Supplementary Information for American Depositary Share Holders

The consolidated financial statements of the Group have been prepared in accordance with HKFRS, which differs in certain material respects from those prepared under generally accepted accounting principles in the United States ("U.S.GAAP"). Differences between HKFRS and U.S.GAAP, which may have significant impacts on the consolidated net income/(loss) and the consolidated shareholders' equity are described below.

The effect on net profit/ (loss) of significant differences between HKFRS and U.S.GAAP for the years ended December 31, 2004, 2005 and 2006 is as follow:

		Year ended December 31			
		2004	2005	**2006**	**2006**
	Note	Restated Note 2	Restated Note 2		
		RMB million except per share data			**US$ million except per share data**
Consolidated profit for the year under HKFRS					
Profit after taxation for the year from continuing operations		3,410	14,114	11,141	1,427
(Loss) /profit after taxation for the year from discontinued operations		(711)	(226)	1,819	233
		2,699	13,888	12,960	1,660
U.S.GAAP adjustments:					
Revaluation of fixed assets	(a)	11,318	—	1,524	195
Depreciation of revalued fixed assets	(a)	(3,529)	(5,110)	(4,619)	(592)
Others		14	—	—	—
Tax effect on the above adjustments	(b)	(2,570)	1,687	1,021	131
Consolidated profit for the year under U.S.GAAP					
Profit after taxation for the year from continuing operations		8,643	10,691	9,067	1,161
(Loss)/profit after taxation for the year from discontinued operations		(711)	(226)	1,819	233
		7,932	10,465	10,886	1,394

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		Year ended December 31			
		2004	2005	**2006**	**2006**
	Note	Restated Note 2	Restated Note 2		
		RMB million except per share data			**US$ million except per share data**
Shares used in computing basic earnings per share		5,623	6,594	6,616	6,616
Shares used in computing diluted earnings per share		5,630	6,628	6,667	6,667
Earnings per share for profit from continuing operations attributable to shareholders of the Company for the year under U.S GAAP					
Basic earnings per share under U.S.GAAP		RMB1.54	RMB1.62	RMB1.37	USD0.18
Diluted earnings per share under U.S.GAAP		RMB1.54	RMB1.61	RMB1.36	USD0.17
(Loss)/earnings per share for (loss)/profit from discontinued operations attributable to shareholders of the Company for the year under U.S GAAP					
Basic (loss)/earnings per share under U.S.GAAP		RMB(0.13)	RMB(0.03)	RMB0.27	USD0.03
Diluted (loss)/earnings per share under U.S.GAAP		RMB(0.13)	RMB(0.03)	RMB0.27	USD0.03
Earnings per share for profit attributable to shareholders of the Company for the year under U.S GAAP					
Basic earnings per share under U.S.GAAP		RMB1.41	RMB1.59	RMB1.64	USD0.21
Diluted earnings per share under U.S.GAAP		RMB1.41	RMB1.58	RMB1.63	USD0.20

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The effect on shareholders' equity of significant differences between HKFRS and U.S.GAAP as at 31, December 2004, 2005 and 2006 is as follows:

		At December 31			
		2004	2005	**2006**	**2006**
	Note	Restated Note 2	Restated Note 2		
			RMB million		**US$ in million**
Consolidated shareholders' equity under HKFRS		64,595	63,010	73,978	9,474
U.S.GAAP adjustments:					
Revaluation of fixed assets	(a)	30,251	30,251	30,704	3,932
Depreciation of revalued fixed assets	(a)	(3,529)	(8,639)	(13,258)	(1,698)
Difference in distribution to owner upon Listing Reorganization	(c)	166	—	—	—
Tax effect on the above adjustments	(b)	(8,819)	(7,132)	(5,757)	(737)
Consolidated shareholders' equity under U.S.GAAP		82,664	77,490	85,667	10,971

On June 2, 2006, the Group entered into an agreement with third party buyers to dispose of its 100% interest in the ANC Group and the transaction was completed on August 22, 2006. In accordance with HKFRS 5 "Non-current assets held for sales and discontinued operations" issued by the HKICPA, the results and cash flows of the operations of the ANC Group for the year ended December 31, 2006 are presented as discontinued operations. Accordingly, certain comparative figures of 2005 have been restated.

(a) Revaluation of fixed assets

In the Listing Reorganization, certain classes of fixed assets of the Group were revalued as at December 31, 2003. The revaluation was performed based on the depreciated replacement costs of the fixed assets and was not based upon the expected future cash flows of the fixed assets. The revaluation resulted in a charge of RMB25,778 million to the Group's consolidated income statement for the year ended December 31, 2003 with respect to the reduction in carrying amounts of certain fixed assets below their historical cost bases. In addition, a surplus arising from the revaluation of certain other fixed assets totaling RMB2,982 million has been credited to the revaluation reserve.

In 2005, the Group acquired telecommunications business and assets of the four northern provinces/autonomous region from China Netcom Group as set out in Note 1 to the Group's financial statements. The acquired fixed assets were revalued as at December 31, 2004. The revaluation was performed based on the depreciated replacement costs of the fixed assets and was not based upon the expected future cash flows of the fixed assets. The revaluation resulted in a charge of RMB11,318 million to the Group's consolidated income statement for the year ended December 31, 2004 with respect to the reduction in carrying amounts of certain fixed assets below their historical cost bases. In addition, a surplus arising from the revaluation of certain other fixed assets totaling RMB3,863 million has been credited to the revaluation reserve.

(a) Revaluation of fixed assets *(continued)*

According to the Group's accounting policy under HKFRS as set out in Note 4 (k) (iii), certain classes of fixed assets of the Group were revalued at December 31, 2006.The revaluation was performed based on the depreciated replacement costs for fixed assets and was not based upon the expected future cash flows of the fixed assets. The revaluation resulted in a charge of RMB1,524 million to the Group's consolidated income statement for the year ended December 31, 2006 with respect to the reduction in carrying amounts of certain fixed assets below their historical cost bases. In addition, a surplus arising from the revaluation of certain other fixed assets totaling RMB1,071million has been credited to the revaluation reserve. The effect of the reduction in depreciation of the revalued assets amounted to RMB4,619 million in the year ended December 31, 2006 (2005: RMB5,110 million, 2004: RMB3,529 million).

Under U.S.GAAP, the carrying values of fixed assets are stated at their historical cost less accumulated depreciation and impairment loss without making reference to their respective depreciated replacement cost. An impairment loss on fixed assets is recorded under U.S.GAAP if the carrying value of such assets exceeds its future undiscounted cash flows resulting from the use of the assets and their eventual disposition. The future undiscounted cash flows of the Group's fixed assets, whose carrying amounts were reduced in connection with the Reorganization, exceed the historical costs of such fixed assets and, therefore, no impairment of such assets is recognized under U.S.GAAP. Accordingly, the deficit on revaluation of fixed assets charged to the Group's consolidated income statements and the surplus credited to the revaluation reserve recorded under Hong Kong GAAP and the corresponding effect on the depreciation of the revalued assets in the subsequent periods are reversed for U.S.GAAP purposes.

(b) Deferred income tax

The amounts included in the reconciliation show the income tax effects of the differences between Hong Kong GAAP and U.S.GAAP as described above.

HKFRS requires recognition of a deferred tax asset only to the extent that recovery of the deferred tax asset is probable, whereas U.S. GAAP requires full recognition of deferred tax assets, reduced by an appropriate valuation allowance if the recovery is less than 50% likely. Recognition of deferred tax asset previously not recognized under HKFRS is presented as a reversal of the valuation allowance under U.S. GAAP.

(c) Goodwill and negative goodwill

Under HKFRS, before January 1, 2005, goodwill on acquisition was included in intangible assets and amortized using the straight-line method over its estimated useful life of no more than twelve years. Negative goodwill is presented in the same balance sheet classification as goodwill and recognized in the income statement over the remaining weighted average useful life of the related fixed assets.

On January 1, 2005, the Group adopted HKFRS 3 – "Business Combinations" issued by the HKICPA. Goodwill can no longer be amortized and is tested annually for impairment, as well as when there are indications of impairment. If the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognized immediately in the consolidated income statement as it arises. According to the transitional provision of HKFRS3, the Group should not retrospectively adjust the financial statements issued in previous years.

Under U.S.GAAP, goodwill is not amortized but tested for impairment annually and whenever events or circumstances occur indicating that goodwill might be impaired. When negative goodwill results from an acquisition, the acquirer must reassess whether all acquired assets and assumed liabilities have been identified and properly valued and then allocate negative goodwill to certain acquired non-monetary assets on a pro rata basis as applicable. Any remaining unallocated negative goodwill must be recognized immediately as an extraordinary gain.

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After the Listing Reorganization, the value of the fixed assets transferred to China Netcom Group under HKFRS was higher than that under U.S.GAAP by RMB166 million due to the different treatment of the negative goodwill arising from the acquisition of Asia Global Crossing. The negative goodwill of RMB166 million was included in the balance sheet under HKFRS while offset against certain fixed assets under U.S.GAAP and the fixed assets had been distributed to the owner in accordance with the Reorganization plan. Accordingly, the amount distributed to the owner under U.S.GAAP was lower than that under HKFRS by RMB166 million.

On January 1, 2005, the balance of negative goodwill under HKFRS was credited directly to the shareholders' equity upon the adoption of HKFRS 3 and the GAAP difference ceased to exist from then.

(d) Presentation of revenue

Under HKFRS, revenues are presented net of the PRC business taxes and government levies which amounted to RMB2,493 million, RMB2,421 million and RMB2,450 million for the years ended December 31, 2004, 2005 and 2006 respectively.

Under U.S.GAAP, EITF 06-3 "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That is, Gross versus Net Presentation)" a company can make an accounting policy decision to present revenues gross of taxes (included in revenues and costs) or on a net basis (excluded from revenues).

(e) Presentation of depreciation expenses

Under HKFRS, depreciation expense can be excluded from "Network, operations and support" and separately disclosed on the face of income statement.

Under U.S.GAAP, "Network, operations and support" expenses should include charges for depreciation of property, plant and equipment and amortization of intangible assets. Industry practice adopted by the Chinese telecommunications sector is to present these costs of operations net of depreciations charges. In such circumstances, U.S.GAAP requires such facts to be highlighted on the face of the income statement.

(f) Presentation of amortization of subscriber acquisition costs

Under Hong Kong GAAP, amortization of capitalized subscriber acquisition costs, being RMB2,602 million, RMB1,887 million and RMB739 million for the years ended December 31, 2004, 2005 and 2006 respectively is classified as selling expenses due to the marketing and promotional nature of the expenditure.

Under U.S.GAAP, amortization of subscriber acquisition costs needs to be included in the item "Network, operations and support" expense for the Company.

Other U.S.GAAP disclosures

(a) Comprehensive income

U.S.GAAP requires that all items that are required to be recognized as components of comprehensive income (including cumulative translation adjustment) be reported in a separate financial statement. There are no material differences between total recognized gains and losses for the periods shown in the Consolidated Statements of Changes in Equity presented under HKFRS and U.S.GAAP comprehensive income, except for the differences between HKFRS and U.S.GAAP profit attributable to shareholders shown above.

(b) Recent HK Accounting Pronouncements

The HKICPA has issued a number of new and revised HKFRSs and HKFRS Interpretations ("HKFRS – Ints"), and HKAS and HKAS Interpretations ("HKAS – Ints") as set out in Note 3 to the Group's financial statements which are effective for accounting periods beginning on or after January 1, 2007. The Group has not early adopted these new and revised standards and interpretations in the financial statements for the year ended December 31, 2006. The Group has commenced an assessment of the impact of these new and revised standards and interpretations, but is not yet in a position to state whether these new and revised standards and interpretations would have a significant impact on its results of operations and financial position.

(c) Recent U.S. Accounting Pronouncements

EITF 06-3

In March 2006, the Emerging Issues Task Force ("EITF") issued EITF Issue 06-3, "How Sales Taxes Collected From Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement." ("Issue 06-3"). This Issue discussed how entities are to adopt a policy of presenting any tax assessed by a governmental authority that is both imposed on and concurrent with a specific revenue-producing transaction between a seller and a customer in the income statement on either a gross or net basis. If taxes are significant, an entity should disclose its policy of presenting taxes and the amounts of taxes. The guidance is effective for periods beginning after December 15, 2006. The Group has early adopted EITF 06-3 on a retrospective basis and made the accounting policy decision to present such taxes on a net basis which is consistent with HKFRS.

FIN 48

In June 2006, the FASB issued FASB Interpretation Number 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 (FIN 48). The interpretation clarifies the accounting for uncertainty in income taxes and utilizes a two-step approach. The first step is to determine whether it is more likely than not that a tax position accounted for under SFAS 109 will be sustained upon examination, with the presumption that the position will be examined. The second step is to measure the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Group is evaluating the impact this interpretation will have on its financial statements.

SFAS 157

In September 2006, the FASB issued SFAS 157, Fair Value Measurement. SFAS 157 defines fair value, establishes a framework for measuring fair value, and enhances disclosures about fair value measurements. The adoption of SFAS 157 will be effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Group is evaluating the impact adopting SFAS 157 will have on its financial statements.

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Other U.S.GAAP disclosures *(continued)*

(c) Recent U.S. Accounting Pronouncements *(continued)*

SAB 108

In September 2006, the SEC released Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108). SAB 108 provides guidance on the SEC's views regarding quantifying the materiality of financial statement misstatements, including misstatements that were not material to prior years' financial statements. SAB 108 is effective for fiscal years ending after November 15, 2006. The Group does not consider that the application of this guidance have a material effect on our financial position, results of operations, or cash flows.

SFAS 159

In February, 2007, the FASB issued SFAS 159 "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115". This statement permits all entities to choose to measure many financial instruments and certain other items at fair value at specified election dates. SFAS 159 will be effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Group is currently evaluating the effect that the adoption of this statement will have on its consolidated results of operations and financial condition but does not expect it to have a material impact.