

Broadband Access Marketplace, Ltd.

China's Telecom Industry Overview 2002

By: Mr. Douglas C. MacLellan

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Industry Overview:

According to latest statistics provided by the Ministry of Information Industry ("MII"), China's information industry maintained a rapid growth rate during 2001. By the end of November, 2001 the number of telephone users in China reached approximately 317 million, increasing by 87.56 million new customers. During the first 11 months of 2001, the MII reported approximately 32.9 million new fixed-line users, giving China a total of approximately 177 million fixed-line customers. The registered users of on-line Internet services increased from approximately 1.039 million to nearly 16 million customers. Total mobile phone customers totaled approximately 140 million, making China the world's largest cellular market. The total Chinese national telecom business amounted to approximately US\$42 billion, which is a 13.8 percent increase over 2000. Statistics indicate that the information industry had become China's leading industry. Fixed asset investment in the telecom industry of China reached approximately US\$23 billion in 2001. This industry investment has increased 54 percent over the same period in 2000. The gross revenue of China's three key operators, China Telecom, China Mobile and China Unicom increased 6.3, 20.9 and 51.2 percent respectively during 2001. The industry paid national taxes of approximately US\$7.6 billion during 2001. From the equipment side the total value of the electronic and information product manufacturing sector reached approximately US\$ 158 billion, an increase of 27 percent during 2001.

The MII anticipates that the Chinese telecom industry will attain gross industry revenues of approximately US\$120 billion in total communication services by 2005 and the industry will have upgraded and expanded their networks to the level of most western developed countries,

An industry reform effort by the MII was commenced in 1998, in order to attempt to make the Chinese telecom market more competitive. China currently has two mobile telecom operators, three fixed-line operators and one satellite operator. These telecom reforms split monopolized multifunction telecom operators into single service providers, a necessary restructuring in order to make the industry more competitive. China is now anticipated to further restructure the industry by allowing for four integrated telecom operators to provide fixed-line, mobile, data and other basic telecom services in an attempt to make the telecom industry even more competitive. This latest restructuring will take at least two years as most telecom operators have separate licenses for either fixed-line or mobile service. At the end of 2001, the State Council approved the program of telecom system reform for China Telecom's north-south split plan. The new China Telecom and China Netcom are now under re-organization. Additional examples of reforms include a December 11, 2001 announcement that China Railway Communications Company (China Railcom) started to operate fixed phone service in ten cities. On December 19, 2001 China SatCom, a satellite phone company, was officially organized in Beijing. With these new changes, there will now be six large telecom players in China, including: China Telecom, China Mobile, China Unicom, China SatCom, China Netcom and China Railcom. China has entered an essential phase to break the monopoly in the telecom industry. A new competitive telecom pattern is taking shape.

Mr. Douglas MacLellan holds significant expertise in developing and financing businesses in emerging markets, particularly in the telecommunications, software and media industries. Over the past fourteen years, Mr. MacLellan has helped to develop and finance business in Bulgaria, Cambodia, Canada, Chile, China, Hungary, India, Korea, Madagascar, Russia and the United States. Mr. MacLellan was a co-founder and a significant stakeholder in two China based cellular and PSTN telecommunications businesses that had joint ventures with China Unicom. These joint ventures had operations in Chongqing City, Chengdu, Ningbo and the provinces of Yunnan, Inner Mongolia and Ningxia. Mr. MacLellan has been doing business in China since 1982. Mr. MacLellan was also a co-founder of the predecessor to AT&T Latin America.

The Initial Break-up of China Telecom

During the summer of 2001 the MII strongly indicated that China Telecom should be broken-up in order to improve the competitive nature of the industry. The MII began planning a breakup of China Telecom, the country's fixed-line telephone monopoly. The break-up strategy was finalized with China Telecom being split into companies licensed to offer services to the northern and southern regions of China. The split falls almost exactly along the Yangtze River. The northern company will contain 10 provinces and about a quarter of existing fixed line customers, while the southern will contain 21 provinces and three quarters of existing customers. China Network Communications Corporation takes the northern region and China Telecom Group takes the southern region. These two reorganized businesses will be officially launched on February 12, 2002. China Netcom will run the fixed-line telephone networks in the

provinces of Beijing, Tianjin, Shanxi, Inner Mongolia, Liaoning, Jilin, Heilongjiang, Henan and Shandong. The northern network will also include Jitong Network Communications' existing assets. The local networks in China's mostly southern provinces will be run under China Telecom. The two companies will share ownership of China Telecom's national fiber-optic network, which is the country's largest. The northern company will have rights to 30 percent of that network's capacity, in addition to the separate network built by China Netcom. The southern company will have rights to the remaining 70 percent. Both of the new companies will be licensed to build and operate fixed-line telephone networks in their respective territories.

Foreign Investment Allowed in Telecom Carriers

Two regulations banning overseas investment in China's telecom carriers were abolished December 11, 2001 to make it possible for direct foreign investment in China's telecom industry. The two regulations were Provisional Regulations on the Administration of Examining and Approving Telecommunications Businesses issued on September 11, 1993, and the Provisional Regulations on the Administration of the Telecommunications Market enacted on November 10, 1995, banning overseas investment in China's telecom carriers.

China Telecom Industry Financing

China Telecom is likely to be the first of four major international capital fundraisings from the Mainland's telecom sector in 2002, with targeting listing on the Hong Kong and New York stock exchanges by the end of the second quarter. The exact structure of the four public listings from China Telecom, China Mobile, China Unicom and China Netcom will be critical if China is to be successfully place well over \$10 billion in new equity financing in a market where telecom valuations remain low. Clearly, emerging market fixed-line telephone companies are currently out of vogue and valuations are exceptionally low when viewed by the U.S. capital markets. China Telecom is now targeting an IPO of approximately US\$5 billion. China Telecom will likely follow the model of wireless giant China Mobile (Hong Kong) Ltd in listing only a handful of provincial networks in the IPO and later buying others from its parent at discounted prices. It is likely that China Telecom will bring to market four provincial networks: Guangdong, Zhejiang, Jiangsu, and the municipality of Shanghai. It is also probable that the listing vehicle may include a cellular license - a scenario that investors in duopoly firms China Mobile and China Unicom Ltd have long feared and partly why their shares have fallen some 40 and 30 percent during 2001.

Morgan Stanley and CICC also hold the mandate for a roughly US\$2 billion follow-on offering for China Unicom, which forms part of a US\$10 billion assets injection from the China Unicom parent company to the NYSE listed subsidiary. From a scheduling perspective the China Unicom deal stands either second or third in the pecking order with China Mobile, leaving China Netcom to bring up the rear.

The battle to win China Netcom investment banking business is already shaping up to be one of the most keenly fought mandates of 2002, with Goldman Sachs a clear front runner because of its close relationship with China Netcom management. The restructuring that needs to happen at China Netcom is currently going is clearly more complex than what is happening at China Telecom. In the case of China Telecom, all they are doing is carving up some assets. But at China Netcom there are serious integration issues. Most glaring, there is also the touchy issue of how to handle equity stakes in the original China Netcom held by Rupert Murdoch's News

Corp and Goldman Sachs, who along with other investors bought a 12 percent stake for US\$325 million, implying a then-total value of US\$2.71 billion. Investor sentiment has turned coldly away from China Netcom's original business model as a wholesale carrier similar to Level 3 Communications and Global Crossing. But China Netcom's backers also include the son of Chinese President Jiang Zemin, and both Goldman Sachs and News Corp have well-established track records on the mainland that Beijing may be loathe to upset, yet their shareholdings are likely to be heavily diluted, due to the reorganization of China Netcom and China Netcom's intended IPO.

In some respects, China Netcom has a number of advantages over China Telecom. Although it is a much smaller proposition, the inclusion of the old China Netcom gives the company a valuable national fiber optic network, which can be teamed up with the underutilized packet switching capabilities of China Telecom's Data Bureau. Netcom has a modern IP backbone and with the northern part of China Telecom, it gains scale and access. Future competition is not going to be adding new fixed line services, but in the high margin, low capex, data services business. Because it has a national network, China Netcom has, at the very least, a lead position in this market space.

Lastly, uncertainty over this issue and billing methods has placed a heavy drag on the share prices of China Mobile and China Unicom during 2001. Although both companies stock prices have now rebounded from their 52-week lows, they have still vastly underperformed every single China index. China Mobile and China Unicom both plan major first-half fundraising exercises to buy additional provincial networks from their parents. Unicom's parent also plans a domestic A-share offer to help fund its CDMA mobile network.

Mobile Service Pricing

China Electronic News, the publication of the Ministry of Information Industry, on Monday, January 21, 2002, stated that the MII would give provincial telecommunications regulators discretionary power to use market situations to determine tariff mechanisms for value-added and "full competitive telecoms" services. The report sparked concerns that the central Government would soon allow mobile operators to adjust their tariffs according to market mechanisms. A China Mobile spokesman said the ministry's plans to relax controls on tariffs would not lead to a price war among mobile carriers as basic tariffs would still be under government regulation. "I would rather they give us a clear picture on when telecoms tariffs will be fully liberalized, when calling-party-pays will be implemented and when new mobile licenses will be issued," he said. "I think price deregulation is only a matter of time and speed. From (the ministry's provincial offices) point of view, lower tariffs would help bolster penetration rates," Mr. Lo stated.

China's 10-Year Telecom Plan:

The MII has indicated that China's telecommunication industry should set the following key growth goals over the next ten years:

1. Increase total industry revenue to approximately US\$117 billion, in overall communication business by 2005, of which approximately US\$ 9.4 billion will come from the post sector, approximately US\$108 billion would come from the telecom sector, with an average annual growth rate of approximately 23 percent;

2. Develop the world's single largest fixed-line and mobile phone networks, with over 500 million total customers, that includes significant rural market penetration;
3. Increase the number of broadband data, multimedia and Internet users to include approximately 15 percent of the total forecasted population, giving China approximately 200 million customers; and
4. Establish competitive nationwide high-speed broadband networks to service the vast majority of all of China's cities, towns and rural areas.

China Revising Information Industry Regulations

The MII has announced that the goals of the new revisions in telecom regulations are to create a fair, open and just environment for domestic and foreign information industry operators. During 2001 the MII executed approximately 34 new regulations which detail specific measures covering wide-range of fields, such as bidding for telecommunications projects. The following section detail the revisions adopted on January 1, 2002.

Regulations on Applying for Telecom Business Licenses

The Regulations on the License for Operation of Telecommunications Business, No.19 Ministerial Decree, signed and issued by Wu Jichuan, head of the Ministry of Information Industry (MII), came into effect on Jan. 1, 2002. The English translation of this text has been supplied by www.ChinaOnline.com. The full text of these regulations is as follows:

Chapter 1: General provisions

Article 1: These regulations are enacted in accordance with the provisions in the Telecommunications Regulations of the People's Republic of China and other laws and administrative regulations in a bid to standardize the administration of licenses for the operation of telecom businesses.

Article 2: These regulations are applicable to applications for, examination and approval, and administration of the license for operation of telecom businesses (referred to as "license for operation" hereinafter) within the territory of the People's Republic of China, unless the law stipulates otherwise. As to details relating to the license for operation of basic telecom businesses issued through bidding, the MII shall make separate regulations.

Article 3: The MII and the communications administrations in provinces, autonomous regions and municipalities (generally referred to as "telecom administrative departments" hereinafter) are agencies responsible for the examination, approval and administration of the license for operation. The telecom administrative department shall abide by the principles of openness, fairness and equitability in the examination, approval and administration of the license for operation.

Article 4: Operators of telecom businesses shall observe regulations on the license for operation in their operation of telecom businesses and accept the supervision and administration from the

telecom administrative department. Operators of telecom businesses that operate telecom businesses according to regulations on the license for operation shall be under the protection of state laws.

Chapter 2: Application for the license for operation

Article 5: Applicants for the operation of basic telecom businesses shall conform to the provisions in Article 10 of the Telecommunications Regulations of the People's Republic of China and the following conditions:

1. Those operating in provinces, autonomous regions and municipalities shall have a registered capital of no less than 200 million Yuan (US\$24.15 million); those operating nationwide or across provinces, autonomous regions and municipalities shall have a registered capital of no less than 2 billion Yuan (US\$241.55 million); and
2. They will have committed no major illegal acts in the last three years.

Article 6: Applicants for the operation of value-added telecom businesses shall conform to the provisions in Article 13 of the Telecommunications Regulations of the People's Republic of China and the following conditions:

1. Those operating in provinces, autonomous regions and municipalities shall have registered capital of no less than 1 million Yuan (US\$120,773); those operating nationwide or across provinces, autonomous regions and municipalities shall have registered capital of no less than 10 million Yuan (US\$1.21 million);
2. They will issue a feasibility study and relevant technical plans;
3. There will be a required site and necessary facilities; and
4. The applicant will not have committed any major illegal acts in the last three years.

Article 7: Applicants for the license for operation of basic telecom businesses shall submit the following application documents to the MII:

1. A written application for the operation of basic telecom businesses signed by the legal representative of the company, which shall include the category of telecom business applied for, coverage of the business, name of the company, mailing address of the company, zip code, contact person, contact telephone number, e-mail address, etc.
2. A legal copy of the company's business license;
3. Corporate survey, including basic information about the company, organizational setup and management for the planned telecom business, technical force and personnel for operation and management, the site and facilities, etc.;
4. The latest annual financial statement or a verification of capital audited by an accounting firm, as well as other related accounting documents required by the MII;
5. Articles of association, equity structure and information about shareholders;

6. The feasibility study for business development, including the plan for the development and implementation of the telecom business applied for, service items, business scope, market research and analysis, charging plan, prospective quality of service, investment analysis, social benefits and economic returns analysis, etc.;
7. Technical plan for network building, including structure of the network, size of the network, plan for network construction, plan for networking, technical standards, layout of telecom facilities, plan for the use of telecom resources, etc.;
8. Measures for providing long-term services and quality guarantee to customers;
9. Measures for guaranteeing network and information security;
10. Related testimonials of the company's credibility; and
11. Letter of commitment for the operation of the telecom business according to law signed by the company's legal representative.

Applicants for the operation of radio communications businesses shall submit the opinion provided by the radio regulatory agency on the pre-allocation of radio frequency resources. Applicants that have not obtained a business license as a legal person shall submit the notification on the preliminary approval of the enterprise name and do not need to submit documents as prescribed in Clauses 2 and 10. The written application prescribed in Clause 1 and the letter of commitment prescribed in Clause 11 shall be signed by all shareholders if a limited liability company is to be established or by all initiators if a joint-stock limited company is to be established.

Article 8: Applicants for the license for operation of value-added telecom businesses shall submit the following application documents to the telecom administrative department:

1. A written application for the operation of value-added telecom businesses signed by the legal representative of the company, which shall include the category of telecom business applied for, coverage of the business, name of the company, mail address of the company, zip code, contact person, contact telephone number, e-mail address, etc.
2. A legal copy of the company's business license;
3. Corporate survey, including basic information about the company, personnel to engage in value-added business, site and facilities, etc.;
4. The latest annual financial statement of the business corporation or the report on the verification of capital audited by an accounting firm, as well as other related accounting documents required by the telecom administrative department;
5. Articles of association, equity structure and information about shareholders;
6. The feasibility study for business development, including the plan for the development and implementation of the telecom business applied for, service items, business scope,

market research and analysis, charging plan, prospective quality of service, investment analysis, social benefits and economic returns analysis, etc.;

7. Measures for providing long-term services and quality guarantees to customers;
8. Measures for guaranteeing information security;
9. Related testimonials regarding the company's credibility;
10. Letter of commitment for the operation of telecom businesses according to law signed by the company's legal representative; and
11. A document of approval provided by the related department in charge if the applied telecom businesses must be verified and approved in advance by the related department in charge according to the laws, administrative regulations and relevant state regulations.

Applicants for the operation of a radio communications business shall submit the opinion provided by the national or provincial radio regulatory agency on the pre-allocation of radio frequency resources. Applicants that have not obtained a business license as a legal person shall submit the notification on the preliminary approval of the enterprise name and do not need to submit documents as prescribed in Clauses 2 and 9. The written application prescribed in Clause 1 and the letter of commitment prescribed in Clause 10 shall be signed by all shareholders if a limited liability company is to be established or by all initiators if a joint-stock limited company is to be established.

Chapter 3: Examination and approval of the license for operation

Article 9: The license for operation falls in two categories: one for basic telecom businesses and the other for value-added telecom businesses. As for the license for the operation of value-added telecom businesses, that for cross-regional value-added telecom businesses is distinct from that for value-added telecom businesses in provinces, autonomous regions and municipalities. The MII is responsible for the examination and approval of the License for Operation of Basic Telecom businesses and the License for Operation of Cross-regional Value-added Telecom businesses. Provincial, regional and municipal departments in charge of communications are responsible for the examination and approval of the License for Operation of Value-added Telecom businesses in provinces, autonomous regions and municipalities. The MII is responsible for the examination and approval of the license for telecom operation of foreign-invested telecom enterprises, according to provisions in Article 17 of the Regulations on Foreign-invested Telecom Enterprises.

Article 10: The MII shall complete the preliminary examination of the application documents within 15 days after receiving the application for operation of basic telecom businesses. If the application documents are complete, the MII shall issue the notification of application acceptance to the applicant. If the application documents are incomplete, the MII shall notify in writing the applicant to submit the missing documents. After the applicant submits the missing documents, the MII shall issue the notification of application acceptance to the applicant within 15 days. Having issued the notification of application acceptance, the MII shall organize experts to evaluate the application documents prescribed in Article 7, Clauses 6 and 7, and then make the decision of approval or disapproval based on the evaluation of the experts. The MII shall complete the examination work within 180 days after issuing the notification of application

acceptance. If approval is given to an applicant that has already established a company according to law, the License for Operation of Basic Telecom businesses shall be issued. If approval is given to an applicant that has not obtained the business license as legal person, the MII shall issue the approval document to the applicant approving it to apply to the department for industry and commerce administration for establishing a company to operate the approved basic telecom businesses. The applicant goes through the procedures of registering for company establishment at the department for industry and commerce administration by providing the approval document. After the applicant obtains the business license as legal persons, the MII issues the License for Operation of Basic Telecom businesses. If the application is disapproved, the MII shall notify the applicant in writing regarding the reasons why. In the course of examination, if the application documents do not meet the requirements, the MII shall notify the applicant of the modifications and supplementation needed. The applicant shall complete the modifications and supplementation as required within 30 days from the date of the issue of the notice, otherwise, the applicant shall be deemed as giving up the application. The time used by the applicant for modification and supplementation shall not be counted in the time limit of examination.

Article 11: The telecom administrative department shall complete the preliminary examination on the application documents within 15 days after receiving the application for operation of value-added telecom businesses. If the application documents are complete, the notification of application acceptance shall be issued to the applicant. If the application documents are incomplete, the applicant shall be notified in writing to submit the missing documents. After the applicant submits the missing documents, the telecom administrative department shall issue the notification of application acceptance to the applicant within 15 days. The telecom administrative department shall complete the examination work within 60 days after issuing the notification of application acceptance and make the decision of approval or disapproval. If approval is given to an applicant that has already established a company according to law, the License for Operation of Cross-Regional Value-added Telecom businesses or the License for Operation of Value-added Telecom businesses in provinces, autonomous regions and municipalities shall be issued. If approval is given to an applicant that has not obtained the business license as legal person, the approval document shall be issued to the applicant approving it to apply to the department for industry and commerce administration for establishing a company to operate the approved value-added telecom businesses. The applicant goes through the procedures of registering for company establishment at the department for industry and commerce administration by providing the approval document. After the applicant obtains the business license as legal person, the telecom administrative department issues the License for Operation of Cross-Regional Value-added Telecom businesses or the License for Operation of Value-added Telecom businesses in provinces, autonomous regions and municipalities. If the application is disapproved, the applicant shall be notified in writing and given the reason. In the course of examination, if the application documents do not meet the requirements, the applicant shall be notified of modifications and supplementation needed. The applicant shall complete the modifications and supplementation as required within 30 days after the issue of the notice, otherwise, the applicant shall be deemed as giving up the application. The time used by the applicant for modification and supplementation shall not be counted in the time limit of examination.

Article 12: The license for operation comprises two parts: the main body and annex. The main body of the license for operation shall clearly state the name of the company, the legal representative, the registered domicile, the category of business, the business scope, the license-issuing authority and the date of issue, the serial number of license, etc. The annex of the license for operation shall include provisions on the use of the license, the rights and

obligations of the operator, special provisions, records of annual check, etc. The original license-issuing authority may add annexes to the license as necessitated by administration in line with MII regulations. Details of the license for operation are listed in the annex of these regulations. The MII may adjust the content of the annex according to actual conditions and re-publicize them.

Article 13: The term of validity of the License for Operation of Basic Telecom businesses can be five or 10 years depending on the category of telecom businesses. The term of validity is five years for the License for Operation of Cross-regional Value-Added Telecom businesses and the License for Operation of Value-Added Telecom businesses in provinces, autonomous regions and municipalities.

Article 14: The License for Operation of Basic Telecom businesses, the License for Operation of Cross-regional Value-Added Telecom businesses and the license of foreign-invested telecom enterprises shall be signed and issued by the minister of Information Industry. The License for Operation of Value-Added Telecom businesses in provinces, autonomous regions and municipalities shall be signed and issued by the director of provincial, regional or municipal communications bureau and be filed at the MII.

Article 15: The license for operation shall be taken out by the company's legal representative, or by another person authorized by the legal representative with the letter of authorization.

Article 16: If an applicant is found submitting false certifying documentation while applying for the license for operation, the telecom administrative department shall not approve the application and shall not accept its application for operation in telecom businesses in three years.

Chapter 4: Use of the license for operation

Article 17: Companies approved to operate telecom businesses shall operate telecom businesses according to the category of telecom businesses stipulated in the main body of the license for operation in the specified business coverage and period of time in line with the provisions in the license for operation.

Article 18: Companies approved to operate telecom businesses shall, with the license for operation, file changes in registration at the department for industry and commerce administration. Those approved to operate radio communications business shall, with the license for operation, apply for the use of radio frequency at the radio regulatory agency.

Article 19: Companies approved to operate telecom businesses across regions shall set up branches, subsidiaries or other corresponding institutions in provinces, autonomous regions and municipalities in the business coverage as stipulated in the license for operation to operate telecom businesses. In subsidiaries that operate basic telecom businesses, the proportion of state equity interest or shares shall conform to provisions in telecom-related laws and administrative regulations.

Article 20: A company approved to operate telecom businesses may, with the approval of the license-issuing authority, authorize its subsidiary that is qualified for operating telecom businesses, in which it holds no less than 51 percent of shares, to operate the approved telecom businesses. The name of the subsidiary, legal representative, registered domicile,

business category, business coverage, etc. shall be stated by the license-issuing authority in the attached sheet of the main body of the license for operation granted to the company approved to operate telecom businesses. A company shall not authorize two or more subsidiaries to operate the same telecom businesses in the same region.

Article 21: Companies approved to operate basic telecom businesses or value-added telecom businesses in more than two provinces, autonomous regions and municipalities shall, with the license for operation, file with related provincial, regional and municipal communications administrations and submit the following documents for filing:

1. A written report on the local business development, which shall include the name of branch, subsidiary or other corresponding institution the company has set up in the locality, mail address, zip code, contact person, contact telephone number, e-mail address, etc.;
2. A copy of the license for operation;
3. Approval document for establishing branch, subsidiary or other corresponding institution in the locality, and the business license (duplicate), articles of association, equity structure and other related documents of the branch or subsidiary; and
4. The plan for local business development.

After receiving the documents for filing as prescribed above, provincial, regional and municipal communications administrations shall issue a letter of filing confirmation to the company within 15 days if the documents are complete, and report to the MII. If the documents are incomplete, the filing company shall be notified in writing within 15 days. After the missing documents are submitted, a letter of filing confirmation shall be issued to the filing company within 10 days. Those that do not go through the procedures of filing shall not operate telecom businesses in the locality. In case of changes in the aforementioned documents, corresponding institutions like branches or subsidiaries shall file the changes with the respective provincial, regional and municipal communications administration within 20 days after the changes take place.

Article 22: Unless there are separate stipulations in the license for operation, telecom businesses operators shall provide telecom services according to the business category and business coverage stated in the license for operation within one year after obtaining the license for operation. Those that can't provide telecom services within one year shall make a statement plus the reason while applying for the license for operation, which shall be submitted to the telecom administrative department for approval, and special stipulations shall be made in the license for operation. For those that fail to provide telecom services in the time limit specified in the license for operation, the original license-issuing authority may revoke the license for operation, or cancel the business coverage where telecom services fail to be provided.

Article 23: Related basic telecom businesses operators shall, according to regulations of the telecom administrative department, provide, in a timely manner, circuits and facilities needed by the licensed company for engaging in telecom businesses. Basic telecom operators shall not provide circuits and facilities needed for operating telecom businesses to companies without the license for operation.

Article 24: No unit or individual shall forge, alter, infringe, borrow or lend, buy or sell, and transfer the license for operation.

Chapter 5: Modification and cancellation of the license for operation

Article 25: Those that need to continue operation shall apply to the original license-issuing authority for renewing the license for operation 90 days in advance. Those that will not continue the operation shall report to the original license-issuing authority 90 days in advance and wind things up.

Article 26: If changes take place in the operator, such as merger or separation, shareholder changes in a limited liability company and transfer of the right of business operation, or changes take place in the business scope, companies obtaining the license for operation or their subsidiaries authorized to operate telecom businesses shall apply to the original license-issuing authority within 30 days from the date the company makes the decision. The changes can only be implemented with approval.

Article 27: Within the term of validity of the license for operation, in case of modification of company name, domicile and legal representative, the company shall go through procedures of modifying the license for operation at the original license-issuing authority within 30 days after it completes the modification registration at the department for industry and commerce administration.

Article 28: Within the term of validity of the license for operation, in case the telecom businesses operator needs to stop operation, it shall apply to the original license-issuing authority within 30 days after it makes the decision. After the company winds things up with users, the original license-issuing authority shall deal with the cancellation of the license for operation.

Article 29: In case the telecom businesses operator is penalized by state administrative or judicial organs in accordance with the law and can no longer run the telecom business, the original license-issuing authority shall take back the license for cancellation. In case a company obtains the license for operation by providing false documentation or by means of cheating, the original license-issuing authority shall take back the license for cancellation and shall not accept the company's application for telecom businesses operation within three years.

Article 30: After the license-issuing authority withdraws or cancels the license for operation of a telecom businesses operator, it shall notify the department for industry and commerce administration and make a public notice. The company whose license for operation is withdrawn or cancelled shall go through procedures at the department for industry and commerce administration in a timely manner.

Chapter 6: Annual check of the license for operation

Article 31: The license-issuing authority shall adopt an annual check system concerning the license for operation. The telecom business operator shall submit the following documents to the original license-issuing authority for annual check in the first quarter following the reporting year:

1. The company's report, including this year's telecom businesses operations; network construction, business development, changes in personnel and organizational setup; service quality; implementation of rules and regulations of the state and telecom administrative department;
2. The original license for operation;

3. A copy of the company's business license as a legal person;
4. The company's annual financial and accounting reports and other relevant accounting data required by the telecom administrative department; and
5. Other documents required by the license-issuing authority.

If the business covers two or more provinces, autonomous regions and municipalities, the company shall also provide the operation and management of branches or subsidiaries as well as the entire network. The branches or subsidiaries shall submit the local business annual report to the local communications administration in the respective province, autonomous region or municipality; duplicated documentation of business license of the branches or subsidiaries; and financial statements. The annual report shall include this year's operation of telecom businesses; network construction, business development, changes in personnel and organizational setup; service quality; implementation of rules and regulations of the state and the telecom administrative department.

Article 32: The communication administrations in provinces, autonomous regions and municipalities conduct annual check on local branches or subsidiaries of cross-regional telecom operators and report the results to the MII.

Article 33: When conducting the annual check on the license for operation, the license-issuing authority shall conduct a full review and examination of the documents provided by telecom business operators and examine their business principals, behaviors, telecom facilities construction, telecom charges and fees and service quality. For those passing the annual check, the record forms shall be sealed. For those failing to make annual checks as required or those failing to pass the annual check are required to make rectification and reform in a specified period of time. For those who fail to pass the annual check after the rectification and reform, the license for operation shall be revoked, the department for industry and commerce administration shall be informed of this, and a public notice shall be made.

Chapter 7: Penalty provisions

Article 34: Violators of Articles 17, 26 and 31 of these regulations shall be penalized in accordance with provisions in Article 70 of the Telecommunications Regulations of the People's Republic of China.

Article 35: Violators of provisions in Article 24 of these regulations shall be penalized according to provisions in Article 69 of the Telecommunications Regulations of the People's Republic of China.

Article 36: For violators of provisions in Article 4 Clause 1, Article 19, Article 20, Article 21 Clauses 3 and 4, Article 23, Article 25, Article 27 and Article 28, the telecom administrative department shall order them to make rectification and give a disciplinary warning, plus a fine of between 5,000 Yuan (US\$604) and 30,000 Yuan (US\$3,623).

Article 37: If the party concerned refuses to comply with the decision of the telecom administrative department on the administrative examination and approval or administrative penalties, it may apply for administrative review or take administrative proceedings according to the law. If the party concerned does not apply for administrative review or take administrative proceedings within the specified period of time while refusing to implement the decision on

administrative penalty, the authority that made the decision of administrative penalty shall apply to the people's court for coercive execution.

Article 38: For staff members in the telecom administrative department who neglect their duties, abuse their powers, play favoritism and commit irregularities in the administration of the license for operation, the judicial authority shall investigate their criminal responsibility according to law if their acts constitute crimes. If the acts are not serious enough to constitute crimes, they shall receive administrative penalties from their work units or competent department at a higher level.

Chapter 8: Supplementary provisions

Article 39: The MII shall make the license for operation in a unified manner.

Article 40: These regulations shall take effect on Jan. 1, 2002.

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