



## China Netcom Announces 2004 Annual Results

### Robust Growth in Revenues and Profits

(In RMB millions, except earnings/losses per share)	Audited Historical Financials		Unaudited HK Pro Forma Financials*		Unaudited US Pro Forma Financials**	
	2003	2004	2003	2004	2003	2004
<b>Revenue</b>	59,898	64,922	60,021	64,433	60,021	64,433
<i>excluding upfront connection fees</i>	55,933	61,544	56,056	61,055	56,056	61,055
<b>EBITDA</b>	31,648	34,190	31,504	34,371	30,412	33,757
<i>excluding upfront connection fee</i>	27,683	30,812	27,539	30,993	26,447	30,379
<b>Net Profit/(Loss)</b>	(11,111)	9,248	(9,797)	10,410	(8,371)	10,001
<i>excluding upfront connection fees</i>	(15,076)	5,870	(13,762)	7,032	(12,336)	6,623
<b>Basic Earning/(Losses) per Share (RMB)</b>	(2.02)	1.64	(1.78)	1.85	(1.52)	1.78

\*HK Pro Forma" standing for Pro-forma prepared in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

\*\* "US Pro Forma" standing for Pro-forma financial information prepared in accordance with Article 11 of Regulation S-X under the Securities Act of 1933 issued by The Securities & Exchange Commission of United States of America ("SEC")

**Hong Kong, 6 April 2005** – China Netcom Group Corporation (Hong Kong) Limited ("China Netcom" or "the Company") (HKSE: 0906; NYSE: CN), a leading telecommunications company in China and the Asia-Pacific region, today announced its annual results for the year ending 31 December, 2004.

**By leveraging its dominant market position and strong management expertise and execution capability, China Netcom delivered impressive results for the year:**

**Robust revenue and profit growth:** Consolidated revenue reached RMB 64,922 million and net profit reached RMB 9,248 million, representing an increase of RMB 5,024 million and RMB 20,359 million, respectively, over previous year.

Unaudited HK pro forma revenue and net profit would be RMB 64,433 million and RMB 10,410 million respectively. For reference, unaudited US pro forma revenue (excluding upfront connection fees) amounted to RMB 61,055 million for 2004, an increase of 8.9% over 2003. Unaudited US pro forma EBITDA (excluding upfront connection fees) reached RMB 30,379 million, an increase of RMB 3,932 million over 2003. Unaudited consolidated pro forma EBITDA margin (excluding upfront connection fees) reached 49.8%. Unaudited consolidated pro forma net profit (excluding upfront connection fees) was RMB 6,623 million, which was higher than budgeted net profit by 1.5%. After excluding the effects of reorganization costs and a revaluation of deficits, unaudited consolidated pro forma net profit (excluding upfront connection fees) increased by RMB 1,687 million or 34.2% over 2003.

**Significant cost reduction:** According to the unaudited US pro forma financials, operating expenses accounted for 79.7% of total revenue (excluding upfront connection fees), representing a decrease of 2.4% over the previous year. Of this, the ratio of network operation and support expenses and staff costs to revenue dropped by 3.6% and 0.7% against the previous year.

**Strong cash flow:** Free cash flow (net cash flow from operating activities net of capex expenses) turned positive, reaching RMB5,631 million in 2004, a significant increase of RMB8,827 million over 2003. This remarkable operational improvement is the result of stringent capex budgeting to ensure capital efficiency, leading to a RMB7,289 reduction in capex for the year. Actual cash-based capex for 2004 reached RMB21,239 million, which was 9.2% lower than budgeted capex for the year.

**Attractive dividend:** The Board of Directors proposed a dividend of HK\$0.037 per share (equivalent to US\$0.095 per ADS), representing a payout ratio of 37.5% for the year, based on our profits excluding upfront connection fee for the second half of 2004 after completion of our corporate reorganization and calculated on a pro rata basis for the period from the date of our listing (17 November 2004) to 31 December 2004.

**Dominant market position:** The Company continued to maintain its market dominance in the northern service region with a 94.5% market share in local telephony and a significantly expanded market share in broadband to 95.8% at the end of 2004, compared to 89.2% in 2003.

**Sound corporate governance:** The Company implemented a sound corporate governance framework with the establishment of a highly professional, independent and diverse Board of Directors that is representative of the interest of all shareholders. Non-executive directors from outside and independent directors form a majority of the Board and four corporate governance committees have been established to supervise the effective implementation of the Company's governance policies.

“2004 was ‘the year of transformation’, an extremely active and successful year for China Netcom” said Mr. Edward Tian Suning, Vice Chairman and Chief Executive Officer. “First, in the face of strong competition we focused on transforming our business in order to deliver sustainable growth and shareholder value in the future. We developed a clear vision and defined comprehensive strategies to transform China Netcom into a broadband communications and multimedia service provider. We will achieve this by becoming the leader in the fast growing broadband market, expanding our market share in domestic and regional corporate data services and enhancing our brand through our association with the Beijing Olympic Games.

“Second, we successfully completed our internal restructuring and listed in Hong Kong and New York. We streamlined management and reporting systems to improve efficiency and return to shareholders.

“Third, we started to execute our strategies for future growth and, despite increasing competition in China’s telecom market and rising mobile substitution, we achieved strong growth in revenues and profits with particularly strong performance in broadband, PHS, value-added services and our international business. As our traditional fixed-line business continued to face competition, we invested further in our future and revenues from new businesses such as broadband, VAS and international business reached 62% of total incremental revenues for 2004. In addition to steadily growing our core business, we strengthened internal controls over capital expenditure and delivered a remarkable improvement in free cash flow.”

“In short, we delivered on the promises we made to investors at the time of the IPO.”

### **Broadband and Internet Services**

Broadband and Internet services were one of the strongest drivers of growth in 2004. Broadband subscribers grew by 145.3% to 6.22 million as a result of low Internet penetration, proliferation of content and applications, and affordable tariffs. In the Northern service region, China Netcom’s market share reached 95.8% at the end of 2004, compared to 89.2% at the end of 2003, reflecting the Company’s unrivalled dominance in the region. As a result, the broadband and Internet services revenue reached RMB 5,058 million, which was 44.8% higher than that of 2003.

### **Fixed-line Telephone Services**

Fixed-line subscribers grew substantially to 80.4 million, an increase of 15.5% from the end of 2003 as the number of PHS subscribers more than doubled to reach 15 million and accounted for 18.8% of total fixed line subscribers by the end of the year. PHS usage more than tripled, which more than offset a slight 5.8% decrease in PSTN usage resulting from

mobile substitution. Total usage of fixed-line excluding dial-up increased 9.6% while dial-up usage decreased rapidly due to the prevalent upgrading to broadband.

Domestic long distance usage grew approximately 12.9% in 2004, while international long distance usage increased close to 3.9%. The percentage of VOIP usage increased for both domestic long distance and international long distance. This, combined with lower effective tariffs, prompted a decline in overall long distance revenues by 3.4% in 2004 while domestic long distance revenues remained relatively stable.

VAS revenues grew rapidly as the Company attempted to enhance customer value with enriched services such as caller ID, telephone information, PHS SMS and personalized ring tones. Revenues accounted for 3.5% of total revenues, up from 2.7% in 2003, and offsetting the decline in fixed-line voice ARPU. Caller ID service penetration increased by 8.6 percentage points to 58%, reaching 46.8 million subscribers and PHS short message services totaled 1.3 billion messages as the Company developed connections with other mobile operators. Because of relatively low penetration, VAS has strong growth potential and has become a key driver of future growth.

### **Business and Data Communication Services**

Revenues from managed data services were RMB1,217 million in 2004, an increase of RMB 2 million, or 0.2%, from RMB1,215 million in 2003, primarily due to growth in the total leased bandwidth of our FR, ATM and MPLS VPN services. Revenues from leased line services were RMB1,825 million in 2004, a decrease of RMB621 million, or 25.4% from RMB2,446 million in 2003 as other carriers chose to build and use their own networks.

### **International Telecommunication Services**

On the back of the Company's unique pan-Asian network, revenues grew 91.7%, reaching RMB 2,643 million in 2004 compared to RMB1,379 million in 2003 and accounted for 4.3% of total revenues compared to 2.5% in 2003. On a Pro Forma basis, including ANC's revenue in both 2003 and 2004, revenues grew by 11%, outgrowing most carriers in the region. Points of connection for international managed data more than tripled while bandwidth of international leased line services more than doubled in 2004.

### **Outlook**

Looking at 2005, Chairman, Mr. Zhang Chunjiang commented "we expect that China will maintain its robust economic growth and that demand for communication services, particularly broadband access, will continue to grow. For China Netcom, 2005 will be 'the year of execution.' We plan to take advantage of our dominant market position, service quality, broadband leadership, rapid growth in international telecommunication services and growing brand recognition as an Olympic marketing champion. We will continue to control

costs rigorously and enforce strict capex controls in order to further improve efficiency. I am confident that we will deliver superior long-term value to our shareholders.”

**Notice:** China Netcom will announce its 2004 annual results on Wednesday, 6 April 2005. An archived webcast to discuss China Netcom’s results will be posted on Thursday, 7 April, 2005 on the Company’s website at [www.china-netcom.com](http://www.china-netcom.com)

**About China Netcom:**

China Netcom Group Corporation (Hong Kong) Limited ("China Netcom") is a leading fixed-line telecommunications operator in China and a leading international data communications operator in the Asia-Pacific region. Its northern service region in China consists of Beijing Municipality, Tianjin Municipality, Hebei Province, Henan Province, Shandong Province and Liaoning Province. Its southern service region in China consists of Shanghai Municipality and Guangdong Province. China Netcom is the dominant provider of fixed-line telephone services, broadband and other Internet-related services, and business and data communications services in its northern service region in China. China Netcom primarily targets business and residential customers in selected high-density areas in its southern service region in China. China Netcom is also the only telecommunications company in China that operates an extensive network and offers international data services in the Asia-Pacific region.

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