



China Netcom Announces 2008 Interim Results

Innovative business alleviates impact of fixed-mobile substitution Olympic Games accelerates strategic transformation

Financial results and business highlights⁽¹⁾:

- **Broadband subscribers increased by 3,587 thousand to 23,355 thousand**
- **Revenue generated from innovative business grew by 26.2% to RMB16,480 million, and accounted for 40.6% of total revenues, up 8.5 percentage points over the same period of last year**
- **Net profit reached RMB 5,877 million**
- **Free cash flow increased by 3.7% year-on-year to RMB 8,428 million ⁽²⁾**

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

(2) Free cash flow means cash flow from operating activities net of capital expenditure.

Hong Kong, August 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 unaudited 2008 interim results today. In the first half of 2008, the Company continued to actively develop its innovative businesses, especially the broadband services. The performance in this segment helped to offset the continuing negative impact of fixed-mobile substitution to a large extent. In the first half of 2008, revenue generated from innovative businesses made up for most of the decline in traditional fixed-line services, which created a solid foundation for the Company’s growth in future.

For the six months ended 30 June, 2008 (“the Period under Review” or “the Period”), the Company generated revenue of RMB 41,125 million, which included upfront connection fees of RMB 505 million. Excluding upfront connection fees, revenue was RMB 40,620 million, representing a decrease of 0.15% over the same period of last year (unless otherwise specified, all reported data hereafter exclude the effect of upfront connection fees). Net profit was RMB 5,877 million, up 11.9% year on year because of the change in corporate tax rate and gain on non-cash transactions. If the impact of non-cash transactions was excluded, the net profit would be RMB5,420 million, up 3.2% year on year.

During the Period under Review, the Company integrated its resources for actively developing innovative businesses, including the broadband services, ICT (information and communication technology), value-added service and advertising and media services in its push for transformation into a “broadband communications and multimedia services provider”, and achieved good results in the strategy. The revenue generated from innovative businesses grew by 26.2% and accounted for 40.6% of total revenues, up 8.5 percentage points over the same period of last year.

In the first half of 2008, the Company continued to execute its capital expenditure improvement plan. It controlled investment in traditional businesses to enhance cash flow. It also increased investment in innovative businesses in order to create a foundation for sustainable growth in future. The Company reported a decline in total capital expenditure of 10.7% year-on-year to RMB 7,527 million. In particular, investment in the businesses of fixed-line and PHS only accounted for 4.4% of the total, down 13.2 percentage points compared to the same period last year. During the Period under Review, the Company reported an increase in free cash flow of 3.7% year-on-year to RMB 8,428 million.

Mr. Zuo Xunsheng, Chairman of China Netcom, said, “We continued to step up effort to develop innovative businesses. In traditional fixed-line services, we used high-quality and bundled services, reformed pricing mechanisms and improved customer experience to promote customer loyalty. As a result, the Company achieved good results in its strategic transformation into a ‘broadband communications and multimedia service provider’.”

Innovative business grew well

Revenue from innovative businesses was RMB 16,480 million in the first half of 2008. The amount was up 26.2% over the same period of last year, accounting for 40.6% of the total. The segment posted growth overall, which was mainly attributable to the rapid expansion of broadband services. Other innovative businesses, such as ICT (information and communication technology), advertising and media services, also performed well. As of June 30, 2008, broadband subscribers increased to 23,355 thousand. This represented a net growth of 3,587 thousand when compared to the end of 2007. Our share of the broadband market in our serviced areas was 90.4%, up 1.5 percentage points year-on-year. While the number of the Company’s broadband services customers was growing fast, it continued to step up effort to develop broadband content and application services with an aim to increasing revenue contribution from the services. The Company improved the business model based upon “content & application + access.” In the first half of 2008, a full-scale upgrade of “CNC MAX” Client introduced enriched content and a new charging system. This led to a

significant increase in penetration rate for content and application services among broadband subscribers. During the Period under Review, revenue from broadband services was RMB 8,859 million, a year-on-year increase of 38.8%. Broadband services accounted for 21.8% of total revenues, up 6.1 percentage points over the same period of last year. ARPU was RMB68.5. Revenue generated from broadband content and applications was RMB 1,270 million, up 69.1 % over the same period of last year, accounting for RMB 9.8 of broadband ARPU.

Mr. Zuo Xunsheng, Chairman of China Netcom, said, “We believe that revenue contribution from the broadband content and application services and ARPU from broadband subscribers will both increase as broadband content and applications become ever more enriched and their penetration among the subscribers rises.”

In the first half of 2008, ICT revenue grew by 28.5% year-on-year to RMB 1,882 million, and accounted for 4.6% of total revenue. During the Period, the Company’s strategy for the ICT businesses was to enhance its capability for providing integrated ICT solutions for key industries, as well as to move towards the high end of the value chain, with an aim to improving the profitability of its ICT business. We made breakthroughs in enhancing our capability for serving such key sectors and industries as the government, environmental protection and transportation. The Company won a number of key projects for clients including the Ministry of Civil Affairs’ information systems for a minimum standard of living, pollution source monitoring for the province of Neimenggu Autonomous Region and electronic police system integration for Shenyang municipality.

In the first half of 2008, we were improving the professional operation of our advertising and media businesses. Improvements have included the integration of information and data bases for the “Yellow Pages” and integration of media channels so that the Company and its branches can better share the resources. Our “Phone Navigation,” “Yellow Pages” and “Online advertising” demonstrated robust growth. Revenue from advertising and media services was RMB413 million, up by 339.4% year-on-year. Our strength in advertising and media business is becoming more and more prominent.

Unlocking value of fixed-line network with comprehensive information services

During the first half of 2008, our traditional fixed-line service faced major challenges. We are losing local access subscribers, leading to a decline in revenue from the traditional business. As of June 30, 2008, we had 108,510 thousand local access subscribers, 2,310 thousand less than at the end of 2007. Of this number, fixed-line subscribers declined by 1,499 thousand, while PHS subscribers declined by 811 thousand.

Considering the continuous decline in subscribers of our fixed-line business and PHS, our strategy for 2008 is to use high-quality and bundled services, reformed pricing mechanisms, and improved customer experience to promote customer loyalty and thus arrest the decline in subscribers. We are working to upgrade the “Family 1+” from bundled services to household-oriented multimedia information services. In May, 2008, we launched a family gateway, which offered comprehensive information services to “Family 1+” customers, combining simultaneous access to the internet through various PCs, wireless internet access, family video monitoring and IPTV services.

By the end of the first half of 2008, there were 9,971 thousand “Family 1+” subscribers. Penetration rate among broadband subscribers for the “Family 1+” service was 36%. The increasing penetration rate for “Family 1+” and enriching functions of the family gateway could make our customer enjoy the multimedia services more during informatization and thus unlock the value of our fixed-line network.

Broadband Olympics

As the official partner for fixed-line communications for the 2008 Beijing Olympic Game, the Company successfully carried out the work to ensure the smooth operation of television transmission, broadband internet, WLAN (wireless local area network) and telecommunication support for the sport events. We are proud to have shown the world the marvels of the “Broadband Olympics” through our high speed network, convenient internet access, various communication products, and high service standards.

We believe that, after the 2008 Beijing Olympic Games, the high-quality broadband network established during the Olympic Games as well as the broadband consumption habit developed during the Olympic Games, will lead to a fast and sustainable growth in the innovative business and thus help catalyze the Company’s strategic transformation.

Looking Ahead

Looking forward, Chairman Zuo Xunsheng said, “In the second half of 2008, we will increase investment in our innovative businesses, and step up effort to develop the innovative businesses, including the broadband services. We will continue the transformation of the “Family 1+” service in order to meet the demand of the household subscribers for high-quality multimedia services during informatization and to enhance the value of the fixed-line network. Meanwhile, we believe that the Company’s merger with China Unicom will support and strengthen execution of these strategies. The merger will enable the new company to give full play to the competitive advantages of both predecessor companies, and bring the synergy of

the mobile and fixed-line networks into play. The new company is also expected to have access to a 3G license. These will enable the new company to have an edge and to be better positioned in the domestic telecommunications market. The merger will increase shareholder value of both companies.”

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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, Neimenggu 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 2008 interim results presentation will be available at www.china-netcom.com

The interim report for the six months ended June 30, 2008 will be published on the website of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) as well as the website of the Company (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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and other risks and factors beyond the Company's control. In addition, the Company makes the forward-looking statements referred to herein as of today and undertakes no obligation to update these statements.