China Netcom Group CORP (Hong Kong) LTD
Form 6-K
March 23, 2006

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the month of March, 2006

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)
Form 20-F __X__ Form 40-F _____

(Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)
Yes ____ No __X__

(If "Yes" is marked, indicate below the file number assigned to registrant in connection with Rule 12g3-2(b): 82-_____.)
N/A

China Netcom Group Corporation (Hong Kong) Limited
Building C, No. 156, Fuxingmennei Avenue
Xicheng District
Beijing, 100031 PRC

This Form 6-K consists of:

The Hong Kong annual report for the year 2005 of China Netcom Group Corporation (Hong Kong) Limited (the "Registrant"), made by the Registrant in English on March 22, 2006.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the under-signed, thereunto duly authorized.

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

By /s/ Miao Jianhua

By /s/ Mok Kam Wan

Name: Miao Jianhua and Mok Kam Wan

Title: Joint Company Secretaries

Date: March 22, 2006

- [o] Company Profile and Corporate Information
- [o] 2005 Major Milestones
- [o] Financial Highlights
- [o] Chairman's Statement
- [o] Chief Executive Officer's Statement
- [o] Profile of Directors and Senior Management
- [o] Corporate Governance
- [o] Human Resources Development
- [o] Business Review
- [o] Management's Discussion and Analysis of Financial Condition and Results of Operations
- [o] Report of the Directors
- [o] Notice of Annual General Meeting
- [o] Auditors' Report
- [o] Financial Information of the Company
- [o] Supplementary Information for American Depositary Shares Holders
- [o] Financial Summary

Company Profile and Corporate Information

China Netcom Group Corporation (Hong Kong) Limited (the "Company", "our Company", "we" or "us", and together with its subsidiaries, the "Group")) is a company incorporated in accordance with the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) in Hong Kong on 22 October 1999 with limited liability. We were listed on the New York Stock Exchange and the Main Board of The Stock Exchange of Hong Kong Limited on 16 November 2004 and 17 November 2004, respectively.

We are a leading fixed-line telecommunications operator in China and a leading international data communications operator in the Asia-Pacific region. Our northern service region in China consists of Beijing Municipality, Tianjin Municipality, Hebei Province, Henan Province, Shandong Province, Liaoning Province, Heilongjiang Province, Jilin Province, Neimenggu Autonomous Region and Shanxi Province. In these regions, the Company is a dominant provider of fixed-line telephone services, broadband and other Internet-related services, as well as business and data communications services. Our southern service region in China consists of Shanghai Municipality and Guangdong Province in which we focus on providing telecommunications services to enterprises and high usage residential customers in selected densely populated areas. In addition, we are also the only telecommunications operator in China that operates an extensive network and offers international data services in the Asia-Pacific region.

We offer an extensive range of telecommunications and data services, including:

- fixed-line telephone services (including PHS), including local, domestic long distance and international long distance services;
- broadband and other Internet-related services, including DSL and LAN services;
- business and data communications services, including managed data and leased line services; and
- international telecommunications services, including international voice, international data and leased line services.

As at 31 December 2005, China Network Communications Group Corporation (our ultimate controlling shareholder, "China Netcom Group"), held about 70.49%of our shares in the Company through China Netcom Group Corporation (BVI) Limited ("CNC BVI"), Shandong Provincial State-owned Assets Supervision and Administration Commission ("Shangdong SASAC") beneficially owned 2.27%of shares in the Company, each of Chinese Academy of Sciences, Information and Network Center of the State Administration of Radio, Film and Television, China Railways Telecommunications Center and Shanghai Alliance Investment Limited beneficially owned 0.56% of shares in the Company, and other overseas public investors owned 25% of shares in the Company.

Registered office	Room 6701, 67/F, The Center 99 Queen's Road Central Hong Kong
Board of Directors	Mr. Zhang Chunjiang Chairman and Executive Director

Dr. Tian Suning
Vice Chairman, Executive Director and Chief Executive Officer

Mr. Zhang Xiaotie
Executive Director

Mr. Miao Jianhua
Executive Director and Joint Company Secretary

Mr. Jiang Weiping
Executive Director

Ms. Li Liming
Non-executive Director

Mr. Yan Yixun
Non-executive Director

Mr. Jose Maria Alvarez-Pallete
Non-executive Director

Mr. John Lawson Thornton
Independent Non-executive Director

Mr. Victor Cha Mou Zing
Independent Non-executive Director

Dr. Qian Yingyi
Independent Non-executive Director

Mr. Hou Ziqian
Independent Non-executive Director

Mr. Timpson Chung Shui Ming
Independent Non-executive Director

Mr. Mauricio Sartorius
(Alternative Director to Mr. Jose Maria Alvarez-Pallete)

Joint company secretaries	Mr. Miao Jianhua Ms. Mok Kam Wan
Qualified accountant	Mr. Oliver E Lixin (ACCA)
Auditors	PricewaterhouseCoopers
Legal advisers	As to Hong Kong Laws: Linklaters As to U.S. Laws: Skadden, Arps, Slate, Meagher & Flom LLP

Investor Relations	Beijing Office Building C, 156 Fuxingmennei Street Xicheng District Beijing 100031 Telephone: 8610-66429550 Facsimile: 8610-66429544 E-mail: IR@CHINA-NETCOM.COM Website: WWW.CHINA-NETCOM.COM
Stock code:	HKSE: 906 NYSE: CN
Share registrar and transfer office	Computershare Hong Kong Investor Services Limited Rooms 1712-1716, 17th Floor, Hopewell Centre 183 Queen's Road East Wan Chai Hong Kong
American depositary receipts depositary	Citibank, N.A. Depositary Receipt Services 388 Greenwich Street,14th Floor New York, NY 10013 USA

Committees of the Board	
Audit committee	Mr. Timpson Chung Shui Ming Chairman Dr. Qian Yingyi Mr. Victor Cha Mou Zing Mr. Hou Ziqiang
Remuneration and nomination committee	Mr. Zhang Chunjiang Chairman Mr. John Lawson Thornton Mr. Victor Cha Mou Zing Mr. Hou Ziqiang Mr. Jiang Weiping
Strategic planning committee	Mr. Zhang Chunjiang Chairman Dr. Qian Yingyi Mr. Hou Ziqiang Mr. Zhang Xiaotie Mr. Jiang Weiping Ms. Li Liming Mr. Jose Maria Alvarez-Pallete
Corporate governance committee	Mr. John Lawson Thornton Chairman Dr. Tian Suning Dr. Qian Yingyi Mr. Miao Jianhua

Mr. Timpson Chung Shui Ming

5

2005 Major Milestones

January 21, China Netcom Group, our parent company, and China Mobile Communications Corporation realized SMS interconnection between mobile and PHS networks, which promoted rapid growth of our value-added services.

March 10, China Netcom Group continued to top the chart in the 2004 telecommunications industry customer satisfaction survey conducted by the Ministry of Information Industry.

March 31, China Netcom Group officially launched "CNC MAX" - a new brand for broadband services.

May 16, China Netcom Group and China Telecommunications Corporation ("China Telecom") held a joint press conference in Beijing on the launch of PHS handsets with detachable SIM card, which was expected to promote the development of value-added services, marketing channels and service qualities of the PHS business.

May 17, the Company and its partner jointly launched IPTV services in Heilongjiang Province.

June 15, the Company kicked off "CNC Connected -- 2005 Nationwide Roadshow on Solutions for Business Customers", a 2-month campaign intended to provide "premium business solutions" for SMEs.

June 22, the Company's Beijing branch company signed a "Comprehensive Cooperation Agreement on Olympics Communications Construction" with the National Olympic Sports Center to formally launch the telecommunications project for Beijing 2008 Olympics in Beijing.

July 21, the Company and Telefonica, S.A. entered into a Memorandum of Understanding on Cooperation with the aim of seeking cooperation opportunities in multiple fields.

July 26, China Netcom Group and China Telecom signed in Beijing an agreement on nationwide IC card roaming, which was expected to stimulate the usage of the Company's IC cards.

September 12, the Company signed an acquisition agreement with China Netcom Group to acquire its telecommunication assets and businesses in the provinces and regions of Heilongjiang , Jilin, Neimenggu and Shanxi. The acquisition agreement was approved at the Extraordinary General Meeting held on October 25. Through this acquisition, we will further consolidate our dominance in our northern service region market.

November 10, China Netcom Group signed a strategic cooperation agreement with the Bank of China, aiming to cooperate in terms of resources and information sharing new product development etc..

November 14, the Company and Telefonica International, S.A. signed a strategic alliance agreement, pursuant to which Telefonica International, S.A. seeks to increase its shareholding in the Company and embark on further discussions on

strategic cooperation in a broad range of fields with the Company.

6

December 4, a live charity programme titled "My Dream - In Commemoration of International Day of Disabled Persons" was successfully broadcasted online to more than 60 countries and regions of the world via the "CNC MAX" platform, being the largest broadband live broadcast in China's Internet history and marking a great stride by the Company towards broadband value-added services and live webcast.

December 22, China Netcom Group received an award for "Best Internet Access Service" in "China Top 50 Internet Brands" ratings.

December 7, China Netcom Group was granted a nationwide Internet Cultural Operating Permit by the Ministry of Culture and intended to expand its chain of cyber cafe.

7

Financial Highlights

Hong Kong GAAP (in RMB millions, except earnings per share)	2004	2005
Revenues:	83,494	87,232
Including: upfront connection fees	4,346	3,405
EBITDA (1)	42,701	45,554
Operating profit (2)	17,521	20,505
Profit for the year/period	2,699	13,888
CAPEX	28,256	27,562
Basic earnings/ per Share	RMB0.48	RMB2.11
Basic earning/ per ADS	RMB9.6	RMB42.2

(1) EBITDA refers to profit before finance costs, interests income, dividend income, deficit on revaluation of fixed assets, income tax, depreciation and amortization, share of profit of associated companies. To supplement our consolidated financial statements presented in accordance with the Hong Kong GAAP, we use the non-Hong Kong GAAP measure of EBITDA, which is adjusted from our results based on Hong Kong GAAP. We believes that EBITDA provides useful information to both management and investors to further analyze our operating results since we, as a company operating in the capital intensive telecommunication industry, incurred significant capital expenditure and finance costs which have significant impact to our results based on Hong Kong GAAP. EBITDA should only be considered in addition to our Hong Kong GAAP results. It should not be considered a substitute for or superior to our Hong Kong GAAP results as it cannot be used to measure operation results and liquidity and does not represent operation cash flows. In addition, our EBITDA may not be comparable to similar indicators of other companies.

(2) Operating profit refers to profit before interests income, dividend income

and deficit on revaluation of fixed assets.

2004-2005 Revenue (in RMB million) 2004-2005 EBITDA (in RMB million)

2004-2005 Profit (in RMB million) 2004-2005 EPS (in RMB)

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 service. We believe that our IPTV services will bring about a major breakthrough in the growth 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 Telefonica 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.

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.

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.

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

Chief Executive Officer's Statement

Dear Shareholders,

I have great pleasure in presenting our operating results for 2005, which represent an outstanding performance. Efforts we made in streamlining our management have produced remarkable results. In 2005, the Company has experienced a second straight year of substantial improvements in operational efficiency, coupled with solid growth in both net profits and free cash flow. While the traditional fixed-line business remained healthy, our growth businesses including broadband and value-added services grew rapidly, and contributed a fast increasing share of total revenues. "CNC Connected", a service targeted to business customers, has helped to build market share and

strengthen our competitive edge in the segment for business customers and key accounts. We have been able to demonstrate our knowledge of the needs of this segment, by integrating domestic and international resources and by offering customized solutions.

In 2005, our efforts at external growth also paid off with acquisitions of major telecom assets and businesses in the provinces and regions of Heilongjiang, Jilin, Neimenggu and Shanxi. These enhanced competitiveness as well as value to our shareholders.

1. Robust Financial Performance

In 2005, the Company experienced sustained growth in revenues and operational efficiency, due to vigorous business expansion as well as the imposition of strict cost controls. According to our financial statements prepared by the merger accounting under generally accepted accounting principles in Hong Kong and on the basis that all assets and businesses acquired in 2004 were under the Company's control, revenues in 2005 were RMB87,232 million, including amortization of upfront connection fees of RMB3,405 million. If we exclude upfront connection fees, revenue was RMB83,827 million, a year-on-year increase of 5.9%; EBITDA was RMB42,149 million, up 9.9% year-on-year; EBITDA margin improved from 48.5% last year to 50.3%; Net profits were RMB10,483 million, while profit margin was 12.5%. Operational efficiency was significantly improved.

In 2005, the Company continued to implement strict control over capital expenditures in order to achieve profitable growth. CAPEX was reduced by 2.5% in 2005, to RMB27,562 million. CAPEX as a percentage of total revenue (excluding upfront connection fees) was also lower than the previous year, falling by 2.8 percentage points to 32.9% in 2005. In 2005, we maintained growth in free cash flow, which amounted to RMB5,995 million, up 11.1% from last year.

As of the end of 2005, total interest-bearing debts declined modestly by 0.6% to RMB82,130 million. However, the interest coverage ratio rose from 8.9 times of the last year to 10.9 times, reflecting an improved ability to repay debts and interests.

2. Traditional Fixed-line Business: Stable Growth

In 2005, we effectively mitigated the impact of mobile substitution on the traditional fixed-line business through service improvements, reform of marketing and sales channels, and the introduction of new services and service bundling. Each of these contributed to maintaining healthy growth in this business segment. By the end of 2005, the number of fixed-line telephone subscribers reached 115.33 million, representing growth of 6.7%. This included 27.34 million PHS subscribers, an increase of 23.6% over the end of 2004. Sustained high growth in the PHS business remained the key driver for the expansion of the fixed-line telephone subscriber base. In 2005, local voice services maintained stable revenue in contrast to revenue from long distance voice services, which continued to decline. Owing to substantial revenue growth in interconnection services during the year, overall revenues from the traditional fixed-line voice business were stable. Besides, average subscriber acquisition cost for PHS business significantly declined in 2005, down to RMB100 from RMB255 in 2004.

Meanwhile, improvement in services and development of new products helped to control the downward trend in Average Revenue per Unit (ARPU) of local telephone services in the second half of 2005, establishing a solid foundation for healthy development in 2006.

3. High Growth Businesses: Sharp Expansion

Broadband services and value-added services are playing a pivotal role in our transformation into a "broadband communications and multi-media services provider." Both experienced rapid growth in 2005. They have become the engine for sustainable and profitable growth of the Company. In 2005, the number of broadband subscribers increased by 35.1% to11.48 million. Revenues from broadband and Internet businesses grew by 34.6% to RMB8,350 million contributing 10.0% of total revenue (excluding upfront connection fees).

In the second half of 2005, we invested heavily in broadband content and application services and undertook an integration of related resources in this sector and internal broadband resources in order to prepare for the development of "video-oriented" broadband content and application services in the future. During the year, the Company also launched trial IPTV services with our partners in Harbin, Heilongjiang Province. The growth of application-based businesses and intensified marketing efforts devoted to business customers in 2005 stabilized and even tilt upward ARPU in the broadband business from the second half of 2005. Subject to regulatory approval, we believe that growth in IPTV and other broadband application-based services will further promote expansion of our broadband businesses in the future.

In 2005, our value-added services recorded strong growth. Revenues from value-added services were RMB4,000 million, representing year-on-year growth of 33.6%. The increase was due in large part to the launch of value-added services for PHS subscribers. The volume of PHS short messages reached 6,780 million while the number of Personalized Ring subscribers reached 6.814 million, up 241% and 981% respectively from the previous year.

Thanks to strong revenue growth from broadband and value-added services, the Company was able to achieve a more balanced revenue structure. The category of "High Growth Business Revenues," which includes revenue from broadband services, value-added services, and business and data communications services, increased 24.5% over the previous year, while its contribution to total revenue (excluding upfront connection fees) rose by 3.5 percentage points to 23.0%.

In relation to the business customers' market, the Company re-launched the "CNC Connected" brand in 2005, providing integrated solutions to business customers. Due to the competitive edge we have due to our geographical location in the capital city, as well as our rich international network resources, we were able to further consolidate our lead in the business market.

4. Management Innovations Leading to Prominent Effect

We relentlessly pursued our objective of enhancing operational efficiency

by closely monitoring the best practices in the sector and establishing first class operation management systems. In 2005, the Company built on the management advantages of our "Headquarters-Branches" structure. We continued to centralize management in terms of financial management, capital controls, human resources, procurement, information systems, and network operations, as well as maintenance and development. The centralization of operational procedures and resources management significantly enhanced operational efficiency. In 2005, operating expenses accounted for 79.6% of total revenue(excluding upfront connection fees), a decrease of 3.8 percentage points from 2004. The proportion of various costs to total revenues generally recorded decreases.

Management innovations helped to improve operational efficiency. At the same time, the Company's ERP and internal control projects are in progress as planned.

In 2005, the Company was ranked No. 1 in the "Integrated Satisfaction Index Survey on Telecommunication Customer Services," sponsored by The Ministry of Information Industry. The Company has maintained this ranking for four consecutive years.

5. Future Outlook

Looking ahead, we expect market competition to intensify across the telecommunications sector. However, we also see abundant opportunities arising from changes in the market environment and regulatory policies, which will help us achieve our strategic goal of transformation into a "broadband communications and multi-media services provider." In 2006, the Company will focus on the following key operating strategies:

-- Traditional fixed-line business: Our strategy is to strengthen our leading position in the market by bundling PHS and other services;

-- High-growth businesses: We will devote substantial efforts to the development of broadband and value-added services in order to further boost the segment's revenue contribution. While expanding the broadband subscriber base, we will promote development of "video-oriented" broadband contents and application services. We will maintain growth momentum in value-added services by introducing innovations in value-added services for fixed-line telephones;

-- "CNC Connected": We will provide one-stop customized services for business customers integrating communications, networking and IT in order to satisfy their diversified and personalized needs. The objective is to foster a stable and loyal business customer base and to maintain market share in the market for business customers;

-- Mobile business: We will actively prepare for entry into the mobile sector, so as to establish a solid foundation for the Company's transformation into a provider of broadband communications and multi-media services to all end users across all networks;

-- Cooperation with leading international operators: We will extend strategic cooperation with international telecom operators in order to adopt advanced management practices and benefit from their expertise, thereby enhancing our capability for business innovation and

mitigating the entry risks of new businesses; and

-- Operations management: We will maintain cost control efforts through prudent management of capital expenditures, and pursue higher free cash flow and improved gearing structure of the Company.

2006 is a year of challenges and opportunities. With the joint efforts of the Board, management and staff, I am confident that we will continue to achieve substantial gains for our shareholders. Last but not least, I would like to take this opportunity to express my deepest gratitude to all our customers, shareholders, Board, management and employees for their invaluable trust and support.

Tian Suning
Vice Chairman and Chief Executive Officer

Hong Kong, 21 March 2006

Profile of Directors and Senior Management

Directors, Senior Management Officers and Joint Company Secretaries:

Details of our current Directors and Joint Company Secretaries are set out as follows:

Name	Age	Position
Executive Directors		
Mr. Zhang Chunjiang	47	Chairman and Executive Director
Dr. Tian Suning	42	Vice Chairman, Executive Director and Chief Executive Officer
Mr. Zhang Xiaotie	53	Executive Director
Mr. Miao Jianhua	54	Executive Director and Joint Company Secretary
Mr. Jiang Weiping	54	Executive Director
Non-executive Directors		
Ms. Li Liming	55	Non-executive Director
Mr. Yan Yixun	67	Non-executive Director
Mr. Jose Maria Alvarez-Pallete	42	Non-executive Director
Independent Non-executive Directors		
Mr. John Lawson Thornton	52	Independent Non-executive Director
Mr. Victor Cha Mou Zing	56	Independent Non-executive Director
Dr. Qian Yingyi	49	Independent Non-executive Director
Mr. Hou Ziqiang	68	Independent Non-executive Director
Mr. Timpson Chung Shui Ming	54	Independent Non-executive Director
Alternate Director		
Mr. Mauricio Sartorius	46	Alternate Director to

		Mr. Jose Maria Alvarez-Pallete

Joint Company Secretaries

Mr. Miao Jianhua	54	Executive Director and Joint Company Secretary
Ms. Mok Kam Wan	43	Joint Company Secretary

Directors and Senior Management Officers

Directors

Zhang Chunjiang, 47, Chairman and Executive Director, has served as a Director since June 2004. He has been the Chairman of China Netcom (Group) Company Limited since September 2004 and President of China Netcom Group since May 2003. He joined PCCW Limited as a Non-executive Director since April 2005. Prior to joining China Netcom Group, Mr. Zhang served as Deputy Minister of the MII and was one of the most senior regulatory officials in the PRC telecommunications industry from December 1999 to May 2003. From August 1993 to December 1999, Mr. Zhang held a series of senior positions at the former Liaoning Provincial Posts and Telecommunications Bureau, the former MPT and the MII, including serving as the Deputy Director of the former Liaoning Provincial Posts and Telecommunications Administration, Director of Mobile Telecommunications Administration of the MPT and Director of Telecommunications Administration of the MII. Mr. Zhang is a senior engineer of professor level and has extensive experience in telecommunications management, operations and technology. Mr. Zhang graduated from the Beijing University of Posts and Telecommunications in 1982 with a bachelor's degree in telecommunications.

Dr. Tian Suning, 42, Vice Chairman, Executive Director and Chief Executive Officer, has served as a Director since 2000. He has also served as Vice President of China Netcom Group since April 2002. Since 1999, he has served as Chief Executive Officer of China Netcom (Holdings) Company Limited and the Company. He became a Director of China Netcom (Group) Company Limited and China Netcom Corporation International Limited since 2001 and October 2002, respectively. He has also served as Vice Chairman and a Non-executive Director of PCCW Limited since April 2005. Dr. Tian is also an Independent Director of AsiaInfo Holdings Inc., a Nasdaq-listed company. Dr. Tian is a member of the Advisory Committee to Harvard Business School of the US and the International Business Council of the World Economic Forum. Prior to joining China Netcom (Holdings) Company Limited, Dr. Tian was the co-founder and Chief Executive Officer of AsiaInfo Holdings Inc., a Nasdaq-listed company providing software and networking solutions in China. Dr. Tian has extensive experience and knowledge in the management and financing fields of the telecommunications and information industry. Dr. Tian received a Ph.D. in natural resources management from Texas Tech University in 1992, a master's degree in ecology from the Graduate School of the Chinese Academy of Sciences in 1988, and a bachelor's degree in environmental biology from Liaoning University in 1985.

Zhang Xiaotie, 53, Executive Director, has served as a Director since October 2004. He has served as Vice President of China Netcom Group since July 2003. From June 2002 to July 2003, Mr. Zhang also served as Assistant to President and General Manager of Planning and Finance Department of China Netcom Group. Before joining China Netcom Group, Mr. Zhang served as Vice Director and Director of [the Economic Regulation and Communications Settlement Bureau] of the MII and held a series of senior positions at the former MPT and the former Beijing Administration of Telecommunications. Mr. Zhang graduated from the School of Economics and Management of Tsinghua University with a master's degree.

Miao Jianhua, 54, Executive Director and Joint Company Secretary, has served as a Director since October 2004. He has also served as Assistant to President of China Netcom Group since September 2003 to November 2005. From June 2002 to November 2005, Mr. Miao served as the General Manager of the Human Resources Department of China Netcom Group and the Company. Before joining China Netcom Group, Mr. Miao served as Director of the Inspection Bureau of the former MPT and the MII from 1997 to early 2002, and held senior positions at the former Jilin Provincial Administration of Posts and Telecommunications prior to June 1997. He graduated from the Australian National University with a master's degree in management.

Jiang Weiping, 54, Executive Director, has served as a Director since October 2004. He has also served as Assistant to the President of China Netcom Group since July 2004. Mr. Jiang became the General Manager of Human Resources Department of the Company since November 2005. From May 2000 to July 2004, he served as General Manager in the former Liaoning Telecommunications Company and Liaoning Communications Company . From August 1984 to May 2000, he held a series of senior positions in the former Liaoning Provincial Administration of Posts and Telecommunications, including Deputy Director and Director from August 1993 to May 2000. Mr. Jiang graduated from the Harbin Institute of Technology with a bachelor's degree in radio communications.

Li Liming, 55, Non-executive Director, has served as a Director since October 2004. She also served as General Manager of Human Resource Department of the China Netcom Group since March 2005. From July 2003 to August 2004, she served as Deputy General Manager of Human Resources Department of China Netcom Group. Before joining China Netcom Group, Ms. Li held a series of senior positions at Jitong Network Communications Company Limited from November 1994 to July 2003. Ms. Li graduated from the Radio Department of Tsinghua University with a bachelor's degree in semiconductor devices.

Yan Yixun, 67, Non-executive Director, has served as a Director since 2001. He is a member of the Standing Committee of the Tenth National People's Congress and Vice Chairman of the Financial and Economic Committee of the National People's Congress. He was a member of the Standing Committee of the Eighth and Ninth National People's Congress and a member of the Education, Science, Culture and Health Committee of the Ninth National People's Congress. From December 1992 to November 2000, he served as Vice Chairman of the Chinese Academy of Sciences, prior to that he served as Director of Shanghai Technical Physics Research Institute. He was a first-term Board Director of Legend Holdings Limited and now serves as Chairman of the Board of NewMargin Venture Capital Co., Ltd and Director of Chinese Academy of Sciences Holdings Co., Ltd. Mr. Yan received a master's degree from the Institute of Electronics of the Chinese Academy of Sciences in 1966 and graduated from the Department of Radio Electronics at Tsinghua University in 1962.

Jose Maria Alvarez-Pallete, 42, Non-executive Director, has served as a Director since September 2005. He joined Telefonica Internacional in February 1999 as General Manager for Finance. In September of the same year, he became Chief Financial Officer of Telefonica, S.A.. In July 2002, he was appointed as Chairman and Chief Executive Officer of Telefonica Internacional, S.A. and a member of the senior management committee of the company. Telefonica Internacional, S.A. has 5% interest in the issued share capital of the Company. Mr. Alvarez-Pallete is a Director on the boards of Telecomunicacoes de Sao Paulo, S.A. (listed on the Stock Exchanges of Sao Paulo and New York), Compania de Telecomunicaciones de Chile, S.A. (listed on the Stock Exchanges of Santiago de Chile and New York), Telefonica de Espana, Telefonica Moviles S.A. (listed on the Stock Exchanges of Madrid and New York), Telefonica Moviles Espana, Telefonica Data, Telefonica Internacional, Telefonica de Argentina (listed on the Stock Exchanges of Buenos Aires and New York), Telefonica CTC Chile, Telefonica de Peru S.A.A. (listed on the Stock Exchange of Lima), Compania de Telefonos de Chile Transmisiones Regionales, Telefonica Larga Distancia de Puerto Rico, Telesp and Cointel. In addition, he is a member of the Supervisory Board of Cesky Telecom (a company listed on the Stock Exchange of Prague). Mr. Alvarez-Pallete received a bachelor's degree in economics from the Universidad Complutense of Madrid.

John Lawson Thornton, 52, Independent Non-executive Director, has served as a Director since October 2004. Mr. Thornton is Professor and Director of Global Leadership Project at Tsinghua University in Beijing. He was President and a Director of The Goldman Sachs Group, Inc. until July 2003. Mr. Thornton is also a Director of Ford Motor Company (listed on the New York Stock Exchange), Industrial and Commercial Bank of China, Intel Corporation (listed on NASDAQ Stock Exchange) and News Corporation, Inc. (listed on the New York Stock Exchange and the Australian Stock Exchange). He is also Chairman of the Brookings Institution Board of Trustees, a member of the Council on Foreign Relations, a trustee or advisory board member of the Asia Society, China Institute, China Securities Regulatory Commission, the Eisenhower Fellowships, Financial Services Volunteer Corps, The Hotchkiss School, International Advisory Committee of the China Reform Forum, Morehouse College, National Committee on US-China Relations, Nelson Mandela Legacy Foundation (US), Tsinghua University School of Economics and Management (Beijing) and the Yale School of Management. Mr. Thornton received an A.B. in history from Harvard College in 1976, a B.A. and M.A. in jurisprudence from Oxford University in 1978 and a M.P.P.M. from the Yale School of Management in 1980.

Victor Cha Mou Zing, 56, Independent Non-executive Director, has served as a Director since October 2004. Mr. Cha is the Managing Director of HKR International Limited and Alternate Independent Non-executive Director of New World Development Company Limited (both companies being listed on the Hong Kong Stock Exchange). He is also a member of the Chinese People's Political Consultative Committee of Zhejiang Province and a council member of the Hong Kong Polytechnic University and the Hong Kong Institute of Education. Mr. Cha graduated from Stanford University with a MBA degree and University of Wisconsin with a B.S degree.

Dr. Qian Yingyi, 49, Independent Non-executive Director, has served as a Director since October 2004. He is Professor of Economics at the University of California, Berkeley. Since 2005, Dr. Qian has also been the First Associate Dean of the School of Economics and Management at Tsinghua University, and

served as Independent Director of the Industrial and Commercial Bank of China. Before joining the Berkeley faculty in 2001, Dr. Qian taught in the Department of Economics at Stanford University and the University of Maryland. In 1990, Dr. Qian received his Ph.D. in Economics from Harvard University, after receiving an M. Phil. in Management Science/Operations Research from Yale University and an M.A. in Statistics from Columbia University. In 1981, Dr. Qian graduated from Tsinghua University with a B.S. degree in Mathematics.

Hou Ziqiang, 68, Independent Non-executive Director, has served as a Director since October 2004. He was also Chairman of China Kejian Company Limited. Mr. Hou founded China Kejian Company Limited in 1984. From 1993 to 1997, Mr. Hou was Director of the Institute of Acoustics of the Chinese Academy of Sciences. From 1988 to 1993, Mr. Hou was Secretary General of the Chinese Academy of Sciences. Mr. Hou graduated from Peking University in 1958 with a bachelor's degree in physics.

Timpson Chung Shui Ming, G.B.S., J.P., 54, Independent Non-executive Director, has served as a Director since October 2004. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He is an Independent Non-executive Director of Hantec Investment Holdings Limited, Tai Shing International (Holdings) Limited, Glorious Sun Enterprises Limited, The Miramar Hotel & Investment Co. Limited and Nine Dragons Paper (Holdings) Limited. In addition, Mr. Chung is a member of the National Committee of the 10th Chinese People's Political Consultative Conference, the Vice Chairman of the Council of the City University of Hong Kong, a member of the Hong Kong Housing Authority and a Court Member of the University of Hong Kong. Formerly, he was an Executive Director of Shimao China Holdings Limited, a Director of Stockmartnet Holdings Ltd, Extrawell Pharmaceutical Holdings Limited and China Rich Holdings Limited. He was also the Chairman of the Hong Kong Housing Society, a member of the Executive Council of the Hong Kong Special Administrative Region, the Vice Chairman of the Hong Kong Special Administrative Region Government Land Fund Advisory Committee, a member of the Managing Board of the Kowloon-Canton Railway Corporation and a member of the Disaster Relief Fund Advisory Committee. Mr. Chung holds a Bachelor of Science Degree from the University of Hong Kong and a master's degree of Business Administration from the Chinese University of Hong Kong.

Mauricio Sartorius, 46, Alternate Director to Mr. Jose Maria Alvarez-Pallete. He began his career with Banco del Progreso. In 1983, Mr. Sartorius joined E. F. Hutton & Co. Inc. as a Registered Commodity Representative. In 1985, he joined Credit Suisse First Boston as Vice President of Corporate Finance for the Latin America region based in New York. Mr. Sartorius joined Telefonica in 1 January 1997 in the Corporate Finance Department as a Deputy Managing Director. In 1998, he was appointed Director of Human Resources for Telefonica Internacional. He became the Chief Representative Officer of Asia of Telefonica Internacional, S.A. on 1 January 2005 and since then resided in Beijing. Mr. Sartorius holds a degree in economics from the Universidad Complutense of Madrid and a MBA degree from New York University.

Senior Management Officers
Dr. Tian Suning, 42, Vice Chairman, Executive Director and Chief Executive Officer.

Zuo Xunsheng, 55, has served as Chief Operating Officer since December 2005 overseeing general operations of the Company. Mr. Zuo has served as Senior Vice President since July 2004. He has also served as Vice President of China Netcom Group since April 2002. Before joining China Netcom Group, Mr. Zuo was President of the former Shandong Telecommunications Company from May 2000 to April 2002. From October 1997 to May 2000, Mr. Zuo served as Director of the former Posts and Telecommunications Bureau of Shandong Province. From 1988 to 1997, Mr. Zuo served as Deputy Director and Director of the former Bureau of Telecommunications of Jinan City. Mr. Zuo graduated from Guanghua School of Management of Peking University with an EMBA degree in 2005.

Pei Aihua, 55, has served as Senior Vice President since July 2004 overseeing new technology and network planning and construction, and network operation and maintenance. He has also served as Vice President of China Netcom Group since April 2002. Before joining China Netcom Group, he was Deputy General Manager of the former Beijing Telecommunications Company from July 2001 to April 2002, General Manager of Sichuan Provincial Telecommunications Company from July 2000 to July 2001, and Deputy Director of the former China General Bureau of Posts and Telecommunications from June 1997 to May 2000. He graduated with a master's degree in information and communication management jointly sponsored by the Management School of Fudan University and the Norway Management School. He graduated from Changchun Optical Precision Machinery College with a master's degree in electrical engineering in 1993 and Beijing School of Post and Telecommunications in microwave technology in 1976.

Zhang Changsheng, 58, has served as Senior Vice President since July 2004 overseeing regulatory and legal matters, value-added services and broadband contents. He has also served as Vice President of China Netcom Group since February 2003. Before joining China Netcom Group, Mr. Zhang served as Assistant to Governor and Secretary General of Jiangsu Provincial Government from October 1995 to February 2003. From July 1988 to October 1995, he held several senior positions in the Ministry of Personnel. He graduated from the Military School of the People's Liberation Army in 1981.

Zhao Jidong, 55, has served as Senior Vice President since July 2004, and is responsible for international affairs, Asian Netcom Corporation Limited, Beijing Municipal Branch Company and the Olympics-related telecommunications projects. Since November 2005, he has served as the Executive Chairman of Asian Netcom Corporation Limited. He has also served as Vice President of China Netcom Group since July 2003. Before joining China Netcom Group, Mr. Zhao served as General Manager of Beijing Communications Company from July 2002 to July 2003 and General Manager of former Beijing Telecommunications Company from May 2000 to July 2002. From November 1994 to May 2000, Mr. Zhao served as Vice Director and Director in the former Beijing Telecommunications Bureau. Mr. Zhao holds a master's degree in information and communication management jointly sponsored by the Management School of Fudan University and the Norway Management School. He graduated from Fudan University with a B.A. degree in English in 1975.

Li Fushen, 43, has served as Chief Financial Officer since September 2005. He became Financial Controller in July 2004. Since October 2003, he has served as

General Manager of the Finance Department of China Netcom Group. From November 2001 to October 2003, he served as Deputy General Manager of the former Jilin Provincial Telecommunications Company and Jilin Communications Company. He graduated from the Australian National University with a master's degree in management and from the Jilin Engineering Institute with a degree in engineering management in June 1988.

Joint Company Secretaries
Miao Jianhua, 54, Executive Director and Joint Company Secretary.

Mok Kam Wan, 43, Joint Company Secretary. Ms. Mok joined the Company in October 2005. She holds a bachelor's degree of laws from The University of London and a master's degree in business administration from The Hong Kong Polytechnic University. Ms. Mok is an associate member of The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries.

Corporate Governance

Since its establishment, the Company has been dedicated to world-class corporate governance. The Company is convinced that a sophisticated corporate governance structure is the basis of competitiveness, and supports improvement in corporate performance as well as maximizing value to shareholders.

In order to achieve a first-class corporate governance structure, at the early stage of its listing, the Company set up corporate governance "hardware" by having a high proportion of independent directors and separating of the positions of Chairman and Chief Executive Officer. Under the Board of Directors, board committees including a Corporate Governance Committee, Strategic Planning Committee, Audit Committee, Compensation and Nomination Committee were established.

In order to take full advantage of this corporate governance "hardware," in 2005, the Company engaged a well-known international consulting firm to assist the Company in designing a "software" well functioning platform. At the end of the first phase, the project team finished diagnosis and discussion of problems, and identified the key areas of improvement needed to achieve a world-class corporate governance structure and system. In the second phase and the third phase of this project, we will introduce new corporate governance operational procedures that will help us become a model for the corporate governance of large-scale Chinese companies.

In 2005, the Company has fully complied with the code provisions in the Code set out in Appendix 14 to the Listing Rules.

Board of Directors

The Board comprises thirteen Directors, including five independent non-executive Directors, three non-executive Directors and five executive Directors. Members of the board of directors are professionals from the telecommunications, finance, property development and consultancy industries and economists. They have extensive professional background and a wealth of experience, and take an active role in overseeing our development and corporate governance. A majority of the Board seats is taken by non-executive Directors, which ensures that decisions are made independently and in the best interests of shareholders.

The responsibility for overall management of the business of the Company is vested in the Board of Directors. The Board is responsible for formulating the Company's overall strategies, authorizing the annual strategic development plan, budget targets, capital expenditures and investment plans; monitoring the effectiveness of internal controls and regulatory compliance; setting development targets; and supervising and managing management's performance. The Board has delegated day-to-day management of the Company's business and administration to the management.

24

The Board meets four times each year and on other occasions when a Board decision is required. All members of the Board have full and timely access to relevant information for meetings. Proposed Board meeting dates for the financial year are normally agreed in the preceding year's Board meeting. During this reporting period, the Board held seven meetings. The attendance record of each member of the Board is set out below:

Directors	Attendance of Board meetings in 2005
Executive Directors	
Zhang Chunjiang (Chairman)	7/7
Tian Suning (Vice Chairman and Chief Executive Officer)	7/7
Zhang Xiaotie	4/7
Miao Jianhua	7/7
Jiang Weiping	7/7
Non-executive Directors	
Li Liming	7/7
Keith Rupert Murdoch*	4/6
Yan Yixun	5/7
Jose Maria Alvarez-Pallete #	2/2
Independent non-executive Directors	
John Lawson Thornton	3/7
Victor Cha Mou Zing	4/7
Qian Yingyi	6/7
Hou Ziqiang	6/7
Timpson Chung Shui Ming	6/7

* Resigned with effect from 12 September 2005
\# Appointed with effect from 12 September 2005

25

During this reporting period, the Board at all times complied with the requirement of the Listing Rules relating to the appointment of at least three independent non-executive Directors, and complied with the requirement that at least one of the independent non-executive Directors must have appropriate professional qualifications or accounting or related financial management

expertise.

Details of the Chairman, Vice Chairman, Executive Directors, Non-executive Directors and Independent Non-executive Directors are set out on pages [o] to [o] of this annual report.

Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Officer are held by Mr. Zhang Chunjiang and Dr Tian Suning, respectively. The separation of functions ensures greater independence between the Board and management. The Chairman is responsible for chairing and managing the Board, as well as focusing on major strategic issues and corporate governance. The Chief Executive Officer is responsible to the Board for managing the business of the Company.

Independent non-executive Directors

The Independent non-executive Directors actively take part in the Company's business through attendance in Board meetings, Board committee meetings and independent Board committee meetings. They provide constructive comments and suggestions to the Company including corporate governance practices, strategic planning, and internal control system optimization. In 2005, management of the Company proposed the acquisition of the major telecommunications assets and businesses in four provinces and autonomous regions in the northern part of China held by the Company's controlling shareholder. According to the requirements of the Listing Rules, an Independent Board Committee which comprised all the Independent Non-executive Directors was set up to consider and comment on whether the acquisition was fair and reasonable. The Independent Board Committee acted in the interests of minority shareholders, reviewed the qualifications and capabilities of the independent financial adviser, held four special meetings within one month to consider this project, and discussed in detail the fairness and reasonableness of the terms of the acquisition, in order to protect the legitimate rights and interests of the minority shareholders.

To fully demonstrate the function of Independent Non-executive Directors on the Board and protect the interests of minority shareholders, the Board of Directors, in accordance with legal requirements and international best practice, arranges for the Independent non-executive Directors to play a key role in reviewing connected transactions.

The Company has obtained the confirmation of all the Independent Non-executive Directors relating to their independence under the Listing Rules. The Company considers all the Independent Non-executive Directors to be independent. There are no relations among the directors (including the Chairman and the Chief Executive Officer).

Non-executive Directors

All Non-executive Directors are appointed for a term of three years, and are subject to retirement by rotation and re-election by shareholders. Pursuant to the Articles of Association of the Company, one-third of the Directors, including both Executive and Non-executive Directors, are required to retire from office at the annual general meeting each year. A retiring Director is eligible for re-election. Any Director who is appointed by the Directors will hold office until the next following annual general meeting and will be eligible

for re-election.

Board Committees

The Board has established four committees, namely the Audit Committee, the Compensation and Nomination Committee, the Corporate Governance Committee and the Strategic Planning Committee, to oversee particular aspects of the Company's affairs. The Committees are governed by their respective Terms of Reference which are set out in full on the website of the Company and make their recommendations or decisions independently.

Audit Committee

To guarantee the objectiveness, fairness and independence of the Audit Committee, the Audit Committee comprises four Independent Non-executive Directors, chaired by Mr Timpson Chung Shui Ming. The other members of the Committee are Dr Qian Yingyi, Mr Victor Cha Mou Zing and Mr Hou Ziqiang. The primary responsibilities of the Audit Committee include supervising and managing our financial reporting system, reviewing the auditors' appointment, and supervising the work of the internal audit department.

As an experienced member of the HKSA and of the ACCA, Mr Chung has extensive professional experience. His active participation has helped to continuously improve the internal control system and the financial reporting system of the Company. Led by Mr. Chung, the Audit Committee not only has performed its responsibilities for supervising corporate auditing, but also played an important role in optimizing the internal control system. The Audit Committee leads implementation of the Company's internal control project, reviews regular reports submitted by the internal control project team, and supervises implementation of solutions to internal control issues.

In 2005, the Audit Committee held four meetings and discharged its responsibilities in its review of the half-yearly and annual results and the system of internal control, as well as its other duties as set out in the Terms of Reference. The attendance record of each Audit Committee member is set out below.

Directors	Attendance of Committee meetings in 2005
Timpson Chung Shui Ming	4/4
Dr Qian Yingyi	4/4
Victor Cha Mou Zing	3/4
Hou Ziqiang	4/4

The work performed by the Audit Committee in 2005 included reviews of:

- the Accounts and report of Directors for the year ended 31 December 2004 and the annual results announcement, with a recommendation to the Board for approval;

- the Interim Accounts for the six months ended 30 June 2005 and the interim results announcement, with a recommendation to the Board for approval;

- the 2005 Interim Review Engagement Letter with External Auditors;

- Engagement Letter with External Auditors in relation to the acquisition of the entire issued share capital of China Netcom Group New Horizon Communications Corporation (BVI) Limited;

- audit related and permissible non-audit services including tax advisory and filing services and their related fees;

- the Audit Service Agreement for 2005 Annual Report with External Auditors and related costs with a recommendation to the Board for approval;

- the audit work plan for the 2005 Annual Report;

- the internal audit function and the resources of the internal audit team when undertaking its duties and responsibilities, and Summarized Report on the work performed for the year 2005 and a Report on the work plan for the year 2006 of the internal audit team;

- the provisions of the Olympic Sponsorship Agreement between China Netcom Group and the Company;

- the management's preparation for compliance with the internal control requirements under section 404 of the Sarbanes-Oxley Act; and

- Methods for Handling of Complaints and Reports Concerning Accounting Information, Internal Control and Auditing Method of the Audit Committee for China Netcom Group Corporation (Hong Kong) Limited submitted by Audit Committee Office.

On 9 June 2005, the Audit Committee met with the general manager of the Company's Internal Audit Department, and the Company's External Auditors, in the absence of the Company's management.

The Board of Directors acknowledges the responsibility for preparing the accounts. A statement of the auditors about their reporting responsibilities is set out in the auditors' report on the financial statements on page [o] of the annual report.

During the year ended 31 December 2005, the fees paid/payable to the auditors in respect of audit and non-audit services provided by the auditors to the Company were as follows:

Nature of Services	Amount (RMB)
Audit Services	33,800,000
Audit Related Services	38,000,000
Non-audit services	
(i) Tax services	4,928,812
(ii) Transfer pricing research	637,318
(iii) Other services	206,912

Compensation and Nomination Committee

The Compensation Committee has been renamed as Compensation and Nomination Committee with effect from 12 September 2005. The duties of the Committee

include nominating new board members, reviewing the compensation of our Directors and the Company's management and making recommendations to the Board of Directors. The members of the Committee are Mr Zhang Chunjiang (Chairman), Mr John Lawson Thornton, Mr Victor Cha Mou Zing, Mr Hou Ziqiang and Mr Jiang Weiping.

In 2005, the Compensation and Nomination Committee held two meetings. The Compensation and Nomination Committee in 2005 reviewed the nomination of a new director to fill a casual vacancy, the draft severance agreement with the Chief Financial Officer, the nomination of the Chief Financial Officer and the change in company secretaries, and the amendment to the share option scheme, which were recommended to the Board for approval.

The attendance record of each Compensation and Nomination Committee member in 2005 is set out below.

Directors	Attendance of Committee meetings in 2005
Zhang Chunjiang (Chairman)^	1/1
Keith Rupert Murdoch *	0/1
John Lawson Thornton	1/2
Victor Cha Mou Zing	2/2
Hou Ziqiang	2/2
Miao Jianhua **	2/2
Jiang Weiping #	0/0 (Only in attendance)

^ Appointed as Member with effect from 12 September 2005
* Resigned as Director and a Member with effect from 12 September 2005
** Resigned as Member with effect from 7 December 2005
# Appointed as Member with effect from 7 December 2005

The Compensation and Nomination Committee is committed to achieving a sound balance on the Board in terms of experience and expertise. The nomination of Directors is assessed on the basis of the ability of potential candidates to contribute to the Board so that the Board can discharge its responsibilities to the Company as a whole. The Committee reviews the independence of the Independent Non-executive Directors.

At a meeting of the Compensation Committee on 27 December 2004, the members approved the compensation proposal for Executive Directors and reviewed service agreements with the Executive Directors. In 2005, there was no change to the compensation policy of the Executive Directors or service agreements with the Executive Directors.

The compensation for the Executive Directors comprises basic salaries, cash bonuses, share options, other allowances and benefits in kind. In addition to basic salaries, Executive Directors are eligible to receive a performance bonus, taking into consideration factors such as corporate and individual performance. The performance of the executive Directors is reviewed annually according to set goals. Salaries are reviewed annually, and increases are made when it is appropriate to reflect performance contributions, increased responsibilities and market conditions. The Compensation and Nomination Committee provides to the Board its recommendations on compensation to the Executive Directors when appropriate. The Compensation and Nomination Committee reviews the terms of service contracts with Executive Directors, and makes recommendations to the

Board for approval.

In addition, the Company has adopted a share option scheme to attract and retain senior management personnel and key employees of the Company. Details of the amount of Directors' emoluments during 2005 and details of the share option scheme are set out in notes 15 and 35 respectively to the accounts.

Corporate Governance Committee

The duties of the Corporate Governance Committee are to supervise implementation of our corporate governance polices, supervise the efficiency and legal compliance of our Board of Directors and make recommendations to the Board of Directors in order to optimize our corporate governance structure. The chairman of the Committee is Mr John Lawson Thornton (Chairman) and its members include Dr Tian Suning, Dr Qian Yingyi, Mr Miao Jianhua and Mr Timpson Chung Shui Ming.

The Corporate Governance Committee has played a very active part in promoting and improving corporate governance. Based on in-depth knowledge and assessment of the current situation of corporate governance, the Committee recommended that the Board engage a professional consulting company to improve the efficiency and effectiveness of corporate governance practices and build the Company into a model for Chinese companies listed overseas. The Board approved the recommendation in 2005. At the end of 2005, the Company launched a corporate governance consulting project under the direct leadership of the Corporate Governance Committee. The Committee reviewed suggestions and proposals submitted by the project team on a regular basis. In 2005, the Corporate Governance Committee held one meeting and Mr John Lawson Thornton (Chairman), Dr Qian Yingyi, Mr Miao Jianhua and Mr Timpson Chung Shui Ming attended the meeting. At the meeting, the Committee members reviewed the proposed corporate governance consulting project, with a recommendation to the Board for approval.

Strategic Planning Committee

The Strategic Planning Committee is responsible for reviewing our development strategies, supervising their implementation and analyzing major investment projects. The members of the Committee are Mr Zhang Chunjiang (Chairman), Dr Qian Yingyi, Mr Jose Maria Alvarez-Pallete, Mr Hou Ziqiang, Mr Zhang Xiaotie, Mr Jiang Weiping and Ms Li Liming.

In 2005, the Strategic Planning Committee held one meeting and the committee members discussed and approved the strategic and business plan for the year 2005. Mr Zhang Chunjiang (Chairman), Dr Qian Yingyi, Mr Hou Ziqiang, Mr Zhang Xiaotie, Mr Jiang Weiping and Ms Li Liming attended the meeting. Mr Jose Maria Alvarez-Pallete was appointed as a member after this Committee meeting.

Directors' Securities Transactions

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' dealing in securities of the Company. The Company has received confirmation from all Directors that they have complied with the required standard throughout this reporting period.

Comparison between corporate governance requirements of the New York Stock Exchange and the Hong Kong Listing Rules

According to the Corporate Governance Listing Standards set out in Section 303A of New York Stock Exchange (NYSE) Listing Company Manual, foreign issuers listed in NYSE (including China Netcom Group Corporation (Hong Kong) Limited) are required to disclose major differences in requirements of corporate governance between its place of incorporation and that of NYSE applicable to local US issuer. A summary of such difference is available on the website of the Company at http://www.china-netcom.com/English/inv/Corporate_Governance_Differences.htm

Internal Controls

The Company attaches great importance to its internal control system. It aims to establish a world-class internal control system compliant with the latest regulatory requirements. In 2005, the Board conducted a review of the effectiveness of the Group's system of internal controls.

At the end of 2004, the Company launched a project to optimize its internal control system. The Company's internal control project team regularly reported to the management and Audit Committee on the progress of the project and issues identified. The Audit Committee, in turn, reported to the Board on major findings of the project team.

The internal control system project made a number of major progresses in 2005. Through comprehensive studies, pilot design and other phase work, the Company has conducted in-depth investigation, diagnosis and analysis of management and service procedures. Based on the internationally recognized COSO internal control framework, the Company has designed an internal control system standard template that integrates international advanced management philosophy as well as conforming to the Company's actual needs. The Company has conducted a pilot test of the standard template in the Company's Hebei branch company. Based on the pilot test results, the Company has improved the standard template and started to introduce it across the Company, beginning at the end of last year. It is expected that the introduction of the standard template will be fully completed in the latter half of 2006.

While improving the internal control flow system, the Company developed Stipulations on Information Quality Guarantee and Accountability Management of China Netcom Group and CNC Discipline and other management rules to ensure the accuracy, completeness and integrity of statistical data. These guidelines clarify requirements for statistical data as well as setting out severe penalties for non-compliance. The Company has also developed Methods for Handling of Complaints and Reports Concerning Accounting Information, Internal Controls and Auditing Methods of the Audit Committee for China Netcom Group Corporation (Hong Kong) Limited, which prohibits any intentional reporting of false or erroneous information from all levels of the Company.

Investor Relations

The Company aims to introduce industry best practices, improve the scope and quality of information disclosure and make the Company more transparent so that all investors have access to information of the Company on a timely basis. Besides the regular annual results announcements meeting, interim results announcements meeting and non-deal road show, the Company has kept close contact with investors through one-on-one meetings, telephone conferences, and corporate days. Investors have easy access to financial information, the annual report, presentations and other materials released to the public on the Company's website. Beginning in 2006, the Company will release its key operational information on a quarterly basis and increase the disclosure scope and frequency of information disclosure.

As a company listed on both U.S. and Hong Kong stock markets, the Company follows the strictest requirements and strives to ensure fair disclosure to all investors. The Company requires all major information to be uploaded to its website immediately after its release to the public through notices and press conferences to ensure that all shareholders and investors can have access to relevant information as quickly as possible. There are differences between the rules of the Hong Kong and New York Stock Exchanges. Among the risk factors listed in the Company's prospectus is that holders of American Depository Shares (ADS) may not receive the proxy materials on issues to be discussed at shareholders' meetings in time. Nonetheless, the Company will do its utmost to consider the interests of both Hong Kong shareholders and ADS holders. When arranging the timetable of the annual shareholders' meeting and extraordinary general meeting, the Company will ensure timely delivery of all relevant meeting materials to the shareholders, so that all shareholders can have access to necessary information prior to the meetings, have the chance to participate in the decision-making process, and give their opinions.

General Meetings

The most recent general meeting was an extraordinary general meeting ("EGM") held on 25 October 2005 at Nathan Room, the Conrad Hotel, Hong Kong. The major items discussed at the meeting and the percentage of votes cast in favour of the resolutions relating to those items are set out below:

- Approval of the Conditional Sale and Purchase Agreement dated 12 September 2005 regarding the purchase of the entire issued share capital of China Netcom Group New Horizon Communications Corporation (BVI) Limited (99.99998%);

- Approval of the Continuing Connected Transactions contemplated under the Engineering and Information Technology Services Agreement and the Materials Procurement Agreement both dated 12 September 2005 together with the relevant annual caps (99.99996%); and

- Approval of the Continuing Connected Transactions contemplated under the Domestic Interconnection Settlement Agreement and the International Long Distance Voice Services Settlement Agreement both dated 12 September 2005 and for which transactions no caps have been proposed (100%).

The resolutions put to the shareholders were passed at the EGM. The results of the voting by poll have been published on the Company's website, the website of the Hong Kong Stock Exchange and also by notice in local newspapers.

The next shareholders meeting will be the 2006 annual general meeting of the Company to be held on 16 May 2006.

Information relating to the details of shareholders, their shareholding and the Company's public float status are set out on page [o] in the Report of the Directors in the annual report.

There has been no change in the articles of associations of the Company during 2005.

Human Resources Development

The objective of our human resources development strategy is to enhance the Company's human capital value and operational capability. We have designed these strategies to support our strategic transformation into a broadband communications and multi-media services provider.

As of 31st December 2005, there were 138,440 full-time employees and 60,521 temporary employees in the Company.

Remuneration and Incentives

At the time that it listed its shares, the Company began to revise its remuneration and incentive system, and established a new remuneration and incentive scheme based on a system employing digital KPI (key performance indicators) performance assessments. The introduction of this new incentive scheme has improved staff motivation and efficiency. Through digital KPI performance management, strategic goals of the Company have been quantified and segmented for every employee, so that every individual employee can align himself or herself with corporate goals.

Staff Development and Organizational Reform

The Company believes that training is one of the most effective ways to promote individual competitiveness, satisfaction and loyalty. Management reform and streamlining has been a constant feature of our strategic transformation, and our corporate structure undergoes continual fine-tuning. Training is also a means to ensure smooth implementation of organizational reform and employees' adaptation to organizational reform and strategic transformation.

In 2005, the Company conducted a radical reform on the marketing & sales system in the northern service region with the introduction of a community manager system across the Company. In view of this, the Company developed special training programmes and trained 989 internal community manager coaches, who in turn trained the 36,000 community managers in the Company, thereby enabling the successful implementation of the marketing and sales channels reform. In addition, the Company also provided assistance to its staff in grasping the development trend of modern communication technologies by engaging renowned experts in the sector to conduct training on advanced communication network technologies. These training programmes enabled our staff to understand the importance of our strategic transformation and facilitated their adaptation of such transformation and reform.

In 2005, the Company increased its investment in staff training, especially for middle and senior management staff and core employees. In order to cope with

requirements for listed companies, the Company entered into collaboration with a world-renowned investment bank to organize a management-training course. We now have 54 graduates of this program who are familiar with the concepts of corporate value management and capital markets. The Company has cooperated with leading universities in the PRC to develop two advanced English training courses to cope with the internationalization of the Company. A total of 60 employees have benefited from these courses. In order to accelerate the adoption of international best management practices, the Company has entered into a series of talent exchange programs with leading global telecommunication operators.

35

Systematic and Detail-Oriented Management

With the aim of elevating the efficiency of our human resources management and information system, the Company embarked on the development of an e-HR system, which commenced operations in December 2005. As an integral part of our ERP system, the e-HR system provides a modern approach for the optimization of our human resources management.

Aiming for the Best in Human Resources Systems

The Company will continue to select, train and nurture senior management personnel and core employees in 2006 in order to support the Company's ongoing organizational reforms. Group training will be provided to division heads to impart an understanding of the rationale, objectives and initiatives of our transformation strategy. In addition, the Company will launch a series of mobile business and technology related training programs to prepare our staff for future developments in the mobile business.

36

Business Review

Key Developments in 2005:

- The acquisition of assets and businesses in the four northern provinces significantly strengthened the Company's leading position in the relevant market.

- Broadband services have become the chief driver of revenue growth for the Company, contributing 55.8% to the increase in revenue (excluding upfront connection fee). The number of broadband subscribers increased by 35.1% over last year.

- Fixed-line telephone services maintained a healthy rate of growth with the number of subscribers increasing by 6.7%. The number of PHS subscribers increased by 23.6%. The Company achieved 92.3% market share in its northern service region.

- Value-added services continued to see rapid growth. Value-added revenues increased by 33.6% over last year, and became one of the main drivers of

overall revenue growth.

- The Company's competitive advantages in the business segment were further consolidated. Bandwidth subscribed by corporate customers grew by 78.1% from last year.

- Capital expenditures continued to decline and as a percentage of total revenues dropped by 2.8 percentage points compared with last year.

- For the fourth year in a row, the Company ranked first in a telecommunications industry customer satisfaction survey conducted by the Ministry of Information Industry.

"Growth and efficiency" were the goals of corporate and strategic development in 2005. We executed a two-pronged strategy. In the fixed-line business, we were able to attract and retain customers and strengthen our dominance in the northern service region by offering first class services, and ensuring the stable growth of fixed-line business. In our high-growth broadband and value-added services, we were able to leverage our enormous subscriber base to achieve sustainable growth and transform towards the strategic goal of becoming a "broadband communications and multi-media services provider".

In 2005, the Company recorded strong growth across business sectors. The Company achieved revenues in 2005 of RMB83.83 billion (excluding upfront connection fees), representing an increase of 5.9% from the previous year. Broadband and value-added services remained the major drivers for revenue growth. The number of fixed-line telephone subscribers grew by 6.7% over 2004 to 115.328 million. The Company achieved a 92.3% market share in the northern service region and consolidated its dominance in such market. The number of broadband subscribers grew by 35.1% to 11.475 million, and achieved 87.6% market share in the northern service region. Value-added services continued to expand rapidly, with a contribution to total revenue of 4.8%. This represented an increase of 33.6% over last year. In the business customers market, a number of factors strengthened the Company's competitiveness, including the launch of "CNC Connected", the Company's geographical advantage in the capital city, and its ability to provide one-stop global communications networking services. As a result, bandwidth subscribed by corporate customers grew by 78.1% over the previous year.

Summary of Key Products

Fixed-line Telephone Services	Broadband and Other Internet-related Services	Business and Data Communications Services	Inter Telec Servi
115.328 million subscribers (including PHS)	11.475 million broadband subscribers	Premium customer base	1,854 corpo
92.3% market	87.6%(1)(2) broadband	Leading provider in the	Leadi

share(1)(2)	market share	northern service region	Asia-
81.8%of revenue(3)(4)	10.0% of revenue(4)	4.3% of revenue(4)	3.9%
2.9% growth(4)	34.6% growth	0.5% growth(4)	23.2%

(1) As of December 31, 2005

(2) In our northern service region

(3) Including other services revenues

(4) Excluding upfront connection fees

The following table illustrates the key operating data in 2005 and 2004:

	2004	2005
Fixed-line subscribers (`000)	108,079	115,328
Including: PHS subscribers (`000)	22,124	27,337
Broadband subscribers (`000)	8492	11475
Total usage (pulses in millions)	234,661	228,436
Excluding Internet dial-up usage (pulses in millions)	217,435	219,884
Internet dial-up usage (pulses in millions)	17,226	8,552
Domestic long distance calls (minutes in millions)	29,366	30,975
International long distance calls (minutes in millions)(1)	471	591
Number of ports for DDN (ports)	150,630	131,812
Number of ports for Frame Relay (ports)	43,078	43,519
Number of ports for ATM (ports)	4,816	4,212
Digital circuits leased (x2Mbps)	91,103	129,989
Volume of PHS short messages (in millions)	1,988	6,777
"Personalised Ring" service subscribers (`000)	630	6,814
Penetration rate for caller identification (%)	60.4%	65.9%
Telephone information services (million minutes)	2,969	3,084

(1) International long distance call volume includes calls to Hong Kong, Macau and Taiwan.

Broadband and other Internet-related Services

The broadband and internet service markets of the PRC recorded rapid growth as a result of sustained rapid economic growth and the swift penetration of the Internet in the PRC, as well as the aggressive push to digital technologies by the PRC government for the purposes of enhancing national and industrial competitiveness. In 2005, the broadband segment continued to grow in scale. The number of broadband subscribers increased by approximately 2.983 million a growth rate of 35.1%, making the segment the Company's most important growth driver. As a result of vigorous market competition, the Company's market share

in the northern service region dropped to 87.6% in 2005, although the Company still maintained its leading position in the market.

In order to enhance the market penetration rate of its broadband services, the Company is offering a diverse range of products with different price packages to satisfy the individual needs of customers. Catering to business customers' diversified needs, the Company launched DSL private lines and optical fibre access products at a range of different speeds, with integrated broadband access products bundled with applications such as corporate web hosting, email, office automation and a sales management platform. In view of the increased demand for Internet services from students during the summer vacation, the Company launched new broadband access products such as "Holiday Broadband" and "Green Internet". These have been bundled with broadband content and application services and jointly promoted with computer manufacturers, which has effectively stimulated the demand for broadband services among household subscribers. Targeting the huge cyber cafe market, the Company cooperated with cyber cafes under the brand name of "CNC Garden" through franchise licensing. In December 2005, China Netcom Group was officially granted an "Internet Cultural Operating Permit" by the Ministry of Culture which is applicable nationwide. As such, the Company will expand its chain of cyber cafes, building on its advantage of a strong brand image and solid Internet resources.

Development of the Company's broadband subscriber base:

	2003	2004	200
Number of broadband subscribers ('000)	3,346.2	8,492.4	11,475.
Including: DSL	2,708.9	5,956.2	8,568.
LAN	636.6	2,533.2	2,904.
Northern service region ('000)	3,313.4	8,146.4	11,036.
Including: DSL	2,708.9	5,939.2	8,529.
LAN	603.8	2,207.2	2,507.
Southern service region ('000)	32.8	346	43

Although access speed and price are still the decisive factors in the broadband market at present, the Company believes that development in broadband content and applications is the key to sustainable growth. The Company has achieved innovations and breakthroughs in content and applications through both proprietary development and collaboration with third parties. The Company has entered into cooperation with approximately 500 content and applications providers in the businesses of live webcasting, virtual theater, video conferencing, IPTV, online education, and broadband games. Besides basic services such as games, video and portals, the Company has also launched a series of dedicated services catering to the specific needs of local markets and industry subscribers, namely integrated tax payment services platform, digital libraries and digital photo-finishing. In 2005, the Company's exploration and promotion of commercial applications of IPTV also paid off well. The Company successfully launched China's first IPTV services in Harbin, Heilongjiang Province.

As a result of economies of scale arising from its huge subscriber base and due to rapid growth, in 2005 the Company's investment per line and procurement costs of equipment for the DSL platform continued to decline. The Company's broadband business maintained a satisfactory return on investment.

Fixed-line Telephone Services

The Company's core business in fixed-line telephones was able to secure its existing customer base and continue to dominate the market for new customers in 2005. The number of fixed-line telephone subscribers increased by 6.7% from the same period last year to 115.3 million, with 7.249 million new subscribers. The Company achieved 92.3% market share in the northern service region.

Unit: '000 subscribers	2003	2004	200
Total number of fixed-line subscribers	94,073	108,079	115,32
Northern service region	93,840	107,571	114,65
Including: residential	68,957	70,638	70,27
business	8,671	9,251	10,72
PHS	11,796	22,124	27,32
public telephones	4,416	5,558	6,33
Southern service region	233	508	67

Local Telephone Services

In 2005, in local telephone services, the Company focused on the issues of loss of existing customers and consolidating its lead in new customers. The Company continued to optimize its PHS network in 2005, which improved the voice quality and further reinforced advantages of PHS services in terms of lower service fees and less radiation than that generated by mobile networks . The number of new subscribers to PHS services amounted to 5.21million, accounting for 71.9% of the total number of new local telephone service subscribers. This reflected a successful mitigation of risks associated with mobile substitution and market competition. Meanwhile, The Company established a customer loss alert and retention programme. Together with the Company's community manager system, it has helped to reinforce customer retention, enabling us to effectively prevent the loss of customers and business to other fixed-line competitors. The Company leveraged its competitive edge as a multiple telecommunications services provider and bundled products for fixed-line, broadband and PHS telephone services in order to increase service value to subscribers. This value-added measure for subscribers has strengthened loyalty to the Company. Consequently, the Company managed to control customer losses and recruit new customers. The

Company has aggressively explored the markets of urban commercial buildings and new residential districts, as well as wealthy rural areas. As a result, the Company successfully expanded its subscriber base for local telephone services, and more importantly, has reinforced its strategic development platform for the development of broadband business.

In addition to retaining existing subscribers and attracting new ones, the Company stabilized subscriber MOU by encouraging the use of fixed-line telephones. The strategy produced a slowdown in the decline of fixed-line telephone usage in the second half of 2005. Tapping into the key customer groups and market segments, the Company adopted various measures including the launch of differentiated monthly packages to promote the return of old users and stimulate nil volume users, which effectively promoted growth in phone traffic. Reflecting customer preferences, the Company has developed new fixed-line terminals and successfully launched a new phone terminal named "One Touch ", which bundled 114, weather forecast and call forwarding services, etc. The package quickly acquired a subscriber base of over 1.6 million subscribers. In December 2005, the Company launched "Home Box", which integrates PHS and fixed-line telephone services. A pilot project as the Company moves towards Fixed-Mobile Convergence (FMC), "Home Box" will help to reinvigorate use of fixed-line services and will have a very positive impact on the Company's future mobile business.

In 2005, the Company's local telephone usage excluding Internet dial-up usage reached 219.88 billion pulses, an increase of 1.1% over the same period last year. Because of the gradual migration of narrow-band subscribers to broadband services, local telephone Internet dial-up usage continued to decline to 8.55 billion pulses, representing a decline of 50.4% from last year.

Value-added Services

In order to fully leverage the Company's large subscriber base and stablize the ARPU of its fixed-line phone services, the Company is committed to avoiding price competition by aggressively developing value-added services. In 2005, fixed-line telephone value-added services grew rapidly and achieved scale growth in all services including PHS short messages, "Personalised Ring" services, caller identification, and telephone information services. This business segment has become a major driver of revenue growth for the company's fixed-line telephone services and a key segment for enhancing the Company's operational competitiveness.

As of the end of 2005, the volume of PHS short messages was 6.78 billion, an increase of 240.9% over the previous year. The number of "Personalised Ring" service subscribers reached 6.81 million, representing a year-on-year increase of 981% . Caller identification penetration rate grew by 5.5 percentage points from the previous year to 65.9%.

The growth in value-added services to some extent compensated for the decline in ARPU of the traditional local fixed-line telephone business. Value-added services enjoyed a relatively higher return on investment due to lower investment costs.

2003-2005 Growth in the number of our Personalized King Subscribers ('000)

2003-2005 Growth in volum (in millions)

Long Distance Services

Unit: million minutes	2003	2004
Domestic long distance calls	26,330	29,366
Including: Traditional network	15,220	15,546
VOIP	11,110	13,820
Northern service region	24,294	27,047
Including: Traditional network	15,190	15,087
VOIP	9,104	11,960
Southern service region	2,036	2,319

Reflecting the increasing popularity of VOIP phone and fierce price competition, the Company's market share in the long distance service sector declined in 2005 despite marked growth in usage over last year. In 2005, domestic long distance usage increased by 5.5% over the same period last year, while the Company's market share in the northern service region fell by 3.4 percentage points from 2004 to 38.3%. International long distance call usage, including long distance calls made to Hong Kong, Macau and Taiwan, increased by 25.5% over the same period last year, while market share in the northern service region dropped by 5.6 percentage points from the same period last year to 48.7%.

Unit: million minutes	2003	2004
International long distance calls	458	471
Including: Traditional network	187	158
VOIP	271	313
Northern service region	365	339
Including: Traditional network	186	148
VOIP	179	191
Southern service region	92	132

Interconnection Service

With overall growth in the domestic telecommunications market and expansion of the Company's customer base, as a result inbound call volume and revenues from interconnection service between the Company and other operators increased. The volume of inbound calls through the Company's networks increased by 27.1% in 2005 compared to the same period in the previous year.

Business and Data Communications Services

Unit: ports	2003	2004
Number of ports		
DDN (ports)	153,838	150,630
Frame Relay (ports)	36,683	43,078
ATM (ports)	1,239	4,816
Leased line bandwidth		
DDN ('000 x 64kbps)	319,812	319,323
Frame Relay ('000 x 128kbps)	47,123	82,395
ATM (x 2Mbps)	10,010	23,262
MPLS VPN (x 2Mbps)	10	125
Leased circuit bandwidth (x 2Mbps)	84,138	91,103
Business customers (x 2Mbps)	39,942	56,363
Carrier customers (x 2Mbps)	44,196	34,740

The business service market has long been a focus of the Company's growth strategy. The Company is able to leverage its the competitive advantage of its geographical location in the nation's capital, Beijing, its network resources, business innovation capability and ability to provide one-stop solutions to dominate the business service market. In 2005, the Company launched the "CNC Connected" brand targeting the business service market, providing one-stop communications solutions catering to needs of business customers in different sectors. The Company improved its marketing and service systems for major customers. Dedicated managers were appointed to serve these customers. Members of the Company's management team served as chief representatives in charge of key customers. During the year, the Company strengthened its dominance of the business service market. Due to robust growth in demand in the business segment, its total leased circuit bandwidth was 100387 x 2M, representing an increase of 78.1% over the previous year.

International Telecommunications Services

The Company has always attached great importance to the development of international telecommunications services and aims to become the leading alliance partner for foreign telecommunication operators in the PRC, providing one-stop, end-to-end telecommunication and networking services to an increasing number of multinational companies in the PRC. The Company's strategy is to use its international business as a driving force for growth of its domestic service. Capitalizing on its extensive cooperation with foreign telecommunication operators and its proprietary international network resources, the Company offers end-to-end global telecommunication network services for an ever-increasing number of Chinese corporate customers that are seeking to "go global". These services helped to further fortify the Company's position in this segment.

As of the end of 2005, the international business of the Company spanned 263 countries and regions around the globe. International telecommunications

services were provided to 1,854 international corporate customers, with an annual growth rate in subscriber base of 30.1%. In 2005, international incoming calls amounted to 2.09 billion minutes, representing an increase of 21.2% over the same period last year. Access bandwidth the Company provided for international managed data services amounted to 21,458 units, representing and increase of 94.3% over the previous year.

Branding

To better support the Company's broadband strategy, in 2004 the Company launched a new core brand of "A Broadened World". In 2005, the Company launched "CNC MAX", a new brand for its broadband services targeted at residential and individual users. In order to support its strategy for business customers, the Company has restructured "CNC Connected," its brand for business customers. These two brands are providing a solid foundation for marketing and development of broadband businesses.

Marketing and Customer Service

In 2005, the Company throughly revised marketing and sales channels in the northern service region, based on a new community manager system. It established a cross-marketing system on the basis of the Company's major account managers, community managers, sales outlets, 10060 telephone marketing, online marketing, and third partners.

Over 40,000 community managers carried out direct marketing through on-site cold-calling, which significantly enhanced the Company's product sales and service quality. To ensure the effectiveness of the community manager marketing strategy, the Company set key performance indicators for community managers on certain criteria such as sales revenue, sales growth, service and maintenance.

In 2005, the Company improved its system of chief representatives for key accounts and provided one-stop global services to major customers. Centralised or separate settlement options were offered based on the clients' needs. In response to growing demand of business customers for communications, networking and IT services, in 2005 the Company promoted a wide range of customized value-added applications and integrated solution packages through promotion activities such as road show targeting specific groups of customers.

In 2005, the Company was able to improve customer satisfaction and, for the fourth consecutive year, ranked the first in a customer satisfaction survey conducted by the Ministry of Information Industry.

Network Construction

In 2005, the Company increased investment in growth business networks and pilot networks of new technologies. In order to ensure the growth of its rapidly expanding broadband business, the Company made substantial investments in broadband and supporting networks. In 2005, investments in broadband and data services accounted for 26.4% of the Company's total investments, at RMB7.3 billion, representing an increase of 9.8% over the same period last year. In 2005, the Company completed network-intelligentizing projects for 38 local networks, which helped the Company to adopt flexible marketing initiatives such as cross-service bundling, as well as to provide better customer services and respond quickly to changes in the market.

The Company's investment in the PHS network declined from RMB8.1 billion in last year to RMB5.6 billion in 2005. Investment in the PHS network was mainly for network optimization and provision of value-added services. In the traditional fixed-line network, investment was applied for market expansion on the one hand, and for network optimization on the other, which enhanced network utilization, improved service quality, and earned at the loyalty of our customers. In 2005, the Company's investment in its fixed-line telephone business, including value-added services, was RMB6.8 billion.

As part of its efforts to apply new technology and to complete its strategic transformation, the Company embarked on construction of a pilot soft-switch network and a pilot broadband IP carrier network. It also initiated pilot commercial projects for new technologies such as IPv6 and ASON, preparing for an anticipated large-scale evolution of its network in the future.

In 2005, the Company further its existing policies of standardizing administrative procedures for fixed assets investment and centralizing procurement policy, for the purpose of enhancing network utilization and investment returns while reducing investment risks.

Support System Construction

In 2005, the Company formulated a "Tri-Integration" development strategy for its corporate information system. This will enable gradual integration and standardization of its three major systems - application systems, the data center and the transport network carrying the application systems. The strategy aims at enhancing management transparency and the Company's ability to support integrated businesses and respond to the market, and is a key part of preparations for strategic transformation of the Company.

In 2005, a "2+1" project was launched as part of the implementation of the "Tri-Integration" strategy. The project involved the full-scale deployment of ERP and the centralization of billing systems at the provincial level, and, based on the needs of these two systems, optimization and integration of the DCN network for data carrying and transmission. This project is expected to be completed in 2006. Upon completion, the Company's back office information system will see substantial improvements in terms of maintenance costs and management efficiency. The "2+1" project is expected to enhance market responsiveness and business support capability, by facilitating quick decision-making for the Company's management and operations, control of operating risks and improvement of internal controls.

Management's Discussion and Analysis of Financial Condition
and Results of Operations

On 31 October 2005, the Company acquired from China Netcom Group the telecom businesses and assets in Heilongjiang Province, Jilin Province, Neimenggu

Autonomous Region and Shanxi Province (collectively the "Acquired Business"). Since the Company and the Acquired Business were under the common control of China Netcom Group, the acquisition was deemed as a restructuring of entities under common control. As such, it accounted for by merger accounting pursuant to Accounting Guidelines 5 "Merger Accounting for Common Control Combinations". Accordingly, all business operations and assets of the Acquired business were accounted for based on their carrying amounts, as if they have been held by the Company throughout the historical periods covered by the report.

In 2005, our operating revenues increased steadily while operating expenses were kept under effective control. Our profitability recorded a substantial growth with strong operating cash flow.

Our operating revenues recorded a satisfactory increase of 4.5% to RMB87,232 million in 2005 from 2004. Under continued and effective cost control, our operating expenses increased to RMB66,727 million in 2005 from 2004 by merely 1.1%, which was less than the growth in revenue. EBITDA was RMB45,554 million, with an EBITDA margin of 52.2%. Operating profit increased substantially by 17.0 % from 2004 to RMB20,505 million and reached net profit to RMB13,888 million. Capital expenditure was kept under effective control at RMB27,562million. Our free cash flow(1) amounted to RMB5,995 million and interest coverage ratio(2) was 10.9 times. The basic earnings per share was RMB2.11.

(1) Cash flow from operating activities minus our capital expenditures

(2) EBITDA to interest expense

The following table sets out the operating revenues, operating expenses, operating profit and net profit of the Company (based on amount and percentage of total revenues).

	Years Ended 31 Decemb		
	2004		
	Amount	Percentage of Revenues	Amou
	(RMB in millions, except perce		
Operating revenues	83,494	100%	87,2
Operating expenses	65,973	79.0	66,7
Operating profit	17,521	21.0	20,5
Net profit	2,699	3.2	13,8

Revenue

Sources of our revenue consist of revenues from fixed-line telephone services, broadband and other Internet-related services, business and data communications services and international telecommunications services.

Our revenue was RMB87,232 million in 2005, representing a growth of RMB3,738 million or 4.5% over RMB83,494 million in 2004. This growth primarily reflected

increases in broadband services, value-added services, domestic interconnection fees and international telecommunications services.

The following table illustrates a breakdown of our revenue and their percentage of our total revenue in 2004 and 2005.

	Years Ended 31 Decemb		
	2004		
	Amount	Percentage of Revenue	Amou
	(RMB in millions, except perce		
Domestic Telecommunications Services:			
Fixed-line telephone services:			
Local:			
Local usage fees	24,858	29.8%	24,5
Monthly fees	17,964	21.5	18,2
Upfront installation fees	1,568	1.9	1,4
Subtotal	44,390	53.2	44,2
Domestic long distance	11,266	13.5	10,2
International long distance	1,234	1.5	1,1
Value-added services	2,993	3.6	4,0
Interconnection fees	5,441	6.5	6,5
Upfront connection fees	4,346	5.2	3,4
Subtotal	69,670	83.4	69,6
Broadband services	5,202	6.2	7,8
Other Internet-related services	1,004	1.2	5
Subtotal	6,206	7.4	8,3

	Years Ended 31 Decemb		
	2004		
	Amount	Percentage of Revenue	Amou
	(RMB in millions, except perce		
Business and data communications services			
Managed data	1,520	1.8	1,3
Leased line	2,095	2.6	2,2
Subtotal	3,615	4.4	3,6
Other services	1,360	1.6	2,3
Subtotal	80,851	96.8	83,9

International Telecommunications Services:			
International long distance	181	0.2	2
International interconnection fees	1,012	1.2	1,2
Broadband services	105	0.1	1
Other Internet-related services	255	0.3	2
Managed data	309	0.4	4
Leased Lines	496	0.6	6
Other services	285	0.3	2
Subtotal	2,643	3.2	3,2
Total	83,494	100.0	87,2

Domestic telecommunications services

Fixed-line telephone services
Local telephone services. Revenue from our local telephone services (including PHS services) comprises local usage fees, monthly fees and upfront installation fees.

Revenue from our local telephone services was RMB44,285 million in 2005, representing a decrease of RMB105 million, or 0.2%, from RMB44,390 million in 2004, accounting for 50.8% of our total revenue in 2005. Competition in the telecommunications services market intensified in 2005 with an increasing trend of mobile substitution. However, the decline in this sector was partially offset by the growth in PHS services.

Local usage fees. Usage fees for local services include local usage fees charged for local telephone calls and VOIP long distance calls, and usage fees for dial-up Internet access.

Local usage fees amounted to RMB24,582 million in 2005, representing a decrease of RMB276 million, or 1.1%, from RMB24,858 million in 2004. The decline was mainly attributable to reduced usage volume of local calls, which dropped by 6.2 billion pulses or 2.7% from last year to 228.4 billion pulses in 2005. The usage volume of our dial-up Internet access fell by 50.4%, reflecting the migration of Internet dial-up traffic to broadband services.

Monthly fees. Monthly fees represent the fixed amount of service charges to our customers for using our fixed-line telephone services.

In 2005, our revenue from monthly fees were RMB18,261 million, representing an increase of RMB297 million, or 1.7%, from RMB17,964 million in 2004. The revenue growth was largely attributable to the steady increase in the number of our fixed-line subscribers in our service regions.

Upfront instal