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China Netcom Group CORP (Hong Kong) LTD
Form 6-K
October 11, 2005

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 October, 2005

(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 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

(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 acquisition circular of China Netcom Group Corporation (Hong Kong) Limited
(the "Registrant"), made by the Registrant in English on September 23, 2005.

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.

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

By /s/ Zhang Xiaotie

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By /s/ Oliver E Lixin

Name: Zhang Xiaotie and Oliver E Lixin

Title: Joint Company Secretaries

Date: September 23, 2005

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Netcom Group Corporation (Hong Kong) Limited, you should at once hand this circular together with the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular is for the sole purpose of the extraordinary general meeting of the Company and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities.

[GRAPHIC OMITTED]
CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED
[GRAPHIC OMITTED]
(incorporated in Hong Kong with limited liability under the Companies Ordinance)
(Stock Code: 906)

MAJOR TRANSACTION,
CONNECTED TRANSACTION AND
CONTINUING CONNECTED TRANSACTIONS
Financial Advisers to China Netcom Group Corporation (Hong Kong) Limited
(in alphabetical order)

[GRAPHIC OMITTED] [GRAPHIC OMITTED] [GRAPHIC OMITTED]
China International Capital Corporation (Hong Kong) Limited Citigroup Global Markets Asia Limited Goldman Sachs (Asia) L.L.C.

Independent financial adviser to the Independent Board Committee and the Independent Shareholders

[GRAPHIC OMITTED]
Credit Suisse First Boston (Hong Kong) Limited

A notice convening an extraordinary general meeting of the Company to be held in Nathan Room, Conrad Hotel, Hong Kong, on 25 October 2005 at 10:00 a.m., is set out at the end of this circular. Whether or not you are able to attend the extraordinary general meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's registered office at 46th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong, as soon as practicable and in any event at least 48 hours before the time appointed for holding the extraordinary general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the extraordinary general meeting or at any adjourned meeting should you so wish.

A letter from the independent board committee of the Company containing its recommendation to the independent shareholders of the Company is set out on pages 36 to 37 of this circular. A letter from CSFB, the independent financial adviser, containing its advice to the independent board committee and the independent shareholders of the Company is set out on pages 38 to 58 of this circular.

23 September 2005

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

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"Acquisition"	the proposed acquisition by the Company of the entire issued share capital of the Target BVI Company pursuant to the Acquisition Agreement, as further described in this circular
"Acquisition Agreement"	the conditional sale and purchase agreement dated 12 September 2005 entered into among the Company, CNC BVI and China Netcom Group relating to the Acquisition
"ADSS"	American depository shares issued by Citibank, N.A., each representing ownership of 20 Shares, which are listed on the New York Stock Exchange, Inc.
"Asia Netcom"	Asia Netcom Corporation Limited, a wholly-owned subsidiary of the Company
"Associates"	as defined in the Hong Kong Listing Rules
"Board" or "Board of Directors"	the board of Directors
"Business Day"	a day (excluding Saturdays) on which banks are generally open in Hong Kong for the transaction of normal banking business
"China" or "PRC"	the People's Republic of China (excluding, for the purposes of this circular, Hong Kong, Macau and Taiwan)
"China Mobile"	China Mobile Communications Corporation ([GRAPHIC OMITTED]), a company established under the laws of the PRC
"China Netcom Group"	China Network Communications Group Corporation, a company established under the laws of the PRC and the ultimate controlling shareholder of the Company
"China Telecom"	China Telecommunications Corporation ([GRAPHIC OMITTED]), a company established under the laws of the PRC
"China Unicom"	China United Telecommunications Corporation ([GRAPHIC OMITTED]), a company established under the laws of the PRC
"CICC"	China International Capital Corporation (Hong Kong) Limited, which is licensed for Type 1 regulated activity (dealing in securities), Type 4 regulated activity (advising on securities), Type 6 regulated activity (advising on corporate finance) and Type 9 regulated activity (asset management) under the Securities and Futures Ordinance and financial adviser to the Company in respect of the Acquisition
"Citigroup"	Citigroup Global Markets Asia Limited, which is deemed licensed for Type 1 regulated activity (dealing in securities), Type 4 regulated activity (advising on securities) and Type 6 regulated activity (advising on corporate finance) under the Securities and Futures Ordinance and financial adviser to the Company in respect of the Acquisition
"CNC BVI"	China Netcom Group Corporation (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability and the direct controlling shareholder of the Company
"CNC China"	China Netcom (Group) Company Limited ([GRAPHIC OMITTED]), formerly known as China Netcom Corporation Limited, a company established in the PRC with limited liability as a wholly foreign owned enterprise and a wholly owned subsidiary of the Company
"Combined Group"	the Company, its existing subsidiaries and the Target Group
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"Company"	China Netcom Group Corporation (Hong Kong) Limited ([GRAPHIC OMITTED]), a company incorporated in Hong Kong whose Shares are listed on the Hong Kong Stock Exchange and whose ADSs are listed on the New York Stock Exchange, Inc.
"Continuing Connected Transactions"	the connected transactions described in the section headed "Continuing Connected Transactions" of the

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"CSFB" or "Independent Financial Adviser"	"Letter from the Chairman" Credit Suisse First Boston (Hong Kong) Limited, which is deemed licensed for Type 1 regulated activity (dealing in securities), Type 4 regulated activity (advising on securities) and Type 6 regulated activity (advising on corporate finance) under the Securities and Futures Ordinance, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition and the Non-exempt Continuing Connected Transactions
"CSRC"	China Securities Regulatory Commission ([GRAPHIC OMITTED])
"Directors"	the directors of the Company
"EANL"	East Asia Netcom Ltd., a company incorporated in Bermuda with limited liability and an indirect wholly owned subsidiary of China Netcom Group
"Equity Interest Injection Agreement"	the equity interest injection agreement dated 9 August 2005 entered into among the Target BVI Company, CNC BVI and China Netcom Group
"Extraordinary General Meeting"	the extraordinary general meeting of the Company to be convened on 25 October 2005, notice of which is set out at the end of this circular, or any adjournment thereof
"Financial Advisers"	CICC, Citigroup and Goldman Sachs, being the financial advisers to the Company in respect of the Acquisition
"GDP"	gross domestic product
"Goldman Sachs"	Goldman Sachs (Asia) L.L.C., which is licensed for Type 1 regulated activity (dealing in securities), Type 4 regulated activity (advising on securities), Type 5 regulated activity (advising on futures contracts), Type 6 regulated activity (advising on corporate finance) and Type 9 regulated activity (asset management) under the Securities and Futures Ordinance and financial adviser to the Company in respect of the Acquisition
"Group"	the Company and its existing subsidiaries
"HK\$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRS"	Hong Kong Financial Reporting Standards issued by Hong Kong Institute of Certified Public Accountants
"Hong Kong"	Hong Kong Special Administrative Region of the People's Republic of China
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Independent Board Committee"	the committee of Directors, consisting of John Lawson Victor Cha Mou Zing, Qian Yingyi, Hou Ziqiang and Timp Shui Ming, being all the independent non-executive Directors formed to advise the Independent Shareholders in respect of the Acquisition and the Non-exempt Continuing Connected Transactions
"Independent Shareholders"	Shareholders other than China Netcom Group and its Associates
"Latest Practicable Date"	8 September 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"MII"	Ministry of Information Industry of the PRC ([GRAPHIC OMITTED]) or where the context so requires, its predecessor, the Ministry of Posts and Telecommunications ([GRAPHIC OMITTED])
"MOC"	the Ministry of Commerce of the PRC ([GRAPHIC OMITTED])
"Non-exempt Continuing Connected Transactions"	continuing connected transactions contemplated under the Domestic Interconnection Settlement Agreement, the International Long Distance Voice Services Settlement Agreement, the Engineering and Information Technology Services Settlement Agreement and the Materials Procurement Agreement,

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"Option(s) "	such transactions and agreements are further described in the section headed "Continuing Connected Transactions" of the "Letter from the Chairman" option(s) which have been granted under the Company's share option scheme approved and adopted by a resolution of the Shareholders passed on 30 September 2004
"Reorganisation"	the successive steps whereby China Netcom Group transferred the telecommunications operations in the Target Regions and related assets and liabilities to the Target Company, as further described in the section headed "The Reorganisation" of the "Letter from the Chairman"
"RMB"	Renminbi, the lawful currency of the PRC
"Sallmanns"	Sallmanns (Far East) Limited, a chartered surveyor and independent property valuer to the Company
"SASAC"	State-owned Assets Supervision and Administration Commission of the State Council ([GRAPHIC OMITTED])
"Securities and Futures Ordinance"	the Securities and Futures Ordinance (Chapter 571 of the Hong Kong)
"Share(s) "	ordinary shares in the Company's issued share capital with a par value of US\$0.04 per share which are listed on the Hong Kong Stock Exchange "Shareholders" holders of Shares
"State Council"	the State Council of the PRC ([GRAPHIC OMITTED])
"Target BVI Company"	China Netcom Group New Horizon Communications Corporation Limited ([GRAPHIC OMITTED]), a company incorporated in the British Virgin Islands
"Target Company"	China Netcom Group New Horizon Communications Corporation Limited ([GRAPHIC OMITTED][GRAPHIC OMITTED]), a company incorporated in the PRC and the term "Target Company" shall, if the context so requires, include any predecessor entity or person carrying on its business before the Reorganisation the Target BVI Company and the Target Company
"Target Group"	the regions in which the Target Company operates its business, being Heilongjiang Province, Jilin Province, Neimenggu Autonomous Region, and Shanxi Province of the PRC
"Target Regions"	
"Telecommunications Regulations"	The PRC Telecommunications Regulations ([GRAPHIC OMITTED]) which became effective as of 25 September 2000
"US dollars" or "US\$"	United States dollars, the lawful currency of the United States of America

For your convenience and unless otherwise specified, this circular contains translations between RMB and US dollars at RMB8.0998 = US\$1.00, between RMB and Hong Kong dollars at RMB1.0422 = HK\$1.00, and between Hong Kong dollars and US dollars at HK\$7.7718 = US\$1.00, the prevailing rates on 31 August 2005. The translations are not representations that the RMB, Hong Kong dollar and US dollar amounts could actually be converted at those rates, if at all.

LETTER FROM THE CHAIRMAN

[GRAPHIC OMITTED]

CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED

[GRAPHIC OMITTED]

(incorporated in Hong Kong with limited liability under the Companies Ordinance)

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Executive Directors:
ZHANG Chunjiang (Chairman)
TIAN Suning (Vice Chairman and Chief
Executive Officer)
ZHANG Xiaotie
MIAO Jianhua

Registered Office:
46th Floor
Cheung Kong Center
2 Queen's Road Central
Hong Kong

Non-Executive Directors:
JIANG Weiping
LI Liming
Jose Maria ALVAREZ-PALLETE
YAN Yixun

Independent Non-executive Directors:
John Lawson THORNTON
Victor CHA Mou Zing
QIAN Yingyi
HOU Ziqiang
Timpson CHUNG Shui Ming

23 September 2005

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION,
CONNECTED TRANSACTION AND
CONTINUING CONNECTED TRANSACTIONS

Acquisition of the Target BVI Company

INTRODUCTION

On 12 September 2005, the Board of Directors announced that the Company had entered into the Acquisition Agreement, pursuant to which the Company agreed to acquire and CNC BVI, the Company's immediate holding company, agreed to sell the entire equity interest in the Target BVI Company for a purchase price of RMB12,800 million (equivalent to approximately HK\$12,282 million), subject to certain conditions.

As at the Latest Practicable Date, CNC BVI beneficially owned approximately 70.49% of the issued share capital of the Company. CNC BVI is a wholly-owned subsidiary of China Netcom Group. As such, both CNC BVI and China Netcom Group are connected persons of the Company. The relevant applicable percentage ratios under Rule 14.07 of the Hong Kong Listing Rules in respect of the Acquisition exceed 25% but are below 100%. Accordingly, under the Hong Kong Listing Rules, the Acquisition constitutes both a connected transaction and a major transaction for the Company.

An Independent Board Committee has been established by the Company to advise the Independent Shareholders in respect of the terms of the Acquisition and the terms of the Non-exempt Continuing Connected Transactions. In this respect, CSFB has been retained as the independent financial adviser to the Independent Board Committee and the Independent Shareholders.

CICC, Citigroup and Goldman Sachs are the financial advisers to the Company in respect of the Acquisition.

The purpose of this circular is to provide you with further information relating to the Acquisition and the Continuing Connected Transactions and to seek your approval of the ordinary resolutions set out in the Notice of

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Extraordinary General Meeting at the end of this circular. The recommendation from the Independent Board Committee to the Independent Shareholders is set out on pages 36 to 37 of this circular and the letter from CSFB is set out on pages 38 to 58 of this circular.

ACQUISITION OF THE TARGET BVI COMPANY

Acquisition Agreement

Date : 12 September 2005
Parties : (1) Vendor : China Netcom Group Corporation (BVI) Limited
(2) Purchaser : China Netcom Group Corporation (Hong Kong) Limited
(3) Warrantor : China Network Communications Group Corporation

Pursuant to the Acquisition Agreement, the Company has agreed, subject to certain conditions, to acquire from CNC BVI the entire equity interest in the Target BVI Company for a purchase price of RMB12,800 million (equivalent to approximately HK\$12,282 million). Upon completion of the Acquisition, the Target BVI Company will become a wholly-owned subsidiary of the Company.

China Netcom Group has given warranties, representations and undertakings in respect of CNC BVI's title in the Target BVI Company and the Target Company, the operations and assets and liabilities of the Target Company and the legal status of those companies.

The Target BVI Company holds the entire equity interest in the Target Company which in turn owns the assets and liabilities and the business operations for the provision of fixed-line telephone services, broadband and other Internet-related services, and business and data communications services in the Target Regions in the PRC. As a result of the Acquisition, the Company will assume the bank and other loans less cash and bank deposits of the Target Company in the amount of RMB 23,209 million (equivalent to approximately HK\$22,269 million) as of 30 June 2005. As of 30 June 2005, the Target Company had a total of approximately 28.86 million fixed-line subscribers and approximately 2.78 million broadband subscribers. The Target Company had approximately 90.2% market share of fixed-line telephone services and approximately 90.7% market share of broadband services in the Target Regions as of 30 June 2005.

THE CONSIDERATION FOR THE ACQUISITION

The Acquisition was negotiated and entered into on an arm's length basis and on normal commercial terms. The purchase price of the Acquisition is RMB12,800 million (equivalent to approximately HK\$12,282 million), and consists of payment of an initial cash consideration and a deferred consideration.

The purchase price of the Acquisition was determined based on various factors, including the quality of the assets being acquired, their growth prospects, earnings potential, competitive advantages in their respective markets and the prospective profit contributions by the Target Company to the Group, as well as by reference to other financial and operational factors. The purchase price for the Acquisition represents a multiple of approximately 6.0 times the Target Group's forecast profit for the year ending 31 December 2005 (including an estimated upfront connection fee of approximately RMB735 million (equivalent to approximately HK\$705 million)), which is unlikely to be less than RMB2,150 million (equivalent to approximately HK\$2,063 million). In addition, the Company will assume the bank and other loans less cash and bank deposits of the Target Company in the amount of RMB23,209 million (equivalent to approximately HK\$22,269 million) as of 30 June 2005 as a result of the Acquisition.

The initial consideration of RMB3,000 million (equivalent to approximately

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HK\$2,879 million) will be satisfied on completion of the Acquisition by payment in cash in RMB.

The deferred consideration, in the amount of RMB9,800 million (equivalent to approximately HK\$9,403 million), represents the difference between the total consideration and the initial consideration. From the date of completion of the Acquisition, the Company will, at half-yearly intervals, repay part of the deferred consideration and pay interest to CNC BVI on the actual amount of deferred consideration remaining outstanding. The repayment of deferred consideration at each half-yearly interval will be in equal amount of RMB980 million (equivalent to approximately HK\$940 million). Interest is accrued daily and is payable at the rate of 5.265% per annum, being 10% discount to the benchmark RMB lending rate of 5.85% per annum of commercial banks in the PRC in respect of loans with tenure of five years as published by the People's Bank of China and prevailing at 12:00 noon (Beijing time) on 8 September 2005, being two Business Days immediately preceding the date of the Acquisition Agreement.

The payment of the deferred consideration and the interest payments can be made in RMB or US dollars as agreed between CNC BVI and the Company. Any payment made in US dollars will be based on the Federal Reserve noon-buying rate between US dollars and RMB which is quoted as of 12:00 noon (New York City time) on the day which is two business days immediately prior to the date of payment.

The deferred consideration is payable within five years after the date of completion of the Acquisition. The Company may, from time to time, prepay all or part of the outstanding deferred consideration, at any time after completion until the fifth anniversary of the completion of the Acquisition, without penalty.

The Board takes the view that the consideration payable by the Company for the Target BVI Company and the other terms of the Acquisition are fair and reasonable. In particular, the Board is of the view that the terms of the deferred consideration are more favourable than the usual terms of a commercial bank loan of a similar size and term. The Board is of the view that the Acquisition is in the interests of the Company and its investors and recommends the Independent Shareholders to vote in favour of the ordinary resolution to approve the Acquisition at the Extraordinary General Meeting.

FINANCING OF THE ACQUISITION

The Company intends to finance the initial consideration using existing internal cash resources. The Company intends to finance the deferred consideration using internal cash resources and/or proceeds from future external financing.

CONDITIONS OF THE COMPLETION OF THE ACQUISITION

Completion of the Acquisition is conditional upon the fulfilment or waiver (where available) of the following conditions, among others, on or before 31 December 2005 or such other date as the Company, CNC BVI and China Netcom Group may agree:

- (a) the passing of resolutions by the Independent Shareholders approving the Acquisition and the Non-exempt Continuing Connected Transactions;
- (b) there having been no material adverse change to the financial condition, business operations, or prospects of the Target Company; and
- (c) the receipt of various approvals from the relevant PRC regulatory authorities.

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Certain PRC regulatory approvals have been obtained. The Target Company currently has a legal person business licence as a limited liability company. Upon approval by the relevant Chinese regulatory authorities, the legal person business licence of the Target Company will be replaced by a new one issued by the State Administration for Industry and Commerce to reflect its status as a wholly foreign-owned enterprise. The business of the Target Company will not be affected by the process of issuance of such new business licence.

The Acquisition shall be completed following the fulfilment or waiver (where applicable) of the above conditions, and is expected to take place on 31 October 2005, or such other date as may be agreed between CNC BVI, China Netcom Group and the Company, following notification by the Company to CNC BVI and China Netcom Group of the fulfilment or waiver of all the conditions. If any of the above-mentioned conditions is not fulfilled or waived by 31 December 2005, or such other date as CNC BVI, China Netcom Group and the Company may agree, the Acquisition Agreement shall lapse.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Company is a leading fixed-line telecommunications services provider in China and a leading international data communications services provider in the Asia-Pacific region. Its northern service region covers the area of Beijing Municipality, Tianjin Municipality, Hebei Province, Henan Province, Shandong Province and Liaoning Province in China. Its southern service region covers the area of Shanghai Municipality and Guangdong Province in China. It is also the only telecommunications company in China that operates an extensive regional data network and offers international data services in the Asia-Pacific region.

The Board believes that the Acquisition represents an important opportunity for the Group to increase coverage and achieve further growth, improve its service capabilities, capture operating synergy and improve management efficiency. In addition, the Acquisition will allow the Company to further benefit from the sustained growth of the telecommunications industry in China and create long-term value to Shareholders.

(A) ..Increase coverage and achieve further growth

One of the Company's strategies is to explore external growth opportunities through targeted mergers and acquisitions. The Acquisition will significantly expand the geographic coverage of the Company. The Target Regions have a total population of approximately 122 million with GDP per capita of RMB11,446 in 2004, or approximately 9.0% over China's national average, according to the National Bureau of Statistics of China. The GDP in the Target Regions grew approximately 13.8% between 2003 and 2004, compared with a growth rate of approximately 9.5% during the same period for China. The 30.5 million fixed-line subscribers in the Target Regions represented approximately 9.8% of the total fixed-line subscribers in China in 2004. With the addition of the operations of the Target Company, the Group's combined service area, subscriber base, revenue and net profit will be significantly enlarged, further solidifying the Group's position as the dominant telecommunications provider in northern China and allowing the Group to better capture the growth potentials in the Chinese telecommunications industry.

The table below sets out the pro forma revenues, EBITDA and net profit of the Combined Group for the year ended 31 December 2004 and for the six months ended 30 June 2005 assuming that the Acquisition had taken place on 1 January 2004 and 1 January 2005 respectively. The following information is derived from the unaudited pro forma combined income statements of the Combined Group for the year ended 31 December 2004 and for the six months ended 30 June 2005, which are included in Appendix IV to this circular.

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	For the year ended 31 December 2004			For the six months en June 2005	
	Before Acquisition		After Acquisition	Before Acquisition	
	The Group Historical Restated(1)	Target Group Historical audited)	Combined Group	The Group Historical (unaudited)	Target Group Historical (audited)
	(RMB in millions)			(RMB in millions)	
Revenues	64,922	18,616	83,538	33,724	9,712
EBITDA(2)	34,172	8,529	42,701	19,032	5,463
Profit from operations before revaluation deficit	15,511	2,114	18,200	9,882	2,282
Deficit on revaluation of property, plant and equipment	-	(11,318)	(11,318)	-	-
Net profit/(loss)	9,230	(6,531)	2,594	6,358	1,330

(1) Historical financial information of the Group for the year ended 31 December 2004 has been restated to reflect the impacts of the adoption of the new and revised HKFRS which are effective for accounting periods beginning on or after 1 January 2005.

(2) EBITDA refers to the earnings before finance costs, interest income, dividend income, taxation, depreciation and amortisation, share of loss of associated companies, and minority interests. EBITDA is not a measure of financial performance or of liquidity under HKFRS because EBITDA is not uniformly defined. EBITDA should not be considered a substitute for or superior to the Company's results prepared under HKFRS as it cannot be used to measure operating results and liquidity and does not represent operating cash flows. In addition, it may not be comparable to similarly titled indicators of other companies.

The table below sets out the subscriber bases of the Group, the Target Company, and the Combined Group on an aggregate basis as of 31 December 2004:

	The Group	Target Company	Combined Group
Fixed-line subscribers (in thousands)	80,383	27,696	108,079
Including: Personal Handyphone System ("PHS") subscribers (in thousands)	15,073	7,051	22,124
Broadband subscribers (in thousands)	6,218	2,274	8,492

(B) Improve the Group's service capabilities

In the Target Regions, the Target Company is the incumbent fixed-line operator and owns extensive local access networks and broad customer relationships. Since the Target Regions are contiguous to the Group's current northern service region, the Combined Group has significant advantages in servicing large and medium corporate customers, especially those with business operations across regions. The Combined Group can improve its service qualities and capabilities by applying knowledge from the Group's service regions to the Target Regions and through shared marketing strategies and expanded sales channels to better meet customers' evolving telecommunications demands. The Combined Group will also be able to enjoy significant cost advantages in developing and promoting

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broadband and value-added services.

(C) Capture operating synergy and improve management efficiency

The Board believes that the Acquisition represents an important opportunity to create additional shareholders' value for the Combined Group through streamlined organisational structure, improved management efficiency, and reduced operating cost. It is intended that, as soon as practicable after the completion of the Acquisition, the operations, assets and liabilities of the Target Company will be merged with those of CNC China. Thereafter, all of the Combined Group's telecommunications businesses in China will be conducted through CNC China. The Board believes that this streamlined organisational structure will allow the Combined Group to better manage its business across the combined service regions and improve management accountability. In addition, the Board believes that the Combined Group will be able to achieve greater economies of scale, operational efficiency and synergies from the Acquisition by consolidating various managerial functions including strategic and investment planning, corporate procurement, treasury and financial management, human resources and employee training, development and maintenance of information technology infrastructure and other general corporate services.

THE REORGANISATION

In preparation for the Acquisition, the Target Company was incorporated on 9 August 2005 as a wholly owned subsidiary of China Netcom Group and the Target BVI Company was incorporated on 27 July 2005 as a wholly owned subsidiary of CNC BVI. China Netcom Group's fixed-line telecommunications assets and related liabilities (other than the international gateway and related international network assets, as well as the inter-provincial fiber-optic network and related assets and liabilities) in the Target Regions, were transferred to the Target Company. Pursuant to the Equity Interest Injection Agreement, the entire equity interest in the Target Company was injected into CNC BVI by China Netcom Group, and then the entire equity interest in the Target Company was injected into the Target BVI Company by CNC BVI.

After the completion of the Acquisition, the Target BVI Company, which owns the entire equity interest of the Target Company, will become a wholly owned subsidiary of the Company.

Subject to relevant regulatory approvals, it is intended that as soon as practicable after the completion of the Acquisition, the operations, assets and liabilities of the Target Company will be merged with that of CNC China by way of merger by absorption so that all the telecommunications businesses of the Combined Group in China will be conducted through CNC China. It is also intended that both the Target BVI Company and the Target Company will be liquidated.

Set out below are the shareholding structures and main operating subsidiaries of the Company immediately prior to the Acquisition, immediately following completion of the Acquisition and after completion of the Acquisition and the merger by absorption.

Corporate structure immediately prior to the Acquisition

| China Network |
| Communications |

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Group Corporation ("China Netcom Group") (PRC) (3) ----- 100%								
China Netcom Group Corporation (BVI) Limited ("CNC BVI") (British Virgin Islands) (3) ----- 100%			Five PRC Shareholders(1) ----- 4.51%(2)			Public Shareholders(1) ----- 25.00%		
China Netcom Group New Horizon Communications Corporation (BVI) Limited ("Target BVI Company") (British Virgin Islands) (3) ----- 100%			China Netcom Group Corporation (Hong Kong) Limited ("Company") (Hong Kong) (3) ----- 100%			China Netcom Corporation International Limited (Bermuda) (3) ----- 100%		
China Netcom Group New Horizon Communications Corporation Limited ("Target Company") (PRC) (3) ----- 100%			China Netcom (Group) Company Limited (CNC China") (PRC) (3) ----- 100%			China Netcom Corporation International Limited (Bermuda) (3) ----- 100%		
: Operating in:(4) :- Heilongjiang Province :- Jilin Province :- Neimenggu Autonomous Region :- Shanxi Province			: Operating in:(4) : - Beijing Municipality : - Tianjin Municipality : - Hebei Province : - Henan Province : - Shandong Province : - Liaoning Province : - Shanghai Municipality : - Guangdong Province			Asia Netcom Corporation Limited ("Asia Netcom") (Bermuda) (3) -----		

Corporate structure immediately following completion of the Acquisition

China Network Communications Group Corporation ("China Netcom Group") (PRC) (3) ----- 100%								
China Netcom Group Corporation (BVI) Limited ----- 100%			Five PRC Shareholders(1) ----- 4.51%(2)			Public Shareholders ----- 25.00%		

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("CNC BVI") (British Virgin Islands) (3)			
70.49% (2)		4.51% (2)	25.00%
----- ----- China Netcom Group Corporation (Hong Kong) Limited ("Company") (Hong Kong) (3) ----- ----- ----- 100% 100% 100%			
China Netcom Group New Horizon Communications Corporation (BVI) Limited ("Target BVI Company") (British Virgin Islands) (3)	China Netcom (Group) Company Limited ("CNC China") (PRC) (3)	China Netcom Corporation International Limited (Bermuda) (3)	
100%	: : : - Operating in: (4) : : - Beijing Municipality : - Tianjin Municipality : - Hebei Province : - Henan Province : - Shandong Province : - Liaoning Province : - Shanghai Municipality : - Guangdong Province : : Operating in: (4) :- Heilongjiang Province :- Jilin Province :- Neimenggu Autonomous Region :- Shanxi Province	: : : 100% : : Asia Netcom : Corporation Limited : ("Asia Netcom") : (Bermuda) (3)	

Corporate structure after completion of the Acquisition and the merger by absorp

China Network Communications Group Corporation ("China Netcom Group") (PRC) (3)			
100%			
China Netcom Group Corporation (BVI) Limited	Five PRC Shareholders(1)	Public Shareholders	

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("CNC BVI")		
(British Virgin Islands) (3)		
70.49% (2)	4.51% (2)	25.00%
China Netcom Group Corporation (Hong Kong) Limited		
("Company")		
(Hong Kong) (3)		
100%	100%	
China Netcom (Group)	China Netcom Corporation	
Company Limited	International Limited	
("CNC China")	(Bermuda) (3)	
(PRC) (3)		
:		
:		
: - Operating in: (4)	100%	
: - Beijing Municipality	Asia Netcom	
: - Tianjin Municipality	Corporation Limited	
: - Hebei Province	("Asia Netcom")	
: - Henan Province	(Bermuda) (3)	
: - Shandong Province		
: - Liaoning Province		
: - Shanghai Municipality		
: - Guangdong Province		
:- Heilongjiang Province		
:- Jilin Province		
:- Neimenggu Autonomous Region		
:- Shanxi Province		

(1) The five PRC Shareholders, all of which are established in the PRC, are the Chinese Academy of Sciences, Information and Network Center of the State Administration of Radio, Film and Television, China Railways Telecommunications Center, Shanghai Alliance Investment Limited, and Shandong Provincial State-owned Assets Supervision and Administration Commission.

(2) All of the ordinary shares owned by the five PRC Shareholders are registered in the name of China Netcom Group Corporation (BVI) Limited, or CNC BVI, which holds such ordinary shares in trust for each of the five PRC Shareholders. Consequently, the ownership percentage of the five PRC Shareholders in the charts above reflects the aggregate beneficial interests of these Shareholders as held through CNC BVI. The ownership percentage of CNC BVI as indicated in the charts above reflects CNC BVI's own beneficial ownership.

(3) Indicates jurisdiction of incorporation.

(4) The provincial businesses are operated under local branch offices of CNC China or the Target Company (as the case may be) and these local branch offices are not legal entities.

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FINANCIAL INFORMATION OF THE TARGET GROUP

The following are the combined income statements of the Target Group for each of the three years ended 31 December 2002, 2003 and 2004 and for the six-month periods ended 30 June 2004 and 2005, as extracted from the audited financial statements of the Target Group prepared in accordance with HKFRS included in Appendix II to this circular.

	Year ended 31 December			Six months
	2002	2003	2004	June
	RMB	RMB	RMB	2004
	million	million	million	RMB
				million
Revenues	16,232	17,700	18,616	9,315
Operating expenses				
Depreciation and amortisation	(5,988)	(6,317)	(6,426)	(3,196)
Networks, operations and support	(4,087)	(3,118)	(2,426)	(960)
Staff costs	(2,602)	(3,398)	(3,891)	(1,892)
Selling, general and administrative expenses	(2,245)	(3,269)	(3,311)	(1,736)
Other operating expenses	(380)	(537)	(459)	(225)
Total operating expenses	(15,302)	(16,639)	(16,513)	(8,009)
Operating profit before interest income and deficit on revaluation of property, plant and equipment	930	1,061	2,103	1,306
Interest income	28	16	11	5
Deficit on revaluation of property, plant and equipment	-	-	(11,318)	-
Profit/(loss) from operations	958	1,077	(9,204)	1,311
Finance costs	(1,283)	(1,270)	(998)	(500)
Profit/(loss) before taxation	(325)	(193)	(10,202)	811
Taxation	423	398	3,671	(102)
Profit/(loss) for the year/period	98	205	(6,531)	709

The following are the combined balance sheets of the Target Group as at 31 December 2002, 2003 and 2004 and as at 30 June 2005, as extracted from the audited financial statements of the Target Group prepared in accordance with HKFRS included in Appendix II to this circular.

	As at 31 December		
	2002	2003	2004
	RMB	RMB	RMB
	million	million	million
Assets			

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Current assets			
Cash and bank deposits	1,097	1,114	580
Accounts receivable	1,121	1,175	1,486
Inventories and consumables	291	209	302
Prepayments and other receivables	739	582	436
Due from ultimate holding company and fellow subsidiaries	141	94	714
 Total current assets	 3,389	 3,174	 3,518
Non-current assets			
Lease prepayments for land	466	450	480
Property, plant and equipment	44,588	47,719	42,110
Construction in progress	3,518	2,354	2,995
Intangible assets	58	91	66
Deferred costs	668	672	654
Deferred tax assets	1,663	2,076	1,410
Other non-current assets	14	11	9
 Total non-current assets	 50,975	 53,373	 47,724
 Total assets	 54,364	 56,547	 51,242
Liabilities and equity			
Current liabilities			
Accounts payable	5,632	5,409	6,472
Accruals and other payables	1,639	1,267	1,513
Short-term bank loans	10,219	15,774	15,543
Current portion of long-term bank and other loans	5,727	3,676	4,457
Due to ultimate holding company and fellow subsidiaries	1,231	1,448	1,836
Current portion of deferred revenues	2,140	2,170	2,223
Current portion of provisions	1,495	1,550	1,531
Taxation payable	105	185	165
 Total current liabilities	 28,188	 31,479	 33,740
 Net current liabilities	 (24,799)	 (28,305)	 (30,222)
 Total assets less current liabilities	 26,176	 25,068	 17,502
Non-current liabilities			
Long-term bank and other loans	10,924	7,863	4,191
Deferred revenues	3,963	2,981	2,171
Provisions	1,181	1,153	1,431
Deferred tax liabilities	2,497	2,759	255
Other non-current liabilities	57	29	24
 Total non-current liabilities	 18,622	 14,785	 8,072
 Total liabilities	 46,810	 46,264	 41,812
 Owners' equity	 7,554	 10,283	 9,430
 Total liabilities and equity	 54,364	 56,547	 51,242

Prior to the completion of the Reorganisation, the Target Group has distributed its profits for the six months ended 30 June 2005, which amounted to RMB930 million (equivalent to approximately HK\$892 million), to China Netcom Group. Further detailed information in respect of the Target Group's historical results of operations and financial position is set out in Appendix II to this circular.

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PROSPECTIVE FINANCIAL INFORMATION

The Company and the Target Group have prepared certain prospective financial information for the year ending 31 December 2005 in compliance with Rule 14A.56(8) and Rule 14.62 of the Hong Kong Listing Rules. Neither the Target Group nor the Company intends to update this information during the year or to update such information in future years, although the Directors are aware of the requirements of Rule 13.09 notes 9 and 10 of the Hong Kong Listing Rules. This information is necessarily based upon a number of assumptions that, while presented with numerical specificity and considered reasonable by the Target Group, are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company or the Target Group, and upon assumptions with respect to future business decisions which are subject to change. Accordingly, there can be no assurance that these results will be realised. The prospective financial information presented below may vary from actual results, and these variations may be material.

The Company and the Target Group believe that, on the bases and the assumptions discussed in Appendix V to this circular and in the absence of unforeseen circumstances, the Target Group's forecast combined profit for the year ending 31 December 2005 (including an estimated upfront connection fee of approximately RMB735 million (equivalent to approximately HK\$705 million)) under HKFRS is unlikely to be less than RMB2,150 million (equivalent to approximately HK\$2,063 million).

The bases and assumptions for the preparation of the profit forecast is set out in Appendix V to this circular and the texts of the letters from PricewaterhouseCoopers, CICC, Citigroup and Goldman Sachs in respect of the profit forecast are also set out in Appendix V to this circular.

The Company and the Target Group are not currently aware of any extraordinary items which have arisen or are likely to arise in respect of the year ending 31 December 2005 which would affect the prospective financial information presented.

RELATIONSHIP WITH CNC BVI AND CHINA NETCOM GROUP

CNC BVI is a company incorporated in the British Virgin Islands and is the immediate holding company of the Company. CNC BVI is an investment holding company.

China Netcom Group is a state-owned enterprise established under the laws of the PRC and is the ultimate holding company of the Company. China Netcom Group is the second largest fixed-line telecommunications operator in China. China Netcom Group owns and operates its fixed-line telecommunications networks, and provides telecommunications services including fixed-line telephone, broadband and other Internet-related services in all provinces, municipalities and autonomous regions in China (including the Target Regions prior to the completion of the Acquisition) that are outside the Group's existing northern and southern service regions (which include Beijing Municipality, Tianjin Municipality, Hebei Province, Henan Province, Shandong Province, Liaoning Province, Shanghai Municipality and Guangdong Province).

As at the Latest Practicable Date, China Netcom Group beneficially owned 100% of CNC BVI's issued share capital, and CNC BVI beneficially owned approximately 70.49% of the Company's issued share capital. CNC BVI and China Netcom Group are therefore connected persons of the Company.

In connection with the initial public offering of the Company in November 2004, China Netcom Group has, by a letter of undertakings that is legally binding

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indefinitely, undertaken that it will support the Group's existing operations and future development, including that the Company will be treated equally with any other operators of fixed-line telephone, broadband, Internet and certain other telecommunications services that are controlled by China Netcom Group and the Company will have the option to provide additional telecommunications services in the service regions that fall within China Netcom Group's scope of business.

CONTINUING CONNECTED TRANSACTIONS

In October 2004, CNC China, a wholly-owned subsidiary of the Company, entered into certain agreements with China Netcom Group to regulate certain ongoing transactions between CNC China on the one hand and China Netcom Group and its subsidiaries or Associates (other than the Group) on the other. These transactions are continuing connected transactions of the Company under the Hong Kong Listing Rules. In respect of some of these continuing connected transactions, annual caps representing the maximum aggregate annual value of consideration payable under these transactions have been set. The Group has complied with these caps for the financial year ended 31 December 2004 and also for the period commencing from 1 January 2005 and ending on the date of this circular.

It is expected that after completion of the Acquisition, similar ongoing transactions will be conducted between the Target Company on the one hand and China Netcom Group and its subsidiaries or Associates (other than the Combined Group) on the other. These transactions will, after completion of the Acquisition, become continuing connected transactions of the Company. In order to facilitate the management of all continuing connected transactions of the Company in China after the completion of the Acquisition, the Target Company, CNC China and China Netcom Group entered into certain connected transactions agreements on 12 September 2005 to regulate the continuing connected transactions between China Netcom Group and its subsidiaries or Associates (other than the Combined Group) on the one hand and the Combined Group on the other, in respect of the Combined Group's operations in 12 provinces, municipalities and autonomous region in China. These agreements will replace the existing connected transaction agreements between CNC China and China Netcom Group if and when the Acquisition completes. These agreements are summarised below:

Domestic Interconnection Settlement Agreement

The Target Company, CNC China and China Netcom Group entered into the Domestic Interconnection Settlement Agreement on 12 September 2005. Pursuant to the Domestic Interconnection Settlement Agreement, the parties agreed to interconnect the network of China Netcom Group on the one hand and that of CNC China and the Target Company (together with CNC China, the "Combined Operating Group") on the other and settle the charges received in respect of domestic long distance voice services within their respective service regions on a quarterly basis.

For domestic long distance voice services between China Netcom Group and the Combined Operating Group, the telephone operator in the location of the calling party makes a settlement payment to the telephone operator in the location of the called party at the rate of RMB0.06 per minute (in case where the call terminates within the network of either China Netcom Group or the Combined Operating Group) or RMB0.09 per minute (in case where the call terminates outside the network of either China Netcom Group or the Combined Operating Group).

The rates of RMB0.06 per minute and RMB0.09 per minute mentioned above shall be adjusted with reference to the relevant standards, tariffs or policies

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promulgated by the relevant regulatory authorities in China from time to time.

The Domestic Interconnection Settlement Agreement takes effect from the date of completion of the Acquisition and is valid until 31 December 2007. If the Combined Operating Group notifies China Netcom Group at least three months prior to the expiration of the agreement of its intention to renew the agreement, the agreement can be renewed with the same terms for further periods of three years.

International Long Distance Voice Services Settlement Agreement

CNC China and China Netcom Group entered into the International Long Distance Voice Services Settlement Agreement on 12 September 2005. Pursuant to the International Long Distance Voice Services Settlement Agreement, the parties agreed to interconnect the networks of China Netcom Group and CNC China and settle the charges received in respect of international long distance voice services on a quarterly basis.

For outbound international calls, China Netcom Group reimburses CNC China for any amount it has paid to overseas telecommunications operators. The revenues received by China Netcom Group less the amount paid to overseas telecommunications operators are shared between China Netcom Group and CNC China in proportion to the estimated costs incurred by China Netcom Group and the Combined Operating Group in connection with the provision of outbound international long distance voice services.

For inbound international calls, the revenues received by CNC China from overseas telecommunications operators (other than the Company and its controlled entities) less the amount paid to China Netcom Group at the rate of RMB0.06 per minute (in case where the call terminates within the network of China Netcom Group) or RMB0.09 per minute (in case where the call terminates within the network of other operators) are shared between China Netcom Group and CNC China in proportion to the estimated costs incurred by China Netcom Group and the Combined Operating Group in connection with the provision of inbound international long distance voice services.

The rates of RMB0.06 per minute and RMB0.09 per minute mentioned above shall be adjusted with reference to the relevant standards, tariffs or policies promulgated by the relevant regulatory authorities in China from time to time.

The International Long Distance Voice Services Settlement Agreement takes effect from the date of completion of the Acquisition and is valid until 31 December 2007. If CNC China notifies China Netcom Group at least three months prior to the expiration of the agreement of its intention to renew the agreement, the agreement can be renewed with the same terms for further periods of three years.

The transactions under the Domestic Interconnection Settlement Agreement and the International Long Distance Voice Services Settlement Agreement will be subject to reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules and the independent shareholders' approval requirements under Rule 14A.48 of the Hong Kong Listing Rules.

Property Leasing Agreement

The Target Company, CNC China and China Netcom Group entered into the Property Leasing Agreement on 12 September 2005. Pursuant to the Property Leasing Agreement:

(i) the Combined Operating Group leases to China Netcom Group a total of 54 buildings and units with an aggregate floor area of approximately 4,300 square metres located throughout the Combined Operating Group's service regions, for

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use as offices and other ancillary purposes; and

(ii) China Netcom Group leases to the Combined Operating Group a total of 22 parcels of land with an aggregate site area of approximately 26,700 square metres and 42,097 buildings and units with an aggregate floor area of approximately 9,264,000 square metres located throughout the Combined Operating Group's service regions, for use as offices, telecommunications equipment sites and other ancillary purposes.

The charges payable by the Combined Operating Group and by China Netcom Group under the Property Leasing Agreement are based on market rates or the depreciation and maintenance charges in respect of each property, provided such depreciation and maintenance charges shall not be higher than the market rates. The charges are payable quarterly in arrears and are subject to review every year to take into account the then prevailing market rates of the properties leased in that year. Sallmanns, the independent property valuer of the Company, has reviewed the Property Leasing Agreement, and has confirmed that the rental charges payable by the Combined Operating Group under the Property Leasing Agreement are no higher than prevailing market rates and the rental charges payable by China Netcom Group under the Property Leasing Agreement are fair and reasonable.

The Property Leasing Agreement takes effect from the date of completion of the Acquisition and is valid until 31 December 2007. If the Combined Operating Group notifies China Netcom Group at least three months prior to the expiration of the agreement of its intention to renew the agreement, the agreement can be renewed with the same terms for further periods of three years.

For the three years ended 31 December 2002, 2003 and 2004, the rental charges that the Combined Operating Group paid to China Netcom Group amounted to RMB 43.79 million, RMB 52.56 million and RMB 316 million, respectively. For the same periods, the rental charges paid by China Netcom Group to the Combined Operating Group amounted to RMB 1 million, RMB 4 million and RMB 3.11 million, respectively.

Prior to the restructuring implemented for the purpose of the Company's listing in 2004, CNC China only leased a small number of properties (less than 2,000 in each of the two years ended 31 December 2002 and 2003). Prior to the Reorganisation, the Target Company also only leased a very small number of properties. As a result of the restructuring for the Company's listing and the Acquisition, many more properties will be leased from China Netcom Group to the Combined Operating Group and from the Combined Operating Group to China Netcom Group under the Property Leasing Agreement. The total rental charges payable by the Combined Operating Group to China Netcom Group in each of the three financial years ending 31 December 2005, 2006 and 2007 are not expected to exceed RMB1,250 million, and the total rental charges receivable by the Combined Operating Group from China Netcom Group in each of the three financial years ending 31 December 2005, 2006 and 2007 are not expected to exceed RMB35 million. Accordingly, these amounts have been set as the proposed caps for this connected transaction.

Property Sub-leasing Agreement

The Target Company, CNC China and China Netcom Group entered into the Property Sub-leasing Agreement on 12 September 2005. Pursuant to the Property Sub-leasing Agreement, China Netcom Group agreed to sub-let to the Combined Operating Group a total of 84 parcels of land and 6,263 building and units owned by and leased from independent third parties, for use as offices, telecommunications equipment sites and other ancillary purposes.

The amounts payable by the Combined Operating Group under the Property Sub-leasing Agreement are the same as the rental charges and other fees

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(including management fees) payable by China Netcom Group to the relevant third parties.

The Property Sub-leasing Agreement takes effect from the date of completion of the Acquisition and is valid until 31 December 2007. If the Combined Operating Group notifies China Netcom Group at least three months prior to the expiration of the agreement of its intention to renew the agreement, the agreement can be renewed with the same terms for further periods of three years.

The above property sub-leasing arrangement did not exist in respect of CNC China prior to the restructuring implemented for the purpose of the Company's listing in 2004. Such arrangement also did not exist in respect of the Target Company prior to the Reorganisation. The total amount paid by the Group for sub-let properties for the second half of the financial year ended 31 December 2004 (during which period the restructuring for the Company's listing has been effective) was RMB 33 million. Based on the number of properties to be sub-let under the Property Sub-leasing Agreement and the rental charges and other fees payable under the underlying lease agreements, the total amount payable by the Combined Operating Group to China Netcom Group for property sub-leasing in each of the three financial years ending 31 December 2005, 2006 and 2007 is not expected to exceed RMB100 million. Accordingly, the amount has been set as the proposed cap for this connected transaction.

Master Sharing Agreement

The Target Company, CNC China and China Netcom Group entered into the Master Sharing Agreement on 12 September 2005. Pursuant to the Master Sharing Agreement:

- (a) the Combined Operating Group will provide customer relationship management services for large enterprise customers of China Netcom Group;
- (b) the Combined Operating Group will provide network management services to China Netcom Group;
- (c) the Combined Operating Group will share with China Netcom Group the services provided by administrative and managerial staff in respect of central management of the business operations, financial control, human resources and other related matters of both the Combined Operating Group and China Netcom Group;
- (d) the Combined Operating Group will provide to China Netcom Group supporting services such as billing and settlement provided by the business support centre;
- (e) China Netcom Group will provide to the Combined Operating Group supporting services, including telephone card production, development and related services and IC card inter-provincial and inter-network clearing services;
- (f) China Netcom Group will provide to the Combined Operating Group certain other shared services, including advertising, publicity, research and development, business hospitality, maintenance and property management;
- (g) China Netcom Group will provide certain office space in its headquarters to the Combined Operating Group for use as its principal executive office; and
- (h) the Combined Operating Group and China Netcom Group will share the revenues received by China Netcom Group from other operators whose networks interconnect with the Internet backbone network of China Netcom Group and will share the monthly connection fee that China Netcom Group pays to the State Internet Switching Centre.

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The Combined Operating Group and China Netcom Group own certain equipment and facilities forming the Internet backbone network of China Netcom Group. This Internet backbone network interconnect with the networks of other operators. Such interconnection generates revenue which is settled with China Netcom Group and shared between China Netcom Group and the Combined Operating Group under the Master Sharing Agreement. Prior to the Master Sharing Agreement coming into effect, the revenue generated from such interconnection was shared between the Group and China Netcom Group although the transaction is not regulated by the existing Master Sharing Agreement between CNC China and China Netcom Group. The interconnection revenue received by the Group from China Netcom Group and the connection fee paid by the Group to China Netcom Group in the second half of 2004, as well as in the first half of 2005, do not exceed the 0.1% threshold under Rule 14A.33 of the Hong Kong Listing Rules.

The services set out in paragraphs (a) to (g) above and the revenue and fee set out in paragraph (h) above are shared between the Combined Operating Group and China Netcom Group on an on-going basis from time to time and the aggregate costs incurred by the Combined Operating Group or China Netcom Group for the provision of the services set out in paragraphs (a) to (g) above and the revenue and fee receivable and payable by China Netcom Group as referred to in paragraph (h) above are apportioned between the Combined Operating Group and China Netcom Group according to their respective total assets value as shown in their respective financial statements on an annual basis.

The costs of the services provided under the Master Sharing Agreement are not directly related to the volumes of business or revenues of the parties. After completion of the Acquisition, China Netcom Group's primary fixed-line telephone business in the northern part of China will be injected into the Combined Operating Group, and the Group's revenues will be increased as a result. Accordingly, the Board considers that it is more appropriate for the costs of the services, revenues and fees payable or receivable under the Master Sharing Agreement to be shared on the basis of the parties' respective total assets value as opposed to their respective revenues.

The Master Sharing Agreement takes effect from the date of completion of the Acquisition and is valid until 31 December 2007. If the Combined Operating Group notifies China Netcom Group at least three months prior to the expiration of the agreement of its intention to renew the agreement, the agreement can be renewed with the same terms for further periods of three years.

All of the above provision or sharing of services and revenue and fee did not exist in respect of CNC China prior to the restructuring implemented for the purpose of the Company's listing in 2004. Such provision or sharing of services and revenue and fee also did not exist between the Target Company and China Netcom Group prior to the Reorganisation. The total amount paid by the Group to China Netcom Group for the sharing of services under paragraphs (e) to (g) above for the second half of the financial year ended 31 December 2004 (during which period the restructuring for the Company's listing has been effective) was RMB 213 million and the total amount paid by China Netcom Group to the Group for the sharing of services under paragraphs (a) to (d) above for the same period was RMB19 million. Based on the aggregate historical expenditures incurred for the provision of relevant services described in paragraphs (a) to (g) above, the aggregate historical revenue generated from the interconnection of the Internet backbone network (which interconnection revenue amounted to approximately RMB5.98 million for the second half of 2004) and the projected total assets values of China Netcom Group and the Combined Operating Group, respectively, the aggregate amount receivable by the Combined Operating Group from China Netcom Group in respect of services set out in paragraphs (a) to (d) above and in respect of the revenue set out in paragraph (h) above in each of the three financial years ending 31 December 2005, 2006 and 2007 is not expected to exceed RMB180 million, and the total amount payable by the Combined

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Operating Group to China Netcom Group in respect of services set out in paragraphs (e) to (g) and in respect of the fee set out in paragraph (h) above in each of the three financial years ending 31 December 2005, 2006 and 2007 is not expected to exceed RMB485 million. Accordingly, these amounts have been set as the proposed caps for this connected transaction.

Engineering and Information Technology Services Agreement

The Target Company, CNC China and China Netcom Group entered into the Engineering and Information Technology Services Agreement on 12 September 2005 to govern the arrangements with respect to the provision of certain engineering and information technology-related services to the Combined Operating Group by China Netcom Group. These services include:

- (a) the provision of planning, surveying and design services in relation to telecommunications engineering projects;
- (b) the provision of construction services in relation to telecommunications engineering projects;
- (c) the provision of supervision services in relation to telecommunications engineering projects; and
- (d) the provision of information technology services, including office automation, software testing, network upgrade, new business development and support system development.

The charges payable for engineering and information technology-related services described above are determined with reference to market rates. In addition, where the value of any single item of engineering design or supervision-related service exceeds RMB0.5 million or where the value of any single item of engineering construction-related service exceeds RMB2 million, the award of such services will be subject to tender. The charges are settled between the Combined Operating Group and China Netcom Group as and when the relevant services are provided.

The Engineering and Information Technology Services Agreement takes effect from the date of completion of the Acquisition and is valid until 31 December 2007. If the Combined Operating Group notifies China Netcom Group at least three months prior to the expiration of the agreement of its intention to renew the agreement, the agreement can be renewed with the same terms for further periods of three years.

For the three years ended 31 December 2002, 2003 and 2004, the service charges paid by the Combined Operating Group to China Netcom Group in respect of engineering and information technology-related services amounted to RMB3,759 million, RMB4,198 million and RMB3,821 million, respectively. Based on the historical service charges paid by the Combined Operating Group to China Netcom Group and the extent and volume of the engineering and information technology-related services the Combined Operating Group expects China Netcom Group to provide, the total amount payable by the Combined Operating Group to China Netcom Group for provision of engineering and information technology-related services in each of the three financial years ending 31 December 2005, 2006 and 2007 is not expected to exceed RMB4,400 million. Accordingly, this amount has been set as the proposed cap for this connected transaction.

Materials Procurement Agreement

The Target Company, CNC China and China Netcom Group entered into the Materials Procurement Agreement on 12 September 2005 under which:

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(a) the Combined Operating Group may request China Netcom Group to act as its agent for the procurement of imported and domestic telecommunications equipment and other domestic non-telecommunications equipment;

(b) the Combined Operating Group may purchase from China Netcom Group certain products, including cables, modems and yellow pages telephone directories; and

(c) China Netcom Group will provide to the Combined Operating Group storage and transportation services related to the procurement and purchase of materials or equipment under the agreement.

Commission and/or charges for the domestic materials procurement services referred to in paragraph (a) above shall not exceed the maximum rate of 3% of the contract value. Commission and/or charges for the above imported materials procurement services shall not exceed the maximum rate of 1% of the contract value. The price for the purchase of China Netcom Group's products referred to in paragraph (b) above is determined with reference to the following pricing principles and limits:

- o the government fixed price;
- o where there is no government fixed price but a government guidance price exists, the government guidance price;
- o where there is neither a government fixed price nor a government guidance price, the market price; or
- o where none of the above is applicable, the price to be agreed between the relevant parties and determined on a cost-plus basis.

Commission charges for the storage and transportation services referred to in paragraph (c) above are determined with reference to market rates.

Payments under the Materials Procurement Agreement will be made as and when the relevant equipment or products have been procured and delivered.

The Materials Procurement Agreement takes effect from the date of completion of the Acquisition and is valid until 31 December 2007. If the Combined Operating Group notifies China Netcom Group at least three months prior to the expiration of the agreement of its intention to renew the agreement, the agreement can be renewed with the same terms for further periods of three years.

For the three years ended 31 December 2002, 2003 and 2004, the historical volumes of sale and purchase of equipment and products for the Combined Operating Group amounted to RMB4,910 million, RMB4,892 million and RMB2,944 million, respectively.

Prior to the restructuring implemented for the purpose of the Company's listing in 2004, nearly all of the products and equipment purchased by the Combined Operating Group from China Netcom Group were made as direct purchases, where the relevant products and materials were purchased by China Netcom Group and then resold to the Company. Accordingly, China Netcom Group acted primarily as principal rather than as our agent earning commissions, and no historical figures of a comparable nature are available. Based on the historical volumes of purchases made by the Combined Operating Group and with reference to the level of commission charges set out in the Materials Procurement Agreement, the total amount payable by the Combined Operating Group to China Netcom Group, including both commissions and purchase prices, for each of the three financial years ending 31 December 2005, 2006 and 2007 is not expected to exceed RMB2,000 million. Accordingly, this amount has been set as the proposed cap for this connected transaction.

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Ancillary Telecommunications Services Agreement

The Target Company, CNC China and China Netcom Group entered into the Ancillary Telecommunications Services Agreement on 12 September 2005 to govern the arrangements with respect to the provision of ancillary telecommunications services to the Combined Operating Group by China Netcom Group. These services include certain telecommunications pre-sale, on-sale and after-sale services such as assembling and repairing of certain telecommunications equipment, sales agency services, printing and invoice delivery services, maintenance of telephone booths, customers acquisition and servicing and other customers' services.

The charges payable for the services described above are determined with reference to the following pricing principles and limits:

- o the government fixed price;
- o where there is no government fixed price but a government guidance price exists, the government guidance price;
- o where there is neither a government fixed price nor a government guidance price, the market price; or
- o where none of the above is applicable, the price to be agreed between the relevant parties and determined on a cost-plus basis.

The service charges are settled between the Combined Operating Group and China Netcom Group as and when the relevant services are provided.

The Ancillary Telecommunications Services Agreement takes effect from the date of completion of the Acquisition and is valid until 31 December 2007. If the Combined Operating Group notifies China Netcom Group at least three months prior to the expiration of the agreement of its intention to renew the agreement, the agreement can be renewed with the same terms for further periods of three years.

For the three years ended 31 December 2002, 2003 and 2004, the services charges paid by the Combined Operating Group to China Netcom Group for ancillary telecommunications services amounted to RMB1,373 million, RMB1,880 million and RMB789 million, respectively. Based on the historical service charges paid and the estimated extent and volume of ancillary telecommunications services required from China Netcom Group, the total amount payable by the Combined Operating Group to China Netcom Group for provision of ancillary telecommunications services in each of the three financial years ending 31 December 2005, 2006 and 2007 is not expected to exceed RMB1,200 million. Accordingly, this amount has been set as the proposed cap for this connected transaction.

Support Services Agreement

The Target Company, CNC China and China Netcom Group entered into the Support Services Agreement on 12 September 2005. Under the Support Services Agreement, China Netcom Group provides the Combined Operating Group with various support services, including equipment leasing (other than equipment covered under the Telecommunications Facilities Leasing Agreement) and maintenance services, motor vehicles services, security services, basic construction agency services, research and development services, employee training services and advertising services and other support services.

The charges payable for the services described above are determined with reference to the following pricing principles and limits:

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- o the government fixed price;
- o where there is no government fixed price but a government guidance price exists, the government guidance price;
- o where there is neither a government fixed price nor a government guidance price, the market price; or
- o where none of the above is applicable, the price to be agreed between the relevant parties and determined on a cost-plus basis.

The service charges are settled between the Combined Operating Group and China Netcom Group as and when relevant services are provided.

The Support Services Agreement takes effect from the date of completion of the Acquisition and is valid until 31 December 2007. If the Combined Operating Group notifies China Netcom Group at least three months prior to the expiration of the agreement of its intention to renew the agreement, the agreement can be renewed with the same terms for further periods of three years.

For the three years ended 31 December 2002, 2003 and 2004, the support service charges paid by the Combined Operating Group to China Netcom Group amounted to RMB1,385 million, RMB1,481 million and RMB1,073 million, respectively. Based on the historical service charges paid and the estimated extent and volume of support services required from China Netcom Group, the total amount payable by the Combined Operating Group to China Netcom Group for provision of support services in each of the three financial years ending 31 December 2005, 2006 and 2007 is not expected to exceed RMB1,610 million. Accordingly, this amount has been set as the proposed cap for this connected transaction.

Telecommunications Facilities Leasing Agreement

The Target Company, CNC China and China Netcom Group entered into the Telecommunications Facilities Leasing Agreement on 12 September 2005, under which:

- (a) China Netcom Group leases inter-provincial fiber-optic cables within the Combined Operating Group's service regions to the Combined Operating Group;
- (b) China Netcom Group leases certain international telecommunications resources (including international telecommunications channel gateways, international telecommunications service gateways, international submarine cable capacity, international land cables and international satellite facilities) to the Combined Operating Group; and
- (c) China Netcom Group leases certain other telecommunications facilities required by the Combined Operating Group for its operations.

The rental charges for the leasing of inter-provincial fiber-optic cables, international telecommunications resources and other telecommunications facilities are based on the annual depreciation charges of such fiber-optic cables, resources and telecommunications facilities provided that such charges shall not be higher than market rates. The Combined Operating Group shall be responsible for the on-going maintenance of such inter-provincial fiber-optic cables and international telecommunications resources. The Combined Operating Group and China Netcom Group shall determine and agree which party is to provide maintenance service to the telecommunications facilities referred to in paragraph (c) above. Unless otherwise agreed by the Combined Operating Group and China Netcom Group, such maintenance service charges shall be borne by the Combined Operating Group. If China Netcom Group shall be responsible for maintaining any telecommunications facilities referred to in paragraph (c)

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above, the Combined Operating Group shall pay to China Netcom Group the relevant maintenance service charges which shall be determined with reference to market rates. Where there are no market rates, the maintenance charges shall be agreed between the parties and determined on a cost-plus basis. The net rental charges and service charges due to China Netcom Group under the Telecommunications Facilities Leasing Agreement will be settled between the Combined Operating Group and China Netcom Group on a quarterly basis.

The Telecommunications Facilities Leasing Agreement takes effect from the date of completion of the Acquisition and is valid until 31 December 2007. If the Combined Operating Group notifies China Netcom Group at least three months prior to the expiration of the agreement of its intention to renew the agreement, the agreement can be renewed with the same terms for further periods of three years.

The above telecommunications facilities leasing arrangement did not exist in respect of CNC China prior to the restructuring implemented for the purpose of the Company's listing in 2004. Such arrangement also did not exist in respect of the Target Company prior to the Reorganisation. The total charges paid by the Group to China Netcom Group for the lease of telecommunications facilities for the second half of the financial year ended 31 December 2004 (during which period the restructuring for the Company's listing has been effective) was RMB138 million. Based on the annual depreciation charges, the current market rates and the expected telecommunications facilities required to be leased from China Netcom Group, the total amount payable by the Combined Operating Group to China Netcom Group under this leasing agreement in each of the three financial years ending 31 December 2005, 2006 and 2007 is not expected to exceed RMB600 million. Accordingly, this amount has been set as the proposed cap for this connected transaction.

Continuing connected transactions relating to Asia Netcom

In preparation for the Company's listing in 2004, certain continuing connected transactions were entered into between Asia Netcom, a wholly owned subsidiary of the Company, and EANL, an indirect wholly owned subsidiary of China Netcom Group. These continuing connected transactions relate to the purchase and lease of telecommunications capacity by Asia Netcom from EANL and the provision of certain management services by Asia Netcom to EANL. These continuing connected transactions will not be affected by the Acquisition and the terms and the annual caps applicable to such transactions will remain unchanged.

COMPLIANCE WITH THE HONG KONG LISTING RULES

Following completion of the Acquisition, the Combined Operating Group will continue to enter into transactions described in the section headed "Continuing Connected Transactions" above. Such transactions would constitute continuing connected transactions for the Company under the Hong Kong Listing Rules for so long as members of China Netcom Group remain as connected persons within the meaning of the Hong Kong Listing Rules.

The Board (including the members of the Independent Board Committee) is of the opinion that the terms of the Continuing Connected Transactions described in the section headed "Continuing Connected Transactions" above have been entered into, and will be carried out, in the ordinary and usual course of business of the Combined Operating Group and on normal commercial terms which are fair and reasonable so far as the interests of the Independent Shareholders of the Company are concerned.

It is expected that, the proposed annual cap for the years 2005 to 2007 for each category of Continuing Connected Transactions under the Master Sharing Agreement, the Ancillary Telecommunications Services Agreement, the Support Services Agreement and the Telecommunications Facilities Leasing Agreement, and

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the proposed annual cap for the years 2005 to 2007 for charges payable by the Combined Operating Group under both the Property Leasing Agreement and the Property Sub-leasing Agreement and for the charges payable by China Netcom Group under the Property Leasing Agreement, will be less than the 2.5% threshold under Rule 14A.34 of the Hong Kong Listing Rules. Accordingly, these transactions will be exempt from the independent shareholders' approval requirements under the Hong Kong Listing Rules, but such transactions will still be subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules.

For each category of Continuing Connected Transactions under the Engineering and Information Technology Services Agreement and the Materials Procurement Agreement, as the proposed annual cap will exceed the 2.5% threshold under Rule 14A.34 of the Hong Kong Listing Rules, such transactions will constitute non-exempt continuing connected transactions under Rule 14A.35 of the Hong Kong Listing Rules and will be subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules and the independent shareholders' approval requirements under Rule 14A.48 of the Hong Kong Listing Rules.

Under Rule 14A.35(2) of the Hong Kong Listing Rules, in respect of a continuing connected transaction which is not fully exempted, a cap must be set and disclosed. The caps for the Continuing Connected Transactions (other than those under the Domestic Interconnection Settlement Agreement and the International Long Distance Voice Services Settlement Agreement) for each of three years ending 31 December 2005, 2006 and 2007 are set out below:

Continuing Connected Transactions	Proposed annual cap (RMB in millions)
Property Leasing Agreement	payable by the Combined Operating Group payable by China Netcom Group - 35 100
Property Sub-leasing Agreement	payable by the Combined Operating Group
Master Sharing Agreement	payable by China Netcom Group - 180
Engineering and Information Technology Services Agreement	4,400
Materials Procurement Agreement	2,000
Ancillary Telecommunications Services Agreement	1,200
Support Services Agreement	1,610
Telecommunications Facilities Leasing Agreement	600

Special circumstances exist for both the Domestic Interconnection Settlement Agreement and the International Long Distance Voice Services Settlement Agreement and no cap is proposed in respect of the settlement of domestic and international long distance voice services for the following reasons:

(i) any growth in the domestic and international long distance voice services will necessarily result in increased transaction volumes under the Domestic Interconnection Settlement Agreement and the International Long Distance Voice Services Settlement Agreement, which the Company will not be able to control as it depends entirely on customer usage. Any caps on these transactions will therefore potentially limit the Company's ability to conduct or expand its business in the ordinary course; and

(ii) the settlement rates in respect of long distance voice services are determined with reference to the relevant standard tariff or policies promulgated by the relevant regulatory authorities in China, which are subject

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to change from time to time, and the Company is not in a position to set the settlement rates at its discretion.

The Company has applied to the Hong Kong Stock Exchange that no caps be proposed for the transactions contemplated under the Domestic Interconnection Settlement Agreement and the International Long Distance Voice Services Settlement Agreement. Such transactions will be subject to the reporting and announcement requirements set out in Rule 14A.45 to 14A.47 of the Hong Kong Listing Rules and the independent shareholders' approval requirements under Rule 14A.48 of the Hong Kong Listing Rules.

EXTRAORDINARY GENERAL MEETING

A notice of the Extraordinary General Meeting to be held in Nathan Room, Conrad Hotel, Hong Kong on 25 October 2005 at 10:00 a.m., is set out at the end of this circular. At the Extraordinary General Meeting, ordinary resolutions will be proposed to approve the Acquisition and the Non-exempt Continuing Connected Transactions. The vote of the Independent Shareholders at the Extraordinary General Meeting on the resolutions approving the Acquisition and the Non-exempt Continuing Connected Transactions shall be taken by poll.

In accordance with the Hong Kong Listing Rules, China Netcom Group, the ultimate holding company of the Company which, through CNC BVI, was beneficially interested in approximately 70.49% of the issued share capital of the Company as at the Latest Practicable Date, and its Associates, will abstain from voting on the resolutions to approve the Acquisition and the Non-exempt Continuing Connected Transactions at the Extraordinary General Meeting.

A form of proxy for use at the Extraordinary General Meeting is enclosed with this circular. Whether or not you are able to attend the Extraordinary General Meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's registered office at 46th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong, as soon as practicable and in any event at least 48 hours before the time appointed for holding the Extraordinary General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude a Shareholder from attending and voting in person at the Extraordinary General Meeting or any adjournment thereof should he so wishes.

RECOMMENDATION

CSFB has been retained as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition and the terms of the Non-exempt Continuing Connected Transactions. CSFB considers that the terms of the Acquisition are on normal commercial terms, and that the terms of the Non-exempt Continuing Connected Transactions are on normal commercial terms and are conducted in the ordinary and usual course of business. Furthermore, CSFB considers that the terms of the Acquisition and the Non-exempt Continuing Connected Transactions to be fair and reasonable from a financial perspective, so far as the Independent Shareholders are concerned, and are in the interest of the Company and its Shareholders as a whole. Accordingly, CSFB advises the Independent Board Committee and the Independent Shareholders that the Independent Shareholders should vote in favour of the Acquisition and the Non-exempt Continuing Connected Transactions. The text of the letter from CSFB containing its advice and the principal factors and reasons it has taken into consideration in arriving at its advice is set out on pages 38 to 58 of this circular.

The Independent Board Committee, having taken into account the advice of CSFB, considers that the terms of the Acquisition and the terms of the Non-exempt Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and

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its Shareholders as a whole. Accordingly, the Independent Board Committee recommends that Independent Shareholders vote in favour of the ordinary resolutions to be proposed at the Extraordinary General Meeting to approve the Acquisition and the Non-exempt Continuing Connected Transactions, as detailed in the notice of the Extraordinary General Meeting set out at the end of this circular. The text of the letter from the Independent Board Committee is set out on pages 36 to 37 of this circular.

ADDITIONAL INFORMATION

Your attention is also drawn to the letter from the Independent Board Committee which sets out its recommendation to the Independent Shareholders, the letter from CSFB which contains its advice to the Independent Board Committee and the Independent Shareholders, and the additional information set out in the appendices to this circular.

By Order of the Board
China Netcom Group Corporation
(Hong Kong) Limited
Zhang Chunjiang
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

[GRAPHIC OMITTED]
CHINA NETCOM GROUP CORPORATION (HONG KONG) LIMITED
[GRAPHIC OMITTED]
(incorporated in Hong Kong with limited liability under the Companies Ordinance)

23 September 2005

To the Independent Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION, CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

We refer to the circular (the "Circular") dated 23 September 2005 issued by the Company to its Shareholders of which this letter forms part. The terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

On 12 September 2005, the Board announced that the Company had entered into the Acquisition Agreement, pursuant to which the Company agreed to acquire and CNC BVI, the Company's immediate holding company, agreed to sell the entire equity interest in the Target BVI Company, subject to certain conditions.

The Independent Board Committee was formed on 15 August 2005 to make a recommendation to the Independent Shareholders as to whether or not the terms of the Acquisition and the terms of the Non-exempt Continuing Connected Transactions, from a financial perspective, are fair and reasonable so far as the Independent Shareholders are concerned, and whether or not the Acquisition and the Non-exempt Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole. CSFB has been retained as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the terms of the

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Acquisition and the terms of the Non-exempt Continuing Connected Transactions from a financial perspective.

The terms and the reasons for the Acquisition (including arrangements regarding the financing of the Acquisition) are summarised in the Letter from the Chairman set out on pages 6 to 35 of the Circular. The terms of the Non-exempt Continuing Connected Transactions are also summarised in the Letter from the Chairman.

As your Independent Board Committee, we have discussed with the management of the Company the reasons for the Acquisition, the terms of the Non-exempt Continuing Connected Transactions and the basis upon which their terms have been determined. We have also considered the principal factors and reasons taken into account by CSFB in arriving at its opinion regarding the terms of the Acquisition and the terms of the Non-exempt Continuing Connected Transactions as set out in the letter from CSFB on pages 38 to 58 of the Circular, which we urge you to read carefully.

The Independent Board Committee, after taking advice from CSFB, concurs with the views of CSFB and considers, from a financial perspective, that the terms of the Acquisition Agreement and the terms of the Non-exempt Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and its Shareholders as a whole. Accordingly, the Independent Board Committee recommends that Independent Shareholders vote in favour of the ordinary resolutions to approve the Acquisition and the Non-exempt Continuing Connected Transactions, as detailed in the notice of the Extraordinary General Meeting set out at the end of the Circular.

Yours faithfully
John Lawson Thornton
Victor Cha Mou Zing
Qian Yingyi
Hou Ziqiang
Timpson Chung Shui Ming
Independent Board Committee

LETTER FROM CSFB

The following is the text of a letter, prepared for the purpose of inclusion in this circular, received from CSFB in connection with the Acquisition and the Non-exempt Continuing Connected Transactions. @#

[GRAPHIC OMITTED]
Credit Suisse First Boston (Hong Kong) Limited
45/F, Two Exchange Square
Central
Hong Kong

23 September 2005

The Independent Board Committee
China Netcom Group Corporation (Hong Kong) Limited
46th Floor, Cheung Kong Center
2 Queen's Road Central
Hong Kong

The Independent Shareholders

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MAJOR TRANSACTION, CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Acquisition of the Target BVI Company

Dear Sirs,

INTRODUCTION

We refer to the Acquisition Agreement and the Continuing Connected Transactions, details of which are set out in the Company's circular dated 23 September 2005 (the "Circular"), which contains this letter. Terms defined in the Circular shall have the same meanings herein, unless the context otherwise requires.

Under the Hong Kong Listing Rules, the Acquisition constitutes both a major transaction and a connected transaction for the Company and, pursuant to the provisions thereof, is subject to, among other things, approval by the Independent Shareholders at the Extraordinary General Meeting.

The Combined Group, which includes the Company and its wholly-owned subsidiary CNC China through which the Company has contracted in several instances, on the one hand, and China Netcom Group and its subsidiaries or Associates (other than the Combined Group) on the other, have entered into a number of Continuing Connected Transactions in relation to the operations of the Combined Group, which constitute connected transactions for the Company under the Hong Kong Listing Rules. Certain of these Continuing Connected Transactions, namely the Domestic Interconnection Settlement Agreement, the International Long Distance Voice Services Settlement Agreement, the Engineering and Information Technology Services Agreement and the Materials Procurement Agreement, described in the section entitled "Continuing Connected Transactions" of the "Letter from the Chairman" (the "Non-exempt Continuing Connected Transactions") are subject to approval by the Independent Shareholders at the Extraordinary General Meeting.

We have been appointed to act as the Independent Financial Advisor to advise the Independent Board Committee and Independent Shareholders in respect of the terms of the Acquisition and the terms of the Non-exempt Continuing Connected Transactions, from a financial point of view. This letter has been prepared and delivered for the purpose of assisting the Independent Board Committee in its duty to evaluate the abovementioned aspects and for no other reasons or purposes.

In formulating our opinion, we have reviewed, among other things, the Circular, the Company's initial public offering prospectus dated 4 November 2004, the Acquisition Agreement, the Engineering and Information Technology Services Agreement, the Materials Procurement Agreement, the Domestic Interconnection Settlement Agreement and the International Long Distance Voice Services Settlement Agreement, as well as the information and financial projections prepared by the Company and the Target Company relating to the Target Company. In arriving at our opinion, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was publicly available or was furnished to us by, or on behalf of, the management of the Company or the Target Company or otherwise reviewed by us (which information includes, without limitation, the information cited herein), and we have not assumed any responsibility or liability therefor, nor have we conducted independent legal due diligence or due diligence investigation of the business, assets, liabilities, properties, operations, condition (financial and otherwise), results of operations, contingent liabilities, material agreements and prospects of the Target Company and each of its subsidiaries. We have further considered, as stated in the "Letter from the Chairman" that: (i) the Acquisition is negotiated and entered into on an arm's length basis and on

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normal commercial terms, (ii) the terms, including the purchase price are fair and reasonable, and (iii) the Acquisition is in the best interest of the Company and its Shareholders. The Directors have collectively and individually accepted full responsibility for the accuracy of the information and views contained in the Circular and have confirmed, having made all reasonable enquiries that, to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading.

We have also assumed that each of the Acquisition Agreement and the agreements relating to the Non-exempt Continuing Connected Transactions is enforceable against each of the parties thereto in accordance with its terms and that each of the parties will perform, and will be able to perform, its obligations thereunder, and as otherwise described in the Circular, in full when due. We have further assumed that all material governmental, regulatory or other consents and approvals necessary for the completion of the Acquisition and the entering into of the Non-exempt Continuing Connected Transactions will be obtained without any adverse effect on the Company or on the contemplated benefits of the Acquisition and the transactions contemplated under the Non-exempt Continuing Connected Transactions to the Company. We have not conducted any valuation or appraisal of any assets or liabilities, nor have any such valuations or appraisals been provided to us. In relying on financial analyses and forecasts provided to us, we have assumed that they have been reasonably prepared based on assumptions reflecting the best currently available estimates and judgments by the management of the Company and the Target Company as to the expected future results of operations and the financial condition of the Company or the Target Company to which such analyses or forecasts relate.

Our opinion is necessarily based on the legal and regulatory environment, economic market and other conditions as in effect on, and the information made available to us as at, the date hereof. It should be understood that subsequent developments (including any material deviations from the financial analyses and forecasts provided to us) may affect and/or change this opinion and that we do not have any obligation to update, revise, or reaffirm this opinion.

Our opinion is also subject to the following qualifications:

(a) We are instructed as the Independent Financial Adviser to the Independent Board Committee in relation to the Acquisition and the Non-exempt Continuing Connected Transactions. As such, the scope of our review, and consequentially, our opinion, is limited by reference to a financial point of view only and does not include any statement or opinion as to the merits or otherwise of the Acquisition, or the Non-exempt Continuing Connected Transactions from any other point of view;

(b) We do not express any opinion or statement as to whether any similar terms or transactions akin to the terms proposed for the Acquisition, and the Non-exempt Continuing Connected Transactions are or might be available from any independent third parties, nor as to whether any independent third parties might offer similar or better terms for similar transactions;

(c) It is not possible to confirm whether or not the Acquisition and the Non-exempt Continuing Connected Transactions are in the interests of each individual Independent Shareholder and each Independent Shareholder should consider his/her/its vote on the merits or otherwise of the Acquisition and the Non-exempt Continuing Connected Transactions in his/her/its own circumstances and from his/her/its own point of view having regard to all the circumstances (and not only the financial perspectives offered in this letter) as well as his/her/its own investment objectives;

(d) In preparing this letter and in giving any opinion or advice, we have

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only had regard to the Acquisition and the Non-exempt Continuing Connected Transactions in isolation, and not in connection with any other business plan or strategy, past or present with regard to the Company or the Group as a whole, nor have we viewed these as part of a series of other transactions or arrangements;

(e) We express no opinion as to whether the Acquisition, or the Non-exempt Continuing Connected Transactions will be completed nor whether they will be successful;

(f) Nothing contained in this letter should be construed as us expressing any view as to the trading price or market trends of any securities of the Company at any particular time;

(g) Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any securities of the Company; and

(h) We were not requested to and did not provide advice concerning the structure, the specific amount of the consideration, the timing, pricing, size, feasibility, or any other aspects of the Acquisition or the Non-exempt Continuing Connected Transactions, or to provide services other than the delivery of this opinion. We did not participate in negotiations with respect to the terms of the Acquisition, or the Non-exempt Continuing Connected Transactions or any related transactions.

We will receive a fee from the Company for the delivery of this opinion.

TERMS OF THE PROPOSAL

In arriving at our opinion, we have taken into consideration each of the principal factors and reasons set out below. Our conclusions are based on the results of all analyses taken as a whole.

1. The Acquisition

A. Overview

Pursuant to the Acquisition Agreement dated 12 September 2005, the Company agreed, subject to certain conditions, to acquire from CNC BVI the entire equity interest in the Target BVI Company for a purchase price of RMB 12,800 million (equivalent to approximately HK\$12,282 million). The Target BVI Company holds the entire equity interest in the Target Company, which in turn owns the assets and liabilities and the business operations in the Target Regions in the PRC. The purchase price consists of payment of an initial cash consideration of RMB3,000 million (equivalent to approximately HK\$2,879 million) payable on the completion date of Acquisition and a deferred consideration of RMB9,800 million (equivalent to approximately HK\$9,403 million). The Company intends to finance the initial consideration by using existing internal cash resources and the deferred consideration by using internal cash resources and/or proceeds from future external financing. The conditions precedent to the completion of the Acquisition must be satisfied on or before 31 December 2005 or such other date as agreed to by the parties. China Netcom Group has given warranties, representations and undertakings in respect of CNC BVI's title in the Target BVI Company and the Target Company, the operations and assets and liabilities of the Target Company and the legal status of those companies.

We understand that the corporate structure of the Company and its principal subsidiaries immediately after the Acquisition is set out below.

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Corporate structure immediately following the completion of the Acquisition

China Network		
Communications		
Group Corporation		
("China Netcom Group")		
(PRC) (3)		

100%		

China Netcom Group		
Corporation (BVI) Limited	Five PRC Shareholders(1)	Public Shareholders
("CNC BVI")		
(British Virgin Islands) (3)		

70.49% (2)	4.51% (2)	25.00%
