CHINA TELECOM CORP LTD
Form 424B2
May 20, 2004
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PROSPECTUS SUPPLEMENT

Filed pursuant to Rule 424(b)

China Telecom Corporation Limited

14,855,040 American Depositary Shares

Representing 1,485,504,000 H Shares

We are offering 13,504,582 American depositary shares, or ADSs, or 1,350,458,182 overseas listed foreign invested shares of nominal value RMB1.00 per share, or H shares. Each ADS represents 100 H shares. China Telecommunications Corporation, or China Telecom Group, our controlling shareholder, and the other selling shareholders named in this prospectus supplement are also selling an aggregate of 1,350,458 ADSs, or 135,045,818 H shares. We will not receive any proceeds from the sale of ADSs or H shares by the selling shareholders. Investors can choose to receive ADSs or H shares. The public offering price per ADS is US$29.49, equivalent to HK$2.30 per H share at the agreed exchange rate of HK$7.80 to US$1.00.

This offering of ADSs is part of a global offering of an aggregate of 5,850,000,000 H shares, which also includes an international offering of 43,644,960 ADSs, or 4,364,496,000 H shares, to investors outside of the United States pursuant to Regulation S of the Securities Act of 1933, as amended.

The ADSs are quoted on the New York Stock Exchange under the symbol CHA. Our H shares are listed on the Hong Kong Stock Exchange under the stock code 728. On May 18, 2004, the last reported sale price of the ADSs on the New York Stock Exchange was US$30.22 per ADS and the last reported sale price of our H shares on the Hong Kong Stock Exchange on May 19, 2004 was HK$2.375 per H share.

Investing in the ADSs and H shares involves risks. See Risk Factors beginning on page S-3

of this prospectus supplement and page 1 of the accompanying prospectus.

PRICE US$29.49 AN ADS

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Us	Proceeds to the Selling Shareholders
Per ADS	US$ 29.49	US$ 0.5898	US$ 28.9002	US$ 28.9002
Total(1)	US$ 438,075,129.60	US$ 8,761,502.59	US$ 390,285,120.72	US$ 39,028,506.29

(1) Does not include any proceeds from the sale of ADSs in the international offering. Assumes that all proceeds received in Hong Kong dollars, if any, are converted into US dollars based on the agreed exchange rate of HK$7.80 to US$1.00.

Neither the United States Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the ADSs through the book-entry facilities of The Depository Trust Company, Euroclear Bank S.A./N.V., as operator of the Euroclear System, and Clearstream Banking, Societé Anonyme, and the H shares through the facilities of the Hong Kong Securities Clearing Company, against payment on May 24, 2004.

CHINA INTERNATIONAL CAPITAL CORPORATION **MORGAN STANLEY** **UBS INVESTMENT BANK**

May 19, 2004

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You should rely only on information contained in this prospectus supplement and the accompanying prospectus. None of the underwriters, the selling shareholders or us has authorized anyone to provide you with information which is different from that contained in this prospectus supplement and the accompanying prospectus. We are offering to sell the H shares and ADSs and are seeking offers to buy these H shares and ADSs only in jurisdictions where offers to buy and sell are permitted. The information contained in this prospectus supplement and the accompanying prospectus is accurate only as of the date of this prospectus supplement, regardless of the time of delivery of this prospectus supplement or time of any sale of the H shares and ADSs. Other than as required by law, we are under no duty to update the information in this prospectus supplement and the accompanying prospectus. However, if any statement in one of these documents is inconsistent with a statement in another document having a later date for example, a document incorporated by reference in this prospectus supplement or the accompanying prospectus the statement in the document having the later date modifies or supersedes the earlier statement.

As used in this prospectus supplement and the accompanying prospectus, references to us , we , our 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.

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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. 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 prospectus supplement and the accompanying prospectus, all our business and operating data and information include data and information relating to the business and operations of these acquired companies on a pro forma basis to give effect to that acquisition as if it had been completed at the beginning of the period presented. Such data and information is based upon our estimates and assumptions regarding these acquired companies and should not be taken as indications of the actual results that would have been achieved if that acquisition had been completed on such dates.

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INCORPORATION BY REFERENCE

The Securities and Exchange Commission, or SEC, allows us to incorporate by reference the information that we file with the SEC. This permits us to disclose important information to you by referring to these filed documents. Any information referred to in this way is considered part of this prospectus supplement and the accompanying prospectus, and any information that we file with the SEC after the date of this prospectus supplement and incorporate by reference into this prospectus supplement and the accompanying prospectus will automatically be deemed to update and supersede this information. We sometimes refer to the prospectus supplement and the accompanying prospectus, including such information incorporated by reference (unless updated or superseded), collectively as the prospectus . This prospectus supplement and the accompanying prospectus are qualified in their entirety by the more detailed information contained in such reports. We incorporate by reference into this prospectus supplement and the accompanying prospectus, among others:

- our annual report on Form 20-F for our fiscal year ended December 31, 2003;
- our report on Form 6-K dated May 19, 2004 with respect to the announcement regarding the global offering;
- our report on Form 6-K dated May 4, 2004 with respect to the announcement regarding shareholders resolutions passed at the shareholders meetings on May 3, 2004;
- our report on Form 6-K dated April 29, 2004 with respect to the form of underwriting agreement, conditional sale and purchase agreement and certain related party transaction agreements;
- our report on Form 6-K dated April 14, 2004 with respect to (i) information regarding a potential acquisition, dated April 13, 2004, (ii) consent dated April 13, 2004 from our indepednent auditors in respect of their audit report on the combined financial statements of the Target Group, and (iii) consent dated April 13, 2004 from Chesterton Petty Limited in connection with the information regarding a potential acquisition;
- our report on Form 6-K dated March 22, 2004 with respect to the announcement regarding effectiveness of shelf registration statement on Form F-3, dated March 19, 2004;
- our report on Form 6-K dated March 19, 2004 with respect to our circular dated March 17, 2004;
- our report on Form 6-K dated March 18, 2004 with respect to the notices of separate class meetings for holders of H shares and holders of domestic shares as well as an extraordinary general meeting, dated March 17, 2004, the announcement dated March 17, 2004, the announcement dated March 17, 2004 of annual results for the year ended December 31, 2003, and the announcement dated March 17, 2004; and
- our report on Form 6-K dated March 18, 2004 with respect to the disclosure of reconciliation of certain financial information to GAAP measure dated March 18, 2004.

We also incorporate by reference any future filings that we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus supplement until completion of this offering, and that, in the case of any future filings on Form 6-K, are identified in such filing as being incorporated into this prospectus supplement or the accompanying prospectus. For the avoidance of doubt, information or documents furnished in our current reports on Form 6-K that are not specifically incorporated by reference in this prospectus supplement or the accompanying prospectus do not form a part of this prospectus supplement or the accompanying prospectus.

We will provide without charge upon written or oral request a copy of any or all of the documents that are incorporated by reference into this prospectus, other than exhibits which are specifically incorporated by reference into such documents. Requests should be directed to China Telecom Corporation Limited, 31 Jinrong Street, Xicheng District, Beijing, China 100032; attention Company Secretary. Telephone requests may be directed to (86-10) 6642-8166.

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FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus 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 and the Target Group s business and operating strategies;
- our and the Target Group s network expansion and capital expenditure plans;
- our and the Target Group s operations and business prospects;
- our and the Target Group s financial condition and results of operations;
- 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, forecast, seek, will, would and similar express
or the Target Group, are intended to identify a number of these forward-looking statements.

When considering these forward-looking statements, you should keep in mind the cautionary statements contained or incorporated by reference in this prospectus supplement or the accompanying prospectus. 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, which may change, and are not a guarantee of future performance. We do not intend to update these forward-looking statements. Actual results, performance or achievements 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 Risk Factors in this prospectus supplement and the accompanying prospectus 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 and the Target Group s services;

the development of new technologies and applications or services affecting the current and future businesses of ours and the Target Group;

changes in political, economic, legal and social conditions in China, including the Chinese government s specific policies with respect to foreign investment in the 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 and the Target Group s services.

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RISK FACTORS

The following is a summary of some of the significant risks that could affect us. Additionally, some risks may be unknown to us and other risks, currently believed by us to be immaterial, could turn out to be material. You should consider carefully all of the information in this prospectus supplement and the accompanying prospectus, including the risks and uncertainties described below, before making an investment in our H shares or ADSs. You should pay particular attention to the fact that we are a Chinese company and are governed by a legal and regulatory environment that in some respects may differ from that which prevails in other countries. Any of these risks could materially and adversely affect our business, operations, profits, assets, liquidity and capital resources, and you may lose all or part of your investment in our H shares or ADSs.

Risks Relating to Our Business

We face increasing competition, which may adversely affect our business growth and results of operations.

The telecommunications industry in China is rapidly evolving. Until the mid-1990s, we were the sole provider of wireline telecommunications services in our service regions, which included Shanghai Municipality, Guangdong Province, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province, Guangxi Zhuang Autonomous Region, Chongqing Municipality and Sichuan Province. As a result, we had a dominant market position in our service regions. We began to operate in a competitive market as the Chinese government started to implement a number of measures to restructure the telecommunications industry and encourage fair and orderly competition in the industry in the mid-1990s. We face increasing competition from other telecommunications service providers in China. We expect our competitors to expand further their network coverage and increase their sales and marketing efforts in our service regions. In particular:

- we face indirect competition in our local wireline telephone services from China s two mobile telephone service providers, China Mobile Communications Corporation, or China Mobile, and China United Telecommunications Corporation, or China Unicom, and have begun to face direct competition from China Railway Communication Co., Ltd., or China Railcom, and China Network Communications Group Corporation, or China Netcom Group;

- we face increasingly intense competition in our long distance telephone services from other providers of long distance services using public switched telephone networks, including China Unicom, China Railcom and China Netcom Group, and other providers of long distance services using the voice-over-Internet-protocol, or VoIP, technology, including China Mobile, China Unicom, China Netcom Group and China Railcom;

- we face increasing competition in our Internet and managed data services from many competitors, including, primarily, China Unicom, China Netcom Group, China Mobile and China Railcom; and

- we may face additional competition from new entrants or providers of new telecommunications services, such as telephone and Internet services offered over cable TV networks.

Moreover, as a result of China s accession to the World Trade Organization, or the WTO, and China s commitment under its WTO Accession Protocol, the Chinese government will gradually open up the telecommunications market in China to foreign operators. Foreign operators may have greater financial, managerial and technical resources and more expertise in network management and sales and marketing. Furthermore, advances in technology, as well as changes in the regulatory environment, may further intensify competition.

Our ability to compete effectively may be constrained by a number of factors. For example, under the Chinese government s policy of promoting fair and orderly competition in the telecommunications industry, certain competitors of ours, such as China Unicom and China Railcom, continue to enjoy certain preferential

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treatment from the Chinese government in tariff setting. They may set their respective tariffs for long distance services using public switched telephone networks and leased line services at levels below the tariffs of our company with the annual approval of the regulatory authorities. This preferential treatment is not available to us. As a result, our competitors who enjoy this preferential treatment may be able to provide their services at prices that are more competitive than ours. In addition, we are not yet permitted to provide mobile communications services. We, through China Telecom Group, are, however, actively seeking the issuance of a license for mobile communications in the PRC. We can provide no assurances, however, as to whether or when we may be able to receive any benefit of any license for mobile communications in China.

As a result, our customers may choose to use other providers services. Increased competition from those providers may force us to lower our tariffs to the extent permitted under relevant laws and regulations, may reduce or reverse the growth of our customer base and may reduce usage of our networks. Any of these developments could materially adversely affect our business growth and results of operations.

We will continue to be controlled by China Telecom Group, which could cause us to take actions that may conflict with the best interests of our other shareholders.

After the global offering, subject to our articles of association and applicable laws and regulations, China Telecom Group, as our controlling shareholder, will continue to be able to exercise significant influence over our management and policies by:

- controlling the election of our directors and, in turn, indirectly controlling the selection of our senior management;
- determining the timing and amount of our dividend payments;
- approving our annual budgets;
- deciding on increases or decreases in our share capital;
- determining issuance of new securities;
- approving mergers and acquisitions; and
- amending our articles of association.

The interests of China Telecom Group as our controlling shareholder could conflict with our interests or the interests of our other shareholders. As a result, China Telecom Group may take actions with respect to our business that may not be in our or our other shareholders best interests.

The letter of undertakings provided to us by China Telecom Group contains vague terms that may not be implemented as we expect.

China Telecom Group has provided us a letter of undertakings, under which it has undertaken to support us in our existing operations and future development in the following specific areas:

- to treat us equally with any other operators of wireline telephone, Internet and managed data, leased line and other related telecommunications services that are controlled by China Telecom Group;
- to give us the right to provide additional telecommunications services in our service regions that fall within the business scope of China Telecom Group; and
- to give us the preferential right to acquire China Telecom Group s interest in companies or other entities that provide telecommunications services.

The current terms of the letter of undertakings do not obligate China Telecom Group to provide any financial support to us. The letter of undertakings may not be implemented as we expect due to the vagueness of

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its terms. Other than the letter of undertakings, we have not entered into any agreement with China Telecom Group to provide for potential allocation of business opportunities between China Telecom Group and us outside our service regions.

We depend on China Telecom Group and its other subsidiaries to provide certain services and facilities for which we currently have limited alternative sources of supply.

In addition to being our controlling shareholder, China Telecom Group, by itself and through its other subsidiaries, also provides us with services and facilities necessary for our business activities, including, but not limited to:

- use of international gateway facilities;
- provision of services in areas outside our service regions necessary to enable us to provide end-to-end services to our customers;
- use of nationwide inter-provincial optic fibers; and
- lease of properties.

The interests of China Telecom Group and its other subsidiaries as providers of these services and facilities may conflict with our interests. We currently have limited alternative sources of supply for these services. Therefore, we have limited leverage in negotiating with China Telecom Group and its other subsidiaries over the terms for the provision of these services.

Since our services require interconnection with networks of other operators, disruption in interconnections with those networks could have a material adverse effect on our business and results of operations.

Under the relevant telecommunications regulations, telecommunications operators are required to interconnect with networks of other operators. We have entered into interconnection arrangements with other telecommunications operators. Any disruption of our interconnection with the networks of those operators could have a material adverse effect on our business and results of operations. In particular, as a result of the restructuring of China s wireline telecommunications sector, most wireline telecommunications assets except for the nationwide inter-provincial optic fibers, including the last-mile access network, formerly owned by China Telecom Group in ten northern provinces in China were allocated to China Netcom Group. As we and China Telecom Group have limited local access facilities in those ten provinces, we will need to interconnect, indirectly through China Telecom Group, with China Netcom Group in order to provide end-to-end services to our customers with operations in the ten northern provinces. Any interruption in our interconnection with China Netcom Group could have a material adverse effect on our business and results of operations.

If we are not able to respond successfully to technological or industry developments, our business may be adversely affected.

The telecommunications market is characterized by rapid advancements in technology, evolving industry standards and changes in customer needs. We cannot assure you that we will be successful in responding to these developments. In addition, new services or technologies may render our existing services or technologies less competitive. In the event we do take measures to respond to technological developments and industry standard changes, the integration of new technology or industry standards or the upgrading of our networks may require substantial time, effort and capital investment. We cannot assure you that we will succeed in integrating these new technologies and industry standards or adapting our network system in a timely and cost-effective manner, or at all. Our inability to respond successfully to technological or industry developments may adversely affect our business, results of operations and competitiveness.

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We face a number of risks relating to our Internet-related businesses.

We currently provide a range of Internet-related services, including dial-up and broadband Internet access and Internet-related applications. We face a number of risks in providing these services.

Our network may be vulnerable to unauthorized access, computer viruses and other disruptive problems. There is no assurance that the security measures we have implemented will not be circumvented or otherwise fail to protect the integrity of our network. Unauthorized access could jeopardize the security of confidential information stored in our customers computer systems. Eliminating computer viruses and other security problems may also require interruptions, delays or suspension of our services, cause us to incur costs and divert management attention.

In addition, because we provide connections to the Internet and host websites for customers and develop Internet content and applications, we may be perceived as being associated with the content carried over our network or displayed on websites that we host. We cannot and do not screen all of this content and we may face litigation claims due to a perceived association with this content. These types of claims have been brought against other providers of online services in the past and can be costly to defend regardless of the merits of the lawsuit and may damage our reputation.

If the new applications adopted by us do not perform as expected, or if we are unable to deliver commercially viable services based on these applications, our revenue and profitability may not grow as we expect.

We are pursuing a number of new growth opportunities in the broader telecommunications industry, including advanced data and broadband information and application services. These opportunities relate to new services for which there are no established markets in China. Our ability to deploy and deliver these new services depends, in many instances, on the development of new applications, which may not be developed successfully or may not perform as we expect.

In addition, the success of our broadband Internet services is substantially dependent on the availability of content, applications and devices provided by third-party developers. If we are unable to deliver commercially viable new services, our revenue and profitability will not grow as we expect and our competitiveness may be adversely affected.

Risks Relating to the Proposed Acquisition

We may not successfully acquire the Target Group.

On April 13, 2004, we entered into a conditional acquisition agreement with China Telecom Group, our controlling shareholder, to acquire the telecommunications businesses currently operated by subsidiaries of China Telecom Group, or the Target Group, in Hubei Province, Hunan Province, Hainan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Hui Autonomous Region and Xinjiang Uygur Autonomous Region. We refer to this transaction as the Proposed Acquisition. You can find additional information regarding this acquisition in the current report on Form 6-K which we filed with the Securities and Exchange Commission on April

14, 2004, which report is incorporated by reference in this prospectus supplement and the accompanying prospectus. In particular, we may proceed with the Proposed Acquisition of the Target Group only if we satisfy certain condition precedents including obtaining the approvals of the relevant PRC government and regulatory authorities and our independent shareholders. However, there is no assurance that we will satisfy such condition precedents. We also have the right not to proceed with the Proposed Acquisition of the Target Group if there is any material adverse change in the financial conditions, results of operation, business or prospects of the Target Group. If we are not able to or choose not to acquire the Target Group, the information regarding the Target Group and the pro forma information included or incorporated by reference in this prospectus supplement giving effect to the Proposed Acquisition of the Target

Group would not be relevant. If we complete this offering but not the Proposed Acquisition of the Target Group, our net income per share and per ADS will also be significantly diluted. If we do not proceed with the Proposed Acquisition of the Target Group, we will use our net proceeds from the global offering to fund other similar strategic acquisition in accordance with the authority granted by our shareholders at the shareholders meetings on May 3, 2004. We cannot assure you that we will be able to identify suitable target companies or opportunities in a timely manner or at all.

The actual results of operations, performance or achievements of the Target Group may differ materially from the prospective financial information of the Target Group.

The prospective financial information for the Target Group incorporated by reference in this prospectus supplement represents our estimate, based on our current knowledge and available information, of the Target Group s results of operations for the year ending December 31, 2004. The Target Group experienced combined net losses of RMB1,634 million, RMB1,554 million and RMB10,804 million for the years ended December 31, 2001, 2002 and 2003, respectively. The loss for the year ended December 31, 2003 reflects the effect of the revaluation of property, plant and equipment as of December 31, 2003 in connection with the Target Group s restructuring relating to the Proposed Acquisition. The prospective financial information for the Target Group was based upon a number of assumptions and estimates that are inherently subject to significant business, economic, political and competitive uncertainties, assumption and contingencies. Many of those uncertainties and contingencies are beyond our control. In particular, we have assumed that the Target Group will be successfully integrated into our existing business. The prospective financial information was also based upon assumptions with respect to the Target Group s future business decisions that may change from time to time. The actual results of operations, performance or achievements of the Target Group may differ materially from the prospective financial information.

We have prepared the prospective financial information in accordance with local market practice in Hong Kong but not in compliance with the published guidelines of the American Institute of Certified Public Accountants that contain more detailed requirements. The Hong Kong Listing Rules specifically relating to financial projections only require us to disclose the principal assumptions on which we base our financial projections.

Risks Relating to the Telecommunications Industry in China

Extensive government regulation of the telecommunications industry may limit our flexibility in responding to market conditions, competition or changes in our cost structure.

Our businesses are subject to extensive government regulation. The Ministry of Information Industry, which is the primary telecommunications industry regulator under China s State Council, regulates, among other things:

- industry policies and regulations;
- licensing;
- tariffs;

- competition;
- telecommunications resource allocation;
- service standards;
- technical standards;
- interconnection and settlement arrangements; and
- universal service obligations.

Other Chinese governmental authorities also take part in regulating tariff policies, capital investment and foreign investment in the telecommunications industry. Major capital investments, including telecommunications

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network development projects, are subject to the approval of relevant Chinese government authorities. The regulatory framework within which we operate may constrain our ability to implement our business strategies and limit our flexibility to respond to market conditions or to changes in our cost structure.

Our revenues may be adversely affected by reductions in tariffs mandated by the Chinese government.

Tariffs are the prices we charge our customers for our telecommunications services. We are subject to extensive government regulations on tariffs, especially those relating to our basic telecommunications services. Currently, the relevant provincial communications administrations and provincial price bureaus determine the monthly fee and usage fee tariffs for our wireline local telephone services, based on a guidance tariff range set by the Ministry of Information Industry in consultation with the National Development and Reform Commission. The Ministry of Information Industry and the National Development and Reform Commission jointly set tariffs for all domestic and international, Hong Kong, Macau and Taiwan long distance services using public switched telephone networks, leased lines and managed data services. We derive a substantial portion of our revenues from services that are subject to tariffs determined by the Chinese government. In the past, our revenues have been adversely affected by reductions in tariffs mandated by the Chinese government. In September 2002, the Ministry of Information Industry indicated in writing that it does not intend to initiate any adjustment to tariffs for wireline local telephone services during the next three to five years. We believe therefore that the risk of adjustment of such tariffs in such period has been substantially reduced. However, we cannot predict with accuracy or assure you on the timing, likelihood or likely magnitude of tariff adjustments generally or the extent or potential impact on our business of future tariff adjustments. We cannot assure you that our business or results of operations will not be adversely affected by any government-mandated tariff adjustments in the future.

Future changes to the regulations and policies governing the telecommunications industry in China may have a material adverse effect on our business and operations.

Possible future changes to regulations and policies of the Chinese government governing the telecommunications industry could adversely affect our business and operations. For example, to provide a uniform regulatory framework for the orderly development of the telecommunications industry, the Chinese government is currently preparing a draft telecommunications law. If and when the telecommunications law is adopted by the Standing Committee of the National People s Congress, it is expected to provide a new regulatory framework for telecommunications regulation in China. The contents of the draft telecommunications law have not yet been made public. We cannot be certain how this law will affect our business and operations and whether it will contain provisions more stringent than the current telecommunications regulations.

As part of the comprehensive plan to restructure China Telecom Group, as approved by China s State Council in November 2001, the Chinese government stated its intention to further adjust and improve its regulatory oversight of the telecommunications industry, including gradual further deregulation of telecommunications tariffs. We cannot assure you that future regulatory changes, such as those concerning tariff setting, interconnection and competition, will not have a material adverse effect on our business and operations.

The Chinese government may require us, along with other providers in China, to provide universal services with specified obligations, and we may not be compensated adequately for providing such services.

Under the Telecommunications Regulations promulgated by the State Council, telecommunications service providers in China are required to fulfill universal service obligations in accordance with relevant regulations to be promulgated by the Chinese government, and the Ministry of Information Industry has the authority to delineate the scope of universal service obligations. The Ministry of Information Industry may also select universal service providers through a tendering process. The Ministry of Information Industry, together with government finance and pricing authorities, is also responsible for formulating administrative rules relating to the establishment of a universal service fund and compensation schemes for universal services.

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We may not be able to realize adequate return on investments for expanding networks to, and providing telecommunications services in, those economically less developed areas due to potentially higher capital expenditure requirements, lower usage by customers and lack of flexibility in setting our tariffs. As a result, our financial condition and results of operations could be adversely affected.

Risks Relating to the People s Republic of China

Substantially all of our assets are located in China and substantially all of our revenue is derived from our operations in China. Accordingly, our results of operations and prospects are subject, to a significant extent, to the economic, political and legal developments in China.

China s economic, political and social conditions, as well as government policies, could affect our business.

Substantially all of our businesses, assets and operations are located in China. The economy of China differs from the economies of most developed countries in many respects, including:

- government involvement;
- level of development;
- growth rate;
- control of foreign exchange; and
- allocation of resources.

While China s economy has experienced significant growth in the past twenty years, growth has been uneven, both geographically and among various sectors of the economy. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall economy of China, but may also have a negative effect on us. For example, our operating results and financial condition may be adversely affected by government control over capital investments or changes in tax regulations applicable to us.

The economy of China has been transitioning from a planned economy to a more market-oriented economy. Although in recent years the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the Chinese government. In addition, the Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. It also exercises significant control over China s economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. We cannot predict the purpose and effect of future economic policies of the PRC government or the impact of such economic policies on our business and operations.

Government control of currency conversion may adversely affect our operations and financial results.

We receive substantially all of our revenues in Renminbi, which currently is not a freely convertible currency. A portion of these revenues must be converted into other currencies to meet our foreign currency obligations. These foreign currency-denominated obligations include:

- payment of interest and principal on foreign currency-denominated debt;

- payment for equipment and materials purchased offshore; and

- payment of dividends declared, if any, in respect of our H shares.

Under China s existing foreign exchange regulations, we will be able to pay dividends in foreign currencies without prior approval from the State Administration of Foreign Exchange by complying with certain procedural

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requirements. However, the Chinese government may take measures at its discretion in the future to restrict access to foreign currencies for both current account transactions and capital account transactions if foreign currencies become scarce in China. We may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADRs, if the Chinese government restricts access to foreign currencies for current account transactions.

Foreign exchange transactions under our capital account, including foreign currency-denominated borrowings from foreign banks, issuance of foreign currency-denominated debt securities, if any, and principal payments in respect of foreign currency-denominated obligations, continue to be subject to significant foreign exchange controls and require the approval of the State Administration of Foreign Exchange. These limitations could affect our ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange to meet our payment obligations under the debt securities, if any, or to obtain foreign exchange for capital expenditures.

Fluctuation of the Renminbi could materially affect our financial condition and results of operations.

We receive substantially all of our revenues, and our financial statements are presented, in Renminbi. The value of the Renminbi fluctuates and is subject to changes in China s political and economic conditions. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, has been based on rates set by the People s Bank of China, which are set daily based on the previous day s interbank foreign exchange market rates and current exchange rates on the world financial markets. Fluctuations in exchange rates may adversely affect the value, translated or converted into United States dollars or Hong Kong dollars, of our net assets, earnings and any declared dividends payable on our H shares in foreign currency terms. Our financial condition and results of operations may also be affected by changes in the value of certain currencies other than the Renminbi, in which our obligations are denominated. In particular, a devaluation of the Renminbi is likely to increase the portion of our cash flow required to satisfy our foreign currency-denominated obligations. For further information on our foreign exchange risks and certain exchange rates. We cannot assure you that any future movements in the exchange rate of Renminbi against the United Sates dollar or other foreign currencies will not adversely affect our results of operations and financial condition.

The PRC legal system has inherent uncertainties that could limit the legal protections available to you.

We are organized under the laws of the PRC and are governed by our articles of association. The Chinese legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the Chinese government has promulgated laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and their non-binding nature, interpretation and enforcement of these laws and regulations involve uncertainties of the limited volume of published cases and their non-binding nature, interpretation and enforcement of these laws and regulations involve uncertainties.

The direct enforcement by our shareholders of any rights of shareholders in respect of violations of corporate governance procedures may be limited. In this regard, our articles of association provide that most disputes between holders of H shares and our company, directors, supervisors, officers or holders of domestic shares, arising out of our articles of association or the PRC Company Law and related regulations concerning the affairs of our company, are to be resolved through arbitration by arbitration tribunal in Hong Kong or China, rather than by a court of law. Awards that are made by Chinese arbitral authorities recognized under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong. Hong Kong arbitration awards are also enforceable in China. However, to our knowledge, no action has been brought in China by any holder of H shares to enforce an arbitral award, and we are uncertain as to the outcome of any action brought in China to enforce an arbitral award made in favor of holders of H shares.

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To our knowledge, there has not been any published report of judicial enforcement in China by holders of H shares of their rights under the articles of association or the PRC Company Law.

Unlike in the United States, under applicable laws of China, shareholders do not have the right to sue the directors, supervisors, officers or other shareholders on behalf of the corporation to enforce a claim against such party or parties that the corporation has failed to enforce itself. Our shareholders may have to rely on other means to enforce directly their rights, such as through administrative proceedings. Chinese laws and regulations applicable to overseas listed companies do not distinguish among minority, affiliated and unaffiliated shareholders in terms of their rights and protections. In addition, our minority shareholders may not have the same protections afforded to them by companies incorporated under the laws of the United States.

Although we will be subject to the Hong Kong Stock Exchange Listing Rules, or the Listing Rules, and the Hong Kong Codes on Takeovers and Mergers and Share Repurchases, or the Codes, the holders of H shares will not be able to bring actions on the basis of violations of the Listing Rules or the Codes, and must rely on the Hong Kong Stock Exchange and The Securities and Futures Commission of Hong Kong to enforce the Listing Rules or the Codes, as the case may be.

You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.

We are a company incorporated under the laws of the PRC, and substantially all of our assets and our subsidiaries are located in China. In addition, most of our directors and officers reside within China, and substantially all of the assets of our directors and officers are located within China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside of China upon most of our directors or officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Moreover, our Chinese counsel has advised us that China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, Japan or most other Western countries. Our Hong Kong counsel has also advised us that Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, recognition and enforcement in China of judgments of a court in the United States and any of the other jurisdictions mentioned above in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

Holders of H shares may be subject to PRC taxation.

Under China s current tax laws, regulations and rulings, dividends paid by us to holders of our H shares outside the PRC are currently exempted from PRC income tax. In addition, gains realized by individuals or enterprises upon the sale or other disposition of our H shares are currently exempted from PRC capital gains tax. If the exemptions are withdrawn in the future, holders of our H shares may be required to pay withholding tax on dividends, which is currently imposed at the rate of 20%, or income tax, which may be imposed upon individuals at the rate of 20%, and holders of our H shares may be required to pay PRC capital gains tax upon the sale or other disposition of our H shares.

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SUMMARY

You should read the following summary together with the more detailed information regarding us, the H shares and ADSs being sold by us in this offering and our historical financial statements and related notes incorporated by reference in this prospectus supplement. You should read the entire prospectus supplement and accompanying prospectus carefully when evaluating an investment in our H shares or ADSs. For a discussion of certain factors to be considered in connection with an investment in our H shares or ADSs, see Risk Factors in this prospectus supplement.

China Telecom Corporation Limited

We are the leading provider of wireline telephone, Internet and managed data and leased line services in ten regions in China. Our service regions consist of Shanghai Municipality, Guangdong Province, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province, Guangxi Zhuang Autonomous Region, Chongqing Municipality and Sichuan Province.

We offer a full range of wireline telecommunications services in our service regions, including local telephone, domestic and international, Hong Kong, Macau and Taiwan long distance telephone, interconnection services, Internet and managed data and leased line services. Usage of our international, Hong Kong, Macau and Taiwan long distance services, including usage by mobile subscribers, measured in outgoing call minutes, through public switched telephone network services was 626 million minutes in 2003, 730 million minutes in 2002 and 1,104 million minutes in 2001; while such long distance usage of our VoIP services was 992 million minutes in 2003, 763 million minutes in 2002 and 457 million minutes in 2001. We own and operate an extensive and advanced backbone network system, as well as substantially all of the local access networks in our service regions. Our backbone and local network systems, together with the network of China Telecommunications Corporation, or China Telecom Group, our controlling shareholder, form an advanced, integrated and reliable nationwide network system that is the largest in China.

On December 31, 2003, we completed the acquisition from China Telecom Group of telecommunications assets in Anhui Province, Fujian Province, Jiangxi Province, Guangxi Zhuang Autonomous Region, Chongqing Municipality and Sichuan Province as well as certain network management, research and development facilities. The acquisition expanded the geographic coverage of our telecommunications operations and our subscriber base.

We are a joint stock company with limited liability incorporated in The People s Republic of China in 2002. Our principal executive office is located at 31 Jinrong Street, Xicheng District, Beijing, China 100032. Our telephone number is (86-10) 6642-8166.

The Proposed Acquisition

On April 13, 2004, we entered into a conditional acquisition agreement with China Telecom Group, our controlling shareholder, to acquire telecommunications businesses currently operated by subsidiaries of China Telecom Group, or the Target Group, in Hubei Province, Hunan Province, Hainan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Hui Autonomous Region and Xinjiang Uygur Autonomous Region. In this prospectus supplement, we refer to this transaction as the Proposed Acquisition. Each of the Target Group companies is a leading provider of wireline telephone, Internet and managed data and leased line services in its service area. The service areas of the Target Group companies accounted for 17.9% of the total GDP of China in 2003, with a compound annual GDP growth rate of 9.8% from

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2001 to 2003. As of December 31, 2003, these Target Group companies had a total of approximately 42.9 million access lines in service for their local telephone services and a 95.5% market share in their service areas in terms of the number of access lines in service. The wireline penetration rate in the service areas of these companies was 14.5% as of December 31, 2003, which is relatively low compared to China s national average wireline penetration rate. We believe this presents strong growth potential for the Target Group companies. Average GDP per capita in 2003 in the service areas of these companies was RMB6,737, which was lower than China s national average of RMB9,030 for the same year. Additional information regarding these Target Group companies is set forth in our current report on Form 6-K dated April 14, 2004 with respect to information regarding a potential acquisition, dated April 13, 2004, incorporated by reference to this prospectus supplement and the accompanying prospectus. Certain risks relating to the Proposed Acquisition are set forth under Risk Factors Risks Relating to the Proposed Acquisition in this prospectus supplement.

Terms of the Proposed Acquisition

Under the conditional acquisition agreement, the purchase price for the Proposed Acquisition will be RMB27,800 million (approximately US$3,359 million), consisting of an initial cash consideration of RMB8,340 million (approximately US$1,008 million) payable upon completion of the Proposed Acquisition, and a deferred consideration of RMB19,460 million (approximately US$2,351 million), payable on the tenth anniversary of the completion date of the Proposed Acquisition. The conditional acquisition agreement provides that we may prepay all or part of the deferred consideration during the ten years following the completion of the Proposed Acquisition without penalty. Interest will accrue daily on the outstanding amount of deferred consideration at a rate of 5.184% per annum for the first five years after completion of the Proposed Acquisition and thereafter at the then prevailing Renminbi lending rate for a commercial bank loan of similar amount and tenure, subject to a discount of 10%.

In addition to the cash consideration payable to China Telecom Group, we will assume the debts of the Target Group upon completion of the Proposed Acquisition. The combined net debt of the Target Group as of December 31, 2003 amounted to approximately RMB40,044 million (approximately US$4,838 million). Net debt is calculated as the aggregate amount of short-term debt, long-term debt (including current portion) and finance lease obligations (including current portion) less the aggregate amount of cash and cash equivalents and time deposits with maturity over three months.

Completion of the Proposed Acquisition is conditional upon the fulfillment, to the reasonable satisfaction of our board of directors, of a number of conditions, including the following:

(i) the passing of ordinary resolutions by our independent shareholders approving the terms of the Proposed Acquisition and the terms of related prospective connected transactions described under Relationship with China Telecom Corporation in our report on Form 6-K dated April 14, 2004 with respect to information regarding a potential acquisition, dated April 13, 2004, incorporated by reference to this prospectus supplement and the accompanying prospectus;

(ii) the obtaining of all necessary approvals from the relevant regulatory authorities, including the completion of the business registration by each of the Target Group companies pursuant to the Target Group s reorganization; and

(iii) there having been no material adverse change to the financial condition, business operations or prospects of the Target Group.

If any condition precedent is not satisfied or waived by us by December 31, 2004, or such other date as we and China Telecom Group may agree, the conditional acquisition agreement will lapse.

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We intend to fund the initial cash consideration for the Proposed Acquisition using our net proceeds from the global offering and to use any proceeds remaining after such payment to prepay part of the deferred consideration. See Use of Proceeds. If we do not proceed with the Proposed Acquisition, we will use our net proceeds from the global offering to fund other similar strategic acquisition in accordance with the authority granted by our shareholders at the shareholders meetings on May 3, 2004. We may not be able to identify suitable target companies or opportunities in a timely manner or at all.

You can find additional information regarding the Proposed Acquisition in the current report on Form 6-K which we filed with the Securities and Exchange Commission on April 14, 2004, which report is incorporated by reference in this prospectus supplement and the accompanying prospectus.

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The Offering

Securities offered by Us	13,504,582 ADSs, or 1,350,458,182 H shares (which excludes the ADSs and H shares offered outside of the United States in the international offering). Investors can choose to receive H shares or ADSs.
Securities offered by the Selling Shareholders	China Telecom Group, Guangdong Rising Assets Management Co., Ltd., Jiangsu Guoxin Investment Group Co., Ltd. and Zhejiang Financial Development Company are offering 1,175,071 ADSs or 117,507,095 H shares, 113,065 ADSs or 11,306,522 H shares, 19,274 ADSs or 1,927,421 H shares and 43,048 ADSs or 4,304,780 H shares, respectively, and, in each case, excluding the ADSs and H shares offered by such selling shareholder outside of the United States in the international offering. Immediately after the global offering, China Telecom Group, Guangdong Rising Assets Management Co., Ltd., Jiangsu Guoxin Investment Group Co., Ltd. and Zhejiang Financial Development Company will own 72.09%, 6.94%, 1.18% and 2.64%, respectively, of our outstanding shares.
Global Offering	58,500,000 ADSs, or 5,850,000,000 H shares, offered in the U.S. offering and the international offering. H shares may be delivered instead of ADSs at the option of purchasers.
U.S. Offering	14,855,040 ADSs, or 1,485,504,000 H shares, to be offered to investors in a registered public offering in the United States.
International Offering	43,644,960 ADSs, or 4,364,496,000 H shares, to be offered to professional and institutional investors outside the United States in reliance upon Regulation S of the Securities Act.
ADSs	Each ADS represents 100 H shares that will be held by The Bank of New York, as depositary. The ADSs will be evidenced by American Depositary Receipts, or ADRs. See Description of American Depositary Receipts in the accompanying prospectus, which section describes the deposit agreement under which the ADRs are issued.
H Shares	Overseas listed foreign invested shares in our registered capital, par value of RMB1.00 per share, which are listed on the Stock Exchange of Hong Kong Limited, or Hong Kong Stock Exchange. H shares are subscribed for and traded in Hong Kong dollars exclusively by and between investors of Hong Kong, Macau, Taiwan and any country other than China.
Offering Price in the Global Offering	The offering price per ADS is US$29.49, equivalent to HK$2.30 per H share at the agreed exchange rate of HK$7.80 to US$1.00.

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New York Stock Exchange Symbol	Our ADSs are listed on the New York Stock Exchange under the symbol CHA.
Hong Kong Stock Exchange Stock Code	Our H shares are listed on the Hong Kong Stock Exchange under the stock code 728.
Payment and Delivery	The underwriters expect to deliver the ADSs through the book-entry facilities of The Depository Trust Company, Euroclear Bank S.A./N.V., as operator of the Euroclear System, and Clearstream Banking, Societé Anonyme, and the H shares through the facilities of the Hong Kong Securities Clearing Company, against payment on May 24, 2004.
Use of Proceeds	We intend to use our net proceeds from the global offering to fund the initial cash consideration for the Proposed Acquisition and to use any proceeds remaining after such payment to prepay part of the deferred consideration, which is subject to certain conditions precedent. If we do not proceed with the Proposed Acquisition, we will use our net proceeds from the global offering to fund other similar strategic acquisition in accordance with the authority granted by our shareholders at the shareholders meetings on May 3, 2004. Until we apply our net proceeds for the Proposed Acquisition or other similar acquisition, we may invest such net proceeds in certificates of deposit, US government securities or certain other interest-bearing securities or place such net proceeds in bank deposits. Any use, investment or deposit of such net proceeds other than for the Proposed Acquisition will be reviewed and approved by our independent non-executive directors.
	We will not receive any of the net proceeds from the H shares or ADSs sold by the selling shareholders.
Shares Outstanding after the Global Offering	80,932,368,321 shares, including 13,877,410,000 H shares and H shares represented by ADSs and 67,054,958,321 domestic shares, will constitute our entire issued and outstanding share capital after the global offering. Domestic shares, which are not being offered under this prospectus supplement, may only be subscribed for by, and traded between, legal or natural persons of China (other than Hong Kong, Macau and Taiwan) and must be subscribed for and traded in Renminbi. Domestic shares and H shares, including those represented by ADSs, are ordinary shares in our share capital and confer equal rights on our shareholders.
	The number of shares outstanding immediately after the global offering is based on the number of our shares outstanding as of May 18, 2004.

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Selected Historical Consolidated Financial Data of Our Company

The following selected historical consolidated financial data of our company as of December 31, 2002 and 2003 and for each of the years ended December 31, 2001, 2002 and 2003 are derived from our audited financial statements incorporated by reference in this prospectus supplement and the accompanying prospectus. The selected historical consolidated financial data as of December 31, 1999, 2000 and 2001 and for each of the years ended December 31, 1999 and 2000 are derived from our audited financial statements, which are not included or incorporated by reference in this prospectus supplement or the accompanying prospectus. 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, or US GAAP.

The following selected historical consolidated financial data are prepared as if our current corporate structure had been in existence throughout the periods presented below. 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. As we and the companies we acquired in 2003 were under the common control of China Telecom Group prior to the acquisition, that acquisition has been accounted for in a manner similar to a pooling-of-interests and our financial statements for periods prior to that acquisition have been restated to include the financial position and results of operations of these acquired companies on a combined basis. Except for the income statement data for the year ended December 31, 2003, the income statement data for the other periods presented below include the results of certain assets retained by China Telecom Group after our restructuring in 2001 and that acquisition. 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 and 2003, the balance sheet data as of other dates presented below include data related to the assets retained by China Telecom Group after our restructuring in 2001 and that acquisition. These assets are not reflected in our balance sheet as of and after December 31, 2002.

You should read our selected historical consolidated financial data together with our audited financial statements and related notes incorporated by reference in this prospectus supplement, as well as Item 3 Key Information Selected Financial Data and Item 5 Operating and Financial Review and Prospects in our annual report on Form 20-F for our fiscal year ended December 31, 2003 incorporated by reference in this prospectus supplement and the accompanying prospectus.

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	As of or for the year ended December 31,					
	1999	2000	2001	2002	2003	2003
	RMB	RMB	RMB	RMB	RMB	US$(1)
	(in millions, except share numbers and per share and per ADS data)					
Income Statement Data:						
IFRS						
Operating revenue	92,107	101,433	100,497	109,564	118,451	14,311
Operating expenses	(60,046)	(72,170)	(77,881)	(83,567)	(86,003)	(10,391)
Operating income	32,061	29,263	22,616	25,997	32,448	3,920
Income before income tax and minority interests(2)	31,167	29,015	10,133	9,263	30,675	3,706
Income tax	(6,409)	(5,596)	(161)	582	(5,933)	(717)
Net income	24,657	23,344	9,986	9,773	24,686	2,983
Basic earnings per share(3)	0.36	0.34	0.15	0.14	0.33	0.04
Basic earnings per ADS(3)	36.09	34.17	14.62	14.11	32.65	3.95
U.S. GAAP						
Net income	24,657	23,344	17,888	18,545	22,006	2,659
Basic earnings per share(3)	0.36	0.34	0.26	0.27	0.29	0.04
Basic earnings per ADS(3)	36.09	34.17	26.18	26.78	29.10	3.52
Balance Sheet Data:						
IFRS						
Cash and cash equivalents	22,055	18,358	7,697	18,685	10,119	1,222
Accounts receivable, net	10,673	10,890	8,536	9,058	10,187	1,231
Property, plant and equipment, net(2)	180,807	202,659	221,333	220,761	235,211	28,418
Total assets(2)	276,544	301,250	299,088	303,611	305,605	36,923
Short-term debt(4)	19,600	23,454	33,914	40,336	40,097	4,845
Accounts payable	16,424	22,218	24,071	21,728	20,129	2,432
Long-term obligations	25,366	22,814	22,160	17,676	49,684	6,003
Deferred revenues (excluding current portion)	46,771	43,879	38,465	31,735	25,389	3,068
Total liabilities	156,494	166,101	162,944	149,577	173,064	20,910
Shareholders equity(2)	119,128	134,158	135,156	152,848	131,272	15,860
U.S. GAAP						
Property, plant and equipment, net	180,807	202,659	229,109	240,870	251,320	30,365
Total assets	276,544	301,250	306,864	323,720	321,714	38,870
Shareholders equity	119,128	134,158	140,274	166,229	141,973	17,153
Cash Flow Data:						
IFRS						
Cash flows from operating activities	50,483	49,641	46,648	52,158	46,884	5,665
Net cash used in investing activities(5)	(41,505)	(49,832)	(55,844)	(47,060)	(40,781)	(4,927)
Capital expenditures(5)	(41,999)	(48,507)	(54,625)	(45,807)	(41,825)	(5,053)
Net cash (used in) / from financing activities	(4,298)	(3,506)	(1,465)	5,890	(14,669)	(1,773)

(1) Translated into US dollars solely for the convenience of the reader at the noon buying rate prevailing on December 31, 2003 of US$1.00 to RMB8.2767.

(2) Data as of December 31, 2001, 2002 and 2003 and for the years ended December 31, 2001 and 2002 include 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 in connection with our acquisition in 2003. See Note 7 to our audited financial statements incorporated by reference in this prospectus supplement and the accompanying prospectus.

(3) The basic earnings per share has been calculated based on the net income of RMB24,657 million, RMB23,344 million, RMB9,986 million, RMB9,773 million and RMB24,686 million, respectively, for the years ended December 31, 1999, 2000, 2001, 2002 and 2003, and the weighted average number of shares in issue during the relevant year of 68,317,270,803, 68,317,270,803, 68,317,270,803, 69,241,674,942 and 75,614,186,503 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 has 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.

(4) Excludes current portion of long-term debt.

(5) Capital expenditures are part of and not an addition to net cash used in investing activities.

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Selected Historical Combined Financial Data of the Target Group

The following selected historical combined financial data of the Target Group as of December 31, 2002 and 2003 and for each of the years ended December 31, 2001, 2002 and 2003 are derived from the audited historical combined financial statements of the Target Group incorporated by reference in this prospectus supplement and the accompanying prospectus. These financial statements were prepared and presented in accordance with IFRS, which differ in certain significant respects from US GAAP.

The following selected historical combined financial data are prepared as if the Target Group has owned and operated the wireline telecommunications businesses transferred by China Telecom Group in connection with the Proposed Acquisition throughout the periods presented below. The income statement data for the years ended December 31, 2001, 2002 and 2003 and the balance sheet data as of December 31, 2002 presented below include the results of and data relating to certain investments in non-telecommunications industries and properties and other assets historically associated with the telecommunications operations of China Telecom Group in the service areas of the Target Group that were not transferred to the Target Group in the restructuring relating to the Proposed Acquisition. As a result of the segregation and separate management of these assets by China Telecom Group beginning December 31, 2003, the assets retained by China Telecom Group have been accounted for as an equity transaction as of December 31, 2003. Please refer to Note 1 to the audited combined financial statements of the Target Group incorporated by reference in this prospectus supplement and the accompanying prospectus for further details.

You should read the selected historical combined financial data of the Target Group together with the audited combined financial statements of the Target Group and related notes incorporated by reference in this prospectus supplement and the accompanying prospectus.

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	As of or for the year ended December 31,			
	2001	2002	2003	2003
	RMB	RMB (in millions)	RMB	US$(1)
Income Statement Data:				
IFRS				
Operating revenue	29,584	31,342	33,102	3,999
Operating expenses	(31,486)	(32,231)	(32,698)	(3,950)
Operating (loss)/income	(1,902)	(889)	404	49
Loss before income tax(2)	(3,294)	(2,828)	(16,268)	(1,965)
Income tax	1,660	1,274	5,464	660
Net loss	(1,634)	(1,554)	(10,804)	(1,305)
U.S. GAAP				
Net loss	(1,634)	(1,554)	(554)	(67)

	As of or for the year ended December 31,		
	2002	2003	2003
	RMB	RMB (in millions)	US$(1)
Balance Sheet Data:			
IFRS			
Cash and cash equivalents	4,058	2,602	314
Accounts receivable, net	2,547	2,764	334
Property, plant and equipment, net(2)	90,480	74,685	9,023
Total assets(2)	120,090	98,337	11,881
Short-term debt(3)	12,860	16,146	1,951
Accounts payable	13,131	15,500	1,873
Long-term obligations	21,376	18,991	2,295
Deferred revenues (excluding current portion)	9,159	7,355	888
Total liabilities	85,913	78,815	9,523
Owner s equity(2)	34,177	19,522	2,358
U.S. GAAP			
Property, plant and equipment, net	90,480	87,980	10,630
Total assets	120,090	111,632	13,488
Owner s equity	34,177	28,668	3,464
Cash Flow Data:			
IFRS			
Cash flows from operating activities	10,199	11,508	1,390
Net cash used in investing activities(4)	(15,518)	(16,313)	(1,971)
Capital expenditures(4)	(15,630)	(15,867)	(1,917)
Net cash from financing activities	1,800	3,349	405

(1) Translated into US dollars solely for the convenience of the reader at the noon buying rate prevailing on December 31, 2003 of US$1.00 to RMB8.2767.

(2) Data as of December 31, 2003 and for the year ended December 31, 2003 include the effect of the revaluation of property, plant and equipment as of December 31, 2003 in connection with the Target Group s restructuring. See Note 7 to the audited combined financial statements of the Target Group incorporated by reference in this prospectus supplement and the accompanying prospectus.

(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.

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Selected Unaudited Pro Forma Financial Data

The following selected unaudited pro forma financial data are based upon our historical consolidated financial statements and the historical combined financial statements of the Target Group (after giving effect to the pro forma adjustments described in the notes to the unaudited pro forma financial information of the Group incorporated by reference in this prospectus supplement and the accompanying prospectus). If the Proposed Acquisition is completed, our consolidated financial statements for periods prior to completion of the Proposed Acquisition will be restated to include the assets and liabilities and the results of operations of the Target Group for those periods on a combined basis and the purchase price for the Proposed Acquisition will be treated as an equity transaction.

The following selected unaudited pro forma income statement data give effect to the Proposed Acquisition as if it was completed on January 1, 2003 and are also adjusted to give effect to the restructuring of the Target Group relating to the Proposed Acquisition as if such restructuring had occurred on January 1, 2003. The following selected unaudited pro forma balance sheet data as of December 31, 2003 give effect to the Proposed Acquisition as if it was completed on December 31, 2003.

The following selected unaudited pro forma financial data are based on currently available information and a number of assumptions, estimates and uncertainties, including those set forth under Risk Factors and in the unaudited pro forma financial information of the Group incorporated by reference in this prospectus supplement and the accompanying prospectus, and should not be taken as an indication of the actual financial position or results that our company will achieve if the Proposed Acquisition is completed.

You should read the selected unaudited pro forma financial data together with the related notes included or incorporated by reference in this prospectus supplement and the accompanying prospectus.

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Unaudited Pro Forma Statement of Income Under IFRS for the Year Ended December 31, 2003

	Our Historical	Target Group Historical	Pro Forma Pooling	Pro Forma Adjustments	Pro Forma Combined
	(in RMB in millions, except share numbers and per share data)				
Operating revenues	118,451	33,102	151,553	(245)(3)	151,308
Operating expenses					
Depreciation and amortization	(32,921)	(13,676)	(46,597)	2,991(4)	(43,291)
				315(5)	
Network operations and support	(31,883)	(12,235)	(44,118)		(44,118)
Selling, general and administrative	(18,303)	(6,507)	(24,810)	(238)(5)	(25,048)
Other operating expenses	(2,896)	(280)	(3,176)	683(3)	(2,493)
Total operating expenses	(86,003)	(32,698)	(118,701)		(114,950)
Operating income	32,448	404	32,852		36,358
Deficit on revaluation of property, plant and equipment		(14,832)	(14,832)		(14,832)
Net finance costs	(1,814)	(1,792)	(3,606)	(147)(1)	(4,762)
				(1,009)(2)	
Investment income / (loss)	7	(49)	(42)	49(6)	7
Equity in income of associates	34	1	35	(1)(6)	34
Income / (loss) before income tax and minority interests	30,675	(16,268)	14,407		16,805
Income tax	(5,933)	5,464	(469)	(791)(7)	(1,260)
Income / (loss) before minority interests	24,742	(10,804)	13,938		15,545
Minority interests	(56)		(56)		(56)
Net income / (loss)	24,686	(10,804)	13,882		15,489
Basic earnings per share (in RMB)	0.33				0.20
Weighted average number of shares (in millions)	75,614				75,614

Reconciliation of Pro Forma Net Income Under IFRS to Pro Forma Net Income Under US GAAP for the Year Ended December 31, 2003

Pro forma net income under IFRS	15,489
US GAAP adjustments:	
Reversal of deficit on revaluation of property, plant and equipment, net of minority interests(8)	14,832
Depreciation on revalued property, plant and equipment(8)	(6,931)
Disposal of revalued property, plant and equipment(8)	(60)
Deferred tax effect of US GAAP adjustments(8)	(2,275)
Pro forma net income under US GAAP	21,055
Pro forma basic earnings per share under US GAAP (in RMB)	0.28

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Unaudited Pro Forma Balance Sheet Under IFRS as of December 31, 2003

	Our Historical	Target Group Historical	Pro Forma Pooling	Pro Forma Adjustments	Pro Forma Combined
			(in RMB in millions)		
ASSETS					
Current assets					
Cash and cash equivalents	10,119	2,602	12,721	(8,340)(1)	4,381
Time deposits with maturity over three months	428	45	473		473
Accounts receivable, net	10,187	2,764	12,951		12,951
Inventories	2,330	923	3,253		3,253
Prepayments and other current assets	2,440	1,255	3,695		3,695
Total current assets	25,504	7,589	33,093		24,753
Non-current assets					
Property, plant and equipment, net.	235,211	74,685	309,896		309,896
Construction in progress	22,790	8,827	31,617		31,617
Lease prepayments	3,234	1,251	4,485		4,485
Interests in associates	513		513		513
Investments	205	1	206		206
Deferred tax assets	8,314	2,209	10,523		10,523
Other assets	9,834	3,775	13,609		13,609
Total non-current assets	280,101	90,748	370,849		370,849
Total assets	305,605	98,337	403,942		395,602
LIABILITIES AND SHAREHOLDERS EQUITY					
Current liabilities					
Short-term debt	40,097	16,146	56,243		56,243
Current portion of long-term debt	6,434	7,523	13,957		13,957
Accounts payable	20,129	15,500	35,629		35,629
Accrued expenses and other payables	15,989	10,015	26,004		26,004
Income tax payable	3,395		3,395		3,395
Current portion of finance lease obligations	19	31	50		50
Current portion of deferred revenues	10,603	3,254	13,857		13,857
Total current liabilities	96,666	52,469	149,135		149,135
Non-current liabilities					
Long-term debt	49,665	18,967	68,632	19,460(2)	88,092
Finance lease obligations	19	24	43		43
Deferred revenues	25,389	7,355	32,744		32,744
Deferred tax liabilities	1,325		1,325		1,325
Total non-current liabilities	76,398	26,346	102,744		122,204
Total liabilities	173,064	78,815	251,879		271,339
Minority interests	1,269		1,269		1,269
Shareholders equity					
Share capital	75,614		75,614		75,614
Reserves	55,658	19,522	75,180	(8,340)(1)	47,380

				(19,460)[2]	
Total shareholders equity	131,272	19,522	150,794		122,994
Total liabilities and shareholders equity	305,605	98,337	403,942		395,602

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Reconciliation of Pro Forma Shareholders Equity Under IFRS to Pro Forma Shareholders Equity Under US GAAP

	(in RMB in millions)
Pro forma shareholders equity as of December 31, 2003 under IFRS	122,994
US GAAP adjustments:	
Reversal of deficit on revaluation of property, plant and equipment, net of minority interests(8)	29,312
Deferred tax effect of US GAAP adjustment(8)	(9,465)
Pro forma shareholders equity as of December 31, 2003 under US GAAP	142,841

(1) In connection with the Proposed Acquisition, an initial cash consideration of RMB8,340 million will be paid by us to China Telecom Group on the completion date of the Proposed Acquisition. The pro forma balance sheet adjustment reflects the payment of the initial cash consideration as if the Proposed Acquisition had been completed on December 31, 2003. The pro forma income statement adjustment reflects the reduction in interest income in respect of the cash paid as if the Proposed Acquisition had been completed on January 1, 2003.

(2) In connection with the Proposed Acquisition, a deferred consideration of RMB19,460 million, representing the difference between the purchase price and the initial cash payment described in Note 1 above, will be payable by us to China Telecom Group on the tenth anniversary of the completion date of the Proposed Acquisition. The pro forma balance sheet adjustment reflects the deferred consideration payable as if the Proposed Acquisition had been completed on December 31, 2003. The pro forma income statement adjustment reflects the additional interest expense in respect of the deferred consideration at 5.184% per annum as if the Proposed Acquisition had been completed on January 1, 2003.

(3) Prior to the Proposed Acquisition, the interconnection settlement between China Telecom Group and us was based on the net volume of telephone calls between China Telecom Group plus the Target Group and us. After completion of the Proposed Acquisition, the interconnection settlement between China Telecom Group and us will be based on the net volume of telephone calls between China Telecom Group and us plus the Target Group. The pro forma adjustment reflects the expected effect of the above change on the interconnection revenue and expenses as if the Proposed Acquisition had been completed on January 1, 2003.

(4) In connection with the restructuring of the Target Group for the Proposed Acquisition, the property, plant and equipment of the Target Group were revalued as of December 31, 2003 as required by the relevant PRC laws and regulations, which resulted in a net revaluation deficit of RMB13,295 million. The pro forma adjustment reflects the reduction in depreciation charge resulting from the revaluation of the Target Group s property, plant and equipment as if the results of the revaluation had been recorded on January 1, 2003.

(5) In connection with the restructuring of the Target Group for the Proposed Acquisition, certain property, plant and equipment associated with the predecessors of the Target Group were not transferred to the Target Group but were retained by China Telecom Group. Pursuant to property leasing agreements between the Target Group and China Telecom Group, the Target Group leases certain properties from China Telecom Group. The property rental to be paid by the Target Group to China Telecom Group is based on market rates, with reference to amounts stipulated by local price bureaus. The pro forma adjustment reflects the effects of a reduction in depreciation charge relating to the property, plant and equipment retained by China Telecom Group and an increase in rental expense as if the restructuring occurred and the property leasing agreements took effect on January 1, 2003.

(6) In connection with the restructuring of the Target Group for the Proposed Acquisition, certain long-term investments and interests in associates of the predecessors of the Target Group were not transferred to the Target Group but were retained by China Telecom Group. The pro forma adjustment reflects a decrease in investment loss relating to these long-term investments and a decrease in the equity in income of associates as if the restructuring occurred on January 1, 2003.

(7) The pro forma adjustment reflects the tax effect of the above pro forma adjustments using the statutory tax rate of 33%.

(8) The pro forma adjustments under US GAAP reflect the effects of the reversal of deficit on revaluation of ours and the Target Group s property, plant and equipment, the reversal of the reduction in depreciation charge and loss on disposal of the relevant assets, and the related tax effect.

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USE OF PROCEEDS

Our estimated net proceeds from the global offering, after deducting the underwriters discounts and commissions and our estimated offering expenses, will be approximately US$1,532,874,267.49 (equivalent to HK$11,956,419,286.40 at the noon buying rate on May 18, 2004). We will not receive any of the net proceeds from the sale of H shares by the selling shareholders.

We intend to use our net proceeds from the global offering to pay the initial cash consideration of RMB8,340 million (approximately US$1,008 million) payable upon completion of the Proposed Acquisition. The Proposed Acquisition is subject to the conditions precedent described in our current report on Form 6-K dated April 14, 2004 with respect to information regarding a potential acquisition, dated April 13, 2004, incorporated by reference to this prospectus supplement and the accompanying prospectus. The balance of the net proceeds remaining after payment of such initial cash consideration will be used as partial prepayment of the deferred consideration of RMB19,460 million (approximately US$2,351 million) payable on the tenth anniversary of the completion date of the Proposed Acquisition. The conditional acquisition agreement relating to the Proposed Acquisition provides that any payment made in currencies other than Renminbi will be based on the exchange rates between Renminbi and such currencies prevailing at 12:00 noon (Beijing time) on April 8, 2004, which, for US dollars, was US$1.00 to RMB8.2769. We may prepay all or part of the deferred consideration during the ten years following the completion of the Proposed Acquisition without penalty. Interest will accrue daily on the outstanding amount of deferred consideration at a rate of 5.184% per annum for the first five years after completion of the Proposed Acquisition and thereafter at the then prevailing Renminbi lending rate for a commercial bank loan of similar amount and tenure, subject to a discount of 10%. If we do not proceed with the Proposed Acquisition, we will use our net proceeds from the global offering to fund other similar strategic acquisition in accordance with the authority granted by our shareholders at the shareholders meetings on May 3, 2004. Until we apply our net proceeds for the Proposed Acquisition or other similar acquisition, we may invest such net proceeds in certificates of deposit, US government securities or certain other interest-bearing securities or place such net proceeds in bank deposits. Any use, investment or deposit of such net proceeds other than for the Proposed Acquisition will be reviewed and approved by our independent non-executive directors.

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MARKET PRICE INFORMATION

Our American depositary shares, or ADSs, each representing 100 H shares, are listed and traded on the New York Stock Exchange under the symbol CHA . Our H shares are listed and traded on the Hong Kong Stock Exchange under the stock code 728 . The New York Stock Exchange and the Hong Kong Stock Exchange are the principal trading markets for our ADSs and H shares, which are not listed on any other exchanges in or outside the United States.

As of December 31, 2003, there were 8,027,410,000 H shares issued and outstanding. The number of H shares issued and outstanding remained unchanged as of May 18, 2004.

As of December 31, 2003 and May 18, 2004, there were, respectively, 8 and 12 registered holders of American depositary receipts evidencing 8,642,570 and 6,562,751 ADSs. Since certain of the ADSs are held by nominees, the above number may not be representative of the actual number of U.S. beneficial holders of ADSs or the number of ADSs beneficially held by U.S. persons. The depositary for the ADSs is The Bank of New York.

The high and low closing sale prices of the shares on the Hong Kong Stock Exchange and of the ADSs on the NYSE for the periods indicated are as follows.

	Price per Share (HK$)		Price per ADS (US$)	
	High	Low	High	Low
Annual				
2002 (from listing date)	1.49	1.37	18.80	17.27
2003	3.20	1.34	40.81	17.00
2004 (through May 18)	3.45	2.25	44.54	28.85
Quarterly				
Fourth Quarter, 2002	1.49	1.37	18.80	17.27
First Quarter, 2003	1.52	1.34	19.42	18.32
Second Quarter 2003	1.84	1.34	23.15	17.31
Third Quarter 2003	2.33	1.78	30.00	22.63
Fourth Quarter 2003	3.20	2.05	40.81	26.12
First Quarter 2004	3.45	2.55	44.54	33.20
Second Quarter 2004 (through May 18)	2.83	2.25	35.98	28.85
Monthly				
October 2003	2.58	2.05	34.75	26.12
November 2003	2.63	2.33	33.48	29.55
December 2003	3.20	2.60	40.81	32.80
January 2004	3.45	2.88	44.54	36.59
February 2004	3.20	2.88	40.54	36.30
March 2004	3.08	2.55	39.46	33.20
April 2004	2.83	2.33	35.98	28.85
May 2004 (through May 18)	2.43	2.25	30.22	28.90

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DIVIDEND POLICY

The declaration and payment of dividends by our comp