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

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

FORM 20-F

(Mark One)

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

OR

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

OR

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

FOR THE TRANSITION PERIOD FROM ___________ TO ___________

OR

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

Date of event requiring this shell company report …………………

For the transaction period from __________ to __________

COMMISSION FILE NUMBER 1- 32332

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

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

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

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

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

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

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

None

(Title of Class)

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

None

(Title of Class)

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

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

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

Yes X No__

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

Yes__ No X

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

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

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

Yes X No__

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

Large accelerated filer X Accelerated filer __ Non-accelerated filer __

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

Item 17 ___ Item 18 X

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

Yes__ No X

Table of Contents

FORWARD-LOOKING STATEMENTS

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

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

- the level of demand for telecommunications services, particularly with regard to access lines, traffic and new value-added services;

- competitive forces in more liberalized markets, including pricing pressures and our ability to retain market share in the face of competition from existing telecommunications companies and potential new market entrants;

    - the effects of tariff reduction initiatives, particularly in our core fixed-line telephone business;

- changes in the regulatory policies of the MII of China and other relevant government authorities, which could affect, among other things, the granting of requisite government approvals, licenses and permits, interconnection and transmission line arrangements, tariff policies, capital investment priorities, and spectrum allocation;

- the success of new business initiatives, some of which involve start-up costs, and new systems and applications, particularly with regard to the integration of our service offerings;

- our ability to secure or renew the licenses we need to offer telecommunications services and the cost of these licenses and related network infrastructure build-outs;

- the availability, terms and deployment of capital, and the impact of regulatory and competitive developments on capital outlays;

- changes in the assumptions upon which we have prepared our projected financial information and capital expenditure plans; and

- changes in the general political, economic, legal and social conditions in China, including the PRC government’s specific policies with respect to new entrants in the telecommunications industry, the entry of foreign operators into China’s telecommunications market, economic growth, foreign exchange and the availability of credit.

1

CONVENTIONS

Definitions

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

As used in this annual report:

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

Market Share Data Convention

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

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

SELECTED FINANCIAL DATA

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

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

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

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

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

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

On December 31, 2007, we acquired the entire equity interest of Beijing Planning and Designing Institute, or Design Institute, from China Netcom Group Beijing Communications Corporation. We accounted for this acquisition in manner similar to pooling of interest method according to Accounting Guideline No. 5 - Merger Accounting for Common Control Transactions (“AG 5”) issued by the Hong Kong Institute of Certified Public Accountants. The acquired businesses and assets are recorded at book value under HKFRS as if the businesses and assets of Design Institute have been owned by us since the beginning of the period presented. Accordingly, our financial statements have been restated to include the financial position and results of operations of Design Institute as if the acquisition had occurred as of January 1, 2003. All data and information relating to our businesses and operations for the years ended December 31, 2003, 2004, 2005, 2006 and 2007 are presented based on those restated amounts.

Selected Consolidated Financial Information

	For the Years Ended December 31,					
	2003	2004	2005	2006	2007	2007
	(Restated)	(Restated)	(Restated)	(Restated)		
	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(USD)
	(in millions, except per share and per ADS information)					
Consolidated Income Statement Data:						
HKFRS						
Continuing operations:						
Revenues:						
Fixed-line telephone services (1)	66,911	69,646	69,729	66,462	59,226	8,108
Broadband and other Internet-related service	4,233	6,097	7,845	10,432	14,367	1,967
Business and data communications services (2)	4,242	4,087	3,997	3,953	3,805	521
Other services	1,323	1,221	2,356	3,347	6,607	904
Subtotal	76,709	81,051	83,927	84,194	84,005	11,500
Operating expenses:						
Depreciation and amortization	(26,641)	(24,501)	(24,328)	(24,913)	(25,495)	(3,490)
Network, operations and support	(14,576)	(12,363)	(12,610)	(13,344)	(14,145)	(1,936)
Staff costs	(10,823)	(11,493)	(11,830)	(11,849)	(12,223)	(1,673)
Selling, general and administrative	(10,090)	(12,282)	(12,726)	(12,607)	(10,615)	(1,453)
Other operating expenses	(1,976)	(1,930)	(1,374)	(1,930)	(4,261)	(583)
Subtotal	(64,106)	(62,569)	(62,868)	(64,643)	(66,739)	(9,135)
Other income				621	1,221	167
Interest and dividend income	136	85	163	135	113	15
Deficit on revaluation of fixed assets (3)	(24,888)	(11,318)	-	(1,335)	-	-
Profit/(loss) from operations	(12,149)	7,249	21,222	18,972	18,600	2,547
Financial costs	(4,294)	(3,767)	(3,346)	(3,767)	(3,333)	(456)
Share of loss of associated companies and jointly controlled entity	(416)	(1)	-	-	-	-
Profit/(loss) before taxation	(16,859)	3,481	17,876	15,205	15,267	2,091
Taxation	6,914	238	(3,526)	(3,727)	(3,796)	(520)
Profit/(loss) after taxation	(9,945)	3,719	14,350	11,478	11,471	1,571
Minority interests	1					
Profit/(loss) for the year from continuing operations	(9,944)	3,719	14,350	11,478	11,471	1,571

Discontinued operations(4):						
Profit/(loss) for the year from discontinued operations	(906)	(951)	(400)	1,487	624	85

4

Profit/(loss) for the year	(10,850)	2,768	13,950	12,965	12,095	1,656
Dividends proposed after the balance sheet date	-	259	3,196	3,695	3,700	507
Earnings/(losses) per share for profit/(loss) from continuing operations attributable to shareholders of the Company for the year						
Basic earnings/(losses) per share	(1.81)	0.66	2.18	1.74	1.72	0.24
Diluted earnings/(losses) per share	(1.81)	0.66	2.17	1.72	1.70	0.23
(Losses)/earnings per share for (loss)/ profit from discontinued operations attributable to shareholders of the Company for the year						
Basic earnings /(losses) per share	(0.16)	(0.17)	(0.06)	0.22	0.09	0.01
Diluted earnings /(losses) per share	(0.16)	(0.17)	(0.06)	0.22	0.09	0.01
Earnings/(losses) per share from operations attributable to shareholders of the Company for the year						
Basic earnings/(losses) per share	(1.97)	0.49	2.12	1.96	1.81	0.25
Diluted earnings/(losses) per share	(1.97)	0.49	2.11	1.94	1.79	0.24
Basic earnings/(losses) per ADS	(39.40)	9.80	42.40	39.20	36.20	5.00
Diluted earnings/(losses) per ADS	(39.40)	9.80	42.20	38.80	35.80	4.80
U.S. GAAP						
Profit/(loss) for the year/period	6,421	7,999	10,526	10,891	8,950	1,225
-Continuing operations	6,731	8,982	10,962	9,310	8,959	1,226
-Discontinued operations	(310)	(983)	(436)	1,581	(9)	(1)
Basic earnings/(losses) per share(5)	1.17	1.43	1.59	1.65	1.35	0.18
-Continuing operations	1.23	1.60	1.66	1.41	1.35	0.18
-Discontinued operations	(0.06)	(0.17)	(0.07)	0.24	-	-
Diluted earnings/(losses) per share(5)	1.16	1.43	1.58	1.64	1.33	0.18
-Continuing operations	1.22	1.60	1.65	1.40	1.33	0.18
-Discontinued operations	(0.06)	(0.17)	(0.07)	0.24	-	-

Basic earnings/(losses) per ADS	23.40	28.60	31.80	33.00	27.00	3.60
-Continuing operations	24.60	32.00	33.20	28.20	27.00	3.60
-Discontinued operations	(1.20)	(3.40)	(1.40)	4.80	-	-
Diluted earnings/(losses) per ADS(6)	23.20	28.60	31.60	32.80	26.60	3.60
-Continuing operations	24.40	32.00	33.00	28.00	26.60	3.60
-Discontinued operations	(1.20)	(3.40)	(1.40)	4.80	-	-
Dividend declared per share	-	HKD0.04	HKD0.47	HKD0.55	HKD0.59	USD0.08
Dividend declared per ADS	-	HKD0.74	HKD9.32	HKD11.06	HKD11.84	USD1.62

---

(1) Revenues from fixed-line telephone services included local usage fees, monthly fees, upfront installation fees, domestic and international long distance service charges, value-added service charges, interconnection fees from domestic carriers and upfront connection fees.

(2) Revenues from business and data communications services include fees charged for managed data and leased line services.

(3) See "Item. 5. Operating and Financial Review and Prospects - Critical Accounting Policies - Revaluation of fixed assets" for a discussion of this revaluation.
(4) Results of Asia Netcom, the major source of revenue of our international telecommunication services, has been disclosed as discontinued operations for the years ended December 31, 2004, 2005 and 2006. The results of our southern service region have been disclosed as discontinued operations for years ended December 31, 2003, 2004, 2005, 2006 and 2007.
(5) Basic/diluted earnings/(losses) per share for the years ended December 31, 2003, 2004, 2005, 2006 and 2007 set forth above have been computed by dividing profit/(loss) for each of the year by the weighted average number of ordinary shares during the year.
(6) Basic/diluted earnings/(losses) per ADS for the years ended December 31, 2003, 2004, 2005, 2006 and 2007 set forth above have computed by multiplying basic earnings/(losses) per share for the year by 20, which is the number of ordinary shares represented by each ADS.

	As of December 31,					
	2003	2004	2005	2006	2007	2007
	(Restated)	(Restated)	(Restated)	(Restated)		
	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(USD)
Consolidated Balance Sheet Data:						
HKFRS						
Cash and bank deposits	7,549	10,804	5,065	7,728	5,395	739
Accounts receivable	7,519	7,145	7,361	8,283	8,458	1,158
Total current assets	20,787	24,628	14,675	18,226	15,508	2,124
Fixed assets and construction in progress	199,783	177,591	175,582	174,476	160,938	22,032
Total assets	236,305	216,696	203,122	204,082	186,428	25,522
Accounts payable	20,196	21,128	16,726	17,661	15,639	2,141
Short-term bank loans and current portion of long-term bank and other loans	67,383	56,609	54,187	38,284	17,172	2,351
Total current liabilities	118,404	106,092	98,404	90,833	74,593	10,211
Long-term bank and other loans	30,172	26,052	18,143	23,219	14,425	1,975
Deferred revenues	17,585	13,988	10,925	6,198	4,314	591
Total liabilities	182,473	151,870	139,835	129,888	104,376	14,289
Owner's equity	53,829	64,826	63,287	74,194	82,052	11,233
U.S. GAAP						
Fixed assets and construction in progress	222,579	204,313	197,194	191,922	173,902	23,807
Total assets	248,929	234,765	217,602	215,771	196,151	26,853
Owner's equity	66,453	82,895	77,767	85,883	91,775	12,563

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

	(in millions)					
Consolidated Cash Flow Statement Data:						
HKFRS						
Continuing operations:						
Net cash inflow from operating activities	29,163	32,696	32,191	32,050	32,459	4,443
Net cash outflow from investing activities	(32,800)	(26,893)	(22,993)	(24,051)	(19,138)	(2,620)
Purchase of fixed assets and construction in progress, repayments for leased land	(34,398)	(26,507)	(25,964)	(24,242)	(20,684)	(2,832)
Net cash inflow/(outflow) from financing activities	3,608	(2,237)	(14,746)	(6,477)	(19,131)	(2,619)
Discontinued operations:						
Net outflow/(inflow) from operating activities	1,693	888	1,344	2,085	388	53
Net cash outflow/(inflow) from investing activities	(2,048)	(1,740)	(1,584)	(921)	3,103	425
Net cash inflow from financing activities	-	503	108	-	-	-
Decrease/(increase) in cash and cash equivalents	(384)	3,217	(5,680)	2,686	(2,319)	(318)

EXCHANGE RATE INFORMATION

We prepare our financial statements in Renminbi. Translations of amounts from Renminbi and Hong Kong dollar into U.S. dollars, and vice versa, are solely for the convenience of the reader. Unless otherwise indicated, any translations from Renminbi to US dollars or from US dollars to Renminbi were translated at the average rate announced by the People's Bank of China (the "PBOC Rate") on December 31, 2007 at RMB7.3046 = US$1.00 and translations from Hong Kong dollars to US dollars or from US dollars to Hong Kong dollars were translated at HK$7.7984 = US$1.00, the noon buying rate on December 31, 2007 in the City of New York for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York. You should not assume that Renminbi and Hong Kong dollar amounts could actually be converted into U.S. dollars at these rates or at all.

On April 30, 2008, the latest practicable date, the PBOC Rate was RMB 7.002 = US$1.00 and the noon buying rate in the City of New York for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York was HK$7.7950 = US$1.00.

The following table sets forth the high and low noon buying rates in the City of New York for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each of the periods shown.

	Noon Buying Rate			
	RMB per US$		HK$ per US$	
	High	Low	High	Low
November 2007	7.4582	7.3800	7.7890	7.7573
December 2007	7.4120	7.2946	7.8073	7.7879
January 2008	7.2946	7.1818	7.8107	7.7961

February 2008	7.1973	7.1100	7.8012	7.7807
March 2008	7.1110	7.0105	7.7897	7.7642
April 2008	7.0185	6.9840	7.7963	7.7863

The following table sets forth the period-end noon buying rates and the average noon buying rates in the City of New York for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each of 2003, 2004, 2005, 2006, 2007 and 2008 (through April 30). The average noon buying rates for the periods shown are calculated by averaging the noon buying rates on the last day of each month in the period.

	Period-End Noon Buying Rate	Average(1) Noon Buying Rate

	RMB per US$	HK$ per US$	RMB per US$	HK$ per US$
2003	8.2767	7.7640	8.2771	7.7864
2004	8.2765	7.7723	8.2768	7.7899
2005	8.0702	7.7533	8.1826	7.7755
2006	7.8041	7.7771	7.9723	7.7685
2007	7.2946	7.7984	7.5806	7.8008
2008 (up to April 30, 2008)	6.9870	7.7950	7.0731	7.7884

(1) Determined by averaging the rates on the last business day of each month during the relevant year, except for the average rate of the relevant periods in 2008, which is determined by averaging the daily rates during the respective periods.

CAPITALIZATION AND INDEBTEDNESS

Not applicable.

REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

RISK FACTORS

Risks Relating to Our Business

If the reported industry restructuring fails to occur, it may influence the expectation of our future development and negatively affect our share price.

In recent years, there have been reports in the press or media on the possible restructuring of the telecommunication industry by the PRC government. Various reported structures have appeared in the press regarding the consolidation of telecommunication operators in China. A number of these reports have suggested that the industry restructuring may enable us to become a full services provider and have a positive impact on our future growth. However, if the industry restructuring does not occur based on the timeframe suggested in these reports, our share price may be adversely affected.

Competition in our services may result in lower tariffs, a smaller customer base and lower usage for our services, thereby adversely affecting our business growth and financial condition.

The telecommunications industry in China is rapidly evolving. In recent years, the central government has implemented a number of measures to restructure, and encourage fair and orderly competition in the telecommunications industry. As a result, we face increasing competition from other licensed telecommunications operators in China, including China Telecom Group, or China Telecom; China Mobile Communications Corporation, or China Mobile; China United Telecommunications Corporation, or China Unicom; China Railway Communications Corporation Limited, or China Railcom; and China Satellite Communications Corporation, or China Satcom. We expect our competitors to further expand their network coverage and increase their sales and marketing efforts in our service region. We will also face competition from foreign-invested telecommunications operators as a result of China's accession into the World Trade Organization, or the WTO, and the entry of foreign telecommunications companies into the Chinese market. As we operate in an increasingly competitive market, we have experienced and may continue to experience pressure on operating revenues and operating margins for some of our telecommunications services.

Mobile service substitution for our fixed-line telephone services has also created considerable competition in the markets for local and long distance telephone services. Consistent with trends in global markets in recent years, an increasing proportion of total voice traffic is being carried by mobile networks. Currently, China Mobile and China Unicom are the only licensed providers of mobile communications services in China and, in recent years, significant traffic from our fixed-line networks has been diverted to the networks of these two companies. In 2006 and 2007, mobile substitution accelerated as a result of stronger pricing pressure from mobile operators, which increasingly lowered tariffs through various discount programs. The usage volume of local calls in our service region decreased to 202.55 billion pulses in 2007 from 214.47 billion pulses in 2006, mainly due to migration of our local voice traffic to mobile services. Mobile operators may further reduce tariffs for mobile services, which may result in further migration from fixed-line services to mobile services.

We compete with other fixed-line service providers, including China Telecom, China Unicom and China Railcom, each of which has been licensed to provide fixed-line telephone services. We have experienced limited competition from other fixed-line service providers to date in the market for local telephone services, primarily because our competitors have not built significant local fixed-line access infrastructure. However, competition for the provision of these services may increase in the future as our competitors develop their own networks, including through the use of alternative technologies. In the markets for domestic and international long distance telephone services, we face strong competition from voice over Internet protocol, or VoIP services, provided by China Telecom, China Mobile, China Unicom and China Railcom. The market share of domestic long distance telephone services in our service region decreased to 27.9% in 2007 from 33.9% in 2006. Tariffs for VoIP services are market-based and therefore not subject to minimum pricing restriction. In addition, we face increasing competition from Internet phone service providers such as Skype and Vonage. This competition may become more severe if current restrictions on the provision of these services are liberalized. Increased competition from these operators may force us to lower our tariffs or may reduce the size of our customer base and the usage of our networks. Any of these developments may materially adversely affect our business growth and financial condition.

For managed data services and broadband Internet access services, or broadband services, we primarily compete with China Unicom, China Telecom, China Railcom and other broadband Internet access service providers such as Beijing Gehua CATV Network Co., Ltd. on the basis of pricing, the coverage and quality of networks, ability to provide end-to-end connectivity, quality of network management and customer service. We are a major broadband Internet access service provider in northern China and have a leading market position. We will be increasingly relying on our broadband services in the future as the trend of declination in fixed-line telephone services continue. While other major telecommunications operators in China have been leasing transport facilities from us to serve their customers, some of them, such as China Mobile and China Unicom, have in recent years begun to build their own long distance networks for voice services and fiber-optic networks for data services. Increased competition from these domestic telecommunications providers may result in lower revenues for us due to competitive pricing policies and increased sales and marketing costs to attract or retain subscribers. Our broadband Internet access services will face more competition and we may lose market share if cable television companies and other broadband service providers enhance their network and promotion of their broadband Internet access services.

We began offering information and communication technology services, or ICT services, in 2006. Our major competitors for such services are other telecommunication operators such as China Telecom, and system integration service providers such as Digital China Holdings Limited and Taiji Computer Corporation Limited. Due to our short operating history in the ICT business, our ability to operate and expand such business remains unproven. As a result, we may not be able to effectively compete against our competitors.

Competition from foreign-invested operators and other new entrants may further increase the competition for employees, exacerbate price competition and increase our operating expenses, thereby adversely affecting our financial condition and growth prospects.

As a result of China’s accession to the WTO in December 2001, and the adoption of the Regulations on the Administration of Foreign-Invested Telecommunications Enterprises in January 2002, which implement China’s commitments to the WTO, the PRC government has agreed to gradually liberalize the various segments and regions of the telecommunications market in China to foreign investors. Beginning on December 2, 2007, foreign investors was permitted to increase their ownership of fixed-line telecommunication operators that provide domestic and international voice, packet-switched and circuit-switched data transmission and other services to not more than 49%.

More foreign-invested operators may enter China's telecommunications market as a result of this liberalization. They may have greater financial, managerial and technical resources and more expertise in network management and sales and marketing than we do.

Increased competition from these and other new entrants into the Chinese telecommunications market may further increase the competition for skilled and experienced employees, exacerbate price competition and increase our customer acquisition costs and other operating expenses, and thereby adversely affect our financial condition and growth prospects.

Competition from alternative technologies to our PHS business and an introduction of TD-SCDMA technology may cause our PHS services to be less competitive, and adversely affect our growth prospects and revenues.

We currently provide personal handy phone system, or PHS, services to reduce the impact of mobile substitution on our fixed-line operations. PHS is a telecommunications technology that allows us to offer to our customers wireless local access services with mobility within an area with the same area code. Our ability to realize acceptable returns from our investment in PHS technology will depend on continued customer adoption of this technology. However, this market may not continue to develop, since potential customers are and will be able to choose from a variety of alternative fixed-line and wireless communication technologies, including both existing technologies and new technologies to be offered in the future, such as third generation, or 3G mobile telephone services. For instance, if China Mobile or China Unicom reduces the tariffs for mobile telecommunications services, our existing and potential PHS customers may choose to use these services instead of our PHS services to take advantage of the less geographically restricted service scope and other features of mobile technology. In addition, more mobile licenses may be issued in the near future, which will increase the level of competition in the provision of mobile telephone services, which will in turn increase pricing pressure and adversely affect the growth prospects of our PHS services. Furthermore, if we introduce mobile telephone services, traffic on our PHS services may migrate to our mobile network and thereby materially and adversely affect the growth prospects of our PHS services.

Furthermore, part of the radio spectrum currently used by our PHS services may be reallocated by the PRC government to time division synchronization code division multiple access technology, or TD-SCDMA technology, which is one of the three technologies adopted by the International Telecommunications Union and begin to use in providing 3G mobile telephone services by China Mobile in its eight trial areas on April 1, 2008. However, the PRC government has not officially announced its decisions on issues such as the timing of the grant of the 3G licenses, the number of 3G licenses to be granted, any technical requirements, or any selection of preferred technologies. If TD-SCDMA technology is to use in providing 3G mobile telephone services all over PR China, our ability to use the existing PHS spectrum may be restricted, thereby limiting the volume of usage we can handle and adversely affecting our revenues.

Any of the risks described above may cause our PHS services to become less competitive and thereby materially and adversely affect our growth prospects and revenues.

Because we rely on certain arrangements with other telecommunications operators, changes to the terms or availability of these arrangements may result in disruptions to our services and operations.

Our ability to provide telecommunications services depends upon certain arrangements with other telecommunications operators. In particular, interconnection is necessary to complete all calls between our subscribers and subscribers of other telecommunications operators. We, either through ourselves or through China Netcom Group, have entered into interconnection and transmission line leasing agreements with other fixed-line operators, including our parent company, China Netcom Group, mobile telephone operators and other telecommunications providers, as required to conduct our current business. Any disruption to our interconnection with the networks of those operators or other international telecommunications carriers with which we interconnect due to technical or competitive reasons may affect our operations, service quality and customer satisfaction, thus adversely affecting our business. Furthermore, we are generally not entitled to collect indirect or consequential damages resulting from disruptions in the networks to which we are interconnected. Our failure to renew our existing interconnection and leased line agreements on commercially acceptable terms may result in disruptions to our services. If we are unable to enter into arrangements with such operators in a timely manner or on acceptable terms, it may result in a delay in providing services to our customers and disrupt our operations, as we may need to seek alternative arrangements with other operators, which may adversely affect our financial condition and our results of operations.

Disruptions to our network or operating systems, or to those with which we interconnect, may result in customer dissatisfaction and reduced revenues from operations.

Our network infrastructure and the networks with which we interconnect are vulnerable to potential damage or interruption from floods, wind, storms, fires, power loss, severed cables, acts of terrorism and similar events. Our networks and systems and the networks with which we interconnect also require regular maintenance and upgrades that may cause service disruptions. The occurrence of a natural disaster or other unanticipated problems at our facilities or any other failure of our networks or systems, or the networks to which we are interconnected, may result in consequential interruptions in services across our telecommunications infrastructure. Network or system failures, as well as high traffic volumes, may also affect the quality of our services and cause temporary service interruptions. Although we have not experienced material disruptions or damage to our network and operating systems in the past, any such future occurrence may result in customer dissatisfaction and reduced revenues from operations.

Failure to successfully respond to technological and industry developments may hinder our revenue growth and adversely affect our competitive position.

The telecommunications sector has recently experienced rapid increases in the diversity and sophistication of the technologies and services offered. As a result, we expect that we will need to constantly upgrade our telecommunications technologies and services in order to respond to competitive industry conditions and customer requirements. For example, the next generation network has the capability of providing new value-added services and content that combine voice, data and images with increased efficiency and flexibility. Next generation networks may replace the traditional public switched telephone networks in the future. We have not experienced significant difficulties in upgrading new technologies and equipment in the past, but if we fail to smoothly upgrade or achieve a balanced transition of our existing network to the next generation network, we may lose our customers and market share, which may adversely affect our operations and financial condition. Furthermore, if the new technologies adopted by us do not perform as expected, or if we are unable to effectively deliver new services based on these technologies in a commercially viable manner, our revenue growth may decline and our competitive position may be adversely affected.

If we fail to successfully implement our business strategies, we may not achieve acceptable investment returns or manage growth in certain services and markets, and our financial condition may be adversely affected.

We may not be able to successfully implement all of our business strategies. For example, we have made substantial investments in developing our broadband network infrastructure and technology. However, the broadband market in China may not continue to expand at recent rates of growth, and we may not be able to attract enough customers and generate sufficient usage to achieve an acceptable return on our significant broadband investment. Failure to successfully implement our business strategies may adversely affect our financial condition. We believe that the ICT business is an important part of our corporate strategy. However, the demand for ICT service may shrink which will reduce our revenues from operations.

We rely substantially on short-term borrowings and our inability to obtain sufficient funding may adversely affect our liquidity and financial condition.

Similar to many enterprises in China, a significant percentage of our funding requirements is satisfied through short-term borrowings. In our experience, a substantial portion of our short-term borrowings is rolled over upon maturity and these borrowings have been, in the past, a stable source of funding, no assurances can be given that this will continue to be the case. If our lenders do not roll over our short-term borrowings, or if we are unable to secure sufficient borrowings, our liquidity position would be adversely affected, and we may be required to seek more expensive sources of short-term or long-term funding to finance our operations. In addition, implementing our strategies may require substantial capital expenditures. To the extent these expenditures exceed our cash resources, we will be required to seek additional debt or equity financing. If we are unable to obtain sufficient funding for our operations or development plans on commercially acceptable terms, or at all, our liquidity and financial condition may be adversely affected.

Our ultimate controlling shareholder, China Netcom Group, may cause us to enter into transactions or take (or fail to take) other actions or make decisions that conflict with the best interests of our other shareholders.

As of April 30, 2008, China Netcom Group beneficially owned approximately 69.52% of our outstanding shares. As a result, China Netcom Group, subject to our articles of association and applicable laws and regulations, will effectively be able to control our management, policies and business by controlling the composition of our board of directors, determining the timing and amount of our dividend payments, approving significant corporate transactions, including mergers and acquisitions, and approving our annual budgets. Therefore, China Netcom Group may cause us to enter into transactions or take (or fail to take) other actions or make decisions that conflict with the best interests of our other shareholders.

We rely on China Netcom Group to provide certain services and facilities for which we currently have limited alternative sources of supply. Changes in the availability, pricing or quality of these services or facilities may have a material adverse effect on our business and profitability.

Pursuant to various agreements and arrangements, China Netcom Group provides us with services and facilities necessary for our business activities, including but not limited to, the use of fiber-optic networks in our service region, international gateways, leases for properties located in our service region.

The interests of China Netcom Group as provider of these services and facilities may conflict with our interests. We currently have limited alternative sources of supply for these services and facilities and, as a result, may have limited ability to negotiate with China Netcom Group regarding the terms for providing these services and facilities. Changes in the availability, pricing or quality of these services or facilities may have a material adverse effect on our business and profitability.

Failure by China Netcom Group to fulfill its obligations under certain existing arrangements may have a material adverse effect on our business operations, growth prospects and profitability.

China Netcom Group has committed to certain arrangements to support our existing operations and future development, including through a letter of undertakings, a non-competition agreement and a restructuring agreement. In the letter of undertakings, China Netcom Group agreed to, among other things, extend its full support to our current operations and future developments. China Netcom Group has also entered into a non-competition agreement whereby China Netcom Group has agreed not to compete with us in our service region and our international markets without our consent. In addition, under a restructuring agreement, China Netcom Group agreed to indemnify CNC China and us for losses arising from certain matters. Failure by China Netcom Group to fulfill its obligations under any of these arrangements may have a material adverse effect on our business operations, growth prospects and profitability.

The PRC National Audit Office and other governmental or third parties may audit or investigate our ultimate controlling shareholder and us from time to time. The outcome of these governmental or third party investigations may adversely affect our corporate image, the reputation and credibility of our management, our business and financial condition and the prices of our shares and ADSs.

PRC's National Audit Office, or the NAO, from time to time performs audits on state-owned companies, such as China Netcom Group, our ultimate controlling shareholder. If, as a result of an NAO audit, material irregularities are found within China Netcom Group or China Netcom Group becomes the target of any negative publicity, there would be a material adverse effect on our corporate image, the reputation and credibility of our management, our business and financial condition and the prices of our shares and ADSs. In addition, we may be the subject of other governmental or third party investigations or similar events that, depending on their outcome, could have a material adverse effect on our business and financial condition and the prices of our shares and ADSs.

Risks Relating to the PRC Telecommunications Industry

Extensive government regulation of the telecommunications industry in China may restrict our ability to respond to market conditions or competition, and may have a material adverse effect on our operations, business and financial condition.

As a telecommunications operator in China, we were subject to extensive regulation by and under the supervision of the MII, which is the primary telecommunications industry regulator in China. The MII is responsible for formulating policies and regulations for the telecommunications industry, granting telecommunications licenses, allocating frequency spectrum and numbers, formulating interconnection and settlement arrangements between telecommunications operators, and enforcing industry regulations. Other PRC governmental authorities also regulate tariff policies, capital investment and foreign investment in the telecommunications industry. See "Item 4. Information on the Company -- Regulation." The regulatory framework within which we operate may constrain our ability to implement our business strategies and limit our ability to respond to market conditions or to changes in our cost structure. Moreover, we operate our businesses pursuant to approvals granted by the State Council and under licenses granted by the MII. If these approvals or licenses were revoked or suspended, our business and operations would be materially and adversely affected. In addition, we are subject to various regulatory requirements as to service quality, pricing and other actions, and failure to comply with such requirements may subject us to mandatory penalties or other punitive measures, any of which could have a material adverse effect on our operations and financial condition.

In addition, some of our competitors, such as China Unicom and China Railcom, enjoy preferential treatment from the PRC government with respect to tariff setting. These companies are currently permitted to set their respective tariffs for certain services, such as long distance calls over the public switched telephone network, or the traditional network, at price levels above or below the government fixed tariffs on a long-term basis, subject to filings with, and approvals from, the relevant regulatory authorities. This preferential treatment is not available to us. Our competitors who enjoy this preferential treatment may be able to provide certain services at prices that are more competitive than our prices, and our business and financial condition may be adversely affected as a result.

Future changes to the regulations and policies governing the telecommunications industry in China, including possible future industry restructurings, may have a material adverse effect on our businesses.

Possible future changes to regulations and policies governing the telecommunications industry in China may have a material adverse effect on our businesses and operations. As part of the comprehensive plan to restructure the telecommunications industry in China, as approved by the State Council in 2001, the central government stated its intention to further adjust and improve its regulatory oversight of the telecommunications industry, including gradual further deregulation of telecommunications tariffs.

The MII, under the direction of the State Council, is currently preparing a telecommunications law to provide a uniform regulatory framework for the telecommunications industry. If and when the telecommunications law is adopted by the National People's Congress, it will provide a new framework for telecommunications regulations in China. The proposed nature and scope of the telecommunications law have not yet been announced by the PRC government. The telecommunications law and other new telecommunications regulations or rules, or future changes thereto, such as enforcement of existing regulations and policies, may materially and adversely affect our business and financial condition.

Issues may also arise regarding the interpretation and enforcement of China's WTO commitments regarding telecommunications services, which may affect telecommunications regulations and the telecommunications industry in China. Any future regulatory changes, such as those relating to the issuance of additional telecommunications licenses, tariff setting, interconnection and settlement arrangements, changes in technical and service standards, universal service obligations and spectrum and number allocations, may have a material adverse effect on our business and operations.

The PRC government may issue additional mobile telecommunications licenses in the future. The timing of issuance and terms of these licenses, if any, have not yet been announced. We cannot assure you that we will be able to obtain a mobile license. In addition, if we do obtain a mobile license, we cannot assure you that we will have sufficient resources to establish mobile operations or that our mobile operations will generate satisfactory returns for our shareholders. The issuance of additional licenses would also increase the competition we face.

The PRC telecommunications industry has been extensively restructured in recent years and may be subject to further restructuring. Such further industry restructuring may materially affect the operations of all telecommunications operators in China, including us. Accordingly, we cannot predict the scope and effect of any further restructuring on our operations.

New regulations, regulatory changes or changes in enforcement policies relating to telecommunications tariffs may adversely affect our competitiveness, business and profitability.

Tariffs are the prices we charge our customers for our telecommunications services. We are subject to extensive government regulations on tariffs, especially those relating to our basic telecommunications services, such as local and long distance fixed-line telephone services, managed data services, leased line services and interconnection agreements. The relevant provincial telecommunications administrations and provincial price bureaus currently determine the monthly fees and usage fees for our fixed-line local telephone services based on a fixed tariff set by the MII in consultation with the National Development and Reform Commission, or NDRC. The MII and the NDRC jointly set tariffs for all long distance services using the traditional network, leased lines and data services. We derive a substantial portion of our revenues from services that are subject to tariffs determined by the PRC government. In the past, our revenues have been adversely affected by reductions in tariffs mandated by the PRC government.

We cannot predict with accuracy the timing, likelihood or magnitude of tariff adjustments by the government or the extent or potential impact on our business of future tariff adjustments. If the government substantially lowers the tariffs for local fixed-line telephone services, our business and profitability may be adversely affected. In particular, monthly fees on fixed-line services have recently drawn attention from customers and the government. Revenues from some of our customers have decreased as a result of discounts on monthly fees that we offered through bundled service packages. Our revenues will be adversely affected if the government abolishes such monthly fees.

In addition, the tariffs for some of our services in certain locations have been set at levels above or below the levels mandated by the government. The MII may order us to adjust these tariffs and may impose fines on us for repeated failures to comply with the mandated tariff levels for these services, or even suspend our business where the situation becomes serious, as determined at the discretion of the MII. According to a regulatory circular issued by the MII, the MII reaffirmed its intention to strictly enforce these minimum tariff levels. In addition, such enforcement may be undertaken in a selective manner. The enforcement of such tariff levels and the imposition of fines or other penalties, whether done on a selective or industry-wide basis, may materially and adversely affect our competitiveness and, consequently, our business and profitability.

The PRC government may promulgate new regulations to abolish fees on mobile service incoming calls, which will accelerate mobile substitution of our fixed-line services. In addition, as a result of the growth in customer base of mobile services and the reduction in tariffs, voice traffic originated from fixed-line networks to mobile networks has exceeded that originated from mobile networks to fixed-line networks. Furthermore, new regulations may require us to pay interconnections fees to mobile operators for calls originating from our networks that are terminated on their networks. Interconnection fees that we earn from mobile operators may decrease and may be exceeded by those that they earn from us.

The PRC government may require major operators, including us, to provide universal services with specified obligations, and we may not be compensated adequately for providing such services.

Under the Telecommunications Regulations, as promulgated by the State Council on September 25, 2000, telecommunications operators in China are required to fulfill universal service obligations in accordance with relevant regulations to be promulgated by the PRC government, and the MII has the authority to delineate the scope of universal service obligations. The MII, together with governmental finance and pricing authorities, is also responsible for formulating administrative rules relating to the establishment of a universal service fund and compensation schemes for universal services. These rules have not yet been promulgated, and there are currently no specific regulatory requirements relating to the provision of universal services in China.

While the scope of specific universal services obligations is not yet clear, we believe that such services may include mandatory provision of basic telecommunications services in less economically developed areas in China. We may not be adequately compensated by the government or be able to realize an adequate return on investments for expanding networks to, and providing telecommunications services in, those less economically developed areas due to potentially higher capital expenditure requirements, lower usage by customers and lack of flexibility in setting our tariffs.

The MII required China Telecom, China Netcom Group, China Mobile, China Unicom, China Railcom and China Satcom to participate in a project to provide telephone services in a number of remote villages in China as transitional measures prior to the formalization of a universal service obligation framework. In order to fulfill such obligations under these transitional measures, China Netcom Group has agreed with us that it will assume the responsibility for investing in and constructing the necessary network facilities. If we operate and maintain such network facilities in our service region, China Netcom Group has agreed to compensate us for the related expenses based on their fair market value. However, China Netcom Group may fail to fulfill its obligations under this project, and we may not be adequately compensated by China Netcom Group for the cost and expenses resulting from our operation and maintenance of any such network. Either of these events may adversely affect our financial condition.

Risks Relating to China

Our operations may be adversely affected by China’s economic, political and social conditions.

Most of our assets are located in China and most of our revenues are derived from our operations in China. Accordingly, our results of operations and prospects are subject, to a significant extent, to economic, political and social developments in China. In particular, our operating results may be adversely affected by:

- changes in China’s political, economic and social conditions;
- changes in policies of the government or changes in laws and regulations, or the interpretation of laws and regulations;
- changes in foreign exchange regulations;
- measures that may be introduced to control inflation, such as interest rate increases; and
- changes in the rate or method of taxation.

In the past twenty years, China has been one of the world’s fastest growing economies in gross domestic product, or GDP. We cannot assure you that such growth will be sustained in the future. Moreover, a slowdown in the economies of the United States, the European Union and certain Asian countries may adversely affect economic growth in China. Our financial condition and results of operations, as well as our future prospects, would be materially and adversely affected by an economic downturn in China.

Economic growth in China has also historically been accompanied by periods of high inflation. The government has implemented various policies from time to time to control the rate of economic growth, limit inflation and otherwise regulate economic expansion. Some of these measures benefit the overall economy of China, but may also have a negative effect on us. For example, our operating results and financial condition may be adversely affected by government control over capital investments, by changes in the tax regulations or the increase of interest rate applicable to us.

The PRC legal system has inherent uncertainties that may limit the legal protections available to you as an investor or to us in the event of any claims or disputes with third parties.

The Chinese legal system is based on written statutes. Prior court decisions may be cited for reference but have limited values as precedents. Since 1979, the central government has promulgated laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. In particular, legislation since 1979 has significantly enhanced the protections afforded to various forms of foreign investment in China. CNC China, our primary operating subsidiary, was incorporated in China as a “wholly foreign-owned enterprise.” Although we are the sole shareholder of, and therefore have full control over, CNC China, the exercise of our shareholder rights in CNC China are subject to its articles of association and PRC laws applicable to foreign investment enterprises in China, which may be different from the laws of the United States. As Chinese foreign investment laws and regulations are relatively new and the Chinese legal system is still evolving, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit the remedies available to you as an investor and to us in the event of any claims or disputes with third parties. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

Since we are a Hong Kong company, you will not have certain investor rights as our shareholder, such as the right to bring legal action against other shareholders on behalf of the company.

We were incorporated in Hong Kong. Under the Company Ordinance of Hong Kong, any of our shareholders, including our controlling shareholder China Netcom Group Corporation (BVI) Limited, or CNC BVI, do not have the right to bring legal action against any other shareholder on our behalf to enforce any claim against such party or parties if we fail to enforce such claim ourselves.

You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.

Most of our current operations are conducted in China and most of our assets are located in China. In addition, most of our directors and executive officers reside within China, and substantially all of the assets of these persons are located within China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon these directors or executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Moreover, our PRC counsel has advised us that China does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of court judgments. Our Hong Kong counsel has also advised us that Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, recognition and enforcement in China of judgments of a court of the United States or any other jurisdiction, including judgments against us or our directors, executive officers, underwriters or experts, may be difficult or impossible.

Government control of currency conversion may adversely affect our operations and financial results.

We receive substantially all of our revenues in Renminbi, which is not a freely convertible currency. A portion of such revenues will need to be converted into other currencies to meet our foreign currency obligations. Our foreign currency requirements primarily include:

- debt service on foreign currency-denominated debt;
- purchases of imported equipment; and
- payment of any dividends declared in respect of our shares.

Our primary operating subsidiary will be permitted to undertake current account foreign exchange transactions by producing commercial documents evidencing such transactions, provided that they are processed through certain banks in China. However, foreign exchange transactions under the capital account, including principal payments with respect to foreign currency-denominated obligations, will be subject to limitations of the

State Administration of Foreign Exchange. These limitations may affect our ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange for capital expenditures.

Fluctuations in exchange rates may adversely affect our financial condition and results of operations and the prices of our shares and ADSs or any dividends payable on our shares and ADSs in foreign currency terms.

We conduct our business primarily in Renminbi, which is also our functional and reporting currency. The Renminbi is not a fully convertible currency. From 1994 to July 20, 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. From July 22, 2005 to April 30, 2008, the value of the Renminbi has appreciated by approximately 15.87% against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. Substantially all of our revenues are denominated in Renminbi, while a portion of our capital expenditures are denominated in foreign currencies, such as U.S. dollars and Hong Kong dollars. Future movements in the exchange rate of Renminbi and other currencies may have an adverse effect on our financial condition and results of operations, particularly our international long distance services. In addition, any revaluation of the Renminbi may adversely affect the prices of our shares and ADSs or any dividends payable on our shares and ADSs in foreign currency terms.

Our corporate structure may restrict our ability to receive dividends from, and transfer funds to, our Chinese operating subsidiary, which may restrict our ability to act in response to changing market conditions.

Substantially all of our operations are conducted through our Chinese operating subsidiary, China Netcom (Group) Company Limited, or CNC China. The ability of our Chinese subsidiary to make dividend and other payments to us may be restricted by factors that include changes in applicable foreign exchange and other laws and regulations. As a wholly foreign-owned enterprise in China, CNC China is required to provide for a reserve fund and a staff and workers' bonus and welfare fund, each of which is appropriated from net profit after taxation but before dividend distribution according to the prevailing accounting rules and regulations in the PRC. CNC China is required to allocate at least 10% of its net profit to the reserve fund until the balance of this fund has reached 50% of its registered capital. In addition, the profit available for distribution from our Chinese subsidiary is determined in accordance with generally accepted accounting principles in China. This calculation may differ from one performed in accordance with either HKFRS or U.S. GAAP. As a result, we may not receive sufficient distributions from our Chinese subsidiary to enable us to make dividend distributions to our shareholders in the future, even if our HKFRS or U.S. GAAP financial statements indicate that our operations have been profitable.

Distributions by our Chinese subsidiary to us other than as dividends may be subject to governmental approval and taxation. Any transfer of funds from our company to our Chinese subsidiary, either as a shareholder loan or as an increase in registered capital, is subject to registration or approval with or by Chinese governmental authorities, including the relevant administration of foreign exchange and/or other relevant examining and approval authorities. These limitations on the free flow of funds between us and our Chinese subsidiary may restrict our ability to act in response to changing market conditions.

We may be treated as a resident enterprise for PRC tax purposes after the EIT Law becomes effective on January 1, 2008, which may subject us to PRC income tax for any dividends we receive from our subsidiary and withholding for any dividends we pay to our non-PRC Shareholders and ADS holder on profits earned after January 1, 2008.

Under the EIT Law, enterprises established outside of China whose "de facto management bodies" are located in China are considered "resident enterprises," and will generally be subject to the uniform 25% enterprise income tax rate for their global income. Under the Implementation Rules of the EIT Law, "de facto management body" is defined as the body that has material and overall management and control over the business, personnel, accounts and properties of the enterprise. Substantially all of our management is currently located in the PRC. Accordingly, we may be considered a resident enterprise and may therefore be subject to the enterprise income tax of 25% of our global income. We cannot confirm whether we will be considered resident enterprise as the

17

Implementation Rules of the EIT Law are unclear at the moment. In addition, the EIT Law provides that dividend income between two “resident enterprises” is exempted from enterprise income tax. If we are not considered as a “resident enterprise”, we will be required to pay income tax for any dividends we receive from CNC China, and as a result, the amount of dividends we can pay to our Shareholders and ADS holders could be reduced.

Under the Implementation Rules of the EIT Law, withholding for any dividends paid to non-resident enterprises by resident enterprises on profits earned after January 1, 2008 are subject to PRC income tax while profits earned before January 1, 2008 are not subject to PRC income tax. Because we may be treated as a resident enterprise, any dividends we pay to our non-PRC Shareholders and ADS holder on profits earned after January 1, 2008 may be subject to PRC income tax. Subject to applicable tax agreements or treaties between the PRC and other tax jurisdictions, non-resident are ordinarily subject to a maximum 10% withholding tax with respect to dividend income from resident enterprises.

Risk relating to our ADSs

Holders of our ADSs will not have the same voting rights as the holders of our shares and may not receive voting materials in time to be able to exercise their right to vote.

Except as described in this annual report and in the deposit agreement, holders of our ADSs will not be able to exercise voting rights attaching to the shares evidenced by our ADSs on an individual basis. Holders of our ADSs will receive proxy materials with respect to matters to be voted on at a meeting of shareholders through the depositary and may only exercise voting rights by appointing the depositary or its nominee as their representative to exercise the voting rights attaching to the shares represented by the ADSs. Consequently, if the materials are slow to be forwarded to holders of ADSs by the depositary or are otherwise delayed or if the depositary sets deadlines by which holders of ADSs must give their instructions regarding how to vote that fall too soon after mailing of the proxy materials, you may not receive voting materials in time to instruct the depositary to vote. Thus, it is possible that you, or persons who hold their ADSs through brokers, dealers or other third parties, may not have the opportunity to exercise a right to vote.

ITEM 4. INFORMATION ON THE COMPANY

HISTORY AND DEVELOPMENT

Our legal and commercial name is China Netcom Group Corporation (Hong Kong) Limited. Our principal executive offices are located at No. 21, Financial Street, Xicheng District, Beijing, PRC 100140. Our telephone number is (86-10) 6625-8899. Our registered offices are located at 6701, 67/F, The Center, 99 Queen's Road Central, Hong Kong. We have appointed CT Corporation System, 111 Eighth Avenue, 13th Floor, New York, New York 10011, United States of America, with telephone number 1-212-894-8940, as our agent for service of processes for actions brought under the U.S. securities laws.

Our current principal operating subsidiary, CNC China, was incorporated as a PRC limited liability company in August 1999 by its four founders and shareholders, the Academy of Sciences, INC-SARFT, CRTC and Shanghai Alliance, as a facilities-based telecommunications operator in China. We were established on October 22, 1999 to facilitate investments by foreign investors, including CNC Fund, L.P., in CNC China. Shortly thereafter, the four founders, using their respective equity interests in CNC China as capital contributions, established China Netcom (Holdings) Company Limited, or China Netcom Holdings, which in turn contributed its entire interests in CNC China through CNC BVI to us. CNC Fund, L.P. purchased from us 30,967,127 Series A preferred shares of par value US$0.01 each in February 2001 for a cash consideration of US$325,000,000.

We, through China Netcom Corporation International Limited, established Asia Netcom in 2002. Asia Netcom remained inactive until it acquired substantially all the assets, including cash, and most of the subsidiaries, of the former Asia Global Crossing Ltd., or AGC, by the end of 2003.

Formation of the China Netcom Group

Pursuant to a PRC government-issued directive in 2001 to restructure the PRC fixed-line telecommunications industry, which has been in operation for decades, China Telecom Group, the then incumbent fixed-line carrier, in May 2002, divided its operations between:

- China Telecom Group, which retained:

  - the principal fixed-line networks that were located in 21 southern and western provinces and municipalities of China; and

  - assets constituting 70% of the bandwidth of the nationwide inter-provincial fiber-optic network that were owned by the former China Telecom Group; and

- China Netcom Group, which was established with:

  - the principal fixed-line networks that were located in the Beijing and Tianjin Municipalities and the provinces of Hebei, Henan, Shandong, Liaoning, Shanxi, Jilin and Heilongjiang and the Neimenggu Autonomous Region; and

  - assets constituting 30% of the bandwidth of the nationwide inter-provincial fiber-optic network that were owned by the former China Telecom Group.

Pursuant to the same directive, China Netcom Group purchased the entire equity interest in Jitong Communications Company Limited on May 28, 2003. In April 2004, the shareholders of China Netcom Holdings agreed to transfer their respective interests in China Netcom Holdings to China Netcom Group.

Restructuring in Anticipation of the November 2004 Global Offering

The asset and liability transfers

In anticipation of our global offering in November 2004, we entered into certain transactions, including a series of transfers of assets and liabilities between us and China Netcom Group. Following our restructuring, we provided:

- telecommunications businesses in our northern and southern service regions; and
- international telecommunications services in the Asia-Pacific region.

China Netcom Group continued to:

- provide telecommunications services in provinces, autonomous regions and municipalities outside our northern and southern service regions; and
- own non-core businesses.

Our subsidiaries

We own the entire equity interest of CNC China, a company registered in China. CNC China is our operating subsidiary in China. All businesses in our service region are operated through the local branch offices of CNC China.

Change of our financial year end

In order to conform our financial year end, which was March 31 previously, to the financial year end of the businesses that were transferred to us in connection with the restructuring, we changed our financial year end from March 31 to December 31 beginning April 1, 2003.

Name changes

We were incorporated in Hong Kong under the Companies Ordinance as a private limited liability company on October 22, 1999 under the name of Target Strong Limited.

- We changed our name from Target Strong Limited to China Netcom (Hong Kong) Corporation Limited on December 9, 1999.

- We changed our name from China Netcom (Hong Kong) Corporation Limited to China Netcom Corporation (Hong Kong) Limited on August 4, 2000.

In connection with our restructuring in anticipation of the November 2004 global offering:

- We changed our company name from China Netcom Corporation (Hong Kong) Limited to China Netcom Group Corporation (Hong Kong) Limited on July 23, 2004;

- CNC China's company name was changed from China Netcom Corporation Limited to China Netcom (Group) Company Limited on September 10, 2004; and

- CNC BVI's company name was changed from China Netcom Holdings (BVI) Limited to China Netcom Group Corporation (BVI) Limited on August 31, 2004.

Our Initial Public Offering in November 2004

In November 2004, we successfully completed our initial public offering of shares, or IPO, raising approximately RMB 8,944 million in aggregate net proceeds for us, after deduction of fees and expenses. Our shares are listed and traded on the Hong Kong Stock Exchange and ADSs representing our shares are listed and traded on the New York Stock Exchange.

Our 2005 Acquisition

On September 12, 2005, we, CNC BVI and China Netcom Group entered into a conditional sale and purchase agreement whereby we agreed to acquire the entire equity interests of China Netcom Group New Horizon Communications Corporation (BVI) Limited, or CNC New Horizon BVI, from CNC BVI for a consideration of RMB 12,800 million, RMB 3,000 million of which was paid out to China Netcom Group on October 31, 2005 at the consummation of our 2005 Acquisition.

Our 2005 Acquisition resulted in the transfer from China Netcom Group to us its fixed-line telecommunications assets and related liabilities in Heilongjiang Province, Jilin Province, the Neimenggu Autonomous Region and Shanxi Province, or the 2005 Acquired Assets and Liabilities.

On November 3, 2006, CNC China completed its merger with CNC New Horizon BVI, with CNC China being the surviving entity.

Sale of Asia Netcom

On August 22, 2006, we sold our 100% equity interest in Asia Netcom to Connect Holdings Limited for US$168.84 million. Asia Netcom was a wholly owned subsidiary through which we provided international telecommunications services in the Asia-Pacific region. The sale of Asia Netcom is in line with our strategy to focus on development of telecommunications services in China. After the completion of the sale, we continued to have business relationships with Asia Netcom in connection with our remaining international operations, including the purchase of network capacity from Asia Netcom, which is not expected to be significant.

Sale of Southern Service Region Business

On February 28, 2007, we sold our telecommunications assets, liabilities and business operations in Guangdong Province and Shanghai Municipality, or our southern service region, to China Netcom Group for a cash consideration of RMB 3,500 million. China Netcom Group assumed an aggregate principal amount of RMB 3,000 million of debt which is due and owing from our southern service region to independent third parties upon completion of the disposal. We believe that the sale of our southern service region business has increased our ability to allocate more resources to solidifying and strengthening our leading position in our service region.

Purchase of Design Institute

On December 5, 2007, our wholly-owned subsidiary, China Netcom Group System Integration Limited Corporation or China Netcom System Integration, entered into an equity interest transfer agreement with China Netcom Group Beijing Communications Corporation, a wholly-owned subsidiary of China Netcom Group, pursuant to which China Netcom System Integration acquired the entire equity interest of Design Institute for a total cash consideration of RMB 298,915,300. This transaction was completed on December 31, 2007. We believe that the purchase of Design Institute will contribute to our diversification efforts by strengthening our operational and technical capabilities in providing consultancy services and comprehensive communications solutions, which are two of our key ICT services.

Strategic Alliance to Telefónica

In November 2005, we entered into a strategic alliance agreement with Telefónica Internacional S.A., or Telefónica, pursuant to which we and Telefónica identified a number of areas in the telecommunications business for potential cooperation. In 2006, we strengthened our cooperative relationship with Telefónica in the areas of strategy, innovation, budgeting and operations. We believe our cooperation with Telefónica has helped improve our management. On January 18, 2008, we were informed by the beneficiary owners of our 148,015,436 shares which were held in trust with China Netcom Group (BVI) Limited, our direct shareholder, that they have entered into a share purchase agreement with Telefónica to transfer the their shares to Telefónica or its related entities. Upon the completion of this transaction, the shares held by Telefónica and its entities will be approximately 7.2% of our outstanding shares. Closing of the transaction is subject to a number of conditions including PRC government approval.

BUSINESS OVERVIEW

Unless otherwise indicated, all data and information relating to our businesses and operations for the year ended December 31, 2005 include the data and information relating to the 2005 Acquired Assets and Liabilities, and all data and information relating to our business and operations for the years ended December 31, 2005 are presented as if the sale of Asia Netcom occurred on January 1, 2005. All data and information relating to our business and operations for the years ended December 31, 2005 and 2006 are presented as if the sale of southern service region business occurred on January 1, 2005.

Our Services

We are a leading broadband and fixed-line communications operator in China and a dominant provider of fixed-line telephone services, broadband and other Internet-related services, information and communications technology services, business and data communications services, as well as other services such as advertising and media business in our service region. The services that we offer include:

- fixed-line telephone services (including Personal Handyphone System, or PHS services), including local, domestic long distance and international long distance services;

- broadband and other Internet-related services, including XDSL, LAN, wireless and other Internet access services, broadband content and applications services;

- ICT services, including information technology and communication technology based integrated solutions such as system integration, software, outsourcing, special advisory, and professional services, such as Internet information and disaster recovery services.

- business and data communications services, including managed data and leased line services; and

- other services such as advertising and media business.

Tariffs for some of our services are regulated by the government, including the MII, the NDRC, and provincial telecommunications administrations and price bureaus in China. We describe, in this “Item 4. Information on the Company -- Business Overview” section, tariffs for services for which we have sole discretion in setting the market-based tariff levels, including VoIP and broadband Internet services. For a discussion of government-fixed tariffs and guidance tariffs, such as those for fixed-line telephone services, see “-- Regulation -- Tariff Setting.” Prices for some of our services may be subject to promotional discounts.

Fixed-line telephone services (including PHS)

We are the dominant provider of fixed-line telephone services in our service region, with a market share of 90.4% as of December 31, 2007, based on the number of fixed-line subscribers.

Our fixed-line telephone services consist of local telephone, domestic long distance, international long distance, value-added and interconnection services. The number of our fixed-line subscribers decreased from 114.7 million as of December 31, 2005 to 114.0 million as of December 31, 2006. In 2007, as domestic mobile operators launched service packages at competitive prices, the migration from fixed-line to mobile communications becomes more intensified, and the number of our fixed-line subscribers decreased to 110.8 million as of December 31, 2007, down by 2.8% over the same period of the previous year. Of the total number of fixed-line subscribers, as of December 31, 2007, approximately 60.6% were residential customers, 9.6% were business customers, 6.2% were public telephones and 23.6% were PHS subscribers. Fixed-line telephone services represent our principal business activity.

In 2007, we continued to capitalize on our multi-service capabilities and rich network resources by launching "Family1+" bundled services and "Same Number" providing convergent functions of fixed-line and mobile voice services. "Family1+" is a service branded targeted at family subscribers under which we offer a selection of packages bundling various communication services. Through the trial launch of intelligent terminals and Home Box, we have enhanced our service offering under the "Family1+" brand to satisfy family demands for multimedia information service. In 2007, "Family1+" significantly contributed to the growth of our innovative businesses, and enhanced the overall values of fix-line telephone users. As of the end of 2007, the number of our "Family1+" subscribers reached 8.4 million.

We believed that, with the increasing penetration rate of "Family1+" and "Same number" and the increased ability of "Family1+" to satisfy all multimedia needs for our residential users, we will be able to enhance our revenue generation from our fixed-line telephone subscribers.

We have selectively built wireless local access networks based on PHS technology to offer PHS services as an alternative to mobile services. Our PHS services have been introduced in most cities in our service region, where we have rolled out our PHS networks as an extension to our existing fixed-line network. We believe that our PHS services have mitigated the substitution effect of mobile services.

PHS services are wireless telephone services that have features similar to traditional mobile telephone services. For example, both types of services offer voice services over handsets as well as short messaging functions. However, as PHS services have smaller cellular coverage than traditional mobile networks, PHS networks require more cellular sites for the same area coverage. In addition, due to regulatory constraints in China, users of PHS services are only permitted to roam within an area with the same area code while traditional mobile telephone services offer nationwide or international roaming capabilities. Tariffs for PHS services are similar those for traditional fixed-line voice services. Incoming calls are free when using PHS services but are generally charged on a per minute basis when using traditional mobile services.

Beginning in 2006, as mobile operators continued to launch more aggressive tariff packages, the tariff advantage of PHS services diminished, and our PHS subscribers as of December 31, 2007 decreased by approximately 1.1 million from approximately 27.3 million as of December 31, 2006. In 2007, we continue to reduce our capital expenditures on PHS services and decreased our subsidies of PHS terminals. Our PHS services focused more on selected consumer segments such as hospitals, school campus, hotels and other commercial buildings, and were offered as a key component of our bundled services.

We also operate a network of approximately 6.9 million public telephones located in our service region. We provide local, domestic long distance and international long distance call services and Internet services through our public telephones. An important contributing factor to the demand for public telephones services is China's large and growing migrant population.

The following table summarizes key information regarding our local telephone services in our service region in China as of the dates indicated:

	As of December 31,		
	2005	2006	2007
	(in thousands, except percentages)		
Total number of fixed-line subscribers(1)			
Number of fixed-line subscribers			
Residential	70,273	68,803	67,162
Business	10,725	10,946	10,575
PHS	27,329	27,316	26,189
Public telephones	6,331	6,907	6,894
Total	114,658	113,972	110,820

Market share(2)	92.3%	91.5%	90.4%

---

(1) Fixed-line subscribers consist of all access lines in service as well as PHS subscribers. We calculate PHS subscribers based on the number of active telephone numbers for our PHS services. In cases where a PHS subscriber uses the same telephone number as an access line in service, the designation as a PHS subscriber or access line in service depends on which service is first activated. We increase our total number of fixed-line

subscribers as soon as practicable after activation of the service. We remove a fixed-line subscriber from the total number of fixed-line subscribers as soon as practicable after the fixed-line subscriber deactivates the service voluntarily or three months after the date on which the fixed-line subscriber's bill becomes overdue. Prepaid and postpaid telephone card customers are not counted toward our fixed-line subscribers.

(2) Calculated by dividing the number of our fixed-line subscribers by the total number of fixed-line subscribers in our service region published by the provincial telecommunications administrations or the MII, as the case may be, as of each of December 31, 2005, 2006 and 2007.

Local telephone services

Our local telephone services, which represent the largest portion of our fixed-line telephone services in terms of revenues experienced declines in 2006 and 2007.

Service usage

The following table sets forth information regarding usage of our local telephone services provided in our service region for the periods indicated:

	For the Years Ended December 31,		
	2005	2006	2007
Total usage (pulses in millions)(1)	226,609	214,474	202,547
Internet dial-up usage (pulses in millions)(1)	8,534	5,251	3,660
Total usage excluding Internet dial-up usage (pulses in millions)	218,074	209,223	198,887

(1) Pulses are the billing units for calculating local telephone usage fees. See "-- Regulation -- Tariff Setting -- Local telephone services" for a discussion of pulses.

In 2007, total usage in local telephone services was 202,547 million, which included 3,660 million Internet dial-up usage. Total usage of local telephone services excluding Internet dial-up usage was 198,887 million, representing a 4.9% decrease from 209,223 million in 2006, reflecting increasing migration of local fixed-line voice traffic to mobile services.

Domestic long distance services

We offer traditional long distance services and VoIP long distance services in our service region.

Service usage

The following table shows the total minutes of domestic long distance calls carried through our long distance network for the periods indicated:

	For the Years Ended December 31,		
	2005	2006	2007
Total minutes of domestic long distance calls (in millions)(1)			
Traditional	15,653	17,327	18,482
VoIP	12,122	11,482	10,315

Total	27,775	28,809	28,797

(1) Includes calls originated by prepaid phone cards users and VoIP subscribers that are carried over our long distance networks.

The increase in minutes of usage in our domestic long distance services in recent years was mainly due to economic development, declining effective tariffs, increased cross-regional business activities, growth in our

24

customer base and new service offerings. However, in 2007, the usage of our domestic long distance call decreased by 11 million minutes, or 0.04% from 2006, primary due to increased competition from mobile service providers in the form of decreased roaming charges and usage fee for domestic long distance calls.

Tariffs

In 2001, the PRC government abolished regulatory controls on tariffs for VoIP long distance calls and allowed operators to set their own rates. We currently charge RMB 0.30 per minute in addition to a local usage fee for our VoIP domestic long distance services.

International long distance services

We are the leading provider of international long distance services in our service region, with a 39.1% market share for the overall international long distance service in that region for the year ended December 31, 2007, as compared to 41% for the year ended December 31, 2006. This decrease was primarily due to increasing competitions from other international long distance service providers.

In 1999, we began to offer VoIP international long distance services in our service region. The usage of our VoIP international long distance services as a percentage of the total usage of our international long distance services decreased from 55.6% as of December 31, 2006 to 55.0% as of December 31, 2007, as basically stable during 3 years.

Service usage

The following table sets forth certain information related to the usage of our international long distance services for the periods indicated:

	For the Years Ended December 31,		
	2005	2006	2007
International long distance outbound call minutes (in millions)(1)			
Traditional	155	144	155
VoIP	197	180	189
Total	352	324	344

(1) Includes calls originated by prepaid phone cards users and VoIP subscribers that are carried over our international long distance networks.

In 2007, we proactively implemented marketing programs to stimulate long distance voice traffic, international long distance voice traffic increased by 6.2% over the corresponding period of the previous year.

Our principal outgoing international long distance calls are to Hong Kong, Taiwan, the United States, Japan and South Korea.

Tariffs

The following table sets forth our current VoIP international long distance tariffs:

	Tariff (RMB per minute)
VoIP services:	
Hong Kong, Macau and Taiwan	1.50

United States and Canada	2.40
Asia-Pacific and certain European countries(1)	3.60
Kuwait, Honduras, Sierra Leone, Cape Verde, Kenya, Fiji, Sri Lanka, Equatorial Guinea, Togo, Surinam, Nigeria, Ethiopia, Uruguay, South Africa	6.00

25

Qatar, Afghanistan, Nepal, Bulgaria, Guyana, Syria, Haiti, Belgium, Malta	8.00
Cuba, Somalia, Papua New Guinea, Sao Tome and Principe Peru	12.00
All other international destinations	4.60

(1) Includes the United Kingdom, France, Italy, Germany, Australia, New Zealand, Japan, South Korea, Singapore, Malaysia, Thailand, the Philippines and Indonesia.

We offer international long distance services through international gateways that we lease from China Netcom Group, and pay for the use of networks of operators in foreign jurisdictions for outgoing international calls. We negotiate bilateral settlement arrangements and rates with operators in foreign jurisdictions based on international settlement standards in the telecommunications industry.

Value-added services

In addition to basic telephone services, we offer a range of value-added services, including caller identification, PHS short messaging and "personalized ring" services. Personalized ring service enables our traditional fixed-line telephone and PHS telephone to emit a distinctive ring for incoming calls designated numbers. Our value-added services generate additional usage on our network and increase our average revenues per fixed-line subscriber, thus mitigating the impact of mobile substitution and contributing to our revenues.

In 2007, we completed the renovation of intelligent network and developed the next generation network (NGN) value-added business. As for residential customers, we promoted services bundled fixed-line "Personalized Ring" and "Phonemate" with "Family1+". "Phonemate" is a service that provides voice messaging, speed dial and other value added services. For SME (Small and Medium Enterprises) customers, we bundled switchboard, corporate "Personalized Ring", virtual fax and internet hard disk with "CNC Connected". Virtual fax service allows the users to send and receive facsimile through the internet. We provide internet hard disk to users so that they can store documents, emails and facsimile online.

As of December 31, 2007, the number of "Personalized Ring" subscribers was 28.1 million, representing an increase of approximately 78.6% over that of 2006. The number of Phonemate subscribers was 5.3 million, representing an increase of 401.2% over that of 2006. The penetration rate of caller identification amounted to 72.2%, increasing by 3.4 percentage points over that of 2006.

Tariffs

We charge RMB 3.00 to RMB 6.00 per month, depending on the region, for our caller identification service. We charge RMB 0.08 to RMB 0.10 per message for PHS messages sent within our own network or to the network of China Telecom, and RMB 0.10 to RMB 0.15 per message for messages sent outside our own network or the network of China Telecom. We charge RMB 2.00 to RMB 10.00 per month for using our "personalized ring" and charge separately for downloading "ring tones".

Interconnection

We earn interconnection fees for terminating or transiting calls that originate from other domestic operators' networks and pay interconnection fees to other operators in respect of calls originating from our networks that are terminated on their networks. We earn and pay such fees in respect of local and domestic and international long distance calls and Internet services.

All interconnection and settlement arrangements among domestic operators in China are governed by the Telecommunications Regulations and the rules on interconnection arrangements and settlement promulgated by the MII. Most of the agreements pursuant to which we interconnect with other domestic operators were entered into by China Netcom Group prior to our restructuring. We have entered into an agreement with China Netcom Group pursuant to which we have agreed with China Netcom Group that the costs and benefits arising under these agreements, as they relate to our operations, will be for our account. We have also entered into an interconnection settlement agreement with China Netcom Group to interconnect with networks owned by China Netcom Group outside of our service region.

For information about our domestic and international telecommunications arrangements, see “--Regulation -- Tariff Setting -- Interconnection” and “Item 7. Major Shareholders and Related Party Transactions -- Related Party Transactions -- Continuing connected transactions relating to CNC China and CNC New Horizon -- Interconnection Settlement Agreement.”

Broadband and other Internet-related services

We are the leading provider of broadband and other Internet-related services in our service region. Broadband services are increasingly becoming one of our emphasis as part of our strategy to focus on high growth services. This growth has been driven by the increasing affordability and rising use of personal computers and other Internet access devices, gradual recognition by businesses of the importance of information, and the proliferation of content and applications, such as online games and video-on-demand.

The following table sets forth selected information regarding our broadband, dial-up and dedicated Internet access services.

	As of and For the Years Ended December 31,		
	2005	2006	2007
Broadband services:(1)			
DSL subscribers (in thousands)	8,529.2	11,287.9	15,777.1
LAN subscribers (in thousands)	2,507.0	3,140.7	39,85.4
Others (in thousands)	0	0	5.2
Subtotal	11,036.2	14,428.6	19,767.7
Market share(2)	87.6%	87.5%	88.9%
Dial-up and dedicated Internet access services:			
Dial-up online usage (minutes in millions)	6,645.6	5,384.3	2139.3
Dedicated Internet access lines in service (in thousands)	2.0	1.8	2.7

(1) We calculate DSL subscribers based on the number of active accounts. LAN subscribers consist of end-users and dedicated line users. We calculate LAN end-users based on the number of ports subscribed for. The number of LAN dedicated line users equals total monthly fees paid by such users divided by set average revenue per unit. The current set revenue per unit is RMB 90. We consider an account active or a service subscribed for as soon as practicable after activations of the applicable service. We remove a subscriber from the total number of subscribers as soon as practicable after that subscriber deactivates the service voluntarily or three months after the date on which that subscriber’s bill becomes overdue.

(2) Calculated by dividing the number of our own broadband subscribers by the total number of broadband subscribers in our service region, as published by the provincial telecommunications administrations or the MII, as the case may be, as of each of December 31, 2005, 2006 and 2007.

Broadband services

We seek to achieve a leading position in the fast growing market for broadband services in China by capitalizing on our extensive fixed-line network, large customer base, experienced sales force and established brand. In 2007, we continued to develop our broadband business models focusing on providing access through computers and television set-top boxes and charging fees on access and content and adopted measures such as selectively upgrading our network speed, introducing more diversified product and price offerings to satisfy the needs of different market segments.

In 2006, we established "China Netcom Group Broadband Online Limited Corporation," a wholly-owned subsidiary of CNC China specially designated for broadband content and launched the first comprehensive audiovisual entertainment portal in the PRC named “CNC MAX.” In 2007, we upgraded broadband access speed, and provided multi-speed access service to customers. We also capitalised on our status as an official partner of the 2008 Olympic Games to develop the “2008 Broadband Hotels” services. As of December 31, 2007, 1,741 hotels offered to their guests broadband services provided by us. In addition, in 2007, we devoted more efforts in promoting our comprehensive information services for corporate customers, especially small and medium size enterprises. We provided them comprehensive communication and information services including information technology applications and basic communication products.

Our broadband subscribers increased to 19.77 million as of December 31, 2007, representing an increase of 5.34 million, or 37.0%, from 14.43 million as of December 31, 2006.

DSL services

We promote DSL services as the primary broadband service means for residential customers and small and medium-sized enterprise customers in our service region. We provide DSL services by upgrading our existing copper-based local switching network. DSL technology allows us to roll out our broadband network at lower incremental costs than other types of broadband networks. In our service region, where we are the dominant fixed-line operator, the number of subscribers to our DSL services has grown steadily in recent years, with approximately 15.78 million DSL subscribers as of December 31, 2007, compared with approximately 11.29 million subscribers as of the end of 2006. As of December 31, 2007, our DSL subscribers accounted for 79.8% of our total number of broadband subscribers in our service region.

LAN services

In addition to DSL technology, we also use Ethernet technology-based local-area networks, or LANs, to provide our customers with broadband services. We have selectively rolled out LANs in high density residential and office buildings in our service region, where customers demand a large bandwidth and high-speed Internet access. LAN uses fiber-optic technology and Ethernet protocol to connect our users to a telecommunications network and greatly expands capacity of the access network. As of December 31, 2007, we had 3.99 million subscribers of our LAN services, representing 20.2% of our total broadband subscribers.

Internet application-related services

In 2007, we focused on innovation of the content and application sales model and the improvement of broadband content and applications. In 2007, we launched “CNC MAX” Clients, which provides rich broadband content and applications directly to the user’s desktop. We also developed video programs as “Interacting Voice-Over”, “Car World” channel, “CNC MAX” Clients competition channel and “CNC MAX Virtual Game Platform.” Through the “My Commercial World” channel, we strengthened our business model in respect of corporate video advertising.

We focus on strengthening our broadband content and applications from PC to TV. As of December 31, 2007, our AVS-IPTV technical experiments in Dalian successfully passed the MII’s inspection and have started commercial operation. The number of IPTV subscribers reached 324,000 as of December 31, 2007, representing an increase of 49.4% from 217,000 as of December 31, 2006.

In 2007, under the brand “CNC Connected”, we provided integrated communication and information services, including information technology application, communication value-added services and basic communication products, to small and medium enterprise customers of different industries and with different needs. The number of subscribers to our “CNC Connected” platform continued to grow rapidly.

Tariffs

We charge an upfront installation fee to both DSL and LAN subscribers. DSL subscribers may choose a monthly package for unlimited usage, or a monthly package with limited usage, with additional fees charged for overtime usage. For customers connected through LANs, we offer a monthly package with unlimited usage.

Dial-up and dedicated Internet access

We are also one of the largest providers of dial-up Internet access services in our service region in terms of number of subscribers. Total usage by our dial-up Internet subscribers decreased significantly in 2007. We believe that the decrease was primarily attributable to the migration of some high-usage customers from dial-up Internet services to broadband services.

We offer high speed Internet access through dedicated lines to our business customers, particularly communications-intensive corporate customers. As of December 31, 2007, we had a total of approximately 2.7 thousand dedicated Internet access subscribers in our service region. We bundle this service with voice and data services to provide integrated communications solutions to our business customers.

Tariffs

Dial-up Internet access

We offer dial-up Internet access on both a postpaid and prepaid basis. We charge a network usage fee ranging from RMB 1.00 to RMB 3.00 per hour. In addition, a communication fee of RMB 0.02 per minute is charged and recorded as fixed-line telephone services revenues. Postpaid customers are billed for this service together with their monthly telephone service bills. Prepaid customers must purchase stored value cards that enable them to access the Internet. The network usage fee is charged against the stored value card, while the communication fee is billed to the telephone number from which the Internet connection is made.

Dedicated Internet access

We charge a subscription fee of RMB 100 and a monthly network usage fee ranging from RMB 2,400 to RMB 5,400, depending on bandwidth, for our dedicated Internet access. Where the dedicated Internet access is provided through DDN, frame relay, ATM or digital circuits access, their respective tariffs apply in addition to the subscription fee and network usage fee. For a more detailed description of the tariffs for DDN, frame relay, ATM or digital circuits, please see "-- Regulation -- Tariff Setting."

ICT services

We began offering ICT services in 2006. In 2007, we sought to establish core strengths and capabilities in providing integrated solutions in E-government, environmental monitoring, "Safe City" and the Olympic Games. With the growing of the professional team, the Company gradually moved up the value chain of ICT business, and strengthened its capabilities in solution designs, software development and operation management and maintenance. With the extension of the Company's ICT business to the high end of the value chain, the Company will explore the call centers and IDC outsourcing service sectors by leveraging the advantage of Company's brands, customer base and network resources, penetrating from the resources leasing to provision of integrated information solutions to customers.

Business and data communications services

We are the leading provider of business and data communications services in our service region. We offer managed data products, such as DDN, frame relay, ATM and IP-VPN, and leased line products, including domes