

The following table sets out major indicators of our business development in 2001, 2002 and 2003.

	2001	2002	2003	Change 2003 over 2002
Local wireline access lines in service (in thousands)	80,834	96,788	118,091	22.0%
Penetration rate of wireline service (%)	15.6%	18.6%	22.8%	4.2pp
Broadband subscribers (in thousands)	483	1,874	5,630	200.4%
Local voice usage (pulses in millions)	250,050	274,538	294,174	7.2%
Total dial-up usage (minutes in millions) <sup>(1)</sup>	73,753	71,851	52,716	-26.6%
Dial-up usage (minutes in millions)	64,661	57,148	38,511	-32.6%
Domestic long distance usage (minutes in millions)	42,700	46,793	53,809	15.0%
International, Hong Kong, Macau and Taiwan long distance usage (minutes in millions)	1,561	1,493	1,618	8.4%
DDN Ports (in thousands) (in 64K equivalents)	222.4	278.3	366.1	31.6%
FR Ports (in thousands) (in 128K equivalents)	27.7	39.8	76.8	93.0%
ATM Ports (in thousands) (in 2M equivalents)	8.0	15.9	16.9	6.6%
2M digital circuits leased (lines in thousands)	113.6	122.7	128.6	4.8%
Penetration rate of caller ID (% of lines in service)	28.3%	41.5%	53.7%	12.2pp

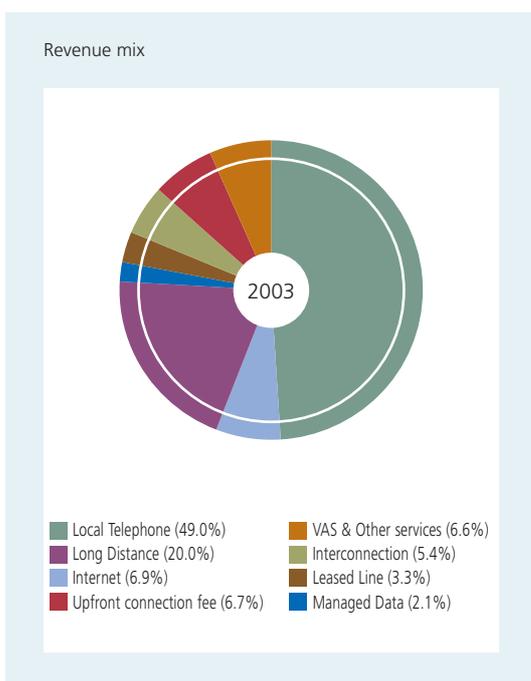
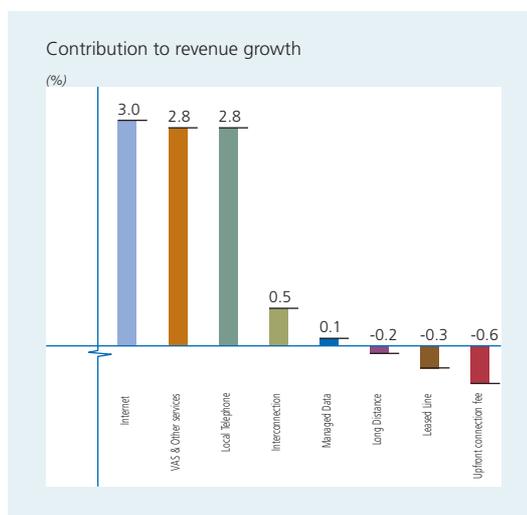
Note: (1) including dial-up usage from customers of other ISPs.

On 31 December 2003, we acquired the entire equity interests in Anhui Telecom Company Limited, Fujian Telecom Company Limited, Jiangxi Telecom Company Limited, Guangxi Telecom Company Limited, Chongqing Telecom Company Limited and Sichuan Telecom Company Limited (the "Acquired Companies") from China Telecommunications Corporation (the "Acquisition"). Our service regions have expanded from 4 to 10 provinces (including provinces, autonomous regions and municipalities, hereafter referred to as "regions"). For comparative purposes, the financial and operating data referred to herein for 2001, 2002 and 2003 are presented on such a basis as if our service regions have been 10 regions since 1 January 2001.

In 2003, we remained committed to our development strategy of combining organic growth and external growth. We fully utilised our strengths in customer base, network infrastructure and brand name. We customised our strategy to respond rapidly to the market and enhanced our distribution channels in order to significantly improve our service quality. We also optimised our compensation mechanism, encouraged management innovation, and improved our management and operations, which ensured significant development in our core businesses in 2003.

Our revenue increased to RMB118,451 million in 2003 by 8.1% from 2002. Local telephone services grew steadily, contributing 2.8 percentage points to our revenue growth. Internet services developed rapidly and contributed 3.0 percentage points to our revenue growth. Our wireline value-added services also became new areas for growth.

We achieved effective external growth through the acquisition of the telecommunications businesses in the six regions of China in 2003. The acquisition boosted our revenue growth and provided us with additional opportunities for long-term development.



### Local telephone services

Revenue from local telephone services, our pillar business, reached RMB58,021 million in 2003, an increase of 5.5% from 2002. Local telephone services revenue represented 49.0% of our total revenue in 2003.

Our wireline subscriber base continued to expand rapidly, as the total number of our subscribers reached 118 million at the end of 2003, an increase of 21 million, or 22.0%, from the end of 2002. Total wireless local access service subscribers reached 18.35 million at the end of 2003, representing an increase of 11.10 million, or 153.3%, from year-end 2002. The average cost of investment per line decreased 12% from 2002, which further increased our return on investment. Wireless local access

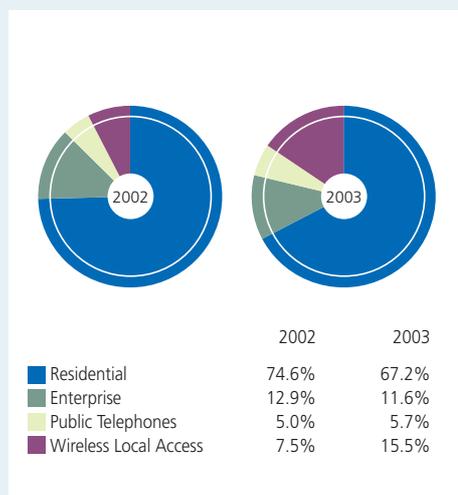


Wireless local access service, an extension to our wireline telephone business, has become part of services using our public telecommunications network in our service regions. Wireless local access service provides limited mobility at relatively lower tariff and good voice quality. It is considered more environmentally friendly. These recent years have witnessed significant development in this service.

services effectively reduced the diversion to mobile telephone services by satisfying the needs of certain subscriber groups. It also contributed to the growth in local wireline revenue.



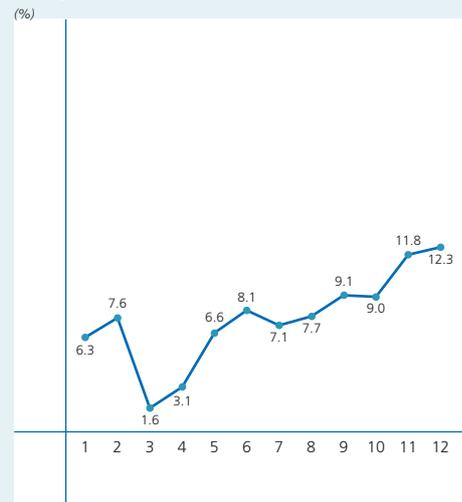
Local telephone subscriber mix



Local voice usage continued to grow steadily and reached 294.2 billion pulses in 2003, an increase of 7.2% from 2002. Our dial-up Internet access usage was 52.7 billion pulses in 2003, a decrease of 26.6% from 2002. Such a decline was mainly due to the migration of customers from our dial-up Internet services to our broadband Internet services.

We have taken various measures to respond to intensified competition in the market in 2003. In particular, we have focused on enhancing our distribution channels and closely monitored the service needs of major customer groups and implemented sales and service accountability. We also improved our product design and increased the promotion of product packages and various fee plans. These efforts have enabled us to effectively prevent the diversion of local voice usage and have accelerated our revenue growth.

Local voice usage monthly growth rates over the same period in 2002



### Broadband and other Internet services

Internet services performed strongly in 2003. Revenue from Internet services reached RMB8,160 million in 2003, an increase of 66.1% from 2002. Revenue from Internet services represented 6.9% of our total revenue. As a result of the strong demand in broadband services, the total number of our broadband subscribers reached 5.63 million in 2003, an increase of 3.76 million, or 200.4%, from 2002. In terms of numbers, our broadband

subscribers represented 4.8% of our total local telephone subscribers at the end of 2003, which presents great potential for further growth.

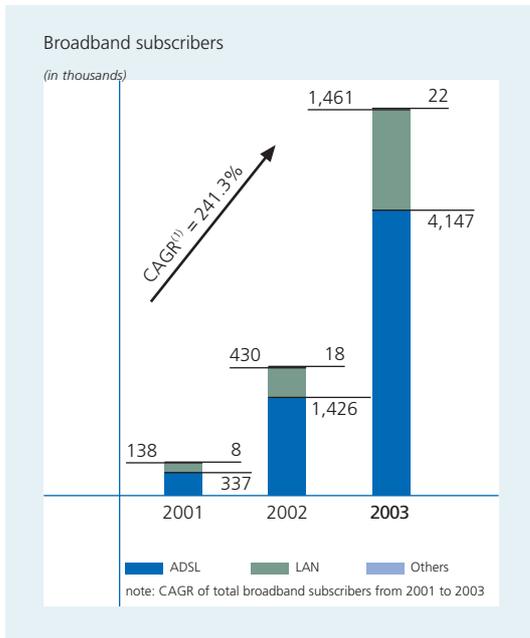


We have fully leveraged on our dominant position in local access networks, extensive distribution network and high-quality customer services in promoting various

broadband access services, especially ADSL services. As a result, we have further strengthened our leading position in the broadband services market. We took various measures to accelerate the penetration of broadband services and expand broadband customer base and coverage. Such measures included packaging our broadband services with other services we offer, packaging our broadband services with other companies' sales of personal computers, and enhancing our long-term cooperation with Internet cafes and other owners of local access networks. In addition, through cooperating with contents and applications providers and promoting the integration of broadband access with contents and applications, we have focused on creating a win-win broadband industry value chain. We successfully developed various broadband value-added service platforms such as ChinaVnet and e-Customs to explore additional opportunities for our broadband access services. We believe that our broadband services will maintain high growth rates in the years ahead and will become one of our pillar businesses.



ChinaVnet is a nationwide brand name for our Internet application services. We fully leverage on our customer base, network infrastructures, application sub-platforms, distribution channels, customer service, and promotion channels in developing our ChinaVnet service. Through integration of our Internet access services and the contents and applications provided by our partners, we have created a new business model for our Internet services, enriched contents and information applications available to our customers, and improved the business environment for Internet industry. We have been focusing on the support of sustainable development of Internet industry and on the win-win situation for our customers and our ChinaVnet partners.



Our strategy of premium product positioning has helped maintain a relatively high level of average revenue per subscriber while the number of our broadband subscribers increased rapidly in 2003. We reduced the average cost of investment per line by approximately 20% from 2002 through our centralised purchasing program and achieved significant returns on investment on broadband access services.



Dial-up usage was 38.5 billion minutes in 2003, a decline of 32.6% from 2002. This decrease was mainly due to the migration of customers from our dial-up Internet services to our broadband Internet services. We will continue to foster customer reliance on our Internet services through various fee plans and our “DNET” value-added services, turning dial-up service into an “incubator” for our broadband services.

#### Value-added services

Our wireline value-added services became new areas of growth in 2003, and contributed significantly to total revenue growth. We continued to promote existing value-added services, such as our caller ID



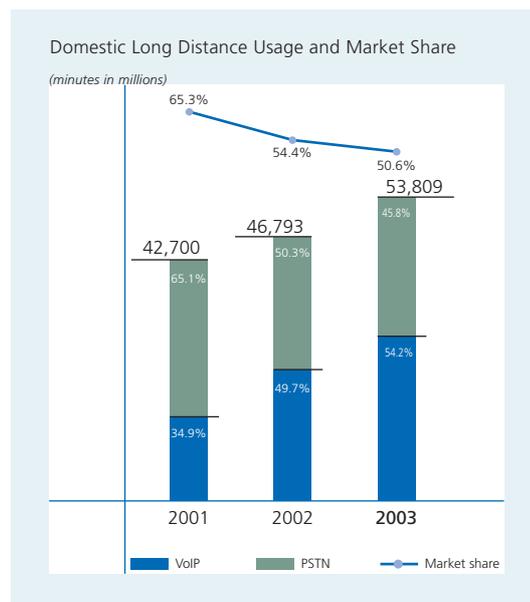
ADSL (Asymmetrical Digital Subscriber Line) service provides subscribers with asymmetrical upstream and downstream data transmissions through the existing twisted cooper wires (that is, ordinary telephone lines). The upstream and downstream data transmission rates are up to 1Mbps and 8Mbps, respectively. ADSL service is very popular for its high downstream transmission speed, broad bandwidth, and outstanding performance, renowned as “Modern Information Highway Express” in western developed countries. Two access methods are currently available, namely the “virtual dial-up access ”and the “dedicated line access”.

and telephone information services. As of the end of 2003, the penetration rate for our caller ID services reached 53.7%, an increase of approximately 10 percentage points from 2002. Total usage for our telephone information services was 1,335 million minutes in 2003, an increase of 112.9% from 2002. In addition, we increased cooperation with additional partners in developing and marketing new value-added services. We successfully launched new services such as "SMS over PHS", "Telephone QQ", and "Wireline SMS". Moreover, we packaged our value-added services with our basic telecommunications services and launched "Broadband New Vision", "Walk with Me" and other products, which significantly increased the customer base and usage of our value-added services.

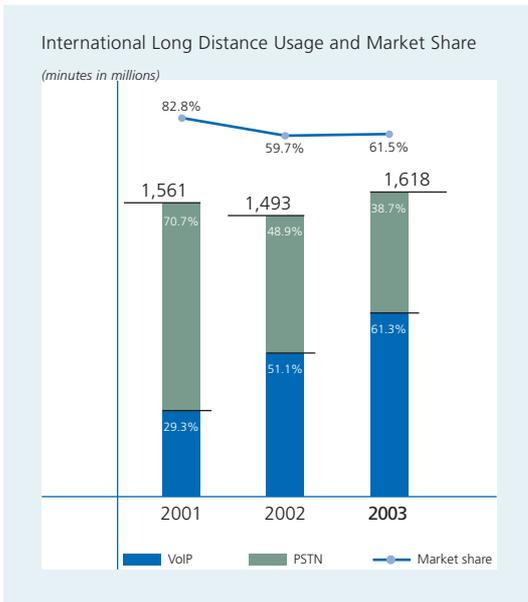
### Long distance services

Our domestic long distance services developed steadily. Revenue from domestic long distance services reached RMB19,888 million in 2003, representing a slight decline of 1.2% from 2002, which is better than the market expectations. Total domestic long distance usage was 53.8 billion minutes in 2003, an increase of 15.0% from 2002. Our domestic long distance services have a market share of 50.6%, approximately 4 percentage points down from 2002. Leveraging on our leading position in this

business area, we implemented packaged service strategy and offered flexible VoIP products to respond to competitions. These measures ensured stable development of our domestic long distance services.



In 2003, the competition in the international, Hong Kong, Macau and Taiwan long distance market has largely stabilised. Our revenue in this service area grew steadily to RMB3,770 million in 2003, representing an increase of 2.1% from 2002. The international, Hong Kong, Macau and Taiwan long distance usage increased 8.4% from 2002 to 1.6 billion minutes in 2003, while our market share reached 61.5%, nearly 2 percentage points higher than in 2002.

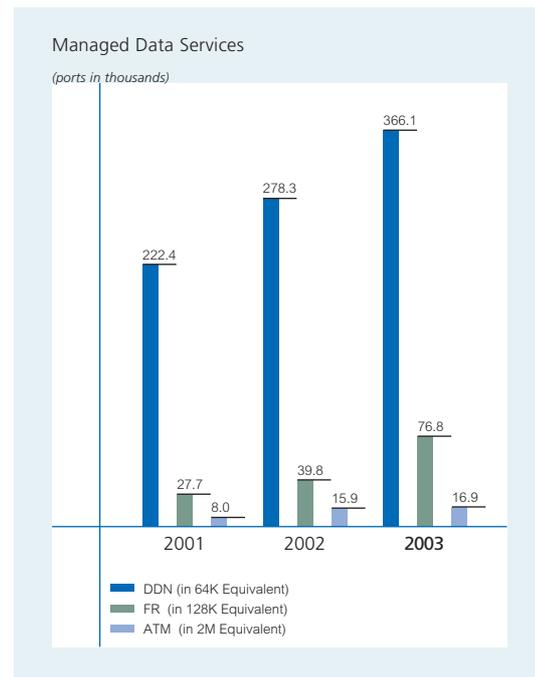


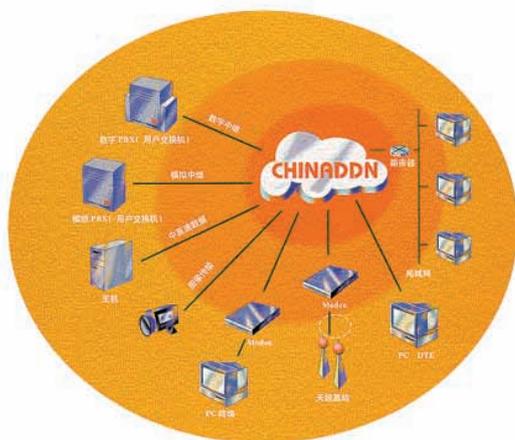
leased out a total of 129,000 digital circuits (in 2Mbps equivalent), an increase of 4.8% from 2002. In 2003, the structure of our leased line services customers changed substantially. Demand for leased line services of other telecommunications operators decreased as a result of the construction of their own transmission networks, while demand of major customers such as government entities, corporations and universities increased. The overall result was a slight increase in demand for our leased line services. The pressure on revenue from leased line services due to the decreased usage by other telecommunications operators has been reduced.

### Managed data and leased line services

As a result of the accelerated utilisation of information technology in various industries in China, our managed data services continued to grow steadily. Revenue reached RMB2,540 million in 2003, an increase of 4.5% from 2002. Leased bandwidth of our DDN, FR, and ATM services grew by 31.6%, 93.0%, and 6.6%, respectively, from 2002.

Revenue from our leased line services was RMB3,915 million in 2003, a decrease of 7.1% from 2002. As of the end of 2003, we





We will further enhance our marketing efforts on major corporate customers, such as large group companies, and continue to provide product portfolios and solutions that combine network designing, leased line, system integration and network hosting services. By leveraging on our strengths in network infrastructure, technology and maintenance, we will also provide tailored services to major customers and transform ourselves from a network service provider to an integrated solution provider.

#### Interconnection service

Revenue from interconnection service reached RMB6,444 million in 2003, with net interconnection revenue reaching RMB3,596 million, indicating a steady increase from 2002. As a result of our continuously expanding customer base and the growth of the telecommunications market in China, the volume of inbound local calls through our networks reached 53.6 billion minutes in 2003, an increase of 34.4% from 2002. The volume of inbound long distance calls through our networks also significantly increased from 2002.

#### Distribution channels and product management

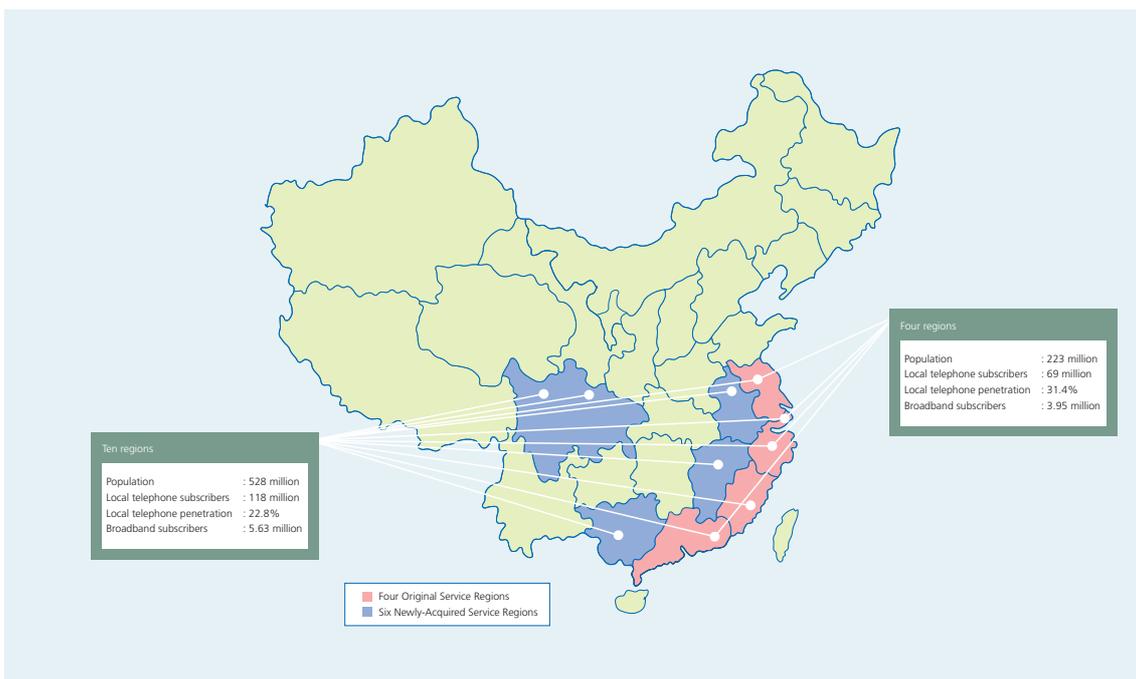
In 2003, we enhanced our distribution channels and improved our dedicated customer management system for large enterprise customers, community manager system, contract system for customers in rural areas and customer service hotline 10000. By reallocating our employees from back-end network support to front-end sales positions, we quickly expanded our sales team by approximately 60% to provide full coverage for all our customer groups. We made significant improvements in market responsiveness and service quality by optimizing the internal processes between our back-end and front-end operations. We improved professional training of our sales team and effectively motivated them by fully implementing an evaluation system and linking compensation to revenue generation and service quality. We also improved our information system in order to provide strong support for our distribution channels. In addition to the development of our own distribution channels, we also developed a comprehensive network of agents. The two systems complemented each other and achieved effective results in promoting our services to our target customers. Our improved distribution channels, one of our new competitive advantages, played an important role in ensuring our revenue growth in 2003 and enhanced our core competitiveness.



We continued to develop new products and services, with an emphasis on our strengths in diversified businesses. We introduced various product portfolios and fee plans for local voice, long distance, broadband and value-added services based on customer segmentation. We thereby expanded our customer base and enhanced customer stickiness to our services. The implementation of packaged services strategy achieved significant results. The gradual promotion of packaged services and fee plans plays an important role in expanding our customer base and maintaining revenue growth.

### External growth

The successful acquisition of telecommunications businesses in six regions led to accelerated overall revenue growth, with local telephone subscribers and broadband subscribers in the six regions increasing at rates of 23.1% and 239.7% respectively, which are higher than those of the four regions. As of the end of 2003, the penetration rate for local wireline services was 16.6% within the six regions, significantly lower than the 31.4% level in our original four service regions, which provided us with growth potential. The acquisition successfully facilitated our external growth and formed a solid foundation for sustainable growth in the future.



Note: the population figures are those as at the end of 2003.

We set our goal in 2003 to become a "world-class telecommunications operator". We pursued this goal by organic growth as well as external expansion, whilst improving our distribution channels, business processes and IT infrastructure to implement a people oriented management philosophy. Through the relentless efforts of all our staff, we achieved excellent results in 2003.

