

## Unaudited Pro Forma Financial Information



The unaudited pro forma consolidated income statement for the year ended 2004 has been set out in the following pages to illustrate the effect of the Group's reorganisation for the listing of the Company's shares (the "Reorganisation") on the Group's consolidated results as if the Reorganisation had been completed on January 1, 2004. The unaudited pro forma consolidated income statement for the year ended December 31, 2004 is prepared based on the historical consolidated profits of the same period prepared in accordance with Hong Kong GAAP and in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). For the details of the Group's Reorganisation, please refer to note 1 of the Group's historical consolidated financial statements.

For accounting purposes, the Reorganisation was effectively completed on June 30, 2004 (see note 2 of the Group's historical consolidated financial statements). Accordingly, the pro forma adjustments to the consolidated income statement for the year ended December 31, 2004 were related to the six months period from January 1 to June 30, 2004.

The unaudited pro forma consolidated income statement set out below does not form part of the audited historical consolidated financial statements and is included here for reference purposes only and does not necessarily represent what the Group's consolidated financial results would actually have been as if the Reorganisation had in fact occurred on that date and is not necessarily representative of the Group's financial results for any future period. The actual performance of operations may differ significantly from the unaudited pro forma amounts reflected below.

Narrative descriptions of the pro forma effects of the Reorganisation are summarised in the notes to the unaudited pro forma consolidated income statement below.

## UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2004

(in million, except per share data)

|  | Adjustments |  |                                     |        |        |        |               |  |       | Pro<br>forma |
|--|-------------|--|-------------------------------------|--------|--------|--------|---------------|--|-------|--------------|
|  | Historical  | Carve-<br>out of<br>businesses<br>Note 1 | Carve-out of assets and liabilities |        |        |        | Sub-<br>total | Tax<br>effect<br>on the<br>above<br>Note 6 | Total |              |
|  |             |  | Note 2                              | Note 3 | Note 4 | Note 5 |               |  |       |              |
| RMB  | RMB         | RMB                                      | RMB                                 | RMB    | RMB    | RMB    | RMB           | RMB  | RMB   |              |
| Revenues   | 64,922      | (486)                                    | —                                   | —      | —      | (3)    | (3)           | —  | (489) | 64,433       |
| Operating expenses   |             |  |                                     |        |        |        |               |  |       |              |
| Depreciation and amortisation                                  | (18,754)    | 310                                      | 144                                 | 214    | —      | 77     | 435           | —  | 745   | (18,009)     |
| Networks, operations and support                               | (11,591)    | 341                                      | —                                   | —      | —      | 65     | 65            | —  | 406   | (11,185)     |
| Staff costs  | (8,041)     | 101                                      | —                                   | —      | —      | 6      | 6             | —  | 107   | (7,934)      |
| Selling, general and administrative                            | (9,566)     | 144                                      | —                                   | —      | —      | 41     | 41            | —  | 185   | (9,381)      |
| Other operating expenses                                       | (1,534)     | (28)                                     | —                                   | —      | —      | —      | —             | —  | (28)  | (1,562)      |
| Total operating expenses                                       | (49,486)    | 868                                      | 144                                 | 214    | —      | 189    | 547           | —  | 1,415 | (48,071)     |
| Operating profit before interest income<br>and dividend income | 15,436      | 382                                      | 144                                 | 214    | —      | 186    | 544           | —  | 926   | 16,362       |
| Interest income  | 76          | (5)                                      | —                                   | —      | —      | —      | —             | —  | (5)   | 71           |
| Dividend income  | 17          | (2)                                      | —                                   | —      | —      | —      | —             | —  | (2)   | 15           |
| Profit from operations   | 15,529      | 375                                      | 144                                 | 214    | —      | 186    | 544           | —  | 919   | 16,448       |
| Finance costs  | (2,932)     | 263                                      | —                                   | —      | —      | 137    | 137           | —  | 400   | (2,532)      |
| Share of loss of<br>Associated companies                       | (1)         | —  | —                                   | —      | 1      | —      | 1             | —  | 1     | —            |
| Profit before taxation   | 12,596      | 638                                      | 144                                 | 214    | 1      | 323    | 682           | —  | 1,320 | 13,916       |
| Taxation   | (3,438)     | —  | —                                   | —      | —      | —      | —             | (158)                                      | (158) | (3,506)      |
| Profit after taxation  | 9,248       | 638                                      | 144                                 | 214    | 1      | 323    | 682           | (158)                                      | 1,162 | 10,410       |

## Unaudited Pro Forma Financial Information

|  | Adjustments |                                   |                                     |        |        |        |                           |                                   |       |           |
|--|-------------|-----------------------------------|-------------------------------------|--------|--------|--------|---------------------------|-----------------------------------|-------|-----------|
|  | Historical  | Carve-out of businesses<br>Note 1 | Carve-out of assets and liabilities |        |        |        | Sub- adjustments<br>total | Tax effect on the above<br>Note 6 | Total | Pro forma |
|  |             |                                   | Note 2                              | Note 3 | Note 4 | Note 5 |                           |                                   |       |           |
| RMB  | RMB         | RMB                               | RMB                                 | RMB    | RMB    | RMB    | RMB                       | RMB                               | RMB   |           |
| Shares used in computing basic earnings per share (Note 7)   | 5,628       |                                   |                                     |        |        |        |                           |                                   |       | 5,628     |
| Basic earnings per share                                     | 1.64        |                                   |                                     |        |        |        |                           |                                   |       | 1.85      |
| Shares used in computing diluted earnings per share (Note 7) | 5,630       |                                   |                                     |        |        |        |                           |                                   |       | 5,630     |
| Diluted earnings per share                                   | 1.63        |                                   |                                     |        |        |        |                           |                                   |       | 1.84      |

### NOTES TO UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT

#### Unaudited Pro Forma Adjustments

A description of the unaudited pro forma adjustments is as follows:

1. The unaudited pro forma adjustment reflects the exclusion of results of operations attributable to the PRC operations outside our northern service region and our southern service region of CNC China (the Group's principal operating subsidiary in China) and the PRC operations of certain minor ancillary telecommunications service of our northern service regions and our southern service regions as if the Reorganisation had taken place on January 1, 2004. These operations were retained by China Netcom Group upon Reorganisation. The losses incurred by the PRC operations outside our northern and southern service regions of CNC China and certain minor ancillary telecommunications services were RMB 486 million and RMB 152 million for the six months ended June 30, 2004, respectively.
2. In connection with the Reorganisation, the inter-provincial fiber-optic cables were distributed to China Netcom Group. The unaudited pro forma adjustment reflects the reduction in depreciation charge relating to the fiber-optic cables as if the Reorganisation had occurred on January 1, 2004.
3. In connection with the Reorganisation, certain properties were distributed to China Network Group. The unaudited pro forma adjustment reflects the effects of the reduction in depreciation charges relating to these properties as if the Reorganisation had occurred on January 1, 2004.
4. In connection with the Reorganisation, certain long-term investments and interests in associated companies were distributed to China Netcom Group. The unaudited pro forma adjustment reflects the reduction in investment income/expenses generated from these investments as if the Reorganisation had occurred on January 1, 2004.

5. In connection with the Reorganisation, certain subsidiaries of Asia Netcom containing the Asia-Pacific submarine cable and related physical network assets and liabilities were distributed to China Netcom Group. The unaudited pro forma adjustment reflects the effects of the exclusion of the income statement items, including the depreciation of the submarine cable and related assets of the aforementioned subsidiaries of Asia Netcom and interest expenses associated with the outstanding vendor loan balances arising from the purchase of those equipment as if the transfer of these subsidiaries of Asia Netcom to China Netcom Group had taken place and the said agreements had taken effect on January 1, 2004.
6. This reflects the tax effect of the above pro forma adjustments using the statutory tax rate of 33%, the enterprise income tax rate in the PRC applicable for the year ended December 31, 2004, or other tax rates applicable for the year ended December 31, 2004 in other jurisdictions in which the companies comprising the Group operate.
7. The unaudited pro forma earnings per share for the year ended December 31 2004 gives effect to the one-to-one conversion of the redeemable convertible preference shares and share consolidation into 7,741,782 ordinary shares in August 2004 as if they had taken place as of January 1, 2004. Number of shares used for the historical basic pro forma earning per share and pro forma basic earnings per share is reconciled as follows:

|   |               |
|---|---------------|
| Weighted average number of ordinary shares outstanding and shares used in computing historical basic earnings per share | 5,622,685,175 |
| Conversion of convertible preference shares   | 5,140,035     |
| Shares used in computing pro forma basic earnings per share   | 5,627,825,210 |
| Diluted potential ordinary shares arising from share option   | 2,209,241     |
|   | 5,630,034,451 |
| Diluted weighted average number of shares used in computing pro forma earnings per share                                | 5,630,034,451 |



## Reconciliation of unaudited pro forma consolidated profit from the one prepared under Paragraph 4.29 of the Listing Rules to the one prepared under Article 11 of Regulation S-X under the Securities Act of 1033 issued by the Securities & Exchange Commission of United States of America (“Article 11”)

The above unaudited pro forma consolidated income statement for the year ended December 31, 2004 was prepared in accordance with 4.29 of the Listing Rules which differs from the pro forma financial information prepared in accordance with Article 11. The difference can be reconciled as follows:-

### Hong Kong GAAP

|   | Year ended Dec 31,<br>2004                          |
|---|---|
|   | (in million of<br>RMB except for<br>per share data) |
| Note  |   |
| <b>Unaudited Pro Forma income attributable to shareholders prepared under 4.29 of the Listing Rules</b> | <b>10,410</b>                                       |
| Reconciliation adjustments, net of tax:   |   |
| Rental expenses on fiber-optic cables   | (a) (144)   |
| Rental expenses on properties   | (a) (476)   |
| Other operating expenses  | 6   |
| Tax effect of the above adjustments   | (b) 205   |
|   | <hr/>   |
| <b>Unaudited Pro Forma income attributable to shareholders prepared under Article 11</b>                | <b>10,001</b>                                       |
|   | <hr/>   |
| <b>Pro Forma earnings per share – basic</b>   | <b>RMB1.78</b>                                      |
|   | <hr/>   |
| <b>Pro Forma earnings per share - diluted</b>   | <b>RMB1.78</b>                                      |
|   | <hr/>   |

- (a) Certain fiber-optic cables and properties have been distributed to the owner in accordance with the Reorganisation, and were leased to the Group pursuant to the Reorganisation agreements after July 1, 2004. These adjustments reflect the increase in rental expenses as if the Reorganisation had occurred and the leases of such assets had taken effect on January 1, 2004.
- (b) This reflects the tax effect of the above unaudited pro forma adjustments.