

SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. Because this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Hong Kong Offer Shares.

Our Company

We are the leading provider of wireline telephone, data and Internet and leased line services in four of the most economically developed regions in China. Our service regions consist of Shanghai Municipality, Guangdong Province, Jiangsu Province and Zhejiang Province. Until the mid-1990s, we were the sole provider of wireline telecommunications services in our service regions. As the Chinese government has implemented a series of measures to restructure the telecommunications industry in China in order to encourage fair and orderly competition, we have experienced increased competition in our service regions.

We offer a full range of wireline telecommunications services in our service regions, including local telephone, long distance telephone, data, Internet and leased line services. We have the largest wireline telephone customer base in our service regions with 53.2 million access lines in service as of June 30, 2002. We provide long distance services over public switched telephone networks and voice over Internet protocol networks, and these services have grown steadily in terms of usage. We are also the leading provider of Internet services in terms of the number of subscribers, with rapid growth in broadband subscribers since our introduction of broadband Internet service in 2000. We provide a variety of advanced managed data services in our service regions. In addition, we provide digital circuits and other leased line services to corporations and other telecommunications operators.

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 systems of China Telecom Group, form an advanced, integrated and reliable nationwide network system that is the largest in China.

Our total operating revenue declined in 2001 as a result of significant reductions in the tariffs for our long distance, managed data and leased line services as mandated by the PRC government in 2001. The decline in total operating revenue, along with the revaluation deficit charge resulting from our asset revaluation conducted in connection with our incorporation and restructuring, also led to a decrease in net income in 2001. Our total operating revenue and net income increased in the six months ended June 30, 2002 due to growing demand for our services and our efforts to control operating expenses.

Upon completion of the Global Offering, our controlling shareholder, China Telecommunications Corporation, a wholly state-owned enterprise, will directly own 69.5% of our issued share capital (or 67.5% if the US Underwriters and the International Underwriters exercise the Over-allotment Option in full).

Our Reorganization

In November 2001, the State Council approved a comprehensive restructuring plan relating to the wireline telecommunications sector. Under the restructuring plan, the

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telecommunications assets of our parent company, China Telecommunications Corporation, in ten northern provinces in China were split off from China Telecommunications Corporation in May 2002 and merged with China Netcom Corporation and Jitong Communications Co. Ltd. to form China Netcom Communications Group Corporation, or “China Netcom Group”. China Telecommunications Corporation retained the telecommunications assets in the remaining 21 provinces and continues to own the brand name of “China Telecom.” Under the restructuring plan, both China Telecommunications Corporation and China Netcom Group were permitted to operate nationwide wireline telecommunications networks and provide nationwide services.

In anticipation of the Global Offering, we were incorporated on September 10, 2002 as a joint stock company with limited liability with China Telecommunications Corporation, a wholly state-owned enterprise, as our controlling shareholder. To effect the Reorganization, we entered into a restructuring agreement with China Telecommunications Corporation, under which the Reorganization took effect as of December 31, 2001. As part of the Reorganization, China Telecom Group’s operations in Shanghai Municipality, Guangdong Province, Jiangsu Province and Zhejiang Province, together with the related assets and liabilities, were transferred to us. See the Section headed “Our Reorganization” for a diagram illustrating the restructuring of China Telecom Group and our Reorganization in anticipation of the Global Offering.

Relationship with China Telecom Group

Following our Reorganization, China Telecom Group has retained the ownership of, and continues to operate, the wireline telecommunications networks, and provides telecommunications services outside our service regions.

In connection with our Reorganization, we have entered into various agreements with China Telecommunications Corporation and a number of its provincial subsidiaries relating to the mutual provision of ongoing telecommunications and other services, including agreements for trademark licensing, centralized services, interconnection arrangements, optic fibers leasing, property leasing and other services. See the Section headed “Business—Connected Transactions.”

RISK FACTORS

We consider that there are certain risks which potential investors should evaluate in connection with an investment in the Offer Shares. These risks can be categorised into (i) risks relating to our business; (ii) risks relating to the PRC telecommunications industry; (iii) risks relating to the PRC; and (iv) risks relating to the H Shares and the ADSs. They are described in the Section headed “Risk Factors” and are listed below:

Risks relating to our business

- We face increasing competition, which may adversely affect our business growth and results of operations.
- The uncertainties that may arise from the agreements to be entered into between China Telecom Group and China Netcom Group in connection with the

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restructuring of China Telecom Group could have an adverse impact on our business and operations.

- China Netcom Group's control of the last-mile access in ten northern provinces in China may adversely affect our ability to provide end-to-end services.
- We will continue to be controlled by China Telecommunications Corporation, which could cause us to take actions that may conflict with the best interests of our other shareholders.
- The letter of undertaking provided to us by China Telecommunications Corporation contains vague terms that may not be implemented as we expect.
- We depend on China Telecom Group to provide certain services and facilities for which we currently have limited alternative sources of supply.
- 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.
- If we are not able to respond successfully to technological or industry developments, our business may be adversely affected.
- 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.

Risks relating to the PRC telecommunications industry

- Extensive government regulation of the telecommunications industry may limit our flexibility in responding to market conditions, competition or changes in our cost structure.
- Our revenues may be adversely affected by reductions in tariffs mandated by the Chinese government.
- Future changes to the regulations and policies governing the telecommunications industry in China may 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.

Risks relating to the PRC

- China's economic, political and social conditions, as well as government policies, could affect our business.
- Government control of currency conversion and future movements in exchange rates may adversely affect our operations and financial results.
- Fluctuation of the Renminbi could materially affect our financial condition and results of operations.
- The PRC legal system has inherent uncertainties that could limit the legal protections available to you.

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- Shareholders may not be able to successfully enforce their rights in China under PRC Company Law or Hong Kong regulatory provisions.
- Holders of H shares may be subject to PRC taxation.

Risks relating to the Global Offering

- An active trading market for our H Shares or ADSs may not develop, and their trading prices may fluctuate significantly.
- Our actual financial performance could vary materially from the prospective financial information contained in this prospectus.
- Because the initial public offering price is higher than the net tangible book value per share, you will incur immediate dilution.
- Since there will be a five business day time gap between pricing and trading of our H Shares and ADSs offered in this Global Offering, holders of our H Shares and holders of our ADSs are subject to the risk that the trading prices of our H Shares and ADSs could fall during the period before trading of our H Shares and ADSs begins.
- An underwriter sent unauthorized emails to potential investors in the United States.

SUMMARY HISTORICAL FINANCIAL INFORMATION

The following table presents our summary combined financial information. The summary combined balance sheet data as of December 31, 1999, 2000 and 2001 and June 30, 2002, and the income statement data for the years ended December 31, 1999, 2000 and 2001 and for the six months ended June 30, 2001 and 2002, are derived from, and should be read in conjunction with, our audited combined financial information included in Appendix I—“Accountants’ Report.” Our audited combined financial information is 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. For a discussion of significant differences between IFRS and US GAAP, as they relate to us, see Section I of Appendix II—“Additional Financial Information.”

The combined financial data reflect the Reorganization described in the Section headed “Our Reorganization” and have been prepared as if our current structure had been in existence throughout the relevant periods. Since China Telecom Group controlled the telecommunications operations and the related assets transferred to us prior to our Reorganization and continues to control us after our Reorganization in anticipation of this Global Offering, the financial information of the telecommunications operations in Shanghai Municipality, Guangdong Province, Jiangsu Province and Zhejiang Province transferred to us by China Telecom Group have been combined in a manner similar to a pooling-of-interests. The assets and liabilities of the entities being combined are carried forward at their recorded historical amounts, and the book value of the assets and liabilities of each of these entities are added together and the revenue and expenses of the entities for the applicable periods are added together to prepare our combined financial statements.

Following our Reorganization, China Telecom Group has retained the ownership of certain assets that were historically associated with our operations, which had a carrying amount of RMB11,285 million as of December 31, 2001 and primarily consisted of investments in non-telecommunications industries, the inter-provincial optic fibers, international gateway and international transmission equipment, telecommunications equipment for special communications services, and certain office equipment, properties and buildings. Except for the income statement data for the six months ended June 30, 2002, the income statement data for the other periods indicated include the results of the assets retained by China Telecom Group. The results of such assets will not be reflected in our combined statement of income for future periods ending after December 31, 2001. Except for the balance sheet data as of December 31, 2001 and June 30, 2002, the balance sheet data include data related to the assets retained by China Telecom Group. These assets will not be reflected in our audited balance sheets after December 31, 2001.

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Income Statement Data

Income Statement Data	Year ended December 31,			Six months ended June 30,	
	1999	2000	2001	2001	2002
	RMB	RMB	RMB	RMB	RMB
	(in millions, except per H Share and per ADS data)				
IFRS					
Operating revenues	65,291	71,021	68,546	33,877	36,868
Depreciation and amortization	(14,903)	(17,386)	(19,451)	(9,365)	(10,030)
Network operations and support	(15,584)	(19,004)	(20,269)	(9,653)	(10,019)
Selling, general and administrative	(7,553)	(9,743)	(9,401)	(4,471)	(4,517)
Interconnection charges and other expenses	(889)	(1,264)	(1,327)	(741)	(1,404)
Operating profit	26,362	23,624	18,098	9,647	10,898
Deficit on revaluation of property, plant and equipment ⁽²⁾	—	—	(11,930)	—	—
Net finance (costs)/income	(516)	298	293	187	(421)
Investment income	95	177	310	117	1
Share of profit from associates	20	45	22	12	9
Taxation	(5,459)	(4,857)	69	(1,775)	(1,965)
Minority interests	(93)	(68)	21	(51)	(39)
Net profit	20,409	19,219	6,883	8,137	8,483
Basic earnings per H Share ⁽¹⁾	0.30	0.28	0.10	0.12	0.12
Basic earnings per ADS ⁽¹⁾	29.87	28.13	10.08	11.91	12.42
US GAAP					
Net profit		19,219	14,785	8,137	7,931
Basic earnings per H Share ⁽¹⁾		0.28	0.22	0.12	0.12
Basic earnings per ADS ⁽¹⁾		28.13	21.64	11.91	11.61

Balance Sheet Data⁽²⁾

Balance Sheet Data ⁽²⁾				As of June 30,
	As of December 31,			2002
	1999	2000	2001	
	RMB	RMB	RMB	RMB
	(in millions)			
IFRS				
Cash and cash equivalents	15,451	13,861	3,882	2,640
Property, plant and equipment, net ⁽²⁾	116,461	127,528	138,623	136,343
Total assets ⁽²⁾	182,367	197,401	189,334	187,121
Long-term obligations	12,395	10,144	7,112	6,567
Owner's equity ⁽²⁾	90,550	101,619	97,485	105,968
US GAAP				
Property, plant and equipment, net		127,528	146,399	143,296
Total assets		197,401	197,110	194,074
Owner's equity		101,619	102,603	110,534

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Other Financial Data

	Year ended December 31,			Six months ended June 30,	
	1999	2000	2001	2001	2002
	RMB	RMB	RMB (in millions)	RMB	RMB
IFRS					
Cash flows from operating activities	37,379	38,255	32,761	17,863	17,449
Net cash used in investing activities ⁽³⁾	(25,234)	(31,736)	(35,399)	(16,819)	(10,995)
Capital expenditures ⁽³⁾	(25,773)	(30,618)	(34,610)	(16,195)	(11,101)
Net cash used in financing activities	(9,176)	(8,109)	(7,341)	(2,445)	(7,696)
Pro Forma Data⁽⁴⁾:					
Pro forma net profit under IFRS			7,586		
Pro forma net profit under US GAAP			14,536		

Notes:

- (1) Basic earnings per H Share and per ADS have been computed by dividing net profit by the number of Shares issued and outstanding upon our formation on September 10, 2002 as if such Shares had been outstanding for all relevant periods. Each ADS represents 100 H Shares.
- (2) Includes the effect of the revaluation of property, plant and equipment as of December 31, 2001. See Note 3 of Section V of Appendix I—"Accountants' Report."
- (3) Capital expenditures are part of and not an addition to net cash used in investing activities.
- (4) See "Financial Information—Pro Forma Adjustments and Their Financial Impact" for a discussion of the pro forma adjustments. For IFRS, the pro forma adjustments primarily reflect the effects of the revaluation of property, plant and equipment and the distribution of the assets that were retained by China Telecom Group in connection with our restructuring, as if those transactions had occurred on January 1, 2001. For US GAAP, the pro forma adjustments primarily reflect the effect of the distribution of the assets that were retained by China Telecom Group in connection with our restructuring, as if it had occurred on January 1, 2001.

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Summary Operating Data⁽¹⁾

The following table sets forth certain operating data relating to our telecommunications operations as of and for the years ended December 31, 1999, 2000 and 2001, and as of and for the six months ended June 30, 2001 and 2002.

	As of or for the year ended December 31,			As of or for the six months ended June 30,	
	1999	2000	2001	2001	2002
Local telephone access lines in service (in millions) ⁽²⁾	31.9	39.8	48.5	44.3	53.2
Local telephone calls (minutes in billions) ⁽³⁾	111.8	141.9	171.5	82.5	98.4
Outgoing domestic long distance calls carried (minutes in billions) ⁽⁴⁾	22.88	26.97	30.63	15.05	16.34
Outgoing international long distance calls carried (minutes in billions) ⁽⁴⁾⁽⁵⁾	1.28	1.42	1.41	—	0.61
Managed data (bandwidth leased in thousands)					
DDN (x64Kbps)	70.5	103.1	158.6	125.8	168.3
Frame relay (x128Kbps)	6.1	11.2	20.4	14.6	25.1
ATM (x2Mbps)	0.6	1.3	7.8	3.2	10.0
Dial-up Internet access subscribers (in millions) ⁽⁶⁾	1.44	5.17	9.63	7.40 ⁽⁷⁾	10.26
Dial-up on-line usage (minutes in billions)	5.61	22.22	45.55	21.67	20.34
Broadband access (in thousands)					
DSL subscribers	—	5.60	300.57	88.21	662.90
FTTx+LAN subscribers	—	4.30	87.57	19.32	151.59
Others	—	—	8.40	2.11	9.99
Leased digital circuits (x2Mbps) (bandwidth leased in thousands)	53.5	65.1	84.3	74.8	91.9

Notes:

- (1) DDN services are services based on digital data networks technology. ATM services are services based on asynchronous transfer mode technology. DSL services are services based on digital subscriber line technology. FTTx refers to fiber-to-the-building, fiber-to-the-curb and other access methods that utilize fiber optic cables to connect users to an operator's telecommunications network. LAN technology refers to local area network technology.
- (2) Includes integrated services digital network, or ISDN, lines as measured by the number of bearer channels.
- (3) Minutes reported were converted from pulses through a statistical sampling of actual calling pattern. See the Section headed "Business—Wireline Telephone Services—Local Telephone Services—Service Usage."
- (4) Includes calls that have originated from other wireline and mobile networks.
- (5) Includes calls to Hong Kong, Macau and Taiwan.
- (6) Excludes inactive subscribers, who have registered accounts with us but have not used our Internet access services.
- (7) Calculated as the total number of subscribers minus the estimated number of inactive subscribers.

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FORECAST FOR THE YEAR ENDING DECEMBER 31, 2002

Forecast profit after taxation and minority interests but before extraordinary items ⁽¹⁾	not less than RMB16,497 million
Forecast earnings per Share	
(a) Pro forma fully diluted ⁽²⁾⁽³⁾	RMB0.1974 (HK\$0.1860)
(b) Weighted average ⁽³⁾⁽⁴⁾	RMB0.2336 (HK\$0.2202)

Notes:

- (1) The bases on which the above profit forecast has been prepared are set out in Appendix III.
- (2) The calculation of the forecast earnings per Share on a pro forma fully diluted basis is based on the forecast profit after taxation and minority interests but before extraordinary items for the year ending December 31, 2002 assuming that we had been listed since January 1, 2002 and a total of 83,588,470,803 Shares were issued and outstanding during the entire year. This calculation assumes that the Over-allotment Option will not be exercised and the H Shares issued pursuant to the Global Offering were issued on January 1, 2002.
- (3) Forecast earnings per Share is converted into Hong Kong dollars at the PBOC Rate of HK\$1.00 to RMB1.0608 prevailing on October 10, 2002.
- (4) The calculation of the forecast earnings per Share on a weighted average basis is based on the forecast profit after taxation and minority interests but before extraordinary items for the year ending December 31, 2002 and a weighted average number of 70,618 million Shares issued and outstanding during the year. This calculation assumes that the Over-allotment Option will not be exercised and the H Shares issued pursuant to the Global Offering will be issued on November 7, 2002.

Offer Statistics⁽¹⁾

	<u>Based on an Offer Price of HK\$1.47</u>	<u>Based on an Offer Price of HK\$1.69</u>
Market capitalisation of the H Shares ⁽²⁾	HK\$24,696 million	HK\$28,392 million
Prospective price/earnings multiple		
(a) pro forma fully diluted ⁽³⁾	7.9 times	9.1 times
(b) weighted average ⁽⁴⁾	6.7 times	7.7 times
Adjusted net tangible asset value per Share ⁽⁵⁾	HK\$1.47	

Notes:

- (1) All statistics in this table are on the assumption that the Over-allotment Option is not exercised.
- (2) The calculation of market capitalisation is based on 16,800,000,000 H Shares expected to be in issue following the Global Offering.
- (3) The calculation of the prospective price/earnings multiple on a pro forma fully diluted basis is based on the forecast earnings per Share on a pro forma fully diluted basis at the respective offer prices of HK\$1.47 and HK\$1.69.
- (4) The calculation of the prospective price/earnings multiple on a weighted average basis is based on the forecast earnings per Share on a weighted average basis at the respective offer prices of HK\$1.47 and HK\$1.69.
- (5) The adjusted net tangible asset value per Share is based on 83,588,470,803 Shares expected to be in issue following the Global Offering and an Offer Price of HK\$1.58 (being the mid-point of the estimated offer price range of between HK\$1.47 and HK\$1.69).

If the Over-allotment Option is exercised in full, assuming an Offer Price of HK\$1.58 (being the mid-point of the estimated Offer Price range of HK\$1.47 and HK\$1.69), the adjusted net tangible asset value per H Share will be increased to HK\$1.48 per H Share, while the earnings per H Share on a pro forma fully diluted basis and on a weighted average basis will be diluted correspondingly to HK\$0.1813 and HK\$0.2192 respectively.

Use of Proceeds

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$23,267 million (RMB24,682 million), after deducting the underwriting fees

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and expenses payable by us in the Global Offering and assuming an Offer Price of HK\$1.58 per H Share, being the midpoint of the estimated Offer Price range. We intend to use these net proceeds for, among other things, network upgrading, improvement of business operation supporting systems, development of telecommunications applications and technologies, potential acquisitions from China Telecom Group and strategic investments in the telecommunications industry in China that are consistent with our business strategies, and general corporate purposes.

We will not receive any of the proceeds from the sale of H Shares or ADSs by the Selling Shareholders in the Global Offering. All of the proceeds from the sale of H Shares or ADSs by the Selling Shareholders in the Global Offering will be remitted to the national security fund in accordance with the relevant PRC government requirements. See the Sections headed “Share Capital” and “Use of Proceeds.”

Dividend Policy

Subject to the applicable requirements of PRC law, our Board currently intends to recommend at the relevant shareholders’ meeting an annual dividend of approximately HK\$0.065 per H Share for each of the years 2002 and 2003. As we would not have been listed for the whole of the year ending December 31, 2002, the dividend payment for the year 2002 will be pro rated based on the period from the Listing Date to December 31, 2002. Our Board will declare dividends, if any, in Renminbi with respect to our H Shares on a per Share basis and will pay such dividends in Hong Kong dollars. Any final dividend for a fiscal year will be subject to shareholders’ approval.

There are risks associated with any investment. Some of the particular risks in investing in the Hong Kong Offer Shares are set out in the Section headed “Risk Factors.” You should read that section carefully before you decide to invest in the Hong Kong Offer Shares.