

Company Profile

China Telecom Corporation Limited (China Telecom)

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Places of Listings:	New York Stock Exchange (NYSE)
Ticker:	CHA (NYSE)
Sector – Industry:	Services – Communication Services

COMPANY OVERVIEW

A subsidiary of China Telecommunications Corporation - a state-owned enterprise (SOE), China Telecom Corporation Limited (China Telecom) is the leading provider of fixed-line (or wireline) telecommunications services in ten regions of the country. The company's principal operations are in four of the most economically developed regions in China, including Shanghai and the provinces of Guangdong, Jiangsu, and Zhejiang.

China Telecom was officially established in May 2002 after the split of the former China Telecom into two groups: China Netcom (north) and the new China Telecom (south). China Telecom was listed on the New York Stock Exchange on November 14, 2002 and on the Stock Exchange of Hong Kong on November 15, 2002. As the company's controlling shareholder, China Telecommunications Corporation, as of June 30, 2004 held 72.09 percent of China Telecom. Public shareholders account for 17.15 percent of total shares. The remaining shares are owned by three Chinese investment firms.

INDUSTRY BACKGROUND

As a result of sweeping economic and industry reforms in the telecommunications sector that started in 1998, the Chinese telecom market has witnessed both remarkable changes and growth in the past six years. Previously, the Ministry of Posts and Telecommunications (MPT) oversaw both the administration and operations divisions of the entire industry in China, providing telecom services through its operational arm, China Telecom. In 1994, Beijing officially embarked on its deregulation process by introducing a new player – China Unicom – to the telecom services sector.

However, it was obvious from the onset that China Unicom never had a chance to compete on a level-playing field against China Telecom. In an effort to eliminate the close, indivisible ties between businesses and government that were so prevalent in the old economy, in 1998, the Chinese government broke up the MPT into two separate entities: the Ministry of Information Industry (MII) and China Telecom, now a telecom carrier independent of the MII.

In 1999 and 2002, China Telecom was further restructured. First, it was stripped of its mobile business (now China Mobile), making it a fixed-line company. Later, China Telecom was split geographically into two groups: China Netcom (north) and China Telecom (south). 30 percent of its network resources and ten subsidiaries in north China were merged into China Netcom Group while China Telecom retained 21 provincial (municipal and autonomous) corporations, holding 70 percent of the trunk-line transmission network assets, and forming the new China Telecom Corporation Limited.

Today, the Chinese telecom market has transformed from a single government-owned entity into a more open, competitive industry with six carriers: three fixed-line operators (China Telecom, China Netcom, China Railcom), two mobile operators (China Mobile, China Unicom) and one satellite operator (China Satcom). This setup, often referred to as China's "5+1" telecommunications industry structure, is a complex, murky organizational jigsaw to piece together. In addition to these six main telecom operators, there are many smaller value-added telecom service providers across the country.

Despite the complexities of reform, China's telecom industry has made remarkable progress. By 2001, China owned the world's largest fixed-line and mobile networks, in terms of both network capacity and number of subscribers. In 2002, China passed the United States to become the No. 1 mobile market in the world, and China Mobile and China Unicom are currently ranked as the No. 1 and No. 3 largest mobile carriers in the world.

Chinese leaders have ambitious plans for the telecom industry, planning to develop the country into a major telecommunications hub in Asia and a center for international telecommunications exchanges and information services by 2005. In China's tenth Five-Year Plan (2001-2005), the telecom industry is earmarked to outpace the national economy. China's GDP grew 9.5% in 2004, and is expected to grow at above 8.5% in 2005. While its telecom market grew 37.4% in 2004, almost four times the pace of the overall economy, according to Ministry of Information Industry of China. In addition, the statistics from China's Ministry of Information Industry shows that China had approximately 312.4 million fixed-line telephone subscribers in December 2004, representing a 19% year-over-year growth.

While the competition map of the Chinese telecom industry has been transformed beyond recognition from its state-ran era, its restructuring may not be over yet. There have been rumors of a new "4-in-2" structure, which refers to mergers between China Mobile and China Netcom, and China Telecom and China Unicom.

BUSINESS SUMMARY

China Telecom is the leading provider of wire-line telephone, data and Internet and leased line services in 20 provinces, Autonomous Regions and Municipalities in China. Despite several waves of restructuring that have stripped it of its mobile business (now China Mobile) and its northern provincial subsidiaries (now part of China Netcom), China Telecom remains China's dominant fixed-line (or wireline) player – indeed, the world's largest fixed-line provider. Wireline telephone services make up China Telecom's main service, including local wireline telephone services (includes wireless local loops), domestic long distance, international long distance (includes Hong Kong, Macau, and Taiwan), and interconnection and upfront connection services. China Telecom reports that as of the end of December 2004, its local telephone subscriber base

reached 187 million. The growth in wireless local access subscribers was particularly strong, climbing to 42.2 million, achieving an annual growth rates of 64.8 percent.

Internet services are another fast-growing component of China Telecom's services. This segment of the company's business portfolio accounted for 9.2 percent of total operating revenue, as shown in the table below. As of the end of December 2004, the company reports its subscriber base for broadband access services reached 13.84 million, an increase of 6.61 million from the end of 2003 or a semi-annual growth rate of 91.4 percent.

China Telecom also offers a variety of other services, including:

- An extensive network of public telephones which targets the large and growing non-resident population in the service regions.
- Long distance services through its public switched telephone network as well as VoIP long distance services, which targets price sensitive customers, such as small businesses, certain residential customers and non-resident persons.
- Value-added telephone services, including caller ID, call forwarding, conference calling and toll-free services.
- Automated and operator-assisted telephone information and applications services, which allow users to access information at standard telephone usage rates plus information usage fees.
- Managed data services include Digital Data Network, or DDN, frame relay and Asynchronous Transfer Mode, or ATM services.
- System integration services that include initial consulting, network planning, network implementation, application development and maintenance.
- Leased Line Services.

FINANCIAL SUMMARY

Consolidated Income Statement

In millions of RMB

	2004	2003	2002
Net Revenue	161,212	151,553	109,564
Cost of Revenue	(90,240)	(90,715)	(65,233)
Gross Profit	70,972	60,838	44,331
Operating Expense	(31,142)	(27,986)	(18,334)
Operating Income (Loss)	39,830	32,852	25,997
Other Income (Expenses)	(6,567)	(18,445)	(16,734)
Income (Loss) before Tax	33,263	14,407	9,263
Income Tax Benefit (Expenses)	(5,187)	(469)	582
Income (Loss) before Minority Interest	28,076	13,938	9,845
Minority Interest	(53)	(56)	(72)
Net Income (Loss)	28,023	13,882	9,773

Consolidated Balance Sheet

In millions of RMB

	2004	2003	2002
Assets			
Current Assets:			
Cash and Cash Equivalents	13,465	12,721	18,685
Other Current Assets	20,067	20,372	15,015
Total Current Assets	33,532	33,093	33,700
Non - Current Assets	379,038	370,849	269,911
Total Assets	412,570	403,942	303,611
Liabilities & Stockholders' Equity			
Current Liabilities	151,944	149,135	99,548
Non - Current Liabilities	100,007	102,744	50,029
Total Liabilities	251,951	251,879	149,577
Shareholders' Equity	160,619	152,063	154,034
Total Liabilities & Equity	412,570	403,942	303,611

Consolidated Cash flow Statement

In millions of RMB

	2004	2003	2002
Cash Flow from Operating Activities	66,078	58,392	52,158
Cash Flow from Investing Activities	(56,353)	(57,094)	(47,060)
Cash Flow from Financing Activities	(8,981)	(11,320)	5,890
Effect of Exchange Rate Changes	-	-	-
Increase (Decrease) in Cash	744	(10,022)	10,988

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