

China Netcom Group CORP (Hong Kong) LTD
Form 20-F
May 22, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____ TO _____

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

For the transaction period from _____ to _____

COMMISSION FILE NUMBER 1- 32332

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED
(Exact name of Registrant as specified in its charter)

Hong Kong, The People's Republic of China
(Jurisdiction of incorporation or organization)

No. 21, Financial Street
Xicheng District, Beijing, 100140
The People's Republic of China
(Address of principal executive offices)

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Securities registered or to be registered pursuant to Section 12 (b) of the Act.

Title of Each Class	Name of Each Exchange On Which Registered
American depositary shares, each representing 20 ordinary shares of par value US\$0.04 per share	New York Stock Exchange, Inc.
Ordinary shares of par value US\$0.04 per share	New York Stock Exchange, Inc.*

* Not for trading, but only in connection with the registration of American depositary shares.

Securities registered or to be registered pursuant to Section 12 (g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15 (d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2007, 6,674,328,400 ordinary shares were issued and outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

The Registrant is required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Note - Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which financial statement item the Registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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FORWARD-LOOKING STATEMENTS

This annual report filed on Form 20-F contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to financial condition, results of operations, cash flows, dividends, financing plans, business strategies, capital and other expenditures, competitive positions, availability of capital, growth opportunities for new and existing products, availability and deployment of new technologies, plans and objectives of management, mergers and acquisitions, and other matters.

Statements in this Form 20-F that are not historical facts are hereby identified as “forward looking statements” for the purpose of the safe harbor provided by Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words “estimate,” “project,” “intend,” “expect,” “believe,” “plan” and similar expressions are intended to identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this annual report. In addition, other written or oral statements which constitute forward looking statements have been made and may in the future be made by us or on our behalf, including with respect to the matters referred to above. These forward looking statements are necessarily estimates reflecting the best judgment of senior management that rely on a number of assumptions concerning future events, many of which are outside of our control, and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. These forward-looking statements should, therefore, be considered in light of various important factors, including those set forth in this annual report. Important factors that could cause actual results to differ materially from estimates or projections contained in the forward-looking statements include, without limitation:

- the level of demand for telecommunications services, particularly with regard to access lines, traffic and new value-added services;
- competitive forces in more liberalized markets, including pricing pressures and our ability to retain market share in the face of competition from existing telecommunications companies and potential new market entrants;
 - the effects of tariff reduction initiatives, particularly in our core fixed-line telephone business;
- changes in the regulatory policies of the MII of China and other relevant government authorities, which could affect, among other things, the granting of requisite government approvals, licenses and permits, interconnection and transmission line arrangements, tariff policies, capital investment priorities, and spectrum allocation;
- the success of new business initiatives, some of which involve start-up costs, and new systems and applications, particularly with regard to the integration of our service offerings;
- our ability to secure or renew the licenses we need to offer telecommunications services and the cost of these licenses and related network infrastructure build-outs;
- the availability, terms and deployment of capital, and the impact of regulatory and competitive developments on capital outlays;
- changes in the assumptions upon which we have prepared our projected financial information and capital expenditure plans; and
- changes in the general political, economic, legal and social conditions in China, including the PRC government’s specific policies with respect to new entrants in the telecommunications industry, the entry of foreign operators into China’s telecommunications market, economic growth, foreign exchange and the availability of credit.

CONVENTIONS

Definitions

References in this annual report to “we”, “us”, the “Company”, the “Group” or “CNC Hong Kong” mean China Netcom Group Corporation (Hong Kong) Limited and, as the context may require, its subsidiaries. References to “China Netcom Group” mean China Network Communications Group Corporation and, as the context may require, its subsidiaries, other than us and our subsidiaries.

As used in this annual report:

- references to “China” or “PRC” mean the People’s Republic of China, excluding, for purposes of this annual report, Hong Kong, Macau and Taiwan, and references to the “central government” mean the central government of the PRC;
- references to “State Council” mean the State Council of the PRC and references to the “National Development and Reform Commission” and the “NDRC” mean the National Development and Reform Commission of the PRC;
- “MII” refers to both the Ministry of Industry and Informatization, and prior to the PRC government restructuring in March 2008, its predecessor, the Ministry of Information Industry.
- references to “our service region” mean the ten municipalities and provinces where we operate in northern China, consisting of Beijing and Tianjin Municipalities, and Hebei, Henan, Shandong, Liaoning, Heilongjiang, Jilin, and Shanxi Provinces, and the Neimenggu Autonomous Region; and references to “our southern service region” mean Shanghai Municipality and Guangdong Province. We sold our telecommunications assets, liabilities and business operations in our southern service region to China Netcom Group on February 28, 2007. See “Item 4. Information on the Company--History and Development--Recent Development--Sale of Southern Service Region Business;”
- references to “HKSE”, “SEHK” or “Hong Kong Stock Exchange” mean The Stock Exchange of Hong Kong Limited, and references to “NYSE” or “New York Stock Exchange” mean New York Stock Exchange, Inc;
- references to “Renminbi” or “RMB” are to the currency of the PRC, references to “U.S. dollars” or “US\$” are to the currency of the United States of America, and references to “HK dollars” or “HK\$” are to the currency of the Hong Kong Special Administrative Region of the PRC; and
- references to “U.S. GAAP” mean the generally accepted accounting principles in the United States, references to “HKFRS” mean Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants, and references to “PRC GAAP” mean the PRC Accounting Standards for Business Enterprises and the implementing rules thereof.

Market Share Data Convention

Certain statements made in this annual report that refer to our market share or competitive position are based on statistical and other information from a number of government and private sources, including the information published by the MII. Unless otherwise indicated, the information has not been verified by us independently and may not be consistent with the information from other sources within or outside China.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

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ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

SELECTED FINANCIAL DATA

The following tables present our selected consolidated financial data as of and for the years ended December 31, 2003, 2004, 2005, 2006 and 2007.

You should read the selected consolidated financial data below together with our consolidated financial statements, including the notes thereto, included elsewhere in this annual report, and “Item 5. Operating and Financial Review and Prospects.”

We publish our financial statements in Renminbi. We have derived the selected consolidated financial data as of and for the years ended December 31, 2003, 2004, 2005, 2006 and 2007 from our consolidated financial statements. Our consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards, or HKFRS, which differ in significant respects from U.S. GAAP.

Since we and the 2005 Acquired Assets and Liabilities were under the common control of China Netcom Group, our 2005 Acquisition has been treated as a “combination of entities under common control,” which was accounted for in a manner similar to pooling-of-interests according to Accounting Guideline No. 5 - Merger Accounting for Common Control Transactions (“AG 5”) issued by the Hong Kong Institute of Certified Public Accountants. The 2005 Acquired Assets and Liabilities have been recognized at historical carrying amounts under HKFRS and our consolidated financial statements as of and for the years ended December 31, 2003 and 2004 include the financial position and results of operations of the 2005 Acquired Assets and Liabilities on a combined basis.

On August 22, 2006, we sold our 100% equity interest in Asia Netcom to Connect Holdings Limited for US\$168.84 million. The results of operations of Asia Netcom have been classified as discontinued operations, and our consolidated income statements and cash flow statement for the years ended December 31, 2004 and 2005 have been restated. The revenue of Asia Netcom, the major source of revenue of our international telecommunication services, has accordingly been separately disclosed as discontinued operations for the years ended December 31, 2004 and 2005. Since the remaining revenue derived from our international telecommunication services historically has not been material, we do not separately set forth the revenue from our remaining international telecommunication services.

On February 28, 2007, we sold our telecommunications operations in our southern service region to China Netcom Group for a cash consideration of RMB 3.5 billion and China Netcom Group agreed to assume an aggregate principal amount of RMB3,000 million of debt. The results and cash flows of the operation of our southern service region have been presented as discontinued operations, and our consolidated income statements and cash flow statement for the years ended December 31, 2003, 2004, 2005 and 2006 have been restated.

On December 31, 2007, we acquired the entire equity interest of Beijing Planning and Designing Institute, or Design Institute, from China Netcom Group Beijing Communications Corporation. We accounted for this acquisition in a manner similar to pooling of interest method according to Accounting Guideline No. 5 - Merger Accounting for Common Control Transactions (“AG 5”) issued by the Hong Kong Institute of Certified Public Accountants. The acquired businesses and assets are recorded at book value under HKFRS as if the businesses and assets of Design Institute have been owned by us since the beginning of the period presented. Accordingly, our financial statements have been restated to include the financial position and results of operations of Design Institute as if the acquisition

had occurred as of January 1, 2003. All data and information relating to our businesses and operations for the years ended December 31, 2003, 2004, 2005, 2006 and 2007 are presented based on those restated amounts.

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Selected Consolidated Financial Information

		For the Years Ended December 31,			
2003	2004	2005	2006	2007	2007
(Restated)	(Restated)	(Restated)			