

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

China Netcom Group CORP (Hong Kong) LTD
Form 6-K
April 10, 2007

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the month of April, 2007

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F X Form 40-F

(Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes No X

(If "Yes" is marked, indicate below the file number assigned to registrant in connection with Rule 12g3-2(b): 82-_____.)
N/A

China Netcom Group Corporation (Hong Kong) Limited
Building C, No. 156, Fuxingmennei Avenue
Xicheng District
Beijing, 100031 PRC

This Form 6-K consists of:

The 2006 annual report of China Netcom Group Corporation (Hong Kong) Limited (the "Registrant"), made by the Registrant in English on April 10, 2007.

SIGNATURE

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

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

By /s/ Li Fushen

By /s/ Mok Kam Wan

Name: Li Fushen and Mok Kam Wan

Title: Joint Company Secretaries

Date: April 10, 2007

Contents

2	Company Profile and Corporate Information
4	2006 Major Milestones
7	Financial Highlights
8	Chairman's Statement
11	Chief Executive Officer's Statement
16	Profile of Directors and Senior Management
24	Corporate Governance
34	Human Resources Development
37	Business Review
45	Management's Discussion and Analysis of Financial Condition and Results of Operations
56	Report of the Directors
73	Notice of Annual General Meeting
75	Auditor's Report
77	Financial Information of the Company
145	Supplementary Information for American Depositary Shares Holders
152	Financial Summary

1

Company Profile and Corporate Information

China Netcom Group Corporation (Hong Kong) Limited (the "Company", "our Company", "we" or "us", and together with its subsidiaries, the "Group") is a company incorporated under the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) in Hong Kong on October 22, 1999 with limited liability. We were listed on the New York Stock Exchange and the Main Board of The Stock Exchange of Hong Kong Limited on November 16, 2004 and November 17, 2004, respectively.

We are a leading broadband communications and fixed-line telecommunications operator in China. Our northern service region in China consists of Beijing Municipality, Tianjin Municipality, Hebei Province, Henan Province, Shandong Province, Liaoning Province, Heilongjiang Province, Jilin Province, Neimenggu Autonomous Region and Shanxi Province. Our southern service region in China

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

consists of Guangdong Province and Shanghai Municipality. On February 28, 2007, we sold the telecommunications assets, liabilities and business operations in Guangdong Province and Shanghai Municipality and our service region will no longer include our southern service region hereafter.

In our northern service region, the Company is a dominant provider of fixed-line telephone services, broadband and other Internet-related services, as well as business & data communications services.

The services that we offer include:

- o fixed-line telephone services (including Personal Handyphone System, or PHS services), including local, domestic long distance and international long distance services;
- o broadband and other Internet-related services, including XDSL, LAN, wireless and other Internet access services, broadband content and applications services;
- o business and data communications services, including managed data and leased line services; and
- o information and communications technology services (the "ICT"), including services such as system integration, software development, maintenance and consultancy.

As of December 31, 2006, China Network Communications Group Corporation ("China Netcom Group", our ultimate controlling shareholder), beneficially owned approximately 69.88% of shares in the Company through China Netcom Group Corporation (BVI) Limited ("CNC BVI"); Shandong Provincial State-owned Assets Supervision and Administration Commission beneficially owned 2.25% of shares in the Company; each of Chinese Academy of Sciences Holdings Co., Ltd., Information and Network Center of the State Administration of Radio, Film and Television, China Railways Telecommunications Center and Shanghai Alliance Investment Limited beneficially owned 0.56% of shares in the Company; Telefonica Internacional, S.A. beneficially owned 4.99% of shares in the Company, and public investors owned 20.64% of shares in the Company.

2

Registered office
Room 6701, The Center
99 Queen's Road Central
Hong Kong

Board of Directors

Mr. ZHANG Chunjiang	Chairman and Executive Director
Mr. ZUO Xunsheng	Executive Director and Chief Executive Officer
Mr. ZHANG Xiaotie	Executive Director
Mr. LI Fushen	Executive Director, Chief Financial Officer and Joint Company Secretary
Mr. MIAO Jianhua	Executive Director
Dr. TIAN Suning	Vice Chairman and Non-executive Director
Mr. YAN Yixun	Non-executive Director
Mr. Jose Maria ALVAREZ-PALLETE	Non-executive Director
Mr. Mauricio SARTORIUS	Non-executive Director
Mr. John Lawson THORNTON	Independent Non-executive Director
Mr. Victor CHA Mou Zing	Independent Non-executive Director

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

Dr. QIAN Yingyi	Independent Non-executive Director
Mr. HOU Ziqiang	Independent Non-executive Director
Mr. Timpson CHUNG Shui Ming	Independent Non-executive Director
Ms. Hong CHEN JIN	(Alternate Director to Mr. Jose Maria ALVAREZ-PALLETE and Mr. Mauricio SARTORIUS)

Joint company secretaries

Mr. LI Fushen
Ms. MOK Kam Wan

Qualified accountant

Mr. LEUNG June Man HKICPA, AICPA

Auditors

PricewaterhouseCoopers

Legal advisers

As to Hong Kong Laws:
Linklaters
As to U.S. Laws:
Skadden, Arps, Slate, Meagher & Flom LLP

Investor Relations

Beijing Office
No. 21 Financial Street
Xicheng District
Beijing 100032, P. R. China
Telephone: 8610-66259550
Facsimile: 8610-66259544
E-mail: ir@china-netcom.com
Website: www.china-netcom.com

3

Committees of the Board

Audit committee

Mr. Timpson CHUNG Shui Ming Chairman
Dr. QIAN Yingyi
Mr. Victor CHA Mou Zing
Mr. HOU Ziqiang

Nominating and corporate governance committee

Mr. John Lawson THORNTON Chairman
Mr. ZHANG Chunjiang
Mr. ZUO Xunsheng
Mr. Victor CHA Mou Zing
Dr. QIAN Yingyi

Compensation committee

Dr. QIAN Yingyi Chairman
Mr. ZHANG Xiaotie
Mr. LI Fushen
Mr. John Lawson THORNTON
Mr. Timpson CHUNG Shui Ming

Strategy committee

Mr. ZHANG Chunjiang Chairman
Mr. ZUO Xunsheng
Mr. LI Fushen

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

Dr. TIAN Suning
Mr. Jose Maria ALVAREZ-PALLETE
Dr. QIAN Yingyi
Mr. HOU Ziqiang

Supervision committee
Mr. MIAO Jianhua Chairman
Mr. ZHANG Xiaotie
Mr. Victor CHA Mou Zing
Mr. HOU Ziqiang
Mr. Timpson CHUNG Shui Ming

Stock code:
The Stock Exchange of Hong Kong: 906
New York Stock Exchange: CN

Share registrar and transfer office
Computershare Hong Kong Investor Services Limited
Rooms 1712-1716,
17th Floor, Hopewell Centre
183 Queen's Road East
Wan Chai
Hong Kong

American depository receipts depository
Citibank, N.A.
388 Greenwich St., 14th Floor
New York, NY10013, U.S.A.
Tel: 1-212-816-6671
Fax: 1-212-816-6865

4

2006 Major Milestones

January

January 6, Jointly with our partners, China Netcom Group, the Company's ultimate controlling shareholder established the National Lab of NGN In Broadband Application. This is one of the three national labs approved by the National Development and Reform Commission.

February

February 23, East Asia Cable (EAC) established connection to the international submarine cable landing station of Qingdao, which now serves as a sole landing station to connect northern China with international cable lines.

March

March 6, the Company formally became a constituent stock of Hong Kong's Hang Seng Index.

March 21, China Netcom Group signed a Memorandum of Understanding (MoU) on International Satellite TV Transmission for Beijing 2008 Olympic Games with Russian Satellite Communications Company.

March 29, China Netcom Group Broadband Online Limited Corporation was incorporated as a subsidiary of the Company, dedicating to broadband content and applications.

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

April

April 25, China Netcom Group and Visa International Service Association signed a strategic cooperation agreement for the full-range cooperation in branding, marketing and technologies to jointly serve the 2008 Olympic Games.

April 29, a video-conferencing system built by China Netcom (Group) Company Limited ("CNC China") for National People's Congress was put into service during the 21st Session of the Standing Committee of the Tenth National People's Congress meeting.

April 30, China Netcom Group System Integration Limited Corporation was incorporated as a subsidiary of the Company, to provide integrated information and communications technology services to corporate customers.

May

May 1, the Company did spot-marketing of "Family 1+" business at Baoding, Handan and Qinghuangdao in Hebei Province, Jinan in Shandong Province and Yangquan in Shanxi Province.

May 11, the Company signed a MoU with the European Communication Satellite Company and formally commenced the cooperation on international satellite transmission for the 2008 Olympic Games.

May 20, "CNC MAX" was successfully broadcasted online "My Broaden World, New Stage for Super Gril"

May 26, the Company launched "Economical Phone" business in trial run in Shanxi Province.

May 26, "CNC MAX" was formally on board as China's first all-video portal website, which can provide large stream and high resolution video services.

June

June 9, the Company signed a MoU on international communications service with Chunghwa Telecom for the 2008 Olympic Games.

June 21, the Company signed a MoU on strategic cooperation and communications with British Telecom for the 2008 Olympic Games.

5

July

In July, the Company was allowed to provide IPTV services in 5 cities -- Shenyang, Dalian and Panjin in Liaoning Province and Heihe and Mudanjiang in Heilongjiang Province.

July 20, CNC China, a subsidiary of the Company successfully issued RMB10 billion short term commercial papers.

August

August 9, China Netcom Group signed a cooperation agreement on broadcast television service with Beijing Olympic Broadcasting Company (BOB) for the 2008 Olympic Games. Pursuant to the agreement, China Netcom Group will be responsible for the transmission of public broadcast television signals from all Olympic venues in Beijing and other Olympic cities to the international broadcast

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

center.

August 22, the Company completed the disposal of Asia Netcom Corporation Limited ("Asia Netcom"), one of our wholly-owned subsidiaries.

In August, the IPTV-based information on services for rural areas in Henan Province was recognised and promoted by the National Reform and Development Commission.

September

September 10, the Company officialy launched its WAP portal for PHS.

November

November 1, the Company formally launched "Phone Navigation" business to the public.

November 1, "CNC MAX" started to broadcast online NBA games lively.

November 28, China Netcom Group Broadband Online Limited Corporation and Google entered into an agreement regarding the web search service, click advertisements and the advertisement via Adsense for content.

December

December 18, China Netcom Group, together with other operators, signed an agreement on Trans-Pacific Express, the first TB-level submarine fiber cable system connecting China with the United States. Upon completion of this project, sufficient trans-pacific capacity will be provided to meet the growing demand for the Internet, data and voice services between Asia-Pacific and the United States. Simultaneously, the network delay in Asia region and the hotspots between the United States and Asia will be reduced.

6

Financial Highlights

Hong Kong GAAP (in RMB millions, except earnings per share)	2006
Continuing operations:	
Revenues	86,921
Including Upfront connection fees	2,406
EBITDA (1)	45,588
Operating Profit (2)	19,980
Deficit on revaluation of fixed assets	1,524
Profit for the year from continuing operations	11,141
CAPEX	26,474
Free cash flow (3)	7,476
Profit /(loss) for the year from discontinued operations (4)	1,819
Profit for the year	12,960
Earnings per share from operations attributable to shareholders of the Company for the year	RMB1.95
Earnings per ADS from operations attributable to shareholders of the Company for the year	RMB39.0

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

- (1) EBITDA refers to profit before finance costs, interests income, dividend income, deficit on revaluation of fixed assets, income tax, depreciation and amortization, share of profit of associated companies. To supplement our consolidated financial statements presented in accordance with the Hong Kong GAAP, we use the non-Hong Kong GAAP measure of EBITDA, which is adjusted from our results based on Hong Kong GAAP. We believe that EBITDA provides useful information to both management and investors to further analyze our operating results since we, as a company operating in the capital intensive telecommunications industry, incurred significant capital expenditure and finance costs which have significant impact to our results based on Hong Kong GAAP. EBITDA should only be considered in addition to our Hong Kong GAAP results. It should not be considered a substitute for or superior to our Hong Kong GAAP results as it cannot be used to measure operation results and liquidity and does not represent operation cash flows. In addition, our EBITDA may not be comparable to similar indicators of other companies.
- (2) Operating profit refers to profit before interests income, dividend income and deficit on revaluation of fixed assets.
- (3) Free cash flow refers to net cash inflow from operating activities of continuing operations net of our capital expenditure.
- (4) On June 2, 2006, the Group entered into an agreement with the third party buyers to dispose of its entire interest in the Asia Netcom for an aggregate cash consideration of US\$168.84 million, at fair value determined by both parties. The disposal was completed on August 22, 2006. The gain on disposal amounted to RMB1,878 million. The results and cash flows of the Asia Netcom for the year ended December 31, 2006 are presented as discontinued operations.

7

Chairman's Statement

Dear Shareholders,

2006 was an important year for the development of China's telecommunications industry. In 2006, although broadband businesses in China grew rapidly, more and more fixed-line telephone subscribers and voice traffic migrated to mobile service. The extent of mobile substitution that is currently happening in China is one of the largest among the major telecommunications markets in the world as there is no genuine full-service provider in China.

Facing such challenges and opportunities, in 2006, we continued to pursue our strategic goal of becoming a "broadband communications and multi-media services provider" relentlessly. Our high-growth businesses maintained its rapid growth and made an impressive contribution to revenue. At the same time, the Company's traditional fixed-line telephone business was facing severe challenges. We saw negative growth in local telephone subscribers for the first time in corporate history. In 2006, the consolidated net profit of the Company was RMB12,960 million (Excluding RMB2,406 million of upfront connection fees, the Company's consolidated net profit was RMB10,554 million). Basic earnings per share was RMB1.95.

Strategic Transformation

The telecommunications industry is undergoing a major reform. The rapid development of Internet technology and its wide applications has created a new industrial revolution, with concomitant effects on culture and society. While

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

the reforms in the telecommunications industry pose challenges, they also bring about enormous opportunities for industry participants. In this context, in order to grow, we must innovate. Thus, the Company has set a long-term strategic goal of transforming itself from a traditional voice-centric telecommunications services provider to a broadband and multi-media services provider.

In 2006, we made major progress towards our strategic goal of becoming a broadband communications and multi-media services provider.

By the end of 2006, the total number of the Company's broadband subscribers reached 15.081 million, representing a year-on-year increase of 31.4%. In March 2006 the Company established China Netcom Group Broadband Online Limited Corporation a wholly-owned subsidiary, then launched "CNC MAX", the first all-video website in China. In July 2006, we were approved to provide IPTV services in five cities in addition to Harbin, Heilongjiang Province. In cooperation with local government, we launched IPTV-based integrated information services in rural areas of Henan Province, and this cooperative model was recognised by relevant governmental departments. In 2006, the Company's broadband strategy, which includes broadband access and content as well as IPTV services, was strengthened and enhanced to embrace multi-dimensional delivery. We have begun to see substantial growth in our broadband business, and are now moving into new parts of the broadband and Internet value chain.

In 2006, the Company leveraged on the opportunities brought about by the government initiatives of "informationisation". We inaugurated such services through our brand, "CNC Connected", to meet the demand by corporate and government customers for integrated information services which comprise telecommunications, IT and IT related applications services. With our extensive network, customer and brand resources, we are moving away from a monolithic network and voice communications services provider to become a provider of integrated information services.

8

The Olympic Games and Strategic Cooperation

As the sole official partner of the 2008 Beijing Olympics for fixed-line telecommunications services, our strategies are

- o To leverage on the historic opportunity of the Olympic Games to bring our service performance to a higher level, by establishing a bottleneck-free service system and meeting market demand for stable, safe and user-friendly services;
- o To enhance penetration of our broadband services, accelerate broadband content and applications development, so as to honour our commitment to deliver a "Broadband Olympics";
- o To enhance our management standard through the process of delivering high quality and multi-level communications solutions to the Olympic Games;
- o To enhance our corporate identity and branding through Olympics-related marketing efforts.

We intensified our Olympic strategy in 2006. We believe through implementing our Olympic strategy, the Olympics Games will serve as a milestone in our corporate development, and play a pivotal role in our overall transformation into a multi-media telecommunications service provider.

We have long maintained an open mind towards strategic cooperations with the world's leading telecommunications operators. We believe that such cooperations

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

will help to bring about innovations in technology, products and management knowhow, constituting elements conducive to enhancing our management standard and core competences, In 2006 we deepened our cooperative relationship with Telefonica in the areas of strategy, innovation, budgeting and operations. This exercise was instrumental in helping the Company strengthen its management, especially its capital expenditure (CAPEX) management.

Corporate Governance

The Company is putting in place international best-practices of corporate governance. We believe that these will strengthen our core competences.

In 2006, the Company carried out reformation of its board of directors from the perspective of the "hardware" and "software" of corporate governance. Firstly, changes were made with regard to the structure and responsibilities of the board of directors and board committees. We modified key board and committee procedures. In particular, we put in place a system to evaluate performance of directors, board committees, and the board of directors. These changes in board structure, procedures and the introduction of a performance evaluation system are meant to improve the board's efficiency, encourage active participation on the part of directors, and ensure that board decisions will be to the benefit of all shareholders as well as to the Company's long-term development.

In 2006, the nominating and corporate governance committee conducted the first round of performance evaluations of the board of directors and board committees. The compensation committee conducted the first performance evaluation of board members based on their professional capabilities, ability to fulfill duties, and ability to maintain objective in decision making. Based on the results, the board will provide training and research sessions to directors; and to reform operational procedures of the board of directors in order to improve efficiency and professional standards of the board and board committees.

Value to Shareholders

After taking into account the Company's financial position in 2006, estimated cash flow in 2007 and business development strategies for the future, the Board of Directors has recommended payment of a final dividend of HK\$0.553 per share for the financial year ended December 31, 2006, up 18.7% from HK\$0.466 in 2005.

On August 22, 2006, we disposed our entire shareholding in Asia Netcom. On February 28, 2007, we disposed our Guangdong and Shanghai telecommunications assets and operations to our parent company China Network Communications Group Corporation ("China Netcom Group"). These two transactions have enabled us to concentrate on our northern service region, where we have extensive network resources and dominant market share. We believe that these transactions enabled the Company to reinforce our market dominant position in the traditional fixed-line telephone market, better grasp the growth opportunities in the northern service region, with a view to creating greater value for the shareholders.

Change of Directors and Management

On December 19, 2006, Mr. Mauricio Sartorius was appointed as a non-executive director of the Company and Ms. Hong Chen Jin was appointed as an alternate director to Mr. Jose Maria Alvarez-Pallete and Mr. Mauricio Sartorius. On December 20, 2006, Mr. Miao Jianhua resigned from his position as joint company secretary of the Company, but remained as an executive director of the Company. On the same date, Mr. Li Fushen, the Chief Financial Officer of the Company, was appointed as joint company secretary of the Company. On January 15, 2007, Ms. Li

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

Liming resigned as non-executive director of the Company, and Mr. Li Fushen was appointed as an executive director of the Company.

On behalf of the Company, I wish to express our sincere gratitude for the contributions made by Mr. Miao Jianhua as joint company secretary and Ms. Li Liming as non-executive director. At the same time, I would also like to extend our warmest welcome to Mr. Mauricio Sartorius, Ms. Hong Chen Jin and Mr. Li Fushen for joining the board.

Prospects

Looking ahead, as information technology develops rapidly and the telecommunications industry rapidly shifts focus towards broadband, mobility, IP and convergence, our business philosophy is innovation and development. Through innovation in technologies, services and management, we will strive to establish our engines of sustainable development to get ourselves well-prepared to seize future growth opportunities and to support pursuit of our strategic goal of becoming a broadband communications and multi-media services provider.

In 2007, we will utilize bundled and convergence services to lessen the effects brought about by the decline in traditional fixed-line telephone businesses. We will take full advantage of the forthcoming Olympic Games to increase penetration of broadband and make new breakthroughs in high-growth businesses such as broadband access, broadband content and applications as well as ICT (Information and communications technology) services. We will promote innovation in such areas as tariff, services, branding, and organization to accommodate changes in the market. We will prepare ourselves for mobile services and accelerate network convergence, with a view to providing our customers with multi-dimensional services.

Lastly, I would like to extend my sincere appreciation to our shareholders for their trust and support. I am also grateful for the management and staff's contributions to the Company in 2006. We believe that, with the commitment of our management and staff, we will be able to provide our customers with high quality service, our employees with greater satisfaction, and our shareholders with increased value and returns.

ZHANG Chunjiang
Chairman

Hong Kong, April 2, 2007

10

Chief Executive Officer's Statement

Dear Shareholders,

I am pleased to report to you that we made significant progress in 2006 toward our strategic goal of becoming a "broadband communications and multi-media service provider", against the backdrop of escalating challenge from intensifying mobile substitution. Contribution of our high-growth businesses to the total revenue continued to increase, laying a solid foundation for our strategic transformation.

1. Stable Financial Performance

In 2006, the Company generated RMB87,901 million of consolidated revenues, which include RMB86,921 million of revenue from continuing operations and RMB980 million of revenue from discontinued operations. Excluding upfront

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

connection fees of RMB2,406 million, our revenue was RMB85,495 million, of which RMB84,515 million was attributable to continuing operations. Revenue from continuing operations grew by 2.5% over the last year. Intensifying mobile substitution and a downward adjustment of tariff for inter-district calls slowed down our revenue growth in 2006 as compared with that of last year.

Our consolidated net profit for 2006 was RMB12,960 million, and excluding upfront connection fees, our consolidated net profit was RMB10,554 million which includes discontinued operations (unless otherwise specified, all data in the subsequent sections exclude discontinued operations and the effect of the upfront connection fees). As a result of our strengthened management over CAPEX, CAPEX for continuing operations for the year was RMB26,474 million, which was RMB826 million lower than the budgetary guidance outlined by management at the beginning of the year. Benefiting from revenue growth, cost control and effective capital expenditure management, our free cash flow* grew by a robust 19.9% to RMB7,476 million.

As a result of the growth of free cash flow, by the end of 2006, our interest bearing debts reduced by 3.6% to RMB79,154 million.

* Free cash flow represents net cash flow from operating activities of continuing operation net of capital expenditure

2. Challenges Faced by Traditional Fixed-line Businesses

2006 was an unusual year for monolithic telecommunications operators in China which solely operate fixed-line networks. The acceleration of mobile substitution created severe imbalances in the competitive landscape. Our traditional fixed-line business was facing acute challenges.

In 2006, our strategic response to the acceleration of mobile substitution was to leverage off our extensive network resources and the multi-business nature of our business to develop bundled and converged services. In the first half of 2006, the Company launched a bundled service offered under the brand "Family 1+", and a converged service offered under the brand "Unified Number" which captures both fixed-line and mobile functionalities in certain cities. This helped to lessen mobile substitution to a certain extent in the pilot cities. By the end of 2006, the number of local telephone subscribers amounted to 114.934 million, reporting a decline for the first time in our corporate history. Of the subscribers, 27.334 million were PHS subscribers, almost at the same level as over the same period last year. Both the local voice ARPU and traffic experienced a decline.

In 2006, we launched several new products targeted at a variety of market segments. These included: the "Family 1+" bundled product for urban residential customers; the "Economic Phone" service which does not charge monthly fees for rural customers; and the "New Sunshine" service for colleges and universities. We believe with the completion of upgrading of our local fixed network to embrace intelligent functionalities and the implementation of our initiatives to retain our traditional fixed line business through bundled services, we will be able to lessen effects of mobile substitution in 2007 and to defend our dominant market position in the traditional fixed line market of our northern service region.

11

3. Sustained Rapid Development of High-growth Businesses

In 2006, we experienced continued strong momentum in high-growth services including broadband service, value-added services, information and

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

communications technology (ICT) and business & data communications services. This sector experienced revenue increase of 31.6% from last year, reaching 26.0% of the total revenue, up 5.8 percentage points from last year. High-growth businesses helped offset revenue decline in traditional fixed line businesses and was the biggest drive for sustainable and effective growth in 2006.

The Company's strategy for high-growth businesses in 2006 included promoting broadband video and interactive content and applications while expanding the broadband subscriber base; continuously launching new value-added services; and speeding up the promotion of "CNC Connected" and ICT business to make them the growth drivers in the future. Such strategies achieved sound results in 2006.

Broadband service still experienced rapid growth. As at the end of 2006, we had 15.081 million broadband subscribers, representing an increase of 31.4% from last year. Through the implementation of strategic initiatives such as broadband applications and content, IPTV and broadband business, we are gradually entering into a new business model for broadband operation, with an "access + content" combined fee mechanism riding on a "PC + TV" multi-terminal platform. By the end of 2006, revenue attributable to broadband and Internet-related services amounted to RMB11,248 million, representing an increase of 33.7% over the same period last year, and contributed 13.3% of the total revenue, an increase of 3.1 percentage points over the same period in 2005. The ARPU of broadband services reached RMB66.3, precluding a healthy upward trend. The number of IPTV subscribers was 144.5 thousand, representing an increase of 201% over the same period last year.

In 2006, we established China Netcom Group System Integration Limited Corporation, an entity that provides business customers with ICT services that integrate communications, network connectivity and information technology, leveraging off our plentiful fixed-line network resources, rich customer resources and our strong brand identity. It will meet the demand for increasingly diversified and customized needs of our customers, boosting customer retention and loyalty, stabilizing our market share and explore new avenues for revenue growth. Taking advantage of the central government policy to promote an information society, we launched "CNC Connected" services in 2006, promoting ICT services. Tailored to the demands of small-and medium-sized business customers, we developed an integrated solutions platform that allows companies to perform external communications as well as internal information technology related applications. At the same time, we launched a "Broadened Vision" video surveillance product under the auspices of the Government's "Safe City" policy. In 2006, excluding traditional voice and broadband services, revenue from our business customers including ICT services and business & data communications services reached RMB5,267 million.

Our value-added services sustained rapid growth momentum in 2006 as some PHS-based value-added services were successfully applied to the fixed-line telephone. Up to the end of 2006, revenue from our value-added services reached RMB5,421 million, representing an increase of 35.5% over the same period last year, contributing 6.4% of the total revenue. The number of personalized ring subscribers was 15.766 million, of which 8.917 million were fixed line personalized ring subscribers, representing an increase of 480.9% over the same period last year, leading to a penetration rate of 10.2%. PHS SMS volume was 7,815 million messages, representing an increase of 15.3% from last year.

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

4. Olympics-driven Strategic Transformation

Core to our Olympics strategy is to make the 2008 Beijing Olympics a "Digital Olympics" and a "Broadband Olympics" while bringing breakthroughs to high-growth operations and significantly upgrading our organizational management standards.

In the past year, our preparatory work for the Olympic Games moved into an implementation phase. We deployed an Olympics communication service assurance system and signed Olympics broadcasting service co-operation agreements and memorandums of understanding (MoUs) for telecommunications co-operation with various carriers, creating the country's largest city-wide intelligent optical network - the Beijing multi-service broadband transmission network. Through these communications infrastructure development for the Olympics, we will ensure the realisation of our "Broadband Olympics" vision, satisfying our customers' needs for stability, safety and flexibility to the maximum extent.

Taking advantage of our ambitious program for the Olympic Games, we will institute the "Broadband Olympics" theme into our new service offerings. Jointly with the Beijing Olympics Committee, we have planned an Olympic-themed fixed communication product system which incorporates the "Broadband Olympics" idea. We seek to leverage off our status as an Olympic partner by launching new products such as "2008 Broadband Hotels". As at the end of 2006, 1,267 hotels had signed up for this service. In April 2006, we reached an agreement with Visa International Service Association on joint marketing rights for Olympic telephone cards. This marked a breakthrough in the Company's commemorative telephone card business.

5. Steady Management Innovation and Reasonable Resource Allocation

In 2006 we continued to tighten controls over capital expenditures and resource allocation in an effort to improve our free cash flow and our efficient utilization of capital.

We established an annual revenue assurance plan in accordance with the business plan for 2006. The revenue assurance plan allocated resources reasonably to better ensure the achievement of our operation targets. With the support of the board of directors and our strategic partners, we increased our management focus on and carefully reviewed and prioritized CAPEX items in order to establish more effective controls.

As a result of improved resource allocation, the Company assigned priority to CAPEX for high-growth services and our strategic transformation. The ratio of CAPEX for high-growth services to total CAPEX rose to 19.8% in 2006 from 15.2% over the same period last year. The ratio of CAPEX for traditional fixed-line services to total CAPEX continued to decline. CAPEX for PHS-related operations also declined by 42.6% to RMB2,748 million.

We will continue to focus on CAPEX controls in 2007 to achieve a higher CAPEX utilization rate. For 2007, the estimated CAPEX is RMB21,000 million, representing a decrease of 20.7% from 2006. We anticipate that the CAPEX to revenue ratio will continue to decrease significantly.

After two years of development work, we achieved decisive success in enterprise resource planning (ERP) and internal control management at the end of 2006. ERP system has been put into place all our service areas. An internal control system based on the Committee of the Sponsoring Organizations of the Treadway Commission (COSO) definitions of internal controls, standards and criteria has been completed and deployed in all areas. The implementation of these two projects will improve the standardization and systemization of our management, raising management

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

standards and bringing about improved efficiency throughout the organization.

13

6. Business Strategies for 2007

Our business strategies will focus on the following in 2007:

- Traditional fixed-line businesses: continuing to promote bundled services and converged services like "Family 1+" and "Unified Number"; implementing more flexible tariff policies to meet market and customer demands; promoting customer loyalty programs; building integrated, professional customer service systems; establishing a strong and consistent brand image to retain and acquire customers and improve our competitiveness;
- High-growth businesses:
 - o Broadband services: On the basis of incessant innovation, continuing the "access + content" fee mechanism and "PC+TV" multi-terminal development model while expanding network capacity to boost access speed; taking advantage of the development of new technologies and the Olympics; introducing an innovative business model to increase the broadband penetration rate; introducing new broadband content and value-added services; promoting the scale development of IPTV; providing intensive marketing of broadband-based bundled services; and increasing brand awareness for our broadband services.
 - o Value added services: continuing to promote value-added services such as caller identification display, personalized ring tones, short message service (SMS) and telephone information services; intensifying the bundling of value-added services and basic voice services; and intensifying the promotion of value-added services for fixed network and innovations in the variety of service offerings.
 - o Information and Communications Technology (ICT) service: carefully building our ICT business based on the size of different ICT service segments, our compatibility of capacity and the contribution to bundled core telecommunications services including the development of ICT services for SMEs on the current "Small-to Medium-enterprises Information Platform" to provide users with custodian service; providing comprehensive system consultancy and business application system services to large enterprises; providing government agencies with LAN services and outsourcing services; and integrating internal resources, processes, organization structure and review systems to guarantee the rapid development of ICT services.
- Olympics marketing: Under the slogan "Race to 2008", marketing Olympic products such as the expansion of plug-and-play broadband access, "2008 Broadband Hotels", "Broadband City" and marketing Olympic themed products such as Olympic telephone card; and strengthening cooperation with partners on broadband content related to the Olympics;
- Preparing for the delivery of mobile services: expanding our TD-SCDMA trial in Qingdao; and strengthening research into new technologies and services, in order to create a foundation for the convergence of fixed

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

and mobile services and staying ahead of the competition.

- Management improvements: with the recent launch of our ERP system and IT system, improving operational efficiency in terms of finance, network support and marketing. We will leverage off our strategic partnership resources to improve efficiency in terms of budget and CAPEX control, in order to guarantee the mobilization of resources for high-growth services and towards our strategic transformation, thereby increasing our free cash flow.

Based on a philosophy of innovation and development, we are committed to becoming a broadband communications and multi-media services provider in 2007 through our strategic transformation.

I would like to take this opportunity to express our most sincere thanks to our customers, shareholders, board of directors and employees for your trust and support.

ZUO Xunsheng
Chief Executive Officer

Hong Kong, April 2, 2007

14

Profile of Directors and Senior Management

Directors

Zhang Chunjiang, 48, Chairman and Executive Director, has served as a Director since June 2004. He has been the Chairman of China Netcom (Group) Company Limited since September 2004 and President of China Netcom Group since May 2003. He has joined PCCW Limited as a non-executive director since April 2005. Prior to joining China Netcom Group, Mr. Zhang served as Deputy Minister of the Ministry of Information Industry (MII) and was one of the most senior regulatory officials in the PRC telecommunications industry from December 1999 to May 2003. From August 1993 to December 1999, Mr. Zhang held a series of senior-level positions at the former Liaoning Provincial Posts and Telecommunications Bureau, the former Ministry of Posts and Telecommunications (MPT), and the MII, including serving as the Deputy Director of the former Liaoning Provincial Posts and Telecommunications Administration, Director of Mobile Telecommunications Administration of the MPT and Director of Telecommunications Administration of the MII. Mr. Zhang is a senior engineer of professor level and has extensive experience in telecommunications management, operations and technology. Mr. Zhang graduated from the Beijing University of Posts and Telecommunications in 1982 with a bachelor's degree in telecommunications.

Zuo Xunsheng, 56, Executive Director and Chief Executive Officer, has served as Executive Director and Chief Executive Officer since May 2006, and served as Chief Operating Officer of the Company from December 2005 to May 2006 overseeing general operations of the Company. Mr Zuo has served as Senior Vice President since July 2004. He has also served as Vice President of China Netcom Group since April 2002. Before joining China Netcom Group, Mr Zuo was President of the former Shandong Telecommunications Company from May 2000 to April 2002. From October 1997 to May 2000, Mr Zuo has served as Director of the former Posts and Telecommunications Bureau of Shandong Province. From 1993 to 1997, Mr Zuo has served as Director of the former Bureau of Telecommunications of Jinan City. Mr Zuo graduated from Guanghua School of Management of Peking University with an EMBA degree.

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

Zhang Xiaotie, 54, Executive Director and Senior Vice President, has served as a Director since October 2004 and Senior Vice President since January 2007 overseeing procurement and logistics management. He has served as Vice President of China Netcom Group since July 2003. From June 2002 to July 2003, Mr. Zhang also served as Assistant to President and General Manager of Planning and Finance Department of China Netcom Group. Before joining China Netcom Group, Mr. Zhang served as Deputy Director and Director of Economic Planning and Communication Settlement Department of MII. He also held a series of senior-level positions at the former MPT and Beijing Administration of Telecommunications. Mr. Zhang graduated from the School of Economics and Management of Tsinghua University with an M.S. degree.

Li Fushen, 44, Executive Director, Chief Financial Officer and Joint Company Secretary, has served as executive director since January 2007, has served as Joint Company Secretary since December 2006, and has served as Chief financial Officer since September 2005. He served as Financial Controller from July 2004 to August 2005. Since October 2005, he served as the Chief Accountant of China Netcom Group. From October 2003 to August 2005, he served as General Manager of the Finance Department of China Netcom Group. From November 2001 to October 2003, he served as Deputy General Manager of Jilin Communications Company and Deputy General Manager of the former Jilin Provincial Telecommunications Company. He graduated from the Australian National University with a master's degree in management, and from the Jilin Engineering Institute with a degree in engineering management in June 1988.

Miao Jianhua, 55, Executive Director, has served as a Director since October 2004. He served as the Joint Company Secretary from December 2005 to December 2006. He has also served as Assistant to President of China Netcom Group since September 2003 to November 2005. From June 2002 to November 2005, Mr. Miao served as the General Manager of the Human Resources Department of China Netcom Group and the Company. Before joining China Netcom Group, Mr. Miao served as Director of the Inspection Bureau of the former MPT and the MII from 1997 to early 2002, and held senior-level positions at the former Jilin Provincial Administration of Posts and Telecommunications prior to June 1997. He graduated from the Australian National University with a master's degree in management.

15

Tian Suning, 43, Vice Chairman, Non-Executive Director, has served as a Director since 2000 and re-designated as a Non-Executive Director since May 2006. He has also served as Vice President of China Netcom Group from April 2002 to May 2006. From 1999 to May 2006, he has served as Chief Executive Officer of China Netcom (Holdings) Company Limited and the Company. He has been a Director of China Netcom (Group) Company Limited from 2001 to May 2006. He has also served as Vice Chairman and a Non-executive director of PCCW Limited since April 2005. Starting from April 2006, Dr. Tian has served as Independent Director of MasterCard International. After Dr. Tian resigned his CEO position at the Company on May 17, 2006, he founded and became Chairman of China Broadband Capital Partners L.P. . Invited by KKR, Dr. Tian has been appointed as Senior Advisor since November, 2006. Dr. Tian is also an Independent Director of AsiaInfo Holdings Inc., a NASDAQ-listed company. Dr. Tian is a member of the Advisory Committee to Harvard Business School of the US and the International Business Council of the World Economic Forum. Prior to joining China Netcom (Holdings) Company Limited, Dr. Tian was the co-founder and Chief Executive Officer of AsiaInfo Holdings Inc., a NASDAQ-listed company providing software and networking solutions in China. Dr. Tian has extensive experience and knowledge in the management and financing fields of the telecommunications and information industry. Dr. Tian received a Ph.D. in natural resources management from Texas Tech University in 1992, an M.S. degree in ecology from the Graduate School of the Chinese Academy of Sciences in 1988, and a B.S. degree in environmental biology from Liaoning University in 1985.

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

Yan Yixun, 68, Non-executive Director, has served as a Director since 2001. He is a member of the Standing Committee of the Tenth National People's Congress and Vice Chairman of the Financial and Economic Committee of the Tenth National People's Congress. He was a member of the Standing Committee of the Eighth and Ninth National People's Congress and a member of the Education, Science, Culture and Health Committee of the Ninth National People's Congress. From December 1992 to November 2000, he served as Vice Chairman of the Chinese Academy of Sciences, prior to that he served as Director of Shanghai Technical Physics Research Institute. He was a first-term Board Director of Legend Holdings Limited and now serves as Chairman of the Board of NewMargin Venture Capital Co., Ltd and Director of Chinese Academy Sciences Holdings Co., Ltd. Mr. Yan received a master's degree from the Institute of Electronics of the Chinese Academy of Sciences in 1966 and graduated from the Department of Radio Electronics at Tsinghua University in 1962.

Jose Maria Alvarez-Pallete, 43, Non-executive Director, has served as a Director since September 2005. He joined Telefonica Internacional in February 1999 as General Manager for Finance. In September of the same year, he became Chief Financial Officer of Telefonica, S.A.. In July 2002, he was appointed Chairman and Chief Executive Officer of Telefonica Internacional, S.A. and General Manager of Telefonica Latinoamerica as well as a member of the Board of Telefonica, S.A. in July 2006. As at December 31, 2006, Telefonica Internacional, S.A. had 4.99% interest in the issued share capital of the Company. Mr. Alvarez-Pallete is a Director on the boards of Telecomunicacoes de Sao Paulo, S.A. (listed on the Stock Exchanges of Sao Paulo and New York), Compania de Telecomunicaciones de Chile, S.A. (listed on the Stock Exchanges of Santiago de Chile and New York), Telefonica de Espana, Telefonica Moviles S.A. (listed on the Stock Exchanges of Madrid and New York), Telefonica Moviles Espana, Telefonica Data, Telefonica Internacional, Telefonica de Argentina (listed on the Stock Exchanges of Buenos Aires and New York), Telefonica CTC Chile, Telefonica de Peru S.A.A. (listed on the Stock Exchange of Lima), Compania de Telefonos de Chile Transmisiones Regionales, Telefonica Larga Distancia de Puerto Rico, Telesp and Cointel. In addition, he is a member of the Supervisory Board of Cesky Telecom (a company listed on the Stock Exchange of Prague). Mr. Alvarez-Pallete received a bachelor's degree in economics from the Universidad Complutense of Madrid.

Mauricio Sartorius, 47, Non-executive Director, was the alternate director to Mr. Jose Maria Alvarez-Pallete from September 2005 to December 2006 and served as Non-executive Director from December 2006. Mr. Sartorius began his career with Banco del Progreso. In 1983, Mr. Sartorius started working at E. F. Hutton & Co., Inc. as a Registered Commodity Representative. In 1985, he joined Credit Suisse First Boston as Vice President of Corporate Finance for the Latin American Region based in New York. Mr. Sartorius joined Telefonica on January 1, 1997 as a Deputy Managing Director of the Corporate Finance Department. In 1998, Mr. Sartorius was appointed to be responsible for human resources for Telefonica Internacional, S.A. On January 1, 2005, he became the Chief Representative Officer of Asia of Telefonica Internacional and since then resides in Beijing. Mr. Sartorius holds a degree in economics from the Universidad Complutense of Madrid and a MBA degree from New York University.

John Lawson Thornton, 53, Independent Non-executive Director, has served as a Director since October 2004. Mr. Thornton is Professor and Director of Global Leadership Project at Tsinghua University in Beijing. He was President and a Director of The Goldman Sachs Group, Inc. until July 2003. Mr. Thornton is also a Director of Ford Motor Company (listed on the New York Stock Exchange), Industrial and Commercial Bank of China Ltd. (listed on the Shanghai and Hong Kong Stock Exchanges), Intel Corporation (listed on NASDAQ Stock Exchange) and

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

News Corporation, Inc. (listed on the New York Stock Exchange and the Australian Stock Exchange). He is also Chairman of the Brookings Institution Board of Trustees, a member of the Council on US Foreign Relations, a trustee of advisory board member of the Asia Society, China Institute, China Securities Regulatory Commission, the Eisenhower Fellowships, Financial Services Volunteer Corps, The Hotchkiss School, International Advisory Committee of the China Reform Forum, Morehouse College, National Committee on US-China Relations, Nelson Mandela Legacy Foundation (US), Tsinghua University School of Economics and Management (Beijing) and the Yale School of Management. Mr. Thornton received an A.B. in history from Harvard College in 1976, a B.A. and M.A. in jurisprudence from Oxford University in 1978 and a M.P.P.M. from the Yale School of Management in 1980.

Victor Cha Mou Zing, 57, Independent Non-executive Director, has served as a Director since October 2004. Since September 2001, Mr. Cha is the Managing Director of HKR International Limited and Alternate Independent Non-executive Director of New World Development Company Limited (both companies being listed on the Hong Kong Stock Exchange). He is also a member of the Chinese People's Political Consultative Committee of Zhejiang Province and a council member of the Hong Kong Polytechnic University. Mr. Cha graduated from Stanford University with a MBA degree and University of Wisconsin with a B.S. degree.

Qian Yingyi, 50, Independent Non-executive Director, has served as a Director since October 2004. He is also a Professor of Economics at the University of California, Berkeley. Since 2005, Dr. Qian has served as Independent Director of the Industrial and Commercial Bank of China Ltd. (listed on the Shanghai and Hong Kong Stock Exchanges). Since 2006, Dr. Qian has been the Dean of the School of Economics and Management at Tsinghua University, and also has served as Independent Director of Vimicro International Corporation (listed on New York NASDAQ). Before joining the Berkeley faculty in 2001, Dr. Qian taught in the Department of Economics at Stanford University and the University of Maryland. In 1990, Dr. Qian received his Ph.D. in Economics from Harvard University, after receiving an M.Phil. in management science/operations research from Yale University and an M.A. in statistics from Columbia University. In 1981, Dr. Qian graduated from Tsinghua University with a B.S. degree in mathematics.

Hou Ziqiang, 69, Independent Non-executive Director, has served as a Director since October 2004. He had also been Chairman of China Kejian Company Limited. Mr. Hou has served as Independent Director of the Varitronix International Ltd. (listed on Hong Kong Stock Exchange) Since 2005, Hou founded China Kejian Company Limited in 1984. From 1993 to 1997, Mr. Hou was Director of the Institute of Acoustics of the Chinese Academy of Sciences. From 1988 to 1993, Mr. Hou was Secretary General of the Chinese Academy of Sciences. Mr. Hou graduated from Peking University in 1958 with a bachelor's degree in physics.

Timpson Chung Shui Ming, 55, G.B.S., J.P., Independent Non-executive Director, has served as a Director since October 2004. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He is an Executive Director of Hantec Investment Holdings Limited and Independent Non-executive Director of Tai Shing International (Holdings) Limited, Glorious Sun Enterprises Limited, The Miramar Hotel & Investment Co. Limited and Nine Dragons Paper (Holdings) Limited. In addition, Mr. Chung is a member of the National Committee of the 10th Chinese People's Political Consultative Conference, the Chairman of the Council of the City University of Hong Kong and a member of the Hong Kong Housing Authority. Formerly, he was an Executive Director of Shimao China Holdings Limited, a Director of Stockmartnet Holdings Ltd and Extrawell Pharmaceutical Holdings Limited. He was also Chairman of the Hong Kong Housing Society, a member of the Executive Council of the Hong Kong Special Administrative Region, the Vice Chairman of the Hong Kong Special Administrative Region Government Land Fund Advisory Committee, a member of the Managing Board of the Kowloon-Canton Railway Corporation and a member of the Disaster Relief Fund Advisory Committee. Mr.

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

Chung holds a bachelor of science degree from the University of Hong Kong and a master's degree of business administration from the Chinese University of Hong Kong.

17

Hong Chen Jin, 44, Alternate Director to Mr. Jose Maria Alvarez-Pallete and Mr. Mauricio Sartorius, she served as an Alternate Director since December 2006. She joined Telefonica in Spain eleven years ago; since then, she has had a variety of professional experience working in the Telefonica fixed business (IT Strategy), mobile business (marketing department and mobile Value-Added and content services department) , and Telefonica Data (Broadband and Online Services), and also in Telefonica Soluciones (Key account client solution and sales). She was assigned to Beijing and appointed as the Asia Director in the beginning of 2005. Since then, her responsibility covers the government and institutional relationship, external communication, business development and strategies in Asia and office operation. Ms. Chen holds a bachelor's degree in Computer Science of Shanghai Jiaotong University and MBA. She began her career in China as faculty member of the Management School of Shanghai Jiao Tong University. During seven years in the USA, she obtained a master's degree in industrial engineering (major in investment analysis and corporate management skills). During that period, she worked as a Vice President of R&D in ACS - a US software company and headed the IT and network department of another US multinational corporation. In Spain, prior to joining Telefonica, she was a partner of a telecom consulting company.

Joint Company Secretaries and Qualified Accountant

Li Fushen, 44, Executive Director, Chief Financial Officer and Joint Company Secretary,

Mok Kam Wan, 44, Joint Company Secretary. Ms. Mok joined the Company in October 2005. She holds a bachelor's degree of laws from the University of London and a master's degree in business administration from The Hong Kong Polytechnic University. Ms. Mok is an associate member of The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries.

Leung June Man, 37, Assistant to the Chief Financial Officer and Qualified Accountant. Mr. Leung has joined the Company since June 2005. He graduated from Washington State University in 1992 with a bachelor's degree in business administration, major in accounting. Mr. Leung is a member of both of Hong Kong Institute of Certified Public Accountants and American Institute of Certified Public Accountants.

Senior Management Officers

Zuo Xunsheng, Executive Director and Chief Executive Officer

Pei Aihua, 56, has served as Senior Vice President since July 2004 overseeing corporate development, mobile communications and administration. He has also served as Vice President of China Netcom Group since April 2002. Before joining China Netcom Group, he was Deputy General Manager of the former Beijing Telecommunications Company from July 2001 to April 2002, General Manager of Sichuan Provincial Telecommunications Company from July 2000 to July 2001, and Deputy Director of the former China General Bureau of Posts and Telecommunications from June 1997 to May 2000. Mr. Pei is a senior engineer of professor level. He graduated with a master's degree in information communication management jointly sponsored by Fudan University and the Norway Management School in 2001. He graduated from Changchun Optical Precision Machinery College with a master's degree in electrical engineering in 1993 and

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

Beijing School of Telecommunications in microwave technology in 1976.

Zhao Jidong, 56, has served as Senior Vice President since July 2004, and is responsible for Olympics communications, international affairs and Beijing Municipal Branch Company. He has also served as Vice President of China Netcom Group since July 2003. Before joining China Netcom Group, Mr. Zhao served as General Manager of Beijing Communications Company from July 2002 to July 2003, and General Manager of the former Beijing Telecommunications Company from May 2000 to July 2002. From November 1994 to May 2000, Mr. Zhao served as the Deputy Director and Director of the former Beijing Telecommunications Bureau. Mr. Zhao graduated with a master's degree in information and communication management jointly sponsored by the Management School of Fudan University and the Norway Management School, and from Fudan University with a B.A. degree in English in 1975.

Zhang Xiaotie, Executive Director and Senior Vice President

Li Fushen, Executive Director , Chief Financial Officer and Joint Company Secretary

18

TengYong, 52, has served as Chief Technical Officer since August 2006, responsible for technical issues and ICT applications. He served as the General Manager of Hebei Communications Company from July 2004 to April 2006 and the General Manager of Tianjin Communications Company from May 2002 to July 2004. Mr. Teng held the position of General Manager of Tianjin Telecommunications Company from July 2000 to July 2002 and the Deputy Director and later Director of the Posts and Telecommunications Administration of Tianjin from May 1995 to May 2000. Mr. Teng graduated from Nanjing University of Posts and Telecommunications with a major in automatic telephone switching in February 1980, and later obtained a doctor degree of management and engineering from Tianjin University.

Zhu Lijun, 53, has served as Vice President since December 2006, responsible for network operation and consumer rights protection. Since March 2005 , he has served as Assistant to the General Manager of China Netcom Group, and served as General Manager of Department of Planning and Construction starting from July 2004. He was the General Manager of Shanxi Communications Company from August 2002 to July 2004. He was the General Manager of Shanxi Telecommunications Company from December 2001 to August 2002. He worked as the General Manager of Telecommunications Company of Guangxi Zhuang Autonomous Region from July 2000 to December 2001, and served as the Deputy Director of the Posts and Telecommunications Administration of Neimenggu Autonomous Region from August 1996 to July 2000. Mr. Zhu graduated from the Department of Chinese Language and Literature of Inner Mongolia Normal University in 1986, and later obtained a master degree of international business management from Australian National University.

Huo Haifeng, 42, has served as the Vice President from December 2006, in charge of marketing and key account management. He was the General Manager of Tianjin Communications Company since August 2004 to November 2006 and served as the General Manager of Dalian Branch of Liaoning Communications Company from December 2002 to August 2004. Before joining China Netcom Group, Mr. Huo was the General Manager of Dalian Branch of Liaoning Telecommunications Company of former China Telecom Group from April 2001 to December 2002. He worked as the General Manager of Anshan Branch of Liaoning Telecommunications Company from August 2000 to April 2001. Mr. Huo served as Director of Bureau of Telecommunications Administration in Anshan city of Liaoning Province from October 1998 to August 2000. After his graduation from the Changchun University of Posts and Telecommunications with a bachelor degree of computer application

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

in September 1987, he obtained a master degree of telecommunications engineering management degree from Beijing University of Posts and Telecommunications and a master degree of business management from Australian National University.

Corporate Governance

The Company is deeply aware of the significance and purpose of corporate governance to our shareholders, and we are dedicated to pursuing sound corporate governance. The Company is convinced that every step to improve our corporate governance will help in enhancing our core competitiveness, our results and shareholders' value.

In order to achieve a world-class corporate governance structure and mechanism, in 2006, the Company continued with its efforts to push forward and improve the "Corporate Governance Consultancy Project" launched in 2005. While we continued to maintain our good board structure, called "hardware", such as the separation of the positions of Chairman and Chief Executive Officer, we further improved our "software", such as the establishment of a reasonable mechanism, a comprehensive system and a clear workflow. At present, the first stage and second stage of the project have been accomplished. On the basis of clarifying the key points of our corporate governance, the restructuring of the board of directors and committees of the board has been in effect with their responsibilities redefined. We have established the Audit Committee, the Nominating and Corporate Governance Committee, and the Compensation Committee as required by "Code on Corporate Governance Practices". In addition, the Strategy Committee and the Supervision Committee were set up in order to effectively fulfill the responsibilities of the Board. Further, a host of regulatory documents including the guidelines of meeting for the board and its committees, guidelines for the directors and the code of ethics for directors have been elaborated for the purpose of clarifying the responsibilities of directors as required by the principles of the "Code on Corporate Governance Practices". Upon the implementation of the project, the responsibilities of both the Board and the management have been more clearly defined, with the rules for the procedures of meeting and decision-making more transparent. The assessment of performance of the Board, the directors and the management has now been standardized by procedures, thereby greatly enhancing the standards of corporate governance.

For the third stage of the project in 2007, the Company will continue to advance the governance reforms, make adjustments to the governance structure, consolidate and improve the high-quality personnel management, increase strategy formulation and implementation efforts, improve the assessment of the performance of the Board, the directors and the management, and strive to build up world-class corporate governance.

19

Throughout 2006, the Company has fully complied with the relevant provisions set out in "Code on Corporate Governance Practices", Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

The Board

The Company has been adhering to the principle that non-executive directors shall be the majority in the Board to ensure the independence of decision-making of the Board and alignment with best interests of shareholders. The Board comprises of fourteen Directors, including five independent non-executive Directors, four non-executive Directors and five executive Directors. Members of the Board are professionals from the telecommunications, finance, property development and consultancy industries and economists. By virtue of their wealth of experience in their own fields and thorough understanding of our

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

technological operations, in 2006, directors contributed greatly to the formulation of our strategies and enhancement of corporate governance.

The responsibility of the Board is to lead and supervise the Company in the conduct of its affairs and protect interests of shareholders and the Company as a whole. It exercises its powers pursuant to our articles of association, the relevant laws and regulations and regulatory requirements; it is responsible for supervising and controlling the governance structure and rules, defining our overall development strategies and approving our annual strategic development plans, budgets and targets, capital expenditure and investment plans, supervising the effectiveness of our internal control system and regulatory compliance of our operations, formulating a management succession system and managing the performance of the management of the Company. The Board delegated day-to-day management of the Company's business and administration to the management.

The Board routinely meets four times each year and on other occasions when a special Board decision is required on an interim basis. All members of the Board have full and timely access to relevant information for meetings in advance. Proposed Board and Board committee meeting schedules for a fiscal year are agreed and determined at the preceding fiscal year's Board meetings. During this reporting period, the Board held eleven meetings. The attendance record of each member of the Board is set out below:

Directors	Attendance
Executive Directors	
Zhang Chunjiang (Chairman)	9/11
Zuo Xunsheng*(Chief Executive Officer)	7/7
Zhang Xiaotie	8/11
Miao Jianhua^	10/11
Jiang Weiping#	3/4
Non-executive Directors	
Tian Suning (Vice Chairman)	10/11
Li Liming##	11/11
Yan Yixun	11/11
Jose Maria Alvarez-Pallete^	11/11
Mauricio Sartorius**	0/0
Independent non-executive Directors	
John Lawson Thornton	10/11
Victor Cha Mou Zing	9/11
Qian Yingyi	11/11
Hou Ziqiang	11/11
Timpson Chung Shui Ming	11/11

* Appointed as a director with effect from May 17, 2006

** Appointed as a director with effect from December 19, 2006

Resigned as a director on May 17, 2006

Resigned as a director on January 15, 2007; Mr. Li Fushen was appointed as an executive director with effect from January 15, 2007

^ Mr. Zuo Xunsheng and Mr. Miao Jianhua attended one of the board meetings by their alternates and Mr. Jose Maria Alvarez-Pallete attended five of the board meetings by his alternate.

During this reporting period, the Board at all time complied with the

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors, and complied with the requirements that at least one of the independent non-executive Directors must have appropriate accounting or related financial management professional qualifications.

Details of the Chairman, Vice Chairman, Executive Directors, Non-executive Directors and Independent Non-executive Directors are set out on pages 16 to 20 of this annual report.

Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Officer are held by Mr. Zhang Chunjiang and Mr. Zuo Xunsheng* respectively. The separation of functions ensures greater independence between the Board and the management. The Chairman is mainly responsible for chairing and managing the Board, as well as focusing on major strategic issues and corporate governance. The Chief Executive Officer is responsible for the operations of the Company and accountable to the Board. Our Chairman and Chief Executive Officer have extensive and long standing experience in the telecommunications industry. The Company is confident that their expertise and experience will be beneficial for the enhancement of the Company's business performance.

* Mr. Zuo Xunsheng has been appointed as the Chief Executive Officer with effect from May 17, 2006 and Dr. Tian Suning resigned from the position on the same date.

Independent Non-executive Directors

In 2006, the Independent Non-executive Directors had gained a better understanding of the technology and operations of the Company through their participation in training, seminars and studies. They played active roles in the affairs of the Company through Board meetings, committee meetings and meetings of the independent board committee, and provided a lot of constructive comments and suggestions to the Company on corporate governance practice, strategic planning and internal control system optimization. In 2006, our management proposed the disposal of the Company's major telecommunications assets, liabilities and operations in Guangdong Province and Shanghai Municipality. Pursuant to the requirements of the Listing Rules, the Board of the Company established an independent board committee which comprised all independent non-executive Directors and chaired by Mr. Timpson Chung Shui Ming to provide independent advice on the fairness and reasonableness of the disposal transaction. The Independent Board Committee acted in the interests of minority shareholders, reviewed the qualifications and capability of the independent financial advisor and discussed in detail the fairness and reasonableness of the terms of disposal, in order to protect the legitimate rights and interests of minority shareholders. The Independent Board Committee held three meetings in total in 2006.

The attendance record of each Independent Board Committee member in 2006 is set out below:

Directors	Attendance
Timpson Chung Shui Ming	3/3
John Lawson Thornton	2/3
Victor Cha Mou Zing	3/3
Qian Yingyi	3/3
Hou Ziqiang	3/3

To fully demonstrate the function of Independent Non-executive Directors and protect the interests of minority shareholders, the Board, in accordance with legal requirements and international best practices, arranges for the

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

Independent Non-executive Directors to play a key role in reviewing all the connected transactions.

The Company has obtained the confirmation from all the Independent Non-executive Directors relating to their independence under the Listing Rules. The Company considers all the Independent Non-executive Directors to be independent. There are no relations among the directors (including the Chairman and the Chief Executive Officer).

Non-executive directors

All Non-executive Directors are appointed for a term of not more than three years, and are subject to retirement by rotation and re-election by shareholders. Pursuant to the Articles of Association of the Company, one-third of the Directors, including both Executive and Non-executive Directors, are required to retire from office by rotation at the annual general meeting each year. A retiring Director is eligible for re-election. Any Director who is appointed by the Board will hold office until the next following annual general meeting and will be eligible for re-election.

21

Board Committees

In 2006, according to the corporate improvement reform plan, the Board optimized the structure of the board committees. Prior to June 28, 2006, the Board established four committees, namely, the Audit Committee, Compensation and Nomination Committee, Corporate Governance Committee and the Strategic Planning Committee. On June 28, 2006, the Board approved for the establishment of the Supervision Committee and re-named the original committees with the re-assignment of duties. At present, there are five committees, namely the Audit Committee, Nominating and Corporate Governance Committee, Compensation Committee, Strategy Committee and Supervision Committee. Among the adjustments, in May 2006, the Audit Committee amended the "Terms of Reference of the Audit Committee", but there has not been any significant change in the composition and duties of the Audit Committee; duties of the original Compensation and Nomination Committee in respect of nomination was merged with those of the Corporate Governance Committee, and the Compensation and Nomination Committee was re-named Compensation Committee, whereas the Corporate Governance Committee was re-named Nominating and Corporate Governance Committee and its composition was adjusted in line with the adjustment of its duties; the original Strategic Planning Committee was renamed the Strategy Committee, but there has not been any significant change in its duties, while members of the committee were suitably adjusted. Adjustments to the duties and composition of these committees were merely the natural course to rationalize the duties of these committees for their members to make full use of their knowledge and experience, hence enhancing the standard of corporate governance.

Audit Committee

To guarantee the objectiveness, fairness and independence of the Audit Committee, the Audit Committee comprises four Independent Non-executive Directors, chaired by Mr. Timpson Chung Shui Ming. Other members of the committee include Mr. Victor Cha Mou Zing, Dr. Qian Yingyi and Mr. Hou Ziqiang. The primary responsibilities of the Audit Committee include supervising and managing our financial reporting system, reviewing the auditors' appointment, and supervising the work of the internal audit department as well as guiding and supervising our internal control system.

As an experienced member of the HKICPA and of the ACCA, Mr. Chung has extensive professional experience. His active participation has helped to improve the

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

internal control system and the financial reporting system of the Company. Led by Mr. Chung, not only has the Audit Committee performed its responsibilities for supervising corporate auditing, but also played an important role in optimizing the internal control system. The Audit Committee leads the implementation of the Company's internal control projects, reviews regular phasal result reports submitted by the internal control project team, and supervises solutions to internal control problems identified and has established an effective channel of complaints and reports.

In 2006, the Audit Committee held seven meetings and discharged its responsibilities set out in the related regulations, including reviewing the financial statements, annual results and accounts, half-yearly reports as well as major comments concerning financial reporting in the financial statements and reports; reviewing the appointment and reappointment of external auditor and making suggestions to the board; reviewing and pre-approving the annual engagement letter for the external auditor covering the defined service fees, all audit services and non-audit services permitted under the Sarbanes-Oxley Act and under rules and regulations published by U.S. Securities and Exchange Commission as well as relations between the Company and such external auditor. Besides, the Committee also reviewed and discussed with the external auditor on the annual audit plan (including the timeline and scope of audit activities), supervised the annual progress and results of the plan, reviewed the progress of internal control project undertaken by the management in response to the requirements under the Sarbanes-Oxley Act 404, gave guidance to the internal audit department in its revision of "Internal Audit Rules of China Netcom", heard reports from the internal audit department on a regular basis and reviewed major connected transactions which do not require to be reviewed by the Independent Board Committee as prescribed by the Listing Rules.

The attendance record of each member of the Audit Committee in 2006 is set out below:

Directors	Attendance
Timpson Chung Shui Ming	7/7
Victor Cha Mou Zing	7/7
Qian Yingyi	7/7
Hou Ziqiang	7/7

The Board acknowledges the responsibilities for preparing the accounts. A statement of the auditors about their reporting responsibilities is set out in the auditors' report on the financial statements on page 75 of this annual report.

22

During the reporting period for the year ended December 31, 2006, the fees paid/payable to the external auditors in respect of audit and non-audit services provided by such auditors to the Company are set out as follows:

Nature of services	Amount (RMB)
Audit services	61,000,000
Audit related services	30,960,202
Non-audit services	
(i) Taxation services & Transfer pricing reports	1,181,947
(ii) Other services	556,150

Compensation Committee

On June 28, 2006, the Compensation and Nomination Committee was re-structured

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

and re-named as the Compensation Committee. The powers and functions of the original committee to nominate directors and senior management were merged with those of the Corporate Governance Committee, and the Corporate Governance Committee was re-named as the Nominating and Corporate Governance Committee.

The primary duties of the Committee include making recommendations to the Board in respect of the overall compensation policies and structure of the directors and senior management of the Company and the establishment of formal and transparent procedures for the formulation of these policies; determining the specific compensation package of the senior management on behalf of the Board and making recommendations to the Board in respect of the compensation of the non-executive directors; reviewing and supervising the share option scheme and option allocation plan of the Company; and assessing the performance of the directors as well as the senior management.

The Compensation Committee of the Board is chaired by Dr. Qian Yingyi; other members include Mr. Zhang Xiaotie, Mr. Li Fushen, Mr. John Lawson Thornton and Mr. Timpson Chung Shui Ming. Ms Li Liming resigned as a director and member of the Compensation Committee on January 15, 2007.

In 2006, the Compensation Committee (including the Compensation and Nomination Committee) held seven meetings, of which four meetings were to discuss remuneration related matters. Its work includes the consideration and approval of the proposal on the revision of director's fees and the compensations for various committee members, the compensation proposal for executive directors and the senior management and supplemental agreements to their service agreements, the revision proposal for the share option scheme for the middle-to-senior management, and other documents relating to the Company's systems such as the "Measures Governing Directors' Performance Evaluation", "Interim Measures for the Performance Evaluation of Senior Management Personnel", which were submitted to the Board for consideration and approval. The Committee also organizes and implements performance evaluation of directors.

23

The attendance record of each member of the Compensation Committee (including the Compensation and Nomination Committee) in 2006 is set out below:

Directors	Attendance
Zhang Chunjiang^ (Chairman)	4/5
Qian Yingyi*	3/3
Zuo Xunsheng**	1/1
Zhang Xiaotie***	2/2
Jiang Weiping#	4/4
Li Liming##	2/2
John Lawson Thornton****	4/7
Victor Cha Mou Zing###	3/5
Hou Ziqiang###	5/5
Timpson Chung Shui Ming***	2/2

^ Resigned as the chairman of the committee with effect from May 16, 2006 and continued to act as a member; ceased to be a member of the committee with effect from June 28, 2006

* Joined the committee with effect from May 16, 2006 and acted as the chairman

** Appointed as a member from May 17, 2006 to June 28, 2006

*** Joined the committee with effect from June 28, 2006

Resigned as a director with effect from May 17, 2006 and ceased to be a member of the committee

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

Joined the committee with effect from June 28, 2006, resigned as a director on January 15, 2007 and ceased to be a member of the committee
Ceased to be a member of the committee with effect from June 28, 2006
**** Due to telephone network problems, Mr. John Lawson Thornton was unable to participate in one of the committee meetings

Nominating and Corporate Governance Committee

On June 28, 2006, the relevant powers and functions of the Corporate Governance Committee merged with those of the original Compensation and Nomination Committee with regard to the nomination of directors and senior management, and the committee was re-named as the Nominating and Corporate Governance Committee.

The Nominating and Corporate Governance Committee is dedicated to the realization of a sound composition with industry experience and professional capability within the Board. The primary duties of the committee include the nomination of directors and senior management, supervising the implementation of corporate governance system and the operation efficiency of the Board and making recommendations to the Board with regard to the optimization of the corporate governance structure. In accordance with the Guidelines for Directors of the Company, the Nominating and Corporate Governance Committee is responsible for formulating the criteria for selecting directors, working out Directors' succession plan, suggesting candidates of Directors, and submitting the related proposals to the Board and/or shareholders' meeting for review and approval. For the nomination of candidates for new appointments of directors, the committee primarily considers whether the candidates have the necessary professional expertise and experience to help the Board to perform its duties in a better way and to promote the development of the Company. The independence of independent non-executive directors is examined by the committee.

The committee is chaired by Mr. John Lawson Thornton, an independent non-executive Director. Other members include: Mr. Zhang Chunjiang, Mr. Zuo Xunsheng, Dr. Qian Yingyi and Mr. Victor Cha Mou Zing.

The Nominating and Corporate Governance Committee is committed to the continued optimization of the composition of the Board and the management and the continuous improvement of the corporate governance system of the Company. Its role is significant to the enhancement and improvement of the structure of corporate governance. In 2006, the Nominating and Corporate Governance Committee (including the Corporate Governance Committee) held five meetings. Its work included the consideration of the proposal on the improvement of the corporate governance project and documents relating to the systems of the Company such as "Terms of Reference of the Nominating and Corporate Governance Committee", "Procedural Rules for the Board of Directors and Board Committees", "Guidelines for Directors", "Guidelines for the Board of Directors", "Implementation Rules for Succession Planning of Senior Management" and its revised version, "Job Description of the Senior Management", "Interim Measures on the Joint Meeting between the Board of Directors and Chairmen of Staff Unions", "Interim Measures Governing the Attendance of Staff Representatives at Meetings of the Board of Directors and Board Committees" and "Evaluation Criteria for the Board and Board Committees for 2006", as well as the nominations of the vice presidents, chief technical officer, directors and alternate director(s) and changes of joint company secretaries, which were submitted to the Board for consideration and approval.

The attendance record of each member of the Nominating and Corporate Governance Committee (including the Corporate Governance Committee) in 2006 is set out below:

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

Directors	Attendance
John Lawson Thornton	5/5
Zhang Chunjiang*	1/3
Tian Suning#	0/2
Zuo Xunsheng*	3/3
Victor Cha Mou Zing*	3/3
Qian Yingyi	5/5
Miao Jianhua#	2/2
Timpson Chung Shui Ming#	2/2

* Joined the committee with effect from June 28, 2006

Ceased to be a member with effect from June 28, 2006

Strategy Committee

On June 28, 2006, the original powers and functions of the Strategic Planning Committee were suitably adjusted and the committee was re-named as the Strategy Committee.

The Strategy Committee is primarily responsible for reviewing the medium to long-term strategies, annual operation plans and budgets and significant investment plans of the Company. It also reviews and monitors the procedures and system for the risk management of the Company and supervises the implementation of our development strategies.

The committee is chaired by Mr. Zhang Chunjiang. Other members include: Dr. Tian Suning, Mr. Zuo Xunsheng, Mr. Li Fushen, Mr. Jose Maria Alvarez-Pallete, Dr. Qian Yingyi and Mr. Hou Ziqiang. Ms Li Liming resigned as a director and member of the Strategy Committee on January 15, 2007.

In 2006, the Strategy Committee (including the Strategic Planning Committee) held four meetings to discuss and review the proposal to amend its terms of reference, the business plan and budget for 2007. It also discussed the implementation of the Company's strategies and risk management as well as the Company's medium to long-term strategies and adjustment to the strategy for the southern region, which were submitted to the Board for consideration and approval.

The attendance record of each member of the Strategy Committee (including the Strategic Planning Committee) in 2006 is set out below:

Directors	Attendance
Zhang Chunjiang (Chairman)	3/4
Tian Suning*	0/3
Zuo Xunsheng**	4/4
Li Liming	3/4
Jose Maria Alvarez-Pallete	3/4
Qian Yingyi	3/4
Hou Ziqiang	4/4
Zhang Xiaotie#	1/1
Jiang Weiping##	0/0

* Joined the committee with effect from June 28, 2006

** Joined the committee with effect from May 17, 2006

Ceased to be member of the committee with effect from June 28, 2006

Resigned as a director with effect from May 17, 2006 and ceased to be a member of the committee

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

Supervision Committee

The Supervision Committee is primarily responsible for identifying any disciplinary breach, violation of regulations and corrupt acts of the middle-to-senior management by establishing and improving the supervisory system and workflow and opening up channels for reporting such behaviors in accordance with the Listing Rules and regulatory requirements. It urges the directors and the middle-to-senior management as well as other staff to abide by the rules and be conscious of self-discipline and faithfully discharge their duties.

The committee is chaired by Mr. Miao Jianhua. Other members include Mr. Zhang Xiaotie, Mr. Timpson Chung Shui Ming, Mr. Victor Cha Mou Zing and Mr. Hou Ziqiang.

In 2006, the Supervision Committee held two meetings and considered "the Terms of Reference of the Supervision Committee", "the Code of Ethics for Directors", "the Code of Ethics for Middle-to-Senior Management" and "the Measures Governing the Receipt and Treatment of Allegations and Complaints of the Supervision Committee", which were submitted to the Board for consideration and approval.

The attendance record of each member of the Supervision Committee in 2006 is set out below:

Directors	Attendance
Miao Jianhua	2/2
Zhang Xiaotie	2/2
Timpson Chung Shui Ming	2/2
Victor Cha Mou Zing	2/2
Hou Ziqiang	2/2

Share Transactions of Directors

In respect of the requirements for directors' share transactions, the Board has adopted the provisions of the Model Code under Appendix 10 to the Listing Rules for the share transactions of Directors and has required directors to comply with these provisions. The Company has received the confirmation from the Directors that during the reporting period, all the Directors have complied with these requirements. Also, in 2006, the Board came up with the Code of Ethics for Directors and put forward compliance requirements for the directors' share transactions.

Comparison between corporate governance requirements of the New York Stock Exchange and the Hong Kong Listing Rules

According to the Corporate Governance Standards set out in Section 303A of New York Stock Exchange (NYSE) Listing Company Manual, foreign issuers listed in NYSE (including China Netcom Group Corporation (Hong Kong) Limited) are required to disclose major differences in requirements of corporate governance between its place of incorporation and that of NYSE applicable to local US issuers. A summary of such difference is available on the website of the Company at http://www.china-netcom.com/English/inv/Corporate_Governance_Differences.htm

Internal Controls

The Board is responsible for the internal control system of the Company and has the responsibility for reviewing its effectiveness. In 2006, the Board conducted a review of the effectiveness of the internal control system of the Company.

The Company began to improve its internal control system on a Company-wide basis

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

in October 2004. The Company's internal control system was established based on the current requirements of the Company after the Company had fully reformed and reviewed the effectiveness of its internal control system relating to financial reporting. The internal control system was established with reference to the "Internal Control - Integrated Framework " issued in 1992 by the Committee of Sponsoring Organization of the Treadway Commission ("COSO") and was closely based on the actual situation of the Company.

As a result of the above, the Board found no significant issues in its internal control system in 2006.

26

Shareholder Communications

In 2006, we continued to commit our efforts in improving both the scope and quality of our information disclosure in order to enhance our operation transparency. In 2006, the Company began to disclose key operating information on a quarterly basis. In order to allow investors to have a better understanding of our operation and to be able to forecast our development trend more reasonably, in 2007, the Company plans to disclose the subscriber number of our primary businesses on a monthly basis. This initiative will greatly increase the transparency of our operations, so that investors can timely grasp the operation situation and the result of the implementation Company's strategies, which will minimize investment risks caused by information opacity.

In 2006, we continued to improve our communications with shareholders. Efforts had been made to improve the quality of our response to the questions received via our investors hotline and investors mail box, to increase the frequency and quality of meeting between our management and investors, to improve the user-friendliness of our investor relations website, to ensure the timely disclosure of important information on the Company's website and to actively take part in investor conferences held by major investment banks. In 2006, we participated in over 200 investor conferences, interviewed nearly 250 investors. Our Chairman, Chief Executive Officer and Chief Financial Officer had participated in nearly 120 investor conferences.

General Meetings

The most recent general meeting was the two extraordinary general meetings held on February 14, 2007 in the Ballroom, Island Shangri-la, Hong Kong. The major items discussed at the meetings and the voting results are set out below:

- Approval of the assets transfer agreement regarding the disposal of the Company's assets, liabilities and operations in Guangdong Province and Shanghai Municipality and the transactions contemplated thereunder (99.9989%);
- Approval of the revision of director's fees commencing from the financial year of 2007 (99.999999%).

The above resolutions put to the shareholders were passed at the extraordinary general meetings. The results of the voting by poll were published on the Company's website, the website of the Hong Kong Stock Exchange and also by way of announcement in Hong Kong newspapers.

The next general meeting will be the annual general meeting to be held on May 22, 2007.

Information relating to the details of shareholders, their shareholdings and the Company's public float status are set out in the Report of the Directors in the

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

annual report.

There has been no change in the articles of association of the Company during 2006.

Performance of share price

Our ordinary shares are listed on The Stock Exchange of Hong Kong Limited, and our shares are also listed and traded in the form of depositary shares on the New York Stock Exchange.

The closing price of our ordinary shares on The Stock Exchange of Hong Kong Limited on the last trading day in 2006 was HK\$20.85 with a market capitalization of HK\$138.666 billion, an increase of 68.8% over the end of 2005. In 2006, the average daily trading volume of our ordinary shares amounted to 10,023,041.67shares, an increase of 13.8% over 2005.

The closing price of our ADR on the last trading day in 2006 was US\$53.52, an increase of 65.0% over 2005, and the average daily trading volume amounted to 63,541.67, an increase of 31.9% over 2005.

27

Human Resources Development

In 2006, in order to accommodate our strategic goal of transforming into a "Broadband communications and Multi-media Services Provider", the Company further optimize in areas such as our organizational structure, operational process, remuneration and performance evaluation as well as staff training, with a view to enhancing the value of our human resources, improving job satisfaction of our staff and continuously improving our capability in implementing our strategies, so as to facilitate a successful transformation.

Employees

As of December 31, 2006, we had 140,747 full-time employees, representing an increase of 1.67% over the same period of last year; 55,416 temporary staff , representing a decrease of 8.44% over the same period of last year.

Remuneration and performance evaluation

In 2006, with operations and staff incentive as the guiding principles, we devoted more efforts to refine our management of staff costs in a more precise manner. We established a remuneration incentive system for our frontline sales and maintenance staff. We implemented a quantitative performance management model, which separates our strategic goal into small tasks and assign them to every single staff at every level. These have ensured strategic synergy of the entire organization with the effect of catalyzing a more proactive attitude among our staff.

Furthermore, in order to better meet the needs of our operations and management, the Company established in 2006 a unified performance-oriented remuneration system based on different positions.

Staff development and training

The construction of a unified bureaucratic system and a model on capabilities and caliber was important measure on our human resources in 2006, which facilitated our business transformation. The new bureaucratic system is a market-oriented mechanism to optimize deployment of our human resources and to provide strong support for realization of our strategic goals. Also, the new

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

bureaucratic system has changed the mode of staff promotion based on administrative decisions into two-way promotion channel. This will help plan and guide the occupational development of our staff in a reasonable manner and provide them with all-dimension development and promotion opportunities.

Our transformation and the rapidly evolving telecommunications industry drive the staff training to be an effective way to further improve our staff's job satisfaction and to facilitate our reform. In 2006, staff training sessions were carried out to address issues including our strategic transformation, improvement in expertise and learning from advanced international experience.

- we conducted training sessions for 555 middle-to-senior level management staff on financial knowledge and management transformation. Through the training, they acquired systematic understanding of the significance, the implications, the objectives and the steps of our transformation. The training allows them to think from a new perspective, thus enhancing the standard of our management to meet the needs of our transformation and reforms;
- we organized special training sessions attended by an aggregate of 1,600 persons, helping to enhance professionalism of the attendees in various relevant professional areas.
- To increase the staff's exposure to best management experiences overseas, we made more frequent exchanges with well-known overseas telecommunications operators. We entered into staff exchange agreements with Telefonica Internacional, S.A., Hong Kong PCCW Limited and Korea Telecom. Eight middle level employees were sent to work in other international operators to learn from them advanced experiences including corporate governance, mobile operations, sales and marketing, sales to key customers, network operation and maintenance.

Establishment of the senior management team and nurturing of talents

The management of our provincial companies represents core strength in our operations and management. In 2006, the Company adjusted and optimized the composition of management and back-up teams based on their performance. We also created a back-up team for our provincial company management with nearly 100 selected staff of high caliber as our talent pool.

System construction and management enhancement

Construction of a staff information system is an important method we used to achieve our refined management of human resources and to increase management efficiency. In 2006, our information management system for human resources commenced operation. This will significantly improve the accuracy and timeliness of interaction of staff-related data. The system has achieved the goal of standardizing, unifying and enhancing transparency of our human management.

28

Future prospects

In 2007, the Company will implement in full force the unified bureaucratic system, the capability and calibre model and the remuneration incentive system. Meanwhile, we will further improve our recruitment system and strengthen training of our management executives and core staff, thereby building up a team with superb technical and execution skills to support our successful strategic transformation.

Business Review

- o High-growth businesses continued to grow at a rapid pace and accounted for 26% of total revenues, representing an increase of 5.8 percentage points over the same period of last year
- o Broadband and other Internet-related services continued to grow quickly, and the number of broadband subscribers reached 15.081 million, representing an increase of 31.4% over the same period of last year
- o Value-added businesses continued to enjoy robust growth with the number of "Personalised Ring" subscribers reaching 15.766 million, translating into a penetration rate 13.7%; the number of caller identification subscribers reached 78.78 million, representing a penetration rate of 68.5%; and the volume of PHS short messages reached 7,815 million, representing an increase of 15.3% over the same period of last year
- o "CNC Connected" and ICT services provide business subscribers with integrated telecommunications, IT and IT-related applications, allowing us to secure our cooperative relationships with existing customers further and to explore a new source for revenue growth
- o CAPEX kept declining, and the CAPEX guidance for 2007 will represent 20.7% decrease from 2006.

Summary of Key Product lines

Fixed-line Telephone Services	Broadband and Other Internet-related Services	Business and Data Communication Services
114.934 million subscribers (including PHS)	15.081 million subscribers	Premium customer base
91.5% market share(1) (2)	87.5% broadband market share(1) (2)	Leading provider
80.5% of revenue(3)	13.3% of revenue(3)	5.3% of revenue(3)
Decrease of 2.6%(3)	33.7% growth(3)	5.3% growth(3)

(1) As of December 31, 2006

(2) In our northern service region

(3) Excluding upfront connection fees

In 2006, amid extremely imbalanced market competition, we accelerated our strategic transformation towards becoming a "broadband communications and multi-media services provider" under the theme of "innovations and transformation". On one hand, we fully leveraged our advantages of fixed-line multi-operations and ample network resources to provide bundled services to maintain our existing customer base; and on the other hand, we fully leveraged our abundant customer resources and the opportunities brought by the Government policy of promoting informatization to intensify development and promotion of our high-growth businesses. In 2006, the Company saw total revenue reached

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

RMB85,495 million (excluding upfront connection fees and discontinuing operations.), of which continuing operations achieved revenues of RMB84,515 million (Unless otherwise specified, all data hereunder exclude upfront connection fees and discontinuing operations.), representing an increase of 2.5% over the same period of previous year. The high-growth businesses, including broadband, value-added services, ICT and business & data communication services are a major driver for revenue growth.

30

The following table illustrates the key operating statistics for 2006 and 2005:

	2005	2006
Fixed-line subscribers ('000)	115,328	114,934
Including: PHS subscribers ('000)	27,337	27,334
Broadband subscribers ('000)	11,475	15,081
Total usage (pulses in millions)	228,436	217,270
Excluding Internet dial-up usage (pulses in millions)	219,884	211,999
Internet dial-up usage (pulses in millions)	8,552	5,271
Domestic long distance calls (minutes in millions)	30,975	33,670
International long distance calls (minutes in millions)	591	566
Number of ports for DDN (ports)	131,812	115,480
Number of ports for Frame Relay (ports)	43,519	41,448
Number of ports for ATM (ports)	4,212	6,441
Digital circuits leased (x2Mbps)	129,989	171,249
Volume of PHS short messages (in millions)	6,777	7,815
"Personalised Ring" service subscribers ('000)	6,814	15,766
Penetration rate for caller identification (%)	65.9%	68.5%
Telephone information services (million minutes)	3,084	2,457

(1) International long distance call volume includes calls to Hong Kong, Macau and Taiwan

Broadband and other Internet-related Services

The PRC government's enthusiasm in promoting information technology across the country, coupled with gradual recognition by corporations of the value of informatization and surging demand from households and individuals for Internet content are driving rapid growth in broadband and Internet businesses in China. In 2006, the Company continued to advance its business model for broadband operation, with an "access + content" fee mechanism riding on a "PC + TV" multi-terminal platform. This model helped drive the development of our broadband businesses from various aspects, such as broadband access, broadband contents and applications as well as IPTV. Our broadband businesses thus maintained its rapid growth momentum and continued to be a major growth driver.

In order to enhance the penetration rate of our broadband operations, we adopted the following measures:

- selectively upgrading network speed;
- introducing more diversified product and price offerings to satisfy the customers in different niche markets;
- making use of the first all-video website in China, "CNC MAX ", to implement our bundled "access + contents" marketing strategy; and

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

-- promoting bundled broadband and traditional voice services and introducing bundled products such as "Family Affections Online" and "Affections Unlimited"

31

Through the above measures, we successfully maintained strong growth momentum in our broadband businesses. In 2006, we added a net of 3.61 million subscribers to broadband subscriber base, boosting the total to 15.081 million, representing a year-on-year increase of 31.4% . We still maintain a 87.5% market share in our northern service regions.

Unit: '000 subscribers	2004	2005	2006
Number of broadband subscribers	8,492.4	11,475.2	15,080.8
Including: DSL	5,956.2	8,568.4	11,378.9
LAN	2,533.2	2,904.2	3,698.2
Northern service region	8,146.4	11,036.2	14,428.6
Including: DSL	5,939.2	8,529.2	11,287.9
LAN	2,207.2	2,507.0	3,140.6
Southern service region	346	439	652.2
Including: DSL	17.0	39.2	91.0
LAN	326.0	397.2	557.6

We believe that the development in broadband contents and applications is crucial to maintain sustainable growth in our broadband business. In 2006, the Company established "China Netcom Group Broadband Online Limited Corporation", a wholly-owned subsidiary specially designated for broadband content and applications. We officially launched the first all-video broadband website "CNC MAX". "CNC MAX" blends into local content platforms run by our branches in each province, evolving into an "access + contents" combined fee mechanism. In 2006, "CNC MAX" and branch websites in each province hosted a high volume of live broadcast and featured activities, including the World Cup, NBA and "Starlight on spot". These activities attracted patronage from a large number of web-surfers, consequently developed among them a habit of paid viewing. In addition, we established good strategic working relationships with mainstream content providers such as Sina, Google, Shanda, Jiuzhou and Youdu, thereby laying a solid basis for making "CNC MAX" a content-rich website.

In 2006, the Company leveraged its status as an official partner of the Olympic Games to develop the "2008 Broadband Hotels" services based on our commitment to deliver a "Broadband Olympics". By the end of 2006, we had converted 1,267 hotels into "2008 Broadband Hotels". We conducted a marketing campaign titled "Broadband Carnival, Where All the Funs Are" to promote our broadband businesses under the "Access + Contents + Olympic Elements" bundled sales mode.

In 2006, the Company spent more efforts in promoting its comprehensive information services for corporate customers, especially small and medium size enterprises. We provided them comprehensive communication and information services including information technology applications, basic communication products. In the course of delivering these services and value-added services, we satisfied their demand for "external communication + internal information technology applications" and at the same time achieved rapid growth in our broadband access and broadband contents and application businesses.

Our IPTV business also achieved a breakthrough in its development in 2006. In addition to Harbin, in July 2006 the Company was granted a right to provide IPTV services in five cities, including Heihe and Moudanjiang of Heilongjiang, Shenyang, Dalian and Panjin of Liaoning. In 2006, through joint efforts with the

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

Government, the Company provided information technology services for the rural areas based on IPTV technology in Henan province. The model under which these services were being provided won the recognition of relevant government authorities and will be promoted in other regions in 2007. By the end of 2006, the number of IPTV subscribers reached 144.5 thousand, representing an increase of 201% over the same period of last year.

32

Fixed-line Telephone Services

In 2006, as domestic mobile operators launched service packages at competitive prices, the migration from fixed line to mobile communications intensified, posing an acute challenge to monolithic fixed-line operators. In 2006, the number of our local fixed-line subscribers was 114.934 million, down by 0.3% over the same period of the previous year. This was the first time the Company experienced negative growth in its fixed line subscriber base. This was a result of a combination of intensifying mobile substitution and a change in our subscriber management strategy. The Company had put more effort in terminating services available to invalid subscribers. In 2006, our local voice traffic also declined. Stripping out dial-up internet access, the Company handled 211,999 pulses of million, down 3.6% over the same period of last year.

In order to maintain our leading position in local telephone operations, the Company exploited its advantage of multi-services fixed network and rich network resources and launched different bundled operations targeting different customer segments:

- o For urban subscribers, we provided with bundled services labelled "Family 1+" and "Unified Number" with both fixed-line and mobile functionalities;
- o For campus subscribers, we offered "New Sunshine" service to provide more SMS and family calls;
- o For rural subscribers, we offered the "Economical Phone", a bundled voice and value-added service, which does not charge monthly fees to encourage higher voice traffic and value-added-service usage.

These service offerings slowed down migration of customers away from the fixed line network and stimulated voice traffic to some extent. However, limited by the pace at which we upgraded our network to embrace intelligent functionalities and other supporting infrastructure, these bundled services were yet to be launched on a large scale in our service regions. Upon completion of the upgrading construction, these bundled services will be rolled out across our service regions, mitigating the declines in our local voice communications services.

Unit: '000 Subscribers	2004	2005	2006
Fixed-line subscribers	108,079	115,328	114,934
Northern service region	107,571	114,658	113,972
Including: Residential	70,638	70,273	68,803
Business	9,251	10,725	10,946
PHS	22,124	27,329	27,316
Public telephones	5,558	6,331	6,907
Southern service region	508	670	962

As mobile operators launched aggressive tariff packages, the tariff advantage of PHS was diminishing. In 2006, our PHS business focused more on niche markets and was used as a core element in our bundled services. PHS was being marketed as an

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

extension of our fixed-line telephone service in our sales programs. By the end of 2006, the number of PHS subscribers of the Company amounted to 27.334 million, roughly level to that of the same period of last year.

Value-added Services

In 2006, the strategy for our value-added services was to increase the penetration rate of our existing value-added services and to accelerate development of new services in our product mix. In 2006, our value-added services continued to enjoy rapid growth.

- o The number of "Personalised Ring" subscribers was 15.766 million, up approximately 131.4% over the same period of last year, of which, the number of fixed-line "Personalised Ring" subscribers was 8.917 million, up 480.9% from the same period of last year.
- o The volume of SMS sent through PHS was approximately 7,815 million pulses, representing an increase of 15.3% over the same period of last year.
- o The penetration rate of caller identification service was 68.5%, 2.6 percentage points higher than the same period of last year.

33

In 2006, we introduced more varieties to our value-added services, including "Phone Navigation", "Phonemate" and "Concealed Number". New value-added services not only satisfied new demand from customers but also stimulated the usage of voice traffic through our fixed line network and significantly enhanced the revenue per line subscriber. Upon completion of upgrading our network to allow intelligent functionalities, new value-added services can be rolled out on a large scale in the service regions of the Company.

While fixed-line voice services were suffering from mobile substitution, value-added services became an important force in stabilizing voice traffic through the fixed-line network, as they brought about growth in revenue. They also constituted an effective means to enhance utilization of our customer resources. The growth in value-added services to some extent lessened effects of the decline in ARPU from the traditional local fixed-line telephone businesses.

Long Distance Services

Unit: million minutes	2004	2005	2006
Domestic long distance calls	29,366	30,975	33,670
Including: Traditional network	15,546	15,979	18,612
VOIP	13,820	14,996	15,058
Northern service region	27,047	27,775	28,809
Including: Traditional network	15,087	15,653	17,327
VOIP	11,960	12,122	11,482
Southern service region	2,319	3,200	4,861
VOIP	1,860	2,875	3,576

In 2006, as we implemented aggressive sales and marketing programs to stimulate long distance voice traffic, the total usage volume of our long distance calls increased by 8.5% over last year. The increase in volume of long distance calls mainly came from the growth in volume of domestic long distance calls. In 2006, domestic long distance voice traffic increased by 8.7% over the same period of the previous year. Since international long distance voice traffic was battered

Edgar Filing: China Netcom Group CORP (Hong Kong) LTD - Form 6-K

by substitution by Voice over Internet Protocol (VoIP), it decreased by 4.2% over the same period of the previous year.

Unit: million minutes	2004	2005	2006
International long distance calls	471	591	566
Including: Traditional network	158	173	187
VOIP	313	418	379
Northern service region	339	352	324
Including: Traditional network	148	156	144
VOIP	191	196	180
Southern service region	132	239	242
VOIP	122	221	199

34

Business and Data Communications Services

	2004	2005	2006
Number of ports			
DDN (ports)	150,630	131,812	115,480
Frame Relay (ports)	43,078	43,519	41,448
ATM (ports)	4,816	4,212	6,441
Leased line bandwidth			
DDN (x64kbps)	319,323	205,064	200,138
Frame Relay (x128kbps)	82,395	177,016	196,597
ATM (x2Mbps)	23,262	12,316	16,890
MPLS VPN (x2Mbps)	125	311	498
Leased circuit bandwidth (x2Mbps)	91,103	129,989	171,249
Corporate customers (x2Mbps)	56,363	100,387	147,459
Carrier customers (x2Mbps)	34,740	29,602	23,790

Data businesses enjoyed robust development from high demand for information services from government administration related needs, namely e-Government, city security and traffic monitoring system; centralized data processing for financial institutions, needs for IT-related services from logistics- and manufacturing-related industries. These had become the propelling forces for more demands for basic data communication services, broadband and data value-added services. Therefore, the Company has taken an initiative to ex