

ADVENTRX PHARMACEUTICALS INC  
Form 8-K  
March 07, 2005

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

**FORM 8-K**

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

Date of Report (Date of earliest event reported) **March 7, 2005**

**ADVENTRX Pharmaceuticals, Inc.**  
(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of incorporation)

**001-32157**  
(Commission File Number)

**84-1318182**  
(IRS Employer Identification No.)

**6725 Mesa Ridge Road, Suite 100**  
**San Diego, California 92121**  
(Address of principal executive offices) (Zip Code)

**(858) 552-0866**  
(Company's telephone number, including area code)

Item 8.01. Other Events.

On March 7, 2005, the Company announced certain developments regarding its CoFactor Phase II and IIIb trials, and current plans regarding certain regulatory filings.

The press release issued by the Company on March 7, 2005 with respect to these matters is included with this report as an exhibit.

Item 9.01. Financial Statements and Exhibits.

(c) The exhibit list required by this item is incorporated by reference to the Exhibit Index filed as part of this report.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**ADVENTRX Pharmaceuticals, Inc.**

**By:** /s/ Carrie E. Carlander

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**Name:** Carrie E. Carlander

**Title:** Chief Financial Officer, Vice President, Finance, and  
Treasurer

March 7, 2005

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EXHIBIT INDEX

Exhibit Description

99.1 Press Release of the Company dated March 7, 2005.

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Net decrease in time deposits with maturity  
over three months

51

7

14

2

Other income

-

375

1,467

201

Cash outflow from investing activities of  
continuing operations

(22,993)

(24,051)

(19,138)

(2,620)

Cash (outflow)/inflow from investing activities  
of discontinued operations

25

(1,584)

(921)

3,103

425

Net cash outflow from investing activities

(24,577)

(24,972)

(16,035)

(2,195)

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## CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

CONSOLIDATED STATEMENT OF CASH FLOW (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2007

	Note	Year ended December 31			2007 USD million
		2005 RMB million Restated Note 2	2006 RMB million Restated Note 2	2007 RMB million	
Cash flows from financing activities					
New bank loans and other loans		77,573	89,002	66,396	9,090
Issuance of short-term commercial papers		-	9,676	20,000	2,738
Issue of corporate bonds		-	-	2,000	274
Repayment of commercial paper		-	-	(9,676)	(1,325)
Repayment of bank loans		(85,289)	(98,512)	(92,390)	(12,648)
Capital element of finance lease payments		(909)	(1,347)	(890)	(122)
Payment of prior year distributions to owner		(1,543)	(630)	(1,180)	(162)
Payment to ultimate holding company for the acquisition of Beijing P&D Institute		-	-	(299)	(41)
Payment to ultimate holding company for the acquisition of New Horizon		(3,000)	(1,960)	(1,960)	(268)
Dividends payment		(259)	(3,196)	(3,600)	(493)
Repayment to fellow subsidiaries and related parties for loans		(1,319)	-	-	-
Loans from fellow subsidiaries and related parties		-	-	2,249	308
Issuance of shares upon exercise of share options		-	490	219	30
Cash outflow from financing activities of continuing operations		(14,746)	(6,477)	(19,131)	(2,619)
Cash inflow from financing activities of discontinued operations	25	108	-	-	-
Net cash outflow from financing activities		(14,638)	(6,477)	(19,131)	(2,619)
Cash flows from continuing operations		(5,548)	1,522	(5,810)	(796)
Cash flows from discontinued operations		(132)	1,164	3,491	478

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Increase/(decrease) in cash and cash equivalents	(5,680)	2,686	(2,319)	(318)	
Cash and cash equivalents at beginning of year	10,645	4,937	7,623	1,044	
Cash and cash equivalents at end of year	16	4,965	7,623	5,304	726

The notes on pages F-13 to F-109 are an integral part of these consolidated financial statements.

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CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 The Group and its principal activities

Background of the Group

China Netcom Group Corporation (Hong Kong) Limited (the “Company”) was incorporated in the Hong Kong Special Administrative Region (“Hong Kong”) of the People’s Republic of China (“PRC”) as a limited liability company under the Hong Kong Companies Ordinance, the shares of the Company were listed on The Stock Exchange of Hong Kong Limited on November 17, 2004 and the ADSs were listed on New York Stock Exchange Inc. on November 16, 2004.

The Company, China Netcom (Holding) Company Limited (“China Netcom Holding”) and China Network Communications Group Corporation (the “China Netcom Group”) underwent reorganization on June 30, 2004 (“Listing Reorganization”). Immediately after the Listing Reorganization, China Netcom Group became the ultimate holding company of the Company.

Pursuant to a resolution passed at the extraordinary general meeting of the shareholders on October 25, 2005, the Company acquired the principal telecommunications operations, assets and liabilities in the four Northern provinces/autonomous region, namely Shanxi Province, Neimenggu Autonomous Region, Jilin Province and Heilongjiang Province from China Netcom Group (the "Acquisition of New Horizon"). The consideration for the Acquisition of New Horizon was determined at RMB12,800 million. The consideration consists of an initial cash payment of RMB3,000 million and deferred payments of RMB9,800 million. The deferred payments will be settled in half-yearly installments over five years. The interest charged on the deferred payments is to be calculated at 5.265% per annum.

Following the Listing Reorganization and the Acquisition of New Horizon, the Company and its subsidiaries (the “Group”) is the dominant provider of fixed line voice and value-added services, broadband and other internet-related services, information communications technology services, business and data communications services and advertising and media services in ten northern provinces, municipalities and autonomous region in PRC, namely Beijing Municipality, Tianjin Municipality, Hebei Province, Liaoning Province, Shandong Province, Henan Province, Shanxi Province, Neimenggu Autonomous Region, Jilin Province, and Heilongjiang Province. The Group also provided telecommunications services to selected business and residential customers in two southern municipality and province, namely Shanghai Municipality and Guangdong Province in the PRC.

On June 2, 2006, the Group entered into an agreement with third party buyers to dispose of its entire interest in the Asia Netcom Corporation Limited (“ANC Group”) for an aggregate cash consideration of US\$168.84 million, at fair value determined by both parties. The transaction was completed on August 22, 2006. For detailed information, please refer to note 25.



CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 The Group and its principal activities (Continued)

Background of the Group (Continued)

On January 15, 2007, the Company's wholly owned subsidiary, China Netcom (Group) Company Limited ("CNC China"), entered into an assets transfer agreement with its ultimate holding Company, China Netcom Group. Pursuant to the agreement, CNC China agreed to dispose of its assets and liabilities in relation to its telecommunications operations in Guangdong Province and Shanghai Municipality branches ("Guangdong and Shanghai Branches") in the PRC for consideration of RMB3.5 billion. On February 14, 2007, the independent shareholders passed an ordinary resolution to approve the disposal. The disposal was completed on February 28, 2007 upon the approval granted from the Ministry of Information Industry ("MII"). After the disposal of the Guangdong and Shanghai Branches, the Group only provides telecommunications operations in the ten northern provinces, municipalities and autonomous region. For detailed information, please refer to note 25.

On December 5, 2007, China Netcom Group System Integration Limited Corporation ("System Integration Corporation"), a wholly-owned subsidiary of CNC China, entered into an Equity Interest Transfer Agreement with China Netcom Group Beijing Communications Corporation, pursuant to which System Integration Corporation agreed to acquire the entire equity interest of Beijing Telecommunications Planning and Designing Institute Corporation Limited ("Beijing Telecom P&D Institute") from China Netcom Group Beijing Communications Corporation for a total consideration of RMB298.9 million. The consideration was paid through a one-off cash payment. The acquisition was registered with Beijing Property Transaction Administrative House and the ownership was transferred on December 31, 2007. Prior to the acquisition, Beijing Telecom P&D Institute was a wholly owned subsidiary of China Netcom Group Beijing Communications Corporation, which is a wholly owned subsidiary of China Netcom Group. For detailed information, please refer to note 2.

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 The Group and its principal activities (continued)

Background of the Group (continued)

Currently, the Group's principal services consist of:

- Fixed line voice and value-added services, comprising:
  - (a) Local, domestic long distance and international long distance services;
  - (b) Value-added services, including caller identity, personalized ring, etc; and
  - (c) Interconnection services provided to other domestic telecommunications service providers including the fellow subsidiaries owned by China Netcom Group operating outside the ten service regions;
- Broadband services and other Internet-related services;
- Information Communications Technology Services, including system integration, software services, outsourcing services, professional consulting services, professional services related with network information and disaster recovery, and other integrated solutions to client based on information and communications industry;
- Business and data communications services, including managed data services and leased line services; and
- Advertising and media services.

2 Basis of presentation

A significant percentage of the Group's funding requirements is achieved through short term borrowings. Consequently, the balance sheet indicates a significant working capital deficit. In the past, a substantial portion of the Group's short term borrowings have been rolled over upon maturity. In addition, on April 30, 2007 and September 18, 2007, the Group issued commercial paper to raise additional funding of total RMB20 billion. On June 8, 2007, the Group issued corporate bonds to raise additional funding of RMB2 billion. Based on the Group's history of obtaining financing, its relationship with its bankers and its operating performance, the board of directors considers that the Group will continue to be able to roll over such short term financing, or will be able to obtain sufficient alternative sources of financing to enable it to operate and meet its liabilities as and when they fall due.

On June 2, 2006, the Group entered into an agreement with third party buyers to dispose of the entire interests in the ANC Group and the disposal was completed on August 22, 2006. On January 15, 2007, CNC China entered into an assets transfer agreement with China Netcom Group to dispose of its assets and liabilities in relation to its telecommunications operations in Guangdong and Shanghai Branches in the PRC and the disposal was completed on February 28, 2007. In accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations" issued by the HKICPA, the results and cash flows of the operations of the ANC Group and the Guangdong and Shanghai Branches have been presented as discontinued operations. The 2006 and 2005 comparative figures in the income statement and statement of cash flow were restated to reflect the disposal of Guangdong and Shanghai Branches accordingly. For detailed information, please refer to note 25.

On December 5, 2007, System Integration Corporation entered into an Equity Interest Transfer Agreement with China Netcom Beijing Communications Corporation, pursuant to which System Integration Corporation agreed to acquire the entire equity interest of Beijing Telecom P&D Institute from China Netcom Group Beijing Communications Corporation.

2 Basis of presentation (continued)

Before the acquisition, Beijing Telecom P&D Institute was a wholly owned subsidiary of China Netcom Group Beijing Communications Corporation, which is a wholly owned subsidiary of China Netcom Group. Since

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CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

China Netcom Group is the ultimate holding company of the Group, the acquisition is a business combination under common control. Therefore, the Group accounted for this acquisition using the pooling of interest method according to Accounting Guideline No. 5 - Merger Accounting for Common Control Transactions ("AG 5"). The acquired businesses and assets are recorded at book value under HKFRS as if the businesses and assets of Beijing Telecom P&D Institute have been owned by the Group from the earliest comparative period presented. Accordingly, the financial information for 2006 and 2005 has been restated.

The impact of the restatement is summarized as below.

## CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2 Basis of presentation (continued)

	Year ended December 31, 2005				
	RMB million	RMB million	RMB million	RMB million	RMB million
	Originally stated	Disposal of Guangdong and Shanghai Branches	Acquisition of Beijing Telecom P&D Institute	Elimination of intercompany transactions	Restated
Continuing operations:					
Revenues	85,861	(2,120)	186	-	83,927
Profit for the year from continuing operation	14,114	174	62	-	14,350
Discontinued operations :					
Profit/(loss) from discontinued operations	(226)	(174)	-	-	(400)
Profit for the year	13,888	-	62	-	13,950
Net cash inflow from operating activities	33,557	-	(22)	-	33,535
Net cash outflow from investing activities	(24,608)	-	31	-	(24,577)
Net cash outflow from financing activities	(14,656)	-	18	-	(14,638)
Total current assets at December 31, 2005	14,499	-	176	-	14,675
Total assets at December 31, 2005	202,840	-	282	-	203,122
Total current liabilities at December 31, 2005	98,399	-	5	-	98,404
Total liabilities at December 31, 2005	139,830	-	5	-	139,835
Shareholders' equity at December 31, 2005	63,010	-	277	-	63,287



## CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Year ended December 31, 2006				
	RMB million	RMB million	RMB million	RMB million	RMB million
	Originally stated	Disposal of Guangdong and Shanghai Branches	Acquisition of Beijing Telecom P&D Institute	Elimination of intercompany transactions	Restated
Continuing operations:					
Revenues	86,921	(3,222)	165	330	84,194
Profit for the year from continuing operation	11,141	332	27	(22)	11,478
Discontinued operations :					
Profit/(loss) from discontinued operations	1,819	(332)	-	-	1,487
Profit for the year	12,960	-	27	(22)	12,965
Net cash inflow from operating activities	34,133	-	20	(18)	34,135
Net cash outflow from investing activities	(24,991)	-	(2)	21	(24,972)
Net cash outflow from financing activities	(6,447)	-	(30)	-	(6,477)
Total current assets at December 31, 2006	18,059	-	218	(51)	18,226
Total assets at December 31, 2006	203,835	-	318	(71)	204,082
Total current liabilities at December 31, 2006	90,802	-	80	(49)	90,833
Total liabilities at December 31, 2006	129,857	-	80	(49)	129,888
Shareholders' equity at December 31, 2006	73,978	-	238	(22)	74,194

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Changes in accounting policies

(a) Changes in accounting policies in 2007

(i) Standards, amendment and interpretations effective in 2007

HKFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to HKAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have a material impact on the classification and valuation of the Group's financial instruments.

HK(IFRIC) - Int 8, 'Scope of HKFRS 2', requires consideration of transactions involving the issue of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of HKFRS 2. This standard does not have any impact on the Group's financial statements.

HK(IFRIC) - Int 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

(ii) Interpretation early adopted by the Group

HK(IFRIC) - Int 13, 'Customer loyalty programmes' (effective from July 1, 2008) was early adopted. HK(IFRIC) - Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Group only carried out a limited customer loyalty program in 2007 and thus it has no material impact on the Group's financial statements.

(iii) Standards, amendments and interpretations effective in 2007 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after January 1 2007 but they are not relevant to the Group's operations:

- HK(IFRIC) - Int 7, 'Applying the restatement approach under HKAS 29, Financial reporting in hyper-inflationary economies';
- HK(IFRIC) – Int 9, 'Re-assessment of embedded derivatives'; and
- HKFRS 4 (revised) - 'Amendment to 'Financial guarantee contracts''.



CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Changes in accounting policies (continued)

- (iv) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after January 1, 2008 or later periods, but the Group has not early adopted them:

- HK(IFRIC) - Int 11, 'HKFRS 2 – Group and treasury share transactions'. HK(IFRIC) - Int 11 provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and Group companies. This interpretation is not expected to have an impact on the Group's financial statements.
- HK(IFRIC) – Int 12, 'Service concession arrangement' (effective from January 1, 2008). IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC 12, is not expected to have an impact on the Group' financial statements.
- HKAS 23 (Amendment), 'Borrowing costs' (effective from January 1, 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. Since the Group does not expense those borrowing cost under the current accounting policies, HKAS 23 (Amendment) has no impact to the Group.
- HKFRS 8, 'Operating segments ' (effective from January 1 2009). HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The financial statements of the Group are presented on the same basis as that used for internal reporting purpose. Adoption of HKFRS 8 will not have significant impact to the Group.
- HK(IFRIC) - Int 14, 'HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from January 1, 2008). HK(IFRIC) - Int 14 provides guidance on assessing the limit in IAS/HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply HK(IFRIC) - Int 14 from January 1 2008, but it is not expected to have any impact on the Group's accounts.

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Changes in accounting policies (continued)

(b) Changes in accounting policies in 2006

In 2006, the Group adopted certain revised HKFRSs which are relevant to its operations as listed below.

- HKAS 21 (Amendment) - Net investment in a Foreign Operation
- HKAS39 (Amendment) - Cash Flow Hedge Accounting for Forecast Intergroup Transactions
- HKAS 39 (Amendment) - Fair Value Options
- HKFRS 39 (Amendment) and HKAS 4 (Amendment) - Financial guarantee contracts

The adoption of these new or revised HKFRSs by the Company did not have any significant impact on its results of operations and financial position.

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Principal accounting policies

(a) Basis of consolidation

Acquisitions of businesses under common control are accounted for using merger accounting in accordance with AG 5 issued by HKICPA. The acquired assets are stated at carrying amounts as if the acquired assets have been held by the Company from the beginning of the earliest period presented.

When a subsidiary is disposed, the difference between the proceeds from the disposal of the subsidiary and its carrying amount as of the date of disposal, including the cumulative amount of any exchange differences that relates to the subsidiary recognised in equity is recognised in the income statement as the gain or loss on the disposal of the subsidiary.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

(b)

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivables.

Revenue recognition

(c)

(i) The Group's revenues are recognised as follows:

- Revenues derived from local, domestic long distance ("DLD") and international long distance ("ILD") telephone usage, which vary depending on the day, the time of day, the distance and duration of the call and the tariffs, are recognised when the services are provided to customers.
- Monthly telephone service fees are recognised in the period during which the telephone services are provided to customers.
- Upfront connection and installation fees received are deferred and recognised over the expected customer relationship period of 10 years. With effect from July 1, 2001, no further upfront fees for connection were charged to customers.
- Revenues from the sale of prepaid calling cards are deferred and recognised as the cards are consumed by customers.
- Revenues from value-added communication services such as personalized ring and caller number display are recognised when the services are provided to customers.



CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Principal accounting policies (continued)

(c) Revenue recognition (continued)

- Revenues from the provision of broadband and other Internet-related services and managed data services are recognised when the services are provided to customers.
- Revenue from information communications technology services are recognised when goods are delivered to the customer (which generally coincides with the time when the customers have accepted the goods and the related risks and rewards of ownership have been transferred to the customer) or when services are rendered to the customer
- Interconnection fees from domestic and foreign telecommunications operators are recognised when the services are rendered as measured by the minutes of traffic processed.
- Lease income from the leasing of lines and customer-end equipment is recognised over the term of the lease. Lease income from other domestic telecommunications operators and business customers for the usage of the Group's fixed line telecommunications networks is measured by the number of lines leased and the agreed upon rate per line leased. The lease arrangements are primarily determined on a year to year basis.
- Certain PHS bundled service contracts comprise the provision of PHS services and handsets to customers, under which customers either prepay a certain amount of service fee or commit to spend a minimum monthly service fee for a designated period in order to receive a free handset. When all of the following criteria are met, PHS handsets and related services are separately recognised as revenues arising from local, DLD, or ILD services fees and sales of handsets according to their relative fair values. When any one of the following criteria is not met, total revenues from PHS bundled service contracts are recognised on a systematic basis to match the shorter of the pattern of usage of the PHS services by customers and the minimum non-cancellable contractual period. See Note 4(u)(ii) for the policy on accounting for the cost of the handsets.

i PHS handsets and relative services have value on a stand-alone basis;

ii Objective and reliable fair value of PHS handsets and relative services exists;

iii In arrangements that include a general right of refund for the delivered item, performance of the undelivered item is considered probable and substantially in the Group' control.

(ii) Interest income

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(iii) Dividend income

Dividend income is recognised when the right to receive payment is established.

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CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Principal accounting policies (continued)

(d) Interest expenses

Interest expense attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset.

All other interest expenses are charged to the income statement in the year in which they are incurred.

(e) Interconnection charges

Interconnection charges represent amounts incurred for the use of other telecommunications operators' networks for facilitating the completion of calls that originate from the Group's fixed line telecommunications networks. Interconnection charges are recognised on an accrual basis. Interconnection charges with domestic operators and the fellow subsidiaries of the Group are accrued based on actual amounts, while those with overseas operators are accrued based on the actual amounts, if known, or the Group's estimates.

(f) Translation of foreign currencies

(i) Functional currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"), which is Renminbi.

(ii) Transactions and balances

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet dates are translated at rates of exchange ruling at the balance sheet dates. Exchange differences arising in these cases are dealt with in the income statement.

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Principal accounting policies (continued)

(f) Translation of foreign currencies (continued)

(iii) The Group

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on disposal.

(g) Cash and cash equivalents

Cash and cash equivalents, comprising cash on hand, deposits held at call with banks and cash investments with original maturities of three months or less are carried at cost.

(h) Accounts receivable and other receivables

Accounts and other receivables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of accounts and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the income statement.

(i) Inventories and consumables

Inventories comprise mainly telephone handsets and are stated at the lower of cost and net realizable value on a first-in, first-out basis, after provisions for obsolescence. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.





CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Principal accounting policies (continued)

(i) Inventories and consumables (continued)

Consumables consist of materials and supplies used in maintaining the Group's telecommunication networks and are charged to the income statement when brought into use. Consumables are valued at cost less any provision for obsolescence.

(j) Lease prepayments

(i) Lease prepayments for land

Lease prepayments for land represent payments for land use rights. Lease prepayments for land are stated at cost initially and expensed on a straight line basis over the lease period.

(ii) Lease prepayments for network capacity

Lease prepayments for network capacity represent payments for network capacity on an infeasible right of use basis for the own use of the Company. Lease prepayments for network capacity are stated at cost initially and expensed on a straight line basis over the lease period.

(k) Fixed assets

(i) Construction-in-progress

Construction-in-progress represents buildings, telecommunications networks plant, transmission and switching equipment under construction and pending installation, and is stated at cost less impairment losses. Cost comprises direct costs of construction including borrowing costs attributable to the construction during the period of construction. When the asset being constructed becomes available for use, the construction-in-progress is transferred to the appropriate category of fixed assets.

(ii) Other fixed assets

Other fixed assets are initially stated at cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Any other costs incurred in restoring fixed assets are charged to the income statement as incurred.

Buildings subsequent to initial recognition are stated at cost less accumulated impairment losses and depreciated over their expected useful lives.



CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Principal accounting policies (continued)

(k) Fixed assets (continued)

(iii) Revaluations

Fixed assets other than buildings are carried at their revalued amounts. Revalued assets are stated at fair value as of the revaluation date less accumulated depreciation. When an item of fixed asset is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately together with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Increases in valuation are credited to the revaluation reserve. Decreases in valuation are first set off against any revaluation surplus on earlier valuations in respect of the same item and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited. Each year the difference between depreciation based on the revalued carrying amount of the asset expensed in the income statement and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Revaluations on fixed assets will be performed with sufficient regularity by independent valuers and in each of the intervening years, valuations will be undertaken by executives of the Group.

(iv) Depreciation

Fixed assets are depreciated at rates sufficient to write off their costs or revalued amounts less accumulated impairment losses and estimated residual values over their estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Buildings	8-30 years
Telecommunications networks and equipment	5-10 years
Furniture, fixture, motor vehicles and other equipment	5-10 years

The useful lives and estimated residual values are reviewed and modified periodically at every balance sheet date.

(v) Gain or loss on sale of fixed assets

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement, except where the fixed asset is carried at valuation. The relevant portion of the revaluation reserve realized in respect of previous valuations is transferred to retained earnings and is shown as a movement in reserves.

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Principal accounting policies (continued)

(l) Impairment of assets

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(m) Assets held under leases

(i) Finance leases

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized upon commencement of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(ii) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lesser are classified as operating leases. Payments made under operating leases (net of any incentives received from the lesser) are expensed in the income statement on straight-line basis over the period of the lease.

(n) Intangible assets

(i) Purchased software

Expenditure on purchased software is capitalized and amortized using the straight-line method over the expected useful lives of the software, which vary from two to five years.

(ii) Sponsorship fee

The sponsorship fee for the 2008 Beijing Olympic Games has been capitalized and amortized on a straight-line basis over 4 years, being the estimated beneficial period under the sponsorship program. The cost of the intangible asset is calculated based on the expected cash payment and the fair value of the services to be provided.

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Principal accounting policies (continued)

(o)Accounts payable

Accounts payable are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method.

(p)Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Provisions

(q)

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are not recognised for operating losses arising in future periods.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised in the income statement.

Share capital

(r)

Ordinary shares are classified as equity.

Where shares are issued, any consideration received (net of related income tax effects) is included in equity attributable to the Company's equity holders.

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Principal accounting policies (continued)

(s) Employee benefits

(i) Pension obligations

(a) Employees in the PRC are entitled to retirement benefits equal to a fixed proportion of their salary at their normal retirement age which is paid by the PRC government. As stipulated by the regulations of the PRC, the subsidiaries in the PRC make contributions to the basic defined contribution pension plans organized by their respective municipal governments under which they are governed. The Group is required to make such contributions to these plans at a rate of 20% of the salaries, bonuses and certain allowances of the employees. The Group has no other material obligation for post-retirement benefits beyond these payments as they fall due. Payments made under these plans are expensed as incurred.

(b) The Group also operates a mandatory provident fund scheme (“the MPF scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$20,000. Payments are expensed as incurred.

(ii) Early retirement benefits

Early retirement benefits are recognised as expenses when the Group reaches agreement with the relevant employees for early retirement.

(iii) Employee housing benefits

One-off cash housing subsidies paid to PRC employees are charged to the income statement in the year in which it is determined that the payment of such subsidies is probable and the amounts can be reasonably estimated (see Note 33).

PRC full-time employees of the Group participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group’s liability in respect of these funds is limited to the contributions payable in each period. Contributions to these housing funds are expensed as incurred.

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Principal accounting policies (continued)

(s) Employee benefits (continued)

(iv) Share option scheme

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. Fair values of the options with different vesting periods are determined separately. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

When the share option is exercised, the consideration received after deduction of transaction cost directly attributed to the exercise is recorded in share capital (nominal value) and share premium.

(t) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Tax rates enacted or substantially enacted at the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.



CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Principal accounting policies (continued)

(u) Other non-current assets

(i) Deferred installation costs

The direct incremental costs associated with the installation of fixed line services are deferred and expensed to the income statement over the expected customer relationship period of 10 years except when the direct incremental costs exceed the corresponding upfront installation fees. In such cases, the excess of the direct incremental costs over the installation fees are recorded immediately as expenses in the income statement.

(ii) Subscriber acquisition costs

As shown in note 4(c)(i), when certain bifurcation conditions are met, revenue attributable to handsets given to customers under bundled service contracts is recognised separately in the income statement of the period the contracts are entered into. The cost of these handsets is expensed immediately to the income statement in the same period. When any one of the aforementioned conditions is not met, the costs of handsets given to customers under bundled service contracts are deferred as subscriber acquisition costs and expensed to the income statement on a systematic basis to match with the pattern of the customer service income over the contract period.

(iii) Prepaid network capacities

Prepayments for the network capacities purchased on an indefeasible rights to use (“IRU”) basis for resale are capitalized and expensed over the corresponding lease period.

(v) Discontinued operations

A discontinued operation is a component of the Group that may be a major line of business or geographical area of operations that has been disposed or is held for sale. The result of that component is separately reported as “discontinued operations” in the income statement. The comparative income statement and cash flow statement are restated as if the operation had been discontinued from the start of the comparative period. The assets and liabilities of such component classified as “discontinued operations” or “held for sale” is presented separately in the assets and liabilities, respectively, of the consolidated balance sheet, from the date it is first determined to be discontinued or held for sale.

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 Principal accounting policies (continued)

(w) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements when an outflow of economic benefits is less than probable but not remote. When a change in the probability of an outflow occurs such that the outflow is probable, the contingent liability will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. A contingent asset is disclosed when an inflow of economic benefits is probable but only recognised in income statement when realized.

(x) Segmental reporting

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.

(y) Earnings per share ("EPS") and per American Depository Shares ("ADS")

Basic EPS is computed by dividing net profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is computed by dividing net profit attributable to shareholders by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the year. Ordinary equivalent shares consist of ordinary shares issuable upon the exercise of outstanding stock options using the treasury stock method.

Earnings per ADS is computed by multiplying the EPS by 20, which is the number of shares represented by each ADS.

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Depreciation of property, plant and equipment

The property, plant and equipment of the Group are depreciated at rates sufficient to write off their costs or revalued amounts less accumulated impairment losses and estimated residual values over their estimated useful lives on a straight-line basis. The Group reviews the estimated useful lives and estimated residual values periodically to ensure that the method and rates of depreciation are consistent with the expected pattern of economic benefits from property, plant and equipment. The Group estimates the useful lives of the property, plant and equipment as set out in Note 4(k)(iv) based on the historical experience with similar assets, taking into account anticipated technological changes. The depreciation expenses in the future periods will change if there are significant changes from previous estimates.

As of December 31, 2007, the Group did not change the estimate of useful lives.

(ii) Revaluation of property, plant and equipment

Apart from lease prepayments for land and buildings, which are carried at cost, other property, plant and equipment are carried at revalued amounts, being the fair value at the date of revaluation, less subsequent accumulated depreciation and impairment. Property, plant and equipment of the Group was revalued as of December 31, 2006 on a depreciated replacement cost basis by an independent valuer. If the revalued amounts differ significantly from the carrying amounts of the property, plant and equipment in the future, the carrying amounts will be adjusted to the revalued amounts. The key assumptions made to determine the revalued amounts include the estimated replacement costs and the estimated useful lives of the property, plant and equipment. This will have an impact on the Group's future results, since any subsequent decreases in valuation are set off first against increases on earlier valuations in respect of the same item and thereafter are charged as an expense to the income statement and any subsequent increases are credited as income to the income statement up to the amount previously charged then to equity. In addition, the depreciation expenses in future periods will change as the carrying amounts of such property, plant and equipment change as a result of the revaluation.

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Critical accounting estimates and judgments (continued)

(a) Critical accounting estimates and assumptions (continued)

(iii) Impairment of non-current assets

At each balance sheet date, the Group considers both internal and external sources of information to assess whether there is any indication that non-current assets, including property, plant and equipment, are impaired. If any such indication exists, the recoverable amount of the assets is estimated and an impairment loss is recognised to reduce the carrying amount of the assets to its recoverable amount. The recoverable amount is the higher of value in use or net selling price. Estimated values in use are determined based on estimated discounted future cash flows of the cash generating unit at the lowest level to which the asset belongs. Key assumptions made to determine the estimated discounted future cash flows include the estimated future cash flow, estimated growth rate and the estimated weighted average cost of capital of the Group. Such impairment losses are recognised in the income statement, except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case the impairment loss is treated as a revaluation decrease and charged to the revaluation reserve. Accordingly, there will be an impact to the future results if there is a significant change in the recoverable amounts of the non-current assets.

At December 31, 2007, the Group did not identify any indication that non-current assets were impaired.

(iv) Revenue recognised for upfront connection and installation fees

The Group defers the recognition of upfront customer connection and installation fees and amortizes them over the expected customer relationship period of 10 years. The related direct incremental installation costs are deferred and amortized over the same expected customer relationship period of 10 years, except when the direct incremental costs exceed the corresponding installation fees, the excess amounts are immediately written off as an expense to the income statement. The Group estimates the expected customer relationship period based on the historical customer retention experience and after factoring in the expected level of future competition, the risk of technological or functional obsolescence to the Group's services, technological innovation, and the expected changes in the regulatory and social environment. If the Group's estimate of the expected customer relationship period changes as a result of increased competition, changes in telecommunications technology or other factors, the amount and timing of recognition of the deferred revenues may change for future periods.

As of December 31, 2007, the Group did not change the estimate of customer relationship period.

(v) Provision for doubtful debts

The Group maintains an allowance for doubtful debts for estimated losses resulting from the inability of its customers to make the required payments. The Group makes its estimates based on the aging of its accounts receivable balances, customer's creditworthiness, and historical write-off experience. If the financial condition of its customers were to deteriorate, actual write-offs might be higher than expected, and the Group would be required to revise the basis of making the allowance and its future results would be affected.



CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Critical accounting estimates and judgments (continued)

(a) Critical accounting estimates and assumptions (continued)

(vi) Fair value

The Group estimates the fair value of its financial assets and financial liabilities including accounts receivable, other receivables and other current assets, accounts payable, and bank and other loans for disclosure purposes by discounting its future contractual cash flows at the estimated current market interest rate that is available to the Group for similar financial instruments. The future disclosed values will change if there are changes in the estimated market interest rate.

6 Financial risk management

(a) Financial risk factors

The Group's major financial assets include bank deposits, accounts receivable, notes receivable and other receivables. The Group's major financial liabilities include accounts payable, notes payable, other payable, bank borrowings, commercial paper and corporate bonds.

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk, and liquidity risk. The board has reviewed and approved its relative risk management policy as follows:

(i) Foreign exchange risk

The Group's major operational activities are carried out in mainland China and a majority of the transactions are performed in Renminbi. On December 31, 2007, the Group had certain bank deposits and borrowings were denominated in foreign currencies, mainly in US dollar and HK dollar. Any change in the exchange rates of these currencies to Renminbi will impact the Group's operating results.

As at December 31, 2007 and 2006, the Group had bank balances denominated in foreign currencies amounting to RMB320 million and RMB1,946 million, respectively. As at December 31, 2007 and 2006, the Group had bank borrowings denominated in foreign currencies amounting to RMB1,246 million and RMB1,432 million, respectively.

## CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6 Financial risk management (continued)

## (a) Financial risk factors (continued)

## (i) Foreign exchange risk (continued)

At December 31 2007, if Renminbi had weakened/strengthened by 5% against the foreign currencies, the impact of the fluctuation on an annual profit is presented in the table below. The analysis covers bank deposits and borrowings. A positive figure means the Renminbi has appreciated against foreign currencies and lead to an increase of profit.

	Increase/(Decrease) in annual profit	
	December 31, 2007 RMB million	December 31, 2006 RMB million
HK Dollar exchange rate fluctuation		
5% appreciation	7	32
5% depreciation	(7)	(32)
US Dollar exchange rate fluctuation		
5% appreciation	(21)	30
5% depreciation	21	(30)

## (ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from interest bearing borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risks. Borrowings issued at fixed rates expose the Group to fair value interest-rate risks. The Group does not use derivative financial tools to offset the cash flow interest rate risk. The footnote 30 discloses bank loans with fixed rates and variable rates.

As at December 31, 2007, 83.96% of the Group's loans were with fixed interest rate (2006: 74.69%). If the market interest had (decreased)/increased by 2% ,the impact of the fluctuation on an annual profit is presented in the table below:

	Increase/(Decrease) in annual profit	
	December 31, 2007 RMB million	December 31, 2006 RMB million

Change of interest rate

2%increase	(476)	(454)
2%decrease	476	454

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CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Financial risk management (Continued)

(a) Financial risk factors (continued)

(iii) Credit risk

The Group provides telecommunication and related services to residential clients and business clients. The Group will terminate a fixed line service to residential clients if the accounts receivable are over 90 days. Accounts receivable from other telecommunications operators and customers are due generally between 30 to 90 days from the billing date. The Group analyses the aging of accounts receivable and the status of collection on a monthly basis to formulate the appropriate collection strategy to ensure the risk faced is not material.

The carrying amount of accounts receivable included in the balance sheet represents the Group's exposure to credit risk in relation to its financial assets. Most of the Group's accounts receivable with aging over 30 days are overdue. The Group evaluated the risk associated with the accounts receivable balances with aging over 90 days, and made provisions accordingly. The Group believes that adequate provision for uncollectible account receivable has been made.

The accounts receivable of the Group are disclosed in Note 17 to the financial statements.

The credit risk of the Group's other financial assets (including cash and cash equivalents and other receivables) arise from any counter parties' breach of contract. Thus, the highest risk the Group will bear is the book value of the instrument.

The Group's cash management policy is to deposit cash and cash equivalents mainly in state-owned banks and other banks, which are highly rated by an international credit rating company. The rates are between BBB+ to BBBpi. The management does not expect any loss to arise from bank nonperformance.

## CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6 Financial risk management (Continued)

## (a) Financial risk factors (continued)

## (iv) Liquidity risk

The Group is financed mainly by short term borrowings. As a result, there is a significant working capital deficit as highlighted in balance sheet. Please refer to Note 2 for more details.

The Group's aim is to maintain the balance between the availability and liquidity of the funding by using interest bearing bank loans and other borrowings, commercial paper, corporate bonds and other suitable financing channels. The Group's policy is to regularly monitor operating capital demands and compliance with current and expected operating capital requirements. The Group reviews cash flow forecasts of each entity on a regular basis to maintain sufficient cash reserves and bank pledged funds and to deal with short and long term capital demands.

The following table shows the undiscounted balances of the financial liabilities (including interest expense) categorized by time period from the balance sheet date to the date of contract expiry.

December 31, 2007	Total RMB million	Within 1 year RMB million	1-2 years RMB million	2-3 years RMB million	3-4 years RMB million	4-5 years RMB million	Over 5 years RMB million
Accounts payable	15,639	15,639	-	-	-	-	-
Short-term loans	12,134	12,134	-	-	-	-	-
Long-term bank and other loans	21,616	6,407	10,272	1,887	106	104	2,840
Commercial paper	20,629	20,629	-	-	-	-	-
Corporate bonds	2,900	90	90	90	90	90	2,450
Amounts due to holding companies and fellow subsidiaries	8,870	2,319	2,214	4,337	-	-	-
Total	81,788	57,218	12,576	6,314	196	194	5,290
December 31, 2006	Total RMB million	Within 1 year RMB million	1-2 years RMB million	2-3 years RMB million	3-4 years RMB million	4-5 years RMB Million	Over 5 years RMB million
Accounts payable	17,661	17,661	-	-	-	-	-
Short-term loans	31,602	31,602	-	-	-	-	-
Long-term bank and other loans	36,343	8,980	7,814	10,416	431	430	8,272
Commercial paper	10,000	10,000	-	-	-	-	-

Amounts due to  
holding companies  
and fellow

subsidiaries	8,781	2,352	2,248	2,143	2,038	-	-
Total	104,387	70,595	10,062	12,559	2,469	430	8,272

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CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6 Financial risk management (Continued)

(a) Financial risk factors (continued)

(iv) Liquidity risk (continued)

The directors have the responsibility to consider the future operational capital requirements. The Group has a policy to maintain sufficient cash and cash equivalents and to finance operations through bank lending. For bank facilities, please refer to Note 36.

(b) Fair value estimation

The fair value of financial instruments that are actively traded is based on the market price as of balance sheet date. The market price of the financial assets that the Group holds is the current bidding price. The market price of financial liabilities is the offering price. The fair value of the Group's bank deposits, accounts receivable, notes receivable, corporate bonds, commercial paper and short-term borrowings approximate book value.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(c) Objective and policy of financial risk management

The Group defines the capital as the shareholders' equity. The Group's objectives of the management of capital are to maintain the ability to operate based on going concern, meet the requirements of capital investment for the business development, bring benefit to shareholders and other stakeholders, and also to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return of capital to shareholders, issue new shares, sell assets to reduce debt.

## CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 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 amounting to RMB2,358 million (2006: RMB2,387 million, 2005: RMB2,378 million). The Group's revenues by business nature can be summarized as follows:

	Year ended December 31		
	2005	2006	2007
	RMB	RMB	RMB
	million	million	million
	Restated	Restated	
	Note 2	Note 2	
Revenues			
Local usage fees	24,440	22,059	19,989
Monthly telephone services	18,170	16,546	12,387
Upfront installation fees	1,433	1,364	1,283
DLD usage fees	9,773	9,495	8,769
ILD usage fees	874	819	791
Value-added services	3,970	5,341	6,114
Interconnection fees	7,664	8,432	8,376
Upfront connection fees	3,405	2,406	1,517
Broadband services	7,289	9,916	13,835
Other Internet-related services	556	516	532
Managed data services	1,621	1,413	1,284
Leased line income	2,376	2,540	2,521
Information communication technologies service	186	855	3,990
Other services	2,170	2,492	2,617
Total	83,927	84,194	84,005

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CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 8 Operating expenses by nature

Operating expenses mainly represent:

	Year ended December 31		
	2005	2006	2007
	RMB	RMB	RMB
	million	million	million
	Restated	Restated	
	Note 2	Note 2	
Staff cost	11,830	11,849	12,223
Depreciation and amortization	24,328	24,913	25,495
Maintenance cost	4,562	4,512	4,373
Miscellaneous taxes and fees	250	278	358
Customer installation cost	1,133	1,116	2,036
Interconnection charges	3,033	3,915	4,014
Advertising and promotion expenses	900	884	821
Sales channel cost	1,922	2,118	2,298
Subscriber acquisition and retention cost	4,284	3,646	1,582
Auditor's remuneration	34	61	54
Bad and doubtful debt expenses	1,093	1,003	868
Operating leases	1,891	1,969	1,900
Cost of hardware sold in relation to information communication technology service	-	598	2,830

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CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 9 Other income

Other income is the subsidy income the Company received arising from the reinvesting of the profit distributions received from a subsidiary in the PRC to that subsidiary.

## 10 Finance costs

	Year ended December 31		
	2005	2006	2007
	RMB million	RMB million	RMB million
	Restated	Restated	
	Note 2	Note 2	
Interest expenses on:			
-Bank and other loans wholly repayable within five years	3,589	3,185	2,875
-Bank and other loans wholly repayable after more than five years	177	325	198
-Deferred consideration related to Acquisition of New Horizon	87	479	375
Total	3,853	3,989	3,448
Less: Interest expenses capitalized in construction in progress	(297)	(233)	(165)
Exchange (gain)/loss, net	(229)	(8)	25
Bank charges	19	19	25
	3,346	3,767	3,333
Interest expenses were capitalized in construction in progress using the following annual interest rates	4.17%-4.97%	4.71%-5.28%	4.75%-5.82%

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11 Taxation

	Year ended December 31		
	2005	2006	2007
	RMB	RMB	RMB
	million	million	million
	Restated	Restated	
	Note 2	Note 2	
PRC enterprise income tax ("EIT")	3,663	4,143	3,901
Overseas profit tax	11	20	12
Deferred taxation- Continuing operations (Note 32)	(148)	(436)	(66)
Deferred taxation -Change in statutory taxation rate (Note 32)	-	-	(51)
Taxation charges/(credit)	3,526	3,727	3,796

The provision for PRC EIT is calculated based on the statutory income tax rate of 33% on the assessable profit of each of the entities 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 outside the PRC, including Hong Kong, has been calculated on the estimated assessable profit at the rates of taxation ranging from 17.50% to 34.00%, prevailing in the countries in which those entities operate.

On March 16, 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"). This New CIT Law reduces the corporate income tax rate for domestic enterprises from 33% to 25% with effect from January 1, 2008. As a result of the new CIT Law, as at March 16, 2007, the carrying value of deferred tax assets has been written down by RMB775 million, with RMB111 million recognised in income statement and RMB664 million recognised in equity. The carrying value of deferred tax liabilities has been written down by RMB273 million, with RMB162 million recognised in the income statement and RMB111 million recognised in equity. The impact of the change in deferred taxation recognised in either the current income statement or equity as a result of the New CIT Law corresponded to whether the related items were previously recognised in income statement or equity.

On November 28, 2007, the National People's Congress approved the Implementation guide on the Corporate Income Tax Law of the People's Republic of China (the "New CIT Implementation guide"), with effect from January 1, 2008. Per a bilateral tax affairs agreement, enterprises incorporated in Hong Kong is required to pay a 5 percent corporate income tax on profits distributed from its subsidiaries incorporated in the PRC. On February 22, 2008, the Ministry of Finance and the State Administration of Taxation jointly issued CaiShui 2008, Circular No. 1 ("Circular No. 1"). In accordance with the Circular No. 1, accumulated retained earnings of foreign investment enterprises generated before January 1, 2008 and distributed to foreign investors after 2008 are exempt of income tax. Earnings of foreign investment enterprises generated in or after 2008 and distributed to foreign investors should pay the withholding tax. As a result, the Group may accrue deferred tax liability for the undistributed earnings generated by CNC China during or after 2008 according to actual situation.



On December 26, 2007, the State Council promulgated 'Notice Regarding Preferential Policy of Implementing EIT in Intervening Period'. The Group has evaluated the regulation and considered that it will not have material impact on the financial statements.

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## CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11 Taxation (continued)

The reconciliation between the Group's actual tax charge and the amount which is calculated based on the weighted average statutory tax rate is as follows:

	Year ended December 31		
	2005	2006	2007
	RMB	RMB	RMB
	million	million	million
	Restated	Restated	
	Note 2	Note 2	
Profit before taxation	17,876	15,205	15,267
Weighted average statutory tax rate	33%	33%	33%
Tax calculated at the weighted average statutory tax rate	5,899	5,018	5,038
Non-taxable income (Note i)	(1,499)	(1,216)	(1,184)
Utilization of tax losses not recognized in previous years (Note ii)	(837)	-	-
Expenses not deductible for tax purposes	69	64	68
Change in statutory taxation rate (Note 32)	-	-	(51)
Others	(106)	(139)	(75)
Tax charge	3,526	3,727	3,796

## Note:

- (i) Non-taxable income comprises primarily of upfront connection fees charged to customers which are amortized over the customer relationship and the subsidy income obtained (Note 9).
- (ii) Prior to 2005, a deferred tax asset arising from certain tax losses was not recognized as it was uncertain at that time, following the change of a subsidiary's tax registration district, that the taxable loss could be utilized at the previous period end date.

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12 Profit attributable to shareholders

- (a) For the year ended December 31, 2007, profit attributable to shareholders includes current year profit of RMB8,714million (2006: RMB17,475million, 2005: RMB126million), which has been recognised in the financial statements of the Company.
- (b) The Company's subsidiary, CNC China is registered as a foreign investment enterprise in the PRC. In accordance with the Articles of Association of CNC China, it is required to provide for certain statutory reserves, namely, general reserve and staff bonus and welfare fund, which are appropriated from profits after tax but before any dividend distribution.

CNC China is required to allocate at least 10% of their profit after tax determined under PRC GAAP to the general reserve fund until the cumulative amounts reach 50% of the registered capital. The statutory reserve can only be used, upon obtaining approval from the relevant authority, to offset accumulated losses or increase capital.

Accordingly, CNC China appropriated approximately RMB 868 million to the general reserve fund for the year ended December 31, 2007 (2006: RMB855million, 2005: RMB1,044million).

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 12 Profit attributable to shareholders (continued)

(c) According to a PRC tax approval document issued by the Ministry of Finance and State Administration of Taxation to the Group, the Group's upfront connection fees are not subject to EIT and an amount equal to the upfront connection fees recognised in the retained earnings should be transferred from retained earnings to a statutory reserve. Up to December 31, 2007, the Company has made accumulated appropriation of RMB10,706 million to the statutory reserve (Up to December 31, 2006 : RMB9,189 million, up to December 31, 2005 : RMB 6,783million).

## 13 Profit distributions

	2005		Year ended December 31 2006		2007	
	HK\$ million	RMB million	HK\$ million	RMB million	HK\$ million	RMB million
Final dividend proposed after balance sheet date of HK\$ 0.592 per share (2006 : HK\$0.553 per share, 2005:HK\$0.466per share)	3,073	3,196	3,678	3,695	3,951	3,700
Dividend distributed during the year	245	259	3,073	3,196	3,678	3,600

In the meeting of the board of directors held on March 25, 2008, the directors proposed a final dividend of HK\$ 0.592 per ordinary share for the year ended December 31, 2007. Dividends proposed after the balance sheet date have not been reflected as a dividend payable and will be reflected as an appropriation in the 2008 financial statements.

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 14 Earnings per share

Basic earnings per share is computed using the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is computed using the weighted average number of ordinary shares and potential ordinary shares outstanding during the year.

The following table sets forth the computation of basic and diluted earnings per share:

	Year ended December 31		
	2005	2006	2007
	(in RMB millions, except share and per share data)		
	Restated	Restated	
	Note 2	Note 2	
Numerator:			
Profit/ (loss) for the year			
- Continuing operations	14,350	11,478	11,471
- Discontinued operations	(400)	1,487	624
	13,950	12,965	12,095
Denominator			
Weighted average number of ordinary shares outstanding and			
shares used in computing basic earnings per share			
	6,593,529,000	6,615,520,381	6,657,045,212
Diluted equivalent shares arising from share options			
	34,112,723	51,955,496	80,583,956
	6,627,641,723	6,667,475,877	6,737,629,168
Shares used in computing diluted earnings per share			
Basic earnings/(loss) per share (RMB)			
- Continuing operations	2.18	1.74	1.72
- Discontinued operations	(0.06)	0.22	0.09
- Profit for the year	2.12	1.96	1.81
Diluted earnings/(loss) per share (RMB)			
- Continuing operations	2.17	1.72	1.70
- Discontinued operations	(0.06)	0.22	0.09
- Profit for the year	2.11	1.94	1.79

## CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 15 Staff cost including directors' remuneration

	Year ended December 31		
	2005	2006	2007
	RMB	RMB	RMB
	million	million	million
	Restated	Restated	
	Note 2	Note 2	
Wages, salaries and welfare	10,554	10,504	10,778
Contributions to pensions	1,274	1,345	1,445
Early retirement benefits	2	-	-
Total	11,830	11,849	12,223

## 16 Cash and bank deposits

	Group	
	As at December 31	
	2006	2007
	RMB	RMB
	million	million
	Restated	
	Note 2	
Cash and cash equivalents	7,623	5,304
Time deposits with original maturities over three months	105	91
Total cash and bank deposits	7,728	5,395
Effective interest rate of time deposits with original maturities over three months (% per annum)	0.72	0.72

Included in cash and bank deposits as of December 31, 2007 and 2006 are RMB denominated balances kept in the PRC amounting to RMB5,054 million and RMB5,782 million respectively. The conversion of RMB denominated balances into foreign currencies and the remittance of bank balances and cash out of the PRC are subject to the rules and regulation of foreign exchange control promulgated by the PRC government.

Included in the bank deposits were deposits in state-owned banks amounting to RMB4,958 million at December 31, 2007 (2006: RMB7,577 million). For the year ended December 31, 2007, interest income earned from these state-owned banks deposits amounted to RMB106 million (2006: RMB121 million; 2005: RMB124 million).



CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 17 Accounts receivable

Amounts due from the provision of fixed line telecommunications services to residential and business customers are due within 30 days from the date of billing. Residential customers who have accounts overdue by more than 90 days will in normal circumstances have their services disconnected. Accounts receivable from other telecommunications operators and customers are due generally between 30 to 90 days from the billing date.

The aging analysis of accounts receivable based on the billing date is as follows:

	As at December 31	
	2006	2007
	RMB	RMB
	million	million
	Restated	
	Note 2	
0-30 days	5,744	5,682
31-90 days	1,557	1,866
Over 90 days	2,326	2,308
Total	9,627	9,856
Less: Allowance for doubtful debts	(1,344)	(1,398)
Net carrying amounts	8,283	8,458

The movement of allowance for doubtful debts is as follows:

	As at December 31	
	2006	2007
	RMB	RMB
	million	million
	Restated	
	Note 2	
Balance at beginning of year	1,654	1,344
Additional provisions	1,002	844
Less: Write-offs	(1,246)	(750)
Disposal of ANC Group	(66)	-
Disposal of Guangdong and Shanghai Branches	-	(40)
Balance at end of year	1,344	1,398

The carrying value of accounts receivable approximates their fair values based on cash flows discounted using market rate of 7.47% (December 31, 2006: 6.12%).



Included in the accounts receivable are amounts due from other state-owned telecommunication operators amounting to RMB833 million on December 31, 2007. (December 31, 2006: RMB1,079 million).

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## CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 18 Inventories and consumables

	As at December 31	
	2006	2007
	RMB	RMB
	million	million
	Restated	
	Note 2	
Telephone handsets and other customer end-products held for resale, at cost	155	125
Consumables, at cost	261	162
Total	416	287

## 19 Prepayments, other receivables and other current assets

	As at December 31	
	2006	2007
	RMB	RMB
	million	million
	Restated	
	Note 2	
Prepaid expenses, deposits and other current assets	812	605
Other receivables	629	416
Total	1,441	1,021

The carrying value of other receivables approximates their fair values based on cash flows discounted using market rate of 7.47% (2006: 6.12%).

## CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 20 Fixed assets

	Buildings RMB million	Telecommunications networks and equipment RMB million	Furniture, fixture, motor vehicles and other equipment RMB million	Total RMB million
Cost / valuation:				
Balance at January 1, 2006, as restated (Note 2)	27,149	280,301	19,796	327,246
Additions	52	755	639	1,446
Transferred from construction in progress	688	21,449	2,621	24,758
Disposals/write off	(6)	(1,947)	(524)	(2,477)
Disposal of ANC Group	(172)	(636)	(45)	(853)
Fixed assets revaluation deficit, net	-	(10,659)	(3,588)	(14,247)
Balance at December 31, 2006	27,711	289,263	18,899	335,873
Accumulated depreciation:				
Balance at January 1, 2006, as restated (Note 2)	(6,215)	(142,639)	(9,628)	(158,482)
Depreciation charge for the year	(999)	(21,842)	(2,286)	(25,127)
Disposals/write off	4	1,315	424	1,743
Disposal of ANC Group	51	261	28	340
Fixed assets revaluation deficit, net	-	11,778	2,016	13,794
Balance at December 31, 2006	(7,159)	(151,127)	(9,446)	(167,732)
Net book value at December 31, 2006	20,552	138,136	9,453	168,141
Net book value at January 1, 2006, as restated (Note 2)	20,934	137,662	10,168	168,764

## CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 20 Fixed assets (continued)

	Buildings RMB million	Telecommunications networks and equipment RMB million	Furniture, fixture, motor vehicles and other equipment RMB million	Total RMB million
Cost / valuation:				
Balance at January 1, 2007	27,711	289,263	18,899	335,873
Additions	56	797	725	1,578
Transferred from construction in progress	971	15,540	2,595	19,106
Disposals/write off	(33)	(1,749)	(441)	(2,223)
Disposal of Guangdong and Shanghai Branches	(550)	(7,635)	(344)	(8,529)
Balance at December 31, 2007	28,155	296,216	21,434	345,805
Accumulated depreciation:				
Balance at January 1, 2007	(7,159)	(151,127)	(9,446)	(167,732)
Depreciation charge for the year	(1,030)	(21,977)	(2,004)	(25,011)
Disposals/write off	16	1,337	395	1,748
Disposal of Guangdong and Shanghai Branches	134	1,867	137	2,138
Balance at December 31, 2007	(8,039)	(169,900)	(10,918)	(188,857)
Net book value at December 31, 2007	20,116	126,316	10,516	156,948
Net book value at January 1, 2007	20,552	138,136	9,453	168,141

## CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 20 Fixed assets (continued)

(a) The net book value of assets held under finance lease is as follows:

	Buildings RMB million	Telecommunications networks and equipment RMB million	Furniture, fixture, motor vehicles and other equipment RMB million	Total RMB million
As at December 31, 2007	-	217	2	219
As at December 31, 2006	-	2,000	62	2,062

The depreciation charge on assets held under finance lease amounted to RMB100 million in the year ended December 31, 2007 (2006: RMB351 million; 2005: RMB367 million).

(b) The analysis of the cost or revaluation of the fixed assets of the Group is as follows:

	Buildings RMB million	Telecommunications networks and equipment RMB million	Furniture, fixture, motor vehicles and other equipment RMB million	Total RMB million
December 31, 2007				
Cost	28,155	-	-	28,155
Valuation	-	296,216	21,434	317,650
	28,155	296,216	21,434	345,805
December 31, 2006				
Cost	27,711	-	-	27,711
Valuation	-	289,263	18,899	308,162
	27,711	289,263	18,899	335,873



CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20 Fixed assets (continued)

(c) As required by the PRC rules and regulations relevant to the Listing Reorganisation, each class of fixed assets other than lease prepayments for land and buildings as at December 31, 2003 was valued by Beijing China Enterprise Appraisal Co. Ltd. (the "PRC valuer"), an independent valuer registered in the PRC, on a depreciated replacement cost basis. The value of such assets in the PRC injected into the Group was determined at RMB122,456 million. Such revalued amounts served as the tax base of the assets with immediate effect. The surplus on revaluation of certain fixed assets of RMB2,982 million was credited to the revaluation reserve while the deficit arising from the revaluation of certain fixed assets of RMB25,778 million was recognised as an expense for the year ended December 31, 2003.

For the Listing Reorganisation, valuations of the lease prepayments for land and buildings of the Group were also performed. The surplus value of such assets was determined at RMB6,967 million. Such amounts served as the tax base for such assets with immediate effect. Details have been set out in Note 32(iii).

As required by the PRC rules and regulations relevant to the Acquisition of New Horizon, each class of fixed assets, other than lease prepayments for land and buildings in the PRC, acquired as at December 31, 2004, was valued by the PRC valuer, on a depreciated replacement cost basis. The value of such acquired assets in the PRC was determined at RMB42,879 million. Such amounts served as the tax base for such assets with immediate effect. The surplus on revaluation of certain fixed assets of RMB3,863 million was credited to the revaluation reserve while the deficit arising from the revaluation of certain fixed assets of RMB11,318 million was recognised as an expense for the year ended December 31, 2004.

For the Acquisition of New Horizon, valuations of the lease prepayments for land and buildings were also performed. The surplus value of such assets was determined at RMB2,553 million. Such amounts served as the tax base for such assets with immediate effect. Details have been set out in Note 32(iii).

According to the Group's accounting policies, each class of fixed assets of the Group other than buildings as at December 31, 2006 has been revalued by the PRC valuer on a depreciated replacement cost basis. The value of such fixed assets was determined at RMB147,573 million. The net deficit arising on the revaluation was RMB453 million, the net deficit was split between a credit to the revaluation reserve amounting to RMB1,071 million and an expense to the income statement of RMB1,524 million for that year.

The respective carrying amounts of the telecommunication networks and equipment and furniture, fixtures, motor vehicles and other equipment would have been RMB137,414 million and RMB12,382 million as at December 31, 2007 and RMB153,368 million and RMB11,651 million as at December 31, 2006 had they been stated at cost less accumulated depreciation.

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 21 Construction in progress

	As at December 31	
	2006	2007
	RMB	RMB
	million	million
	Restated	
	Note 2	
Balance at beginning of year	6,822	6,335
Additions	24,843	18,294
Transferred to fixed assets	(24,758)	(19,106)
Transferred to intangible assets	(572)	(399)
Disposal of Guangdong and Shanghai Branches	-	(1,134)
Balance at end of year	6,335	3,990

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## CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 22 Lease prepayment

	As at December 31	
	2006	2007
	RMB	RMB
	million	million
Lease prepayments for land (i)	2,046	2,183
Lease prepayments for network capacity (ii)	318	311
	2,364	2,494

## (i) Lease prepayments for land

This represents land use rights held in the PRC and their net book value is analyzed as follows:

	As at December 31	
	2006	2007
	RMB	RMB
	million	million
Held for		
Lease of between 10 to 50 years	2,024	2,162
Lease of less than 10 years	22	21
	2,046	2,183

The movement of the lease prepayments for land is as follows:

	As at December 31	
	2006	2007
	RMB	RMB
	million	million
Balance at beginning of year	1,949	2,046
Additions	165	232
Amortization for the year	(68)	(87)
Disposal of Guangdong and Shanghai Branches	-	(8)
Balance at end of year	2,046	2,183



CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 22 Lease prepayment (continued)

## (ii) Lease prepayments for network capacity

The net book value is analyzed as follows:

	As at December 31	
	2006	2007
	RMB million	RMB million
Held for Lease of between 10 to 50 years	318	311
Balance at end of year	318	311

The movement of the lease prepayments for network capacity is as follows:

	As at December 31	
	2006	2007
	RMB million	RMB million
Balance at beginning of year	-	318
Additions	318	-
Amortization for the year	-	(7)
Balance at end of year	318	311

## CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 23 Intangible assets

	Purchased software RMB million	Sponsorship fees RMB million	Others RMB million	Total RMB million
Cost:				
Balance at January 1, 2006, as restated (Note 2)	1,919	540	3	2,462
Additions	95	-	-	95
Transferred from construction in progress	572	-	-	572
Disposals/write off	(692)	-	(3)	(695)
Balance at December 31, 2006	1,894	540	-	2,434
Accumulated amortisation:				
Balance at January 1, 2006, as restated (Note 2)	(927)	(135)	(3)	(1,065)
Amortisation for the year	(338)	(135)	-	(473)
Disposals/write off	692	-	3	695
Balance at December 31, 2006	(573)	(270)	-	(843)
Net book value at January 1, 2006, as restated (Note 2)	992	405	-	1,397
Net book value at December 31, 2006	1,321	270	-	1,591
Cost:				
Balance at January 1, 2007	1,894	540	-	2,434
Additions	150	-	-	150
Transferred from construction in progress	399	-	-	399
Disposals/write off	(73)	-	-	(73)
Disposal of Guangdong and Shanghai Branches	(75)	-	-	(75)
Balance at December 31, 2007	2,295	540	-	2,835
Accumulated amortisation:				
Balance at January 1, 2007	(573)	(270)	-	(843)
Amortisation for the year	(394)	(135)	-	(529)
Disposals/write off	69	-	-	69
Disposal of Guangdong and Shanghai Branches	20	-	-	20
Balance at December 31, 2007	(878)	(405)	-	(1,283)
Net book value at January 1, 2007	1,321	270	-	1,591
Net book value at December 31, 2007	1,417	135	-	1,552

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CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 24 Other non-current assets

	As at December 31	
	2006	2007
	RMB million	RMB million
Installation costs	3,525	2,847
Others	441	396
	3,966	3,243

## 25 Discontinued operations

On January 15, 2007, CNC China, entered into an assets transfer agreement with its ultimate holding Company, China Netcom Group. Pursuant to the agreement, CNC China agreed to dispose of its assets and liabilities in relation to its telecommunications operations in Guangdong Province and Shanghai Municipality branches. The disposal was completed on February 28, 2007. The gain on disposal amounted to RMB626million. The results and cash flows of Guangdong and Shanghai Branches for the year ended December 31, 2007, 2006 and 2005 are presented as discontinued operations.

On June, 2, 2006, the Group entered into an agreement with third party buyers to dispose of its entire interest in the ANC Group for an aggregate cash consideration of US\$168.84 million, or equivalent of RMB1,343.71 million. The disposal was completed on August 22, 2006. The gain on disposal amounted to RMB1,878 million. The results and cash flows of the ANC Group for the year ended December 31, 2006 and 2005 are presented as discontinued operations.

The income statements and cash flow statements related to discontinued operations are as follows:

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CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 25 Discontinued operations (continued)

	Disposal of Guangdong & Shanghai Branches			Disposal of ANC Group			Total		
	For the year ended December 31, 2005	For the year ended December 31, 2006	For the period from January 1, 2007 to February 28, 2007	For the year ended December 31, 2005	For the period from January 1, 2006 to August 22, 2006	For the year ended December 31, 2007	For the year ended December 31, 2005	For the year ended December 31, 2006	For the year ended December 31, 2007
	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million	RMB million
Discontinued operations									
Revenues	2,120	3,222	615	1,371	980	-	3,491	4,202	615
Expenses	(2,379)	(3,717)	(618)	(1,598)	(1,038)	-	(3,977)	(4,755)	(618)
						-			
Loss before taxation of discontinued operations	(259)	(495)	(3)	(227)	(58)	-	(486)	(553)	(3)
						-			
Taxation	85	163	1	1	(1)	-	86	162	1
						-			
Loss for the period of discontinued operations	(174)	(332)	(2)	(226)	(59)	-	(400)	(391)	(2)
						-			
Gain on disposal of discontinued operations before taxation	-	-	927	-	1,878	-	-	1,878	927
						-			
Taxation	-	-	(301)	-	-	-	-	-	(301)
						-			
Gain on discontinued operations after taxation	-	-	626	-	1,878	-	-	1,878	626
						-			
	(174)	(332)	624	(226)	1,819	-	(400)	1,487	624

Profit/(loss for the  
period/year from  
discontinued  
operations

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CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 25 Discontinued operations (continued)

	Disposal of Guangdong & Shanghai Branches			Disposal of ANC Group			Total		
	For the year ended December 31, 2005 RMB million	For the year ended December 31, 2006 RMB million	For the period from January 1, 2007 to February 28, 2007 RMB million	For the year ended 31, 2005 RMB million	For the period from January 1, 2006 to August 22, 2006 RMB million	For the year ended 31, December 2007 RMB million	For the year ended 31, 2005 RMB million	For the year ended 31, 2006 RMB million	For the year ended 31, 2007 RMB million
Discontinued operations									
Net cash inflow from operating activities	1,270	1,902	388	74	183	-	1,344	2,085	388
Cash outflow from investing activities	(1,272)	(1,903)	(374)	(312)	(182)	-	(1,584)	(2,085)	(374)
Cash inflow from disposal of discontinued operations	-	-	3,477	-	1,164	-	-	1,164	3,477
Net cash inflow/(outflow) from investing activities	(1,272)	(1,903)	3,103	(312)	982	-	(1,584)	(921)	3,103
Net cash inflow from financing activities	-	-	-	108	-	-	108	-	-
Cash flow from discontinued operations	(2)	(1)	3,491	(130)	1,165	-	(132)	1,164	3,491



CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 26 Accounts payable

	As at December 31	
	2006	2007
	RMB	RMB
	million	million
	Restated	
	Note 2	
0-30 days	5,763	6,214
31-60 days	2,236	1,462
61-90 days	1,449	1,266
91-180 days	2,990	2,251
Over 180 days	5,223	4,446
Total	17,661	15,639

Included in accounts payable are amounts due to other state-owned telecommunications operators amounting to RMB23 million on December 31, 2007 (2006: RMB97 million).

## 27 Accruals and other payables

	Group	
	As at December 31	
	2006	2007
	RMB	RMB
	million	million
	Restated	
	Note 2	
Interest payable	106	441
Payroll payable	588	493
Accruals and other payables	2,380	2,016
Total	3,074	2,950

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CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 28 Bank and other loans

- (a) (i) CNC China issued two lots of RMB10 billion unsecured commercial paper with repayment periods of 1 year and 270 days on April 30, 2007 and September 18, 2007 in the PRC capital market respectively. The effective interest rates are 3.34% and 3.93% respectively. The aggregated net cash proceeds raised in these exercises is RMB20 billion.

The book value of above said commercial paper approximates fair value which derives from discounted cash flow at 3.93%.

On July 20, 2006, the Group issued RMB10 billion one-year non-interest bearing unsecured commercial paper in the PRC capital market and raised net cash proceeds of RMB9,676 million from this exercise. The commercial paper is interest bearing at effective rate of 3.35%. The commercial paper was fully repaid on July 24, 2007.

- (ii) The short term bank loans on December 31, 2007 were unsecured and comprise:

Currency	Interest rate and final maturity	As at December 31	
		2006	2007
		RMB million	RMB million
RMB denominated	Interest rates ranging from 4.86% to 6.72% per annum with maturity through December 11, 2008	30,980	11,850

The carrying values of short term bank loans approximate their fair values which are based on cash flows discounted using market rate of 4.86%-6.72% (December 31, 2006: 4.86%-5.51%).

Included in the short-term bank loans were loans from state-owned banks amounting to RMB11,140 million as at December 31, 2007 (December 31, 2006: RMB29,700 million).

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 28 Bank and other loans (continued)

(b) The Group's long term bank and other loans comprise:

	Note	As at December 31	
		2006 RMB million	2007 RMB million
Long term bank loans	(i)	29,560	19,645
Finance lease obligations	(ii)	963	102
		30,523	19,747
Less: Current portion		(7,304)	(5,322)
		23,219	14,425

The carrying values of the current portion of long term bank loans approximate their fair values which are based on cash flows discounted using market rate of 7.47% (December 31, 2006: 6.12%).

Included in the long term bank loans were loans from state-owned banks amounting to RMB19,645 million as at December 31, 2007 (2006: RMB29,560 million).

(i) Long term bank loans

	As at December 31	
	2006 RMB million	2007 RMB million
Loans		
Unsecured	29,220	19,433
Secured	340	212
Total	29,560	19,645
Less: Current portion	(6,446)	(5,220)
Long term loans	23,114	14,425

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CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 28 Bank and other loans (continued)

(b) The Group's long term bank and other loans comprise (continued):

(i) Long term bank loans (continued)

The Group's long term bank loans were repayable as follows:

	As at December 31	
	2006	2007
	RMB million	RMB million
Within one year	6,446	5,220
In the second year	6,491	9,671
In the third to fifth year, inclusive	9,723	1,952
After the fifth year	6,900	2,802
	29,560	19,645

		As at December 31	
Currency	Interest rate and final maturity	2006 RMB million	2007 RMB million
Bank loan			
Renminbi denominated	Interest rates ranging from 2.40% to 10.08% per annum with maturity through December 20, 2019	28,128	18,399
US Dollar denominated	Interest rates ranging from 1.25% to 6.44% per annum with maturity through October 31, 2039	721	588
Japanese Yen denominated	Interest rate is 2.12% per annum with maturity through January 7, 2014	276	234

Euro denominated	Interest rates ranging from 0.50% to 7.35% per annum with maturity through March 15, 2034	435	415
Hong Kong Dollar denominated	Interest rates is 3.75% per annum with maturity through December 31, 2010	- 29,560	9 19,645

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CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 28 Bank and other loans (continued)

(b) The Group's long term bank and other loans comprise (continued):

## (i) Long term bank loans (continued)

As at December 31, 2007, bank loans of RMB212 million (December 31, 2006: RMB340 million) were secured by the following:

- Corporate guarantees granted by China Netcom Group to the extent of RMB49 million (December 31, 2006: RMB65 million); and
- Corporate guarantees granted by third parties to the extent of RMB163 million (December 31, 2006: RMB275 million).

## (ii) Finance lease obligations

	As at December 31	
	2006	2007
	RMB	RMB
	million	million
Obligation under finance leases	963	102
Less: current portion	(858)	(102)
	105	-

The accumulated finance lease obligation payable to the related parties as at December 31, 2007 amounted to RMB102 million. (2006: RMB963 million).

The interest rates charged on finance lease are ranging from 5.18% to 5.7% with maturity through December 8, 2008 (2006: 2.68% to 6.83% with maturity through December 8, 2008)

The Group's liabilities under finance leases are analysed as follows:

	As at December 31	
	2006	2007
	RMB	RMB
	million	million
Within one year	888	105
In the second year	106	-
	994	105
Less: future finance charges on finance leases	(31)	(3)

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Present value of finance lease liabilities	963	102
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The present value of finance lease liabilities is as follows:

Within one year	858	102
In the second year	105	-
	963	102

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CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 28 Bank and other loans (continued)

## (c) Corporate bonds

On June 8, 2007, the Group issued RMB2 billion ten-year corporate bonds, bearing interest at 4.5% per annum. The corporate bonds are secured by a corporate guarantee granted by Bank of China Limited.

(d) The fair value of the Group's non-current portion of long term bank and other loans at December 31, 2007 and 2006 were as follows:

	As at December 31	
	2006	2007
	RMB	RMB
	million	million
Long term bank loans	21,209	12,320
Finance lease obligations	85	-
	21,294	12,320

The fair value is based on cash flows discounted using rates based on the market rates ranging from 3.25% to 7.05% (December 31, 2006: 3.75% to 8.33%).

## CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 29 Amount due from/(to) holding companies and fellow subsidiaries

	Note	As at December 31	
		2006 RMB million Restated Note 2	2007 RMB million
Current:			
Due from ultimate holding company	(a)	174	245
Due from intermediate holding companies	(a)	3	6
Due from fellow subsidiaries	(a)	181	96
Total		358	347
Due to ultimate holding company			
-Deferred consideration	(b)	1,960	1,960
-Others	(a)	3,282	1,371
Due to fellow subsidiaries	(a)	2,263	1,267
Total		7,505	4,598
Non-current			
Due to ultimate holding company			
-Deferred consideration	(b)	5,880	3,920
Due to intermediate holding companies	(c)	-	78
Due to fellow subsidiaries	(c)	-	2,171
Total		5,880	6,169

## Note:

- (a) These are interest free, unsecured and have no fixed terms of repayment.
- (b) Balance represents the deferred payments arising from the Acquisition of New Horizon outstanding at year end. The balance is charged at interest rate of 5.265 % per annum with final maturity through June 30, 2010. The deferred payment is analysed as follows:

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 29 Amount due from/(to) holding companies and fellow subsidiaries (continued)

	As at December 31	
	2006	2007
	RMB	RMB
	million	million
Within one year	1,960	1,960
In the second year	1,960	1,960
In the third to fifth year, inclusive	3,920	1,960
Total	7,840	5,880

The balances bear interest rates ranged from 3.0% to 3.8% per annum, unsecured and have repayment terms of (c) 3 years. The fair value of the balances is RMB1,918 million

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## CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 30 Deferred revenues

	As at December 31	
	2006	2007
	RMB	RMB
	million	million
Balance at beginning of year		
-upfront connection fees	5,505	3,099
-upfront installation fees	6,769	5,767
-advances from network capacity sales	2,354	-
-prepaid telephony services	4,272	5,065
-others	-	-
	18,900	13,931
Additions for the year		
-upfront connection fees	-	-
-upfront installation fees	357	226
-advances from network capacity sales	236	-
-prepaid telephony services	30,360	31,749
-others	-	86
	30,953	32,061
Reductions for the year		
-upfront connection fees	(2,406)	(1,517)
-upfront installation fees	(1,359)	(1,279)
-advances from network capacity sales	(2,590)	-
-prepaid telephony services	(29,567)	(31,777)
-others	-	(2)
	(35,922)	(34,575)
Included: Disposal of discontinued operations		
-advances from network capacity sales	(2,450)	-
-prepaid telephony services	(144)	(183)
	(2,594)	(183)
Balance at end of year		
- upfront connection fees	3,099	1,582
- upfront installation fees	5,767	4,714
- advances from network capacity sales	-	-
- prepaid telephony services	5,065	5,037
-others	-	84
	13,931	11,417

Representing:

- Current portion	7,733	7,103
- Non-current portion	6,198	4,314
	13,931	11,417

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CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 31 Provisions

	Early retirement benefits RMB million Note b	One-off cash housing subsidies RMB million Note a & b	Total RMB million
As at January 1, 2007	3,137	3,185	6,322
Additional provisions	-	-	-
Payments during the year	(605)	(329)	(934)
As at December 31, 2007	2,532	2,856	5,388
Analysis of total provisions:			
-Current portion	525	2,856	3,381
-Non-current portion	2,007	-	2,007
	2,532	2,856	5,388
As at January 1, 2006	3,763	3,440	7,203
Payments during the year	(626)	(255)	(881)
At December 31, 2006	3,137	3,185	6,322
Analysis of total provisions:			
-Current portion	551	3,185	3,736
-Non-current portion	2,586	-	2,586
	3,137	3,185	6,322

- (a) Certain staff quarters, prior to 1998, have been sold to the Group's employees at preferential prices, subject to a number of eligibility requirements. In 1998, the State Council issued a circular which stipulated that the sale of quarters to employees at preferential prices should be terminated. In 2000, the State Council issued a further circular stating that cash subsidies should be made to certain eligible employees following the withdrawal of the allocation of staff quarters. However, the specific timetable and procedures for the implementation of these policies were to be determined by individual provincial or municipal government based on the particular situation of the provinces or municipality.

Based on the relevant detailed local government regulations promulgated, certain entities within the Group have adopted cash housing subsidy plans. In accordance with these plans, for those eligible employees who had not been allocated with quarters or who had not been allocated with quarters up to the prescribed standards before the discounted sales of quarters were terminated, the Group is required to pay them one-off cash housing subsidies based on their years of service, positions and other criteria. Based on the available information, the Group



estimated the required provision for these cash housing subsidies amounting to RMB4,142 million, which was charged to the income statement in the year ended December 31, 2000 (the year in which the Council circular in respect of cash subsidies was issued).

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CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 Provisions (continued)

- (b) Pursuant to the Listing Reorganization and the Acquisition of New Horizon, if the actual payments required for these subsidies and early retirement benefits differ from the amount provided as at June 30, 2004 and June 30, 2005, China Netcom Group will bear any additional payments required or will be paid the difference if the actual payments are lower than the amount provided.

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## CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 32 Deferred taxation

Movements of the deferred tax assets and liabilities are as follows:

	Balance at December 31 2006 RMB million Restated Note 2	Discontinued operations -Disposed Guangdong & Shanghai Branches RMB million	Recognised in income statement Continuing operations Note 11 RMB million	Change in statutory tax rate Note 11 RMB million	Change in statutory Tax rate and recognised in equity Note 11 RMB million	Disposal of Guangdong and Shanghai Branches RMB million	Balance at December 31 2007 RMB million
Deferred tax assets							
Deferred revenue, primarily advances from customers	127	-	(11)	(24)	-	-	92
Temporary differences from allowance for doubtful debts	314	(5)	73	(38)	-	(13)	331
Unrecognised revaluation surplus/(deficit)	2,810	-	(104)	-	(664)	20	2,062
Others	208	-	53	(49)	-	(4)	208
Balance at end of year	3,459	(5)	11	(111)	(664)	3	2,693
Deferred tax liabilities							
Interest capitalized	(789)	-	109	168	-	-	(512)
Fixed assets depreciation	(301)	-	(55)	(15)	111	(28)	(288)
Others	(66)	-	1	9	-	-	(56)
Balance at end of year	(1,156)	-	55	162	111	(28)	(856)

The amounts in the consolidated balance sheet are as follows:

Deferred tax assets to be recovered after more than 12 months	2,860	2,038
Deferred tax liabilities to be settled after more than 12 months	(1,014)	(740)

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CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Balance at December 31 2005	Recognised in Income Statement		Balance Recognised in Equity RMB million	Balance at December 31 2006
		Discontinued operations RMB million	Continuing operations RMB million		
	RMB million Restated Note 2				RMB million Restated Note 2
Deferred tax assets					
Deferred revenue, primarily advances from customers	170	-	(43)	-	127
Temporary differences from allowance for doubtful debts	350	(4)	(32)	-	314
Unrecognised revaluation surplus and deficit (Note iii)	2,861	2	(53)	-	2,810
Others	99	4	105	-	208
Balance at end of year	3,480	2	(23)	-	3,459
Deferred tax liabilities					
Interest capitalized	(1,261)	-	472	-	(789)
Revaluation surplus/deficit of fixed assets (Note i)	-	62	(10)	(353)	(301)
Others	(63)	-	(3)	-	(66)
Balance at end of year	(1,324)	62	459	(353)	(1,156)
The amounts in the consolidated balance sheet are as follows:					
Deferred tax assets to be recovered after more than 12 months	2,906				2,860
Deferred tax liabilities to be settled after more than 12 months	(1,190)				(1,014)



CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 Deferred taxation (continued)

Notes:

- (i) According to the Group's accounting policy as set out in note 4(k), the fixed assets other than the lease prepayments for land and buildings of the Group were revalued by the PRC valuer on a depreciated replacement cost basis on December 31, 2006, as disclosed in note 20. The revalued amounts are not used to determine the tax bases of these assets in the future years. Accordingly, the Group's deferred tax liabilities on the balance sheet as at December 31, 2006, decreased by RMB150million. The net reduction comprised RMB353 million, being the deferred tax liabilities originated from the revaluation surplus of fixed assets which was debited to revaluation reserves, offset by RMB503 million, being the deferred tax assets originated from the revaluation deficit of fixed assets which was credited to the income statement for the year ended December 31, 2006.
- (ii) In connection with the Listing Reorganisation and the Acquisition of New Horizon, certain of the Group's telecommunication networks and equipment and furniture, fixtures, motor vehicles and other equipment were revalued as at December 31, 2003 and 2004. Such revalued amounts determine the tax bases for these assets for future years. In addition, except for the item described in Note (iii) below, the tax bases of certain assets and liabilities have been adjusted to the revalued amounts incorporated as the carrying values in the balance sheet.

In connection with the Acquisition of New Horizon, the Group's net deferred tax assets were subsequently reduced by RMB1,077 million, and this decrease was recorded as a debit to owners' equity upon the date of the Reorganisation on June 30, 2005. The RMB1,077 million deduction comprises RMB1,097 million, being deferred tax liabilities originating from the revaluation surplus of fixed assets recorded and credited to revaluation reserves offset by RMB2,174 million deferred tax assets debited to retained earnings.

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32 Deferred taxation (continued)

Notes:

- (iii) In addition, in order to determine the tax bases used for future years after the Listing Reorganisation and the Acquisition of New Horizon, the Group's prepayments for the leasehold land and buildings were revalued for PRC tax purposes as at December 31, 2003 and 2004. However, the resulting revaluations of the prepayments for the leasehold land and buildings were not incorporated into the consolidated financial statements. As a result, deferred tax assets were subsequently recorded with corresponding increases in owners' equity upon the Listing Reorganisation on June 30, 2004 and the Acquisition of New Horizon on June 30, 2005. In the opinion of the directors, it is more likely than not that the Group will realize the benefits of the deferred tax asset after making reference to the historical taxable income of the Group. The amount is to be transferred to retained earnings upon the corresponding realization of the underlying deferred tax assets.

During the Listing Reorganisation, the leasehold land and buildings had a net surplus on revaluation of RMB6,967 million as at December 31, 2003. As explained in the preceding paragraph, a deferred tax asset of RMB2,355 million was subsequently recorded with a corresponding increase in owner's equity upon the Listing Reorganisation on June 30, 2004.

During the Acquisition of New Horizon, the leasehold land and buildings had a net surplus on revaluation of RMB2,553 million as at December 31, 2005. As explained above, a deferred tax asset of RMB843 million was subsequently recorded with a corresponding increase in owner's equity upon the Acquisition on June 30, 2005.

The amount of transfer to retained earnings from unrecognised revaluation surplus and deficit for the year ended December 31, 2007 was RMB104 million. (2006: RMB51 million; 2005: RMB96 million).



CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 33 Share capital

	Ordinary shares of US\$0.04 each			Authorized Convertible preference shares of US\$0.04 each		
	No of shares	US\$	RMB Million	No of shares	US\$	RMB Million
As at January 1, 2006, 2007 and December 31, 2007	25,000,000,000	1,000,000,000	8,277	7,741,782	309,671	3
	Ordinary shares of US\$0.04 each			Issued Convertible preference shares of US\$0.04 each		
	No of shares	US\$	RMB million	No of shares	US\$	RMB Million
As at January 1, 2006	6,593,529,000	263,741,160	2,181	-	-	-
Exercise of share options(Note)	57,114,500	2,284,580	18	-	-	-
As at December 31, 2006	6,650,643,500	266,025,740	2,199	-	-	-
As at January 1, 2007	6,650,643,500	266,025,740	2,199	-	-	-
Exercise of share options(Note)	23,684,900	947,396	7	-	-	-
As at December 31, 2007	6,674,328,400	266,973,136	2,206	-	-	-

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CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33 Share capital (continued)

Note:

The Group issued new shares for the options exercised during this period. During the year ended December 31, 2007, the Company issued 16,231,400 shares (2006: 57,114,500 shares) upon exercise of options by participants in the First Grant Share Option Scheme, and issued 7,453,500 shares (2006: 0 shares) upon exercise of options by participants in the Second Grant Share Option Scheme. The total consideration received amounted to RMB 219 million and the portion that exceeds the nominal value of the shares issued was recorded as share premium of the Company.

34 Share option scheme

A share option scheme was approved pursuant to a shareholders' resolution on September 30, 2004 ("Share Option Scheme"). Share options are granted to directors of the Company and to certain employees of the Group at the directors' discretion. Share options can be exercised at least 18 months from the later of the date of grant or the date of the listing of the shares of the Company on the Hong Kong Stock Exchange and subject to certain vesting restrictions on timing.

On October 22, 2004, 158,640,000 share options with an exercise price of HK\$8.40 each were granted to the directors of the Company and certain employees of the Group (the "First Grant").

Pursuant to the Company's share option plan, the Company granted 158,640,000 options to certain of its directors and employees, immediately prior to the closing of its global offering, to subscribe for its ordinary shares at the initial public offering price under the Hong Kong public offering, excluding brokerage and trading fees, and transaction and investor compensation levies. The First Grant has an exercise period of six years from the date of grant. The grantees can exercise 40 percent of the options granted from May 17, 2006, and a further 20 percent of the options granted from May 17, 2007. All unexercised share options will expire on November 16, 2010.

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CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 Share option scheme (continued)

On December 6, 2005, the board of directors approved the grant of 79,320,000 shares of share options to certain management personnel and other professional personnel designated by the Compensation Committee of the newly acquired four northern provinces/autonomous region (“Second Grant”). The grantees can exercise 40% of the option granted from December 6, 2007, and all unexercised share options will be expired on December 5, 2011.

The grant date fair value of the share options granted in the First Grant is determined by the Black-Scholes model based on the following assumptions: expected dividend pay-out ratio of 35%, expected vesting period of 5 years, expected volatility rate of 23.6% and risk-free interest rate of 4.3%. The weighted average fair value of the share options on grant date was determined as HK\$ 1.22 per share (RMB1.28 per share). The grant date fair value of the share options granted in the Second Grant is determined by the Black-Scholes model based on the following assumptions: expected dividend pay-out ratio of 35%, expected vesting period of 4 years, expected volatility rate of 21.46% and risk-free interest rate of 4.3%. The weighted average fair value of the share option on grant date was determined as HK\$1.28 per share (RMB1.34 per share). The model that decided the weighted average fair value of the share options and the assumptions mentioned above are subjective, and the changes of these subjective assumptions could affect the weighted average fair value of the share option. Therefore, Black-Scholes model may not reliably calculate the weighted average fair value of the share options.

Modifications to certain clauses of the share options schemes already granted were approved on May 16, 2006, pursuant to a resolution of the Extraordinary General Meeting. The modifications were mainly related to eligibility of the participants, number of options and exercise vesting schedules, rights upon cessation of employment, death and loss of capacity, performance targets, and cancellation of options. The modifications did not have significant impact to the financial statements.

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CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 34 Share option scheme (continued)

The movement of the share options granted during the year is summarized as follows:

		No. of share options						Weighted average closing price per share at respective days immediately exercisable before the exercises of options HK\$	No. of share option as at December 31 2006
	As at January 1 2006	Granted	Exercised	Lapsed and forfeited 1,975,800	As at December 31, 2006	Exercise price HK\$			
First Grant	156,703,000	-	57,114,500		97,612,700	8.40	14.46	5,670,084	
Second Grant	79,320,000	-	-	285,800	79,034,200	12.45	-	-	
Total	236,023,000	-	57,114,500	2,261,600	176,646,900			5,670,084	

		No. of share options						Weighted average closing price per share at respective days immediately exercisable before the exercises of options HK\$	No. of share option as at December 31 2007
	As at January 1 2007	Granted	Exercised	Lapsed and forfeited	As at December 31, 2007	Exercise price HK\$			
First Grant	97,612,700	-	16,231,400	2,117,440	79,263,860	8.40	22.23	20,728,290	
Second Grant	79,034,200	-	7,453,500	-	71,580,700	12.45	23.92	24,490,320	
Total	176,646,900	-	23,684,900	2,117,440	150,844,560			45,218,610	

The company uses historical data to estimate pre-vesting option forfeitures and record share-based compensation expense only for those awards that are expected to vest.

The compensation cost recognised in staff cost during the year ended December 31, 2007 was RMB 59 million (For year ended December 31, 2006: RMB 75 million; For year ended December 31, 2005: RMB 104 million). As at

December 31, 2007, there was RMB47 million (As at December 31, 2006, there was RMB106 million) of unrecognised compensation cost, adjusted for estimated forfeitures, related to non-vested share-based awards granted to the Company's employees. This cost is expected to be recognised over a weighted-average period of 1.31 years. Total unrecognised compensation cost may be adjusted for future changes in estimated forfeitures.

There were no capitalised share-based compensation costs during the year ended December 31, 2007 and 2006.

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CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34 Share option scheme (continued)

The intrinsic value for the options exercised amounted to HK\$ 656 million and was calculated as the difference between the market value on the date of exercise and the exercise price of the shares. The intrinsic value of options outstanding as of December 31, 2007 amounted to HK\$ 1,980 million (December 31, 2006: HK\$1,879 million), which was calculated as the difference between the closing stock price as of December 31, 2007 and the exercise price of the share options.

The weighted average remaining contractual life for outstanding options, vested and expected to vest or exercisable options as of December 31, 2007 were 3.38 years and 3.45 years (as of December 31, 2006 was 4.35 years and 3.88 years), respectively.

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CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 35 Consolidated cash flow statements

(a) Reconciliation of profit before taxation to net cash flows generated from the operating activities of continuing operation.

	Year ended December 31st		
	2005	2006	2007
	RMB	RMB	RMB
	million	million	million
	Restated	Restated	
	Note 2	Note 2	
Profit before taxation	17,876	15,205	15,267
Depreciation of fixed assets and amortization of intangible assets	24,317	24,845	25,402
Lease prepayments for land	37	68	52
Lease prepayments for network capacity	-	-	6
Deferred costs charged to the income statements	2,444	996	876
Deficit on revaluation of fixed assets	-	1,335	-
Bad and doubtful debts	1,097	1,003	868
Loss/(gain) on disposal of fixed assets	364	432	(357)
Share-based compensation	104	75	59
Other income	-	(621)	(1,221)
Dividend income	(29)	-	-
Interest income	(133)	(136)	(113)
Interest expense	3,556	3,757	3,162
Foreign exchange net (gain)/loss	(229)	(8)	25
Changes in working capital			
Increase in accounts receivable	(1,578)	(1,944)	(1,357)
Decrease in inventories and consumables	743	56	120
Decrease in prepayments, other receivables and other current assets	781	229	142
Increase in other non-current assets	(529)	(339)	(201)
(Decrease)/increase in accounts payable	(3,494)	1,142	1,285
Decrease in accruals and other payables	(1,954)	(4,308)	(2,384)
Increase in deferred revenues	(4,070)	(2,631)	(2,322)
Net cash inflow generated from operating activities of continuing operation	39,303	39,156	39,309

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35 Consolidated cash flow statements (continued)

(b) Major non-cash transactions

During 2005, the Group paid RMB3,000 million as part of the total consideration for the Acquisition of the New Horizon. The remaining balance of RMB9,800 million was recognised as a deferred payment and is included in amounts due to the ultimate holding company. During the year ended December 31, 2007, payments made in respect of the purchase were RMB1,960 million, the unpaid balance at December 31, 2007 was RMB5,880 million.

In 2007, the Group replaced copper cables in some network infrastructure with optical fibers and related equipments. Some of this replacement was done through non-monetary assets exchange with suppliers, which it exchanged optical fibers and related equipments for the Group's own copper cables. The cost of the assets received was recorded at the fair value of asset surrendered. In 2007, the net book value and fair value of copper cables surrendered were RMB 182 million and RMB 568 million respectively. A gain on the non-monetary assets exchange of RMB 386 million is recognised in the current year income statement.

(c) Net investment gain from disposal of Guangdong and Shanghai Branches and ANC Group

On January 15, 2007, CNC China entered into an assets transfer agreement with its ultimate holding Company, China Netcom Group. Pursuant to the agreement, CNC China agreed to dispose of its assets and liabilities in relation to its telecommunications operations in Guangdong Province and Shanghai Municipality branches. The disposal was completed on February 28, 2007. The net assets of Guangdong and Shanghai Branches as at the completion date are listed below.

On June 2, 2006, the Group entered into an agreement to dispose of its entire interest in the ANC Group for a consideration of US\$168.84 million. The disposal was completed on August 22, 2006. At the completion date, the net liabilities of the disposed ANC Group are listed below.



CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 35 Consolidated cash flow statements (continued)

	Disposal of ANC Group As at August 22, 2006 RMB million	Disposal of Guangdong and Shanghai Branches As at February 28, 2007 RMB million
Net assets/(liabilities) disposed of (excluding the cash and cash equivalents) :		
Accounts receivable and other current assets	504	416
Fixed assets and other non-current assets	1,997	7,630
Current portion of deferred income	(308)	(183)
Accounts payable and other current liabilities	(592)	(2,046)
Non-current portion of deferred income	(2,286)	-
Long-term loans	-	(3,000)
Other liabilities	-	(267)
Exchange differences realized	(29)	-
	(714)	2,550
Gain on disposal recognised in the income statement	1,878	927
Net cash inflow from disposal of ANC Group/Guangdong and Shanghai Branches	1,164	3,477
Analysis of cash inflow from disposal of ANC Group/Guangdong and Shanghai Branches		
Cash consideration	1,344	3,500
Less : Cash and cash equivalents of Disposed ANC Group/Guangdong and Shanghai Branches	(180 )	(23 )
Net cash inflow	1,164	3,477

## 36 Banking facilities

As at December 31, 2007 and 2006, the utilized and unutilized banking facilities are as follows:

	As at December 31 2006 RMB million	2007 RMB million
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Amount utilized	60,541	31,495
Amount unutilized	115,588	106,824
Aggregate banking facilities	176,129	138,319

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## CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 37 Commitments

(a)	Capital commitments	As at December 31	
		2006 RMB million	2007 RMB million
	Contracted but not provided for		
	-Leasehold land and buildings	26	10
	-Telecommunication networks and equipment	2,502	530
	-Others	5	9
	Total	2,533	549
	Authorized but not contracted for		
	-Leasehold land and buildings	-	21
	-Telecommunication networks and equipment	300	106
	-Others	-	1
		300	128

## (b) Operating lease commitments

The Group has future minimum lease payments under non-cancelable operating leases in respect of premises and equipment as follows:

	As at December 31	
	2006 RMB million	2007 RMB million
Not later than one year	734	579
Later than one year and not later than five years	1,102	1,134
Later than five years	517	291
Total	2,353	2,004

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38 Related party transactions

All state-controlled enterprises, their subsidiaries, their key management and their close family, and their employees represent related parties of the Group as defined by HKAS 24. China Netcom Group, the Group's parent company, is a state-controlled enterprise directly controlled by the PRC government which controls different state-owned enterprises driving the economy of the PRC. The Group is the dominant fixed line telecommunications service provider in northern China by virtue of its historical monopoly over these services. As a result, the Group has extensive transactions including sales and purchases of services, goods and fixed assets, leasing of assets and banking transactions with other state-owned parties in its ordinary course of business. These transactions are carried out at terms similar to those obtained by other state-owned parties and have been reflected in the financial statements.

The Group's operations are subject to the supervision of and regulation by the PRC Government. The Ministry of Information Industry (MII), pursuant to the authority delegated by the PRC's State Council, is responsible for formulating the policies and regulations for the telecommunications industry in China, including granting licenses, allocating frequency spectrum, formulating interconnection and settlement arrangements between telecommunications operators, enforcing industry regulations and reviewing tariffs for domestic services. Other PRC governmental authorities also regulate tariff policies, capital investment and foreign investment in the telecommunications industry.

As a state-owned telecommunications operator, the Group has extensive transactions with other state-owned telecommunications operators in its ordinary course of business. These transactions are carried out in accordance with the rules and regulations stipulated by the MII of the PRC Government and disclosed below.

The Group has extensive transactions with other members of the China Netcom Group. It is possible that the terms of the transactions between the Group and other members of the China Netcom Group are not the same as those that would result from transactions with other related parties or wholly unrelated parties.

Management believes that meaningful information relative to related party disclosures has been adequately disclosed.

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## CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 38 Related party transactions (continued)

	Notes	For the year ended December 31		
		2005 RMB million Restated Note 2	2006 RMB million Restated Note 2	2007 RMB million
Emolument of key management				
- salaries and welfare and contributions to retirement scheme	(i)	23	13	13
Interconnection fees				
- from fellow subsidiaries	(iv)(b)	251	381	602
- from other state-owned telecommunications operators	(iv)(b)	6,442	6,726	6,333
Subtotal		6,693	7,107	6,935
Interconnection charges				
- to fellow subsidiaries	(iv)(b)	611	820	687
- to other state-owned telecommunications operators	(iv)(b)	1,475	1,758	1,595
Subtotal		2,086	2,578	2,282
Rental income from properties leased to fellow subsidiaries	(iv)(a),(iv)(c)	-	2	1
Purchase of materials				
- from fellow subsidiaries	(iv)(a),(iv)(c)	1,298	1,170	569
- from other related companies	(iv)(a),(iv)(c)	231	122	99
Subtotal		1,529	1,292	668
Receipt of engineering, project planning, design, construction and information technology services				
- from fellow subsidiaries	(iv)(a),(iv)(b)	2,236	2,084	1,629
- from other related companies	(iv)(a),(iv)(b)	413	368	317
Subtotal		2,649	2,452	1,946
Provision of engineering, project planning, design, construction and information technology services	(iv)(a)	47	45	54

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- from other state-owned telecommunications  
operators

Ancillary telecommunications support services

- from fellow subsidiaries	(v),(iv)(a)	435	350	373
- from other related companies	(v),(iv)(a)	51	58	75

Subtotal		486	408	448
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CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 38 Related party transactions (continued)

	Notes	For the year ended December 31		2007 RMB million
		2005 RMB million Restated Note 2	2006 RMB million Restated Note 2	
Payment of operating lease rentals of premises				
- to fellow subsidiaries	(iv)(a),(iv)(c)	655	680	636
Property sub-lease rentals to fellow subsidiaries	(iv)(a),(iv)(c)	15	15	11
Common corporate services income from ultimate holding company	(vi)	89	121	125
Common corporate services expenditure paid to ultimate holding company	(vi)	279	448	477
Support services received				
- from ultimate holding company	(vii),(iv)(a)	2	2	-
- from fellow subsidiaries	(vii),(iv)(a)	888	712	496
- from other related companies	(vii),(iv)(a)	264	23	40
Subtotal		1,154	737	536
Telecommunications rental income from other state-owned telecommunications operators	(iv)(b)	1,271	1,327	723
Payment for lease of Telecommunications facility				
- to ultimate holding company	(viii)	85	75	66
- to fellow subsidiaries	(viii)	215	307	243
Subtotal		300	382	309
Payment for purchase of long-term telecommunications capacity to fellow subsidiaries	(ix),(xii)	117	36	-
Payment for lease of long-term telecommunications capacity to fellow subsidiaries	(x),(xii)	84	65	-
Management fee received from fellow subsidiaries	(xi),(xii)	39	23	-

Provision of information communication  
technologies services

- from ultimate holding company	(xix),(iv)(a)	-	2	71
- from fellow subsidiaries	(xix),(iv)(a)	9	60	61
Subtotal		9	62	132

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CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38 Related party transactions (continued)

Notes:

- (i) Represents the emoluments paid to all of the directors and the top management of the Group, who are considered as the related parties of the Group.
- (ii) The Group entered into finance lease arrangements with a related party, details have been set out in Note 28 (b)
  - (iii) Related party represents the non-listed investors of the fellow subsidiaries.
    - (iv) Priced based on one of the following three criteria:
      - (a) market price;
      - (b) prices based on government guidance; or
      - (c) cost plus basis.
- (v) Represents provision of ancillary telecommunications support services to the Group by the fellow subsidiaries and the related companies. These services include certain telecommunications pre-sale, on-sale and after-sale services, certain sales agency services, the printing and delivery of invoice services, the maintenance of certain air-conditioning, fire alarm equipment and telephone booths and other customer services.
- (vi) The Group entered into a Master Service Sharing agreement with China Netcom Group pursuant to which expenses associated with common corporate services is allocated between the Group and China Netcom Group based on total assets as appropriate.
- (vii) Represents the support services provided to the Group by the fellow subsidiaries and the related companies. These support services include equipment leasing services, motor vehicles services, safety and security services, conference services, basic construction agency services, equipment maintenance services, employee training services, advertising services, printing services and other support services.
- (viii) The Group entered into a Telecommunications Facilities Leasing Agreement with China Netcom Group pursuant to which the Group leases the international telecommunications facilities and inter-provincial transmission optic fibers from China Netcom Group. The lease payment is based on the depreciation charge of the assets.

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38 Related party transactions (continued)

- (ix) The Group entered into a Capacity Purchase Agreement with East Asia Netcom Limited (“EANL”), a wholly owned subsidiary of China Netcom Group, pursuant to which the Group receives certain amounts of long-term telecommunications capacity from China Netcom Group at market prices as set out in the Capacity Purchase Agreement.
- (x) The Group entered into a Capacity Lease Agreement with EANL, pursuant to which the Group leases certain amount of capacity of China Netcom Group’s telecommunications network at market rates as set out in the Capacity lease Agreement.
- (xi) The Group entered into a Management Services Agreement with EANL, pursuant to which the Group provides certain management services to China Netcom Group either on a cost reimbursement basis or on the basis of cost plus reasonable profits not exceeding the market price as set out in the Management Service Agreement.
  - (xii) Due to the disposal of ANC Group on August 22, 2006, the Capacity Purchase Agreement, the Capacity Lease Agreement and the Management Services Agreement between the Group and East Asia Netcom Ltd (a formerly wholly owned subsidiary of China Netcom Group) were no longer related party transactions to the Group after August 22, 2006.
- (xiii) In addition, pursuant to the Listing Reorganisation and the Acquisition of New Horizon, China Netcom Group have agreed to hold and maintain, for the Group’s benefit, all licenses received from the MII in connection with the Restructured Businesses transferred to the Group. The licenses maintained by China Netcom Group were granted by the MII at nil or nominal costs. To the extent that China Netcom Group incurs a cost to maintain or obtain licenses in the future, the Company has agreed reimburse China Netcom Group for any such expense.
- (xiv) China Netcom Group has also agreed to indemnify the Group in connection with any tax and deferred tax liabilities not recognised in the financial statements of the Group arising from transactions prior to the date of Listing Reorganisation and the Acquisition in relation to the business of the Group prior to Listing and the business of the newly required four provinces/autonomous region respectively.
- (xv) As at December 31, 2007, China Netcom Group granted corporate guarantees to the Group as set out in Note 28(b).
- (xvi) China Netcom Group, the Group’s ultimate holding company, entered into an agreement (the “Sponsorship Agreement”) with Beijing Organization Committee (“BOCOG”) which designated China Netcom Group as the exclusive fixed-line telecommunications services partner in the People’s Republic of China (“PRC”) to sponsor the 2008 Beijing Olympic Games. China Netcom Group allocated the sponsorship fee to its members based on the estimated future benefits derived from the Sponsorship Agreement to respective members and the Group has contributed a portion of the required support under the Sponsorship Agreement through cash payment and provision of services to BOCOG amounting to RMB0.54 billion. Accordingly, an intangible asset and a payable to the ultimate holding company of the said amount have been recognised on the Group’s balance sheet.



CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38 Related party transactions (continued)

- (xvii) As at December 31, 2007, the Group has balances with other state-owned telecommunication service providers, cash deposited in and loans granted from state-owned banks as set out in Notes 17, 26, 16 and 28 respectively.
- (xviii) Up to December 31, 2007, the deferred consideration in respect of the Acquisition of New Horizon paid to China Netcom Group amounted to RMB3,920 million, and the balance of the deferred consideration amounted to RMB5,880 million (2006: RMB7,840 million). The accumulated related interest charged to income statement up to December 31 2007 amounted to RMB942 million (2006: RMB567 million).
- (xix) China Netcom System Integration, an indirect wholly owned subsidiary of the Company, entered into an Information and Communications Technology Agreement on November 7, 2006 with China Netcom Group. Pursuant to the Information and Communications Technology Agreement, China Netcom System Integration (and its subsidiaries) will provide Information Communications Technology Services to China Netcom Group. China Netcom System Integration will also subcontract services ancillary to the provision of Information Communications Technology Services, namely the System Installation and Configuration Services to the subsidiaries and branches of China Netcom Group in China Netcom Group's southern service region in PRC.
- (xx) On December 31, 2006, the Group acquired some assets from China Netcom Group at an agreed price of RMB81 million.
- (xxi) On January 15, 2007, CNC China entered into an assets transfer agreement with its ultimate holding Company, China Netcom Group. Pursuant to the agreement, CNC China agreed to dispose of its assets and liabilities in relation to its telecommunications operations in Guangdong Province and Shanghai Municipality branches in the PRC for consideration of RMB3.5 billion. On February 14, 2007, the independent shareholders passed an ordinary resolution to approve the disposal. The disposal was completed on February 28, 2007 upon the approval granted from the Ministry of Information Industry ("MIIT"). For details, please refer to Note 25.
- (xxii) On December 5, 2007, System Integration Corporation, a directly wholly owned subsidiary of CNC China, entered into an equity interest transfer agreement and agreed to acquire the entire equity interest of Beijing Telecom P&D Institute from China Netcom Group Beijing Communications Corporation at a consideration of RMB 298.9 million. The acquisition was completed on December 31, 2007. The difference of the consideration paid and the net assets value of the Beijing Telecom P&D Institute is RMB61 million and recognised directly in the other reserve. For details, please refer to Note 2.
- (xxiii) In 2007, the Group borrowed loans from fellow subsidiaries and other holding companies. For the related terms, please refer to Note 29(c).

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 39 Condensed financial statements of the Company

## INCOME STATEMENT-THE COMPANY

	Year ended December 31		
	2005 RMB Million	2006 RMB Million	2,007 RMB Million
Net revenue	-	-	-
Cost of revenues	-	-	-
Gross profit	-	-	-
Operating expenses:			
Staff cost	(112)	(83)	(68)
Selling, general and administrative expenses	(89)	(114)	(33)
Other operating expenses	-	22	-
Total operating expenses	(201)	(175)	(101)
Operating loss	(201)	(175)	(101)
Other income	-	621	1221
Interest income	51	21	(6)
Investment income	276	17,008	7,600
Non-operating income	3	-	-
Profit before tax	126	17,475	8,714
Income tax expense	-	-	-
Net profit	126	17,475	8,714

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CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 39 Condensed financial statements of the Company (Continued)

## BALANCE SHEET-THE COMPANY

	Note	As at December 31	
		2006	2007
		RMB	RMB
		million	million
Assets			
Current assets			
Cash and bank deposits	(b)	1,772	113
Due from subsidiaries	(d)	9,411	10,490
Prepayments, other receivables and other current assets	(c)	268	16
Total current assets		11,451	10,619
Non-current assets			
Investments in subsidiaries	(d)	62,937	71,000
Total assets		74,388	81,619
Liabilities and equity			
Current liabilities			
Accrued and other payables		136	46
Due to subsidiaries	(d)	12,754	14,271
Total current Liabilities		12,890	14,317
Net current liabilities		(1,439)	(3,698)
Total assets less current liabilities		61,498	67,302
Non-current liabilities			
Long term bank and other loans		-	9
Due to holding company and fellow subsidiaries	(e)	-	403
Total non-current liabilities		-	412
Total liabilities		12,890	14,729
Financed by:			
Share capital		2,199	2,206

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Reserves	(f)	59,299	64,684
Shareholders' equity		61,498	66,890
Total liabilities & equity		74,388	81,619

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CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 39 Condensed financial statements of the Company (Continued)

## CONDENSED STATEMENT OF CASH FLOWS-THE COMPANY

	Year ended December 31		
	2005 RMB Million	2006 RMB Million	2007 RMB Million
Net cash used in operating activities	(144)	(242)	(192)
Net cash used in investing activities	(6,648)	4,180	(1,175)
Net cash provided by financing activities	(457)	(2,706)	(292)
Net (decrease) / increase in cash	(7,249)	1,232	(1,659)
Cash and cash equivalent, at beginning of the year	7,789	540	1,772
Cash and cash equivalent, at end of the year	540	1,772	113

(a) The condensed financial statements of the Company have been prepared in accordance with HKFRS issued by HKICPA.

The subsidiaries declared RMB 7,600 million dividend to the Company in 2007 (2006: 17,008 million, 2005: 260 million)

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. The footnote disclosures contain supplemental information relating to the operations of the Company and, as such, these statements should be read in conjunction with the notes to the consolidated financial statements of the Company.

The Company did not have any significant commitment as at December 31, 2005, 2006 and 2007.



CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 39 Condensed financial statements of the Company (Continued)

## (b) Cash and bank deposits

	Company	
	As at December 31	
	2006	2007
	RMB	RMB
	million	million
Cash and cash equivalents with original maturities less than three months	1,772	113
Effective interest rate of time deposits with original maturities over three months (%)	-	-

## (c) Prepayments, other receivables and other current assets

	Company	
	As at December 31,	
	2006	2007
	RMB	RMB
	million	million
Prepaid expenses, deposits and other current assets	15	8
Other receivables	253	8
Total	268	16

## (d) Investments in subsidiaries and due from/(to) subsidiaries

	Company	
	As at December 31	
	2006	2007
	RMB	RMB
	million	million
Investment cost in subsidiaries	62,937	71,000
Due from subsidiaries (Note (b))	9,411	10,490
Due to subsidiaries (Note (c))	(12,754)	(14,271)
	59,594	67,219



CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 39 Condensed financial statements of the Company (Continued)

## (d) Investments in subsidiaries and due from/(to) subsidiaries (continued)

Notes:

(a) As at December 31, 2007, the Company has direct interests in the following subsidiaries, which are private companies:

Company name	Place and date Of incorporation/ establishment	Registered capital	Percentage of equity interest attributable to the Company	Principal activities and place of operation
Directly held:				
China Netcom (Group) Company Limited (Note (i))	PRC, August 6, 1999	RMB 73,371 million	100%	Provision of network communication services in the PRC
China Netcom Corporation International Limited	Bermuda October 15, 2002	USD 12,000	100%	Provision of Investing Service in Bermuda
Indirect held:				
China Netcom Group System Integration Limited Corporation Note (ii)	PRC April 30, 2006	RMB 50 million	100%	Provision of Information Communications Technology Services in PRC
China Netcom Broadband Online Limited Corporation Note (ii)	PRC March 29, 2006	RMB 30 million	100%	Provision of Internet Information services and value-added telecommunications services in PRC
Beijing Telecommunications Planning and Designing Institute Corporation Limited (Note (iii))	PRC June 1, 2007	RMB 264,227,115	100%	Provision of telecommunications network construction, planning and technical consulting services in

PRC

- (i) The company is a wholly owned foreign enterprise established in the PRC. The accounts of the company for the years ended December 31, 2006 and 2007 were audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company.
- (ii) These companies are wholly owned domestic enterprises established in the PRC. The accounts of these companies for the years ended December 31, 2006 and 2007 were audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company, respectively.
- (iii) The company is a wholly owned domestic enterprise established in the PRC. The accounts of the company for the year ended December 31, 2007 were audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company.

(b) The balances are unsecured, non-interest bearing and have no fixed repayment terms.

(c) The balances mainly represent deferred payments arising from the Acquisition of New Horizon which have been transferred to CNC China at the carrying amount. The balances are unsecured, non-interest bearing and have no fixed repayment terms.

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 39 Condensed financial statements of the Company (Continued)

## (e) Amount due to holding company and fellow subsidiaries

	Company	
	As at December 31	
	2006	2007
	RMB	RMB
	million	million
Due to intermediate holding companies	-	78
Due to fellow subsidiaries	-	325
	-	403

## (f) Reserves – Company

	Share premium RMB million	Capital reserve RMB million	Retained earnings RMB million	Total RMB million
As at January 1, 2006	42,750	3,104	(1,381)	44,473
Profit for the year	-	-	17,475	17,475
Dividends distributed during the year (Note 13)	-	-	(3,196)	(3,196)
Share based payments	545	(73)	-	472
Exercise of share options	-	75	-	75
As at December 31, 2006	43,295	3,106	12,898	59,299
Profit for the year			8,714	8,714
Dividends distributed during the year (Note 13)	-	-	(3,600)	(3,600)
Share based payments	243	(31)	-	212
Exercise of share options	-	59	-	59
As at December 31, 2007	43,538	3,134	18,012	64,684

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

40 Significant subsequent events

- (i) After the balance sheet date the directors proposed a final dividend. Further details are disclosed in Note 13.
- (ii) The Group borrowed two foreign currency loans of HK\$ 1 billion each from a bank in Hong Kong on February 1 and February 4, 2008 respectively. Both of the loans will mature on December 31, 2008. The actual annual interest rates charged are 2.53% and 2.557%.

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## 41 Reconciliation of HKFRS and Accounting Principal Generally Accepted in the United States (“U.S. GAAP”)

## (A) Reconciliation of HKFRS and U.S. GAAP at the Group level

The consolidated financial statements of the Group have been prepared in accordance with HKFRS, which differs in certain material respects from those prepared under generally accepted accounting principles in the United States (“U.S.GAAP”). Differences between HKFRS and U.S.GAAP, which may have significant impacts on the consolidated net income/(loss) and the consolidated shareholders’ equity are described below.

The effect on net profit/ (loss) of significant differences between HKFRS and U.S.GAAP for the years ended December 31, 2005, 2006 and 2007 is as follows:

	Note	Years ended December 31			2007
		2005	2006	2007	
		RMB million except per share data Restated Note 2	RMB million except per share data Restated Note 2		US\$ million Except per share data
Profit from continuing operations under HKFRS		14,350	11,478	11,471	1,570
U.S.GAAP adjustments					
Revaluation of fixed assets	(a)	-	1,335	-	-
Depreciation of revalued fixed assets	(a)	(5,056)	(4,571)	(4,472)	(612)
Tax effect on the above adjustments	(b)	1,668	1,068	1,476	202
Change in statutory taxation rate	(b)	-	-	484	66
Profit from continuing operations under U.S.GAAP		10,962	9,310	8,959	1,226
(Loss)/profit from discontinued operations under HKFRS		(400)	1,487	624	85
U.S.GAAP adjustments					
Revaluation of fixed assets	(a)	-	189	-	-
Depreciation of revalued fixed assets	(a)	(54)	(48)	(10)	(1)
Tax effect on the above adjustments	(b)	18	(47)	3	-
Gain on disposal of Guangdong and Shanghai Branches	(e)	-	-	(626)	(85)
(Loss)/profit from discontinued operations under US GAAP		(436)	1,581	(9)	(1)
Consolidated profit for the period under HKFRS		13,950	12,965	12,095	1,655
Consolidated profit for the period under U.S.GAAP		10,526	10,891	8,950	1,225





CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 41 Reconciliation of HKFRS and Accounting Principal Generally Accepted in the United States ("U.S. GAAP")

## (A) Reconciliation of HKFRS and U.S. GAAP at the Group level (continued)

Note	Years ended December 31			2007	US\$ million Except per share data
	2005	2006	2007		
		RMB million except per share data			
		Restated Note 2	Restated Note 2		
Shares used in computing basic earnings per share (in million)		6,594	6,616	6,657	6,657
Shares used in computing diluted earnings per share (in million)		6,628	6,667	6,738	6,738
Earnings per share for profit from continuing operations attributable to shareholders of the Company for the year under U.S GAAP					
- Basic earnings per share		RMB 1.66	RMB 1.41	RMB 1.35	USD 0.18
- Diluted earnings per share		RMB 1.65	RMB 1.40	RMB 1.33	USD 0.18
(Loss)/earnings per share for (loss)/profit from discontinued operations attributable to shareholders of the Company for the year under U.S GAAP					
- Basic (loss) /earnings per share		RMB (0.07)	RMB 0.24	-	-
- Diluted (loss) /earnings per share		RMB (0.07)	RMB 0.24	-	-
Earnings per share for profit attributable to shareholders of the Company for the year under U.S GAAP					
- Basic earnings per share		RMB 1.59	RMB 1.65	RMB 1.35	USD 0.18
- Diluted earnings per share		RMB 1.58	RMB 1.64	RMB 1.33	USD 0.18



CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 41 Reconciliation of HKFRS and Accounting Principal Generally Accepted in the United States ("U.S. GAAP") (Continued)

## (A) Reconciliation of HKFRS and U.S. GAAP at the Group level (Continued)

The effect on shareholders' equity of significant differences between HKFRS and U.S.GAAP as at December 31, 2005, 2006 and 2007 is as follows:

	Note	2005 RMB million Restated Note 2	Year ended December 31		2007 US\$ million
			2006 RMB million Restated Note 2	2007 RMB million	
Consolidated shareholders' equity under HKFRS		63,287	74,194	82,052	11,233
U.S.GAAP adjustments					
Revaluation of fixed assets	(a)	30,251	30,704	30,704	4,203
Disposal and depreciation of revalued fixed assets	(a)	(8,639)	(13,258)	(17,740)	(2,429)
Tax effect on the above adjustments	(b)	(7,132)	(5,757)	(3,241)	(444)
Consolidated shareholders' equity under U.S.GAAP		77,767	85,883	91,775	12,563

On June 2, 2006, the Group entered into an agreement with third party buyers to dispose of its 100% interest in the ANC Group and the transaction was completed on August 22, 2006. On January 15, 2007, the Group entered into an agreement with China Netcom Group to dispose its telecommunications assets, liabilities and operations in Guangdong Province and Shanghai Municipal branches and the transaction was completed on February 28, 2007. In accordance with HKFRS 5 "Non-current assets held for sales and discontinued operations" issued by the HKICPA, the results and cash flows of the operations of the ANC Group and Guangdong and Shanghai Branches are presented as discontinued operations. Accordingly, certain comparative figures of 2005 and 2006 have been restated.

On December 5, 2007, System Integration Corporation entered into an Equity Interest Transfer Agreement with China Netcom Group Beijing Communications Corporation, pursuant to which System Integration Corporation agreed to acquire the entire equity interest of Beijing Telecom P&D Institute from China Netcom Group Beijing Communications Corporation. Before the acquisition, Beijing Telecom P&D Institute was a wholly owned subsidiary of China Netcom Group Beijing Communications Corporation, which is a wholly owned subsidiary of China Netcom Group. Since China Netcom Group is the ultimate holding company of the Group, the acquisition is a business combination under common control. Therefore, the Group accounted for this acquisition using the pooling of interest method according to Accounting Guideline No. 5 - Merger Accounting for Common Control Transactions "AG 5". The acquired businesses and assets are recorded at book value as if the businesses and assets of Beijing Telecom P&D Institute have been owned by the Group from the earliest comparative period presented. Accordingly, the financial

information for 2005 and 2006 has been restated.

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CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

41 Reconciliation of HKFRS and Accounting Principal Generally Accepted in the United States ("U.S. GAAP") (Continued)

(A) Reconciliation of HKFRS and U.S. GAAP at the Group level (Continued)

(a) Revaluation of fixed assets

In the Listing Reorganisation, certain classes of fixed assets of the Group were revalued as at December 31, 2003. The revaluation was performed based on the depreciated replacement costs of the fixed assets and was not based upon the expected future cash flows of the fixed assets. The revaluation resulted in a charge of RMB25,778 million to the Group's income statement for the year ended December 31, 2003 with respect to the reduction in carrying amounts of certain fixed assets below their historical cost bases. In addition, a surplus arising from the revaluation of certain other fixed assets totaling RMB2,982 million has been credited to the revaluation reserve.

In 2005, the Group acquired telecommunications business and assets of the four northern provinces/autonomous region from China Netcom Group as set out in Note 1 to the Group's financial statements. The acquired fixed assets were revalued as at December 31, 2004. The revaluation was performed based on the depreciated replacement costs of the fixed assets and was not based upon the expected future cash flows of the fixed assets. The revaluation resulted in a charge of RMB11,318 million to the Group's income statement for the year ended December 31, 2004 with respect to the reduction in carrying amounts of certain fixed assets below their historical cost bases. In addition, a surplus arising from the revaluation of certain other fixed assets totaling RMB3,863 million has been credited to the revaluation reserve.

According to the Group's accounting policy under HKFRS as set out in Note4(k)(iii), certain classes of fixed assets of the Group were revalued at December 31, 2006. The revaluation was performed based on the depreciated replacement costs for fixed assets and was not based upon the expected future cash flows of the fixed assets. The revaluation resulted in a charge of RMB1,524 million to the Group's income statement for the year ended December 31, 2006 with respect to the reduction in carrying amounts of certain fixed assets below their historical cost bases. In addition, a surplus arising from the revaluation of certain other fixed assets totaling RMB1,071 million has been credited to the revaluation reserve.

The effect of the reduction in depreciation of the revalued assets amounted to RMB4,482 million in the year ended December 31, 2007 (2006: RMB4,619 million, 2005: RMB5,110 million).

Under U.S.GAAP, the carrying values of fixed assets are stated at their historical cost less accumulated depreciation and impairment loss without making reference to their respective depreciated replacement cost. An impairment loss on fixed assets is recorded under U.S.GAAP if the carrying value of such assets exceeds its future undiscounted cash flows resulting from the use of the assets and their eventual disposition. The future undiscounted cash flows of the Group's fixed assets, whose carrying amounts were reduced in connection with the Reorganisation, exceed the historical costs of such fixed assets and, therefore, no impairment of such assets is recognised under U.S.GAAP. Accordingly, the deficit on revaluation of fixed assets charged to the Group's income statement and the surplus credited to the revaluation reserve recorded under Hong Kong GAAP and the corresponding effect on the depreciation of the revalued assets in the subsequent periods are reversed for U.S.GAAP purposes.



CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

41 Reconciliation of HKFRS and Accounting Principal Generally Accepted in the United States ("U.S. GAAP") (Continued)

(A) Reconciliation of HKFRS and U.S. GAAP at the Group level (Continued)

(b) Deferred income tax

The amounts included in the reconciliation show the income tax effects of the differences between HKFRS and U.S.GAAP as described above.

HKFRS requires recognition of a deferred tax asset only to the extent that recovery of the deferred tax asset is probable, whereas U.S. GAAP requires full recognition of deferred tax assets, reduced by an appropriate valuation allowance if the recovery is less than 50% likely. Recognition of deferred tax asset previously not recognised under HKFRS is presented as a reversal of the valuation allowance under U.S. GAAP.

As set out in note 11 to the financial statements, the enterprise income tax rate for domestic enterprises will decrease from 33% to 25% with effect from January 1, 2008.

Under US GAAP, pursuant to the requirement of FAS109, all the adjustments in deferred tax arising from the change in taxation rate should be recognised in the income statement.

The impact as a result of the change of the tax rate to the deferred tax liability arising from the difference in the recognition of the carrying values of fixed assets apart from lease prepayments for land and building under HKFRS and U.S. GAAP is a credit of RMB1,148 million to the income statement for the year ended 31 December 2007.

Besides, the write-down of net deferred tax assets generated from revaluation of lease prepayments for land and building of RMB 664 million recognised in equity under HK GAAP should be recognised in the income statement under U.S. GAAP.

Therefore, the net impact on the income statement reconciliation in respect of change in statutory tax rate is an increase in profit of RMB 484 million.

(c) Presentation of depreciation expense

Under HKFRS, depreciation expense can be excluded from "Network, operations and support" and separately disclosed on the face of the income statement.

Under U.S.GAAP, "Network, operations and support" expenses should include charges for depreciation of property, plant and equipment and amortisation of intangible assets. Industry practice adopted by the Chinese telecommunications sector is to present these costs of operations net of depreciations charges. In such circumstances, U.S.GAAP requires such facts to be highlighted on the face of the income statement.

(d) Presentation of amortisation of subscriber acquisition costs

Under HKFRS, amortisation of capitalized subscriber acquisition costs, being RMB1,887 million, RMB739 million and RMB0 million for the years ended December 31, 2005, 2006 and 2007 respectively is classified as selling expenses due to the marketing and promotional nature of the expenditure.

Under U.S.GAAP, amortisation of subscriber acquisition costs needs to be included in the item “Network, operations and support” expense for the Company.

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CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 41 Reconciliation of HKFRS and Accounting Principal Generally Accepted in the United States ("U.S. GAAP") (Continued)

## (A) Reconciliation of HKFRS and U.S. GAAP at the Group level (Continued)

## (e) Gain on disposal of Guangdong and Shanghai Branches

As set out in note 2 to the financial statements, the disposal of Guangdong and Shanghai branches was completed on February 28, 2007. It is a disposal under common control. Under HKFRS, the gain on disposal was recognised in the income statement while under U.S. GAAP, the gain was recognised directly in the shareholders' equity in accordance with the requirement of FAS 141.

## (f) Comprehensive income

U.S.GAAP requires that all items that are required to be recognised as components of comprehensive income (including cumulative translation adjustment) be presented with the same prominence as other components in the financial statements. There are no material differences between total recognised gains and losses for the periods shown in the Consolidated Statements of Changes in Equity presented under HKFRS and U.S.GAAP comprehensive income, except for the differences between HKFRS and U.S.GAAP profit attributable to shareholders shown above.

## (B) Reconciliation of HKFRS and U.S. GAAP at the Company level

The condensed financial statements of the Company as set out in Note 39 have been prepared in accordance with HKFRS, which differs in certain material respects from U.S. GAAP. Differences between HKFRS and U.S. GAAP, which may have significant impacts on the Company's net profit/ (loss) and the Company's shareholders' equity are described below.

The effect on the net profit of significant differences between HKFRS and U.S. GAAP at the Company's level for the years ended December 31, 2005, 2006 and 2007 is as follows:

	Note	Year ended December 31,			
		2005 RMB million Restated Notes 2	2006 RMB million Restated Notes 2	2007 RMB million	2007 USD million
Net profit for the year under HKFRS		126	17,475	8,714	1,193
U.S. GAAP adjustments:					
Equity accounting for share of results of its subsidiaries net of tax effect	(a)	10,400	(6,584)	236	32
		10,526	10,891	8,950	1,225

Net profit for the year under US  
GAAP

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CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 41 Reconciliation of HKFRS and Accounting Principal Generally Accepted in the United States ("U.S. GAAP") (Continued)

## (B) Reconciliation of HKFRS and U.S. GAAP at the Company level (Continued)

The effect on the shareholders' equity of significant differences between HKFRS and U.S. GAAP at the Company's level as at December 31, 2005, 2006 and 2007 is as follows:

	Note	2005 RMB million Restated Notes 2	As at December 31, 2006 RMB million Restated Notes 2	2007 RMB million	2007 USD million
Shareholders' equity under HKFRS		46,654	61,498	66,890	9,157
U.S. GAAP adjustments:					
Equity accounting for its subsidiaries net of tax effect	(a)	31,113	24,385	24,885	3,407
Shareholders' equity under U.S. GAAP		77,767	85,883	91,775	12,564

## (a) Equity accounting for share of results and net assets of its subsidiaries

Under HKFRS, the Company records its investment in its subsidiaries under cost method of accounting. In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of the subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Under U.S. GAAP, the Company restates its financial statements as if the Reorganization happened at the earliest period presented. It records its investment in its subsidiaries under the equity method of accounting as prescribed in APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock". Since the company holds 100% equity interest in the subsidiaries, the net asset value of the subsidiaries has been fully reflected as Investment in subsidiaries on the balance sheet and the results of the subsidiaries have been accounted for under share of results of subsidiaries, net of tax on the income statement.

As set out in Note 41(A) (a) above, the accounting treatments on revaluation of fixed assets are different under HKFRS and US GAAP. Therefore, difference in the net assets value and results of the subsidiaries are dealt with in this reconciliation item.

## (C) Recent HK Accounting Pronouncements

The HKICPA has issued a number of new and revised HKFRSs and HKFRS Interpretations (“HKFRS – Ints”), and HKAS and HKAS Interpretations (“HKAS – Ints”) as set out in Note 3 to the Group’s financial statements. Except The HK(IFRIC) - Int 13, 'Customer loyalty programmes', the Group did not early adopt any new statement of new or revised HKFRSs or HKFRS – Ints in the year ended December 31, 2007. The Group evaluated the impact of these new and revised HKFRSs and HKFRS - Ints as set out in Note 3.

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CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

41 Reconciliation of HKFRS and Accounting Principal Generally Accepted in the United States (“U.S. GAAP”) (Continued)

(D) Recent U.S. Accounting Pronouncements

SFAS 157

In September 2006, the FASB issued SFAS 157, Fair Value Measurement. SFAS 157 defines fair value, establishes a framework for measuring fair value, and enhances disclosures about fair value measurements. The adoption of SFAS 157 will be effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Group is evaluating the impact adopting SFAS 157 will have on its financial statements.

In February 2008, the FASB issued FASB Staff Position (“FSP”) 157-2, Effective Date of FASB Statement No. 157. FSP 157-2 provides a one-year deferral of the effective date of FASB Statement 157, Fair Value Measurements, for nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed in financial statements at fair value on a recurring basis. The deferral is not available, however, to entities that issued interim or annual financial statements reflecting the measurement and disclosure provisions of Statement 157 before February 12, 2008.

SFAS 159

In February, 2007, the FASB issued SFAS 159 “The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115”. This statement permits all entities to choose to measure many financial instruments and certain other items at fair value at specified election dates. SFAS 159 will be effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007. The Group is currently evaluating the effect that the adoption of this statement will have on its consolidated results of operations and financial condition but does not expect it to have a material impact.

SFAS 141(Revised 2007)

In December 2007, the FASB issued FAS 141(Revised 2007) “Business Combinations” which replaces FASB Statement No. 141. This statement establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed in financial statements. This statement is effective as of the beginning of an entity’s first fiscal year beginning after December 15, 2008. The Group is currently assessing the impact of adopting SFAS No. 141R on its consolidated results of operations and financial condition but does not expect it to have a material impact.

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CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

41 Reconciliation of HKFRS and Accounting Principal Generally Accepted in the United States (“U.S. GAAP”) (Continued)

(D) Recent U.S. Accounting Pronouncements (Continued)

SFAS No. 160

In December 2007, the FASB issued SFAS No. 160, “Non-controlling Interests in Consolidated Financial Statement - amendments of ARB No. 51.” SFAS No. 160 states that accounting and reporting for minority interests will be re-characterized as non-controlling interests and classified as a component of equity. The Statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. FAS 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding non-controlling interest in one or more subsidiaries or that deconsolidate a subsidiary. This statement is effective as of the beginning of an entity’s first fiscal year beginning after December 15, 2008. The Group is currently assessing the impact of adopting SFAS No. 160.

FAS 142-3

In April 2008, the FASB issued FASB Staff Position (“FSP”) FAS 142-3, Determination of the Useful Life of Intangible Assets. This statement states that in developing assumptions about renewal or extension used to determine the useful life of a recognized intangible asset, an entity shall consider its own historical experience in renewing or extending similar arrangements; however, these assumptions should be adjusted for the entity-specific factors. This FSP will be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Group is currently assessing the impact of adopting FSP No.142-3.

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