



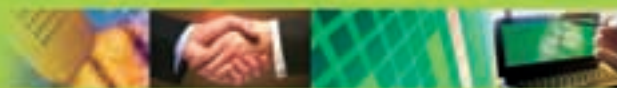
Dear Shareholders,

In 2004, China Netcom successfully completed its restructuring and listed on stock exchanges in Hong Kong and New York. These events served as a powerful catalyst, greatly accelerating our efforts to restructure our operations, further optimize our capital structure, and build a solid foundation for us to become the best telecommunications operator in the Asia Pacific region.

Despite intensified competition in China's telecommunication market, we achieved strong growth in various business lines, particularly in broadband, PHS and value-added services. As a result, revenues rose to RMB64,922 million and net profits reached RMB9,248 million, increases of RMB5,024 million and RMB20,359 million respectively over 2003. The Group recognised a loss of RMB11,111 million in 2003 due to a revaluation deficit on fixed assets of RMB25,778 million (RMB17,271 million net of tax effect).

By capitalising on the opportunities arising from our restructuring and getting listed, we made vigorous achievement in our core business, and conducted further internal reforms. We have set up key operating and management objectives, namely cost reduction, efficiency enhancement and investment return maximization. As a result, we achieved significant improvement in our operating performance. The restructuring for listing purpose was completed on 30 June 2004. Assuming that our structure after the restructuring had been effective since 1 January 2004, according to the financials prepared pursuant to the requirements of the Hong Kong Listing Rules relating to pro forma financial information, our unaudited consolidated pro forma revenue and net profit would be RMB64,433 million and RMB10,410 million respectively. For reference, after adjustments pursuant to the US Securities Act relating to unaudited pro forma financial information, and excluding the effects of revaluation deficit (which occurred in 2003) and upfront connection fees, our adjusted unaudited consolidated pro forma revenue reached RMB61,055 million, which was increased by 8.9% whereas the adjusted unaudited consolidated pro forma net profit would be RMB6,623 million, representing an increase of RMB1,687\* million or 34.2% compared with the previous year.

The Company has made great efforts to improve our corporate governance. With several internationally distinguished professionals joining the Board as external directors, we established a Board of Directors that is highly professional, independent, diverse and representative of the interests of all our shareholders, especially minority shareholders. The independent non-executive directors and the non-executive directors form a majority on the Board and a Corporate Governance Committee of the Board was established to further enhance our corporate governance. Additionally, we engaged an international renowned consulting firm to



help us improve our internal control system to enhance control over operating risks and ensure the accuracy and timeliness of our financial and operating information. In order to promote open and fair communication channels with our global investors, we created a dedicated investor relations team based in both Hong Kong and Beijing.

In 2004, our ultimate controlling shareholder, China Netcom Group, was appointed the exclusive partner for fixed-line communications for the 2008 Beijing Olympics Games. For such a globally-focused event, we are very honored to have the opportunity to demonstrate our aspiration to be a socially responsible corporate citizen. The Olympics will stimulate the deployment of new technologies and enable us to realize our dream of transforming our Company from a traditional fixed-line telecommunications carrier to a broadband communications and multi-media service provider.

Customer satisfaction is the key to the realization of our ambition. Therefore, we constantly strive to provide high-quality service to our customers. I am very pleased to announce that China Netcom was again ranked No. 1 in the annual "Customer Satisfaction Survey on Quality of Telecommunications Services in 2004" conducted by the Ministry of Information Industry.

We are very focused on creating shareholder value. After taking into account our financial position, cash flow and future development needs, the Board of Directors has proposed the payment of a HK\$0.037 per share dividend for the financial year ended 31 December 2004. We were listed on the Hong Kong Stock Exchange on 17 November 2004. The dividend pay out ratio, based on our net profits excluding upfront connection fee for the second half of 2004 after completion of our corporate reorganisation and calculated on a pro rata basis for the period from the date of listing to 31 December 2004, is 37.5%\*\*.

We will continue to devote all of our efforts to maximizing returns for our shareholders.

Looking forward, we expect that China's economic growth will remain strong. The telecommunication industry in the PRC is full of opportunities and that the regulatory environment for the telecommunications industry will become more transparent. I firmly believe that with our dominant position in our northern service region and our strong execution capabilities, supported by sound corporate governance and our highly capable management team, we will benefit from the rapid growth of the broadband market, achieve sustainable growth and continue improving our operating efficiency.

In 2005, we will focus on three main strategic areas, namely broadband, Olympics and international business. We will provide better applications and value-added service in our broadband businesses through alliances and partnerships to create a unique competitive advantage to become the leading broadband operator. Capitalizing on the unique opportunity arising from our parent's role in the 2008

Olympics, we will provide unprecedented broadband communication services and experiences to the 2008 Olympic Games and the public, which will enhance our corporate image and increase our brand recognition. We will also make full use of our pan-Asia network platform that is centered in China and capitalise on the synergies arising thereof to provide high-quality, one-stop integrated data services to multinational corporate customers. We will meet the increasing demand for China-related international communications and further enhance our leading position in the corporate customer market in the Asia Pacific region. Through the execution of these core strategies, we will gradually transform ourselves from a traditional narrow-band provider to a broadband communications and multi-media services provider.

In 2005, in pursuit of growth and efficiency, we will undertake a number of initiatives, including further improvements in our corporate governance and additional management reforms to further increase our operating efficiency and execution capabilities. We will continue centralizing management in five areas: finance, human resources, sales and marketing, network operation and maintenance, and construction planning. Also, we will devote additional efforts to the training of staff, particularly middle-level management and marketing personnel. Through long-term training programs, a talent pool will be built up and our long-term competitiveness will be maintained.

With the dedicated efforts of the Board of Directors, our management and all our staff, we have made great progress towards our goal of becoming the best telecommunications operator in Asia. We will provide better one-stop services to our customers by leveraging our unique pan-Asia network. I am confident that we will enhance long term value to our shareholders.

Lastly, on behalf of the Board of Directors, I wish to express my most sincere gratitude to all our shareholders for your support.



**Zhang Chunjiang**

*Chairman*

Hong Kong, 6 April 2005

\* The Company's unaudited pro forma consolidated profit figures for the year ended 31 December 2003, as adjusted in accordance with the requirements relating to unaudited pro forma financial information under the United States Securities Act, can be obtained from the prospectus issued by the Company on 10 November 2004 in connection with the offering of the Company's American Depositary Shares.

\*\* The Company underwent corporate reorganisation as part of its preparation for listing. As of 30 June 2004, the Company has no distributable reserves. Since the corporate reorganisation was completed on 30 June 2004, the net profits excluding upfront connection fee for the second half of 2004 after completion of corporate reorganisation amounted to HK\$2.61 billion.