



## China Netcom Announces 2007 Annual Results

Innovative businesses mitigated impact of mobile-substitution  
Olympic Games sped up strategic transformation into broadband  
communications and multimedia services provider

### Financial results and business highlights<sup>(1)</sup>:

- **Consolidated net profit was RMB10,578 million<sup>(2)</sup>**
- **Free cash flow increased by 57.2% to RMB11,775 million<sup>(3)</sup>**
- **Innovative businesses surged 38.9% to RMB28,656 million, accounting for 34.7% of total revenue, up 9.5 percentage points**
- **Broadband subscribers grew by 37.0% to 19.768 million.**
- **Board of Directors recommends a final dividend of HK\$0.592 per share, up 7.1%**

(1) All figures in this document exclude discontinued operations and upfront connection fees unless otherwise stated.

(2) The figure includes net profit of RMB624 million from discontinued operations, but excludes upfront connection fees of RMB1,517 million

(3) Free cash flow means cash flow from operating activities of continuing operations net of capital expenditure.

**Hong Kong, March 25, 2008** – China Netcom Group Corporation (Hong Kong) Limited (“China Netcom” or the “Company”) (HKSE: 0906; NYSE: CN), a leading broadband and fixed-line communications operator in China, announces its annual results<sup>(4)</sup> for 2007 today. China Netcom capitalized on the rapid growth of China’s Internet market to speed up its strategic transformation into a broadband communications and multimedia services provider. It continued to develop a number of innovative services such as broadband, ICT (information and communication technology), value-added services and advertising and media businesses to boost revenue. The Company also seized the opportunities presented by the Beijing 2008 Olympic Games to step up its efforts to market innovative services with an aim of making a breakthrough amid mobile-substitution. The move paid off as it offset the decline in the traditional fixed-line telecom business, and paved the way for sustainable and fast development in the future.

For the year ended December 31, 2007 (“the Period under Review” or “the Period”), the company generated RMB84,005 million in revenues from continuing operations, including amortization of upfront connection fees of RMB1,517 million. Excluding amortization of upfront connection fees, revenue from continuing operations rose 0.9% to RMB82,488 million. Consolidated net profit (which included net profit of RMB624 million from

discontinued operations, but excluded upfront connection fees of RMB1,517 million) was RMB10,578 million, and basic earnings per share were RMB1.59. The Board of Directors recommends a final dividend of HK\$0.592 per share, up 7.1% from that of the previous year.

The effective management of capital expenditure and cash flow also helped to enhance profitability. During the Period under Review, capital expenditure was RMB20,684 million, a decline of 15.8% and a reduction of RMB316 million compared to the guidance provided by Management at the beginning of the year 2007. Free cash flow increased by 57.2% to RMB11,775 million.

Mr. Zhang Chunjiang, Chairman of China Netcom, said, “Over the past three years, the Company has focused its efforts on strategic transformation and operational reform. In 2007, we made significant progress in the Company’s transformation into a broadband communications and multimedia services provider, breaking new ground with innovative businesses. In 2007, revenue generated from innovative businesses maintained its growth momentum, growing by 38.9%, and accounted for 34.7% of total revenue, up 9.5 percentage points from the previous year. This has paved the way for China Netcom’s sustainable and fast growth in the future. We believe that the Company can sustain growth and create value for shareholders as long as it follows this long-term vision.”

### **Increased proportion of Innovative Businesses in total revenue**

In 2007, revenue from innovative businesses surged 38.9% to RMB28,656 million.

During the year, the Company launched a “Super Broadband Plan” to take advantage of growth opportunities presented by the rapid expansion of Internet usage in China. Within its service regions, the Company increased broadband access speed, implemented new operational and business models, and promoted its Olympic ties and strategy. By the end of 2007, the total number of broadband subscribers of the Company increased 5.339 million to 19.768 million, representing a growth of 37.0% and a market share of 88.9% in the Company’s service areas.

Along with the expansion of the broadband subscriber base, the Company focused on integrating broadband content and applications. It launched “CNC MAX” Client to deliver enriched content and applications directly to the desktops of its subscribers. The Company also diversified broadband access sources, extending its range from PCs to TV sets.

These moves boosted average revenue per user (ARPU). Broadband service generated total revenue of RMB13,835 million in 2007, and ARPU grew by 3.9% to RMB67.4. In particular,

revenue from broadband content and applications reached RMB1,749 million, up 107.7% from the previous year, and contributed RMB8.5 to average revenue per broadband subscriber.

With its expanding of “CNC MAX” Client user base and content and applications enrichment, the Company began to build competitive advantage its advertising and media businesses. In 2007, the Company built a competitive advantage in advertising and media through “Phone Navigation”, “CNC MAX” Client and “CNC Yellow Pages”. By the end of the year, advertising and media businesses generated revenue of RMB380 million.

To capitalize on the increasing penetration of IT across all sectors of society, the Company has set a long-term goal of becoming one of China’s leading ICT service providers, as well as a network information specialist for government and corporate customers. Leveraging its brand and resources, the Company made great efforts to develop ICT services and puts emphasis in enhancing its capability of providing integrated solutions for key customers and markets as well as to move up the value chain during the Period under Review. In 2007, the Company developed its competitive advantages in integrated solutions for government, Olympics, health, education, finance and other industries. As a result, the Company obtained contracts from important customers such as the State Council Informatization Office, the National People’s Congress, the Ministry of Commerce, China International E-commerce Center and the Chinese Academy of Medical Sciences. In 2007, revenue from the ICT business increased by 366.7% to RMB3,990 million.

In 2007, the Company focused on expanding the scope of its value-added services and increasing the penetration rate of these services for its fixed line subscribers. By the end of 2007, revenue from value-added services had increased by 14.5% to RMB6,114 million, accounting for 7.4% of total revenue, an increase of 0.9 percentage point from 2006. The number of Personalized Ring subscribers grew by 78.6% to 28.137 million. Of these, 19.970 million used fixed-line Personalized Ring, representing a growth of 124.1% and a penetration rate of 23.6%. The penetration rate of Caller Identification Service was 72.2%, up by 3.4 percentage points.

#### **Promoting bundled services in traditional fixed-line business**

In 2007, the Company continued to promote bundled services and integrated services in the traditional fixed-line services under the brand names “Family 1+” and, “Same Number”, driving the growth of innovative services by bundling various services in one package. By the end of 2007, the number of “Family 1+” subscribers grew by 650.8% to 8.378 million. Subscribers to “Same Number” increased by 75.7% to 1.663 million. Fast growth in the

“Family 1+” service accelerated the development of broadband access, broadband content and applications as well as value-added services. In 2007, more than 80% of the net growth in broadband subscribers also subscribed to “Family 1+”.

Due to accelerating mobile substitution, the number of local telephone subscribers declined to 110.820 million at the end of 2007, down by 3.152 million, including a 4.1% decrease in PHS subscribers to 26.189 million. ARPU and traffic for local telephone services continued to fall.

We believe that with the growing penetration of the “Family 1+” service plan, steady improvement in pricing and shift of the service plan positioning to home multimedia information service, the value of fixed-line telephone services customer will be maximized.

### **Capitalizing on the Olympics**

As a partner of the 2008 Olympics, the Company intensified marketing in 2007 stick to its “Broadband Olympics” strategy, which is expected to drive substantial growth in both broadband and ICT services. The “Broadband Olympics” strategy is expected to enhance the Company’s brand image, services, management, and overall competitiveness.

### **Prospect**

Looking forward, Chairman Zhang Chunjiang said, “The telecommunications industry is undergoing rapid and profound change. It is hard for the traditional operational model to keep up with the rapid changes in demand and the fast development of technological innovation. In view of this, the Company will continue its strategic transformation into a broadband communications and multimedia services provider in 2008. It will also persevere in its pursuit of licenses for mobile services and IPTV services, which will pave the way for the Company to become a comprehensive broadband communications and multimedia services provider, based on the quadruple-play business model. We believe that the only way to sustain growth and enhance value for our shareholders is to deliver breakthrough innovation, embrace challenge proactively, and drive trends rather than follow them.”

(4) Financial statements are prepared in accordance with generally accepted accounting principles in Hong Kong.

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### **About China Netcom**

China Netcom Group Corporation (Hong Kong) Limited is a leading broadband and fixed-line communications operator in China. Its service region consists of Beijing Municipality, Tianjin Municipality, Hebei Province, Henan Province, Shandong Province, Liaoning Province, Heilongjiang Province, Jilin Province, Inner Mongolia Autonomous Region and Shanxi Province. The Company provides fixed-line voice, value-added services, broadband and other internet-related services, information and communications technology (ICT), business & data communications services and advertising and media services.

An audio replay of the 2007 annual results presentation will be available at [www.china-netcom.com](http://www.china-netcom.com)

The annual report for the year ended December 31, 2007 will be published on the website of The Stock Exchange of Hong Kong Limited ([www.hkex.com.hk](http://www.hkex.com.hk)) as well as the website of the Company ([www.china-netcom.com](http://www.china-netcom.com)). We would also submit the report to the U.S. Securities and Exchange Commission (SEC) on Form 6-K.

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