CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

中國網通集團(香港)有限公司

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

(Stock Code: 906)

2006 INTERIM RESULTS ANNOUNCEMENT

CHAIRMAN'S STATEMENT

Dear Shareholders,

During the first half of 2006, the Company's commitment to the strategic goal of transforming itself into a "broadband communications and multi-media services provider" began to produce tangible results. The proportion of our revenues generated from high-growth businesses* increased to 23.9% from 19.4% during the same period last year. We are establishing a solid foundation for sustained growth within a highly competitive market. At the same time, we have made significant progress in our efforts to improve corporate governance. Improvements in corporate governance are resulting in management innovations and effective strategy implementation, allowing us to create value for shareholders in an increasingly competitive business environment and in an evolving information technology industry.

Implementation of Strategies

The rapid development of information technology in recent years, particularly the increasing rate of Internet penetration, has created profound changes in the global telecom services industry. Traditional narrow-band voice communications based on PSTN networks are being replaced by IP Network-based broadband information services that integrate voice, data and video. The Company's greatest challenge is to make the most of opportunities resulting from technological innovation and changes in demand for information services to implement its "broadband strategy".

China's broadband market continued to experience impressive growth in the first half of 2006. According to statistics of the Ministry of Information Industry, broadband subscribers increased by 7.558 million in the first six months of 2006 to 45.061 million. A speedy increase in disposable income, the increasingly common use of computers, the proliferation of broadband applications and content, and above all, the forthcoming 2008 Beijing Olympic Games are factors which support quick growth in the broadband market. In order to enhance China's global competitiveness, the PRC government is encouraging the informatization process among small and medium-sized enterprises, rural areas, government administrations and district communities. "Tripleplay" is an explicit target of the government's Eleventh

Five-Year Plan, which runs from 2006 to 2010. Both Chinese government policies and global informatization trends are creating a shift from traditional communications to broadband integrated information services. This will bring about unprecedented favorable opportunities for the realization of the Company's strategic transformation.

The Company's commitments to transforming itself into a "broadband communications and multi-media services provider" began to yield tangible results during the first half of 2006. As the number of our broadband subscribers continued to grow at a fast rate of 28.6 %, our revenues from broadband content and applications also became significant. At the end of May 2006, the Company officially launched "CNC MAX", the first comprehensive audio-visual entertainment portal in the PRC. Our broadband business model of "charging for access + content" is maturing, based on the combination of "CNC MAX" with other broadband application and content platforms offering special local features that are operated by our provincial subsidiaries. In July 2006, five other cities in the Company's northern service region were approved to operate IPTV business. We believe the continuous deregulation of IPTV will provide outstanding opportunities for the Company to develop broadband applications and content services, as well as drive the "PC+TV" and "charging for access+content" broadband business model to a greater degree of maturity.

In line with governmental efforts to promote informatization and the increasing demand of integrated informatization services by our corporate customers, the Company launched the "CNC Connected" brand of integrated informatization services which integrate corporate telecommunications services and IT services and applications in certain cities. The number of customers for these services has risen quickly, attesting to the market's favorable response. In an environment which reflects an increasing shift towards mobile substitution, "CNC Connected" satisfies the incessantly increasing demand of our corporate customers for sophisticated informatization services, and allows us to build more in-depth cooperative relationships with our existing corporate customers, and to bring about new business growth.

Corporate Governance

The Company's corporate governance project aims to create a world-class corporate governance structure, and to serve as a model for other large state-owned enterprises in China. It made major progress during the first half of 2006.

Our pursuit of best-practices in the industry led to further improvements in our corporate governance "hardware" in the first half of the year, defining the scope for the state-owned controlling shareholders' participation. By insisting that the Board of Directors include a majority of non-executive and independent non-executive directors, we ensured its independence and effectiveness as the key to good governance. We also made adjustments in the composition of the Board of Directors and the Board Committees. The Compensation and Nomination Committee was split into two separate bodies. The Nomination Committee and the Corporate Governance Committee were combined to form the Nomination and Corporate Governance Committee, with a majority of independent non-executive directors and an independent non-executive director as its chairperson. This ensures that the selection of the company's senior management will comply with our strategic objectives, and conform to the interests of all our shareholders. In addition, the Company established a Supervision Committee to prevent insider dealing, maintain compliance with relevant regulations, and to ensure ethical conduct by the Company's middle and senior management. We have widened the scope of the Strategy Committee's duties, so as to guarantee the Company's strategic initiatives are scientifically formulated and effectively implemented in an ever-changing business environment.

To ensure that the Board of Directors functions efficiently, and to enhance its operational "software", we further improved the key operating procedures of the Board of Directors including strategic planning procedures, the Company's senior management performance appraisal system, processes for nominating and appointing directors, and methods for examining connected transactions. In addition, the Company implemented a new performance appraisal system for the Board of Directors and individual directors. The objective is to encourage directors to participate more actively in the Board's decision-making meetings, and to ensure that they take the initiative to understand the Company's business operations. These measures will help ensure that decisions made by the Board of Directors will better represent the interests of all of the Company's shareholders, providing support for sustainable growth in the future.

Changes of Directors and Management

On 17 May 2006, Dr. Tian Suning resigned as the Company's Chief Executive Officer while remaining as a Non-Executive Director and Vice Chairman of the Board. On the same day, Mr. Jiang Weiping also resigned from his position as an Executive Director. On behalf of the Board of Directors, I wish to express our sincere gratitude to Dr. Tian and Mr. Jiang for their remarkable contributions as Chief Executive Officer and Executive Director, respectively.

Future Prospects

Continued expansion of our high-growth businesses will remain our focus during the second half of the year. We shall fully leverage opportunities created by the technology innovation, the government's informatization drive and the 2008 Beijing Olympic Games. We remain committed to transforming the Company into a "broadband communications and multi-media services provider". At the same time, we shall continue to perfect the Company's corporate governance, turning the Board of Directors into trusted representatives of the shareholders.

Last, but not least, I would like to extend my heartfelt gratitude to each and every one of our shareholders for their consistent support and trust, and to the management and all of the Company's staff members for their outstanding contributions.

Zhang Chunjiang
Chairman

Hong Kong, August 23, 2006

* *High-growth businesses include broadband and other Internet-related services, value-added services, and business and data communications services*

CHIEF EXECUTIVE OFFICER'S STATEMENT

Dear Shareholders,

In the first half of 2006, we encountered many challenges as well as new opportunities for growth in our operations. Growth of the traditional fixed line business was modest due to mobile substitution, but growth in our high-growth businesses was rapid. Our strategy of becoming a "broadband communications and multi-media services provider" began to produce tangible results, with the proportion of revenue from high-growth businesses reaching 23.9%.

Financial Performance

In the first half of 2006, our continuing operations generated RMB43,181 million in revenues, including amortization of upfront connection fees of RMB1,330 million. Excluding amortization of upfront connection fees, revenues from continuing operations amounted to RMB41,851 million, an increase of 2.2% over the same period of last year (unless otherwise specified, all the figures are net of amortization of upfront connection fees and discontinued operations). EBITDA was RMB22,969 million, and EBITDA margin was 54.9%. Net profit was RMB5,815 million and net profit margin was 13.9%.

Throughout the first half, competition from mobile operators intensified, and local regulatory authorities began to adjust tariffs for inter-district calls at the beginning of 2006. As a result, we saw marginal decline in revenue growth.

On 2 June 2006, the Company concluded an agreement with a consortium led by Ashmore Emerging Markets Liquid Investment Portfolio and Spinnaker Global Opportunity Fund Limited, disposing of our 100% equity interest in Asia Netcom Corporation Limited ("Asia Netcom") for an amount of USD 168.84 million. The transaction was completed on 22 August 2006. The disposal of Asia Netcom enabled the Company to concentrate resources to focus on our domestic market and the strategic objective of becoming a "broadband communications and multi-media services provider."

Traditional Fixed-line Business

In 2006, our development strategy for the traditional fixed-line business has been to retain our existing subscribers and traffic volume, while exploring new markets. Local telephone service subscribers continued to grow during the first half of 2006. The number of subscribers for local telephone services reached 119.412 million by the end of June 2006 with 89.632 million fixed-line subscribers and 29.780 million PHS subscribers, representing an increase of 1.9% and 14.1% respectively compared to the same period last year. In 2006, mobile operators in China became more aggressive in vying for subscribers, and the effect of mobile substitution for traditional fixed-line business was becoming increasingly obvious. In the first half of 2006, the Company's local telephone usage net of Internet dial-up usage dropped marginally to 108.107 billion pulses by 1.6% over the same period of last year. In order to cope with mobile substitution and to reduce the churn rate, in the first half of 2006, we began to launch multi-business bundling services in certain pilot cities. Multi-business bundling services have had a positive effect in the enhancement of MOU (average monthly minutes of usage), the growth in new subscribers and in revenue in the pilot cities, based on a soft launch in those cities.

During the first half of 2006, the Company continued the revision of its sales and marketing system. We launched a number of new initiatives. These included the following: establishment of a professional sales and marketing team for each segment market, enabling in-depth exploration of customers' needs and prompt response; changes in the incentive system for community managers to become more performance-oriented; strengthening of proactive services and proactive sales and marketing in our retail outlets and the phased launch of "customer appointment" services; and the creation of online retail outlets to provide our customers with more convenience and to shorten the time for our response. As we implement these initiatives, our Company's sales and marketing system is moving towards becoming more customer-oriented.

High Growth Businesses

Central to our strategic transformation and business development, we will continue to focus on the enhancement of the contribution of high growth businesses to revenues in 2006. Specific initiatives have included the following: 1) expanding the customer base of broadband subscribers while pushing forward the development of video and interaction-centered broadband content and applications; 2) upgrading the intelligence of local networks and developing new value-added services; and 3) accelerating the development of "CNC Connected" services to create a growth engine for the future. Compared to the same period last year, revenue from high growth businesses increased by 26.3%, improving our revenue structure.

During the first half of 2006, broadband business grew at high speed. The number of broadband subscribers grew by 28.6% over the same period of last year, to 13.506 million. Revenue from broadband and other Internet related services amounted to RMB5,340 million, a year-on-year increase of 33.3%, accounting for 12.8% of total revenue. Starting in the second half of 2005, the Company intensified the development of broadband content and applications and integrated resources along the industry chain, focusing on video and interaction-centered broadband content and applications. In May 2006, the Company established China Netcom Group Broadband Online Company Limited. This new business concentrates on the development and marketing of broadband content and applications. We also launched "CNC MAX", China's first comprehensive audio-visual entertainment portal. Broadband content and applications revenue for the period grew by 104.1%, to RMB402 million.

In May 2005, the Company commissioned the first commercial IPTV services of China in Harbin, Heilongjiang province. In line with government policy of "rural area informatization", in July 2005 the Company launched "integrated informatization services for rural areas" based on IPTV technology in Henan province. This has been approved as one of the models for "rural area informatization" by the National Development And Reform Commission of the People's Republic of China. By the end of June 2006, the Company had 85,800 subscribers for IPTV services, up by 48.1% over the end of last year. In July 2006, five other cities in the Company's service region were approved to operate IPTV business. The introduction of IPTV expands our target subscribers of our broadband business from PC's to the huge customer base of TV consumers. It reinforces and accelerates the maturity of our broadband business model based on "charging for access + contents" and helps the Company achieve "tripleplay."

During the first half of 2006, the Company's value-added businesses saw fast growth. Revenues amounted to RMB2,532 million, a year-on-year increase of 34.3%. The share of total revenue grew notably from 4.6% in the same period of last year to 6.1%. Contribution of the value-added services to the ARPU of local telephone services increased by 28.6% to RMB3.6 compared to the same period of last year. In the first half of 2006, PHS short messages amounted to 4.025 billion pieces, a year-on-year increase of 43.0%. Subscribers of personalized ring services amounted to 10.455 million, an increase of 169.5% over the same period of last year. Within this expanded customer base, subscribers for personalized ring services among fixed-line subscribers amounted to 3.819 million. During the first half of 2006, the Company soft-launched new value-added services in certain cities, such as personalized ring services for fixed lines and voice navigation, all of which achieved notable success in the market.

Taking advantage of the government's informatization policy, the Company began a pilot test of integrated informatization services under the brand "CNC Connected" targeted at small- and medium-sized corporations in certain cities in 2006. Leveraging on our strengths in network resources, customers and distribution channels, we integrated the resources of hardware suppliers, service providers and applications providers to provide corporate customers with integrated solutions including both standard modules and customized solutions. It is expected that the service will be fully marketed in all of the service regions in the second half of 2006, and becomes a new growth engine.

Outlook

In the second half of 2006, we will emphasize retention of traditional fixed-line business. With the phased completion of our local network intelligence upgrading and billing and supporting systems upgrading, multi-business bundling services will be marketed and implemented across our service regions. Taking advantage of technology innovation, tripleplay and informatization, our high growth businesses will continue to be a high priority and we will promote broadband access, develop broadband content and applications, expand broadband penetration rate among television consumers, and refine our "charging for access + contents" business model. These measures will lay a foundation for sustained growth and help accelerate our strategic transformation.

Clearly, the year 2006 is full of opportunities and challenges. I believe that with the efforts of the management and employees, the Company will see healthier development in the future.

Zuo Xunsheng
Executive Director and Chief Executive Officer

Hong Kong, August 23, 2006

GROUP RESULTS

China Netcom Group Corporation (Hong Kong) Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2006.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2006

		Six months ended 30 June	
	Note	**2006**	**2005**
		RMB million Unaudited	*RMB million Unaudited Restated (Note 2)*
Continuing operations:			
Revenues	4	43,181	42,773
Operating expenses			
Depreciation and amortization		(12,619)	(12,398)
Networks, operations and support		(6,234)	(6,042)
Staff cost		(5,910)	(5,819)
Selling, general and administrative		(6,051)	(5,718)
Other operating expenses		(687)	(700)
Total operating expenses		(31,501)	(30,677)
Operating profit before interest income and dividend income		11,680	12,096
Interest income		50	67
Dividend income		—	28
Profit from operations		11,730	12,191
Finance costs (mainly represents interest costs)		(1,937)	(1,701)
Profit before taxation		9,793	10,490
Taxation	6	(2,648)	(2,750)
Profit for the period from continuing operations		7,145	7,740
Discontinued operations:			
Loss for the period from discontinued operations	11	(51)	(52)

	Note	Six months ended 30 June	
		2006	**2005**
		RMB million Unaudited	*RMB million Unaudited Restated (Note 2)*
Profit for the period attributable to shareholders of the Company		7,094	7,688
Earnings per share for profit from continuing operations attributable to shareholders of the Company for the period	8		
- Basic earnings per share		RMB1.08	RMB1.17
- Diluted earnings per share		RMB1.07	RMB1.17
Loss per share for loss from discontinued operations attributable to shareholders of the Company for the period	8		
- Basic loss per share		RMB(0.01)	RMB(0.01)
- Diluted loss per share		RMB(0.01)	RMB(0.01)

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEEET
AS AT 30 JUNE 2006

	Note	As at 30 June 2006 *RMB million* *Unaudited*	As at 31 December 2005 *RMB million* *Audited*
Assets			
Current assets			
Cash and bank deposits		5,482	4,895
Accounts receivable	9	7,686	7,401
Inventories and consumables		430	472
Prepayments, other receivables and other current assets		1,524	1,484
Due from holding companies and fellow subsidiaries		397	247
Subtotal		15,519	14,499
Assets of disposal group classified as held for sale	11	2,676	—
Total current assets		18,195	14,499
Non-current assets			
Fixed assets		164,099	168,663
Construction in progress		12,355	6,822
Lease prepayments for land		1,925	1,949
Intangible assets		1,309	1,393
Deferred tax assets		3,803	3,480
Other non-current assets		4,239	6,034
Total non-current assets		187,730	188,341
Total assets		205,925	202,840
Liabilities and equity			
Current liabilities			
Accounts payables	10	19,787	16,719
Accruals and other payables		3,965	3,905
Short-term bank loans		45,527	47,341
Current portion of long-term bank and other loans		7,024	6,846
Due to holding companies and fellow subsidiaries		8,497	8,990

	Note	As at 30 June 2006	As at 31 December 2005
		RMB million	*RMB million*
		Unaudited	*Audited*
Current portion of deferred revenues		7,234	7,975
Current portion of provisions		4,027	4,029
Taxation payable		2,917	2,594
Subtotal		98,978	98,399
Liabilities of disposal group classified as held for sale	11	3,134	—
Total current liabilities		102,112	98,399
Net current liabilities		(83,917)	(83,900)
Total assets less current liabilities		103,813	104,441
Non-current liabilities			
Long-term bank and other loans		17,994	18,143
Due to holding companies and fellow subsidiaries		6,860	7,840
Deferred revenues		7,641	10,925
Provisions		2,942	3,174
Deferred tax liabilities		1,301	1,324
Other non-current liabilities		21	25
Total non-current liabilities		36,759	41,431
Total liabilities		138,871	139,830
Financed by:			
Share capital		2,187	2,181
Reserves		64,867	60,829
Shareholders' equity		67,054	63,010
Total liabilities and equity		205,925	202,840

Notes to the Unaudited Interim Financial Statements

1 **The Group and its principal activities**

Background of the Group

The Company was incorporated in the Hong Kong Special Administrative Region ("Hong Kong") of the People's Republic of China ("PRC") as a limited liability company under the Hong Kong Companies Ordinance. The Company, China Netcom Holdings and China Network Communications Group Corporation (the "China Netcom Group") underwent the reorganization on June 30, 2004 ("the Reorganization"). Following the Reorganization, the shares of the Company were listed on The Stock Exchange of Hong Kong Limited on November 17, 2004 and the ADSs on November 16, 2004. Immediately after the Reorganization, China Netcom Group became the ultimate holding company of the Group. Pursuant to a resolution passed in the special general meeting of the shareholders on October 25, 2005, the Company acquired the principal telecommunications operations and assets in the four northern provinces/autonomous region, namely Shanxi Province, Neimenggu Autonomous Region, Jilin Province and Heilongjiang Province from China Netcom Group (the "Acquisition"), and the Acquisition was completed on 25 October, 2005 . Please refer to note 1 to the financial statements of the 2005 Annual Report for the details and financial impact of the Acquisition.

Following the Acquisition, the Group is the dominant provider of fixed line telephone services, broadband, other internet related services, and business and data communications services in ten northern provinces, municipalities and autonomous region in the PRC , namely Beijing Municipality, Tianjin Municipality, Hebei Province, Liaoning Province, Shandong Province, Henan Province, Shanxi Province, Neimenggu Autonomous Region, Jilin Province, and Heilongjiang Province. The Group also provides telecommunications services to selected business and residential customers in both a southern municipality and a southern province in the PRC , namely Shanghai Municipality and Guangdong Province. In addition, the Group operates a network and offers international data services throughout the Asia Pacific countries and regions through Asia Netcom Corporation Limited and its subsidiaries (collectively referred to as "ANC Group").

The Group's principal services consist of:

- Fixed line telephone services (including the personal handy phone system (PHS) services), comprising:

  (a) Local, domestic long distance and international long distance services;

  (b) Value-added services, including caller identity, telephone information services; and

  (c) Interconnection services provided to other domestic telecommunications service providers including the fellow subsidiary owned by China Netcom Group operating outside the twelve service regions;

- Broadband services and other Internet-related services;

- Business and data communications services, including integrated regional data and voice communications services; and

- International services consisting of international voice services including international inbound calls destined for the PRC or transit through the PRC or other Asia-Pacific countries and regions, and leased line, Internet access, managed data and other telecommunications services provided to business and carrier customers located outside the PRC.

On 2 June 2006, the Group entered into an agreement with third party buyers to dispose of its entire interests in the ANC Group at an aggregate cash consideration of US$168.84 million (equivalent to RMB 1,362.57 million) at fair value determined by both parties. The Group agreed to maintain its business relationship with ANC Group in connection with its own international operations and such business relationship will include the purchase of certain limited network capacity from ANC Group after the disposal. The transaction was completed on 22 August 2006.

2 **Basis of presentation**

These unaudited condensed consolidated financial statements (the "interim financial statements") have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The interim financial statements include the financial information of the Group and have been prepared in accordance with the same accounting policies adopted in the 2005 financial statements and the new accounting policies as set out in Note 3 below. These interim financial statements should be read in conjunction with the Group's 2005 financial statements.

In respect of the 2005 comparative figures,prior to the Acquisition, China Netcom Group held the entire telecommunications operations and assets of four northern provinces/autonomous region. Since China Netcom Group is the Group's ultimate holding company, the Acquisition constitutes a business combination under common control. Acquisition under common control is outside the scope of Hong Kong Financial Reporting Standard ("HKFRS") 3 ("Business Combinations"). Accordingly, the Company has used merger accounting to record the Acquisition in accordance with the Accounting Guideline 5 "Merger Accounting For Common Control Acquisition" ("AG 5") issued by the HKICPA, and the acquired assets are stated at carrying amounts as if the fixed line telecommunications operations and assets of the four provinces/autonomous region have been held by the Company from the beginning of the earliest period presented. The 2005 comparatives of the income statement and cash flow statement have been restated accordingly.

On 2 June 2006, the Group entered into an agreement with third party buyers to dispose of the entire interests in the ANC Group and the disposal was completed on 22 August 2006. The assets and liabilities of the ANC Group have been classified as held for sales and carried at the lower of carrying amount and fair value less costs to sell since their carrying amount is recovered principally through a sales transaction rather than through a continuing use since 2 June 2006 in accordance with HKFRS 5 "Non-current assets held for sales and discontinued operations" issued by the HKICPA. The results and cashflows of the operations of the ANC Group have been presented as discontinued operations. The 2005 comparative figures of the income statement and statement of cash flow in respect of the ANC Group have been re-presented as discontinued operations accordingly.

A significant percentage of the Group's funding requirements is achieved through short term borrowings. Consequently, the balance sheet indicates a significant working capital deficit. In the past, a substantial portion of the Group's short term borrowings have been rolled over upon maturity. In addition, on 20 July 2006, the Group has issued commercial papers to raise additional funding of RMB10 billion. Based on the Group's history of obtaining finance, its current finance, its relationships with its bankers and its operating performance, the directors consider that the Group will continue to be able to roll over such short term financing, or will be able to obtain sufficient alternative sources of financing to enable it to operate and meet its liabilities as and when they fall due.

3 **Changes in accounting policies**

In 2006, the Group adopted the new and revised HKFRSs as listed below, which are relevant to its operations.

HKAS21 (revised)	Movement impact of foreign currency— net investment in foreign operations
HKAS 39 (revised)	Predictive accounting of cash flow hedging of inner group transaction
HKAS 39 (revised)	Fair value option
HKAS 39 (revised)	Financial guarantee contract
HKFRS 4 (revised)	Financial guarantee contract

The adoption of these new and revised HKFRSs by the Company did not have any significant impact on its results of operations and financial position

4 **Revenues**

Revenues represent the turnover of the Group and are derived from the provision of fixed line telecommunications and related services, net of the PRC business taxes and government levies. The Group's revenues by business nature can be summarized as follows:

	Six months ended 30 June	
	2006	**2005**
	RMB million Unaudited	*RMB million Unaudited Restated (Note 2)*
Revenues		
Local usage fees	11,448	12,487
Monthly telephone service	8,700	9,105
Upfront installation fees	694	720
DLD usage fees	5,057	5,255
ILD usage fees	556	509
Value-added services	2,532	1,886
Interconnection fees	4,028	3,863
Upfront connection fees	1,330	1,824
Broadband service	4,993	3,674
Other internet-related service	347	332
Managed data service	784	829
Leased line income	1,361	1,211
Other services	1,351	1,078
Total	43,181	42,773

The revenues of the Group's international telecommunication services derived from the ANC Group operation have been separately disclosed as discontinued operations in note 11. The Company considers that the remaining revenue earned from its international telecommunication services is not material. Accordingly, the revenue is not separately disclosed and has been included in the analysis above.

5 **Segmental reporting**

Business segments provide services that are subject to risks and returns that are different from other business segments. Geographical segments provide services within a particular economic environment that is subject to risks and returns that differ from those of components operating in other economic environments. Currently the Group has one business segment, the provision of fixed line telecommunications services. Less than 10% of the Group's assets and operations are located outside the PRC. Accordingly, no business and geographical segment information is presented.

6 **Taxation**

	Six months ended 30 June	
	2006	**2005**
	RMB million Unaudited	*RMB million Unaudited Restated (Note 2)*
PRC enterprise income tax ("EIT")	2,993	3,375
Overseas profit tax	1	—
Deferred taxation	(346)	(625)
Taxation charges	2,648	2,750

The provision for PRC EIT is calculated based on the statutory income tax rate of 33% on the assessable profit of each of the entities now comprising the Group in the PRC as determined in accordance with the relevant income tax rules and regulations in the PRC.

Taxation on profits derived from certain subsidiaries outside the PRC, including Hong Kong, has been calculated on the estimated assessable profit at the rates of taxation ranging from 17.50% to 30.00%, prevailing in the countries in which those entities operate.

The reconciliation between the Group's actual tax charge and the amount which is calculated based on the weighted average statutory tax rate is as follows:

	Six months ended 30 June	
	2006	**2005**
	RMB million Unaudited	*RMB million Unaudited Restated (Note 2)*
Profit before taxation	9,793	10,490
Weighted average statutory tax rate	33%	33%
Tax calculated at the weighted average statutory tax rate	3,231	3,462
Non-taxable income (Note below)	(535)	(701)
Expenses not deductible for tax purposes	20	72
Others	(68)	(83)
Tax charge	2,648	2,750

Note: Non-taxable income comprises primarily upfront connection fees charged to customers and amortized over the customer relationship period.

7 **Profit distributions**

	Six months ended 30 June			
	2006 *(Note(i))*		**2005**	
	HK$ million Unaudited	*RMB million Unaudited*	*HK$ million Unaudited*	*RMB million Unaudited*
Dividend distributed during the period	3,073	3,196	245	259

Notes:

(i) Pursuant to the shareholder's approval at the Annual General Meeting held on 16 May, 2006, a final dividend of HK$0.466 per share totaling RMB3,196 million in respect of the year ended December 31, 2005 was declared and was paid on 6 June, 2006, which has been reflected as an appropriation of retained earnings for the six months ended 30 June, 2006.

(ii) No interim dividend has been proposed by the directors for the period ended 30 June, 2006. The payment of any future dividends will be determined by the Board of Directors.

(iii) Appropriation to statutory reserve

According to a PRC tax approval document issued by Ministry of Finance and State Administration of Taxation to the Group, the Group's upfront connection fees are not subject to EIT and an amount equaled to the upfront connection fees recognised in the retained earnings should be transferred from retained earnings to a statutory reserve. For the six months ended 30 June, 2006, the Company has made an appropriation of RMB 1,330 million to the statutory reserve (For the six months ended 30 June, 2005: RMB 3,378 million)

8 **Earnings per share**

Basic earnings per share is computed using the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of ordinary shares and potential ordinary shares outstanding during the period.

The following table sets forth the computation of basic and diluted net earnings/(loss) per share:

	Six months ended 30 June	
	2006	**2005**
	(in RMB millions, except share and per share data)	
	Unaudited	*Unaudited Restated (Note 2)*
Numerator:		
Profit/(loss) for the period	7,094	7,688
- Continuing operations	7,145	7,740
- Discontinued operations	(51)	(52)
Denominator:		
Weighted average number of ordinary shares outstanding and shares used in computing basic earnings per share	6,596,123,569	6,593,529,000
Diluted equivalent shares arising from share options	50,441,318	34,754,749
Shares used in computing diluted earnings per share	6,646,564,887	6,628,283,749
Basic earnings/(loss) per share		
- Continuing operations	RMB1.08	RMB1.17
- Discontinued operations	RMB(0.01)	RMB(0.01)
Diluted earnings/(loss) per share		
- Continuing operations	RMB1.07	RMB1.17
- Discontinued operations	RMB(0.01)	RMB(0.01)

9 **Accounts receivable**

Amounts due from the provision of fixed line telecommunications service to residential and business customers are due within 30 days from the date of billing. Residential customers who have accounts overdue by more than 90 days will in normal circumstances have their services disconnected. Accounts receivable from other telecommunications operators and customers are due between 30 to 90 days from the billing date.

The ageing analysis of accounts receivable based on the billing date is as follows:

	As at 30 June 2006	As at 31 December 2005
	RMB million Unaudited	*RMB million Audited*
0-30 days	5,657	5,446
31-90 days	1,467	1,556
Over 90 days	2,687	2,053
Total	9,811	9,055
Less: Allowance for doubtful debts	(2,125)	(1,654)
Net carrying amounts	7,686	7,401

The fair value of accounts receivable approximate their carrying values based on cash flows discounted using a rate based on the borrowing rate of 5.85% (31 December, 2005: 5.58%).

Included in the accounts receivable are amounts due from other state-owned telecommunication operators amounting to RMB 1,209 million (31 December 2005: RMB 1,003 million).

10 **Accounts payable**

	As at 30 June 2006	As at 31 December 2005
	RMB million Unaudited	*RMB million Audited*
0-30 days	6,871	6,281
31-60 days	2,060	1,796
61-90 days	1,982	1,297
91-180 days	2,683	1,940
Over 180 days	6,191	5,405
Total	19,787	16,719

Included in accounts payable are amounts due to other state-owned telecommunications operators amounting to RMB 42 million (31 December, 2005: RMB 48 million).

11 **Discontinued operations**

On 2 June 2006, the Group entered into agreement to dispose of its entire interest in the ANC Group ("Sales and Purchase Agreement"). The disposal was completed on 22 August 2006. The results and cashflow of the ANC Group are presented in this interim financial statement as discontinued operations.

The income statement of the ANC Group are set out below.

	Note	Six months ended 30 June 2006	Six months ended 30 June 2005
	1,2	*RMB million Unaudited*	*RMB million Unaudited*
Discontinued operations:			
Revenues		726	663
Expenses		(776)	(716)
Loss before taxation of discontinued operations		(50)	(53)
Taxation		(1)	1
Loss after tax of discontinued operations		(51)	(52)

The assets and liabilities related to the ANC Group have been presented as held for sale following the entering of the Sales and Purchase Agreement and classified as a disposal group. An analysis of the disposal group is as follows:

	Note	As at 30 June 2006
	1,2	*RMB million unaudited*
Assets of disposal group classified as held for sale		
Cash and bank deposits		288
Accounts receivable		348
Fixed assets		510
Prepaid networks capacities		1,314
Other assets		216
Total assets of the disposal group		2,676
Liabilities of disposal group classified as held for sale		
Advance from network capacity sales		2,450
Accounts payable		151
Accruals and other payables		225
Other liabilities		308
Total liabilities of the disposal group		3,134

12 **Significant subsequent events**

(i) The Group completed the disposal of the ANC Group to the third party buyers on 22 August 2006. The Group expects to record a net gain ranging from approximately RMB1.7 billion to RMB1.9 billion and the gain will be reported as part of discontinued operations for the year ending 31 December 2006. On the same date, the Group committed to purchase network capacities from the third party buyers in the amount of no less than US$60,000,000 in the next three years in accordance with a capacity purchase agreement.

(ii) On 20 July, 2006, China Netcom (Group) Limited, the wholly owned subsidiary of the Group, issued RMB 10 billion one-year Commercial Paper in the PRC capital market with RMB 9,676 million net cash inflow from this offering. The interest rate charged on this Commercial Paper is 3.35%.

INTERIM DIVIDEND

The board of directors of the Company has resolved that no interim dividend be paid for the six months ended 30 June 2006.

AUDIT COMMITTEE

The Audit Committee reviewed with management the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial report matters including review of the unaudited interim financial statements for the six months ended 30 June 2006.

COMPLIANCE WITH THE CODE PROVISIONS SET OUT IN THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 30 June 2006.

Under the amended Section 303A of New York Stock Exchange Listed Company Manual, foreign issuers (including China Netcom Group Corporation (Hong Kong) Limited) listed on the NYSE are required to disclose a summary of the significant differences between their domestic corporate governance rules and NYSE corporate governance rules that would apply to a U.S. domestic issuer. A summary of such differences appears on our website at http://www.china-netcom.com/english/inv/Corporate_Governance_Differences.htm.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuer (the "Model Code") as set out in Appendix 10 to the Listing Rules. All directors have confirmed, following enquiry by the Company, that they have complied with the required standard set out in the Model Code throughout the period from 1 January 2006 to 30 June 2006.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

FORWARD-LOOKING STATEMENTS

This interim report includes ''forward-looking statements'' within the meaning of the Private Securities Litigation Reform Act of 1995. All statements of historical facts, including in this interim report that address activities, events or developments which we expect or anticipate will or may occur in the future are hereby identified as forward looking statements for the purpose of the safe harbor provided by Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended. The words such as believe, intend, expect, anticipate, project, estimate, predict, plan and similar expression are also intended to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of the Company to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements. Further information regarding these risks, uncertainties and other factors is included in the Company's most recent Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission (the ''SEC'') and in the Company's other filings with the SEC.

PUBLICATION OF INTERIM RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE OF HONGKONG LIMITED AND THE COMPANY

The 2006 Interim Report will be dispatched to shareholders as well as made available on The Stock Exchange of Hong Kong Limited's website at http://www.hkex.com.hk and the Company's website at http://www.china-netcom.com

The 2006 interim financial information set out above does not constitute the Group's statutory financial information for the six months ended 30 June 2006 but is extracted from the financial statements for the six months ended 30 June 2006 to be included in the 2006 interim report.

As at the date of this announcement, the Board of Directors of the Company comprises Mr. Zhang Chunjiang, Mr. Zuo Xunsheng, Mr. Zhang Xiaotie and Mr. Miao Jianhua as executive directors, Dr. Tian Suning, Ms. Li Liming, Mr José María Álvarez-Pallete and Mr. Yan Yixun as non-executive directors and Mr. John Lawson Thornton, Mr. Victor Cha Mou Zing, Dr. Qian Yingyi, Mr. Hou Ziqiang, and Mr. Timpson Chung Shui Ming as independent non-executive directors.

Please also refer to the published version of this announcement in South China Morning Post.