

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

中國網通集團(香港)有限公司
(incorporated in Hong Kong with limited liability under the Companies Ordinance)
(Stock Code: 906)

2004 ANNOUNCEMENT OF FINAL RESULTS

CHAIRMAN'S STATEMENT

Dear Shareholders,

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

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

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

The Company has made great efforts to improve our corporate governance. With several internationally distinguished professionals joining the Board as external directors, we established a Board of Directors that is highly professional, independent, diverse and representative of the interests of all our shareholders, especially minority shareholders. The independent non-executive directors and the non-executive directors form a majority on the Board and a Corporate Governance Committee of the Board was established to further enhance our corporate governance. Additionally, we engaged an international renowned consulting firm to help us improve our internal control system to enhance control over operating risks and ensure the accuracy and timeliness of our financial reporting. Through long-term technology and business cooperation and fair communication channels with our global investors, we created a dedicated investor relations team based in both Hong Kong and Beijing.

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

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

We are very focused on creating shareholder value. After taking into account our financial position, cash flow and future development needs, the Board of Directors has proposed the payment of a HK\$0.037 per share dividend for the financial year ended 31 December 2004. We were listed on the Hong Kong Stock Exchange on 17 November 2004. The dividend pay out ratio, based on our net profits excluding upfront connection fee for the second half of 2004, is 100%. In addition, we will continue to pay a dividend on a pro rata basis for the period from the date of listing to 31 December 2004, is 37.55%. We will continue to devote all of our efforts to maximizing returns for our shareholders.

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

In 2005, we will focus on three main strategic areas, namely broadband, Olympics and international business. We will provide better applications and value-added service in our broadband businesses through alliances and partnerships to create a unique competitive advantage to become the leading broadband operator. Capitalizing on the unique opportunities in the northern service region, we will provide unprecedented broadband communication services and experiences to the 2008 Olympic Games and the public, which will enhance our corporate image and increase our brand recognition. We will also make full use of our pan-Asia network platform that is centered in China and capitalise on the synergies arising thereof to provide high-quality, one-stop data services to multi-national corporate customers. We will meet the increasing demand for China-related international communications and further enhance our leading position in the corporate customer market in the Asia Pacific region. Through the execution of these core strategies, we will gradually transform ourselves from a traditional narrow-band provider to a broadband communications and multi-media services provider.

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

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

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

Zhang Chunjiang
Chairman

Hong Kong, 6 April 2005

* The Company's unaudited pro forma consolidated profit figures for the year ended 31 December 2003, as adjusted in accordance with the requirements under the US Securities Act, and (ii) fixed line telecommunication services in the PRC, can be obtained from the prospectus issued by the Company on 10 November 2004 in connection with the offering of the Company's American Depositary Shares.

** The Company underwent corporate reorganisation as part of its preparation for listing. As at 30 June 2004, the Company has no distributable reserves. Since the date of reorganisation was completed on 30 June 2004, the net profit excluding upfront connection fee for the second half of 2004 after corporate reorganisation amounted to HK\$2.01 billion.

CHIEF EXECUTIVE OFFICER'S STATEMENT

Dear Shareholders,

2004 was "the year of transformation" as well as a year of many key breakthroughs for us. Despite of challenges and competition in China's telecommunications market, we successfully completed an internal restructuring and listed overseas. We streamlined our management and reporting system to improve efficiency and implemented an effective system to enhance corporate governance. With the trust and great support from the Board of Directors and the tremendous effort of both the management team and the staff, we achieved excellent operating results in 2004.

1. Our financial results for 2004 were substantially improved

In 2004, as a result of restructuring and business innovations, we delivered a sequential growth in financial results and continuing improvement in operational efficiency. We generated revenue of RMB64,922 million and net profit of RMB9,248 million, representing an increase of RMB5,024 million and RMB20,359 million over previous year. According to the unaudited pro forma financials prepared in accordance with the requirements under the US Securities Act, and (ii) fixed line telecommunication services in the PRC, our unaudited consolidated pro forma revenue and net profit would be RMB64,433 million and RMB10,410 million respectively over 2003. Our unaudited consolidated pro forma EBITDA (excluding upfront connection fees) reached RMB30,379 million, an increase of RMB3,932 million over 2003. Our unaudited consolidated pro forma EBITDA margin (excluding upfront connection fees) reached 49.8%. Unaudited consolidated pro forma net profit (excluding upfront connection fees) was RMB6,623 million. After excluding the effects of reorganization costs and a revaluation of deficits, unaudited consolidated pro forma net profit (excluding upfront connection fees) increased by RMB1,687 million or 34.2% over 2003.

In 2004, in addition to steadily growing our core business, we strengthened our internal controls for capital expenditure by implementing a stringent, centralized capex system. These measures helped ensure the robust growth of free cash flow. Already as a result, our free cash flow turned positive in 2004, representing a net increase of RMB8,827 million from 2003. With this major achievement, we laid a solid foundation for our company's future growth.

2. Our business continued to grow rapidly

During the past year, China's telecom industry remained very challenging due to increased competition and rising mobile substitution. In such an environment, we focused on the development of our broadband and local telephone businesses and intensified the promotion of value-added services through leveraging our network resources and customer base. We maintained our dominant position in the northern provinces and achieved further growth in the southern provinces and international markets.

In 2004, the successful implementation of our growth strategy for the PHS business resulted in a significant 15.5% year-over-year increase in total number of subscribers. The total number of subscribers for our local telephone services reached 80.383 million, representing a 94.5% market share in the northern service region. With robust demand for broadband services, our broadband subscribers as of 31 December 2004 reached 6.218 million, representing a 145.3% increase over 2003. Our broadband market share in the northern service region reached a new high of 95.8% in 2004, representing a 6 percentage point gain over 2003. The broadband business has indeed become the new engine for our robust growth. While our core businesses continue to grow at a double digit pace, we devoted considerable effort to develop and promote value-added services as a new growth driver, which resulted in growing adoption and usage by our subscribers. Among which, PHS short messages recorded a growth of 1,503.4% over the same period of last year. The caller identification penetration rate reached 58.2%, representing a 8.6% increase over last year. The acquisition of certain businesses from Asia Global Crossing Limited at the end of 2003 allowed us to establish a unique pan-Asian network platform that is centered around China. Through the integration and operation of our Asian operations in the Northern and Southern service regions of China, we further enhanced our unique competitive advantage in providing one-stop data services to corporate customers, which contributed to the rapid growth in revenue in the southern service region as well as our international telecommunication services.

3. Our streamlined internal management structure generated positive results

In 2004, we achieved a major breakthrough by reorganizing our internal management structure, transforming from the original "Parent-Subsidiary" structure to "Headquarter-Branch" structure. As a result, our corporate management can directly oversee the activities of provincial branches. This new structure provides a good base for effectively managing the organization and enhancing operational efficiency.

Under such "Headquarter-Branch" structure, we implemented new management processes in five areas, including finance, human resources, sales and marketing, network operation and maintenance, and construction planning, in order to realize operational synergies and increase efficiencies. Our customer satisfaction and loyalty were improved due to more coordinated marketing and sales efforts. At the same time, a series of measures were adopted to control costs and improve efficiency in network operation and maintenance. We achieved effective control over operating expenses. According to the unaudited pro forma financials prepared pursuant to the US Securities Act, the operating expenses accounted for 79.7% of the total revenues (being the unaudited consolidated revenues excluding upfront connection fees), representing a decrease of 2.4% over previous year. After excluding the effects of depreciation, the Company's ratio of operating expenses to revenue (calculated with the same standard as above) was 50.2%, dropped by 2.6% over previous year. Among which, the ratio of network, operations and support expenses and staff cost to revenue dropped by 3.6% and 0.7% against previous year. The ratio of selling, general and administrative expenses to revenue increased by 1.9%. Although the Company has adopted proactive selling activities resulting in substantial growth in sales expenses, the general and administrative expenses recorded a greater drop over previous year.

In addition to achieving effective control over operating expenses, we also managed to keep capital expenditure at a reasonable level. We adopted stringent measures in controlling capital expenditure in 2004. We were able to balance long-term growth and investment return by focusing on businesses with high returns and great market potential such as broadband and data. This led to a reduction in capital expenditure of 25.6% in 2004.

Establishing effective internal controls and a sound management system have been one of the priorities on our management agenda. In October of 2004, we retained an international renowned consulting firm to help us design and implement a robust internal control system. Through these efforts, we intend to establish an internal control and management system that complies with the best international standards to further reduce our operating risks.

4. 2005 Outlook

2005 will be a year of both opportunities and challenges for the Company. China is expected to maintain its robust economic growth and demand for telecommunications services, particularly broadband access, will continue to grow. With the increase in direct foreign investment in China and China's further integration into the world economy, demand for telecommunications services between China and the rest of the world will continue to increase. At the same time, we are facing strong challenges as mobile substitution continues and competition intensifies. In such an environment, we will continue focusing on promoting growth and efficiency within the Company and on executing our three core strategies, "Broadband, Olympic and International". We will further improve management efficiency, achieve sustainable growth and maximize value for our shareholders.

Looking into 2005, I sincerely believe that with the support of the Board of Directors and the joint efforts of our management and staff, we will continue to provide quality services to our customers and deliver superior return to our shareholders.

Lastly, I would like to take this opportunity to express my most sincere gratitude to our customers, our shareholders, the Board of Directors and our dedicated, hardworking employees for all your support in the last year.

Tian Suning
Vice Chairman and Chief Executive Officer

6 April 2005

GROUP RESULTS

China Netcom Group Corporation (Hong Kong) Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended December 31, 2004.

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2004

	For the year ended December 31,		
Note	2004	2003	
	RMB million	RMB million	
Revenues	3	64,922	59,898
Operating expenses			
Depreciation and amortization	(18,754)	(20,483)	
Networks, operations and support	(11,591)	(11,990)	
Staff costs	(8,041)	(7,547)	
Selling, general and administrative	(9,566)	(7,053)	
Other operating expenses	(1,534)	(1,660)	
Operating profit before interest income, dividend income and deficit on revaluation of fixed assets	15,436	11,165	
Interest income	76	45	
Dividend income	17	7	
Deficit on revaluation of fixed assets	—	(25,778)	
Profit/(loss) from operations	15,529	(14,489)	
Finance costs	(2,932)	(3,026)	
Share of loss of			
- Associated companies	(1)	(1)	
- Jointly controlled entity	—	(415)	
Profit/(loss) before taxation	12,596	(17,931)	
Taxation	5	6,812	
Profit/(loss) after taxation	9,248	(11,112)	
Minority interests	—	1	
Profit/(loss) for the year	9,248	(11,111)	
Basic earnings/(loss) per share	7	RMB1.64	RMB(2.02)
Diluted earnings/(loss) per share	7	RMB1.63	RMB(2.02)

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 2004

	As at December 31,	
	2004	2003
	RMB million	RMB million
Assets		
Current assets		
Cash and bank deposits	10,053	6,316
Short-term investments	2,876	1,506
Accounts receivable	5,688	6,343
Inventories and consumables	941	1,233
Prepayments and other receivables	1,006	1,640
Due from holding company and fellow subsidiaries	373	449
Total current assets	20,937	17,492
Non-current assets		
Fixed assets	125,582	133,919
Construction in progress	8,073	15,695
Intangible assets	316	184
Deferred costs	7,449	7,872
Deferred tax assets	2,394	2,784
Long-term investment	—	880
Interests in associated companies	—	90
Other non-current assets	424	618
Total non-current assets	144,238	162,042
Total assets	165,175	179,534

Liabilities and equity

Current liabilities		
Accounts payable	14,653	14,786
Accruals and other payables	3,353	4,410
Short-term bank loans	29,339	32,217
Current portion of long-term bank and other loans	7,270	15,716
Due to ultimate holding company	8,244	9,002
Current portion of deferred revenues	6,653	7,709
Current portion of provisions	2,596	3,083
Taxation payable	196	428
Total current liabilities	72,304	86,871
Net current liabilities	(51,367)	(69,379)
Total assets less current liabilities	92,871	92,663
Non-current liabilities		
Long-term bank and other loans	21,861	22,309
Due to holding companies	—	4,750
Deferred revenues	11,817	14,604
Provisions	2,143	2,341
Deferred tax liabilities	1,321	4,213
Other non-current liabilities	564	1,067
Total non-current liabilities	37,706	49,284
Total liabilities	110,010	136,155
Minority interests	—	3
Financed by:		
Share capital	2,181	1,819
Reserves	52,884	41,557
Shareholders' equity	55,165	43,376
Total liabilities & equity	165,175	179,534

Notes

1. **The Group and its Reorganisation**
Background of the Group
The Company was incorporated in the Hong Kong Special Administrative Region ("Hong Kong") of the People's Republic of China ("PRC") on October 22, 1999 as a limited liability company under the Hong Kong Companies Ordinance. Prior to a reorganization conducted for the listing of the shares of the Company (the "Reorganisation"), the Company's ultimate holding company was China Netcom Holdings Limited ("China Netcom Holdings").
China Netcom Holdings was previously owned by four state-owned enterprises and became the Company's holding company in December 2000. The Company through its principal operating subsidiary, China Netcom (Group) Limited ("CNC China") is engaged in the provision of the fixed line telecommunication services through different regional branch offices in the PRC. In March 2003, the Company along with two co-investors through Asia Netcom Corporation ("Asia Netcom") and its subsidiaries, being a 51% owned jointly controlled entity of the Company at that time, acquired the Asia-Pacific submarine cable assets and related physical network assets and liabilities, from Asia Global Crossing Ltd. On December 31, 2003, the Company purchased the remaining 49% interests in Asia Netcom held by the other co-investors and became the sole owner of Asia Netcom.
Reorganisation of the Group
In anticipation of the listing of the Company's shares and American Depositary Shares ("ADSs") on The Stock Exchange of Hong Kong and the New York Stock Exchange Inc, respectively ("Global Offering"), China Netcom Holdings and China Netcom Communications Group Corporation (the "China Netcom Group"), both being state owned enterprises under the supervision and regulation of the Ministry of Information Industry ("MIIT"), underwent the Reorganisation which was effective for accounting purposes on June 30, 2004 (see Note 2). Immediately after the Reorganisation, the ultimate holding company of the Group became China Netcom Group.
China Netcom Group, the Group's current ultimate holding company, was established by the State Council of the PRC in May 2002. Under a comprehensive industry restructuring plan relating to the fixed line telecommunication sector in China approved by the State Council in November 2001, the fixed line telecommunications businesses originally operated by China Telecommunication Corporation ("China Telecom Group") were split into northern and southern operations. In May 2002, China Netcom Group took over the northern part fixed line telecommunication operations in 19 provinces, municipalities and autonomous regions.
The Reorganisation undertaken in anticipation of the listing of the Company comprised the following:
(a) China Netcom Group acquired the entire interest in China Netcom Holdings from its four state owners and became the ultimate holding company of the Group;
(b) The Company's principal operating subsidiary, namely CNC China, transferred all its assets and liabilities in the PRC telecommunications operations to China Netcom Group, and assets and liabilities of the PRC fixed line telecommunications operations previously owned by both China Netcom Group and the Company were retained in the respective provinces, municipalities and autonomous regions;
(c) After excluding certain assets and liabilities which were retained by China Netcom Group as set out in (f) below, the net assets of the telecommunications operations of 8 PRC provinces and municipalities, namely Beijing Municipality, Tianjin Municipality, Hebei Province, Henan Province, Shandong Province, Liaoning Province, Shanghai Municipality and Guangdong Province (collectively referred to as the "Eight Service Regions"), valued at RMB43,012 million, which was based on an independent valuation and were injected into the Company in consideration of approximately 5,442 million ordinary shares (21.769 million shares before share consolidation, of the Company (the "Asset Injection").
(d) Certain Asia-Pacific submarine cable assets and related physical network assets and liabilities were transferred from Asia Netcom to China Netcom Group.
(e) The Group, immediately after the Reorganisation, contains the assets and liabilities related to: (i) fixed line telecommunication operations in the Eight Service Regions; and (ii) the Reorganisation operations in the Asia-Pacific region operated by Asia Netcom (collectively the "Restructured Businesses").
(f) China Netcom Group, immediately after the Reorganisation, retained or held the following assets and liabilities: (i) certain assets and liabilities of the Eight Service Regions including fixed assets, mainly inter-provincial optical fibers, accommodations in associated companies, long-term investments, bank balances and borrowings and those attributable to certain minor ancillary telecommunications services; (ii) all assets and liabilities of the fixed line telecommunication operations outside the Eight Service Regions; (iii) all non-core businesses representing PRC businesses other than the principal communications services operations in the Group's northern and southern service regions and primarily include procurement of materials, equipment maintenance services, engineering, project planning and design and operations of certain social facilities; and (iv) the Asia-Pacific submarine cable assets and related physical network transferred from Asia Netcom (collectively the "Retained Businesses").
The above reorganisation procedures primarily resulted in a net effect of (i) the transfer from China Netcom Group to the Company of the assets and liabilities of the telecommunications operations in the Eight Service Regions, which were previously owned by China Netcom Group prior to the Reorganisation; and (ii) the transfer from the Company to China Netcom Group of certain assets and liabilities of the telecommunications operations outside the Eight Service Regions and the Asia-Pacific submarine cable assets and related physical network, which were previously owned by the Group prior to the Reorganisation.
The shares of the Company were listed on The Stock Exchange of Hong Kong Limited on November 17, 2004 and the ADSs of the Company were listed on The New York Stock Exchange Inc, on November 16, 2004.

2. Basis of presentation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").
The Reorganisation was effective for accounting purposes on June 30, 2004, which was the date on which the Company and China Netcom Group signed the legally binding agreements that identified (i) all specific assets and liabilities under the Asset Injection transferred to the Company from China Netcom Group and (ii) the specific assets and liabilities transferred from China Netcom to China Netcom Group (collectively the "Retained Businesses").
China Netcom Group and China Netcom Holdings were both state-owned enterprises before and after the Reorganisation, and the acquisition of China Netcom Holdings by China Netcom Group was carried out under the directive of the State Council. Accordingly, the Reorganisation was regarded as a common control transaction and accounted for under merger accounting, as permitted by the Hong Kong Statement of Standard Accounting Practice 27 "Accounting for group restructurings", and the assets and liabilities injected into the Company by China Netcom Group under Note 1 (c) above have been stated at historical amounts. The consolidated financial statements present the consolidated results and financial position of the Company as if the Reorganisation had been completed and the Restructured Businesses were presented and as if the Restructured Businesses were injected into the Company from China Netcom Group at the beginning of the earliest periods presented or when such businesses were acquired by the Group or China Netcom Group, whichever is later. The consolidated financial statements do not include the results and financial position of businesses previously owned by China Netcom Group outside the Eight Service Regions which had been retained by China Netcom Group upon the Reorganisation.
Prior to the consummation of the Reorganisation, the assets and liabilities of the PRC telecommunications operations, both within and outside the Eight Service Regions of the Company held through CNC China, the Company's principal operating subsidiary, had been historically under common management and control. Therefore, the Group's consolidated income statements for the years ended December 31, 2003 and 2004 and consolidated balance sheets as at December 31, 2003 include the entire consolidated financial data of the PRC operations of CNC China up to the effective date of the Reorganisation although the assets and liabilities of operations of CNC China outside the Eight Service Regions had been transferred to China Netcom Group under the Reorganisation as set out in Note 1 above. In addition, the consolidated balance sheet as at December 31, 2003 also include the assets and liabilities of the Eight Service Regions in the PRC which had been retained by China Netcom Group under the Reorganisation (see Note 1 (f) (i) above) and the assets and liabilities that were transferred from China Netcom Group under the Reorganisation (see Note 1 (f) (ii) above) as those assets and liabilities were part of the telecommunications operations and were not separately managed throughout the periods presented.
The financial statements have been prepared under the historical cost convention modified by the revaluation of certain fixed assets and the marking to fair values of short-term investments, and on a going concern basis.

Recently issued accounting standards

The HKICPA has issued a number of new and revised HKFRSs ("new HKFRSs") which are effective for accounting periods beginning on or after January 1, 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended December 31, 2004. The Group has commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. Revenues

Revenues represent the turnover of the Group and are derived from the provision of fixed line telecommunications and related services, net of the PRC business taxes and government levies. The Group's revenues by business nature can be summarized as follows:

	For the year ended December 31,	
	2004	2003
	RMB million	RMB million
Revenues		
Local usage fees	18,661	18,567
Monthly telephone service	13,743	12,580
Upfront installation fees	1,338	1,044
DLD usage fees	8,813	8,871
ILD usage fees	1,302	1,410
Value-added services	2,146	1,516
Interconnection fees	4,915	3,797
Upfront connection fees	3,378	3,965
Broadband and other Internet-related service	3,418	3,507
Managed data service	1,526	1,279
Leased line income	2,321	2,509
Other services	1,361	853
Total	64,922	59,898

4. Segment information

Business segments provide services that are subject to risks and returns that are different from other business segments. Geographical segments provide services within a particular economic environment that is subject to risks and returns that differ from those of components operating in other economic environments. Currently the Group has one business segment, the provision of fixed line telecommunications services. Less than 10% of the Group's assets and operations are located outside the PRC. Accordingly, no business and geographical segment information is presented.

5. Taxation

	For the year ended December 31,	
	2004	2003
	RMB million	RMB million
PRC enterprise income tax ("EIT")	2,786	940
Deferred taxation	562	(7,775)
Share of taxation attributable to jointly controlled entity	—	16
Taxation charges/(credit)	3,348	(6,819)

The provision for EIT is calculated based on the statutory income tax rate of 33% on the assessable profit of each of the entities now comprising the Group in the PRC as determined in accordance with the relevant income tax rules and regulations in the PRC.
Taxation on profits derived from certain subsidiaries and the jointly controlled entity outside the PRC, including Hong Kong, has been calculated on the estimated assessable profit at the rates of taxation ranging from 17.5% to 30%, prevailing in the countries in which those entities operate.

6. Profit distributions

	2004
	HKD million
Final dividend proposed after the balance sheet date of HK\$0.037 per share	245

The final dividend proposed after the balance sheet date has not been recognized as