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If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or 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 other transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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CHINA UNICOM LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

**CONNECTED TRANSACTIONS
LEASING OF CDMA NETWORK CAPACITY**

*Financial Advisers to
China Unicom Limited*

MORGAN STANLEY

 **CHINA INTERNATIONAL CAPITAL
CORPORATION (HONG KONG) LIMITED**

*Independent Financial Adviser to the
Independent Board Committee*

LEHMAN BROTHERS

Lehman Brothers Asia Holdings Limited

A letter from the board of directors of China Unicom Limited is set out on pages 5 to 17 of this circular, and a letter from the Independent Board Committee is set out on pages 18 to 19 of this circular.

A letter from Lehman Brothers Asia Holdings Limited containing its advice to the Independent Board Committee is set out on pages 20 to 37 of this circular.

A notice dated 28 November 2001 convening an extraordinary general meeting of the Company to be held at Room A, 5th Floor, Island Shangri-La Hotel, Pacific Place, Supreme Court Road, Central, Hong Kong on 17 December 2001 at 11:00 a.m. is set out on pages 41 to 42 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon as soon as practicable and in any event by not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or at any adjourned meeting should you so wish.

28 November 2001

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

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| “Associate” | has the meaning given to it by the Listing Rules |
| “Board” | the board of directors of the Company |
| “Capacity” | capacity on the CDMA Network measured in terms of total number of Subscribers, and including all additional Capacity to be delivered pursuant to the Lease Agreement |
| “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, and including all upgrades to such technology from time to time |
| “CDMA 1XRTT” | one of the principal standards for the next generation cellular technology, including 1X and 3X standards. It is a multi-carrier wideband CDMA technology based on IS-95 standard and supports both packet-switched and circuit-switched communications |
| “CDMA IS-95” | digital CDMA standard for United States cellular radio system, direct sequence spread spectrum. CDMA IS-95 is widely deployed in North America and Korea |
| “CDMA Network” | the CDMA mobile telecommunications network constructed by Unicom New Horizon in the Listed Service Areas, including all additional Capacity constructed after the date of the Lease Agreement in the Listed Service Areas |
| “Companies Ordinance” | the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) |
| “Company” | China Unicom Limited, a company incorporated in Hong Kong whose Shares are listed on the Hong Kong Stock Exchange and whose ADSs are listed on the New York Stock Exchange |
| “Connected Transactions” | the transactions to be entered into between CUCL and Unicom Group arising in relation to the Lease, as set out in the section headed “Letter from the Board — Connected Transactions” |
| “CUCL” | China Unicom Corporation Limited, a limited liability company incorporated in the PRC and a wholly-owned subsidiary of the Company |
| “Directors” | the directors of the Company |

DEFINITIONS

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| “Equipment” | all necessary hardware, software and accessories to be used in constructing the CDMA Network in accordance with the designs and specifications agreed between CUCL and Unicom New Horizon |
| “Extraordinary General Meeting” | the extraordinary general meeting of the Company to be convened on 17 December 2001, notice of which is set out on pages 41 to 42 of this circular, or any adjournment thereof |
| “Group” | China Unicom Limited and its subsidiaries from time to time |
| “GSM” | global system for mobile communications, a digital mobile cellular telephone system operating in the 900, 1800 and 1900 MHz frequency bands based on digital transmission and cellular network architecture with roaming |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “Hong Kong” | Hong Kong Special Administrative Region of the PRC |
| “Hong Kong Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Independent Board Committee” | the committee of Directors, consisting of Lee Hon Chiu and Wu Jing Lian, independent non-executive Directors, formed to advise the Independent Shareholders in respect of the terms of the Lease and the Connected Transactions |
| “Independent Shareholders” | Shareholders other than Unicom BVI and its Associates |
| “Latest Practicable Date” | 25 November 2001, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein |
| “Lease” | the lease of Capacity by Unicom New Horizon to CUCL pursuant to the Lease Agreement |
| “Lease Agreement” | The conditional lease agreement dated 22 November 2001 between CUCL, Unicom New Horizon and Unicom Group relating to the Lease |
| “Lease Fee” | The amounts payable by CUCL to Unicom New Horizon as set out in the section headed “Letter from the Board — The Lease — Lease Fee” |

DEFINITIONS

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| “Lehman Brothers” | Lehman Brothers Asia Holdings Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and independent financial adviser to the Independent Board Committee in respect of the terms of the Lease and the Connected Transactions |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange |
| “Listed Service Areas” | Guangdong, Jiangsu, Zhejiang, Fujian, Liaoning, Shandong, Anhui, Hebei and Hubei provinces and Beijing, Shanghai and Tianjin municipalities |
| “MHz” | Megahertz, a unit of measure of frequency; 1 MHz is equal to one million cycles per second |
| “MII” | the Ministry of Information Industry of the PRC |
| “Network Construction Cost” | the cost of constructing the CDMA Network borne by Unicom New Horizon, as more fully described in the section “The Lease — General” on page 6 of this circular |
| “Parties” | the parties to the Lease Agreement and the Services Agreement, being CUCL, Unicom New Horizon and Unicom Group, and “Party” shall mean any of them |
| “Phase” | a fixed amount of constructed Capacity on the CDMA Network, being approximately 9.18 million Subscribers in respect of Phase 1, and such amount as agreed between Unicom New Horizon and CUCL under the Lease Agreement in respect of any subsequent Phase |
| “PRC” or “China” | The People’s Republic of China (excluding, for the purposes of this circular, Hong Kong, the Macau Special Administrative Region and Taiwan) |
| “RMB” | Renminbi, the lawful currency of China |
| “SDI Ordinance” | the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong) |
| “Services Agreement” | the conditional services agreement dated 22 November 2001 between CUCL and Unicom Group in relation to the Connected Transactions |
| “Share(s)” | share(s) of HK\$0.10 each in the capital of the Company |
| “Shareholders” | shareholders of the Company |

DEFINITIONS

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| “Subscriber” | A unit of capacity on the CDMA Network |
| “UIM” | User Identity Module |
| “Unicom BVI” | China Unicom (BVI) Limited, a company incorporated in the British Virgin Islands and the immediate controlling shareholder of the Company |
| “Unicom Group” | China United Telecommunications Corporation, a state-owned enterprise established under the laws of the PRC and the ultimate controlling shareholder of the Company |
| “Unicom HK” | China Unicom (Hong Kong) Group Limited, a company incorporated in Hong Kong and the indirect controlling shareholder of the Company |
| “Unicom New Horizon” | Unicom New Horizon Mobile Telecommunications Company Limited, a limited liability company incorporated in the PRC and a wholly-owned subsidiary of Unicom Group |

This circular contains translations between Renminbi amounts and Hong Kong dollars at RMB1.06 = HK\$1.00. The translations are not representations that the Renminbi amounts could actually be converted into Hong Kong dollars at those rates, or at all.

LETTER FROM THE BOARD



CHINA UNICOM LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

Executive Directors:

Yang Xian Zu
Wang Jianzhou
Shi Cuiming
Li Zhengmao
Tan Xinghui

Registered Office:

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

Non-Executive Directors:

Ge Lei
Craig O. McCaw

Independent Non-Executive Directors:

Lee Hon Chiu
Wu Jing Lian

Alternate Director to Craig O. McCaw:

C. James Judson

28 November 2001

To the Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTIONS
LEASING OF CAPACITY ON THE CDMA NETWORK**

1. INTRODUCTION

On 22 November 2001, the Board announced that CUCL had entered into the Lease Agreement with Unicom New Horizon and Unicom Group pursuant to which Unicom New Horizon conditionally agreed to lease Capacity of the CDMA Network in the Listed Service Areas to CUCL. CUCL will have the exclusive right to operate the CDMA Network to provide CDMA cellular communication services in the Listed Service Areas under applicable PRC laws and regulations, including basic voice services, mobile data services and value added mobile services. Unicom Group has agreed to guarantee the performance by Unicom New Horizon of its obligations under the Lease Agreement.

LETTER FROM THE BOARD

Unicom Group is a substantial shareholder of the Company. CUCL is a wholly-owned subsidiary of the Company and Unicom New Horizon is a wholly-owned subsidiary of Unicom Group. Accordingly, under the Listing Rules, the Lease and the related Connected Transactions constitute connected transactions of the Company.

An Independent Board Committee has been established to advise the Independent Shareholders in respect of the terms of the Lease Agreement and the related Connected Transactions. Lehman Brothers has been retained as the independent financial adviser to the Independent Board Committee and a copy of its letter of advice is set out on pages 20 to 37 of this circular.

Morgan Stanley Dean Witter Asia Limited and China International Capital Corporation (Hong Kong) Limited are the financial advisers to the Company in respect of the Lease and the related Connected Transactions.

The purpose of this letter is to provide you with further information relating to the Lease and the Connected Transactions arising in relation to the Lease and to seek your approval of the ordinary resolutions set out in the notice of the Extraordinary General Meeting on pages 41 to 42 of this circular. The recommendation of the Independent Board Committee to the Independent Shareholders is set out on pages 18 to 19 of this circular.

2. THE LEASE

General

CUCL has agreed, subject to certain conditions, to lease Capacity on the CDMA Network from Unicom New Horizon. Unicom New Horizon is a wholly-owned subsidiary of Unicom Group established to construct a CDMA network within the PRC.

Under the leasing arrangement, Unicom New Horizon shall plan, finance and construct the CDMA Network, including the procurement of all Equipment, and shall ensure that the CDMA Network is constructed in accordance with the detailed specifications and timetable agreed between Unicom New Horizon and CUCL. All payments, costs, expenses and amounts paid or incurred by Unicom New Horizon that are directly attributable to the construction of the CDMA Network, including construction, installation and Equipment procurement costs and expenses, survey and design costs, investment in technology, software and other intangible assets, insurance premiums and capitalised interest on loans and any taxes levied or paid in respect of the procurement of Equipment and the construction of the CDMA Network, including import taxes and custom duties and all costs incurred in relation to any upgrade of technology shall form the Network Construction Cost, which will be used in calculating the lease fee payable by CUCL (see “Lease Fee” on page 9). The Network Construction Cost shall be audited and appropriate documentation shall be provided to CUCL or its auditors in order to verify the Network Construction Cost.

CUCL shall be responsible for the operation, management and maintenance of the CDMA Network in accordance with the relevant requirements of the Lease Agreement and shall have the exclusive right to provide CDMA services in the Listed Service Areas. All operating revenue,

LETTER FROM THE BOARD

including airtime charges, monthly subscription fees, interconnection charges, income from sales of UIM cards and handsets and other income generated from or in connection with the operation of the CDMA Network shall belong to CUCL.

Unicom New Horizon shall not participate in the operation, management or maintenance of the CDMA Network by CUCL. CUCL technical staff has been closely involved in the planning and design of the CDMA Network, as well as the equipment selection process and in overseeing the construction of the CDMA Network. As a result, CUCL technical staff are very familiar with the CDMA technology used in the CDMA Network and are able to maintain the CDMA Network. All costs of operating, managing and maintaining the CDMA Network shall be borne by CUCL.

Term

The term of the Lease is for an initial period of one year, commencing from the second business day following the fulfilment of the conditions set out below, or 1 January 2002, whichever is later (“Initial Term”) and may be renewed for further one year terms (each, an “Additional Term”) at the option of CUCL. The Directors expect that the Initial Term will commence by the end of January 2002.

Conditions

Commencement of the Lease is conditional upon, among others, the following conditions having been fulfilled on or before 31 December 2001 or such later date as CUCL, Unicom New Horizon and Unicom Group may agree:

- (a) satisfactory testing, initial acceptance and delivery of Phase 1 of the CDMA Network in accordance with the Lease Agreement;
- (b) Unicom Group providing or procuring that CUCL is provided with all spectrum and number resources required by CUCL for the operation of Phase 1 of the CDMA Network;
- (c) Unicom Group and Unicom New Horizon having obtained all necessary approvals to perform their respective obligations under the Lease Agreement;
- (d) CUCL having obtained approval from the MII to operate the CDMA Network;
- (e) the MII having approved Unicom Group’s CDMA tariff plan;
- (f) the passing of resolutions by the Independent Shareholders approving the Lease and the related Connected Transactions; and
- (g) The Hong Kong Stock Exchange granting to the Company a waiver from strict compliance with the provisions of the Listing Rules relating to the Lease and the related Connected Transactions.

LETTER FROM THE BOARD

Capacity

Initial Capacity

During the Initial Term, CUCL will lease Capacity on a quarterly basis. CUCL will lease Capacity for 2.0 million Subscribers during the first quarter of the Initial Term and Capacity for 4.0 million Subscribers during the second quarter of the Initial Term (including all Capacity already leased during the first quarter). CUCL shall give Unicom New Horizon not less than three months' prior written notice of its additional Capacity requirements for the third and fourth quarters of the Initial Term. The total amount of Capacity leased by CUCL during the third and fourth quarters of the Initial Term will depend upon CUCL's actual and anticipated CDMA subscriber growth. CUCL is not obligated to lease the total constructed Capacity of Phase 1 of the CDMA Network of 9.18 million Subscribers during 2002.

Additional Capacity

In addition to Capacity which CUCL has agreed or agrees to lease in respect of the Initial Term as described above, subject to giving not less than 180 days' prior notice to Unicom New Horizon, CUCL may lease such additional Capacity as it may require during the term of the Lease. Unicom New Horizon shall ensure that all Capacity which CUCL has so requested is supplied by the due date of delivery of the Capacity, provided that, unless otherwise agreed between Unicom New Horizon and CUCL, Unicom New Horizon will not be obliged to deliver any additional Capacity if to do so would require Unicom New Horizon to expand the CDMA Network beyond Phase 1. However, if Unicom New Horizon agrees to provide any such additional Capacity, the provisions of the Lease Agreement shall apply equally in relation to all such additional Capacity which Unicom New Horizon has agreed to provide.

Delayed delivery of Capacity

Subject to certain exceptions, including delay caused by a force majeure event (including natural disasters, national emergency, civil disturbance, riot, terrorism, industrial disputes and other events beyond the control of the parties), a material breach of the Lease Agreement by CUCL or compliance with applicable laws and regulations, if any Capacity is not ready for operational service by the relevant delivery date, then Unicom New Horizon shall be liable to provide a delay discount to CUCL, equal to the daily Lease Fee in respect of the relevant Capacity multiplied by the number of days of delay, which shall be credited against future Lease Fee payments.

Reduction of Capacity

CUCL may not reduce the amount of Capacity leased or committed to be leased by it during the Initial Term. However, subject to providing not less than 180 days' prior written notice to or with the prior written consent of Unicom New Horizon, CUCL may reduce the amount of Capacity leased with effect from the commencement of any Additional Term, provided that CUCL must lease all Capacity which it has requested or otherwise committed to lease for at least one year following the date of delivery or renewal of the lease of such Capacity (as the case may be).

LETTER FROM THE BOARD

Lease Fee

The Lease Fee will be calculated so as to enable Unicom New Horizon to recover the Network Construction Cost in seven years, with an internal rate of return on its investment of 8%.

Based on the initial total Capacity of Phase 1 of the CDMA Network of approximately 9.18 million Subscribers, the annual Lease Fee per Subscriber for all Phase 1 Capacity will be approximately RMB299, subject to adjustment following final acceptance of the CDMA Network by representatives of Unicom New Horizon and CUCL and calculation of the final Network Construction Cost of Phase 1 of the CDMA Network, if the final Network Construction Cost of Phase 1 differs from the estimated Network Construction Cost by more than 1.0%. The Directors estimate that, based on forecast CDMA subscriber growth in the Listed Service Areas and planned lease of Capacity by CUCL, the total Lease Fee payable by CUCL during the Initial Term will be approximately RMB1.47 billion (approximately HK\$1.39 billion).

The Lease Fee for each Additional Term and each subsequent Phase of the CDMA Network shall also be calculated on the same basis as described above.

The Lease Fee shall be paid quarterly in arrears by CUCL to Unicom New Horizon during the term of the Lease. All Lease Fee payments shall be made in Renminbi.

Purchase Option

Under the Lease Agreement, Unicom New Horizon has granted CUCL an option to purchase the CDMA Network (the "Purchase Option"). The Purchase Option may be exercised at any time during the Initial Term and any Additional Term and within 1 year after the termination or expiry (without renewal) of the Lease.

The acquisition price shall be negotiated between Unicom New Horizon and CUCL, based on the appraised value of the CDMA Network determined by an independent assets appraiser in accordance with applicable PRC laws and regulations and taking account of prevailing market conditions and other factors, provided that it will not exceed such price as would, taking into account all Lease Fee payments made by CUCL to Unicom New Horizon and all delay discounts of Lease Fees, enable Unicom New Horizon to recover the Network Construction Cost, together with an internal rate of return on its investment of 8%. The exercise of the purchase Option will be subject to the Company complying with the relevant provisions of the Listing Rules governing connected transactions.

Title to the CDMA Network assets will remain vested in Unicom New Horizon until the CDMA Network assets are transferred to CUCL following exercise of the Purchase Option.

Undertaking by Unicom Group and Unicom New Horizon

Under the Lease Agreement, each of Unicom Group and Unicom New Horizon has undertaken to CUCL that, upon request by CUCL, it will negotiate in good faith and enter into a further lease agreement with CUCL in relation to the lease of capacity by CUCL on the CDMA

LETTER FROM THE BOARD

networks constructed by Unicom New Horizon and/or Unicom Group in regions in the PRC other than the Listed Service Areas. Unless otherwise agreed by the Parties, the terms of such further lease agreement shall be the same as those contained in the Lease Agreement, modified as necessary.

Guarantee and Indemnity

In consideration of CUCL entering into the Lease Agreement, Unicom Group has unconditionally and irrevocably guaranteed the due and punctual performance by Unicom New Horizon of its obligations under the Lease Agreement. Unicom Group has also agreed to indemnify CUCL for any loss suffered by any member of the Group as a result of any defect in any of the Equipment or any loss caused by any negligence, default, act or omission of Unicom New Horizon or Unicom Group under the Lease Agreement or in connection with the CDMA Network. The aggregate liability of Unicom Group for any claim shall not exceed the total amount of Lease Fee payments made by CUCL to Unicom New Horizon under the Agreement and the total purchase price paid by CUCL for the CDMA Network. The guarantee and indemnity provided by Unicom Group under the Lease Agreement will continue in force until the expiry of the Lease Agreement.

Termination

CUCL may terminate the Lease by not less than 180 days' prior written notice, with effect from the end of any Additional Term. In addition, Unicom New Horizon or CUCL may terminate the Lease if the other (or, in the case of CUCL, Unicom Group) commits any continuing or material breach of the Lease Agreement. Unicom New Horizon is not otherwise permitted to terminate the Lease.

3. CDMA NETWORK AND SERVICES

As far as the Directors are aware, the Company's controlling shareholder, Unicom Group, has the only licence, issued by the MII, to offer CDMA cellular services in China. The MII, which is responsible for regulating the PRC telecommunications industry, is the only authority in the PRC which is empowered to issue CDMA licences.

Unicom New Horizon commenced construction of CDMA networks nationwide in 2001. The networks are expected to be expanded in phases. The number and size of each phase will depend upon actual and forecast CDMA subscriber growth and CUCL's anticipated Capacity requirements. In the Phase 1 of the nationwide CDMA Networks, which is expected to be completed and operational by 31 December 2001, the networks will achieve a nationwide coverage of 330 metropolitan areas in every province and major municipality in China, with a planned total capacity of approximately 15.15 million Subscribers. The portion of this series of networks within the Listed Service Areas which is referred to as the CDMA Network has a total Capacity of approximately 9.18 million Subscribers. The Board believes that the Phase 1 of the CDMA Network will provide sufficient geographic coverage for most of the mid- to high-usage subscribers that the Company plans to target.

LETTER FROM THE BOARD

Through a competitive bidding process, Unicom Group was able to obtain highly attractive terms for its CDMA equipment supply contracts. The construction of its CDMA networks utilizes to a significant extent the existing GSM infrastructure, such as base stations, switching centres and transmission capacity. As a result, the overall construction cost of Phase 1 of Unicom Group's CDMA networks is substantially less than would have been the case if the CDMA networks were built independently of the GSM networks. The total capital expenditure for Phase 1 of the nationwide CDMA networks (having a total capacity of approximately 15.15 million Subscribers) is estimated to be approximately RMB24 billion (approximately HK\$22.64 billion) or RMB1,600 (approximately HK\$1,509) per Subscriber. Since the initial phase of the nationwide CDMA Networks is designed to achieve an extensive nationwide coverage, and because expanding future capacity is relatively less expensive due to the technical characteristics of CDMA technology, the Board expects that Unicom Group will be able to further lower its per Subscriber cost when expanding the capacity of the CDMA Network.

CUCL already maintains the Group's GSM cellular network in the Listed Services Areas. CUCL's technical staff have been closely involved in the planning and design of the CDMA Network, as well as the equipment selection process and in overseeing the construction of the CDMA Network. As a result, CUCL staff are very familiar with the CDMA technology used in the CDMA Network are able to operate and maintain the CDMA Network.

The Company plans to use the CDMA Network to offer basic voice services, mobile data services and value added mobile services such as call forwarding and voicemail, caller identity display and short messaging services in the Listed Service Areas.

4. CONNECTED TRANSACTIONS

In addition to the Lease, a number of transactions will be entered into between CUCL and Unicom Group, which will constitute continuing connected transactions for the Company under the Listing Rules as a result of entering into the Lease.

Interconnection arrangements

CUCL's GSM and CDMA cellular, long distance networks and IP telephony networks and Unicom Group's GSM and CDMA cellular and fixed line networks will interconnect with each other. To enable such interconnection services to be offered by CUCL and Unicom Group, CUCL has, subject to, inter alia, Hong Kong regulatory and Independent Shareholders' approvals, entered into the Services Agreement with Unicom Group with respect to the interconnection arrangements. These arrangements will be for an initial period of one year, commencing from the second business day following the fulfilment of the conditions of the Lease Agreement, or 1 January 2002, whichever is later and will be automatically renewed or terminated thereafter upon the renewal or termination of the Lease Agreement.

Interconnection settlement between Unicom Group's networks and CUCL's networks is based on relevant standards established from time to time by the MII. However, in the case of calls between cellular subscribers in different provinces, settlement is based on either the relevant standards established by the MII from time to time or an agreed settlement arrangement between CUCL and Unicom Group. CUCL is able to choose the more favourable arrangement.

LETTER FROM THE BOARD

The agreed settlement arrangement, which is based on the parties' respective internal costs of providing this service, is currently more favourable to CUCL than the settlement arrangement prescribed by the MII. If in future the arrangement prescribed by the MII were to be more favourable to CUCL, CUCL would settle on the basis of that arrangement.

Interconnection revenue and interconnection expenses derived from interconnection with Unicom Group for 2002 are estimated to be approximately RMB83,000,000 (approximately HK\$78,300,000) and approximately RMB32,500,000 (approximately HK\$30,700,000), respectively.

Roaming arrangements

CUCL and Unicom Group will provide roaming services to each other's CDMA cellular subscribers within its respective service areas. In addition, CUCL makes its long distance network available to Unicom Group to enable Unicom Group to give effect to its roaming arrangements with third party operators. To enable such roaming services to be offered by CUCL and Unicom Group, CUCL has, subject to, inter alia, Hong Kong regulatory and Independent Shareholders' approvals, entered into the Services Agreement with Unicom Group with respect to the roaming arrangements and will be for an initial period of one year, commencing from the second business day following the fulfilment of the conditions of the Lease Agreement, or 1 January 2002, whichever is later and will be automatically renewed or terminated thereafter upon the renewal or termination of the Lease Agreement.

Charges for these services between CUCL and Unicom Group are based on our respective internal costs of providing these services, and will be on no less favourable terms than those available to any independent third party. CUCL will be paid 50% of the roaming revenue received by Unicom Group from third party operators for making CUCL's long distance network available to Unicom Group to give effect to its roaming arrangements with third party operators.

The roaming revenue and roaming expenses derived from roaming with Unicom Group for 2002 are estimated to be approximately RMB56,000,000 (approximately HK\$52,800,000) and approximately RMB22,000,000 (approximately HK\$20,800,000), respectively.

5. APPLICATION FOR WAIVER

The Lease and the related Connected Transactions will be entered into in the ordinary and usual course of business of the Group and on normal commercial terms. The Directors are of the view that, from a financial point of view, the terms of the Lease and the related Connected Transactions are fair and reasonable so far as the Shareholders are concerned.

The Lease and the related Connected Transactions described above constitute connected transactions under Chapter 14 of the Listing Rules. As Lease and the related Connected Transactions will occur on a regular continuous basis in the ordinary and usual course of business, the Company has made an application to the Hong Kong Stock Exchange for a waiver from strict compliance with the normal approval and disclosure requirements related to connected transactions under the Listing Rules.

LETTER FROM THE BOARD

The Hong Kong Stock Exchange has indicated that it will grant the waiver applied for in relation to the Lease and the related Connected Transactions, which will be effective until 31 December 2004, on the following conditions:

- (a) Arm's length basis:
 - (i) the transactions as well as the respective agreements governing such transactions shall be entered into by the relevant subsidiary of the Company in the ordinary and usual course of its business, and either:
 - (A) on normal commercial terms; or
 - (B) if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable than terms available to or from (as appropriate) independent third parties;
 - (ii) the transactions shall be in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.
- (b) Disclosure: The Company shall disclose in its annual report and accounts details of the transactions as required by Rule 14.25(1)(A) to (D) of the Listing Rules, ie.
 - (i) the date or period of the transactions;
 - (ii) the parties thereto and a description of their connected relationship;
 - (iii) a brief description of the transactions and the purpose of the transactions;
 - (iv) the total consideration and the terms; and
 - (v) the nature and extent of the interest of the connected person in the transactions.
- (c) Independent Directors' review: The independent non-executive Directors shall review annually the transactions and confirm, in the Company's annual report and accounts for the year in question, that such transactions have been conducted in the manner as stated in subparagraph (a)(i) and (ii) above.
- (d) Auditors' review: The auditors of the Company shall review annually the transactions and shall provide the Directors with a letter (the "Letter"), details of which will be set out in the Company's annual report and accounts, stating that:
 - (i) the transactions received the approval of the Board;
 - (ii) the transactions have been entered in accordance with the relevant agreement governing the transactions; and
 - (iii) the Lease Fee has not exceed the relevant cap set out in paragraph (g) below.

LETTER FROM THE BOARD

Where for whatever reason, the auditors decline to accept the engagement or are unable to issue the Letter, the Directors shall contact the Hong Kong Stock Exchange immediately.

- (e) Shareholders' approval: Details of the transactions are disclosed to the Company's existing shareholders who will (as described below) be asked to vote in favour of an ordinary resolution to approve the transactions at the Extraordinary General Meeting (at which Unicom BVI and its Associates who are Shareholders will abstain from voting).
- (f) Undertaking: For the purpose of the above review by the auditors of the Company, Unicom Group has undertaken to the Hong Kong Stock Exchange and the Company that it will provide the Company's auditors with access to its records and those of its subsidiaries.
- (g) Cap: In relation to the Lease, the total annual Lease Fee in relation to the year ended 31 December 2002, 2003 and 2004 does not exceed the cap of the amount of RMB2,740,000,000 (approximately HK\$2,580,000,000), RMB6,621,000,000 (approximately HK\$6,250,000,000) and RMB9,361,000,000 (approximately HK\$8,830,000,000) respectively.

The cap amounts stated in paragraph (g) above have been determined with reference to the Company's estimates of the maximum amount of Capacity which may be leased by CUCL for the years 2002 to 2004, and based on the assumption that there will be no reduction in the Lease Fee per Subscriber during such period.

The Hong Kong Stock Exchange has also indicated that if any of the terms of the agreements related to the Connected Transactions, or the nature of the Connected Transactions is altered (unless as provided for under the terms of the relevant agreement) or if the Group enters into any new agreements with connected persons in the future, the Company will need to comply fully with all the relevant provisions of Chapter 14 of the Listing Rules dealing with connected transactions.

6. REASONS FOR ENTERING INTO THE CDMA BUSINESS

The lease of capacity on the CDMA Network from Unicom New Horizon will enable the Company to launch its CDMA services early in 2002. The planned launch of CDMA services is crucial to the cellular business strategy of the Company for the following reasons:

- The Board believes CDMA technology is superior to GSM technology in a number of respects, including better voice quality, higher data transmission capabilities, lower dropped call rate, lower handset radio transmission power, and greater spectrum usage efficiency. The Board considers these technological advantages can result in better cellular service quality that will be attractive to cellular subscribers, in particular mid- to high-usage subscribers.
- The CDMA IS-95 technology based networks that the Company will initially use to offer CDMA services can be migrated relatively efficiently to CDMA 1XRTT technology, which offers much higher practical data transmission rates than the GPRS technology that is the technical equivalent for GSM networks and has already enjoyed commercial success in

LETTER FROM THE BOARD

Korea. The Board believes CDMA 1XRTT technology will provide the Company with a significant competitive advantage as demand for sophisticated wireless data services increases in China.

- Because of its spectrum usage efficiency, CDMA offers higher network capacity and larger cell size and requires fewer base stations than GSM for the same geographic coverage. These advantages can result in lower long term capital expenditure requirements for the same network capacity. The Company expects to realize these cost savings, since the Lease Fee and acquisition price on exercise of the Purchase Option are largely based on the overall cost of construction of the CDMA Network.
- The launch of CDMA services will help alleviate potential constraints that the Company may face in the future from its limited GSM spectrum allocations, which presently consists of 2x6 MHz in the 900 MHz frequency band and 2x10 MHz in the 1800 MHz frequency band. The 2x10 MHz allocation the Company has in the 800 MHz frequency band for its CDMA services represents an important resource that can help ensure that the Company's networks can accommodate future growth of the Company's cellular business, particularly when, as expected, data and video services become an important part of the Company's cellular service offerings.
- The launch of CDMA services will enable the Company to develop a premium branded cellular service that is distinct from GSM based cellular services. The Company intends to promote the technological advantages of CDMA to position its CDMA services as a high-quality product targeted to mid- to high-end subscribers. The Company expects its planned CDMA services also to contribute to its overall brand as a technologically advanced operator that provides high quality services.
- In view of the above reasons, the Directors are of the opinion that the operation of the CDMA business will have a positive effect on the Company's development and on improving its potential profitability.

7. REASONS FOR ENTERING INTO THE LEASE

The Board considers that it is preferable to lease Capacity on the CDMA Network from Unicom New Horizon rather than construct a CDMA network itself, principally because the Lease arrangement enables the Company to offer CDMA services without the risks associated with constructing and owning a CDMA Network. In particular:

- CUCL is able to utilize the extensive coverage of Phase 1 of the CDMA Network without the expense of leasing the entire available Capacity immediately.
- The terms of the Lease are flexible and enable CUCL to increase or decrease the amount of leased Capacity based on subscriber demand and the development of its CDMA business.
- By limiting the Initial Term of the Lease to one year, the Company is able to limit its overall risk in entering into the CDMA business.

LETTER FROM THE BOARD

- CUCL is able to obtain the exclusive right to operate the CDMA Network.
- CUCL retains the flexibility of being able to purchase the CDMA Network in the future by exercising the Purchase Option.

8. RELATIONSHIP BETWEEN THE COMPANY, CUCL, UNICOM GROUP AND UNICOM NEW HORIZON

As at the Latest Practicable Date, Unicom Group indirectly owned or controlled approximately 77.47% of the Company's issued share capital. Unicom New Horizon is a wholly-owned subsidiary of Unicom Group. CUCL is a wholly-owned subsidiary of the Company. Accordingly, under the Listing Rules, the entering into of the Lease Agreement and the Connected Transactions constitute connected transactions of the Company and require the approval of the Independent Shareholders.

9. EXTRAORDINARY GENERAL MEETING

A notice of the Extraordinary General Meeting to be held at Room A, 5th Floor, Island Shangri-La Hotel, Pacific Place, Supreme Court Road, Central, Hong Kong, on 17 December 2001 at 11:00 a.m. is set out on pages 41 to 42 of this circular at which ordinary resolutions will be proposed to approve the Lease and the Connected Transactions.

In accordance with the Listing Rules, Unicom BVI, the controlling shareholder of the Company, and its respective Associates who are Shareholders, will abstain from voting on the resolutions to approve the Lease and the Connected Transactions at the Extraordinary General Meeting or any adjournment thereof.

A form of proxy for use at the Extraordinary General Meeting is enclosed. Whether or not Shareholders are able to attend the Extraordinary General Meeting, they are requested to complete and return the enclosed form of proxy to the Company's registered office, 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 Extraordinary General Meeting. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the Extraordinary General Meeting should they so wish.

10. FACTORS TO CONSIDER

In considering the proposed resolutions, we would request that Independent Shareholders take into account the following factors:

- Lehman Brothers, the independent financial adviser to the Independent Board Committee, has concluded that, from a financial point of view, the terms of the Lease Agreement and the Connected Transactions are fair and reasonable, so far as the Independent Shareholders are concerned; and

LETTER FROM THE BOARD

- The Independent Board Committee believes that, from a financial point of view, the terms of the Lease and the Connected Transactions are fair and reasonable and that the Lease and the Connected Transactions are in the interests of the Company and Shareholders as a whole, and has recommended that Independent Shareholders vote in favour of the resolutions at the Extraordinary General Meeting.

11. RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders, which is set out on pages 18 to 19 of this circular, and which contains their recommendation in respect of the terms of the Lease and the Connected Transactions.

The advice of Lehman Brothers to the Independent Board Committee on the fairness and reasonableness of the terms of the Lease and the Connected Transactions are set out in pages 20 to 37 of this circular.

12. ADDITIONAL INFORMATION

Your attention is drawn to the general information set out in the Appendix to this circular.

By Order of the Board
China Unicom Limited
Yang Xian Zu
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



CHINA UNICOM LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

28 November 2001

To the Independent Shareholders

Dear Sir or Madam,

**CONNECTED TRANSACTIONS
LEASING OF CDMA NETWORK CAPACITY**

We refer to the circular (the “Circular”) dated 28 November 2001 issued by the Company to its Shareholders of which this letter forms a part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

On 22 November 2001, the Board announced that CUCL, a wholly-owned subsidiary of the Company incorporated in the PRC, had entered into the Lease Agreement with Unicom New Horizon and Unicom Group pursuant to which Unicom New Horizon conditionally agreed to lease Capacity to CUCL commencing from the second business day following the fulfilment of the conditions of the Lease Agreement, or 1 January 2002, whichever is later. The Board also announced that CUCL had entered into the Services Agreement in relation to the Connected Transactions (comprising interconnection and roaming arrangements between Unicom Group and CUCL) arising in relation to the Lease.

We have been appointed to constitute the Independent Board Committee to advise the Independent Shareholders as to whether, in our view, the terms of the Lease and the Connected Transactions are fair and reasonable from a financial point of view so far as the Independent Shareholders are concerned. Lehman Brothers has been retained as independent financial adviser to advise the Independent Board Committee on the fairness and reasonableness, from a financial point of view, of the terms of the Lease and the Connected Transactions. Details of the terms of the Lease and the Connected Transactions are set out in the letter from the Board included in this Circular.

Having considered the information set out in the letter from the Board, and the principal factors, reasons and recommendations set out in the letter from Lehman Brothers, we consider the terms of the Lease and the Connected Transactions to be fair and reasonable from a financial point of view insofar as the Independent Shareholders are concerned and believe that the Lease and the Connected Transactions are in the interests of the Company and its Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Accordingly, we recommend that the Independent Shareholders **vote in favour** of the resolutions to be proposed at the Extraordinary General Meeting to approve the Lease and the Connected Transactions.

Yours faithfully

Lee Hon Chiu

Wu Jing Lian

Independent Board Committee

LETTER FROM LEHMAN BROTHERS

LEHMAN BROTHERS

Lehman Brothers Asia Holdings Limited

Level 38, One Pacific Place

88 Queensway

Hong Kong

28 November 2001

To the Independent Board Committee of

China Unicom Limited

Dear Sirs,

**CONNECTED TRANSACTIONS
LEASING OF CDMA NETWORK CAPACITY**

INTRODUCTION

We refer to the circular dated 28 November 2001 (the “Circular”) issued by the Company, of which this letter forms a part. Terms defined in the Circular shall have the same meanings herein.

The signing of the Lease Agreement and the related Connected Transactions constitute connected transactions for the Company under the Listing Rules and, pursuant to Rule 14.26 of the Listing Rules, are subject to approval by the Independent Shareholders. We have been appointed to act as the independent financial adviser to the Independent Board Committee to consider whether the terms of the Lease Agreement and the related Connected Transactions, from a financial point of view, are fair and reasonable so far as the interests of the Independent Shareholders are concerned. We have not been requested to opine as to, and our opinion does not in any manner address, the Company’s underlying business decision to offer CDMA services or the commercial or financial viability of the Company’s planned operation of the CDMA Network (the “CDMA Business”). This letter has been prepared and delivered in accordance with the requirements of the Listing Rules for the purpose of assisting the Independent Board Committee in their duties to evaluate the Lease Agreement and related Connected Transactions and for no other reason.

In formulating our opinion with regard to the Lease Agreement and the related Connected Transactions, we have reviewed, amongst other things, the Lease Agreement, the Circular, the Services Agreement, and financial projections relating to the CDMA Business. We considered information, given in writing and orally, by the Directors, the Company’s advisers, and the management of each of the Company and the Parties. We also reviewed such research studies and publicly available information as we deemed necessary. We have relied, without assuming any responsibility for independent verification, on the information and the facts about the CDMA Network, the CDMA Business, the related Connected Transactions, the Company, China Unicom Corporation Limited (“CUCL”), Unicom Group, and Unicom New Horizon, as supplied by the Company and its management (the “Management”) and the Board, as well as publicly available information. We have

LETTER FROM LEHMAN BROTHERS

assumed that such information and facts, and any representations made to us, are true, accurate, and complete in all material respects as of the date hereof and that they may be relied upon. We have also assumed that all information and representations contained or referred to in the Circular are true, accurate, and complete in all material respects as of the date hereof and have relied upon them. We have also assumed that all statements of intention of the Company's Management or its Directors, as set forth in the Circular, will be implemented. With respect to any historical costs, financial forecasts, estimates, and projections relating to the CDMA Business and the CDMA Network, we have assumed that each was reasonably prepared on bases reflecting the best currently available information, views, and judgements of the historical and future financial revenues and expenses involved in the establishment and operation of the CDMA Business and the CDMA Network and may be relied upon by us in formulating our opinion. We have also assumed that each of the Lease Agreement and the Services Agreement is enforceable against each of the Parties thereto in accordance with its terms and that each of the Parties will perform, and will be able to perform, its obligations thereunder, and as otherwise described in the Circular, in full when due. We have not carried out any independent verification of the information provided to us nor have we conducted any form of investigation into the commercial viability or the future prospects of the CDMA Business, the operational characteristics of the CDMA Network, or the financial condition or future prospects of any of the Parties or the Company. We have made no physical inspection of the CDMA Network. We have further assumed that all material governmental, regulatory, or other consents and approvals necessary for the effectiveness and implementation of the CDMA Business and the CDMA Network have been or will be obtained without any adverse effect on the CDMA Business or the CDMA Network or the contemplated benefits to the Company.

Our opinion is necessarily based upon the financial, economic, market, regulatory, and other conditions as they exist on, and the facts, information, and opinions made available to us as of, the date of this letter. We disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting the opinion expressed herein which may come or be brought to our attention after the date hereof.

PRINCIPAL FACTORS AND REASONS

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

1. Background and Rationale

Background

According to the Ministry of Information Industry (the "MII"), as of 20 September 2001, there were approximately 131 million cellular phone subscribers in the People's Republic of China (the "PRC"). The prospects for growth in this market are strong as the MII expects that the number of subscribers will reach approximately 260 million nationwide by the end of 2005. However, competition is expected to increase in future as consumers are becoming more deliberate in their communications choices and there is the potential for additional operators to enter the cellular market. In addition, the ability to offer appealing data services is expected to become an important competitive factor.

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As of 20 September 2001, Unicom Group and the Company together maintained a 26.8% market share as compared to the 73.2% market share of their principal competitor, China Mobile Communications Corporation (including its subsidiaries). Both operators offer services on a GSM platform. The GSM platform is the most popular technical format for cellular operators in Europe and most countries in Asia, and is used by operators including Deutsche Telekom, France Telecom, Singapore Telecom, and Vodafone. The CDMA platform is more popular in the U.S., Japan, and Korea, and is used by operators including Sprint, Verizon, KDDI, and SK Telecom. The CDMA platform is often considered to facilitate superior service for the consumer as compared to the GSM platform. In some markets, such as the U.S., the CDMA platform has been used as the basis for a distinct brand and service offering to compete against established GSM operators.

As far as the Directors are aware, the Company's controlling shareholder, Unicom Group, has the only licence, issued by the MII, to offer CDMA cellular services in the PRC. The Company and Unicom Group plan to provide CDMA services including basic voice services, mobile data services, and value added mobile services in their respective service areas. The Listed Service Areas where the Company intends to offer CDMA services include the same geographic areas where the Company currently offers its GSM services.

The Company intends to differentiate the service and marketing strategies of the CDMA Business from its current GSM business. Principally, the CDMA Business will be aimed at the higher-usage corporate market and individual users interested in better voice quality, higher data transmission capabilities, and other value added features. The Company intends to price its CDMA services at a premium to its GSM services. While the Company expects that there may be some migration of its GSM customers to the CDMA Network, the CDMA Business on the whole is expected to increase the Company's total subscriber base and revenues and to increase the Company's share of the high-usage segment of the market.

Rationale for the CDMA Business

The Board has informed us that it believes that the planned launch of the CDMA Business is crucial to the cellular business strategy of the Company primarily for the following reasons:

- (a) CDMA technology is superior to GSM technology in a number of respects, including better voice quality, higher data transmission capabilities, lower dropped call rate, lower handset radio transmission power, and greater spectrum usage efficiency. The Board considers these technological advantages can result in better cellular service quality that will be attractive to cellular subscribers, in particular mid- to high-usage subscribers.
- (b) The CDMA IS-95 technology based networks that the Company will initially use to offer CDMA services can be migrated relatively efficiently to CDMA 1XRTT technology, which offers much higher practical data transmission rates than the General Packet Radio Service technology that is the technical

LETTER FROM LEHMAN BROTHERS

equivalent for GSM networks and has already enjoyed commercial success in Korea. The Board believes CDMA 1XRTT technology will provide the Company with a significant competitive advantage as demand for sophisticated wireless data services increases in the PRC.

- (c) Because of its spectrum usage efficiency, CDMA offers higher network capacity and larger cell size and requires fewer base stations than GSM for the same geographic coverage. These advantages can result in lower long term capital expenditure requirements for the same network capacity. The Company expects to realize these cost savings, since the Lease Fee (calculated so as to enable Unicom New Horizon to recover its investment in constructing the CDMA Network in seven years, with an internal rate of return on its investment of 8%) and acquisition price on exercise of the Purchase Option (which price will be determined by an independent assets appraiser in accordance with applicable PRC laws and regulations and taking account of prevailing market conditions and other factors, but which will not exceed such price as would enable Unicom New Horizon to recover its investment, together with an internal rate of return on its investment of 8%) are largely based on the overall cost of construction of the CDMA Network.
- (d) The launch of CDMA services will help alleviate potential constraints that the Company may face in the future from its limited GSM spectrum allocations, which presently consists of 2x6 MHz in the 900 MHz frequency band and 2x10 MHz in the 1800 MHz frequency band. The 2x10 MHz allocation the Company has in the 800 MHz frequency band for its CDMA services represents an important resource that can help ensure that the Company's networks can accommodate future growth of the Company's cellular business, particularly when, as expected, data and video services become an important part of the Company's cellular service offerings.
- (e) The launch of CDMA services will enable the Company to develop a premium branded cellular service that is distinct from GSM based cellular services. The Company intends to promote the technological advantages of CDMA to position its CDMA services as a high-quality product targeted to mid- to high-end subscribers. The Company expects its planned CDMA services also to contribute to its overall brand as a technologically advanced operator that provides high quality services.

We have been informed that in view of the above reasons, the Directors are of the opinion, and we concur, that the operation of the CDMA Business will have a positive effect on the Company's development and on improving its potential profitability.

LETTER FROM LEHMAN BROTHERS

Rationale for the Network Lease

The Board has informed us that it prefers to lease Capacity on the CDMA Network from Unicom New Horizon rather than construct a CDMA network itself, principally because the Lease arrangement enables the Company to offer CDMA services without the risks associated with constructing and owning a CDMA network. In particular:

- (a) CUCL is able to utilize the extensive coverage of Phase 1 of the CDMA Network without the expense of leasing the entire available Capacity immediately.
- (b) The terms of the Lease are flexible and enable CUCL to increase or decrease the amount of leased Capacity based on subscriber demand and the development of its CDMA Business.
- (c) By limiting the Initial Term of the Lease to one year, the Company is able to limit its overall risk in entering into the CDMA Business.
- (d) CUCL is able to obtain the exclusive right to operate the CDMA Network.
- (e) CUCL retains the flexibility of being able to purchase the CDMA Network in the future by exercising the Purchase Option.

On the above basis, we concur with the Board that the Lease arrangement enables the Company to offer CDMA services without the risks associated with constructing and owning a CDMA network.

2. Parties to the Lease Agreement and Connected Transactions

The Company

The Company is an integrated telecommunications provider offering cellular, paging, long distance (circuit-switched and voice over Internet protocol), Internet, and data communications services. The Company offers GSM services (the "GSM Business") in nine provinces (Anhui, Fujian, Guangdong, Hebei, Hubei, Jiangsu, Liaoning, Shandong, and Zhejiang) and three major municipalities (Beijing, Shanghai, and Tianjin) in the PRC which together have a total population of approximately 604 million people (the "Listed Service Areas"). The GSM Business had 23.4 million customers as of 20 September 2001, equivalent to a 27.1% market share in the Listed Service Areas, and accounted for 69.4% of the Company's revenues in the six months ended 30 June 2001.

For the six months ended 30 June 2001, the Company reported revenues of RMB13.6 billion (HK\$12.8 billion) and net income of RMB2.2 billion (HK\$2.1 billion). The Company is listed on the Hong Kong Stock Exchange and the New York Stock Exchange. Based on the Company's closing price on the Hong Kong Stock Exchange of HK\$9.10 per share on 23 November 2001, the Company had a market capitalization of HK\$114.2 billion.

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As of the Latest Practicable Date, Unicom Group indirectly owned or controlled approximately 77.47% of the existing issued share capital of the Company and the Company owned 100% of the existing issued share capital of CUCL.

CUCL

CUCL is a wholly-owned subsidiary of the Company incorporated in the PRC. As the Company's principal operating subsidiary in the PRC, CUCL's operations include the Company's existing GSM, long distance, data, and Internet businesses. CUCL will operate the Company's CDMA Business as well.

Unicom Group

Unicom Group is a telecommunications provider offering cellular, paging, long distance (circuit-switched and voice over Internet protocol), Internet, and data communications services. Its principal business is GSM mobile communications, which it offers in 17 provinces (Gansu, Guangxi, Guizhou, Hainan, Heilongjiang, Henan, Hunan, Inner Mongolia, Jiangxi, Jilin, Ningxia, Qinghai, Shaanxi, Shanxi, Sichuan, Yunnan, and Xinjiang) and one major municipality (Chongqing) in the PRC which together have a total population of approximately 660 million people (the "Non-Listed Service Areas"). Unicom Group had approximately 11.7 million customers as of 20 September 2001, equivalent to a 25.0% market share in the Non-Listed Service Areas. The combined market share of Unicom Group and the Company nationwide is 26.8%. Unicom Group intends to operate its own CDMA mobile services in the Non-Listed Service Areas.

Unicom Group is a private company owned by China's Ministry of Finance and various state-owned enterprises. As of the Latest Practicable Date, Unicom Group indirectly owned or controlled approximately 77.47% of the existing issued share capital of the Company and 100% of the existing issued share capital of Unicom New Horizon.

Unicom New Horizon

Unicom New Horizon is a wholly-owned subsidiary of Unicom Group incorporated in the PRC. It was formed for the exclusive purpose of constructing the CDMA networks. It expects to spend approximately RMB24 billion (HK\$22.6 billion) on the construction of Phase 1 of the CDMA networks and has arranged bank credit lines from the Industrial Commercial Bank of China and China Construction Bank to finance the first RMB17 billion (HK\$16.0 billion) required for this development.

3. The CDMA Network

Unicom Group commenced construction of the CDMA networks nationwide in 2001. The networks are expected to be expanded in multiple phases. The number of phases and size of each phase will depend upon actual and forecast CDMA subscriber growth and CUCL's anticipated Capacity requirements.

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In Phase 1, which is expected to be completed and operational by 31 December 2001, the networks will achieve a nationwide coverage of 330 metropolitan areas in every province and major municipality in the PRC, with a planned total capacity of approximately 15.15 million Subscribers. The portion of this series of networks within the Listed Service Areas which is referred to as the CDMA Network has a total Capacity of approximately 9.18 million Subscribers. The Board believes that Phase 1 of the CDMA Network will provide sufficient geographic coverage for most of the mid- to high-usage subscribers that the Company plans to target.

The construction of the nationwide CDMA networks utilizes to a significant extent the existing GSM infrastructure of the Company and Unicom Group, such as base stations, switching centres, and transmission capacity. As a result, the overall construction cost of Phase 1 of the CDMA networks is substantially less than would have been the case if the CDMA networks were built independently of the GSM networks. The Company estimates that the total cost for Phase 1 of the nationwide CDMA networks (having a total Capacity of approximately 15.15 million Subscribers) will be approximately RMB24 billion (HK\$22.6 billion), or approximately RMB1,600 (HK\$1,509) per Subscriber, which is less than the average capital expenditure per Subscriber incurred in the construction of the Company's and Unicom Group's existing GSM networks. Since Phase 1 of the CDMA networks is designed to achieve an extensive nationwide coverage and because expanding future network capacity is relatively less expensive due to the technical characteristics of CDMA technology, the Board expects that Unicom Group will be able to further lower its per Subscriber cost when expanding the capacity of the CDMA Network.

4. The CDMA Network Lease

General Terms

Pursuant to the Lease Agreement, Unicom New Horizon shall plan, finance, and construct the CDMA Network, including the procurement of all Equipment, and shall ensure that the CDMA Network is constructed in accordance with the detailed specifications and timetable agreed between Unicom New Horizon and CUCL. All payments, costs, expenses, and amounts paid or incurred by Unicom New Horizon that are directly attributable to the construction of a particular Phase of the CDMA Network, including construction, installation and Equipment procurement costs and expenses, survey and design costs, investment in technology, software and other intangible assets, insurance premiums and capitalized interest on loans in respect of the construction period of that Phase, and any taxes levied or paid in respect of the procurement of Equipment and the construction of that Phase of the CDMA Network, including import taxes and customs duties and all costs incurred in relation to any upgrade of technology in respect of that Phase, shall form the Network Construction Cost, which will be used in calculating the lease fee payable by CUCL. We are of the view that these responsibilities and costs are consistent with what is generally considered to be part of the construction phase of a network within the telecommunications industry.

LETTER FROM LEHMAN BROTHERS

CUCL shall be responsible for the operation, management, and maintenance of the CDMA Network in accordance with the relevant requirements of the Lease Agreement and shall have the exclusive right to provide CDMA services in the Listed Service Areas. All operating revenues, including airtime charges, monthly subscription fees, interconnection charges, income from sales of UIM cards and handsets, and other income generated from or in connection with the operation of the CDMA Network shall belong to CUCL. All costs of operating, managing, and maintaining the CDMA Network shall be borne by CUCL. We are of the view that these responsibilities, costs, and revenues are consistent with what is generally considered to be part of the operational phase of a network within the telecommunications industry.

We believe that the rights and obligations set forth above are fair and reasonable in light of the intentions of Unicom New Horizon and CUCL to serve as network owner and network operator, respectively.

Duration and Termination

The term of the Lease is for an initial period of one year, commencing from the second business day following the fulfilment of the conditions set out below or 1 January 2002, whichever is later (the "Initial Term"), and may be renewed for further one year terms (each, an "Additional Term") at the option of CUCL. The Directors expect that the Initial Term will commence by the end of January 2002.

CUCL may terminate the Lease without penalty by providing not less than 180 days' prior written notice, with effect from the end of any Additional Term. In comparison, Unicom New Horizon can only terminate the Lease if CUCL commits a continuing or material breach of the Lease Agreement. We are of the view that CUCL's termination option represents a substantial reduction in the Company's risks in entering the CDMA Business, particularly in comparison to the alternative of the Company building its own CDMA network.

Conditions Precedent to the Commencement of the Lease

Commencement of the Lease is conditional upon, among others, the following conditions having been fulfilled on or before 31 December 2001 or such later date as the Parties may agree:

- (a) Satisfactory testing, initial acceptance, and delivery of Phase 1 of the CDMA Network in accordance with the Lease Agreement;
- (b) Unicom Group providing or procuring that CUCL is provided with all spectrum and number resources required by CUCL for the operation of Phase 1 of the CDMA Network;
- (c) Unicom Group and Unicom New Horizon having obtained all necessary approvals to perform their respective obligations under the Lease Agreement;

LETTER FROM LEHMAN BROTHERS

- (d) CUCL having obtained approval from the MII to operate the CDMA Network;
- (e) The MII having approved Unicom Group's CDMA tariff plan;
- (f) The passing of resolutions by the Independent Shareholders approving the Lease and the related Connected Transactions; and
- (g) The Hong Kong Stock Exchange granting to the Company a waiver from strict compliance with the provisions of the Listing Rules relating to the Lease and the related Connected Transactions.

Network Capacity and Delivery of Capacity to CUCL

During the Initial Term, CUCL will lease Capacity on a quarterly basis. CUCL will lease Capacity for 2.0 million Subscribers during the first quarter of the Initial Term and Capacity for 4.0 million Subscribers during the second quarter of the Initial Term (including all Capacity already leased during the first quarter). CUCL shall give Unicom New Horizon not less than three months' prior written notice of its additional Capacity requirements for the third and fourth quarters of the Initial Term. The total amount of Capacity leased by CUCL during the third and fourth quarters of the Initial Term will depend upon CUCL's actual and anticipated CDMA subscriber growth. CUCL is not obligated to lease the total constructed Capacity of Phase 1 of the CDMA Network of 9.18 million Subscribers during 2002.

In addition to Capacity which CUCL has agreed or agrees to lease in respect of the Initial Term, subject to giving not less than 180 days' prior notice to Unicom New Horizon, CUCL may lease such additional Capacity as it may require during the term of the Lease. Unicom New Horizon shall ensure that all Capacity which CUCL has so requested is supplied by the due date of delivery of the Capacity. However, Unicom New Horizon shall not be obliged to deliver any additional Capacity if to do so would require it to expand the CDMA Network beyond Phase 1.

CUCL may not reduce the amount of Capacity leased or committed to be leased by it during the Initial Term of the Lease. However, subject to providing not less than 180 days' prior written notice to Unicom New Horizon, or with the prior written consent of Unicom New Horizon, CUCL may reduce the amount of Capacity leased with effect from the commencement of any Additional Term, provided that CUCL must lease all Capacity which it has requested or otherwise committed to lease for at least one year following the date of delivery or renewal of the lease of such Capacity (as the case may be).

We are of the view that these terms relating to Capacity availability and commitment allow for some degree of flexibility in capacity planning, which thereby reduces the Company's business risks in entering the CDMA Business in comparison to the alternative of the Company building its own CDMA network.

LETTER FROM LEHMAN BROTHERS

Delayed Delivery of Capacity

Subject to certain exceptions, including delay caused by a force majeure event, a material breach of the Lease Agreement by CUCL, or compliance with applicable laws and regulations, if any Capacity is not ready for operational service by the relevant delivery date, then Unicom New Horizon shall be liable to provide a delay discount to CUCL, equal to the daily Lease Fee in respect of the relevant Capacity multiplied by the number of days of delay, which shall be credited against future Lease Fee payments.

The Lease Fee

The Lease Fee will be calculated so as to enable Unicom New Horizon to recover its investment (the Network Construction Cost) in constructing the CDMA Network in seven years, with an internal rate of return on its investment of 8%.

Based on the initial total Capacity of Phase 1 of the CDMA Network of approximately 9.18 million Subscribers and the initial projected Network Construction Cost, the annual Lease Fee per Subscriber for all Phase 1 Capacity will be approximately RMB299 (HK\$282). The Directors estimate that, based on forecast CDMA subscriber growth in the Listed Service Areas and planned lease of Capacity by CUCL, the total Lease Fee payable by CUCL during the Initial Term will be approximately RMB1.47 billion (HK\$1.39 billion).

In the event that the final Network Construction Cost following final acceptance of each Phase of the CDMA Network differs from the initially estimated Network Construction Cost of such Phase by more than 1.0%, the final Network Construction Cost shall be substituted for the initial Network Construction Cost used in calculating the Lease Fee, and any adjustment in such Lease Fee shall apply from the commencement of the applicable Term. In such a case, subsequent quarterly payments of the Lease Fee would be increased or decreased as appropriate.

The Lease Fee for each Additional Term and each subsequent Phase of the CDMA Network shall also be calculated on the same basis as described above. The Lease Fee shall be paid quarterly in arrears by CUCL to Unicom New Horizon during the term of the Lease.

The Company has applied for a waiver from strict compliance with the provisions of the Listing Rules relating to the Lease, and the Hong Kong Stock Exchange has indicated that it will grant the waiver subject to certain conditions set out in the Letter from the Board. The Directors propose that the total annual Lease Fee in relation to the years ending 31 December 2002, 2003, and 2004 not exceed a cap of RMB2.74 billion (HK\$2.58 billion), RMB6.62 billion (HK\$6.25 billion), and RMB9.36 billion (HK\$8.83 billion), respectively. However, these limitations are not part of the Lease Agreement. These cap amounts have been determined by the Directors with reference to the Company's estimates of the maximum amount of Capacity which may be leased by CUCL for the years 2002 to 2004, and based on the assumption that there will be no reduction in the Lease Fee per Subscriber during the period. While the Company's actual CDMA Business performance,

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and therefore the total annual Lease Fee, may significantly differ from the Company's current projections, we believe that in light of the Company's current projections, and the need not to unduly hinder the potential growth of the Company anticipated by these projections, these caps are fair and reasonable so far as the Independent Shareholders of the Company are concerned. In the event that the Company anticipates that the actual total annual Lease Fee will exceed the caps, it will notify the Hong Kong Stock Exchange and comply with the connected transactions requirements under the Listing Rules.

The Purchase Option

Under the Lease Agreement, Unicom New Horizon has granted CUCL the Purchase Option to purchase the CDMA Network. The Purchase Option may be exercised at any time during the Initial Term and any Additional Term and within one year after the termination or expiration (without renewal) of the Lease.

If CUCL exercises the Purchase Option, the acquisition price shall be negotiated between Unicom New Horizon and CUCL, based on the appraised value of the CDMA Network determined by an independent appraiser in accordance with applicable PRC laws and regulations, and taking into account prevailing market conditions and other relevant factors, provided that the acquisition price shall not be greater than such price as would, taking into account all Lease Fee payments made by CUCL to Unicom New Horizon and all delay discounts of Lease Fees, enable Unicom New Horizon to recover the Network Construction Cost, together with an internal rate of return on its investment of 8%. Any exercise of the Purchase Option will be subject to the Company complying with the relevant provisions of the Listing Rules governing connected transactions.

The Management has informed us that there are no current plans in place as to when or if the Company will purchase the CDMA Network. Any decision on whether to purchase the CDMA Network will be made at an appropriate time in consideration of the performance of the CDMA Business and the Company's overall financial conditions, among other factors.

We are of the view that the Purchase Option allows the Company a significant degree of flexibility in planning the nature and timing of its expenses and capital expenditures in comparison to the alternative of the Company building its own CDMA network.

Undertaking by Unicom Group and Unicom New Horizon

Under the Lease Agreement, each of Unicom Group and Unicom New Horizon has undertaken to CUCL that, upon request by CUCL, it will negotiate in good faith and enter into a further lease agreement with CUCL in relation to the lease of capacity by CUCL on the CDMA networks constructed by Unicom New Horizon and/or Unicom Group in regions in the PRC other than the Listed Service Areas. Unless otherwise agreed by the Parties, the terms of such further lease agreement shall be the same as those contained in the Lease Agreement, modified as necessary.

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While this provision does not bind Unicom Group or Unicom New Horizon to enter into a further lease agreement with CUCL, we are of the view that this option to open negotiations with Unicom Group and Unicom New Horizon represents an additional potential opportunity for the Company to expand its CDMA Business, without placing any additional present obligation upon the Company.

The Guarantee and Indemnification

In consideration of CUCL entering into the Lease Agreement, Unicom Group has unconditionally and irrevocably guaranteed the due and punctual performance by Unicom New Horizon of its obligations under the Lease Agreement. Unicom Group has also agreed to indemnify on demand CUCL for any loss suffered as a result of any defect in any of the Equipment or any loss caused by any negligence, default, act, or omission of Unicom New Horizon or Unicom Group under the Lease Agreement or in connection with the CDMA Network. The aggregate liability of Unicom Group for any claim shall not exceed the total amount of Lease Fee payments made by CUCL to Unicom New Horizon and the total purchase price paid by CUCL for the CDMA Network.

5. Financial Analysis of the Lease Fee

The amount of the Lease Fee will largely depend upon the Network Construction Cost and the timeframe and rate of return on investment to Unicom New Horizon.

Network Construction Cost

Under the Lease, Network Construction Cost means in relation to each Phase of the CDMA Network the cost of constructing the CDMA Network borne by Unicom New Horizon, including construction, installation and Equipment procurement costs and expenses, survey and design costs, costs of feasibility studies, investment in technology, software and other intangible assets, capitalised interest on loans, and various taxes. We are of the view that this approach to determining the Network Construction Cost is consistent with other commonly used methods for determining network cost within the telecommunications industry. However, we have not independently verified Unicom New Horizon's calculation of Network Construction Cost.

Prior to the construction of the CDMA networks, Unicom Group arranged for research studies to be conducted by ten provincial Post and Telecommunications Research Institutes under the MII, each of which drafted a feasibility study for one or more of the provinces or municipalities of the CDMA networks. These studies addressed the technical and financial requirements for constructing the CDMA networks. The projected average network cost for the CDMA networks included in these studies was RMB1,674 (HK\$1,579) per Subscriber. The Company believes that the current estimated cost of the CDMA Network of RMB1,600 (HK\$1,509) per Subscriber is consistent with the capital expenditure per subscriber as projected in these studies.

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The Management informs us that in order to build the CDMA networks on a lower cost basis, Unicom Group conducted a two-stage bidding process for its CDMA Equipment supply contracts, which account for a majority of the total Network Construction Cost. Contracts were awarded following a competitive bidding process with arm's length negotiations among the parties. These contracts amount to a total of RMB12.5 billion (HK\$11.8 billion) and are with a number of well-known telecommunications equipment vendors, including Datang Telecom, Ericsson, Huawei, Lucent, Motorola, Nortel, Shanghai Bell, and Zhongxin Telecom.

In addition, under the Lease Agreement, Unicom New Horizon and CUCL will jointly appoint an auditor to verify the cost of constructing the CDMA Network and CUCL will be provided by the auditor with written confirmation of the Network Construction Cost. Unicom New Horizon will also provide to CUCL or such auditor as is appointed certified copies or originals of all such supporting invoices and receipts and other documentary evidence and information as may be required in order to verify the Network Construction Cost in respect of any Phase of the CDMA Network. Any variation above 1.0% in the Network Construction Cost of Phase 1 from the initial estimate of RMB24 billion (HK\$22.6 billion) will result in an adjustment to the Lease Fee.

Rate of Return on Investment to Unicom New Horizon

In evaluating the seven year timeframe and 8% internal rate of return on investment to Unicom New Horizon, we considered that:

- (a) The Company's weighted average cost of capital based on the capital asset pricing model is approximately 12–14%. The 8% internal rate of return included in the calculation of the Lease Fee is less than the Company's weighted average cost of capital.
- (b) Unicom New Horizon is substantially financing the capital expenditures for the CDMA networks with a total of RMB17 billion (HK\$16.0 billion) in bank loans from the Industrial Commercial Bank of China and China Construction Bank, two of the PRC's largest domestic banks. Under these loans, funds can be drawn down upon request of Unicom New Horizon to the maximum permitted amount of each loan. The Industrial Commercial Bank of China has committed to a 5-year, RMB10 billion (HK\$9.4 billion) loan at a current interest rate of 6.03%. China Construction Bank has committed to a 4-year, RMB7 billion (HK\$6.6 billion) loan at a current interest rate of 5.94%. For both loans, the interest rates will be periodically reset in accordance with the national interest rate standards established by the People's Bank of China, except that the China Construction Bank loan will be set at a 1.5% discount to such interest rate. The loans are guaranteed by Unicom Group. We are of the view that the interest rates on these loans, which affect the amount of capitalized interest on loans which will be included in the calculation of the Lease Fee, are fair and reasonable in light of their being based upon the People's Bank of China national interest rate and in

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consideration of the interest rate which the Company might be reasonably expected to pay if it were to commit itself to similar loans, which we believe would be the same or greater.

- (c) Unicom New Horizon is responsible for a 3% business tax levied on the Lease Fee, which is not included in the Lease Fee calculation.
- (d) Unicom New Horizon is also responsible for its own management and general and administrative costs and other expenses in connection with the Lease, which is not included in the Lease Fee calculation.
- (e) The Company's Management estimates that the CDMA Network has an average useful life of approximately seven years, which is consistent with the seven year timeframe for Unicom New Horizon's return on investment.
- (f) We believe that there is no publicly available data regarding any transaction that would be directly comparable to the Lease.

Based on the above factors, we believe that the Lease Fee's provision for Unicom New Horizon to recover its investment in seven years with an internal rate of return on its investment of 8% is fair and reasonable.

6. Other Connected Transactions

CUCL will enter into certain transactions pursuant to the Services Agreement with Unicom Group, which will constitute continuing connected transactions for the Company under the Listing Rules. Since these transactions and transactions under the Lease will occur on a regular and continuous basis in the ordinary course of business, the Company has applied to the Hong Kong Stock Exchange for a waiver from strict compliance with the normal approval and disclosure requirements related to connected transactions under the Listing Rules. This waiver would allow the Company to make and accept payments under the Lease Agreement and the Services Agreement in the ordinary course of business without making a separate disclosure to shareholders or seeking shareholders' approval each time. The Hong Kong Stock Exchange has indicated that it will grant the waiver, which will be effective until 31 December 2004, subject to the satisfaction of various conditions, among them: (a) the approval of the Independent Shareholders in respect of the Lease and the Connected Transactions; (b) that the Lease and the Connected Transactions shall be entered into in the ordinary and usual course of business of the Company on terms that are fair and reasonable so far as the Independent Shareholders are concerned; (c) that the Company disclose in its annual reports sufficient details of transactions under the Lease and the Connected Transactions; (d) that the independent non-executive Directors of the Company review annually transactions under the Lease and the Connected Transactions; and (e) that the Company's auditors review annually transactions under the Lease and the Connected Transactions.

In respect of the waiver from strict compliance with the provisions of the Listing Rules relating to the Connected Transactions, the Directors do not propose any limitation on the total amounts of the Connected Transactions, nor are there such limitations in the Lease Agreement.

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The tariffs and charges under these Connected Transactions are largely dependent upon the relevant standard tariffs and policies determined by the relevant regulatory authorities in the PRC, which may change from time to time, and therefore it is difficult to fix appropriate upper limits for these transactions without potentially hindering the growth of the Company. However, the Company will be required to comply with certain requirements, including the disclosure of details of the Connected Transactions in the Company's annual report and reviews by the independent directors and auditors of the Company. On this basis, we believe that the interests of the Independent Shareholders in respect to the lack of a cap on the Connected Transactions will be properly safeguarded under the terms of the waiver.

We have been informed by the Company that services under the Connected Transactions are charged either in accordance with the standards set by the MII and/or by reference to market rates and/or after arm's length negotiation between the parties involved based upon normal commercial terms. Furthermore, the two types of Connected Transactions summarized below are designed as mere extensions to the Company's similar existing agreements with Unicom Group for its current GSM Business and a waiver from strict compliance with the relevant requirements of the Listing Rules has already been obtained for such arrangements previously. Based upon the factors above and for the reasons further detailed below, we believe that the terms of the Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned.

We set out below a summary of each of the Connected Transactions.

(i) *Interconnection Arrangements*

CUCL's GSM and CDMA cellular, long distance networks, and IP telephony networks and Unicom Group's GSM and CDMA cellular and fixed line networks will interconnect with each other in order to pass traffic between the networks. These interconnection services will be provided pursuant to the Services Agreement between CUCL and Unicom Group. The Services Agreement will be in effect for an initial period of one year, commencing from the second business day following the fulfilment of the conditions of the Lease Agreement or 1 January 2002, whichever is later, and will be automatically renewed or terminated thereafter upon the renewal or termination of the Lease Agreement.

Interconnection settlement between Unicom Group's networks and CUCL's networks is based on relevant standards established from time to time by the MII. However, in the case of calls between cellular subscribers in different provinces, settlement is based on either the relevant standards established by the MII from time to time or an agreed settlement arrangement between CUCL and Unicom Group. CUCL is able to choose the more favourable arrangement. The agreed settlement arrangement, which is based on the parties' respective internal costs of providing this service, is currently more favourable to CUCL than the settlement arrangement prescribed by the MII. If in future the arrangement prescribed by the MII were to be more favourable to CUCL, CUCL would settle on the basis of that arrangement.

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On the basis that (a) the interconnection settlement is based upon either the relevant interconnection settlement standards established by the MII or, in the case of calls between cellular subscribers in different provinces, an agreed settlement arrangement between CUCL and Unicom Group and (b) the interconnection arrangements are designed as extensions to the Company's similar existing arrangements with Unicom Group for its current GSM Business and are intended to facilitate the growth of the Company, we are of the view that the interconnection arrangements are fair and reasonable.

The Board anticipates that the Company's interconnection revenues collected and interconnection expenses paid under the Services Agreement will be approximately RMB83.0 million (HK\$78.3 million) and approximately RMB32.5 million (HK\$30.7 million), respectively, in 2002.

(ii) *Roaming*

CUCL and Unicom Group will provide roaming services to each other's CDMA cellular subscribers within their respective service areas. In addition, CUCL will make its long distance network available to Unicom Group to enable Unicom Group to give effect to its roaming arrangements with third party operators. These roaming services will be provided pursuant to the Services Agreement between CUCL and Unicom Group. The Services Agreement will be in effect for an initial period of one year, commencing from the second business day following the fulfilment of the conditions of the Lease Agreement or 1 January 2002, whichever is later, and will be automatically renewed or terminated thereafter upon the renewal or termination of the Lease Agreement.

Charges for these services between CUCL and Unicom Group will be based upon their respective internal costs of providing these services, and will be on no less favourable terms than those available to any independent third party. In addition, CUCL will be paid 50% of the roaming revenues received by Unicom Group from third party operators for making CUCL's long distance network available to Unicom Group to give effect to its roaming arrangements with third party operators. On the basis that (a) CUCL and Unicom Group determined the charges for roaming services based upon their respective internal costs, (b) the charges will be on no less favorable terms than those available to any independent third party, and (c) the roaming arrangements are designed as extensions to the Company's similar existing arrangements with Unicom Group for its current GSM Business and are intended to facilitate the growth of the Company, we are of the view that the roaming arrangements are fair and reasonable.

The Board anticipates that the Company's roaming revenues collected and roaming expenses paid under the Services Agreement will be approximately RMB56.0 million (HK\$52.8 million) and approximately RMB22.0 million (HK\$20.8 million), respectively, in 2002.

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SUMMARY

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

- (a) The Lease arrangement permits the Company to enter the CDMA Business without the risks associated with constructing and owning a CDMA network.
- (b) CUCL is able to utilize the extensive coverage of Phase 1 of the CDMA Network without the expense of leasing the entire available Capacity immediately.
- (c) The Company limits its overall risk in entering the CDMA Business by limiting the Initial Term of the Lease to one year.
- (d) CUCL obtains exclusive rights under the Lease to operate the CDMA Network.
- (e) CUCL's option to terminate the Lease without penalty represents a substantial reduction in the Company's risks in entering the CDMA Business, particularly in comparison to the alternative of the Company building its own CDMA network.
- (f) CUCL's ability to request additional Capacity allows for some degree of flexibility in capacity planning, which thereby reduces the Company's business risks in entering the CDMA Business in comparison to the alternative of the Company building its own CDMA network.
- (g) The Purchase Option allows the Company a significant degree of flexibility in planning the nature and timing of its expenses and capital expenditures in comparison to the alternative of the Company building its own CDMA network.
- (h) The method used to determine the Network Construction Cost is comparable to other commonly used methods for determining network cost within the telecommunications industry.
- (i) Unicom Group commissioned feasibility studies which projected an average network cost per subscriber of RMB1,674 (HK\$1,579), which the Company believes is consistent with the current estimated cost per Subscriber of RMB1,600 (HK\$1,509).
- (j) Unicom Group conducted a bidding process for its CDMA Equipment supply contracts, by which bids were awarded in a competitive process with arm's length negotiations among the parties.
- (k) An auditor will be appointed to provide written verification of the Network Construction Cost, and Unicom New Horizon will provide to CUCL or such auditor certified copies or originals of all such supporting invoices and receipts and other documentary evidence and information as may be required in order to verify the Network Construction Cost. Any variation of more than 1.0% will result in an adjustment to the Lease Fee.

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- (l) The Company's weighted average cost of capital based on the capital asset pricing model is approximately 12–14%. The 8% return on investment included in the calculation of the Lease Fee is less than the Company's weighted average cost of capital.
- (m) Unicom New Horizon is substantially financing the capital expenditures for the CDMA networks with an RMB10 billion (HK\$9.4 billion) loan at a current interest rate of 6.03% and an RMB7 billion (HK\$6.6 billion) loan at a current interest rate of 5.94%. These interest rates will be periodically reset in accordance with the national interest rate standards established by the People's Bank of China, and are the same or less than the interest rates which the Company might be reasonably expected to pay if it were to commit itself to similar loans.
- (n) Unicom New Horizon is responsible for a 3% business tax levied on the Lease Fee it collects, which is not included in the Lease Fee calculation.
- (o) Unicom New Horizon is responsible for its own management and general and administrative costs and other expenses in connection with the Lease, which is not included in the Lease Fee calculation.
- (p) The Company estimates that the CDMA Network has an average useful life of approximately seven years.
- (q) The Connected Transactions are designed as extensions to the Company's similar existing agreements with Unicom Group to provide interconnection and roaming services to each other's GSM cellular subscribers on substantially similar terms to the Connected Transactions, and are intended to facilitate the growth of the Company.
- (r) Interconnection settlement is based upon either the relevant interconnection settlement standards established by the MII or, in the case of calls between cellular subscribers in different provinces, settlement is based on either the relevant MII standards or an agreed settlement arrangement between CUCL and Unicom Group (as to which CUCL is able to choose the more favourable arrangement). Roaming charges between CUCL and Unicom Group will be based upon their respective internal costs of providing these services, and will be on no less favourable terms than those available to any independent third party.

OPINION

Based upon and subject to the foregoing, we are of the opinion as of the date hereof that, from a financial point of view, the terms of the Lease Agreement and the related Connected Transactions are fair and reasonable so far as the Independent Shareholders of the Company are concerned.

Yours faithfully,
For and on behalf of
Lehman Brothers Asia Holdings Limited
Philip Lynch
Managing Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. 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 herein misleading.

2. DISCLOSURE OF INTERESTS

- (i) As at the Latest Practicable Date, the interests of the directors and the chief executive of the Company in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance as recorded in the register required to be kept under section 29 of the SDI Ordinance were as follows:

| Name of Director | Personal Interest |
|---------------------------|---------------------------|
| Shi Cuiming | 30,000 Shares |
| Li Zhengmao | 20,000 Shares |
| Tan Xinghui | 20,000 Shares |
| C. James Judson | 1,000 ADSs ⁽¹⁾ |

(1) One American depositary share represents ten ordinary shares of HK\$0.10 each in the Company

- (ii) As at the Latest Practicable Date, options exercisable for an aggregate of 2,107,000 Shares had been granted to the following Directors under the Company's share option scheme:

| Director | Number of Shares covered by options |
|-------------------------|-------------------------------------|
| Yang Xian Zu | 525,000 |
| Wang Jianzhou | 396,200 |
| Shi Cuiming | 396,200 |
| Li Zhengmao | 292,600 |
| Ge Lei | 292,600 |
| Tan Xinghui | 204,400 |

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had or was deemed to have any interests in the equity or debt securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are deemed or taken to have under section 31 of, or part 1 of the Schedule to, the SDI Ordinance) or which are required, pursuant to section 29 of the SDI Ordinance, 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 Companies, to be notified to the Company and the Hong Kong Stock Exchange.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group since 31 December 2000, being the date to which the latest published audited financial statements of the Company were made up, and which was significant in relation to the business of the Group.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which had since 31 December 2000, being the date to which the latest published audited financial statements of the Company were made up, been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to the Directors, the following persons were, directly or indirectly, interested in 10% or more of the issued share capital carrying rights to vote at general meetings of any member of the Group. Such persons have no options in respect of such capital:

| | No. of Shares | Percentage of Shares held |
|--------------|---------------|---------------------------|
| Unicom Group | 9,725,000,020 | 77.47% |
| Unicom HK | 9,725,000,020 | 77.47% |
| Unicom BVI | 9,725,000,020 | 77.47% |

Note: Because of the fact that Unicom Group and Unicom HK directly or indirectly control one-third or more of the voting rights at general meetings of Unicom BVI, in accordance with the SDI Ordinance, the interests of Unicom BVI are deemed to be, and have therefore been included in, the interests of Unicom Group and Unicom HK.

Save as disclosed herein, there is no person known to the Directors who, as at the Latest Practicable Date, was, directly or indirectly, interested in 10% or more of the nominal value of the issued share capital of any member of the Group.

4. LITIGATION

No member of the Group is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contract with the Company or any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

6. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2000, being the date of the latest published audited financial statements of the Company.

7. EXPERT'S DISCLOSURE OF INTERESTS AND CONSENTS

Lehman Brothers has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, Lehman Brothers did not have any direct or indirect shareholding in any member of the Group or any right to subscribe for or to nominate persons to subscribe for shares in any member of Group.

As at the Latest Practicable Date, Lehman Brothers did not have any direct or indirect interests in any assets which had since 31 December 2000 (being the date to which the latest published audited consolidated accounts of the Company were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

8. MISCELLANEOUS

- (a) The Company Secretary is Ngai Wai Fung (*MBA, LLB and FCIS*).
- (b) The registered office and head office of the Company is 75th Floor, The Center, 99 Queen's Road Central, Hong Kong.
- (c) The share registrar for the Shares is HKSCC Registrars Limited, 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong.
- (d) The English text of this circular and form of proxy shall prevail over the Chinese text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at Freshfields Bruckhaus Deringer, 11th Floor, Two Exchange Square, Hong Kong during normal business hours on any business day from the date of this circular until 17 December 2001:

- (a) the Lease Agreement;
- (b) the Services Agreement;
- (c) the memorandum and articles of association of the Company;
- (d) the annual reports and accounts of the Company for each of the three financial years ended 31 December 2000;
- (e) the interim report of the Company for the six months ended 30 June 2001;
- (f) the letters of consent from Lehman Brothers dated 28 November 2001; and
- (g) the letter from Lehman Brothers to the Independent Board Committee dated 28 November 2001, the text of which is set out on pages 20 to 37 of this circular.

NOTICE OF THE EXTRAORDINARY GENERAL MEETING



CHINA UNICOM LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the members of China Unicom Limited (the “Company”) will be held at Room A, 5th Floor, Island Shangri-La Hotel, Pacific Place, Supreme Court Road, Central, Hong Kong on 17 December 2001 at 11:00 a.m. for the purposes of considering and, if thought fit, passing, with or without modifications, the following resolutions as Ordinary Resolutions:

ORDINARY RESOLUTIONS

1. **“THAT** the conditional lease agreement dated 22 November 2001 (the “Lease Agreement”) between China Unicom Corporation Limited (“CUCL”), Unicom New Horizon Mobile Telecommunications Company Limited (“Unicom New Horizon”) and China United Telecommunications Corporation, a copy of which has been initialled by the chairman of this meeting and for the purpose of identification marked “A”, pursuant to which, inter alia, Unicom New Horizon agrees to lease capacity on its CDMA mobile telecommunications network in Guangdong, Jiangsu, Zhejiang, Fujian, Liaoning, Shandong, Anhui, Hebei and Hubei provinces and Beijing, Shanghai and Tianjin municipalities to CUCL, together with all renewals thereof and leasing in respect of additional Capacity, each in accordance with its terms, be and is hereby generally and unconditionally approved and the directors of the Company are hereby authorised to do all such further acts and things and execute such further documents and take all such steps which in their opinion as may be necessary, desirable or expedient to implement, and/or give effect to the terms of or renew the Lease Agreement.”
2. **“THAT** subject to the passing of Ordinary Resolution No. 1 set out in the notice convening the Extraordinary General Meeting at which this Resolution is proposed, the Connected Transactions described in the paragraph headed “Connected Transactions” under the section “Letter from the Board” of the circular of the Company dated 28 November 2001, which the Company expects to occur on a regular and continuous basis in the ordinary and usual course of business of the Company and its subsidiaries, as the case may be, be and are hereby approved and the directors of the Company are hereby authorised to do all such further acts and things and execute such further documents and take all such steps which in their opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of the Connected Transactions.”

By Order of the Board
Ngai Wai Fung
Company Secretary

Hong Kong, 28 November 2001

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

Notes:

1. A member entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his behalf. A proxy need not be a member of the Company.
2. In order to be valid, a form of proxy together with any power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the Company's registered office, 75th Floor, the Center, 99 Queen's Road Central, Hong Kong, not less than 48 hours before the time appointed for holding the Extraordinary General Meeting or at any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or at any adjourned meeting should you so wish.

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