 of each Netcom ADS based on the daily closing prices of Netcom ADSs as quoted on the New York Stock Exchange for the ten trading days immediately prior to and including the Last ADS Trading Date;
- (d) a premium of approximately 3.2% over the average closing price of US\$61.28 of each Netcom ADS based on the daily closing prices of Netcom ADSs as quoted on the New York Stock Exchange for the 30 trading days immediately prior to and including the Last ADS Trading Date;
- (e)

a premium of approximately 5.7% over the average closing price of US\$59.84 of each Netcom ADS based on the daily closing prices of Netcom ADSs as quoted on the New York Stock Exchange for the 60 trading days immediately prior to and including the Last ADS Trading Date;

- (f) a premium of approximately 7.1% over the average closing price of US\$59.08 of each Netcom ADS based on the daily closing prices of Netcom ADSs as quoted on the New York Stock Exchange for the 180 trading days immediately prior to and including the Last ADS Trading Date; and

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- (g) a premium of approximately 6.2% over the closing price of each Netcom ADS of US\$59.57 on the New York Stock Exchange on the Latest Practicable Date.

Based on the weighted average traded price of each Unicom ADS of US\$20.07 on the New York Stock Exchange on the Latest Practicable Date, the value of each Netcom ADS of US\$60.53 under the ADS Proposal represents:

- (a) a discount of approximately 2.2% to the weighted average traded price of each Netcom ADS of US\$61.88 on the New York Stock Exchange on the Last ADS Trading Date;
- (b) a premium of approximately 1.2% over the weighted average traded price of each Netcom ADS of US\$59.82 on the New York Stock Exchange on the Latest Practicable Date;
- (c) a discount of approximately 0.1% to the average closing price of US\$60.57 of each Netcom ADS based on the daily closing prices of Netcom ADSs as quoted on the New York Stock Exchange for the five trading days immediately prior to and including the Latest Practicable Date;
- (d) a discount of approximately 0.5% to the average closing price of US\$60.81 of each Netcom ADS based on the daily closing prices of Netcom ADSs as quoted on the New York Stock Exchange for the ten trading days immediately prior to and including the Latest Practicable Date;
- (e) a premium of approximately 2.5% over the average closing price of US\$59.03 of each Netcom ADS based on the daily closing prices of Netcom ADSs as quoted on the New York Stock Exchange for the 30 trading days immediately prior to and including the Latest Practicable Date;
- (f) a premium of approximately 3.0% over the average closing price of US\$58.78 of each Netcom ADS based on the daily closing prices of Netcom ADSs as quoted on the New York Stock Exchange for the 60 trading days immediately prior to and including the Latest Practicable Date; and
- (g) a premium of approximately 1.3% over the average closing price of US\$59.73 of each Netcom ADS based on the daily closing prices of Netcom ADSs as quoted on the New York Stock Exchange for the 180 trading days immediately prior to and including the Latest Practicable Date.

Net Asset Value

Based on the latest published audited consolidated financial statements of Netcom under HKFRS, the net asset value of Netcom as at 31 December 2007 was approximately RMB82,052 million (approximately HK\$93,347 million). This is equivalent to approximately HK\$13.93 for each Netcom Share as at the Latest Practicable Date, assuming that none of the outstanding Netcom Options had been exercised.

On that basis, the value of HK\$23.55 for each Scheme Share 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, represents a multiple of 1.69 times of the net asset value for each Netcom Share of HK\$13.93.

Earnings

Based on the latest published audited consolidated financial statements of Netcom under HKFRS, the net profit from continuing operations after taxation and extraordinary items of Netcom for the financial year ended 31 December 2007 was approximately RMB11,471 million (approximately HK\$13,050 million). This is equivalent to approximately HK\$1.95 for each Netcom Share as at the Latest Practicable Date, assuming that none of the outstanding Netcom Options had been exercised.

A calculation of the price earnings multiple based on the value of HK\$23.55 for each Scheme Share 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, yields a multiple of 12.08.

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Your attention is drawn to Appendix III to this Explanatory Statement which sets out 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.

11. EFFECTS OF THE PROPOSALS ON THE SHAREHOLDING STRUCTURES OF NETCOM AND UNICOM**Shareholding Structure of Netcom**

As at the Latest Practicable Date, there were 6,699,197,200 Netcom Shares in issue (including Netcom Shares underlying the Netcom ADSs), 7,098,720 Netcom ADSs outstanding and 125,836,260 outstanding Netcom Options, which were exercisable into 125,836,260 Netcom Shares. Other than the Netcom Shares, the Netcom ADSs and the Netcom Options, there are no other options, derivatives, warrants or other securities convertible or exchangeable into Netcom Shares which are issued by Netcom.

Based on publicly available information, the table below sets out the shareholding structure of Netcom as at the Latest Practicable Date and following the completion of the Proposals:

Name	As at the Latest Practicable Date		Following completion of the Proposals (assuming all of the outstanding Netcom Options had been exercised)		Following completion of the Proposals (assuming none of the outstanding Netcom Options had been exercised)	
	<i>Number of Netcom Shares</i>	<i>%</i>	<i>Number of Netcom Shares</i>	<i>%</i>	<i>Number of Netcom Shares</i>	<i>%</i>
Disinterested Netcom Shareholders comprising:						
Netcom BVI	4,647,449,015 ⁽¹⁾	69.37%	0	0.00%	0	0.00%
5 PRC Netcom Shareholders	297,698,985 ⁽²⁾	4.44%	0	0.00%	0	0.00%
Telefónica	333,971,305	4.99%	0	0.00%	0	0.00%
ABLP	397,382,288	5.93%	0	0.00%	0	0.00%
Other Public Netcom Shareholders	1,022,695,607	15.27%	0	0.00%	0	0.00%
	6,699,197,200	100.00%	0	0.00%	0	0.00%
Unicom	0	0.00%	6,825,033,460	100.00%	6,699,197,200	100.00%
Total	6,699,197,200	100.00%	6,825,033,460	100.00%	6,699,197,200	100.00%

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Notes:

(1) These Netcom Shares consisted of 4,647,449,014 Netcom Shares in which Netcom BVI was legally and beneficially interested and one Netcom Share held by a wholly-owned subsidiary of Netcom BVI.

(2) These 297,698,985 Netcom Shares were held by Netcom BVI as trustee on behalf of five PRC Netcom Shareholders.

Shareholding Structure of Unicom

As at the Latest Practicable Date, there were 13,664,951,945 Unicom Shares in issue (including Unicom Shares underlying the Unicom ADSs), 40,060,116 Unicom ADSs outstanding and 224,547,600 outstanding Unicom Options, which were exercisable into 224,547,600 Unicom Shares. Other than the Unicom Shares, the Unicom ADSs and the Unicom Options, there are no other options, derivatives, warrants or other securities convertible or exchangeable into Unicom Shares which are issued by Unicom.

Assuming the Scheme becomes effective and none of the outstanding Netcom Options had been exercised, a total of 10,102,389,377 Unicom Shares will be issued. Based on publicly available information and assuming 10,102,389,377 Unicom Shares are issued and there are no other changes in the shareholdings in Unicom prior to the completion of the Proposals, the table below sets out the shareholding structure of Unicom as at the Latest Practicable Date and following the completion of the Proposals:

Name	As at the Latest Practicable Date	Following completion of the Proposals (assuming all of the outstanding Unicom Options had been exercised)	Following completion of the Proposals (assuming none of the outstanding Unicom Options had been exercised)
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	<i>Number of Unicom Shares</i>	<i>%</i>	<i>Number of Unicom Shares</i>	<i>%</i>	<i>Number of Unicom Shares</i>	<i>%</i>
Unicom BVI	9,725,000,020	71.17%	9,725,000,020	40.53%	9,725,000,020	40.92%
SK Telecom	899,745,075	6.58%	899,745,075	3.75%	899,745,075	3.79%
Netcom BVI	0	0.00%	7,008,353,114	29.21%	7,008,353,114	29.49%
5 PRC Netcom						
Shareholders	0	0.00%	448,930,069	1.87%	448,930,069	1.89%
Telefónica ⁽¹⁾	0	0.00%	503,628,727	2.10%	503,628,727	2.12%
ABLP	0	0.00%	599,252,490	2.50%	599,252,490	2.52%
Other Public						
Unicom						
Shareholders	3,040,206,850	22.25%	4,806,979,427	20.04%	4,582,431,827	19.27%
Total	13,664,951,945	100.00%	23,991,888,922	100.00%	23,767,341,322	100.00%

Note:

(1) Based on Telefónica's shareholding of 333,971,305 Netcom Shares as at the Latest Practicable Date.

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Assuming the Scheme becomes effective and all of the outstanding Netcom Options had exercised, a total of 10,292,150,457 Unicom Shares will be issued. Based on publicly available information and assuming 10,292,150,457 Unicom Shares are issued and there are no other changes in the shareholdings in Unicom prior to the completion of the Proposals, the table below sets out the shareholding structure of Unicom as at the Latest Practicable Date and following the completion of the Proposals:

Name	As at the Latest Practicable Date		Following completion of the Proposals (assuming all of the outstanding Unicom Options had been exercised)		Following completion of the Proposals (assuming none of the outstanding Unicom Options had been exercised)	
	Number of Unicom Shares	%	Number of Unicom Shares	%	Number of Unicom Shares	%
Unicom BVI	9,725,000,020	71.17%	9,725,000,020	40.22%	9,725,000,020	40.59%
SK Telecom	899,745,075	6.58%	899,745,075	3.72%	899,745,075	3.76%
Netcom BVI	0	0.00%	7,008,353,114	28.98%	7,008,353,114	29.25%
5 PRC Netcom Shareholders	0	0.00%	448,930,069	1.86%	448,930,069	1.87%
Telefónica ⁽¹⁾	0	0.00%	503,628,727	2.08%	503,628,727	2.10%
ABLP	0	0.00%	599,252,490	2.48%	599,252,490	2.50%
Other Public Unicom Shareholders	3,040,206,850	22.25%	4,996,740,507	20.66%	4,772,192,907	19.93%
Total	13,664,951,945	100.00%	24,181,650,002	100.00%	23,957,102,402	100.00%

Note:

- (1) Based on Telefónica's shareholding of 333,971,305 Netcom Shares as at the Latest Practicable Date.

12. MATERIAL INTERESTS OF NETCOM DIRECTORS AND EFFECT OF THE SCHEME ON SUCH INTERESTS

As at the Latest Practicable Date, Mr. Zuo Xunsheng, Mr. Li Fushen and Mr. Yan Yixun, all Netcom Directors, have 455,500, 480,000 and 354,000 Netcom Options outstanding, respectively. Their rights under these Netcom Options are identical to those of other Netcom Optionholders. Accordingly, pursuant to the Option Proposal, to the extent that these Netcom Directors 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 and these Netcom Directors will automatically be granted Special Unicom Options in consideration for the cancellation of their outstanding Netcom Options. In the event that any of these Netcom Directors exercise their Netcom Options before the Options Exercise Deadline, such Netcom Director will be entitled to attend and vote at the Court Meeting as a Disinterested Netcom Shareholder and be bound by the Scheme if it becomes effective. However, none of these Netcom Directors intends to exercise their Netcom Options prior to the Options Exercise Deadline.

Except for the effects of the Proposals and the Scheme on such interests of Mr. Zuo Xunsheng, Mr. Li Fushen and Mr. Yan Yixun in the Netcom Options as described above and as disclosed in paragraphs 5(a) and 9 of Appendix IV to this Explanatory Statement, none of the Netcom Directors, whether as directors or shareholders or creditors of Netcom or otherwise, has any material interests in the Scheme. Accordingly, other than the interests of the Netcom Directors referred to above in Netcom Options, the Scheme does not have any effect on the interests of the Netcom Directors.

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13. INFORMATION ON NETCOM

Netcom was incorporated in Hong Kong with limited liability on 22 October 1999. Netcom is a leading broadband and fixed-line telecommunications operator in the PRC, with service regions consisting of Beijing Municipality, Tianjin Municipality, Hebei Province, Henan Province, Shandong Province, Liaoning Province, Heilongjiang Province, Jilin Province, Neimenggu Autonomous Region and Shanxi Province. In its service regions, Netcom provides fixed-line voice and value-added services, broadband and other Internet-related services, information and communications technology services, business and data communications services and advertising and media services.

The Netcom Shares were listed on the Hong Kong Stock Exchange on 17 November 2004 (Hong Kong time) and the Netcom ADSs were listed on the New York Stock Exchange on 16 November 2004 (New York time).

Your attention is drawn to the financial information on the Netcom Group and the general information on Netcom set out in Appendices I and IV, respectively, to this Explanatory Statement.

14. INFORMATION ON UNICOM

General Information

Unicom was incorporated in Hong Kong with limited liability on 8 February 2000. Unicom, through its subsidiaries, is principally engaged in GSM and CDMA cellular business in 31 provinces, municipalities and autonomous regions in the PRC, the provision of international and domestic long distance calls, data and Internet services and other related telecommunications value-added businesses. In addition, Unicom also operates certain CDMA mobile communications business in the Macau Special Administrative Region.

The Unicom Shares were listed on the Hong Kong Stock Exchange on 22 June 2000 (Hong Kong time) and the Unicom ADSs were listed on the New York Stock Exchange on 21 June 2000 (New York time).

Your attention is drawn to the financial information on the Unicom Group and the general information on Unicom set out in Appendices II and V, respectively, to this Explanatory Statement.

Financial and Trading Prospects of Unicom

China's telecommunications industry has undergone rapid growth and recently became the largest market in the world in terms of the number of fixed-line and wireless subscribers. Relatively low penetration rates, combined with robust macroeconomic conditions, are expected to result in sustainable and rapid growth of the telecommunications industry in China over the next few years.

In response to the changes in the competitive landscape and regulatory policies in China's telecommunications industry, operators are seeking restructuring opportunities. Upon the completion of the restructuring initiatives contemplated in the Telecoms Restructuring Announcement, there will be three main telecommunications operators with more comparable scale and resources, and with capability to offer fully integrated telecommunications services. This is expected to lead to a more balanced competitive environment and better resource allocation within China's telecommunications industry. In addition, the expected issuance of 3G wireless licences should result in new opportunities for Unicom and other telecommunications operators.

Unicom has agreed to dispose of the CDMA Business to China Telecom and is pursuing the merger with Netcom. If the proposed transactions are completed, the Enlarged Group is expected to become an integrated telecom full service provider offering mobile, fixed-line, broadband and Internet, and value-added services. The combination of the resources in 3G wireless, broadband and fixed-line businesses, and continued technological innovation, are expected to improve the Enlarged Group's brand perception and competitive positioning.

If the proposed transactions are completed, the Enlarged Group will discontinue its CDMA business operations. For wireless services, the Enlarged Group will focus on the development of its GSM and future 3G businesses. With the planned expansion of network coverage, improvement of transmission capacity and service quality, it is anticipated that the Enlarged Group will enhance its competitive advantage in its GSM business. Meanwhile, the Enlarged Group is expected to be granted a 3G licence after the completion of the proposed merger. By investing in research and development of 3G services, the Enlarged Group is expected to facilitate its

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transition from GSM to 3G technology and enable it to establish leading 3G services in China. These investments are expected to enhance the Enlarged Group's service capabilities in the wireless sector and expand its customer base, improve user mix, and thus achieve a stable revenue growth. The cash proceeds from the sale of the CDMA Business will primarily be used to increase the investment in the GSM network to expand coverage of the GSM network, improve IT support systems and the value-added business platform and enhance the customer service quality of the GSM business, and to lay a foundation for the future development of 3G business.

Based on the subscriber base of Unicom and Netcom as at 30 June 2008, the Enlarged Group is expected to have a combined total subscriber base of approximately 259 million users, including 128 million GSM users, 109 million local access users and 23.36 million broadband users, which represents cross-selling and bundling opportunities that may potentially lead to increase in customer loyalty, reduction of churn rate and, ultimately, increase in the Enlarged Group's market share. The economies of scale offered by the effective integration of the resources of Unicom and Netcom in sales and marketing, distribution channels and network coverage are expected to allow the Enlarged Group to realise the synergies from reducing sales and marketing costs, operating and maintenance costs, administration costs as well as capital expenditures.

The directors of Unicom and Netcom expect that the synergies of the merger will be realised gradually after the completion of the proposed transactions. The scale, resources and enhanced financial strength that are expected to result from an integration of the Enlarged Group should enable the Enlarged Group to improve its market position and increase shareholders' value.

CDMA Business Disposal and Related Transactions

On 2 June 2008, Unicom, CUCL and China Telecom entered into the CDMA Business Disposal Framework Agreement which sets out the terms and conditions on which Unicom, CUCL and China Telecom will proceed with the CDMA Business Disposal whereby CUCL, a wholly-owned subsidiary of Unicom, will sell, and China Telecom will purchase, the CDMA business of CUCL.

On 27 July 2008, Unicom, CUCL and China Telecom entered into the CDMA Business Disposal Agreement which sets out the detailed terms and conditions on which CUCL and Unicom will sell, and China Telecom will purchase, the CDMA Business.

The consideration for the CDMA Business Disposal is RMB43.8 billion (approximately HK\$49.8 billion) and is payable in cash by China Telecom in three instalments. The consideration is subject to an adjustment mechanism as set out in the announcement issued by Unicom on 28 July 2008 in relation to the CDMA Business Disposal.

Upon completion of the CDMA Business Disposal, Unicom expects to realise an estimated gain before tax of approximately RMB37.56 billion (approximately HK\$42.73 billion) under HKFRS. The estimated gain is calculated by using the consideration for the CDMA Business Disposal to minus (a) the carrying net asset value of the CDMA Business as at 31 December 2007 of RMB4.67 billion, (b) the goodwill in relation to the CDMA Business of RMB0.37 billion arising from Unicom's past acquisitions of cellular businesses from Unicom Parent, (c) the deferred revenue of RMB1.01 billion for the estimated value of support services expected to be provided to China Telecom at no consideration during the transitional period from the date of completion of the CDMA Business Disposal to 31 March 2009 or after the date of completion of the CDMA Business Disposal and (d) the estimated transaction costs and expenses (other than income tax) of RMB0.19 billion. The carrying net asset value of the CDMA Business is calculated as the CDMA Business' total assets minus the CDMA Business' total liabilities as at 31 December 2007.

The gain expected to be recognised in the consolidated income statement of the Unicom Group upon the completion of the CDMA Business Disposal is expected to be different from the estimated gain disclosed above due to (a) the possible adjustment to the consideration for the CDMA Business Disposal to be made in accordance with the price adjustment mechanism referred to above, (b) the possible adjustment to the detailed items of the CDMA Business as agreed in the final list on or before the delivery date in accordance with the completion plan set out in the CDMA Business Disposal Agreement, (c) the changes in estimated transaction costs and expenses

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(other than income tax) to be incurred in the CDMA Business Disposal, (d) the changes in the net asset value of the CDMA Business from 31 December 2007 to the date of completion of the CDMA Business Disposal and (e) the changes in the above estimated value of support services to be provided to China Telecom at no additional consideration.

Unicom expects to allocate the net proceeds from the CDMA Business Disposal for the following purposes: (a) increasing the investment in the GSM network to expand coverage of the GSM network, improve IT support systems and the value-added business platform and enhance the customer service quality of the GSM business, and to lay a foundation for the future development of 3G business, (b) reducing the debt of the Unicom Group in order to decrease financing costs and (c) funding of working capital and other general corporate purposes.

Your attention is drawn to Appendix III to this Explanatory Statement which sets out 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.

In connection with the CDMA Business Disposal, on 27 July 2008, CUCL agreed to waive its right to exercise its option to purchase the CDMA network from Unicom New Horizon at any time before 31 December 2008 or within one year after the termination or expiry of the Unicom CDMA Lease pursuant to the Unicom CDMA Lease and the parties to the Unicom CDMA Lease agreed to terminate the Unicom CDMA Lease, in each case with effect from the completion of the CDMA Business Disposal.

On 27 July 2008, Unicom Parent and Unicom New Horizon entered into an agreement to sell the CDMA network to China Telecommunications Corporation, the controlling shareholder of China Telecom, for a consideration of RMB66.2 billion (approximately HK\$75.3 billion). The completion of the disposal of the CDMA network is expected to occur on the same date as the completion of the CDMA Business Disposal. On 27 July 2008, China Telecom entered into a lease agreement with China Telecommunications Corporation relating to the leasing of capacity on the CDMA network to China Telecom.

In connection with the CDMA Business Disposal, in order to optimise the allocation of resources, to avoid duplication, to facilitate management and to enhance the efficiency of the operation of the integrated assets, CUCL and China Telecommunications Corporation plan to swap certain assets with each other based on the principle of equality and reciprocity and in accordance with applicable regulatory requirements.

The CDMA Business Disposal is subject to various conditions, including, among other things, (a) the approval of the Unicom Shareholders and the shareholders of Unicom A Share Company for the CDMA Business Disposal, (b) the approval of the independent Unicom Shareholders and the non-affiliated shareholders of Unicom A Share Company for the waiver by CUCL of the option to purchase the CDMA network from Unicom New Horizon and the termination of the Unicom CDMA Lease, (c) the approval of the independent shareholders of China Telecom for the leasing of capacity on the CDMA network by China Telecommunications Corporation to China Telecom and (d) the receipt of any other necessary regulatory or corporate approvals for the completion of the CDMA Business Disposal.

The CDMA Business Disposal is not dependent on the Proposals, but is instead a transaction separate and independent from the Proposals. Accordingly, even if the Scheme becomes effective, the CDMA Business Disposal may or may not be completed, depending on whether the conditions of the CDMA Business Disposal have been satisfied or waived, as applicable. Similarly, the Proposals are not dependent on the completion of the CDMA Business Disposal, nor are they dependent on the conditions of the CDMA Business Disposal being satisfied or waived, as applicable. Accordingly, even if the CDMA Business Disposal is completed, the Scheme may or may not be completed, depending on whether the conditions of the Proposals have been satisfied or waived, as applicable.

The CDMA Business Disposal constitutes a major transaction for Unicom and is subject to the approval of the Unicom Shareholders at the extraordinary general meeting of Unicom to be held on 16 September 2008. Each of the waiver by CUCL of the option to purchase the CDMA network and the termination of the Unicom CDMA Lease constitutes a connected transaction for Unicom and is subject to the approval of the independent Unicom

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Shareholders at the same extraordinary general meeting of Unicom. As Unicom BVI is regarded as having a material interest in the CDMA Business Disposal, the waiver by CUCL of the option to purchase the CDMA network and the termination of the Unicom CDMA Lease, Unicom BVI will abstain from voting on the resolutions for the approval of these matters at the extraordinary general meeting of Unicom.

The CDMA Business Disposal is not subject to the approval of the shareholders of China Telecom. However, as stated above, the CDMA Business Disposal is subject to, among other things, the leasing of capacity on the CDMA network by China Telecommunications Corporation to China Telecom being approved by the independent shareholders of China Telecom as it constitutes a connected transaction for China Telecom. Such independent shareholders' approval will be sought by China Telecom at the extraordinary general meeting of China Telecom to be held on 16 September 2008.

Assuming the approvals of the shareholders of Unicom and China Telecom referred to above are obtained and all of the other conditions of the CDMA Business Disposal are satisfied or waived, as applicable, completion of the CDMA Business Disposal will take place on 1 October 2008 (or such other date as the parties thereto may agree) and before the Effective Date.

If not all of the conditions of the CDMA Business Disposal are satisfied or waived, as applicable, on or before 31 December 2008 (or such other date as Unicom, CUCL and China Telecom may agree), the CDMA Business Disposal Agreement will automatically terminate.

Please see the announcements issued by Unicom and China Telecom on 2 June 2008 and 28 July 2008, the circular to the Unicom Shareholders dated 1 August 2008 and the circular to the shareholders of China Telecom dated 1 August 2008, each in relation to the CDMA Business Disposal for further details.

Unicom EGM to Approve the Proposals

As stated in paragraph 4 headed "Conditions of the Proposals and the Scheme" in this Explanatory Statement, one of the conditions of the Proposals and the Scheme is the approval of the Unicom Shareholders having been obtained for, among other things, the Proposals and the adoption of the Special Purpose Unicom Share Option Scheme.

As none of the Unicom Shareholders have a material interest in the matters to be approved at the Unicom EGM, all of the Unicom Shareholders will be entitled to vote on the resolutions to be proposed at the Unicom EGM. However, notwithstanding the foregoing, two of the Netcom Directors, being Ms. Li Jianguo and Mr. Timpson Chung Shui Ming, who hold 602,000 Unicom Shares and 6,000 Unicom Shares, respectively, have each given an undertaking to Netcom to abstain from voting at the Unicom EGM.

The Unicom EGM will be held on 16 September 2008 immediately after the conclusion or adjournment of the Unicom shareholders' meeting to be held on the same day to approve the CDMA Business Disposal. An announcement of the results of both of the Unicom shareholders' meetings will be published by Unicom on the Hong Kong Stock Exchange website on 16 September 2008.

Continuing Connected Transactions for Unicom

Upon the completion of the proposed merger, Netcom will become a wholly-owned subsidiary of Unicom and Netcom Parent will become a substantial shareholder of Unicom (as defined under the Listing Rules). Current continuing connected transactions between Netcom and Netcom Parent will therefore become continuing connected transactions of Unicom. In addition, there are a number of existing transactions between Unicom and its subsidiaries on the one hand and Netcom Parent and its subsidiaries on the other in Unicom's ordinary course of business. These transactions include interconnection settlement, engineering and information technology services, ancillary telecommunications services, properties leasing, telecommunications facilities leasing and the provision and sharing of management and other support services. Such transactions will also constitute continuing connected transactions of Unicom upon completion of the proposed merger and Unicom will need to comply with the Listing Rules in respect of these transactions, some of which will require the approval of Unicom's independent shareholders. Furthermore, the terms of the existing continuing connected transactions between Unicom and Unicom Parent relating to the provision of services between the parties will be amended with effect

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from the Effective Date to include China Netcom (Group) Company Limited, a wholly-owned subsidiary of Netcom, as a party and to facilitate the business and operations of the Enlarged Group, and are subject to the approval of Unicom's independent shareholders. Details of these continuing connected transactions are set out in the circular to the Unicom Shareholders dated 15 August 2008.

15. 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.

16. RISK FACTORS

You should carefully consider the following risk factors in deciding whether to vote in favour of or against the Scheme.

You are also encouraged to refer to and carefully consider the sections headed "Item 3 Key Information Risk Factors" in the annual reports of Unicom and Netcom on Form 20-F for the year ended 31 December 2007 filed with the SEC on 20 June 2008 and 22 May 2008, respectively, which contain a more detailed discussion of the principal risks relevant to the Netcom Shareholders and the Netcom ADS Holders in their consideration of the Scheme. Paragraph 28 below headed "Where You Can Find Additional Information" in this Explanatory Statement sets out the information on how to access these documents.

As the Share Exchange Ratio in the Scheme is fixed, the market value of the consideration to be paid to you in connection with the Scheme will depend on the market values of the Unicom Shares and the Unicom ADSs, respectively, on or after the Effective Date.

Under the Share Proposal and the ADS Proposal, the Scheme Shareholders and the Netcom ADS Holders will receive a fixed number of Unicom Shares and Unicom ADS, respectively, rather than a number of shares with a particular fixed market value. The market values of the Unicom Shares, the Unicom ADSs, the Netcom Shares and the Netcom ADSs on the Effective Date may vary significantly from their respective prices on the Last Trading Date and the Last ADS Trading Date or the date of the Court Meeting and the Netcom EGM. As the Share Exchange Ratio will not be adjusted in order to reflect any changes in the respective market prices of the Unicom Shares, the Unicom ADSs, the Netcom Shares and the Netcom ADSs, the value of the consideration paid to the Scheme Shareholders and the Netcom ADS Holders may be higher or lower than the market value of their Netcom shares or Netcom ADSs on

earlier dates.

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The Unicom Shares, the Unicom ADSs, the Netcom Shares and the Netcom ADSs have historically been subject to substantial price volatility. No assurance can be given as to the respective market prices of the Unicom Shares, the Unicom ADSs, the Netcom Shares and the Netcom ADSs at any time before the Effective Date or the market prices of the Unicom Shares and the Unicom ADSs after the Effective Date.

The results of operations or the financial condition of the Enlarged Group may differ significantly from the unaudited pro forma consolidated financial information of the Enlarged Group set out in Appendix III to this Explanatory Statement.

The unaudited pro forma consolidated financial information of the Enlarged Group has been prepared for the purpose of illustrating the financial effects of the Proposals and the CDMA Business Disposal as if they had taken place on 1 January 2007 for the pro forma consolidated income statement and the pro forma consolidated cash flow statement, and 31 December 2007 for the pro forma consolidated balance sheet. This pro forma financial information is presented for illustrative purposes only and does not necessarily indicate the results of operations or the financial position of the Enlarged Group that would have resulted had the Proposals and the CDMA Business Disposal been completed at the beginning of the period presented, nor is it indicative of the results of operations in future periods or the future financial position of the Enlarged Group. Accordingly, the results of operations and the financial condition of the Enlarged Group may differ significantly from those illustrated by the unaudited pro forma consolidated financial information of the Enlarged Group set out in Appendix III to this Explanatory Statement.

The Enlarged Group may fail to realise the anticipated benefits of the proposed merger and the proposed merger may also expose the Enlarged Group to uncertainties and risks, any of which could materially adversely affect the future business performance and financial condition of the Enlarged Group. Moreover, even if the anticipated benefits of the proposed merger are achieved, they may not result in revenues or profits superior to those which would have been achieved by Unicom and Netcom separately.

If the Scheme becomes effective, Unicom will commence the process of integrating the existing businesses and operations of Netcom and Unicom. Unicom and Netcom believe that the proposed merger represents an important transaction for them, following the industry trend of convergence between fixed lines and wireless businesses within the PRC, allowing Unicom and Netcom to benefit from increased economies of scale, reinforce their market position, improve their overall competitiveness and lay the foundation for sustainable long-term growth.

Nevertheless, the scale, scope and nature of the integration and customer retention efforts required in connection with the proposed merger present significant challenges, and Unicom and Netcom may be unable to complete the integration of the businesses on the currently scheduled timeline or fully realise the anticipated benefits. In particular, the proposed merger may not meet Unicom's expectations and the realisation of the anticipated benefits may be delayed or reduced as a result of numerous factors, some of which are outside the control of Unicom and Netcom. These factors include, among other things, (a) difficulties in integrating the operations of Netcom and Unicom, including information systems, personnel, policies and procedures, and overlapping operations, subsidiaries and branch networks, (b) unforeseen contingent risks or latent liabilities relating to the proposed merger that may only become apparent in the future, (c) difficulties in managing a much larger business, (d) a failure to complete the CDMA Business Disposal or to achieve the benefits anticipated from such disposal, (e) a failure to obtain the anticipated 3G licence and (f) an increase in competition in the PRC telecommunications industry resulting from the ongoing restructuring of the PRC telecommunications industry which, among other things, may require an increase in marketing efforts.

Any of the above factors could materially adversely affect the future business performance and financial condition of the Enlarged Group. Moreover, integrating the respective businesses of Unicom and Netcom, even if achieved in an efficient, effective and timely manner, may not result in revenues or profits superior to those which would have been achieved by Unicom and Netcom separately. In addition, the reduction in the shareholding of Unicom BVI in Unicom following the completion of the Scheme will result in Unicom being required to repay the loan referred to in paragraph 5 headed "Indebtedness" in Appendix II to this Explanatory Statement.

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The completion of the CDMA Business Disposal is subject to various conditions and there is no assurance that it will be completed.

On 27 July 2008, Unicom, CUCL and China Telecom entered into the CDMA Business Disposal Agreement which sets out the detailed terms and conditions on which CUCL and Unicom will sell, and China Telecom will purchase, the CDMA Business. The completion of the CDMA Business Disposal is subject to various conditions, which are discussed in paragraph 14 headed "Information on Unicom CDMA Business Disposal and Related Transactions" above in this Explanatory Statement. If these conditions for the completion of the CDMA Business Disposal are not satisfied or waived by 31 December 2008 (or such other date as Unicom, CUCL and China Telecom may agree), the CDMA Business Disposal Agreement will automatically terminate. There is no assurance that the conditions for the completion of the CDMA Business Disposal will be satisfied or waived in time.

Even if the CDMA Business Disposal is completed, Unicom may fail to realise the anticipated benefits of the CDMA Business Disposal and the CDMA Business Disposal may also expose Unicom to uncertainties and risks, any of which could materially adversely affect the future business performance and financial condition of the Enlarged Group.

Unicom believes that the CDMA Business Disposal will enable it to focus its financial and operational resources on the enhancement of its GSM business and the anticipated future development of 3G services and, if the proposed merger of Unicom and Netcom is completed, will better enable the Enlarged Group to execute a more focused business development plan, enhance its long-term competitiveness and achieve a more distinct strategic positioning.

However, even if the CDMA Business Disposal is completed, the benefits anticipated to result from the CDMA Business Disposal may not be realised in the expected scale or timeline due to numerous factors, some of which are beyond Unicom's control, and the CDMA Business Disposal may also expose Unicom to uncertainties and risks. In particular, (a) Unicom may need to further strengthen its customer relationships and may also need to further increase its marketing efforts and expenses, (b) in connection with the completion of the CDMA Business Disposal, a number of its employees will be transferred to China Telecom, including employees who have relevant GSM service related experience and existing job duties, and the completion of the CDMA Business Disposal may result in a loss of key personnel and operational expertise and (c) Unicom may have to further increase capital expenditures for expanding its other existing businesses, including the GSM business.

Any of the above factors could materially adversely affect the future business performance, operating results and financial condition of the Enlarged Group. In addition, the completion of the CDMA Business Disposal will result in Unicom being required to prepay the loan referred to in paragraph 5 headed "Indebtedness" in Appendix II to this Explanatory Statement.

17. SHARE CERTIFICATES, DEALINGS AND LISTING

Upon the Scheme becoming effective, all of the Scheme Shares (including the Scheme Shares underlying the Netcom ADSs) will be cancelled. The share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. An application will be made by Netcom to the Hong Kong Stock Exchange for the voluntary withdrawal of the listing of the Netcom Shares from the Hong Kong Stock Exchange.

Upon the Scheme becoming effective, Unicom intends to cause Netcom to apply for the delisting of the Netcom ADSs from the New York Stock Exchange and to terminate the Netcom ADS Deposit Agreement. If the Scheme becomes effective, Unicom intends to cause Netcom to file a Form 15 with the SEC to request that Netcom's reporting obligations under the US Securities Exchange Act be terminated or suspended because the effectiveness of the Scheme will cause the number of holders of Netcom Shares in the United States to fall below 300.

The Netcom Shareholders and the Netcom ADS Holders will be notified by way of an announcement of the proposed withdrawal of the listings, the last day for dealings in the Netcom Shares and the Netcom ADSs, the Effective Date and the dates on which the withdrawal of the listing of the Netcom Shares on the Hong Kong Stock Exchange and the delisting of the Netcom ADSs from the New York Stock Exchange will become effective.

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The listing of the Netcom Shares on the Hong Kong Stock Exchange and the Netcom ADSs on the New York Stock Exchange will not be withdrawn if the Proposals are not approved, lapse or do not become unconditional for any reason.

18. REGISTRATION AND DESPATCH OF UNICOM SHARE CERTIFICATES, UNICOM ADSs AND OPTION GRANT LETTERS

Scheme Shareholders

In order to determine entitlements under the Scheme, it is proposed that the register of members of Netcom will be closed from Saturday, 11 October 2008, or such other date as may be notified to the Netcom Shareholders by announcement. The transferees of the Netcom Shares or their successors in title should ensure that their Netcom Shares are lodged for registration in their names or in the names of their nominees before 4:30 p.m. on Friday, 10 October 2008. The share registrar of Netcom is Computershare Hong Kong Investor Services Limited, which is located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Assuming that the Scheme becomes effective on Wednesday, 15 October 2008, the share certificates for the Unicom Shares representing the consideration under the Scheme are expected to be despatched to the Scheme Shareholders or persons nominated by them on or before Saturday, 25 October 2008.

In the absence of any specific instructions to the contrary received in writing by the share registrar of Unicom before the Effective Date, the share certificates for the Unicom Shares representing the consideration under the Scheme will be sent to the Scheme Shareholders whose names appear on the register of members of Netcom at the Scheme Record Time at their respective addresses or, in the case of joint holders, to the registered address of that joint holder whose name stands first on the register of members of Netcom in respect of the joint holding. All such share certificates will be sent at the risk of the persons entitled thereto and neither Unicom nor Netcom will be liable for any loss or delay in transmission.

Settlement of the consideration under the Scheme will be implemented in full in accordance with the terms of the Scheme without regard to any lien, right of set-off, counterclaim or other analogous right to which Unicom or Netcom may otherwise be, or claim to be, entitled against any Scheme Shareholders.

Netcom ADS Holders

Upon the Scheme becoming effective, Unicom will allot and issue to the Netcom Depository, as the sole registered holder of the Scheme Shares underlying the Netcom ADSs, 1.508 new Unicom Shares for each Netcom Share held by the Netcom Depository as at the Scheme Record Time. As soon as reasonably practicable following the receipt by the Netcom Depository of such new Unicom Shares, Netcom will cause the Netcom Depository to deliver such Unicom Shares into the custodial account of the Unicom Depository for purposes of issuing and delivering new Unicom ADSs pursuant to the Unicom ADS Deposit Agreement. As soon as is reasonably practicable following the delivery by the Netcom Depository of the new Unicom Shares into the custodial account of the Unicom Depository, and in any event not later than ten days following the Effective Date, the Unicom Depository will deliver or cause to be delivered the new Unicom ADSs to Netcom ADS Holders in accordance with instructions received from the Netcom Depository. Netcom ADS Holders will receive 3.016 new Unicom ADSs for each Netcom ADS held at the Scheme Record Time.

Netcom Optionholders

Assuming that the Scheme becomes effective on Wednesday, 15 October 2008, the letters granting the Netcom Optionholders Special Unicom Options in consideration for the cancellation of the outstanding Netcom Options held by them at the Scheme Record Time (whether vested or not) are expected to be despatched to the Netcom Optionholders on or before Saturday, 25 October 2008.

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In the absence of any specific instructions to the contrary received in writing by Unicom before the Effective Date, the letters granting the Special Unicom Options will be sent to the Netcom Optionholders at their respective addresses registered with Netcom. All such letters will be sent at the risk of the Netcom Optionholders and neither Unicom nor Netcom will be liable for any loss or delay in transmission.

Settlement of the consideration under the Option Proposal will be implemented in full in accordance with the terms of the Option Proposal without regard to any lien, right of set-off, counterclaim or other analogous right to which Unicom or Netcom may otherwise be, or claim to be, entitled against any Netcom Optionholder.

19. TRADING OF ODD LOTS OF UNICOM SHARES

In order to facilitate the trading of odd lots of Unicom Shares issued under the Scheme, Unicom has appointed BOCI Securities Limited of 18/F Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong to provide the service to match the sale and purchase of odd lots of such Unicom Shares during the period from Monday, 27 October 2008 to Friday, 14 November 2008 (both days inclusive). Holders of the Unicom Shares issued in odd lots under the Scheme who wish to use this facility may contact the following persons during the period referred to above:

Contact Person

Telephone Number

Law, Pak Hong Passe
Vice President
Retail Trading Department

(852) 2718 9663

Holders of odd lots of Unicom Shares under the Scheme should note that the matching of the sale and purchase of odd lots of Unicom Shares is not guaranteed. Such holders of the Unicom Shares are advised to consult their own professional advisers if they are in doubt about the facility described above.

20. OVERSEAS NETCOM SHAREHOLDERS, NETCOM ADS HOLDERS AND NETCOM OPTIONHOLDERS

This document has been prepared for the purposes of complying with Hong Kong law, the Takeovers Code and the Listing Rules and the information disclosed may not be the same as that which would have been disclosed if this document had been prepared in accordance with the laws of jurisdictions outside Hong Kong.

The making of the Proposals to persons not resident in Hong Kong may be subject to the laws of the relevant jurisdictions. Such persons should inform themselves about and observe any applicable legal or regulatory requirements. It is the responsibility of any overseas Netcom Shareholder, Netcom ADS Holders and Netcom Optionholders wishing to accept any of the Proposals to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction.

The Scheme provides that, where the Unicom Directors or the Netcom Directors have been advised that the allotment and issue of the Unicom Shares to an overseas Scheme Shareholder (other than a Scheme Shareholder residing in the United States) may be prohibited by any relevant law or so prohibited except after compliance with conditions or requirements which the Unicom Directors or the Netcom Directors regard as unduly onerous by reason of delay, expense or otherwise, Unicom may allot and issue the relevant Unicom Shares to a person appointed by the Unicom Directors who will sell the same in the market as soon as reasonably practicable and account to the relevant overseas Scheme Shareholder for the net proceeds of sale (after the deduction of all expenses incurred and tax payable in connection with such sale) in full satisfaction of his rights to the Unicom Shares to which but for this provision he would have become entitled under the Scheme, except that no payment will be made of any amount less than HK\$50, which will be retained for the benefit of Unicom. The person appointed by the Unicom Directors will sell the relevant

Unicom Shares in the market as soon as reasonably practicable on or after the date when the share certificates for their Unicom Shares are expected to be despatched to the other Scheme Shareholders (which date is expected to be on or before Saturday, 25 October 2008) at such

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price(s) as may reasonably be obtained in the market. In order to give effect to such sale, the person appointed by the Unicom Directors shall be authorised as attorney on behalf of the Scheme Shareholder concerned to execute and deliver a form of transfer or other instrument or instruction of transfer and to give such instructions and to do all other things which he may consider necessary or expedient in connection with such sale. The net proceeds of sale after deduction of expenses will be sent to the relevant overseas Scheme Shareholder at his own risk within 14 days after any such sale but in any event within 28 days from the Effective Date. In the absence of bad faith or wilful default, none of Unicom, Netcom and the person so appointed shall have any liability for any loss or damage arising as a result of such sale.

21. INFORMATION FOR NETCOM SHAREHOLDERS AND NETCOM ADS HOLDERS IN THE UNITED STATES**Voting Procedures for Netcom ADS Holders**

If you are a Netcom ADS Holder, you cannot vote at the Court Meeting or the Netcom EGM directly, but as a registered Netcom ADS Holder as at 5:00 p.m. on 14 August 2008 (New York time), you may instruct the Netcom Depository to vote the Netcom Shares underlying your Netcom ADSs in accordance with the terms of the Netcom ADS Deposit Agreement and the ADS Voting Instruction Card. An ADS Voting Instruction Card is enclosed for this purpose and must be completed, signed and returned in accordance with the instructions printed on it as soon as possible, but in any event so as to be received by the Netcom Depository **not later than the ADS Voting Instruction Deadline**. ADS Voting Instruction Cards may be returned to the Netcom Depository at its offices located at Citigroup Shareholder Services, P.O. Box 43099, Providence RI 02940-5000, the United States of America. You may not change the voting instructions indicated on your completed ADS Voting Instruction Card unless you notify the Netcom Depository of such change in writing prior to the ADS Voting Instruction Deadline. If you hold Netcom ADSs indirectly through a financial intermediary, you must follow the procedures of the financial intermediary through which you hold your Netcom ADSs if you wish to vote.

If you are a Netcom ADS Holder and wish to attend and vote at the Court Meeting and the Netcom EGM directly, you must surrender your Netcom ADSs and withdraw the Netcom Shares represented by such Netcom ADSs in accordance with the terms of the Netcom ADS Deposit Agreement prior to 3:00 p.m. on 2 September 2008 (New York time). Furthermore, if you are a Netcom ADS Holder and wish to be entitled to be present in person or be represented by counsel at the Court Hearing to support or oppose the petition for the sanction of the Scheme, you must surrender your Netcom ADSs and withdraw the Netcom Shares represented by such Netcom ADSs in accordance with the terms of the Netcom ADS Deposit Agreement prior to 3:00 p.m. on 9 October 2008 (New York time) so that you can be registered as a Netcom Shareholder prior to the Court Hearing. If you hold Netcom ADSs indirectly through a financial intermediary and wish to attend and vote at the Court Meeting and the Netcom EGM directly or be present in person or represented by counsel at the Court Hearing, you must contact the financial intermediary through which you hold your Netcom ADSs and request it to surrender the Netcom ADSs beneficially owned by you and to withdraw the Netcom Shares. Netcom will pay to the Netcom Depository the fees for the cancellation of your Netcom ADSs, but you may incur taxes and other charges in connection with such surrender and withdrawal. In order to cancel your Netcom ADSs and withdraw the underlying Netcom Shares, you should contact the Netcom Depository at Citigroup Shareholder Services, P.O. Box 43099, Providence RI 02940-5000, the United States of America or by telephone at 1-877-248-4237 between 8:30 a.m. and 6:00 p.m. (New York time) Monday to Friday. Netcom ADS Holders who intend to surrender their Netcom ADSs in the foregoing manner should not return their ADS Voting Instruction Card.

The Netcom Depository will provide Netcom ADS Holders with copies of this document and the ADS Voting Instruction Card, which, among other things, will contain instructions as to the actions to be taken by Netcom ADS Holders in order to be registered as Netcom Shareholders and be entitled to directly attend and vote at the Court Meeting and the Netcom EGM and to be present in person or be represented by counsel at the Court Hearing. If you would like further information on surrendering your Netcom ADSs or have any questions relating to this document or

the completion and return of the ADS Voting Instruction Card, please contact the Netcom Depositary at 1-877-248-4237 between 8:30 a.m. and 6:00 p.m. (New York time) Monday to Friday. The helpline cannot provide advice on the merits of the Scheme or the Proposals or give any financial advice.

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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.

For the purpose of qualifying for the exemption from the registration requirements of the US Securities Act provided by Section 3(a)(10) thereof with respect to the Unicom Shares, including those represented by new Unicom ADSs, to be issued to Netcom Shareholders and Netcom ADS Holders pursuant to the Scheme, Netcom will advise the High Court before the Court Hearing that its sanction of the Scheme will be relied upon by Unicom for such purpose as an approval of the Scheme following a hearing on the fairness of the terms and conditions of the Scheme to the Netcom Shareholders, at which hearing all such Netcom Shareholders will be entitled to attend in person or through representation by counsel to support or oppose the sanction of the Scheme and with respect to which adequate notice shall have been given to them.

Neither the SEC nor any state securities commission has approved or disapproved the Unicom Shares or the Unicom ADSs representing those Unicom Shares offered hereby, or passed upon the accuracy or adequacy of this document or any of the accompanying documents. Any representation to the contrary is a criminal offence in the United States.

Certain US Resale Restrictions

From the Effective Date, the Unicom Shares issued in connection with the Scheme (including those represented by Unicom ADSs) will be freely transferable without restriction under the US Securities Act other than by certain affiliates (as such term is defined in Rule 144 under the US Securities Act) of Unicom as described below. Persons who are affiliates of Unicom, or who have been affiliates of Unicom at any time during a 90-day period immediately before the Effective Date or before a sale by or on behalf of such persons, will be subject to certain US transfer restrictions relating to the Unicom Shares they receive under the Scheme, including those represented by Unicom ADSs. Such persons may not sell their Unicom Shares or Unicom ADSs without registration under the US Securities Act, except pursuant to the applicable resale provisions of Rule 144 under the Securities Act or in a transaction exempt from such registration requirements (including a transaction that satisfies the applicable requirements for resales outside the United States pursuant to Regulation S under the US Securities Act).

A Netcom Shareholder or Netcom ADS Holder who believes that he or she may be, may become or has been an affiliate of Unicom should consult his or her own legal advisers prior to any sales of Unicom Shares or Unicom ADSs received, as the case may be, pursuant to the Scheme or the ADS Proposal.

Paragraph 22 headed **Taxation** US Federal Income Tax Considerations below in this Explanatory Statement contains a discussion of certain tax consequences applicable to US holders of Netcom Shares and Netcom ADSs.

22. TAXATION

The Scheme Shareholders, the Netcom ADS Holders and the Netcom Optionholders, whether in Hong Kong or in other jurisdictions, are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of the Scheme or the Proposals and, in particular, whether the receipt of the consideration under the Scheme or the Proposals would make such Scheme Shareholder, Netcom ADS Holder or Netcom Optionholder liable to taxation in Hong Kong or in other jurisdictions.

Certain Hong Kong Tax Considerations

As the Scheme does not involve the sale and purchase of Hong Kong stock, no stamp duty will be payable pursuant to the Stamp Duty Ordinance, Chapter 117 of the Laws of Hong Kong, on the cancellation of the Scheme Shares (including the Scheme Shares underlying the Netcom ADSs) upon the Scheme becoming effective.

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US Federal Income Tax Considerations

Any discussion of tax issues set forth in this document was not intended or written to be used, and it cannot be used, by any person for the purpose of avoiding any tax penalties that may be imposed on such person. Every investor should seek advice based on its particular circumstances from an independent tax adviser.

The following summary describes the US federal income tax considerations generally applicable to US Holders (as defined below) of Scheme Shares or Netcom ADSs that exchange their Scheme Shares or Netcom ADSs for Unicom Shares or Unicom ADSs under the Share Proposal or the ADS Proposal, respectively. This summary is based upon the US Internal Revenue Code of 1986, as amended (the Code), proposed, temporary and final US Treasury regulations under the Code, administrative rulings and judicial decisions, all as in effect as at the date of this document and all of which are subject to change (possibly with retroactive effect) or to differing interpretations. This summary applies only to US Holders of Scheme Shares or Netcom ADSs who hold their Scheme Shares or Netcom ADSs, and will hold any Unicom Shares or Unicom ADSs that they receive under the Share Proposal or the ADS Proposal, respectively, as capital assets within the meaning of Section 1221 of the Code. This summary does not discuss all aspects of US federal income taxation that may be relevant to a particular US Holder of Scheme Shares or Netcom ADSs in light of its particular circumstances or to US Holders of Scheme Shares or Netcom ADSs subject to special treatment under the US federal income tax laws, including:

banks, insurance companies, trusts and financial institutions;

tax-exempt organisations;

mutual funds;

US Holders who have a functional currency other than the US dollar;

traders in securities who elect to apply a mark-to-market method of accounting;

dealers in securities or foreign currency;

US Holders that are liable for the alternative minimum tax;

US Holders of Scheme Shares or Netcom ADSs who have received their Scheme Shares or Netcom ADSs in compensatory transactions;

US Holders of Scheme Shares or Netcom ADSs who hold their Scheme Shares or Netcom ADSs as part of a hedge, straddle, constructive sale, conversion transaction or other integrated investment;

US Holders who hold Netcom Options;

US Holders of Scheme Shares or Netcom ADSs who own, directly, indirectly through one or more entities, or as a result of certain constructive ownership rules of the Code, 10% or more of the equity of Netcom;

except to the extent discussed below, US Holders of Scheme Shares or Netcom ADSs who will, following the exchange by such US Holders of Scheme Shares or Netcom ADSs for Unicom Shares or Unicom ADSs in connection with the Share Proposal or the ADS Proposal, hold directly, indirectly through one or more entities, or as a result of certain constructive ownership rules of the Code, 5% or more of either the total voting power or the total value of the equity of Unicom (such US Holders will be referred to in this document as 5%

transferee shareholders); and

US Holders who will own, directly, indirectly through one or more entities, or as a result of certain constructive ownership rules of the Code, 10% or more of the equity of Unicom following the exchange of Scheme Shares or Netcom ADSs for Unicom Shares or Unicom ADSs, respectively.

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For the purposes of this summary, a US Holder is:

an individual who is a US citizen or resident of the United States for US federal income tax purposes;

a corporation, or other entity treated as a corporation for US federal income tax purposes, created or organised under the laws of the United States, any state thereof, or the District of Columbia;

an estate that is subject to US federal income tax without regard to its source; or

a trust if (i) a US court is able to exercise supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust or (ii) the trust has a valid election in effect to be treated as a US person for US federal income tax purposes.

If a partnership, or other entity treated as a partnership for US federal income tax purposes, holds Scheme Shares or Netcom ADSs, the US federal income tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. Partners of partnerships, or other entities treated as partnerships, that hold Scheme Shares or Netcom ADSs should consult their tax advisers regarding the US federal income tax consequences to them of the Share Proposal or the ADS Proposal.

This summary is of a general nature only and is not intended to be, and should not be construed to be, legal, business or tax advice to any prospective investor, and no representation with respect to the tax consequences to any particular investor is made. In addition, this discussion assumes that the Share Proposal and the ADSs Proposal will be consummated according to the terms of the Scheme and as described in this document. The following summary is not binding on the US Internal Revenue Service (the IRS). As a result, the IRS could adopt a contrary position, and a contrary position could be sustained by a court.

US Holders of Scheme Shares or Netcom ADSs should consult their own tax advisers concerning the US federal income tax consequences of the Share Proposal and the ADS Proposal, the US federal income tax consequences of the ownership and disposition of any Unicom Shares or Unicom ADSs received by reason of the Share Proposal or the ADS Proposal, and any tax consequences arising under any state, local or non-US taxing jurisdictions.

Exchange of Scheme Shares or Netcom ADSs for Unicom Shares or Unicom ADSs

For US federal income tax purposes, the exchange of Scheme Shares and Netcom ADSs for Unicom Shares and Unicom ADSs under the Share Proposal and the ADS Proposal, respectively, has been structured with the aim of qualifying as a reorganisation under the provisions of Section 368(a) of the Code. Because the determination of whether the exchange of Scheme Shares and Netcom ADSs for Unicom Shares and Unicom ADSs, respectively, will qualify as a reorganisation depends on the resolution of complex issues and facts, there can be no assurances that the exchange of Scheme Shares and Netcom ADSs for Unicom Shares and Unicom ADSs, respectively, will qualify as a reorganisation. Netcom has not obtained, and will not obtain, a ruling from the IRS or an opinion of US legal counsel regarding the qualification of the exchange of Scheme Shares and Netcom ADSs for Unicom Shares and Unicom ADSs as a reorganisation. The remainder of this section assumes that the exchange of Scheme Shares and Netcom ADSs for Unicom Shares and Unicom ADSs will qualify as a reorganisation.

Subject to the PFIC (as defined below) rules discussed below, a US Holder generally will not recognise any gain or loss upon receipt of Unicom Shares or Unicom ADSs under the Share Proposal or the ADS Proposal, respectively, except with respect to any cash received in lieu of fractional Unicom ADSs (as described below). The aggregate adjusted tax basis of Unicom Shares or Unicom ADSs received by a US Holder, including any fractional Unicom ADSs deemed to be received and converted into cash (as described below), should be equal to the aggregate adjusted tax basis of the Scheme Shares or Netcom ADSs surrendered. The holding period of the Unicom Shares or Unicom ADSs received should include the period during which the US Holder held the Scheme Shares or Netcom ADSs.

In the case of a 5% transferee shareholder who exchanges Scheme Shares or Netcom ADSs for Unicom Shares or Unicom ADSs, this treatment will apply provided that the 5% transferee shareholder enters into a gain recognition agreement in accordance with applicable US Treasury regulations. In addition, such 5% transferee

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shareholders will be required to file certain annual information statements with their US federal income tax returns for each of the first five full taxable years following the taxable year of the Scheme. Such 5% transferee shareholders should consult their tax advisers as to the US federal income tax consequences of the Scheme to them.

A US Holder of Netcom ADSs that receives cash in lieu of a fractional Unicom ADS generally will be treated as having received a fractional Unicom ADS and then as having sold the fractional Unicom ADS for cash. Such US Holder will generally recognise capital gain or loss on any cash received in lieu of a fractional Unicom ADS equal to the difference between the amount of cash received and the basis allocated to the fractional Unicom ADS. Such capital gain or loss generally will be long-term capital gain or loss if the US Holder has held the Netcom ADSs for more than one year at the effective time of the Scheme. Net long-term capital gains of non-corporate US Holders, including individuals, are eligible for reduced rates of taxation. Deductions for capital losses are subject to complex limitations under the Code.

The US federal income tax consequences to a US Holder, including a US Holder that is a 5% transferee shareholder, of an exchange of Scheme Shares or Netcom ADSs for Unicom Shares or Unicom ADSs, respectively, would be different from the consequences described above if Netcom were considered to be a passive foreign investment company (a PFIC) in the taxable year of the exchange or in any taxable year during which a US Holder has held Scheme Shares or Netcom ADSs. Based on the projected composition of its income and assets, Netcom is not expected to be a PFIC for its current taxable year. However, because this conclusion is a factual determination that is determined at the close of the taxable year and is subject to change on an annual basis, there can be no assurances that Netcom will not be a PFIC for its current taxable year. US Holders that hold Scheme Shares or Netcom ADSs should consult their own tax advisers regarding the US federal income tax consequences if Netcom is or has been a PFIC.

Any US Holder that is a significant holder as defined in Section 1.368-3(c) of the US Treasury regulations with respect to Netcom will be required to attach a statement to its US federal income tax return for the taxable year of the Scheme that contains the information listed in Section 1.368-3(b) of the US Treasury regulations. Such statement must include the US Holder's US federal income tax basis in its Scheme Shares or Netcom ADSs and their fair market value immediately before they were exchanged for Unicom Shares or Unicom ADSs. A significant holder generally includes a holder of at least 5% (by vote or value) of the stock of a corporation if the stock is publicly traded or a holder of securities of a corporation with a basis of US\$1,000,000 or more. All US Holders of Scheme Shares or Netcom ADSs that receive Unicom Shares or Unicom ADSs, respectively, will be required to retain permanent records of this information. These records should include information regarding the amount, basis and fair market value of Scheme Shares or Netcom ADSs surrendered, as well as other relevant information. All US Holders should consult their own tax advisers regarding any record-keeping and reporting requirements applicable to them in respect of the Scheme.

Ownership and Disposition of Unicom Shares or Unicom ADSs

The US Treasury has expressed concerns that parties to whom ADSs are released may be taking actions that are inconsistent with the claiming of foreign tax credits. Such actions would also be inconsistent with the claiming of the reduced rate of tax, as described below, applicable to dividends received by certain non-corporate US Holders. Accordingly, the analysis of the creditability of any foreign taxes of any US Holder of Unicom ADSs and the availability of the reduced tax rate for dividends received by non-corporate US Holders of Unicom ADSs, each described below, could be affected by actions taken by US Holders to whom the ADSs are released.

The discussion below assumes that the representations contained in Unicom ADS Deposit Agreement are true and that the obligations in the Unicom ADS Deposit Agreement and any related agreement will be complied with in accordance with their terms. A US Holder of Unicom ADSs should be treated as the holder of the underlying Unicom Shares represented by those Unicom ADSs for US federal income tax purposes. Exchanges of Unicom Shares for Unicom ADSs and Unicom ADSs for Unicom Shares generally will not be subject to US federal income tax.

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Subject to the PFIC rules discussed below, the gross amount of any distribution with respect to Unicom Shares or Unicom ADSs will be taxable to US Holders of Unicom Shares or Unicom ADSs as a dividend to the extent of Unicom's current and accumulated earnings and profits, as determined under US federal income tax principles. To the extent that the amount of any distribution exceeds Unicom's current and accumulated earnings and profits, as determined under US federal income tax principles, such distribution will first be treated as a tax-free return of capital, to the extent of such US Holder's adjusted tax basis in Unicom Shares or Unicom ADSs, and thereafter as capital gain.

Subject to certain limitations, dividends paid to non-corporate US Holders, including individuals, with respect to Unicom Shares or Unicom ADSs may be eligible for a reduced rate of taxation if Unicom is deemed to be a qualified foreign corporation for US federal income tax purposes and if certain holding period requirements are satisfied. A non-US corporation generally will be considered to be a qualified foreign corporation with respect to dividends paid to non-corporate US investors if (i) it is eligible for the benefits of a comprehensive tax treaty with the United States that the Secretary of the Treasury of the United States determines is satisfactory for purposes of this provision and that includes an exchange of information program or (ii) the shares or ADSs on which such dividends were paid are readily tradable on an established securities market in the United States. There is currently no tax treaty in effect between the United States and Hong Kong. However, at present, the Unicom ADSs are traded on the New York Stock Exchange, an established securities market in the United States, and, accordingly, Unicom should be considered a qualified foreign corporation with respect to dividends paid to non-corporate US Holders on the Unicom ADSs.

Distributions will be includable in a US Holder's gross income on the date actually or constructively received by the US Holder. Dividends will not be eligible for the dividends received deduction generally allowed to US corporations in respect of dividends received from other US corporations.

The US dollar value of any distribution made to a US Holder by Unicom in Hong Kong dollars will be determined by reference to the exchange rate in effect on the date the distribution is actually or constructively received by the US Holder or the Unicom Depositary, respectively, regardless of whether the payment is in fact converted into US dollars on that date. If any Hong Kong dollars received on that date are not converted into US dollars on that date, any subsequent gain or loss from exchange rate fluctuations with respect to such Hong Kong dollars will be ordinary income or loss. This gain or loss will generally be treated as US source gain or loss for US foreign tax credit limitation purposes.

Dividends generally will be treated as income from foreign sources for US foreign tax credit limitation purposes. Subject to the limitations and conditions set forth in the Code, US Holders may elect to claim a credit against their US federal income tax liability in the event that any Hong Kong tax is withheld from dividends received with respect to Unicom Shares or Unicom ADSs. The rules relating to the determination of the foreign tax credit are complex and prospective purchasers are urged to consult their personal tax advisers to determine whether and to what extent they would be entitled to such credit. US Holders that do not elect or are not permitted to claim foreign tax credits may instead claim a deduction for any Hong Kong tax withheld.

Sale, Exchange or Other Disposition of Unicom Shares or Unicom ADSs

Subject to the PFIC rules discussed below, upon the sale, exchange or other disposition of Unicom Shares or Unicom ADSs, a US Holder generally will recognize capital gain or loss equal to the difference between the amount realized upon the sale, exchange or other disposition of Unicom Shares or Unicom ADSs and the US Holder's adjusted tax basis in Unicom Shares or Unicom ADSs. The capital gain or loss generally will be long-term capital gain or loss if, at the time of sale, exchange or other disposition, the US Holder has held Unicom Shares or Unicom ADSs for more than one year. Net long-term capital gains of non-corporate US Holders, including individuals, are eligible for reduced rates of taxation. Deductions for capital losses are subject to complex limitations under the Code. Any such gain or loss that a US Holder recognizes generally will be treated as US source gain or loss for US foreign tax credit limitation purposes.

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Passive Foreign Investment Company Rules (PFIC Rules)

Special, generally unfavourable, US federal income tax rules will apply to US Holders that hold Unicom Shares or Unicom ADSs if Unicom is a PFIC at any time during which the US Holder holds Unicom Shares or Unicom ADSs. A non-US corporation generally is classified as a PFIC for US federal income tax purposes in any taxable year if (i) at least 75% of its gross income is passive income or (ii) at least 50% of the gross value of its assets (based on an average of the quarterly values of the assets) is attributable to assets that produce passive income or are held for the production of passive income.

Unicom is not expected to be a PFIC in the current taxable year and is not expected to be a PFIC in future taxable years. However, because this conclusion is a factual determination that is determined at the close of the taxable year and is subject to change on an annual basis, there can be no assurances that Unicom will not be a PFIC for the current taxable year or any future taxable year. US Holders that hold Unicom Shares or Unicom ADSs should consult their own tax advisers regarding the US federal income tax consequences if Unicom is or becomes a PFIC.

Backup Withholding and Information Reporting

In general, information reporting requirements will apply to dividends paid to non-corporate US Holders with respect to Unicom Shares and Unicom ADSs, and to proceeds received upon the sale, exchange or other disposition of Unicom Shares or Unicom ADSs by US Holders. Furthermore, backup withholding (currently at a rate of 28%) may apply to such amounts if a US Holder fails to furnish a correct taxpayer identification number, to certify that such US Holder is not subject to backup withholding or to otherwise comply with the backup withholding requirements.

Any amounts withheld under the backup withholding rules may be allowed as a refund or credit against a US Holder's US federal income tax liability, provided that the US Holder timely furnishes the required information to the IRS. US Holders should consult their own tax advisers as to their qualification for an exemption from backup withholding and the procedure for obtaining such an exemption.

5% transferee shareholders who intend to enter into gain recognition agreements in accordance with applicable US Treasury regulations must file such agreements with their US federal income tax returns for the taxable year of the Scheme, and will be required to file certain annual information statements with their US federal income tax returns for each of the first five full taxable years following the taxable year of the Scheme. Such 5% transferee shareholders should consult their tax advisers regarding the requirements applicable to them.

23. COURT MEETING AND NETCOM EGM

Notices convening the Court Meeting and the Netcom EGM to be held at The Ballroom, Island Shangri-La, Hong Kong on 17 September 2008 at respectively 4:00 p.m. and 4:30 p.m. (or immediately after the conclusion or adjournment of the Court Meeting) are set out on pages N-1 to N-4 of this document.

The High Court has directed that the Court Meeting be held for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme, with or without modification. The Scheme will be subject to the approval by the Disinterested Netcom Shareholders other than the Exempt Principal Traders at the Court Meeting in the manner referred to in paragraph 4 headed "Conditions of the Proposals and the Scheme" above in this Explanatory Statement.

Immediately following the Court Meeting, the Netcom EGM will be held for the purpose of considering and, if thought fit, passing a special resolution to approve the implementation of the Scheme. All Netcom Shareholders will be entitled to attend and vote on such special resolution at the Netcom EGM.

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24. PROCEDURES FOR DEMANDING A POLL AT THE NETCOM EGM

In accordance with article 70(a) of the articles of association of Netcom, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:

- (i) the Chairman of the meeting; or
- (ii) at least three Netcom Shareholders present in person (or in the case of a Netcom Shareholder being a corporation, by its duly authorised representative) or by proxy and entitled to vote at the meeting; or
- (iii) any Netcom Shareholder or Netcom Shareholders present in person (or in the case of a Netcom Shareholder being a corporation, by its duly authorised representative) or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all Netcom Shareholders having the right to attend and vote at the meeting; or
- (iv) any Netcom Shareholder or Netcom Shareholders present in person (or in the case of a Netcom Shareholder being a corporation, by its duly authorised representative) or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid-up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

A poll shall be taken at such time (being not later than thirty days after the date of the demand) and in such manner (including the use of ballot or voting papers or tickets) as the Chairman of the Netcom EGM may appoint. On a poll, every Netcom Shareholder present at the Netcom EGM shall be entitled to one vote for every fully paid-up Netcom Share of which he is the holder. The result of such poll shall be deemed for all purposes to be the resolution of the meeting at which the poll was so directed or demanded.

25. ACTIONS TO BE TAKEN

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the Netcom EGM are enclosed with this document.

Whether or not you are able to attend the Court Meeting or the Netcom EGM, if you are a Disinterested Netcom Shareholder (other than an Exempt Principal Trader), you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting in accordance with the instructions printed on it and if you are a Netcom Shareholder, you are strongly urged to complete and sign the enclosed **white** form of proxy in respect of the Netcom EGM in accordance with the instructions printed on it, and to deposit them, together with the power of attorney or other authority (if any) under which they are signed or notarially certified copy of such power of attorney or other authority, at Netcom's registered office at Room 6701, The Center, 99 Queen's Road Central, Hong Kong. **The pink form of proxy for use at the Court Meeting should be deposited not later than 4:00 p.m. on 15 September 2008 and, in order to be valid, the white form of proxy for use at the Netcom EGM should be deposited not later than 4:30 p.m. on 15 September 2008.** The **pink** form of proxy in respect of the Court Meeting may alternatively be handed to the Chairman of the Court Meeting at the Court Meeting if it is not so deposited. The completion and return of a form of proxy for the Court Meeting or the Netcom EGM will not preclude you from attending and voting in person at the Court Meeting or the Netcom EGM. In such event, the relevant form of proxy will be deemed to have been revoked.

If a registered or beneficial owner of Netcom Shares in Hong Kong has questions concerning administrative matters, such as dates, documentation and procedures relating to the Proposals, please call the share registrar of Netcom, Computershare Hong Kong Investor Services Limited, at (852) 2862 8648 between 9:00 a.m. and 6:00 p.m. (Hong Kong time) Monday to Friday from 15 August 2008 to 17 September 2008. This helpline cannot and will not provide advice on the merits of the Proposals or the Scheme or give financial or legal advice.

If you are a Netcom ADS Holder, you should refer to paragraph 21 headed Information for Netcom Shareholders and Netcom ADS Holders in the United States above in this Explanatory Statement for further details.

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If you are a Netcom Optionholder, you should refer to the Option Proposal Letter for further details.

26. COSTS OF THE SCHEME

In the event that the Scheme becomes effective, the costs of the Scheme incurred by Netcom will be borne by Netcom. The costs of the Scheme and of its implementation incurred by Netcom are expected to amount to approximately RMB100 million. These primarily consist of fees for financial advisers, legal advisers, accounting, printing and other related charges.

In the event that the Scheme does not become effective, each of Netcom and Unicom will bear its own expenses incurred in connection with the Scheme.

27. FURTHER INFORMATION

Further information is set out in the Appendices to this Explanatory Statement, all of which form part of this Explanatory Statement.

28. WHERE YOU CAN FIND ADDITIONAL INFORMATION

In addition to the documents available for inspection set out in Appendix VI to this Explanatory Statement, each of Unicom and Netcom publishes its annual and interim reports, announcements and other corporate communications on their websites at www.chinaunicom.com.hk and www.china-netcom.com, respectively, and on the Hong Kong Stock Exchange's website at 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 also 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. 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 document in order to vote your Scheme Shares at the Court Meeting and the Netcom EGM. Neither Unicom, Netcom, CICC, JPMorgan, Citigroup, Rothschild nor any of their respective directors or associates has authorised anyone to provide you with information that is different from what is contained in this document. This document is dated 15 August 2008. No assumption should be made that the information contained in this document is accurate as at any date other than the Latest Practicable Date, and neither the despatch of this document to the Netcom Shareholders, the Netcom ADS Holders or the Netcom Optionholders nor the payment of the consideration pursuant to the Proposals shall create any implication to the contrary.

29. LANGUAGE

The English language text of this document and the accompanying forms of proxy shall prevail over the Chinese language text in the event of any inconsistency.

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Except for the additional information for the year ended 31 December 2005 and the funding and treasury policies and objectives shown in the paragraph headed "Liquidity and Capital Resources" in section 4 headed "Management Discussion and Analysis" and the information shown in section 5 headed "Indebtedness", section 6 headed "Material Changes" and section 7 headed "Dividends", the financial information included in this Appendix I is extracted from the annual report of Netcom for the year ended 31 December 2007 or the annual report of Netcom on Form 20-F for the year ended 31 December 2007 filed with the SEC on 22 May 2008 or the announcement of Netcom on 21 April 2008 for the unaudited revenue for the three months ended 31 March 2008. Unless otherwise defined, capitalised terms in this Appendix I shall have the meanings set out in the "Definitions" section of this document.

1. THREE YEAR FINANCIAL SUMMARY

Due to the disposal of Guangdong and Shanghai branches of the Netcom Group in 2007, the operating results of Guangdong and Shanghai branches have been presented as discontinued operations in accordance with HKFRS 5 issued by HKICPA. Also, the acquisition of Beijing Telecom P&D Institute by the Netcom Group in 2007 has been accounted for using merger accounting according to the Accounting Guideline 5 issued by the HKICPA. The financial information for 2005 and 2006 of the Netcom Group is restated accordingly.

Subject to the adoption of the definitions in this document, the following financial information for 2006 and 2007 is extracted from the audited consolidated financial statements of Netcom for the financial year ended 31 December 2007, prepared in accordance with HKFRS, Hong Kong Accounting Standards (HKAS) and interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). The financial information for 2005 is extracted from the Financial Summary of the 2007 annual report of Netcom and is unaudited.

RESULTS

	Year ended 31 December		
	2005 <i>(Restated)</i> <i>(RMB)</i>	2006 <i>(Restated)</i> <i>(RMB)</i>	2007 <i>(RMB)</i>
	<i>(in millions, except per share and per ADS information)</i>		
Continuing operations:			
Revenues	83,927	84,194	84,005
Local usage fees	24,440	22,059	19,989
Monthly fees	18,170	16,546	12,387
Upfront installation fees	1,433	1,364	1,283
DLD usage fees	9,773	9,495	8,769
ILD usage fees	874	819	791
Value-added services	3,970	5,341	6,114
Interconnection fees	7,664	8,432	8,376
Upfront connection fees	3,405	2,406	1,517
Broadband service	7,289	9,916	13,835
Other Internet-related service	556	516	532
Managed data service	1,621	1,413	1,284
Leased line income	2,376	2,540	2,521
Information communications technology services	186	855	3,990
Other services	2,170	2,492	2,617

Operating expense	(62,868)	(64,643)	(66,739)
Depreciation and amortisation	(24,328)	(24,913)	(25,495)
Network, operations and support	(12,610)	(13,344)	(14,145)
Staff cost	(11,830)	(11,849)	(12,223)
Selling, general and administrative	(12,726)	(12,607)	(10,615)
Other operating expense	(1,374)	(1,930)	(4,261)

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	Year ended 31 December		
	2005	2006	2007
	<i>(Restated)</i>	<i>(Restated)</i>	
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
	<i>(in millions, except per share and per ADS information)</i>		
Other income		621	1,221
Interest income	134	135	113
Dividend income	29		
Deficit on revaluation of fixed assets		(1,335)	
Profit from operations	21,222	18,972	18,600
Financial cost	(3,346)	(3,767)	(3,333)
Profit before taxation	17,876	15,205	15,267
Taxation	(3,526)	(3,727)	(3,796)
Profit for the year from continuing operations	14,350	11,478	11,471
Discontinued operations:			
(Loss)/profit for the year from discontinued operations	(400)	1,487	624
Profit for the year	13,950	12,965	12,095
Earnings per share for profit from continuing operations attributable to shareholders of Netcom for the year			
Basic earnings per share	2.18	1.74	1.72
Diluted earnings per share	2.17	1.72	1.70
(Losses)/earnings per share for (loss)/profit from discontinued operations attributable to shareholders of Netcom for the year			
Basic (losses)/earnings per share	(0.06)	0.22	0.09

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Diluted (losses)/earnings per share	(0.06)	0.22	0.09
Earnings per share from operations attributable to shareholders of Netcom for the year			
Basic earnings per share	2.12	1.96	1.81
Diluted earnings per share	2.11	1.94	1.79
Basic earnings per ADS	42.40	39.20	36.20
Diluted earnings per ADS	42.20	38.80	35.80
Dividend proposed after balance sheet date (HK\$)	3,073	3,678	3,951
Dividend per ordinary share (HK\$)	0.466	0.553	0.592

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Table of Contents**APPENDIX I****FINANCIAL INFORMATION ON THE NETCOM GROUP****ASSETS AND LIABILITIES**

	As at 31 December		
	2005	2006	2007
	<i>(Restated)</i>	<i>(Restated)</i>	
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
		<i>(in millions)</i>	
Fixed assets	168,760	168,141	156,948
Construction in progress	6,822	6,335	3,990
Other non-current assets	12,865	11,380	9,982
Cash and bank deposits	5,065	7,728	5,395
Other current assets	9,610	10,498	10,113
Total assets	203,122	204,082	186,428
Short-term bank loans	47,341	30,980	11,850
Accounts payable	16,726	17,661	15,639
Other current liabilities	34,337	42,192	47,104
Long-term bank and other loans	18,143	23,219	14,425
Deferred revenues	10,925	6,198	4,314
Other non-current liabilities	12,363	9,638	11,044
Total liabilities	139,835	129,888	104,376
Shareholders' equity	63,287	74,194	82,052
Total liabilities and shareholders' equity	203,122	204,082	186,428

Note: Due to the disposal of Guangdong and Shanghai branches of the Netcom Group in 2007, the operating results of Guangdong and Shanghai branches have been presented as discontinued operations in accordance with HKFRS 5 issued by HKICPA. Also, the acquisition of Beijing Telecom P&D Institute by the Netcom Group in 2007 which has been accounted for using merger accounting according to the Accounting Guideline 5 issued by the HKICPA. The financial information for 2005 and 2006 of the Netcom Group is restated accordingly. There were no qualifications in the independent auditor's report issued by PricewaterhouseCoopers in respect of the original financial statements of each of the three financial years ended 31 December 2005, 2006 and 2007.

Table of Contents**APPENDIX I****FINANCIAL INFORMATION ON THE NETCOM GROUP****2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007**

Subject to the adoption of the definitions in this document, the following information is extracted from the audited consolidated financial statements, prepared in accordance with HKFRS, HKAS and interpretations issued by HKICPA, of Netcom, for the year ended 31 December 2007:

Consolidated Income Statement

For the year ended 31 December 2007

		Year ended 31 December	
	<i>Note</i>	2007	2006
		<i>RMB</i>	<i>RMB</i>
		<i>million</i>	<i>million</i>
			<i>Restated</i>
			<i>Note 2</i>
Continuing operations:			
Revenues	7	84,005	84,194
Operating expenses			
Depreciation and amortisation		(25,495)	(24,913)
Networks, operations and support		(14,145)	(13,344)
Staff costs	15	(12,223)	(11,849)
Selling, general and administrative		(10,615)	(12,607)
Other operating expenses		(4,261)	(1,930)
Total of operating expenses	8	(66,739)	(64,643)
Other income	9	1,221	621
Interest income		113	135
Deficit on revaluation of fixed assets	21(c)		(1,335)
Profit from operations		18,600	18,972
Finance costs	10	(3,333)	(3,767)
Profit before taxation		15,267	15,205
Taxation	11	(3,796)	(3,727)
Profit for the year from continuing operations		11,471	11,478

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	<i>Note</i>	Year ended 31 December	
		2007	2006
		<i>RMB million</i>	<i>RMB million</i>
			<i>Restated</i>
			<i>Note 2</i>
Discontinued operations:			
Profit for the year from discontinued operations	26	624	1,487
Profit for the year		12,095	12,965
Dividends proposed after the balance sheet date	13	3,700	3,695
Earnings per share for profit from continuing operations attributable to Netcom Shareholders for the year			
Basic earnings per Netcom Share	14	RMB 1.72	RMB 1.74
Diluted earnings per Netcom Share	14	RMB 1.70	RMB 1.72
Earnings per share for profit from discontinued operations attributable to Netcom Shareholders for the year			
Basic earnings per share	14	RMB 0.09	RMB 0.22
Diluted earnings per Netcom Share	14	RMB 0.09	RMB 0.22
Earnings per share from operations attributable to Netcom Shareholders for the year			
Basic earnings per Netcom Share	14	RMB 1.81	RMB 1.96
Diluted earnings per Netcom Share	14	RMB 1.79	RMB 1.94

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	<i>Note</i>	As at 31 December	
		2007	2006
		<i>RMB</i>	<i>RMB million</i>
		<i>million</i>	<i>Restated</i>
			<i>Note 2</i>
Assets			
Current assets			
Cash and bank deposits	17	5,395	7,728
Accounts receivable	18	8,458	8,283
Inventories and consumables	19	287	416
Prepayments, other receivables and other current assets	20	1,021	1,441
Due from holding companies and fellow subsidiaries	31	347	358
Total current assets		15,508	18,226
Non-current assets			
Fixed assets	21	156,948	168,141
Construction in progress	22	3,990	6,335
Lease prepayments	23	2,494	2,364
Intangible assets	24	1,552	1,591
Deferred tax assets	34	2,693	3,459
Other non-current assets	25	3,243	3,966
Total non-current assets		170,920	185,856
Total assets		186,428	204,082

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	<i>Note</i>	As at 31 December	
		2007	2006
		<i>RMB</i>	
		<i>million</i>	<i>RMB million</i>
			<i>Restated</i>
			<i>Note 2</i>
Liabilities and equity			
Current liabilities			
Accounts payable	28	15,639	17,661
Accruals and other payables	29	2,950	3,074
Short term commercial paper	30(a)(i)	20,000	9,811
Short term bank loans	30(a)(ii)	11,850	30,980
Current portion of long term bank and other loans	30(b)	5,322	7,304
Due to holding companies and fellow subsidiaries	31	4,598	7,505
Current portion of deferred revenues	32	7,103	7,733
Current portion of provisions	33	3,381	3,736
Taxation payable		3,750	3,029
Total current liabilities		74,593	90,833
Net current liabilities		(59,085)	(72,607)
Total assets less current liabilities		111,835	113,249
Non-current liabilities			
Long term bank and other loans	30(b)	14,425	23,219
Corporate bonds	30(c)	2,000	
Due to holding companies and fellow subsidiaries	31	6,169	5,880
Deferred revenues	32	4,314	6,198
Provisions	33	2,007	2,586
Deferred tax liabilities	34	856	1,156
Other non-current liabilities		12	16
Total non-current liabilities		29,783	39,055
Total liabilities		104,376	129,888

Financed by:			
Share capital	35	2,206	2,199
Reserves		79,846	71,995
Shareholders' equity		82,052	74,194
Total liabilities and equity		186,428	204,082

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Table of Contents**APPENDIX I****FINANCIAL INFORMATION ON THE NETCOM GROUP****Balance Sheet Netcom***As at 31 December 2007*

	<i>Note</i>	As at 31 December	
		2007	2006
		<i>RMB</i>	<i>RMB</i>
		<i>million</i>	<i>million</i>
Assets			
Current assets			
Cash and bank deposits	17	113	1,772
Due from subsidiaries	27	10,490	9,411
Prepayments, other receivables and other current assets	20	16	268
Total current assets		10,619	11,451
Non-current assets			
Investments in subsidiaries	27	71,000	62,937
Total assets		81,619	74,388
Liabilities and equity			
Current liabilities			
Accruals and other payables	29	46	136
Due to subsidiaries	27	14,271	12,754
Total current liabilities		14,317	12,890
Net current liabilities		(3,698)	(1,439)
Total assets less current liabilities		67,302	61,498
Non-current liabilities			
Long term bank and other loans		9	
Due to holding company and fellow subsidiaries	31(c)	403	

Total non-current liabilities		412	
Total liabilities		14,729	12,890
Financed by:			
Share capital	35	2,206	2,199
Reserves	37	64,684	59,299
Shareholders' equity		66,890	61,498
Total liabilities and equity		81,619	74,388

Profit for the year from continuing operations							11,478	11,478
Profit for the year from discontinued operations							1,487	1,487
Total income recognised for 2006				3,261	(1,215)	(130)	11,688	13,604
Dividends for 2005 distributed during the year (Note 13)							(3,196)	(3,196)
Exercise of Netcom Options (Note 35)	18	545	(73)					490
Distributions to owners							(66)	(66)
Share-based payments			75					75
Balance as at 31 December 2006	2,199	43,295	389	11,811	2,886	(5,095)	18,709	74,194

(i) Including accumulated currency translation differences realized upon disposal of Asia Netcom Corporation Limited amounting to RMB29 million.

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	Attributable to equity holders of Netcom						Retained earnings	Total equity
	Share capital	Share premium	Capital reserve	Statutory reserve	Revaluation reserve	Other reserve		
	RMB million (Note 35)	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Balance as at 1 January 2007	2,199	43,295	389	11,811	2,886	(5,095)	18,709	74,194
Transfer to statutory reserve (Note 12)				1,517			(1,517)	
Appropriation to statutory reserve (Note 12)				868			(868)	
Transfers to retained earnings in respect of depreciation differences on revalued assets					(2,031)	(104)	2,135	
Transfers to retained earnings in respect of revaluation reserve relating to disposal of Guangdong and Shanghai branches					(69)	20	49	
Currency translation differences						(15)		(15)
Movement of deferred tax recognised in equity (Note 34)					111	(664)		(553)
Net income/(expense) recognised directly in equity				2,385	(1,989)	(763)	(201)	(568)
Profit for the year from continuing operations							11,471 624	11,471 624

Profit for the year
from discontinued
operations

Total income recognised for 2007				2,385	(1,989)	(763)	11,894	11,527
Dividend related to 2006 distributed during the year (Note 13)							(3,600)	(3,600)
Distributions to owners							(48)	(48)
Exercise of share options (Note 35)	7	243	(31)					219
Consideration for the acquisition (Note 1)						(299)		(299)
Share-based payments			59					59
Balance as at 31 December 2007	2,206	43,538	417	14,196	897	(6,157)	26,955	82,052

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Table of Contents**APPENDIX I****FINANCIAL INFORMATION ON THE NETCOM GROUP****Consolidated Statement of Cash Flow***For the year ended 31 December 2007*

	<i>Note</i>	Year ended 31 December	
		2007	2006
		<i>RMB</i>	<i>RMB</i>
		<i>million</i>	<i>million</i>
			<i>Restated</i>
			<i>Note 2</i>
Cash flows from operating activities			
Net cash inflows from operations	38(a)	39,309	39,156
Interest received		113	136
Interest paid		(2,856)	(3,564)
Profits tax paid		(4,107)	(3,678)
Cash inflow from operating activities of continuing operations		32,459	32,050
Cash inflow from operating activities of discontinued operations	26	388	2,085
Net cash inflow from operating activities		32,847	34,135
Cash flows from investing activities			
Purchase of fixed assets and construction in progress		(20,488)	(24,064)
Prepayments for leased network capacity			(318)
Prepayments for leased land		(196)	(178)
Sale of fixed assets		65	127
Net decrease in time deposits with maturity over three months		14	7
Other income		1,467	375
Cash outflow from investing activities of continuing operations		(19,138)	(24,051)
Cash inflow/(outflow) from investing activities of discontinued operations	26	3,103	(921)
Net cash outflow from investing activities		(16,035)	(24,972)

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	<i>Note</i>	Year ended 31 December	
		2007	2006
		<i>RMB</i>	<i>RMB</i>
		<i>million</i>	<i>million</i>
			<i>Restated</i>
			<i>Note 2</i>
Cash flows from financing activities			
New bank loans and other loans		66,396	89,002
Issue of short-term commercial paper		20,000	9,676
Issue of corporate bonds		2,000	
Repayment of short-term commercial paper		(9,676)	
Repayment of bank loans		(92,390)	(98,512)
Capital element of finance lease payments		(890)	(1,347)
Payment of prior years distribution to owner		(1,180)	(630)
Payment to ultimate holding company for the acquisition of Beijing Telecom P&D Institute		(299)	
Payment to ultimate holding company for the acquisition of New Horizon (Note 1)		(1,960)	(1,960)
Dividend payment		(3,600)	(3,196)
Loans from fellow subsidiaries and holding company		2,249	
Issue of shares upon exercise of share options		219	490
Cash outflow from financing activities of continuing operations		(19,131)	(6,477)
Cash inflow from financing activities of discontinued operations	26		
Net cash outflow from financing activities		(19,131)	(6,477)
Cash flows from continuing operations		(5,810)	1,522
Cash flows from discontinued operations		3,491	1,164
Increase/(decrease) in cash and cash equivalents		(2,319)	2,686
Cash and cash equivalents at beginning of year		7,623	4,937
Cash and cash equivalents at end of year	17	5,304	7,623

Table of Contents**APPENDIX I****FINANCIAL INFORMATION ON THE NETCOM GROUP****1 THE NETCOM GROUP AND ITS PRINCIPAL ACTIVITIES****Background of the Netcom Group**

Netcom was incorporated in the Hong Kong as a limited liability company under the Hong Kong Companies Ordinance, the Netcom Shares were listed on the Hong Kong Stock Exchange on 17 November 2004 and the Netcom ADSs were listed on New York Stock Exchange Inc. on 16 November 2004.

Netcom, China Netcom (Holding) Company Limited (China Netcom Holding) and Netcom Parent underwent reorganisation on 30 June 2004 (Listing Reorganisation). Immediately after the Listing Reorganisation, Netcom Parent became Netcom's ultimate holding company.

Pursuant to a resolution passed at the extraordinary general meeting of the Netcom Shareholders on 25 October 2005, Netcom acquired the principal telecommunications operations, assets and liabilities in the four northern provinces/autonomous region, namely Shanxi Province, Neimenggu Autonomous Region, Jilin Province and Heilongjiang Province from Netcom Parent (the Acquisition of New Horizon). The consideration for the Acquisition of New Horizon was determined at RMB12,800 million. The consideration consists of an initial cash payment of RMB3,000 million and deferred payments of RMB9,800 million. The deferred payments will be settled in half-yearly installments over five years. The interest charged on the deferred payments is to be calculated at 5.265% per annum.

Following the Listing Reorganisation and the Acquisition of New Horizon, the Netcom Group is the dominant provider of fixed line voice and value-added services, broadband and other internet-related services, information communications technology services, business and data communications services and advertising and media services in ten northern provinces, municipalities and autonomous region in the PRC, namely Beijing Municipality, Tianjin Municipality, Hebei Province, Liaoning Province, Shandong Province, Henan Province, Shanxi Province, Neimenggu Autonomous Region, Jilin Province and Heilongjiang Province. The Netcom Group also provided telecommunications services to selected business and residential customers in two southern municipality and province, namely Shanghai Municipality and Guangdong Province in the PRC.

On 2 June 2006, the Netcom Group entered into an agreement with third party buyers to dispose of its entire interest in the Asia Netcom Corporation Limited (ANC Group) for an aggregate cash consideration of US\$168.84 million, at fair value determined by both parties. The transaction was completed on 22 August 2006. For detailed information, please refer to note 26.

On 15 January 2007, Netcom's wholly owned subsidiary, China Netcom (Group) Company Limited (CNC China), entered into an assets transfer agreement with its ultimate holding company, Netcom Parent. Pursuant to the agreement, CNC China agreed to dispose of its assets and liabilities in relation to its telecommunications operations in Guangdong Province and Shanghai Municipality branches (Guangdong and Shanghai Branches) in the PRC for consideration of RMB3.5 billion. On 14 February 2007, the independent shareholders passed an ordinary resolution to approve the disposal. The disposal was completed on 28 February 2007 upon the approval granted from the Ministry of Information Industry (MII). After the disposal of the Guangdong and Shanghai branches, the Netcom Group only provides telecommunications operations in the ten northern provinces, municipalities and autonomous region. For detailed information, please refer to note 26.

On 5 December 2007, China Netcom Group System Integration Limited Corporation (System Integration Corporation), a wholly-owned subsidiary of CNC China, entered into an Equity Interest Transfer Agreement with China Netcom Group Beijing Communications Corporation, pursuant to which System Integration Corporation agreed to acquire the entire equity interest of Beijing Telecommunications Planning and Designing Institute Corporation Limited (Beijing Telecom P&D Institute) from China Netcom Group Beijing Communications Corporation for a total consideration of RMB298.9 million. The consideration was paid through a one-off cash payment. The acquisition was registered with Beijing Property Transaction Administrative House and the ownership was transferred on 31 December 2007. Prior to the acquisition, Beijing Telecom P&D Institute was a wholly owned subsidiary of China Netcom Group Beijing Communications Corporation, which is a wholly owned subsidiary of Netcom Parent. For

detailed information, please refer to note 2.

Currently, the Netcom Group's principal services consist of:

Fixed line voice and value-added services, comprising:

- (a) Local, domestic long distance and international long distance services;
- (b) Value-added services, including caller identity, personalized ring etc.; and
- (c) Interconnection services provided to other domestic telecommunications service providers including the fellow subsidiaries owned by Netcom Parent operating outside the ten service regions;

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FINANCIAL INFORMATION ON THE NETCOM GROUP

Broadband services and other Internet-related services;

Information Communications Technology Services, including system integration, software services, outsourcing services, professional consulting services, professional services related with network information and disaster recovery, and other integrated solutions to client based on information and communications industry;

Business and data communications services, including managed data services and leased line services; and

Advertising and media services.

2 BASIS OF PRESENTATION

The financial statements have been prepared in accordance with HKFRS, HKAS and interpretations issued by HKICPA. They have also been prepared in accordance with the disclosure requirements of the Companies Ordinance and Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention modified by the revaluation of certain fixed assets as explained in the accounting policies in Note 4 below, and on a going concern basis.

A significant percentage of the Netcom Group's funding requirements is achieved through short term borrowings. Consequently, the balance sheet indicates a significant working capital deficit. In the past, a substantial portion of the Netcom Group's short term borrowings have been rolled over upon maturity. In addition, on 30 April 2007 and 18 September 2007, the Netcom Group issued commercial paper to raise additional funding of total RMB20 billion. On 8 June 2007, the Netcom Group issued corporate bonds to raise additional funding of RMB2 billion. Based on the Netcom Group's history of obtaining financing, its relationship with its bankers and its operating performance, the Board considers that the Netcom Group will continue to be able to roll over such short term financing, or will be able to obtain sufficient alternative sources of financing to enable it to operate and meet its liabilities as and when they fall due.

On 2 June 2006, the Netcom Group entered into an agreement with third party buyers to dispose of the entire interests in the ANC Group and the disposal was completed on 22 August 2006. On 15 January 2007, CNC China entered into an assets transfer agreement with Netcom Parent to dispose of its assets and liabilities in relation to its telecommunications operations in Guangdong and Shanghai branches in the PRC and the disposal was completed on 28 February 2007. In accordance with HKFRS 5 Non-current assets held for sale and discontinued operations issued by the HKICPA, the results and cash flows of the operations of the ANC Group and the Guangdong and Shanghai branches have been presented as discontinued operations. The 2006 comparative figures in the income statement and statement of cash flow were restated to reflect the disposal of Guangdong and Shanghai branches accordingly. For detailed information, please refer to note 26.

On 5 December 2007, System Integration Corporation entered into an Equity Interest Transfer Agreement with China Netcom Beijing Communications Corporation, pursuant to which System Integration Corporation agreed to acquire the entire equity interest of Beijing Telecom P&D Institute from China Netcom Group Beijing Communications Corporation. Before the acquisition, Beijing Telecom P&D Institute was a wholly owned subsidiary of China Netcom Group Beijing Communications Corporation, which is a wholly owned subsidiary of Netcom Parent. Since Netcom Parent is the ultimate holding company of the Netcom Group, the acquisition is a business combination under common control. Therefore, the Netcom Group accounted for this acquisition using the pooling of interest method according to Accounting Guideline No. 5 Merger Accounting for Common Control Transactions (AG 5). The acquired businesses and assets are recorded at book value under HKFRS as if the businesses and assets of Beijing Telecom P&D Institute have been owned by the Netcom Group from the earliest comparative period presented. Accordingly, the financial information for year 2006 has been restated.

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The impact of the restatement is summarized as below.

	Year ended 31 December 2006				
	Originally stated RMB million	Disposal of Guangdong and Shanghai Branches RMB million	Acquisition of Beijing Telecom P&D Institute RMB million	Elimination of intercompany transactions RMB million	Restated RMB million
Continuing operations:					
Revenues	86,921	(3,222)	165	330	84,194
Profit for the year from continuing operation	11,141	332	27	(22)	11,478
Discontinued operations:					
Profit/(loss) from discontinued operations	1,819	(332)			1,487
Profit for the year	12,960		27	(22)	12,965
Net cash inflow from operating activities	34,133		20	(18)	34,135
Net cash outflow from investing activities	(24,991)		(2)	21	(24,972)
Net cash outflow from financing activities	(6,447)		(30)		(6,477)
Total current assets at 31 December 2006	18,059		218	(51)	18,226
Total assets at 31 December 2006	203,835		318	(71)	204,082

Total current liabilities at 31 December 2006	90,802	80	(49)	90,833
Total liabilities at 31 December 2006	129,857	80	(49)	129,888
Shareholders' equity at 31 December 2006	73,978	238	(22)	74,194

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Table of Contents**APPENDIX I****FINANCIAL INFORMATION ON THE NETCOM GROUP****3 CHANGES IN ACCOUNTING POLICIES****(a) Standards, amendment and interpretations effective in 2007**

HKFRS 7, Financial instruments: Disclosures, and the complementary amendment to HKAS 1, Presentation of financial statements – Capital disclosures, introduces new disclosures relating to financial instruments and does not have a material impact on the classification and valuation of the Netcom Group's financial instruments.

HK(IFRIC) Int 8, Scope of HKFRS 2, requires consideration of transactions involving the issue of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of HKFRS 2. This standard does not have any impact on the Netcom Group's financial statements.

HK(IFRIC) Int 10, Interim financial reporting and impairment, prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Netcom Group's financial statements.

(b) Interpretation early adopted by the Netcom Group

HK(IFRIC) Int 13, Customer loyalty programmes (effective from 1 July 2008) was early adopted. HK(IFRIC) Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Netcom Group only carried out a limited customer loyalty program in 2007 and thus it has no material impact on the financial statements of the Netcom Group.

(c) Standards, amendments and interpretations effective in 2007 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Netcom Group's operations:

HK(IFRIC) Int 7, Applying the restatement approach under HKAS 29, Financial reporting in hyper-inflationary economies;

HK(IFRIC) Int 9, Re-assessment of embedded derivatives; and

HKFRS 4 (revised) – Amendment to Financial guarantee contracts.

(d) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Netcom Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Netcom Group's accounting periods beginning on or after 1 January 2008 or later periods, but the Netcom Group have not early adopted them:

HK(IFRIC) Int 11, HKFRS 2 – Group and treasury share transactions. HK(IFRIC) Int 11 provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and Group companies. This interpretation is not expected to have an impact on the Netcom Group's financial statements.

HK(IFRIC) Int 12, Service concession arrangement (effective from 1 January 2008). IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC 12, is not expected to have an impact on the Netcom Group's financial statements.

HKAS 23 (Amendment), Borrowing costs (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. Since the Netcom Group does not expense those borrowing cost under the current accounting policies, HKAS 23 (Amendment) has no impact on the Netcom Group.

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HKFRS 8, Operating segments (effective from 1 January 2009). HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, Disclosures about segments of an enterprise and related information. The new standard requires a management approach, under which segment information is presented on the same basis as that used for internal reporting purposes. The financial statements of the Netcom Group are presented on the same basis as that used for internal reporting purpose. Adoption of HKFRS 8 will not have significant impact on the Netcom Group.

HK(IFRIC) Int 14, HKAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction (effective from 1 January 2008). HK(IFRIC) Int 14 provides guidance on assessing the limit in IAS/HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Netcom Group will apply HK(IFRIC) Int 14 from 1 January 2008, but it is not expected to have any impact on the Netcom Group's accounts.

4 PRINCIPAL ACCOUNTING POLICIES**(a) Basis of consolidation**

Acquisitions of businesses under common control are accounted for using merger accounting in accordance with AG 5 issued by HKICPA. The acquired assets are stated at carrying amounts as if the acquired assets have been held by Netcom from the beginning of the earliest period presented.

When a subsidiary is disposed, the difference between the proceeds from the disposal of the subsidiary and its carrying amount as of the date of disposal, including the cumulative amount of any exchange differences that relates to the subsidiary recognised in equity is recognised in the income statement as the gain or loss on the disposal of the subsidiary.

All significant intercompany transactions and balances within the Netcom Group are eliminated on consolidation.

(b) Subsidiaries

Subsidiaries are those entities in which Netcom, directly or indirectly, controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

In Netcom's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by Netcom on the basis of dividends received and receivables.

(c) Revenue recognition**(i) The Netcom Group's revenues are recognised as follows:**

Revenues derived from local, domestic long distance (DLD) and international long distance (ILD) telephone usage, which vary depending on the day, the time of day, the distance and duration of the call and the tariffs, are recognised when the services are provided to customers.

Monthly telephone service fees are recognised in the period during which the telephone services are provided to customers.

Upfront connection and installation fees received are deferred and recognised over the expected customer relationship period of 10 years. With effect from 1 July 2001, no further upfront fees for connection were charged to customers.

Revenues from the sale of prepaid calling cards are deferred and recognised as the cards are consumed by customers.

Revenues from value-added communication services such as personalized ring and caller number display are recognised when the services are provided to customers.

Revenues from the provision of broadband and other Internet-related services and managed data services are recognised when the services are provided to customers.

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Revenues from information communications technology services are recognised when goods are delivered to the customers (which generally coincides with the time when the customers have accepted the goods and the related risks and rewards of ownership have been transferred to the customers) or when services are rendered to the customers.

Interconnection fees from domestic and foreign telecommunications operators are recognised when the services are rendered as measured by the minutes of traffic processed.

Lease income from the leasing of lines and customer-end equipment is recognised over the term of the lease. Lease income from other domestic telecommunications operators and business customers for the usage of the Netcom Group's fixed line telecommunications networks is measured by the number of lines leased and the agreed upon rate per line leased. The lease arrangements are primarily determined on a year to year basis.

Certain PHS bundled service contracts comprise the provision of PHS services and handsets to customers, under which customers either prepay a certain amount of service fee or commit to spend a minimum monthly service fee for a designated period in order to receive a free handset. When all of the following criteria are met, PHS handsets and related services are separately recognised as revenues arising from local, DLD, or ILD services fees and sales of handsets according to their relative fair values. When any one of the following criteria is not met, total revenues from PHS bundled service contracts are recognised on a systematic basis to match the shorter of the pattern of usage of the PHS services by customers and the minimum non-cancellable contractual period. See Note 4(u)(ii) for the policy on accounting for the cost of the handsets.

- i) PHS handsets and relative services have value on a stand-alone basis;
- ii) Objective and reliable fair value of PHS handsets and relative services exists;
- iii) In arrangements that include a general right of refund for the delivered item, performance of the undelivered item is considered probable and substantially in the Netcom Group's control.

(ii) *Interest income*

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(iii) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

(d) *Interest expenses*

Interest expense attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset.

All other interest expenses are charged to the income statement in the year in which they are incurred.

(e) *Interconnection charges*

Interconnection charges represent amounts incurred for the use of other telecommunications operators' networks for facilitating the completion of calls that originate from the Netcom Group's fixed line telecommunications networks. Interconnection charges are recognised on an accrual basis. Interconnection charges with domestic operators and the fellow subsidiaries of the Netcom Group are accrued based on actual amounts, while those with overseas operators are accrued based on the actual amounts, if known, or the Netcom Group's estimates.

(f) *Translation of foreign currencies*

(i) *Functional currency*

Items included in the financial statements of each of the Netcom Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency), which is Renminbi.

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Table of Contents**APPENDIX I****FINANCIAL INFORMATION ON THE NETCOM GROUP***(ii) Transactions and balances*

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet dates are translated at rates of exchange ruling at the balance sheet dates. Exchange differences arising in these cases are dealt with in the income statement.

(iii) The Netcom Group

The results and financial position of all the Netcom Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on disposal.

(g) Cash and cash equivalents

Cash and cash equivalents, comprising cash on hand, deposits held at call with banks and cash investments with original maturities of three months or less are carried at cost.

(h) Accounts receivable and other receivables

Accounts and other receivables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of accounts and other receivables is established when there is objective evidence that the Netcom Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the assets carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the income statement.

(i) Inventories and consumables

Inventories comprise mainly telephone handsets and are stated at the lower of cost and net realizable value on a first-in, first-out basis, after provisions for obsolescence. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Consumables consist of materials and supplies used in maintaining the Netcom Group's telecommunication networks and are charged to the income statement when brought into use. Consumables are valued at cost less any provision for obsolescence.

(j) Lease prepayments*(i) Lease prepayments for land*

Lease prepayments for land represent payments for land use rights. Lease prepayments for land are stated at cost initially and expensed on a straight line basis over the lease period.

(ii) Lease prepayments for network capacity

Lease prepayments for network capacity represent payments for network capacity on an indefeasible right of use basis for Netcom's own use. Lease prepayments for network capacity are stated at cost initially and expensed on a straight-line basis over the lease period.

Table of Contents**APPENDIX I****FINANCIAL INFORMATION ON THE NETCOM GROUP****(k) Fixed assets****(i) Construction-in-progress**

Construction-in-progress represents buildings, telecommunications networks plant, transmission and switching equipment under construction and pending installation, and is stated at cost less impairment losses. Cost comprises direct costs of construction including borrowing costs attributable to the construction during the period of construction. When the asset being constructed becomes available for use, the construction-in-progress is transferred to the appropriate category of fixed assets.

(ii) Other fixed assets

Other fixed assets are initially stated at cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Netcom Group and the cost of the item can be measured reliably. Any other costs incurred in restoring fixed assets are charged to the income statement as incurred.

Buildings subsequent to initial recognition are stated at cost less accumulated impairment losses and depreciated over their expected useful lives.

(iii) Revaluations

Fixed assets other than buildings are carried at their revalued amounts. Revalued assets are stated at fair value as of the revaluation date less accumulated depreciation. When an item of fixed asset is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately together with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Increases in valuation are credited to the revaluation reserve. Decreases in valuation are first set off against any revaluation surplus on earlier valuations in respect of the same item and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited. Each year the difference between depreciation based on the revalued carrying amount of the asset expensed in the income statement and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Revaluations on fixed assets will be performed with sufficient regularity by independent valuers and in each of the intervening years, valuations will be undertaken by executives of the Netcom Group.

(iv) Depreciation

Fixed assets are depreciated at rates sufficient to write off their costs or revalued amounts less accumulated impairment losses and estimated residual values over their estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Buildings	8-30 years
Telecommunications networks and equipment	5-10 years
Furniture, fixture, motor vehicles and other equipment	5-10 years

The useful lives and estimated residual values are reviewed and modified periodically at every balance sheet date.

(v) Gain or loss on sale of fixed assets

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement, except where the fixed asset is carried at valuation. The relevant portion of the revaluation reserve realized in respect of previous valuations is transferred to retained earnings and is shown as a movement in reserves.

(l) Impairment of assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which

the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

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Table of Contents**APPENDIX I****FINANCIAL INFORMATION ON THE NETCOM GROUP****(m) Assets held under leases****(i) Finance leases**

Leases of assets where the Netcom Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized upon commencement of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(ii) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on straight-line basis over the period of the lease.

(n) Intangible assets**(i) Purchased software**

Expenditure on purchased software is capitalized and amortized using the straight-line method over the expected useful lives of the software, which vary from two to five years.

(ii) Sponsorship fee

The sponsorship fee for the 2008 Beijing Olympic Games has been capitalized and amortized on a straight-line basis over 4 years, being the estimated beneficial period under the sponsorship program. The cost of the intangible asset is calculated based on the expected cash payment and the fair value of the services to be provided.

(o) Accounts payable

Accounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(p) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Netcom Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(q) Provisions

Provisions are recognised when the Netcom Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are not recognised for operating losses arising in future periods.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised in the income statement.

(r) Share capital

Ordinary shares are classified as equity.

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Where shares are issued, any consideration received (net of related income tax effects) is included in equity attributable to Netcom's equity holders.

(s) Employee benefits**(i) Pension obligations**

(a) Employees in the PRC are entitled to retirement benefits equal to a fixed proportion of their salary at their normal retirement age which is paid by the PRC government. As stipulated by the regulations of the PRC, the subsidiaries in the PRC make contributions to the basic defined contribution pension plans organized by their respective municipal governments under which they are governed. The Netcom Group is required to make such contributions to these plans at a rate of 20% of the salaries, bonuses and certain allowances of the employees. The Netcom Group has no other material obligation for post-retirement benefits beyond these payments as they fall due. Payments made under these plans are expensed as incurred.

(b) The Netcom Group also operates a mandatory provident fund scheme (the MPF scheme) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. Payments are expensed as incurred.

(ii) Early retirement benefits

Early retirement benefits are recognised as expenses when the Netcom Group reaches agreement with the relevant employees for early retirement.

(iii) Employee housing benefits

One-off cash housing subsidies paid to PRC employees are charged to the income statement in the year in which it is determined that the payment of such subsidies is probable and the amounts can be reasonably estimated (see Note 33).

PRC full-time employees of the Netcom Group participate in various government-sponsored housing funds. The Netcom Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Netcom Group's liability in respect of these funds is limited to the contributions payable in each period. Contributions to these housing funds are expensed as incurred.

(iv) Netcom Share Option Scheme

The Netcom Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. Fair values of the options with different vesting periods are determined separately. The total amount to be expensed over the vesting period is determined by reference to the fair value of the Netcom Options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of Netcom Options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of Netcom Options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

When the Netcom Option is exercised, the consideration received after deduction of transaction cost directly attributed to the exercise is recorded in share capital (nominal value) and share premium.

(t) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Tax rates enacted or substantially enacted at the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the

extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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Table of Contents**APPENDIX I****FINANCIAL INFORMATION ON THE NETCOM GROUP****(u) Other non-current assets****(i) *Deferred installation costs***

The direct incremental costs associated with the installation of fixed line services are deferred and expensed to the income statement over the expected customer relationship period of 10 years except when the direct incremental costs exceed the corresponding upfront installation fees. In such cases, the excess of the direct incremental costs over the installation fees are recorded immediately as expenses in the income statement.

(ii) *Subscriber acquisition costs*

As shown in note 4(c)(i), when certain bifurcation conditions are met, revenue attributable to handsets given to customers under bundled service contracts is recognised separately in the income statement of the period the contracts are entered into. The cost of these handsets is expensed immediately to the income statement in the same period. When any one of the aforementioned conditions is not met, the costs of handsets given to customers under bundled service contracts are deferred as subscriber acquisition costs and expensed to the income statement on a systematic basis to match with the pattern of the customer service income over the contract period.

(iii) *Prepaid network capacities*

Prepayments for the network capacities purchased on an indefeasible rights to use (IRU) basis for resale are capitalized and expensed over the corresponding lease period.

(v) Discontinued operations

A discontinued operation is a component of the Netcom Group that may be a major line of business or geographical area of operations that has been disposed or is held for sale. The result of that component is separately reported as discontinued operations in the income statement. The comparative income statement and cashflow statement are restated as if the operation had been discontinued from the start of the comparative period. The assets and liabilities of such component classified as discontinued operations or held for sale is presented separately in the assets and liabilities, respectively, of the consolidated balance sheet, from the date it is first determined to be discontinued or held for sale.

(w) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Netcom Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements when an outflow of economic benefits is less than probable but not remote. When a change in the probability of an outflow occurs such that the outflow is probable, the contingent liability will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Netcom Group. A contingent asset is disclosed when an inflow of economic benefits is probable but only recognised in income statement when realized.

(x) Segmental reporting

Business segments provide services that are subject to risks and returns that are different from other business segments. Geographical segments provide services within a particular economic environment that is subject to risks and returns that differ from those of components operating in other economic environments. Currently the Netcom Group has one business segment, the provision of fixed line telecommunications services. Less than 10% of the Netcom Group's assets and operations are located outside the PRC. Accordingly, no business and geographical segment information is presented.

(y) Earnings per Netcom Share (EPS) and per Netcom ADSs

Basic EPS is computed by dividing net profit attributable to Netcom Shareholders by the weighted average number of Netcom Shares outstanding during the year.

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Diluted EPS is computed by dividing net profit attributable to Netcom Shareholders by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the year. Ordinary equivalent shares consist of Netcom Shares issuable upon the exercise of outstanding stock options using the treasury stock method.

Earnings per Netcom ADS is computed by multiplying the EPS by 20, which is the number of Netcom Shares represented by each Netcom ADS.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances.

(a) Critical accounting estimates and assumptions

The Netcom Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Depreciation of property, plant and equipment

The property, plant and equipment of the Netcom Group are depreciated at rates sufficient to write off their costs or revalued amounts less accumulated impairment losses and estimated residual values over their estimated useful lives on a straight-line basis. The Netcom Group reviews the estimated useful lives and estimated residual values periodically to ensure that the method and rates of depreciation are consistent with the expected pattern of economic benefits from property, plant and equipment. The Netcom Group estimates the useful lives of the property, plant and equipment as set out in Note 4(k)(iv) based on the historical experience with similar assets, taking into account anticipated technological changes. The depreciation expenses in the future periods will change if there are significant changes from previous estimates.

As of 31 December 2007, the Netcom Group did not change the estimate of useful lives.

(ii) Revaluation of property, plant and equipment

Apart from lease prepayments for land and buildings, which are carried at cost, other property, plant and equipment are carried at revalued amounts, being the fair value at the date of revaluation, less subsequent accumulated depreciation and impairment. Property, plant and equipment of the Netcom Group was revalued as of 31 December 2006 on a depreciated replacement cost basis by an independent valuer. If the revalued amounts differ significantly from the carrying amounts of the property, plant and equipment in the future, the carrying amounts will be adjusted to the revalued amounts. The key assumptions made to determine the revalued amounts include the estimated replacement costs and the estimated useful lives of the property, plant and equipment. This will have an impact on the Netcom Group's future results, since any subsequent decreases in valuation are set off first against increases on earlier valuations in respect of the same item and thereafter are charged as an expense to the income statement and any subsequent increases are credited as income to the income statement up to the amount previously charged then to equity. In addition, the depreciation expenses in future periods will change as the carrying amounts of such property, plant and equipment change as a result of the revaluation.

(iii) Impairment of non-current assets

At each balance sheet date, the Netcom Group considers both internal and external sources of information to assess whether there is any indication that non-current assets, including property, plant and equipment, are impaired. If any such indication exists, the recoverable amount of the assets is estimated and an impairment loss is recognised to reduce the carrying amount of the asset to its recoverable amount. The recoverable amount is the higher of value in use or net selling price. Estimated values in use are determined based on estimated discounted future cash flows of the cash generating unit at the lowest level to which the asset belongs. Key assumptions made to determine the estimated discounted future cash flows include the estimated future cash flows, estimated growth rate and the estimated weighted average cost of capital of the Netcom Group. Such impairment losses are recognised in the income

statement, except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case the impairment loss is treated as a revaluation decrease and charged to the revaluation reserve. Accordingly, there will be an impact to the future results if there is a significant change in the recoverable amounts of the non-current assets.

At 31 December 2007, the Netcom Group did not identify any indication that non-current assets were impaired.

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The Netcom Group defers the recognition of upfront customer connection and installation fees and amortizes them over the expected customer relationship period of 10 years. The related direct incremental installation costs are deferred and amortized over the same expected customer relationship period of 10 years, except when the direct incremental costs exceed the corresponding installation fees, the excess amounts are immediately written off as an expense to the income statement. The Netcom Group estimates the expected customer relationship period based on the historical customer retention experience and after factoring in the expected level of future competition, the risk of technological or functional obsolescence to the Netcom Group's services, technological innovation, and the expected changes in the regulatory and social environment. If the Netcom Group's estimate of the expected customer relationship period changes as a result of increased competition, changes in telecommunications technology or other factors, the amount and timing of recognition of the deferred revenues may change for future periods.

As of 31 December 2007, the Netcom Group did not change the estimate of customer relationship period.

(v) Provision for doubtful debts

The Netcom Group maintains an allowance for doubtful debts for estimated losses resulting from the inability of its customers to make the required payments. The Netcom Group makes its estimates based on the aging of its accounts receivable balances, customer's creditworthiness, and historical write-off experience. If the financial condition of its customers were to deteriorate, actual write-offs might be higher than expected, and the Netcom Group would be required to revise the basis of making the allowance and its future results would be affected.

(vi) Fair value

The Netcom Group estimates the fair value of its financial assets and financial liabilities including accounts receivable, other receivables and other current assets, accounts payable, and bank and other loans for disclosure purposes by discounting its future contractual cash flows at the estimated current market interest rate that is available to the Netcom Group for similar financial instruments. The future disclosed values will change if there are changes in the estimated market interest rate.

6 FINANCIAL RISK MANAGEMENT**(a) Financial risk factors**

The Netcom Group's major financial assets include bank deposits, accounts receivable, notes receivable and other receivables. The Netcom Group's major financial liabilities include accounts payable, notes payable, other payable, bank borrowings, commercial paper and corporate bonds.

The Netcom Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk, and liquidity risk. The board has reviewed and approved its relative risk management policy as follows:

(i) Foreign exchange risk

The Netcom Group's major operational activities are carried out in mainland China and a majority of the transactions are performed in Renminbi. On 31 December 2007, the Netcom Group had certain bank deposits and borrowings were denominated in foreign currencies, mainly in US dollar and HK dollar. Any change in the exchange rates of these currencies to Renminbi will impact the Netcom Group's operating results.

As at 31 December 2007 and 2006, the Netcom Group had bank balances denominated in foreign currencies amounting to RMB320 million and RMB1,946 million, respectively. As at 31 December 2007 and 2006, the Netcom Group had bank borrowings denominated in foreign currencies amounting to RMB1,246 million and RMB1,432 million, respectively.

At 31 December 2007, if Renminbi had weakened/strengthened by 5% against the foreign currencies, the impact of the fluctuation on an annual profit is presented in the table below. The analysis covers bank deposits and borrowings. A positive figure means the Renminbi has appreciated against foreign currencies and lead to an increase of profit.

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	Increase/(Decrease) in annual profit	
	31	
	December	31 December
	2007	2006
	<i>RMB</i>	
	<i>million</i>	<i>RMB million</i>
HK Dollar exchange rate fluctuation		
5% appreciation	7	32
5% depreciation	(7)	(32)
US Dollar exchange rate fluctuation		
5% appreciation	(21)	30
5% depreciation	21	(30)

(ii) Cash flow and fair value interest rate risk

As the Netcom Group has no significant interest-bearing assets, the Netcom Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Netcom Group's interest-rate risk arises from interest bearing borrowings. Borrowings issued at variable rates expose the Netcom Group to cash flow interest-rate risks. Borrowings issued at fixed rates expose the Netcom Group to fair value interest-rate risks. The Netcom Group does not use derivative financial tools to offset the cash flow interest-rate risk. The footnote 30 discloses bank loans with fixed rates and variable rates.

As at 31 December 2007, 83.96% of the Netcom Group's loans were with fixed interest rate (2006: 74.69%). If the market interest had (decreased)/increased by 2%, the impact of the fluctuation on an annual profit is presented in the table below:

	Increase/(Decrease) in annual profit	
	31	
	December	31 December
	2007	2006
	<i>RMB</i>	
	<i>million</i>	<i>RMB million</i>
Change of interest rate		
2% increase	(476)	(454)
2% decrease	476	454

(iii) Credit risk

The Netcom Group provides telecommunication and related services to residential clients and business clients. The Netcom Group will terminate a fixed line service to residential clients if the accounts receivable are over 90 days. Accounts receivable from other telecommunications operators and customers are due generally between 30 to 90 days

from the billing date. The Netcom Group analyses the aging of accounts receivable and the status of collection on a monthly basis to formulate the appropriate collection strategy to ensure the risk faced is not material.

The carrying amount of accounts receivable included in the balance sheet represents the Netcom Group's exposure to credit risk in relation to its financial assets. Most of the Netcom Group's accounts receivable with aging over 30 days are overdue. The Netcom Group evaluated the risk associated with the accounts receivable balances with aging over 90 days, and made provisions accordingly. The Netcom Group believes that adequate provision for uncollectible account receivable has been made.

The accounts receivable of the Netcom Group are disclosed in Note 18 to the financial statements.

The credit risk of the Netcom Group's other financial assets (including cash and cash equivalents and other receivables) arise from any counter parties' breach of contract. Thus, the highest risk the Netcom Group will bear is the book value of the instrument.

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The Netcom Group's cash management policy is to deposit cash and cash equivalents mainly in state-owned banks and other banks, which are highly rated by an international credit rating company. The rates are between BBB+ to BBBpi. The management does not expect any loss to arise from bank nonperformance.

(iv) *Liquidity risk*

The Netcom Group is financed mainly by short term borrowings. As a result, there is a significant working capital deficit as highlighted in balance sheet. Please refer to Note 2 for more details.

The Netcom Group's aim is to maintain the balance between the availability and liquidity of the funding by using interest bearing bank loans and other borrowings, commercial paper, corporate bonds and other suitable financing channels. The Netcom Group's policy is to regularly monitor operating capital demands and compliance with current and expected operating capital requirements. The Netcom Group reviews cash flow forecasts of each entity on a regular basis to maintain sufficient cash reserves and bank pledged funds and to deal with short and long term capital demands.

The following table shows the undiscounted balances of the financial liabilities (including interest expense) categorized by time period from the balance sheet date to the date of contract expiry.

31 December 2007	Total	Within	1-2	2-3	3-4	4-5	Over
	<i>RMB</i>	<i>1 year</i>	<i>years</i>	<i>years</i>	<i>years</i>	<i>years</i>	<i>5 years</i>
	<i>million</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
		<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>
Accounts payable	15,639	15,639					
Short-term loans	12,134	12,134					
Long-term bank and other loans	21,616	6,407	10,272	1,887	106	104	2,840
Commercial paper	20,629	20,629					
Corporate bonds	2,900	90	90	90	90	90	2,450
Amounts due to holding companies and fellow subsidiaries	8,870	2,319	2,214	4,337			
Total	81,788	57,218	12,576	6,314	196	194	5,290

31 December 2006	Total	Within	1-2	2-3	3-4	4-5	Over
	<i>RMB</i>	<i>1 year</i>	<i>years</i>	<i>years</i>	<i>years</i>	<i>years</i>	<i>5 years</i>
	<i>million</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
		<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>
Accounts payable	17,661	17,661					
Short-term loans	31,602	31,602					
Long-term bank and other loans	36,343	8,980	7,814	10,416	431	430	8,272
Commercial paper	10,000	10,000					

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Amounts due to holding
companies and fellow
subsidiaries

8,781 2,352 2,248 2,143 2,038

Total

104,387 70,595 10,062 12,559 2,469 430 8,272

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The Board has the responsibility to consider the future operational capital requirements. The Netcom Group has a policy to maintain sufficient cash and cash equivalents and to finance operations through bank lending. For bank facilities, please refer to Note 39.

(b) Fair value estimation

The fair value of financial instruments that are actively traded is based on the market price as of balance sheet date. The market price of the financial assets that the Netcom Group holds is the current bidding price. The market price of financial liabilities is the offering price. The fair value of the Netcom Group's bank deposits, accounts receivable, notes receivable, corporate bonds, commercial paper and short-term borrowings approximate book value.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Netcom Group for similar financial instruments.

(c) Objective and policy of financial risk management

The Netcom Group defines the capital as the shareholders' equity. The Netcom Group's objectives of the management of capital are to maintain the ability to operate based on going concern, meet the requirements of capital investment for the business development, bring benefit to shareholders and other stakeholders, and also to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Netcom Group may adjust the amount of dividends paid to shareholders, return of capital to shareholders, issue new shares, sell assets to reduce debt.

7 REVENUES

Revenues represent the turnover of the Netcom Group and are derived from the provision of fixed line telecommunications and related services, net of the PRC business taxes and government levies amounting to RMB2,358 million (2006: RMB2,387 million). The Netcom Group's revenues by business nature can be summarized as follows:

	Year ended 31 December	
	2007	2006
	<i>RMB</i>	<i>RMB</i>
	<i>million</i>	<i>million</i>
		<i>Restated</i>
		<i>Note 2</i>
Revenues		
Local usage fees	19,989	22,059
Monthly telephone services	12,387	16,546
Upfront installation fees	1,283	1,364
DLD usage fees	8,769	9,495
ILD usage fees	791	819
Value-added services	6,114	5,341
Interconnection fees	8,376	8,432
Upfront connection fees	1,517	2,406
Broadband services	13,835	9,916
Other Internet-related services	532	516
Managed data services	1,284	1,413
Leased line income	2,521	2,540

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Information communications technology services	3,990	855
Other services	2,617	2,492
Total	84,005	84,194

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Operating expenses mainly represent:

	Year ended 31 December	
	2007	2006
	<i>RMB</i>	<i>RMB</i>
	<i>million</i>	<i>million</i>
		<i>Restated</i>
		<i>Note 2</i>
Staff cost	12,223	11,849
Depreciation and amortisation	25,495	24,913
Maintenance cost	4,373	4,512
Miscellaneous taxes and fees	358	278
Customer installation cost	2,036	1,116
Interconnection charges	4,014	3,915
Advertising and promotion expenses	821	884
Sales channel cost	2,298	2,118
Subscriber acquisition and retention cost	1,582	3,646
Auditor's remuneration	54	61
Bad and doubtful debt expenses	868	1,003
Operating leases	1,900	1,969
Cost of hardware sold in relation to information communications technology services	2,830	598

9 OTHER INCOME

Other income is the subsidy income Netcom received arising from the reinvesting of the profit distributions received from a subsidiary in the PRC to that subsidiary.

10 FINANCE COSTS

	Year ended 31 December	
	2007	2006
	<i>RMB million</i>	<i>RMB million</i>
		<i>Restated</i>
		<i>Note 2</i>
Interest expenses on:		
Bank and other loans wholly repayable within five years	2,875	3,185
Bank and other loans wholly repayable after more than five years	198	325
Deferred consideration related to Acquisition of New Horizon	375	479
Total	3,448	3,989

Less: Interest expenses capitalized in construction in progress	(165)	(233)
Exchange loss/(gain), net	25	(8)
Bank charges	25	19
	3,333	3,767
Interest expenses were capitalized in construction in progress using the following annual interest rates	4.75%-5.82%	4.71%-5.28%

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11 TAXATION

	Year ended 31 December	
	2007	2006
	RMB	RMB
	million	million
		Restated
		Note 2
PRC enterprise income tax (EIT)	3,901	4,143
Overseas profit tax	12	20
Deferred taxation – Continuing operations (Note 34)	(66)	(436)
Deferred taxation – Change in statutory taxation rate (Note 34)	(51)	
Taxation charges	3,796	3,727

The provision for PRC EIT is calculated based on the statutory income tax rate of 33% on the assessable profit of each of the entities comprising the Netcom Group in the PRC as determined in accordance with the relevant income tax rules and regulations in the PRC.

Taxation on profits derived from certain subsidiaries outside the PRC, including Hong Kong, has been calculated on the estimated assessable profit at the rates of taxation ranging from 17.50% to 34.00%, prevailing in the countries in which those entities operate.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the New CIT Law). This New CIT Law reduces the corporate income tax rate for domestic enterprises from 33% to 25% with effect from 1 January 2008. As a result of the new CIT Law, as at 16 March 2007, the carrying value of deferred tax assets has been written down by RMB775 million, with RMB111 million recognised in income statement and RMB664 million recognised in equity. The carrying value of deferred tax liabilities has been written down by RMB273 million, with RMB162 million recognised in the income statement and RMB111 million recognised in equity. The impact of the change in deferred taxation recognised in either the current income statement or equity as a result of the New CIT Law corresponded to whether the related items were previously recognised in income statement or equity.

On 28 November 2007, the National People's Congress approved the Implementation guide on the Corporate Income Tax Law of the People's Republic of China (the New CIT Implementation guide), with effect from 1 January 2008. Per a bilateral tax affairs agreement, enterprises incorporated in Hong Kong is required to pay a 5 percent corporate income tax on profits distributed from its subsidiaries incorporated in the PRC. On 22 February 2008, the Ministry of Finance and the State Administration of Taxation jointly issued CaiShui [2008], Circular No. 1 (Circular No. 1). In accordance with the Circular No. 1, accumulated retained earnings of foreign investment enterprises generated before 1 January 2008 and distributed to foreign investors after 2008 are exempt of income tax. Earnings of foreign investment enterprises generated in or after 2008 and distributed to foreign investors should pay the withholding tax. As a result, the Netcom Group may accrue deferred tax liability for the undistributed earnings generated by CNC China during or after 2008 according to actual situation.

On 26 December 2007, the State Council promulgated Notice Regarding Preferential Policy of Implementing EIT in Intervening Period. The Netcom Group has evaluated the regulation and considered that it will not have material impact on the financial statements.

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The reconciliation between the Netcom Group's actual tax charge and the amount which is calculated based on the weighted average statutory tax rate is as follows:

	Year ended 31 December	
	2007	2006
	<i>RMB</i>	<i>RMB</i>
	<i>million</i>	<i>million</i>
		<i>Restated</i>
		<i>Note 2</i>
Profit before taxation	15,267	15,205
Weighted average statutory tax rate	33%	33%
Tax calculated at the weighted average statutory tax rate	5,038	5,018
Non-taxable income (Note i)	(1,184)	(1,216)
Expenses not deductible for tax purposes	68	64
Change in statutory taxation rate (Note 34)	(51)	
Others	(75)	(139)
Tax charge	3,796	3,727

Note:

- (i) Non-taxable income comprises primarily of upfront connection fees charged to customers which are amortized over the customer relationship and the subsidy income obtained (Note 9).

12 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

- (a) For the year ended 31 December 2007, profit attributable to shareholders includes current year profit of RMB8,714million (2006: RMB17,475 million), which has been recognized in Netcom's financial statements.

- (b) Netcom's subsidiary, CNC China is registered as a foreign investment enterprise in the PRC. In accordance with the Articles of Association of CNC China, it is required to provide for certain statutory reserves, namely, general reserve and staff bonus and welfare fund, which are appropriated from profits after tax but before any dividend distribution.

CNC China is required to allocate at least 10% of their profit after tax determined under PRC GAAP to the general reserve fund until the cumulative amounts reach 50% of the registered capital. The statutory reserve can only be used, upon obtaining approval from the relevant authority, to offset accumulated losses or increase capital. Accordingly, CNC China appropriated approximately RMB868 million to the general reserve fund for the year ended 31 December 2007 (2006: RMB855 million).

- (c) According to a PRC tax approval document issued by the Ministry of Finance and State Administration of Taxation to the Netcom Group, the Netcom Group's upfront connection fees are not subject to EIT and an amount equal to the upfront connection fees recognised in the retained earnings should be transferred from retained earnings to a statutory reserve. Up to 31 December 2007, Netcom has made accumulated appropriation of RMB10,706 million to the statutory reserve (Up to 31 December 2006: RMB9,189 million).

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