

CHINA TELECOM CORP LTD
Form 20-F
May 24, 2005
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SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2004

OR

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

For the transition period from _____ to _____

Commission file number 1-31517

(Exact Name of Registrant as Specified in Its Charter)

China Telecom Corporation Limited

(Translation of Registrant's Name into English)

People's Republic of China

(Jurisdiction of Incorporation or Organization)

31 Jinrong Street, Xicheng District

Beijing, China 100032

(Address of Principal Executive Offices)

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

<u>Title of Each Class</u>	<u>Name of Each Exchange On Which Registered</u>
American depositary shares	New York Stock Exchange, Inc.
H shares, par value RMB1.00 per share	New York Stock Exchange, Inc.*

* Not for trading, but only in connection with the listing on the New York Stock Exchange, Inc. of American depositary shares, each representing 100 H shares.

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

None

(Title of Class)

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

None

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(Title of Class)

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

As of December 31, 2004, 67,054,958,321 domestic shares and 13,877,410,000 H shares, par value RMB1.00 per share, were issued and outstanding. H shares are ordinary shares of the Company listed on The Stock Exchange of Hong Kong Limited.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

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FORWARD-LOOKING STATEMENTS

This annual report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are, by their nature, subject to significant risks and uncertainties, and include, without limitation, statements relating to:

our businesses and operating strategies;

our network expansion and capital expenditure plans;

our operations and business prospects;

the expected benefit of any acquisitions or other strategic transactions;

our financial condition and results of operations;

the future prospects of and our ability to integrate the acquired businesses;

the industry regulatory environment as well as the industry outlook generally; and

future developments in the telecommunications industry in China.

The words anticipate, believe, could, estimate, expect, intend, may, plan, seek, will, would and similar expressions, as they are used in this report, are intended to identify a number of these forward-looking statements.

These forward-looking statements are subject to risks, uncertainties and assumptions, some of which are beyond our control. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. We do not intend to update these forward-looking statements. Actual results may differ materially from the information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors set forth in Item 3. Key Information D. Risk Factors and the following:

any changes in the regulatory policies of the Ministry of Information Industry and other relevant government authorities relating to, among other matters:

- the granting and approval of licenses;

- tariff policies;
- interconnection and settlement arrangements;
- capital investment priorities;
- the provision of telephone services to rural areas in China; and
- numbering resources allocation;

the effects of competition on the demand for and price of our services;

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the development of new technologies and applications or services affecting our current and future businesses;

changes in political, economic, legal and social conditions in China, including the Chinese government's specific policies with respect to foreign investment in and entry by foreign companies into China's telecommunications industry, economic growth, inflation, foreign exchange and the availability of credit; and

changes in population growth and gross domestic product, or GDP, growth and the impact of those changes on the demand for our services.

CERTAIN DEFINITIONS AND CONVENTIONS

As used in this annual report, references to us, we, the Company and China Telecom are to China Telecom Corporation Limited and all of its consolidated subsidiaries except where we make clear that the term means China Telecom Corporation Limited or a particular subsidiary or business group only. References to matters relating to our H shares or ADSs or matters of corporate governance are to the H shares, ADSs and corporate governance of China Telecom Corporation Limited. In respect of any time prior to our incorporation, references to us, we and China Telecom are to the telecommunications businesses in which our predecessors were engaged and which were subsequently assumed by us. All references to China Telecom Group are to China Telecommunications Corporation, our controlling shareholder. Unless the context otherwise requires, these references include all of its subsidiaries, including us and our subsidiaries.

On June 30, 2004, we acquired the entire equity interests in each of Hubei Telecom Company Limited, Hunan Telecom Company Limited, Hainan Telecom Company Limited, Guizhou Telecom Company Limited, Yunnan Telecom Company Limited, Shaanxi Telecom Company Limited, Gansu Telecom Company Limited, Qinghai Telecom Company Limited, Ningxia Telecom Company Limited and Xinjiang Telecom Company Limited from China Telecom Group. As we and these acquired companies were under the common control of China Telecom Group, our acquisition of the acquired companies has been treated as a combination of entities under common control, which was accounted for in a manner similar to a pooling-of-interests. As presented in this annual report, all data and information relating to our businesses and operations include the data and information relating to the businesses and operations of the acquired companies.

PART I

Item 1. Identity of Directors, Senior Management and Advisers.

Not applicable.

Item 2. Offer Statistics and Expected Timetable.

Not applicable.

Item 3. Key Information.

A. Selected Financial Data

The following table presents our selected financial data. The selected balance sheet data as of December 31, 2003 and 2004, and the selected income statement data and cash flow data for each of the years ended December 31, 2002, 2003 and 2004, are derived from our audited financial statements included elsewhere in this annual report, and should be read in conjunction with our audited financial statements and operating and financial review and prospects included elsewhere in this annual report. The selected balance sheet data as of December 31, 2000, 2001 and 2002

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and the selected income statement and cash flow data for each of the years ended December 31, 2000 and 2001 are derived from our audited financial statements, which are not included in this annual report. Our audited financial statements are prepared and presented in accordance with International Financial Reporting Standards, or IFRS, which differ in certain significant respects from accounting principles generally accepted in the United States of America, or US GAAP. Information relating to the nature and effect of significant differences between IFRS and US GAAP, as they relate to us for the periods described therein, is presented in Note 33 to the audited financial statements included elsewhere in this annual report.

The selected financial data reflect the restructuring in 2001, the acquisitions in 2003 and 2004 described under Item 4. Information on the Company A. History and Development of the Company Our Restructuring and Initial Public Offering , The Acquisition in 2003 and Acquisition in 2004 , respectively, and have been prepared as if our current structure had been in existence throughout the relevant periods. The

Since China Telecom Group controlled the telecommunications operations and the related assets transferred to us prior to our restructuring and continues to control us after our restructuring, the financial data of the telecommunications operations in Shanghai Municipality, Guangdong Province, Jiangsu Province and Zhejiang Province transferred to us by China Telecom Group for periods prior to our incorporation have been combined in a manner similar to a pooling-of-interests. The assets and liabilities of the entities being combined are carried forward at their recorded historical amounts, and the book value of the assets and liabilities, as well as the revenue and expenses of each of these entities for the periods prior to our incorporation, are added together to prepare our financial statements.

On December 31, 2003, we acquired the entire equity interests in each of Anhui Telecom Company Limited, Fujian Telecom Company Limited, Jiangxi Telecom Company Limited, Guangxi Telecom Company Limited, Chongqing Telecom Company Limited and Sichuan Telecom Company Limited from China Telecom Group. On June 30, 2004, we acquired the entire equity interests in each of Hubei Telecom Company Limited, Hunan Telecom Company Limited, Hainan Telecom Company Limited, Guizhou Telecom Company Limited, Yunnan Telecom Company Limited, Shaanxi Telecom Company Limited, Gansu Telecom Company Limited, Qinghai Telecom Company Limited, Ningxia Telecom Company Limited and Xinjiang Telecom Company Limited from China Telecom Group. As we and these acquired companies were under the common control of China Telecom Group, our acquisitions of these acquired companies are accounted for in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities of the acquired companies have been accounted for at historical amounts and our financial statements for periods prior to the respective acquisitions have been restated to include the financial position and results of operations of the acquired companies on a combined basis. Unless otherwise indicated in this section, our financial data for periods prior to the acquisition in 2004 are presented based on those restated amounts.

In connection with our restructuring in 2001, China Telecom Group retained the ownership of certain assets that were historically associated with our operations and primarily consisted of investments in non-telecommunications industries, inter-provincial optic fibers, international gateway and international transmission equipment, telecommunications equipment for special communications services, and certain office equipment, properties and buildings, and the segregation and separate management of these assets by China Telecom Group took effect on December 31, 2001. In connection with our acquisitions in 2003 and 2004, China Telecom Group retained the ownership of certain assets that were historically associated with our operations and primarily consisted of investments in non-telecommunications industries and certain properties, and the segregation and separate management of these assets by China Telecom Group took effect on December 31, 2002 and December 31, 2003, respectively. With respect to the restructuring in 2001, except for the income statement data for the years ended December 31, 2002, 2003 and 2004, the income statement data for the other periods presented below include the results of the assets retained by China Telecom Group. The results of such assets are not reflected in our income statement for periods beginning after December 31, 2001. These assets are not reflected in our balance sheet as of and after December 31, 2001. With respect to the acquisition in 2003, except for the income statement data for the year ended December 31, 2003 and 2004, the income statement data for the other periods presented below include the results of the assets retained by China Telecom Group. The results of such assets are not reflected in our income statement for periods beginning after December 31, 2002. Except for the balance sheet data as of December 31, 2002, 2003 and 2004, the balance sheet data as of other dates presented below include data related to the assets retained by China Telecom Group in relation to the acquisition in 2003. These assets are not reflected in our balance sheet as of and after December 31, 2002. With respect to the acquisition in 2004, except for the income statement data for the year ended December 31, 2004, the income statement data for the other periods presented below include the results of the assets retained by China Telecom Group. The results of such

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assets are not reflected in our income statement for periods beginning after December 31, 2003. Except for the balance sheet data as of December 31, 2003 and 2004, the balance sheet data as of other dates presented below include data related to the assets retained by China Telecom Group in relation to the acquisition in 2004. These assets are not reflected in our balance sheet as of and after December 31, 2003.

	As of or for the year ended December 31,					
	2000 RMB	2001 RMB	2002 RMB	2003 RMB	2004 RMB	2004 US\$
(in millions, except share numbers and per share and per ADS data)						
Income Statement Data:						
IFRS						
Operating revenue	129,665	130,081	140,906	151,553	161,212	19,478
Operating expenses	(101,085)	(109,367)	(115,798)	(118,701)	(121,382)	(14,665)
Operating income	28,580	20,714	25,108	32,852	39,830	4,813
Income before income tax and minority interests ⁽²⁾	27,432	6,839	6,435	14,407	33,263	4,019
Income tax	(4,556)	1,499	1,856	(469)	(5,187)	(627)
Net income	22,801	8,352	8,219	13,882	28,023	3,386
Basic earnings per share ⁽¹⁾	0.33	0.12	0.12	0.18	0.36	0.04
Basic earnings per ADS ⁽¹⁾	33.38	12.23	11.87	18.36	35.54	4.29
U.S. GAAP						
Net income	22,801	16,254	16,991	21,452	25,715	3,107
Basic earnings per share ⁽¹⁾	0.33	0.24	0.25	0.28	0.33	0.04
Basic earnings per ADS ⁽¹⁾	33.38	23.79	24.54	28.37	32.62	3.94
Balance Sheet Data:						
IFRS						
Cash and cash equivalents	25,159	15,274	22,743	12,721	13,465	1,627
Accounts receivable, net	14,324	11,074	11,605	12,951	13,921	1,682
Property, plant and equipment, net ⁽²⁾	285,587	312,326	311,241	309,896	320,179	38,685
Total assets ⁽²⁾	420,199	423,434	423,701	403,942	412,570	49,848
Short-term debt ⁽³⁾	31,376	44,897	53,196	56,243	65,976	7,971
Accounts payable	37,283	38,756	34,859	35,629	33,658	4,067
Long-term obligations	45,924	46,469	39,052	68,675	72,523	8,762
Deferred revenues (excluding current portion)	55,990	49,308	40,894	32,744	25,182	3,043
Total liabilities	253,223	252,974	235,490	251,879	251,951	30,441
Shareholders' equity ⁽²⁾	165,985	169,472	187,025	150,794	159,206	19,236
U.S. GAAP						
Property, plant and equipment, net	285,587	320,102	331,350	339,300	342,718	41,409
Total assets	420,199	431,210	443,810	433,346	435,109	52,572
Shareholders' equity	165,985	174,590	200,406	170,641	176,134	21,281
Cash Flow Data:						
IFRS						
Cash flows from operating activities	59,341	57,083	62,357	58,392	66,078	7,984
Net cash used in investing activities ⁽⁴⁾	(71,030)	(75,073)	(62,578)	(57,094)	(56,353)	(6,809)
Capital expenditures ⁽⁴⁾	(68,901)	(73,976)	(61,437)	(57,692)	(56,446)	(6,820)
Net cash from / (used in) financing activities	7,634	8,105	7,690	(11,320)	(8,981)	(1,085)

- (1) The basic earnings per share have been calculated based on the net income of RMB22,801 million, RMB8,352 million, RMB8,219 million, RMB13,882 million and RMB28,023 million, respectively, for the years ended December 31, 2000, 2001, 2002, 2003 and 2004, and the weighted average number of shares in issue during the relevant year of 68,317,270,803, 68,317,270,803, 69,241,674,942, 75,614,186,503 and 78,839,968,917 shares, respectively, as if the 68,317,270,803 shares issued and outstanding upon our formation on September 10, 2002 had been outstanding for all periods presented. Basic earnings per ADS have been computed as if all of our issued and outstanding shares, including domestic shares and H shares, are represented by ADSs during each of the years presented. Each ADS represents 100 H shares.

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- (2) Includes the effect of the revaluation of property, plant and equipment as of December 31, 2001 in connection with our restructuring and as of December 31, 2002 and as of December 31, 2003 in connection with our acquisitions. It also includes the effect of the Company's revaluation of property, plant and equipment as of December 31, 2004 which was carried out in accordance with the Company's accounting policies under IFRS. See Note 7 to our audited financial statements.
- (3) Excludes current portion of long-term debt.
- (4) Capital expenditures are part of and not an addition to net cash used in investing activities.

Pursuant to the shareholders' approval at the annual general meeting held on May 3, 2004, a final dividend of RMB0.069083 equivalent to HK\$0.065 per share totaling RMB5,224 million in respect of the year ended December 31, 2003 was declared and was paid on May 20, 2004. Holders of our ADRs received a dividend of USD\$0.8333 per share in 2004 based on the exchange rate of HK\$7.80=US\$1.00.

Pursuant to a resolution passed at the directors' meeting on March 31, 2005, a final dividend of equivalent to HK\$0.065 per share totaling approximately RMB5,576 million for the year ended December 31, 2004 was proposed for shareholders' approval at the annual general meeting. The dividend has not been provided for in the consolidated financial statements for the year ended December 31, 2004.

Exchange Rate Information

Our financial statements are expressed in Renminbi. Solely for the convenience of the reader, this annual report contains translations of certain Renminbi and Hong Kong dollar amounts into U.S. dollars and vice versa at RMB8.2765 = US\$1.00 and HK\$7.7723 = US\$1.00, the noon buying rates in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2004. These translations should not be construed as representations that the Renminbi or Hong Kong dollar amounts could have been or could be converted into U.S. dollars at such rates or at all.

The noon buying rates in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York were RMB8.2765 = US\$1.00 and HK\$7.7861 = US\$1.00, respectively, on May 23, 2005. The following table sets forth the high and low noon buying rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each month during the previous six months:

Noon Buying Rate

	RMB per US\$1.00			HK\$ per US\$1.00	
	High	Low		High	Low
November 2004	8.2765	8.2764	November 2004	7.7815	7.7718
December 2004	8.2767	8.2765	December 2004	7.7821	7.7698
January 2005	8.2765	8.2765	January 2005	7.7994	7.7775
February 2005	8.2765	8.2765	February 2005	7.7999	7.7984
March 2005	8.2765	8.2765	March 2005	7.7998	7.7987
April 2005	8.2765	8.2765	April 2005	7.7995	7.7946
May 2005 (as of May 23)	8.2765	8.2765	May 2005 (as of May 23)	7.7995	7.7861

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The following table sets forth the average noon buying rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each of 2000, 2001, 2002, 2003 and 2004, calculated by averaging the noon buying rates on the last day of each month during each of the relevant years.

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Average Noon Buying Rate

RMB per US\$1.00

HK\$ per US\$1.00