

China Netcom is consistently committed to maximizing shareholder value. In 2004, we reorganised our board of director pursuant to international corporate governance practices. We engaged several domestic and internationally renowned professionals to further enhance independence of the board of directors. Four professional committees, in particular corporate governance committee, were reorganised or established accordingly. In 2004, we specially arranged relevant professional associations to provide corporate governance related training for our Executive Directors and Management. Furthermore, the positions of Chairman and Chief Executive Officer are clearly separated aiming to provide greater independence between the Board and Management. Accordingly, the Chairman will focus his attention on major strategic issues as well as corporate governance.

1. Board of Directors

Our board of directors consists of five independent non-executive Directors, four non-executive Directors and four executive Directors, most of whom are external independent non-executive Directors and non-executive Directors. A majority of the Board seats are taken by Non-executive Directors, which ensures that decisions are made independently of Management and in the best interests of shareholders. Members of the board of directors are all professionals from the telecommunications industry and finance industry, etc. They have extensive professional background and rich experience, and takes positive role in driving our development and corporate governance.

Mr. Leng Rongquan left the Company and resigned as Vice Chairman of our Board of Directors on 5 November, 2004. We wish to express our most sincere gratitude for his significant long-term contribution to the Company.

Our Board of Directors holds four regular meetings every year and will hold special meeting, if necessary.



2. Board Committees

The Board has established four committees, namely the Corporate Governance Committee, the Audit Committee, the Compensation Committee and the Strategic Planning Committee. The mandates of these committees were approved at a Board Meeting held on 1 February 2005.

(1) Corporate Governance Committee

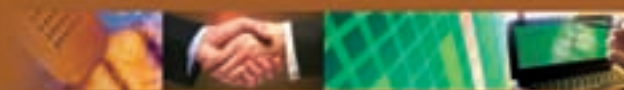
The Company is fully committed to the continuous improvement of its corporate governance. Therefore, it has established the Corporate Governance Committee which consists of two independent Directors and two executive Directors with Mr. John Lawson Thornton serving as Chairman. The primary duties of the Committee are to supervise the effective implementation of our corporate governance policies, supervise the efficiency and legal compliance of our Board of Directors and senior management structures and make recommendations to our Board of Directors in order to optimize our corporate governance structure. As an accomplished former senior investment banker, Mr. Thornton is well qualified to provide effective leadership to the Committee and foster improvements in our governance standards.

(2) Audit Committee

The Audit Committee, consisting of four independent Directors, is responsible for supervising and managing our financial reporting system. Mr. Timpson Chung Shui Ming, a member of the Hong Kong Institute of Certified Public Accountants and of the Association of Chartered Certified Accountants, serves as Chairman. Mr. Chung's extensive experience will help us continuously improve our internal control and financial reporting systems. The committee held one meeting in 2004. At the meeting, members mainly discussed the mandate of the Committee, issues relating to the Company's audit for 2004 and improvements to our internal controls. The composition and mandate of the Audit Committee comply with the Code on Corporate Governance Practice as set out in Appendix 14 to the Listing Rules of Hong Kong Stock Exchange.

(3) Compensation Committee

At the foundation, the Compensation Committee consisted of three Directors. With the approval of the Board meeting held on 1 February 2005, two additional members were added. The Compensation Committee currently consists of three independent Directors, one non-executive Director and one executive Director. Mr. Keith Rupert Murdoch serves as Chairman. The primary duties of the Committee include reviewing



the compensation of our Directors and Executive Officers and making recommendations to the Board of Directors. Mr. Keith Rupert Murdoch serves as Chairman. The Compensation Committee held one meeting in 2004, at which the committee members discussed and approved recommendation to the Board (1) the appointment of Mr. Victor Cha Mou Zing and Mr. Hou Ziqiang, two of our independent non-executive Directors, as members of the Compensation Committee and (2) the compensation of senior officers and non-executive Directors. In addition, the Committee members discussed the mandate of the

Committee. The composition and mandate of the Compensation Committee comply with the Code on Corporate Governance Practice as set out in Appendix 14 to the Listing Rules of Hong Kong Stock Exchange.

(4) Strategic Planning Committee

The Strategic Planning Committee consists of six directors with Mr. Zhang Chunjiang serving as Chairman. The primary duties of the committee are to review our development strategies, supervise their implementation and review major investment projects.

3. Investor Relations and Information Disclosure



We have established an investor relations department which is dedicated to serving our investors by providing them with adequate and timely information and responding to their enquiries promptly. The department maintains close relationships with investors and research analysts.

In addition to the press conferences for the announcement of annual and interim results and non-deal roadshows, our investor relations department proactively conducts one-on-one meetings and conference calls with analysts and investment managers in order to foster extensive and open communications and good relationships. The department also arranges investor site visits and face-to-face meetings with Management. A dedicated Investor Relations section of our corporate website provides all interested parties with regularly updated information about our developments and announcements. In the future, we will continue to improve the website to provide a two-way communication platform between the Company and its investors. In 2005, the Company will hold Investor Day and non-deal roadshows to encourage more direct communication between investors and our management.



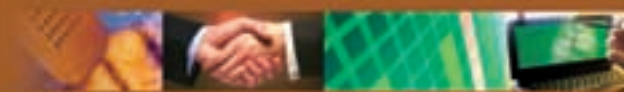
We are committed to establish an information disclosure mechanism that is timely, fair and equitable. In addition to the disclosure of information required by the regulatory authorities, we proactively provide timely information about major business and financial developments to the global capital markets through various means including announcements, press conferences, press releases and our website. In order to ensure accurate and timely disclosure of information, we have formulated and implemented the “Information Disclosure Policy”. The Policy clearly defines the internal information reporting procedures as well as the responsibilities of Management, various department and branches with respect to the collection and disclosure of information. In addition, the Policy also identifies specific departments in charge of its implementation and regular amendments and improvements.

4. Internal Controls

The establishment of a sound and comprehensive internal control system is one of the top priorities for the Company.

An independent Audit Committee was established under our Board of Directors while a dedicated internal audit department was established to perform various internal auditing tasks. In 2004, we implemented profound reforms to the internal auditing management mechanism. In particular, all internal auditing personnel were directly assigned to various branches and were under the supervision and management of the centralized internal auditing department, which greatly strengthened the independence, authority, and integrity of internal audit procedures.

In order to enhance our supervision of and control over operations processes and to establish an effective corporate governance structure to protect shareholders’ interests, we initiated a significant upgrade of our internal controls in line with an internationally recognized risk management framework established by COSO. Our systems as well as work-flows were standardized and a clear authority management system was implemented at different levels in the Company. Our objective is to establish an internal control mechanism applicable to the business model of Red Chip companies, which will comply with the latest regulatory requirements and international standards and will be trusted by global investors and regulators. In order to accomplish this task, we have set up dedicated project steering and implementation teams. We have also engaged an international reputable consulting firm to advise us on the improvement of our internal control system. As of the end of 2004, we had completed the design of our internal control framework and prepared the first



draft of our internal control manual. Once the project is completed and the new control system is fully implemented, the Company will be in a position to better control its operational and managerial risks. This will ensure the accuracy and consistency of financial information and ensure better protection of our shareholders' interests.

5. Financial management

In 2004, the Company strengthened centralized financial management controlled the allocation of resources in a centralized and more efficient way and fulfilled its cost cutting objectives through a new financial management system that allows prompt response to our business needs and market demands.

In 2004, the Company centralized the fund management of the provincial branches. The provincial branches in our northern service region were given discretionary spending limits for daily operations whereas branches in our southern service region and International branches need to remit all revenue collections to the Group and separately submit their funding requirements. The Company also implemented real time monitoring of our fund flows through online banking to increase company-wide funding efficiency and lower funding risks. This has led to significantly lower interest cost and stronger capital structure. The Company adopted strict cost control measures by implementing specific spending limits monitored under a company-wide budgetary management system encompassing corporate strategies, operations planning, budgeting, controls, performance analysis and individual performance appraisal (KPI). The Company has designed a performance evaluation system, as well as an incentive system to clearly identify responsibilities and reward good performance.

6. Reform of sales and marketing

In 2004, throughout our northern service region, the Company implemented a sales and marketing reform to heavily promote a Community Manager system. The proportion of sales and marketing staff to total staff increased to over 40%. The implementation of the Community Manager system optimized the allocation of human resources and stimulated the motivation of sales and marketing staff. This accelerated our response to market demand, improved service quality, and substantially enhanced our sales and marketing capabilities. As a result, business volume generated through community managers accounted for more than 20% of all usages during the year.

7. Reform of network operation and maintenance system

After primarily completing the reform of our network operation and maintenance mechanisms, we further optimized the organizational structure for the operation and maintenance staff. As a result, the proportion of operation and maintenance staff to total staff decreased from 45% to 29%. Dedicated network management centers were established in various provincial branches, allowing a gradual centralization of maintenance, management, control, and resource deployment, which eventually increased the network utilization and efficiency.

A three-tier response system was preliminarily established. This system offered enhanced support to sales and marketing as well as customer service activities through proactive pre-sales subscriber demand analysis, formulation of technological solution, account activation, service offering and problem shooting.

In 2004, the Company successfully increased cost awareness of the network operation and maintenance staff. We strengthened the budget management for operation and maintenance activities and further centralized administration of spare parts and consumables, devices and meters. Outsourcing of maintenance services, such as expenditures for maintenance and repair and overheads, were under central administration. We significantly reduced the network operation and support expense by successfully integrating our networks and substantially terminating relevant lease for circuits.