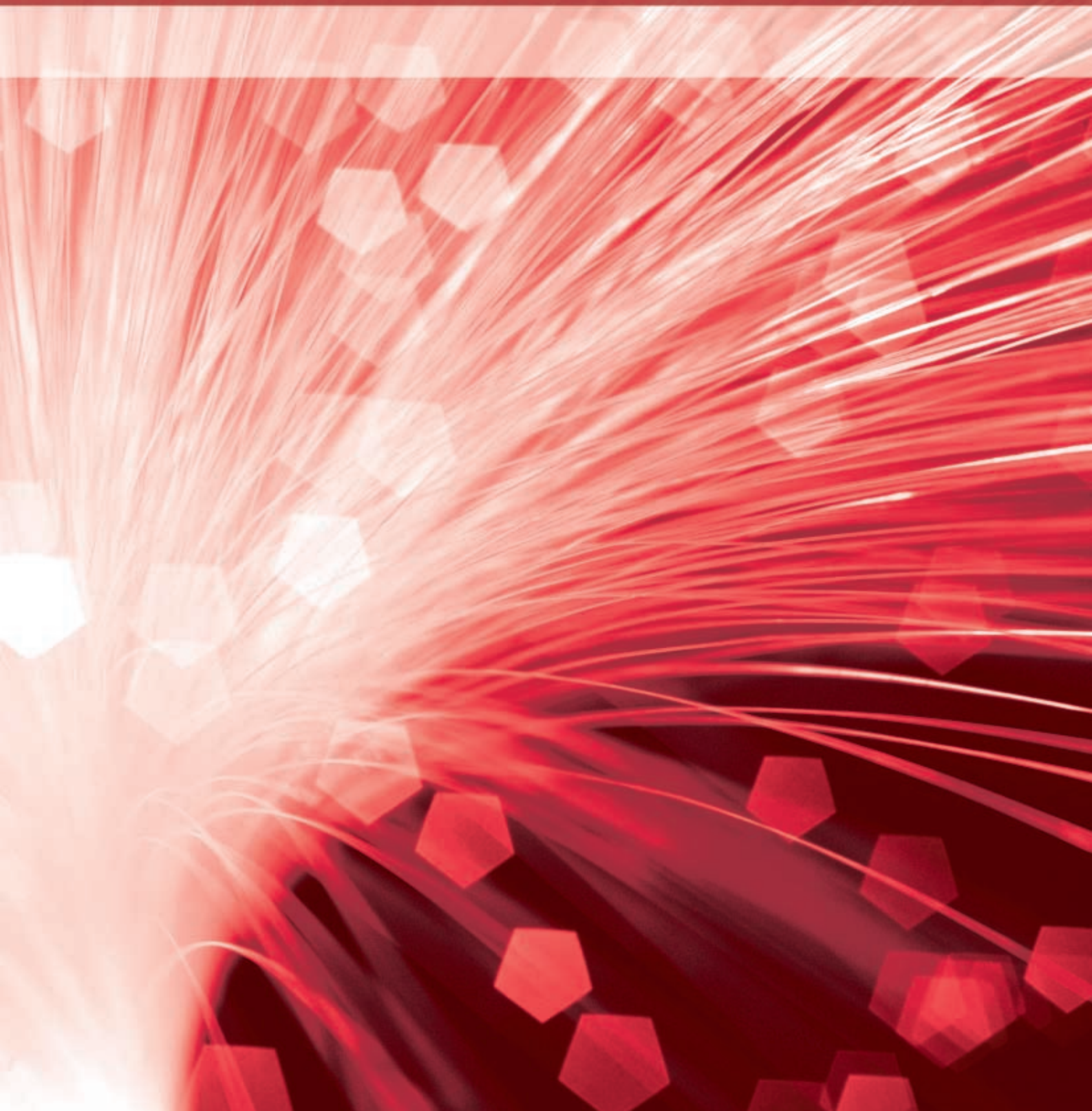


GROWTH





- Our broadband business became one of the strong driving force for the growth of the Company's businesses. Number of subscribers increased by 145.3% compared to the same period in 2003. Our market share in our northern service region was 95.8%, an increase of 6.6 percentage points compared to the same period in the previous year
- The number of fixed-line subscribers increased by 15.5% compared to the same period in the previous year. Of which, the number of PHS subscribers grew by 103.1%. With control over capital expenditures and operating expenses, a better return on investment was recorded for PHS services
- Value-added businesses grew at an explosive manner. Volume of PHS short messages grew by 1,503.4%, 58.2% of our subscribers subscribed to our call identification service, an increase of 8.6 percentage points compared to the same period in the previous year
- The number of business customers for our international telecommunications services expanded rapidly. Points of connection for international managed data services reached 2,985, an increase of 216.5% compared to the same period in the previous year. International leased line bandwidth reached 25,172Mbps, an increase of 109.2% compared to the same period in the previous year
- Results on cost control were remarkable. Operating efficiency improved significantly
- Investment efficiency improved significantly, with capital expenditure well controlled within the budget. Capital expenditure for 2004 was down by 25.6% over the previous year, whereas the needs in business growth were satisfied
- Our financial position was healthier, with debt to capitalization ratio decreased by 7.6 percentage points. Through centralized treasury management, our interest bearing debt was reduced by RMB11,772 million
- Our free cash flow⁽¹⁾ was even stronger than ever, with an increase of RMB8,827 million compared to the same period in the previous year

⁽¹⁾ Free cash flow represents net cash inflow from operating activities after deducting our capital expenditures.

The telecommunications industry in China continued to grow steadily at a rate of 12.6% in 2004. Meanwhile, market competition became more intense. Under the background of mobile substitution and high-end client market becoming saturated, the Company adopted differential “geographic development strategies” for the development of our three core businesses, namely, broadband, fixed-line telephone services (including PHS services) and value-added services, based on our positions in different service regions. By strengthening customer services and management of sales and marketing channels, we endeavoured to increase traffic volume and promote value-added service. Impressive performances were achieved by our principal services, which further consolidates our leading position in our northern service region.

After adjusting the pro forma figures prepared in accordance with the Listing Rules of Hong Kong pursuant to the requirements in the US, our revenue reached RMB61,055 million in 2004, representing a growth of 8.9% compared to the same period in the previous year. Growth sustained for our principal services. Excluding dial-up Internet access, growth in fixed-line telephone services remained steady, with 10.769 million new subscribers acquired and local voice traffic increased by 9.6%. Broadband subscribers also grew by 145.3% to 6.218 million. Our market share in our northern service region was 95.8%, and became a strong driving force for the growth of the Company. Value-added services also grew rapidly. 58.2% of our subscribers subscribed to our call identification service. Volume of PHS short messages increased by 1,503.4% over the previous year, and became an important new driving force for revenue growth. Strong growth was recorded for our international telecommunications services. Points of connection for our international managed data services reached 2,985 and international leased line bandwidth amounted to 25,172 Mbps, an increase of 109.2% compared to the same period in the previous year.

Key Product Lines Overview

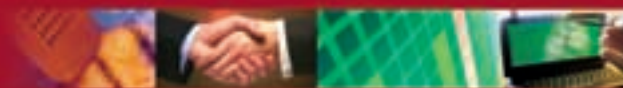
Fixed-line Telephone Services	Broadband and Other Internet-related Services	Business and Data Communications Services	International Telecommunications Services
<ul style="list-style-type: none"> 80.38 million subscribers (including PHS) 	<ul style="list-style-type: none"> 6.218 million broadband subscribers 	<ul style="list-style-type: none"> Premium customer base 	<ul style="list-style-type: none"> 1,425 business customers 377 carrier customers
<ul style="list-style-type: none"> 94.5% market share^(1,2) 	<ul style="list-style-type: none"> 95.8% broadband market share^(1,2) 	<ul style="list-style-type: none"> Leading provider in northern service region 	<ul style="list-style-type: none"> Leading operator in Asia-Pacific region
<ul style="list-style-type: none"> 82.5% of revenue^(3,4) 	<ul style="list-style-type: none"> 8.2% of revenue⁽⁴⁾ 	<ul style="list-style-type: none"> 4.9% of revenue⁽⁴⁾ 	<ul style="list-style-type: none"> 4.3% of revenue⁽⁴⁾
<ul style="list-style-type: none"> 7.2% growth⁽⁴⁾ 	<ul style="list-style-type: none"> 44.8% growth⁽⁴⁾ 	<ul style="list-style-type: none"> 16.9% decrease⁽⁴⁾ 	<ul style="list-style-type: none"> 91.7% growth⁽⁴⁾

⁽¹⁾ As of December 31, 2004

⁽²⁾ In our northern service region

⁽³⁾ Including other services revenues

⁽⁴⁾ Audited revenue, excluding upfront connection fee.



The following table illustrates the key operating data in 2004, 2003 and 2002:

	2002	2003	2004	% of increase for 03-04
Fixed-line subscribers ('000)	58,358	69,614	80,383	15.5
Including: PHS subscribers ('000)	1,403	7,423	15,073	103.1
Broadband subscribers ('000)	577.4	2,535.2	6,218	145.3
Total usage (pulses in millions)	173,329	179,100	175,587	-2.0
Including: Excluding Internet dial-up usage (pulses in millions)	136,158	147,459	161,552	9.6
Internet dial-up usage (pulses in millions)	37,171	31,641	14,035	-55.6
Domestic long distance calls (minutes in millions)	17,059.3	20,357.5	22,954	12.8
International ⁽¹⁾ long distance calls (minutes in millions)	349.7	419.5	436	3.9
Number of ports for DDN (ports)	103,778	109,775	106,870	-2.6
Number of ports for Frame Relay (ports)	30,220	35,987	42,389	17.8
Number of ports for ATM (ports)	496	1,088	4,039	271.2
Digital circuits leased (x2Mbps)	72,764	78,739	79,886	1.5
Volume of PHS short messages (in millions)	—	79.27	1,271	1,503.4
Penetration for caller identification (%)	29.5	49.6	58.2	8.6 pp

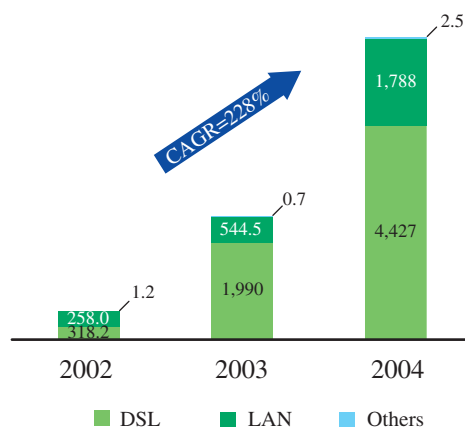
(1) Including calls to Hong Kong, Macau and Taiwan.

Broadband and other Internet-related services

The broadband and other Internet-related services underwent rapid development in 2004, with 3.683 million broadband subscribers newly acquired, representing a growth of 145.3%. Our broadband service gained a market share of 95.8% in our northern service region, with an increase of 6.6 percent points compared to the same period in the previous year.

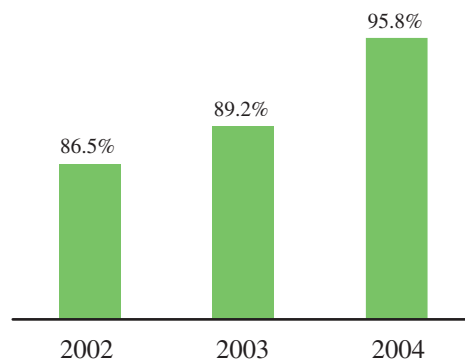
2002-2004 Growth in number of broadband subscribers

(unit: in thousands)



2002-2004 Market share of our broadband service in our northern service region

(in terms of number of subscribers)



In order to achieve economy of scale in our broadband business, we have adopted differential customers development strategies targeting different characteristics and our network advantages in different regions. We focused our deployment in major cities and densely populated regions. We sought to use our abundant "last mile" infrastructure in our northern service region to expand our DSL services, with DSL subscribers accounted for 75.1% of our total broadband subscribers. In our southern service region, we developed LAN business selectively by linking to commercial buildings and residential areas of high utilization rate. LAN subscribers accounted for 94.4% of the total number of our broadband subscribers in our southern service region, representing a growth of 893.9% compared to the same period in the previous year. At the moment, our broadband subscribers only accounted for 7.7% of our total fixed-line subscribers, implying a relatively enormous growth potential.



We strengthened the establishment of the broadband value chain by forming alliance with content providers, ISPs and equipment manufacturers in 2004. Primary focus was given to the development of broadband content such as games, education and video, and tens of popular online games were introduced to stimulate usage and stabilize ARPU.

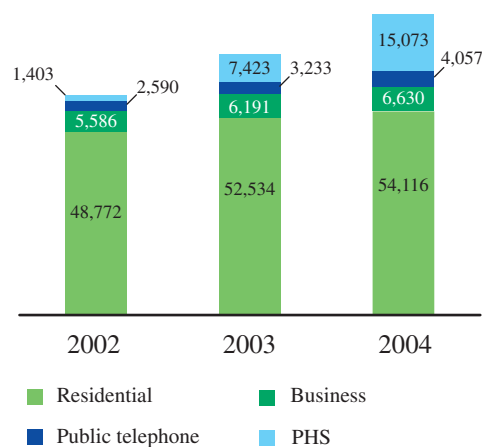
In order to attract more broadband subscribers and expand the scale of our broadband service, we introduced a series of ADSL broadband products with different access speeds, including 1M, 2M and 4M, to cater to different customers in terms of affordability and demand for bandwidth, and the tiered broadband access product system was gradually in place. The proportion of broadband subscribers using high-speed products also increased. Meanwhile, different marketing strategies on different broadband products including annual/monthly prepaid packages, limited usage packages and charging-by-usage packages were introduced to attract more subscribers.

Due to the huge subscriber base and the economy of scale as a result of the rapid growth, the investment per line and procurement cost of DSL equipment dropped sharply, which helped to ensure a satisfactory return on our broadband investments.

Fixed-line Telephone Services

As our core business, growth in our fixed-line telephone business remained steady in 2004. The number of our fixed-line subscribers reached 80.383 million, with 10.769 million of fixed-line subscribers newly acquired, a growth of 15.5% compared to the same period in the previous year. Our fixed-line telephone services enjoyed a market share of 94.5% in northern service region, which further consolidated our dominance in on northern service region. Growth in our fixed-line telephone business was mainly driven by the rapid growth in PHS services, which had 7.65 million of subscribers newly acquired in 2004, a growth of 103.1% compared to the same period in the previous year. The development of PHS services has mitigated the effect of mobile substitution.

2002-2004 Growth in the number of our fixed-line subscribers in our northern service region by segments
(unit: subscribers in thousands)



In 2004, total usage excluding Internet dial-up usage reached 161,552 million pulses, an increase of 9.6% compared to the same period in the previous year. Internet dial-up usage reached 14,035 million pulses, declining 55.6% compared to the same period in the previous year. The decline was mainly attributable to migration to broadband services.

We persistently developed our fixed-line telephone service efficiently in 2004. Sales and marketing efforts were devoted to increase traffic. By leveraging on the Company's strength in integrated operations, we were able to cross-sell fixed-line telephone, broadband service and PHS services. Tariff package covering different call volumes were designed to loyalty to our network and our business. With the further optimization of PHS network, network coverage and quality of calls was secured in areas of considerably high usage. Meanwhile, by effective measures such as controlling the handset subsidy cost, improving the sales and marketing through agents and consignees, and opening the handset market, we achieved rapid development and sound return on investment for our PHS services.

Value-added services

Our value-added services had a robust growth in 2004, making this segment a growing star for the Company.



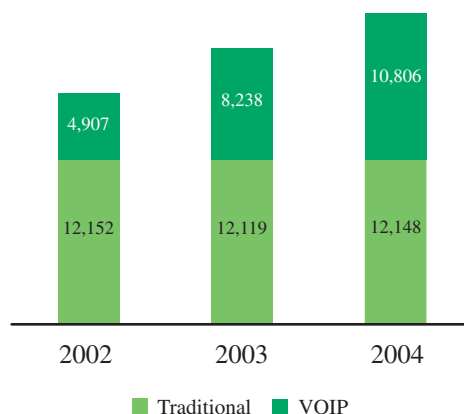
In 2004, we devoted much efforts to promote our value-added services, such as caller identification, telephone information services and PHS short messaging services. As of the end of 2004, the penetration of caller identification was 58.2%, an increase of 8.6 percentage points from the previous year. The usage of our telephone information services was 2,489 million minutes in 2004, an increase of 85.6% from the previous year. PHS short messages grew rapidly in 2004. In December 2004, the Company finalised the arrangement on interconnection of short messages with China Telecom, China Mobile and China Unicom, which gave additional impetus to the growth of PHS value-added services. The volume of PHS short message reached 1,271 million in 2004, representing a growth of 1,503.4% compared to the same period in the previous year. The Company also actively promoted other value-added services such as “Personalized Ring” service, which was launched in our northern service region at the end of 2004, and rapidly acquired 0.34 million subscribers.

The growth in value-added services effectively enhanced the utilization rate of the fixed-line network, and compensated the fall in ARPU of traditional local fixed-line telephone business to a certain extent. Furthermore, a relatively high return on investment for value-added services due to generally lower investment costs.

Long distance services

Growth in our long distance services remained steady in 2004. Domestic long-distance calls reached 22,954 million minutes, representing an increase of 12.8% compared to the same period in the previous year. Our market share in our northern service region was 42.3%. As competition from VOIP service providers became more intense, our market share fell slightly compared to the same period in the previous year.

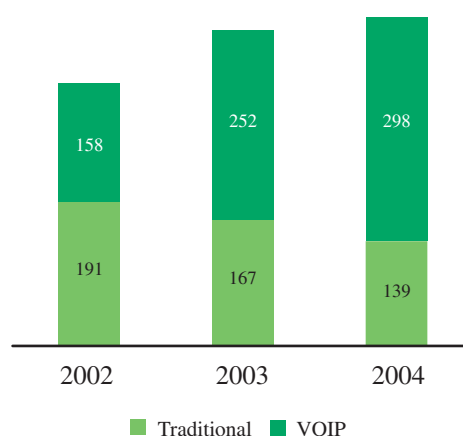
2002-2004 Domestic long distance calls
(unit: minutes in millions)



International long distance calls , including long distance calls made to Hong Kong, Macau and Taiwan, reached 436 million minutes in total, representing an increase of 3.9% compared to the same period in the previous year. Our market share in our northern service region was 55.5%. As competition became more intense, our market share fell slightly compared to the same period in the previous year.

2002-2004 International long distance calls

(unit: minutes in millions)



Through product bundling and concessions for different time period, our traffic was increased and our market share was sustained. We flexibly used VOIP products and telephone cards to develop wholesale and agency services of long distance calls to tackle market competition and achieved steady development in the long distance services.

Interconnection Service

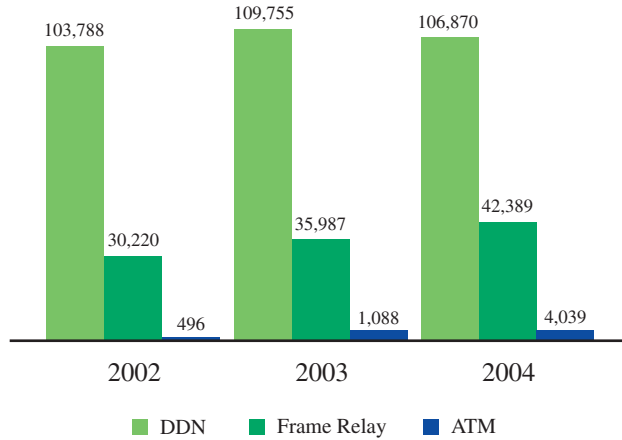
With the overall growth in domestic telecommunications market and the continuous expansion of the Company's customer base, volume and revenue from interconnection service between the Company and other telecom operators also increased. The volume of inbound calls through our networks increased by 16.0% in 2004 compared to the same period in the previous year.

Managed Data Services and Leased Line Service

Our managed data and leased line services remained stable with modest growth in 2004. As there was more demand for higher bandwidth, there was a slight decline in DDN service, as opposed to a substantial increase in high speed data communication services such as FR and ATM. The number of leased ports for FR and ATM increased by 17.8% and 271.2% respectively compared to the same period in the previous year, whilst bandwidth of leased circuits grew by 76.2% and 159.5% respectively.



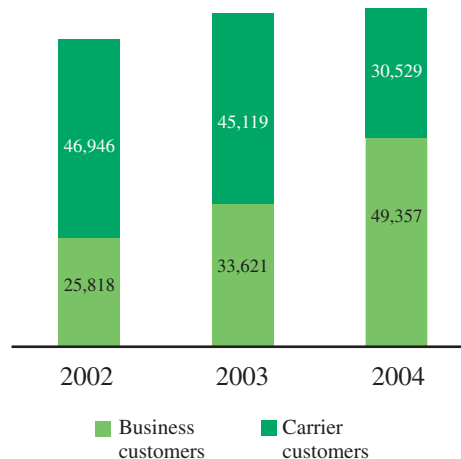
2002-2004 Number of standard ports for managed data services (unit: ports)



We focused on developing business and data communication services. As many headquarters of larger customers were located in Beijing, the national capital, we developed our business and data communication services by capitalizing on the links of these business customers throughout China. Furthermore, we provided regional end-to-end telecommunications solutions to its customers by fully utilizing its advantages of international network resources. Within value-added services segment, the Company focused on promoting VPN solutions to customers for remote offices access, network management solutions, and network security solutions, and attracted customers to stay with us by leveraging on our advantages over network and services. There was a substantial increase in leased line to business customers, which was up by 46.8% in 2004 in term of bandwidth leased.

As more and more carrier customers built their own network and generally reduced the circuits leased with the Company in 2004, bandwidth of circuits leased by carrier customers decreased by 32.3% from the previous year.

2002-2004 Leased Line Bandwidth (unit: X2Mbps)



International Telecommunications Services

Through further consolidation of our domestic and overseas advantages and utilization of the pan-Asia network platform with China as the centre, our international telecommunications services sustained rapid growth in 2004. We provided 2,985 points of connection for our international managed data service and secured bandwidth of 25,172 Mbps for its leased line service in 2004, representing an increase of 216.5% and 109.2% respectively compared to the same period in the previous year. By establishing direct circuit connection and bilateral voice service with major or tier I carriers, and actively developing refil service, our international incoming traffic reached 1,724 million minutes, or an increase of 77.7% compared to the same period in the previous year. Furthermore, international voice service also grew rapidly, which in turn substantially reduced the Company's cash cost for the settlement of international outgoing calls.

Branding

The Company further consolidated its branding, and successfully launched "A Broadened World" as the core brand value for its new corporate image in 2004. Parallel with the launch of its new corporate image, we launched promotion activities on a broad level for the new image brand by capitalizing on the opportunities arising from our parent's role as the exclusive fixed-line telecommunications partner for Beijing 2008 Olympic Games. Additionally, we terminated a number of brand names that were associated with the company, effectively eliminating confusion in the market and enhancing the Company's image and core brand.



Stronger brand facilitated the business development of the Company. In our southern service region, the Company promoted its business and data services through the broadband business brand of "CNC Connected" and the promotion of MPLSVPN by capitalising on the excellent opportunity in being "Official Partner of the 2008 Olympic Games". We have set up an excellent reputation of "CNC + broadband + Olympic partner = Expert in business communication" among the local business customers.



Marketing and Customer Service

Since early 2004, we have commenced re-engineering and optimization of its sales and marketing initiatives. Planning, optimization and management of its marketing channels were improved. Apart from our endeavours in the promotion of the community manager system, a sales service system comprised of major accounts manager, community managers, sales outlets, "10060" customer service hotline, on-line sale outlet was formed, whereby the Company was able to cater to the needs of subscribers at different levels. This enabled the Company to enhance its capabilities in serving the unique requirements of different customer groups with differentiated services.



The Company also optimised its channels and processes for delivering customer services. An integrated platform was created for customer services, with “10060” hotline becoming both a sales outlet as well as the customer service center. “10060” is the nationwide telephone number for our customer service centers across China, providing customer services on an integrated platform, for all our service offerings, at a uniform standard, under the same brand. Our service capabilities were improved. Some of the branch offices achieved 80% of total new orders concluded via the “10060” customer service hotline. 7x24 one-stop servicing report and complaint service was provided to major customers to fulfill their customized needs. A customer care and loyalty programme named “Gold Club” was launched for the high end business and individual customers. With these measures in place, satisfaction and loyalty of the Company’s customers were improved significantly. China Netcom Group, our parent company which covers our service region on a consolidated basis, has been ranked first for three consecutive years in a customer satisfaction survey conducted by the Ministry of Information Industry of China.

Network Construction

In 2004, our goal on network construction was to secure our strategic focus and investment efficiency. Efforts in network optimization were deployed to reduce network maintenance and operation cost, improve utilization rate and operating efficiency through network optimization. It is contemplated that return on investment were improved whilst needs for business growth were met. Therefore, in 2004, our network construction activities focused at those projects with good return on investment and huge demand from the market, particularly in the construction of broadband access, data network and local access network.

Support System Construction

The construction and upgrade of our resources planning system, integrated billing and settlement system, statistical information system, finance system, human resources system and office administration system were in progress. These systems did not only serve to meet the needs for business growth, but also served to enhance our internal control, as well as the management standards for our operations, services and subscribers, and to satisfy the ever changing requirements and evolvement of demands from subscribers. Through rationalized and centralised IT solutions, and sharing and efficient utilisation of enterprise resources, the Company’s capabilities to support businesses development and efficiency for internal administration were enhanced, which would satisfy the requirements as prescribed by the re-engineering of internal work flow for business growth.