

# \$9.17b bridges China gap for C&W

**ANDREW CHETHAM**  
and **SHEEL KOHLI**

Hongkong Telecom chief executive Linus Cheung Wing-lam claimed Cable & Wireless's \$9.17 billion deal with China was a "win, win, win, win" for all parties and ended months of uncertainty about Telecom's future.

But analysts last night asked what the benefits were for Hongkong Telecom.

"The deal mentions a lot about C&W and China but not much about Hongkong Telecom," one analyst said.

Mr Cheung said Telecom was "acting as a useful bridge to bring C&W and China together".

In the long-awaited deal, China Telecom, the operational arm of the Ministry of Posts and Telecommunications is paying about \$9.17 billion for a 5.5 per cent Telecom stake.

The deal is being done through China Telecom's re-

cently opened Hong Kong arm, which will pay \$14.25 a share - a 25 per cent discount to yesterday's \$19 closing price.

Mr Cheung said the price was fair when the stock's performance was looked at over the past 12 months.

"This 5.5 per cent sale is just step one. It says more about the future than the present," C&W chief executive Richard Brown said last night from Beijing.

The company said it envisaged a second phase to the agreement where C&W was prepared to transfer further Telecom shares to China Telecom, until both became equal shareholders.

"If you accept that we have 59 per cent now we eventually envisage that being divided in two," C&W deputy chief executive Rod Olsen said.

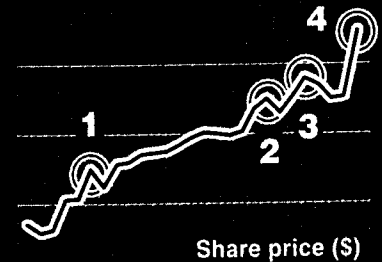
Mr Olsen said there was no time frame for the completion of the second phase.

## EN ROUTE TO A DEAL Hongkong Telecom



Chief executive  
Linus Cheung May 1

- 1 Citic Pacific sells 8% of company to China Everbright for \$11.4bn.
- 2 Beijing agrees to let China Unicom operate local networks with foreign companies.
- 3 Stock rises on speculation of share sale to China entity. Warrant issue launched.
- 4 Company says talks taking place between Cable & Wireless and Chinese authorities. Deal announced.



"All parties wish to move forward for the benefit of all of us," he said.

C&W said Telecom's international monopoly in Hong

Kong meant if it were to move below 50 per cent shareholding it would need approval from the Government.

Despite the fact that many

analysts thought China was unhappy to see Telecom continue under British dominance in the long term, C&W said it had not come under

any political pressure to reach a deal.

"At the outset we said we must be commercial in anything we do," Mr Olsen said.

Although officials described it as a very unique and substantial partnership, it was not immediately clear exactly what access to China's markets C&W would get.

It is illegal for foreign operators to own equity stakes or have operational control of mainland telecoms companies.

"We intend to break no laws but we have ideas about the future we cannot comment on now," Mr Brown said.

In the past week some analysts had been speculating that China might relax some of the restrictions on the mobile sector of the market.

"We don't want to be specific about projects," Mr Olsen said.

However, when asked

whether the deal would allow C&W to take an interest in telecoms infrastructure in China, Mr Brown said: "It is fair to say it is part of many options that we see with our investments in China."

News of the deal hit London late in the afternoon, lifting C&W's share price by 15 per cent to 572 pence. Telecom shares - which hit a record high on Friday - would certainly climb on Tuesday when the Hong Kong market next opens, analysts said.

At yesterday's closing price, Telecom has a market capitalisation of \$222 billion, about \$70 billion higher than its value before the most recent round of speculation about a deal.

Last year, China Telecom's revenues reached about \$92 billion. Analysts pointed out that the appreciation in the Telecom share price was nearly as large as the China Telecom revenues.

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