



## Chairman's Statement



Dear Shareholders,

I am pleased to report to you our operating results for the year 2005. In 2005, the Company successfully achieved its goal of “growth and efficiency”, with sustained rapid growth in key businesses and substantial improvements in management efficiency. For the year 2005, we recorded net profits of RMB13,888 million and profits per share of RMB2.11.

During the year, the Company moved ahead on important strategic initiatives, including the enhancement of the Company's corporate governance and internal controls and reforms in our marketing and sales channels. These have helped to establish a strong foundation for sustainable growth.

### Strategic Goals and Execution Capabilities

Shortly after our listing, we identified that becoming a “broadband communications and multi-media services provider” was our ultimate strategic goal. Since then, we have been committed to a transformation from a voice-based narrowband operator to a provider of broadband communications and multi-media services. To this end, the Company made significant progress in 2005 in its three core strategies, “Broadband, Olympic and International”. In 2005, our broadband business sustained robust growth, including important advances in broadband content and applications services. During the year, we also commenced IPTV business in Harbin jointly with our partner. Harbin was the first city in the PRC with permission to deploy IPTV services. We believe that our IPTV services will bring about a major breakthrough in the growth of our broadband businesses.

In 2005, the Company entered into a Comprehensive Cooperation Agreement on Olympics Communications Project Construction with the National Olympic Sports Centre, aimed at providing broadband support to the Olympic Games. Besides generating enormous revenues for the host country, previous Olympic Games have served as an important driver for the adoption of technological breakthroughs, such as television, mobile phones and even the Internet. Against this backdrop, it is our dream that the coming Olympic Games will be the first “Broadband Olympics”. We will strive to develop our broadband businesses through technological, business and service innovations, thereby expediting the strategic transformation of the Company.

In 2005, we also made major headway in terms of international cooperation. Our Strategic Alliance Agreement with Telefónica Internacional S.A. enabled cooperation at shareholding and Board levels. We discussed opportunities for cooperation in a variety of telecommunications service businesses. We believe strategic cooperation will bring new expertise to our operations and management. This will further enhance our ability to implement new business strategies and innovation, and promote organic and rapid growth of the Company.



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### Expansion through Acquisitions in Four Northern Provinces

In the Extraordinary General Meeting held on 25 October 2005, shareholders considered and approved the Company's acquisition from China Network Communications Group Corporation, our controlling shareholder, of its the major telecommunications assets and business operations in the provinces and regions of Heilongjiang, Jilin, Neimenggu and Shanxi. After completion of the transaction, our position as the leading operator in the northern service regions was further strengthened, leading to a substantial increase in shareholders' value.

### Management Reforms and Governance Enhancement

We believe that a robust corporate governance structure and internal control system are the key factors for the Company's core competence. A sound corporate governance structure with effective checks-and-balances, strict and prudent internal control system and a reliable information system is essential for the sustained development of the Company and for maximizing shareholders' value. Therefore, we have initiated management reforms in our corporate governance structure, internal control system, information system and administrative system. We are determined to create a world-class corporate governance structure and to serve as a model for large-scale state-owned enterprises in China.

8 Since going public, the Company has made significant progress in developing a sound Board structure, which serves as a solid "hardware" platform for good corporate governance. To further enhance corporate governance, a special corporate governance project was launched at the end of 2005 under the direct leadership of our Board's Corporate Governance Committee. This project has the ultimate goal of building up effective and robust corporate governance "software" incorporating world-class best practices.

On another front, our internal control system project launched at the end of 2004 made significant progress in 2005. The objective of this project was to comply with provisions of the Sarbanes-Oxley Act. During the year, the Company designed systematic internal control standard models with reference to the internationally recognized COSO internal control framework. The models have been officially introduced throughout the Company. In 2005, we embarked on implementation of an Enterprise Resources Planning (ERP) system. We also launched a program to integrate and streamline information systems, as well as to incorporate standardized internal control procedures into the system. The purpose is to assure the efficiency of our internal controls and the accuracy and timeliness of the Company's internal reporting system. As a result, we will further strengthen security and monitoring of operations, creating a strong foundation for healthy growth.

### Adding Value to Shareholders

Taking into consideration our financial position, cash flow and potential new businesses opportunities, the Board proposed a final dividend of HK\$0.466 per share for the financial year ended 31 December 2005.

In February 2006, the Company was officially declared and admitted as a constituent stock of the Hang Seng Index, reflecting the recognition of our efforts in maximizing shareholders' value. We will continue to strive for the highest returns for our shareholders.



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### Future Prospects

Looking ahead, rapid development of the PRC economy and technological advances in the information industry are expected to bring to the Company both opportunities and challenges. The telecommunications sector is undergoing a global transformation. Given the dominant trend, it is essential for the Company to leverage opportunities presented by technological development and improve its capacity for innovation. With "Transformation and Innovation" as our focus for 2006, we will strive to enhance operational efficiency through management optimization. We will also seek to achieve sustainable profitable growth through innovation. We will further strategic cooperation with international telecommunications operators in order to introduce into the Company their advanced management expertise and know-how, thereby enhancing management efficiency and minimizing the risks of implementing new business strategies.

Given the growing trend of mobile substitution, mobile business has inevitably become a key strategic focus of the Company. In 2006, we will prepare for the launch of mobile services, especially by promoting integration between mobile and fixed-line networks. On this basis, we are committed to providing customers with broadband-based, multi-media information services integrating voice, data and video, thereby gradually completing our transformation into a "broadband communications and multi-media services provider".

Lastly, I would like to extend my sincere appreciation to our shareholders for their trust and support. I am also grateful for the management and staff's contribution to the Company in 2005. We are confident in our future. With the continued commitment of management and staff, we will be able to deliver better services to customers and create more value for shareholders.

**Zhang Chunjiang**  
*Chairman*

Hong Kong, 21 March 2006