

1. PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PRESENTATION

Principal activities

China Telecom Corporation Limited (the “Company”) and its subsidiaries (hereinafter, collectively referred to as the “Group”) are engaged in the provision of wireline telecommunications and related services in Shanghai Municipality, Guangdong Province, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province, Guangxi Zhuang Autonomous Region, Chongqing Municipality, Sichuan Province, 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 of the People’s Republic of China (the “PRC”). The Group offers a comprehensive range of wireline telecommunications services to residential and business customers, including local, domestic long distance (“DLD”) and international long distance (“ILD”) telephone services, Internet and managed data, leased line, and other related services.

The operations of the Group are subject to the supervision and regulation by the PRC government. The Ministry of Information Industry, pursuant to the authority delegated to it by the PRC’s State Council, is responsible for formulating the telecommunications industry policies and regulations, including the regulation and setting of tariff levels for basic telecommunications services, such as local and long distance telephone services, managed data services, leased line and interconnection arrangements.

Organisation

The Company was incorporated in the PRC on 10 September 2002 as part of the reorganisation (the “Restructuring”) of China Telecommunications Corporation (“China Telecom” and together with its subsidiaries other than the Company referred to as “China Telecom Group”), a state-owned enterprise which is under the supervision and regulation of the Ministry of Information Industry. In November 2001, pursuant to a further industry restructuring plan approved by the State Council, China Telecom’s wireline telecommunications networks and related operations in 10 northern provinces, municipalities and autonomous regions of the PRC were transferred to China Netcom Group. China Telecom retained the wireline telecommunications networks and related operations of 21 provinces, municipalities and autonomous regions of the PRC, including those of the Company’s subsidiaries. In accordance with this industry restructuring plan, China Telecom and China Netcom Group own 70% and 30%, respectively, of the nationwide inter-provincial optic fibres.

for the six-month period ended 30 June 2004

1. PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PRESENTATION (Continued)

Organisation (Continued)

Pursuant to the resolution passed by the Company's independent shareholders at an Extraordinary General Meeting held on 15 December 2003, the Company acquired the entire equity interests in 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 (collectively the "First Acquired Group") and certain network management and research and development facilities from China Telecom for a total purchase price of RMB46,000 million on 31 December 2003 (hereinafter, referred to as the "First Acquisition"). The purchase price consisted of a cash payment of RMB11,000 million and a long-term payable of RMB35,000 million. In connection with the First Acquisition and effective 31 December 2002, China Telecom transferred the wireline telecommunications business and related operations in Anhui Province, Fujian Province, Jiangxi Province, Guangxi Zhuang Autonomous Region, Chongqing Municipality and Sichuan Province together with the related assets and liabilities in consideration for the entire equity interests in each of the entities of the First Acquired Group. Certain assets historically associated with these operations were retained by China Telecom, and as at 31 December 2002, these assets amounted to RMB5,189 million and consisted primarily of investments in non-telecommunications industries and properties.

Pursuant to the resolution passed by the Company's independent shareholders at an Extraordinary General Meeting held on 9 June 2004, the Company acquired the entire equity interests in Hubei Telecom Company Limited, Hunan Telecom Company Limited, Hainan Telecom Company Limited, Guizhou Telecom Company Limited, Yunnan Telecom Company Limited, Shaanxi Telecom Company Limited, Gansu Telecom Company Limited, Qinghai Telecom Company Limited, Ningxia Telecom Company Limited and Xinjiang Telecom Company Limited (collectively the "Second Acquired Group") from China Telecom for a total purchase price of RMB27,800 million on 30 June 2004 (hereinafter, referred to as the "Second Acquisition"). The purchase price consisted of a cash payment of RMB8,340 million and a long-term payable of RMB19,460 million. On 30 June 2004, the Company repaid RMB4,310 million of this payable amount using the net proceeds from issue of new H shares in May 2004 (see Note 10). In connection with the Second Acquisition and effective 31 December 2003, China Telecom transferred the wireline telecommunications business and related operations 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 together with the related assets and liabilities in consideration for the entire equity interests in each of the entities of the Second Acquired Group. Certain assets historically associated with these operations were retained by China Telecom, and as at 31 December 2003, these assets amounted to RMB10,762 million and consisted primarily of investments in non-telecommunications industries and properties.



1. PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PRESENTATION (Continued)**Basis of presentation**

As the First Acquired Group and the Second Acquired Group (“the Acquired Groups”) were under the common control of China Telecom, the acquisitions have been reflected in the accompanying consolidated interim financial statements as a combination of entities under common control in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities of the Acquired Groups have been accounted for at historical amounts and the consolidated financial statements of the Company prior to the acquisitions have been restated to include the results of operations and assets and liabilities of the Acquired Groups on a combined basis. The assets retained by China Telecom in respect of the First Acquisition and the Second Acquisition have been reflected as distributions to China Telecom in the consolidated statement of shareholders’ equity as at 31 December 2002 and 31 December 2003 respectively. The considerations paid by the Company for the Acquired Groups have been accounted for as equity transactions in the consolidated statement of shareholders’ equity.

The results of operations previously reported by the Group for the six-month period ended 30 June 2003 have been restated to include the results of the First Acquired Group and the Second Acquired Group as set out below:

	The Group (as previously reported)	The First Acquired Group	The Second Acquired Group	The Group (combined)
	RMB millions	RMB millions	RMB millions	RMB millions
Result of operations:				
Operating revenues	39,536	18,247	16,285	74,068
Operating profit	12,198	4,863	1,167	18,228
Net profit	9,260	3,371	427	13,058
Basic earnings per share (RMB)	0.12	0.04	0.01	0.17

for the six-month period ended 30 June 2004

1. PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PRESENTATION (Continued)

Basis of presentation (Continued)

The financial condition as at 31 December 2003 and shareholders' equity as at 31 December 2003 and 1 January 2003 previously reported by the Group have been restated to include the assets and liabilities of the Second Acquired Group as set out below:

	The Group (as previously reported) RMB millions	The Second Acquired Group RMB millions	The Group (combined) RMB millions
Financial condition:			
Current assets	25,504	7,589	33,093
Total assets	305,605	98,337	403,942
Current liabilities	96,666	52,469	149,135
Total liabilities	173,064	78,815	251,879
Shareholders' equity as at 31 December 2003	131,272	19,522	150,794
Shareholders' equity as at 1 January 2003	152,848	34,177	187,025

For the periods presented, all significant balances and transactions between the Group and the Acquired Groups have been eliminated.

2. BASIS OF PREPARATION

These interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" promulgated by the International Accounting Standards Board and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. These interim financial statements reflect the unaudited financial position of the Group as at 30 June 2004 and the unaudited results of operations and cash flows of the Group for the six-month period then ended, which are not necessarily indicative of the results of operations and cash flows expected for the year ending 31 December 2004.

The interim financial statements set out on pages 9 to 30 have been authorised for issue by the Board of Directors on 1 September 2004. These interim financial statements are unaudited, but have been reviewed by the Audit Committee of the Company. These interim financial statements have also been reviewed by the Company's international auditors, KPMG, in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants.

2. BASIS OF PREPARATION (Continued)

The accounting policies adopted in the 2003 annual financial statements have been consistently applied by the Group in preparing these interim financial statements. The consolidated interim financial statements presented herein should be read in conjunction with the consolidated financial statements and notes thereto included in the 2003 annual report of the Company.

3. SEGMENTAL REPORTING

A business segment is a distinguishable component of the Group that is engaged in providing products or services and is subject to risks and rewards that are different from those of other segments. For the periods presented, the Group has one operating segment which is the provision of wireline telecommunications services. All the Group's operating activities are carried out in the PRC.

4. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, are analysed as follows:

	30 June 2004 RMB millions	31 December 2003 RMB millions
Accounts receivable	17,369	14,769
Less: Allowance for doubtful accounts	(2,183)	(1,818)
	15,186	12,951

Amounts arising from the provision of wireline telecommunications services to residential and business customers are due within 30 days from the date of billing. Customers who have accounts overdue by more than 90 days will have their services disconnected.

Ageing analysis of accounts receivable from telephone and Internet subscribers is as follows:

	30 June 2004 RMB millions	31 December 2003 RMB millions
Current, within 1 month	11,051	9,650
1 to 3 months	1,684	1,425
4 to 12 months	1,320	1,169
More than 12 months	826	611
	14,881	12,855
Less: Allowance for doubtful accounts	(2,146)	(1,780)
	12,735	11,075

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4. ACCOUNTS RECEIVABLE, NET (Continued)

Ageing analysis of accounts receivable from other telecommunications operators and customers is as follows:

	30 June 2004 RMB millions	31 December 2003 RMB millions
Current, within 1 month	1,048	1,147
1 to 3 months	695	355
4 to 12 months	537	285
More than 12 months	208	127
	2,488	1,914
Less: Allowance for doubtful accounts	(37)	(38)
	2,451	1,876

5. CASH AND CASH EQUIVALENTS

	30 June 2004 RMB millions	31 December 2003 RMB millions
Cash at bank and in hand	12,464	12,451
Time deposits with maturity within three months	4,246	270
	16,710	12,721

6. SHORT-TERM DEBT

Short-term debt is analysed as follows:

	Note	30 June 2004 RMB millions	31 December 2003 RMB millions
Bank loans		56,042	56,243
Loans from China Telecom	(i)	9,469	—
Total short-term debt		65,511	56,243

Note:

- (i) The loans from China Telecom bear interest at fixed rates ranging from 2% to 3.45% per annum, are unsecured and are repayable within 1 year.

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7. LONG-TERM DEBT

Long-term debt is analysed as follows:

		30 June 2004	31 December 2003
	<i>Note</i>	RMB millions	RMB millions
Bank loans	(i)	37,300	47,553
Other loans		11	36
Amount due to China Telecom in connection with the First Acquisition	(ii)	35,000	35,000
Amount due to China Telecom in connection with the Second Acquisition	(iii)	15,150	—
Total long-term debt		87,461	82,589
Less: current portion		(14,970)	(13,957)
Non-current portion		72,491	68,632

Note:

- (i) As at 30 June 2004, bank loans of RMB6 million (2003: RMB22 million) were secured by certain of the Group's property, plant and equipment. The net book value of the property, plant and equipment pledged as security amounted to RMB1 million as at 30 June 2004 (2003: RMB27 million).
- (ii) This represents the deferred consideration payable to China Telecom in respect of the First Acquisition (Note 1). The amount is unsecured, and for the first five years after the date of the First Acquisition, the Company pays interest on the outstanding balance at the rate of 5.184% per annum. Thereafter the interest rate is adjusted based on the prevailing market interest rate. This amount is repayable on 31 December 2013 and the Company may, from time to time, repay all or part of the amount at any time until 31 December 2013 without penalty.
- (iii) This represents the remaining balance of the deferred consideration payable to China Telecom in respect of the Second Acquisition (Note 1). The amount is unsecured, and for the first five years after the date of the Second Acquisition, the Company pays interest on the outstanding balance at the rate of 5.184% per annum. Thereafter the interest rate is adjusted based on the prevailing market interest rate. This amount is repayable on 30 June 2014 and the Company may, from time to time, repay all or part of the amount at any time until 30 June 2014 without penalty.

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8. ACCOUNTS PAYABLE

Accounts payable are analysed as follows:

	30 June	31 December
	2004	2003
	RMB millions	RMB millions
Third parties	26,923	28,367
China Telecom Group	7,668	7,262
	34,591	35,629

Amounts due to China Telecom Group are repayable in accordance with normal commercial terms.

Ageing analysis of accounts payable is as follows:

	30 June	31 December
	2004	2003
	RMB millions	RMB millions
Due within 1 month or on demand	4,560	6,658
Due after 1 month but within 3 months	7,688	5,661
Due after 3 months but within 6 months	7,698	8,099
Due after 6 months	14,645	15,211
	34,591	35,629

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9. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and deferred tax liabilities are attributable to the items set out below:

	Assets		Liabilities		Net balance	
	30 June	31 December	30 June	31 December	30 June	31 December
	2004	2003	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
<i>Current</i>						
Provisions, primarily for receivables	326	198	—	—	326	198
<i>Non-current</i>						
Property, plant and equipment	74	67	(734)	(579)	(660)	(512)
Deferred revenues and installation costs	2,032	1,788	(841)	(746)	1,191	1,042
Land use rights	8,230	8,470	—	—	8,230	8,470
Deferred tax assets/(liabilities)	10,662	10,523	(1,575)	(1,325)	9,087	9,198

Movements in temporary differences are as follows:

		Balance at	Recognised in	Recognised in	Balance at
	Note	1 January 2004	statement of	shareholders'	30 June 2004
		RMB millions	income	equity	RMB millions
<i>Current</i>					
Provisions, primarily for receivables		198	128	—	326
<i>Non-current</i>					
Property, plant and equipment		(512)	(148)	—	(660)
Deferred revenues and installation costs		1,042	149	—	1,191
Land use rights	(i)	8,470	(74)	(166)	8,230
Net deferred tax assets		9,198	55	(166)	9,087

(Note 14)

Note:

- (i) In connection with the Restructuring, the First Acquisition and the Second Acquisition, the land use rights of the Group were revalued as required by the relevant PRC rules and regulations. The tax bases of the land use rights have been adjusted to conform to such revalued amounts. The land use rights were not revalued for financial reporting purposes and accordingly, deferred tax assets were created with corresponding increases in shareholders' equity.

In the second quarter of 2004, certain subsidiaries with operations in the western region of the PRC obtained approval from tax authority to reduce the income tax rate from 33% to 15% for the period from 1 January 2004 to 31 December 2010. Accordingly, the effect of the change in tax rate on the amount of the deferred tax asset expected to be realised during 2004 to 2010 amounting to RMB166 million was charged to shareholders' equity.

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10. SHARE CAPITAL

	30 June 2004	31 December 2003
	RMB millions	RMB millions
Registered, issued and fully paid		
67,054,958,321 (2003: 67,586,776,503) ordinary domestic shares of RMB1.00 each	67,055	67,587
13,877,410,000 (2003: 8,027,410,000) overseas listed H shares of RMB1.00 each	13,877	8,027
	80,932	75,614

In May 2004, the Company issued and allotted 5,318,181,818 new H shares with a par value of RMB1.00 each, representing 4,466,693,018 H shares and 8,514,888 American Depositary Shares ("ADSs", each representing 100 H shares), at prices of HK\$2.30 per H share and US\$29.49 per ADS, respectively, by way of a global offering to Hong Kong and overseas investors. As part of the global offering, 531,818,182 existing domestic shares of RMB1.00 each owned by China Telecom and the other domestic shareholders were converted into H shares and sold to Hong Kong and overseas investors. The Company raised net proceeds of RMB12,702 million from issue of new H shares.

11. OPERATING REVENUES

Operating revenues represent revenues from the provision of wireline telecommunications services. The components of the Group's operating revenues are as follows:

		Six-month periods ended 30 June 2004	2003
	<i>Note</i>	RMB millions	RMB millions
Upfront connection fees	<i>(i)</i>	4,236	4,886
Upfront installation fees	<i>(ii)</i>	1,432	1,301
Monthly fees	<i>(iii)</i>	15,023	13,829
Local usage fees	<i>(iv)</i>	24,072	22,486
DLD	<i>(iv)</i>	13,145	12,693
ILD	<i>(iv)</i>	1,906	1,951
Internet	<i>(v)</i>	6,602	4,355
Managed data	<i>(vi)</i>	1,524	1,628
Interconnections	<i>(vii)</i>	5,013	4,095
Leased line	<i>(viii)</i>	2,112	2,608
Others	<i>(ix)</i>	5,152	4,236
		80,217	74,068

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11. OPERATING REVENUES (Continued)*Note:*

- (i) Represent the amortised amount of the upfront fees received for the initial activation of wireline services.
- (ii) Represent the amortised amount of the upfront fees received for installation of wireline services.
- (iii) Represent amounts charged to customers each month for their use of the Group's telephone services.
- (iv) Represent usage fees charged to customers for the provision of telephone services.
- (v) Represent amounts charged to customers for the provision of Internet access services.
- (vi) Represent amounts charged to customers for the provision of managed data transmission services.
- (vii) Represent amounts charged to domestic and foreign telecommunications operators for delivery of calls connecting to the Group's wireline telecommunications networks.
- (viii) Represent lease income from other domestic telecommunications operators and business customers for the usage of the Group's wireline telecommunications networks and is measured by the number of lines leased and the agreed upon rate per line leased. The lease arrangements are primarily on a year to year basis.
- (ix) Represent primarily revenues from provision of value-added telecommunications services to customers, sale and repairs and maintenance of customer-end equipment, and lease of telecommunications network facilities.

12. NET FINANCE COSTS

Net finance costs comprise:

	Six-month periods ended 30 June	
	2004	2003
	RMB millions	RMB millions
Interest expense incurred	3,260	2,576
Less: Interest expense capitalised*	(738)	(756)
Net interest expense	2,522	1,820
Interest income	(109)	(151)
Foreign exchange losses	4	100
Foreign exchange gains	(76)	(41)
	2,341	1,728
* Interest expense was capitalised in construction in progress at the following rates per annum	4.1%–5.2%	4.3%–5.5%

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13. PROFIT BEFORE TAXATION AND MINORITY INTERESTS

Profit before taxation and minority interests is arrived at after charging:

	Six-month periods ended 30 June	
	2004	2003
	RMB millions	RMB millions
Personnel expenses	11,689	10,342
Interconnection charges	1,773	1,504

14. TAXATION

Taxation in the consolidated statement of income comprises:

	Six-month periods ended 30 June	
	2004	2003
	RMB millions	RMB millions
Provision for PRC income tax	3,736	3,782
Deferred taxation (<i>Note 9</i>)	(55)	(449)
	3,681	3,333

A reconciliation of the expected tax with the actual tax expense is as follows:

		Six-month periods ended 30 June	
		2004	2003
	<i>Note</i>	RMB millions	RMB millions
Profit before taxation and minority interests		18,401	16,415
Expected PRC income tax expense at statutory tax rate of			
33%	(i)	6,072	5,417
Differential tax rate on subsidiaries income	(i)	(954)	(398)
Non-deductible expenses	(ii)	435	199
Non-taxable income	(iii)	(1,872)	(1,885)
Income tax		3,681	3,333

14. TAXATION (Continued)

- (i) The provision for PRC current income tax is based on a statutory rate of 33% of the assessable income of the Group as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain subsidiaries of the Group which are taxed at a preferential rate of 15%.
- (ii) Amounts represent personnel and other miscellaneous expenses in excess of statutory deductible limits for tax purpose.
- (iii) Amounts primarily represent connection fees received from customers which are not subject to income tax.

15. DIVIDENDS

Pursuant to the shareholders' approval at the Annual General Meeting held on 3 May 2004, a final dividend of RMB0.069083 per share totaling RMB5,224 million in respect of the year ended 31 December 2003 was declared and was paid on 20 May 2004.

Pursuant to the shareholders' approval at the Annual General Meeting held on 20 June 2003, a final dividend of RMB0.008897 per share totaling RMB673 million in respect of the year ended 31 December 2002 was declared and was paid on 10 July 2003.

The Board of Directors has resolved not to pay an interim dividend for the year ending 31 December 2004.

16. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the six-month period ended 30 June 2004 is based on the net profit of RMB14,708 million and the weighted average number of shares in issue during the period of 76,724,576,113 shares. The weighted average number of shares in issue during the six-month period ended 30 June 2004 reflects the issuance of 5,318,181,818 new H shares in May 2004 (see Note 10). The calculation of basic earnings per share for the six-month period ended 30 June 2003 is based on the net profit of RMB13,058 million divided by 75,614,186,503 shares.

The amount of diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence for both periods presented.

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17. CAPITAL COMMITMENTS

As at 30 June 2004, the Group had capital commitments as follows:

	30 June 2004 RMB millions	31 December 2003 RMB millions
Authorised and contracted for		
Properties	2,268	1,857
Telecommunications network plant and equipment	5,124	9,257
	7,392	11,114
Authorised but not contracted for		
Properties	2,105	2,458
Telecommunications network plant and equipment	10,629	12,725
	12,734	15,183

18. RELATED PARTY TRANSACTIONS

The principal related party transactions with China Telecom Group which were carried out in the ordinary course of business are as follows:

		Six-month periods ended 30 June 2004 RMB millions	2003 RMB millions
	<i>Note</i>		
Purchases of telecommunications equipment and materials	(i)	152	222
Construction, engineering and information technology services	(ii)	2,597	2,851
Provision of community services	(iii)	1,101	1,064
Provision of ancillary services	(iv)	796	683
Provision of comprehensive services	(v)	120	—
Operating lease expenses	(vi)	203	235
Centralised service expenses	(vii)	108	144
Interconnection revenues	(viii)	98	99
Interconnection charges	(viii)	201	280
Interest on amounts due to and loans from China Telecom	(ix)	993	—

18. RELATED PARTY TRANSACTIONS (Continued)

Note:

- (i) Represent purchases of telecommunications equipment and materials from China Telecom Group.
- (ii) Represent provision of network construction, engineering and information technology services to the Group by China Telecom Group.
- (iii) Represent amounts paid and payable by the Group to China Telecom Group in respect of cultural, educational, hygiene and other community services.
- (iv) Represent amounts paid and payable by the Group to China Telecom Group in respect of ancillary services such as repairs and maintenance of telecommunications equipment and facilities and certain customer services.
- (v) Represent amounts paid and payable by the Group to China Telecom Group in respect of comprehensive services provided (see scope of comprehensive service defined below).
- (vi) Represent amounts paid and payable to China Telecom Group for operating leases in respect of business premises and inter-provincial transmission optic fibres.
- (vii) Represent net amount charged by China Telecom to the Group for costs associated with common corporate services and international telecommunications facilities.
- (viii) Represent amounts charged from/to China Telecom for interconnection of domestic long distance telephone calls.
- (ix) Represent interest paid and payable to China Telecom with respect to the deferred consideration payable to China Telecom in connection with the First Acquisition and interest with respect to loans from China Telecom (Note 7).

In connection with the Second Acquisition, the Group and China Telecom Group entered into a number of agreements on 13 April 2004. The principal terms of these agreements are similar to those disclosed in Note 32 to the Group's 2003 consolidated financial statements, other than an increase in the maximum commission rate for domestic equipment procurement from 1.8% to 3% to reflect the latest market price.

In addition, the Company entered into a comprehensive services framework agreement with China Telecom on 13 April 2004 to govern the terms and conditions of transactions between the Group and entities within China Telecom Group which were not within the scope of the agreements entered into previously. Such transactions include procurement of telecommunications equipment, network design, software upgrade, system integration, manufacture of calling cards and other services. Pursuant to this agreement, China Telecom Group charges the Group for these services in accordance with the following terms:

- government prescribed price;
- where there is no government prescribed price but where there is a government guided price, the government guided price will apply;

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18. RELATED PARTY TRANSACTIONS (Continued)

- where there is neither a government prescribed price nor a government guided price, the market price will apply;
- where none of the above is available, the price is to be agreed between the relevant parties, which shall be based on the cost incurred in providing the services plus a reasonable profit margin.

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the agreements governing such transactions, and this has been confirmed by the independent non-executive directors.

19. PRINCIPAL SUBSIDIARIES

Following the completion of the Second Acquisition on 30 June 2004, the Company has the following wholly-owned subsidiaries which principally affect the results of operations and the financial position of the Group:

Name of Company	Type of legal entity	Date of incorporation	Registered capital (RMB millions)
Shanghai Telecom Company Limited	Limited company	11 October 2002	15,984
Guangdong Telecom Company Limited	Limited company	10 October 2002	47,513
Jiangsu Telecom Company Limited	Limited company	19 October 2002	19,208
Zhejiang Telecom Company Limited	Limited company	10 October 2002	22,400
Anhui Telecom Company Limited	Limited company	26 August 2003	3,871
Fujian Telecom Company Limited	Limited company	28 August 2003	10,364
Jiangxi Telecom Company Limited	Limited company	18 September 2003	1,153
Guangxi Telecom Company Limited	Limited company	28 August 2003	4,992
Chongqing Telecom Company Limited	Limited company	22 August 2003	4,276
Sichuan Telecom Company Limited	Limited company	28 August 2003	8,123
Hubei Telecom Company Limited	Limited company	9 March 2004	5,412
Hunan Telecom Company Limited	Limited company	12 March 2004	661
Hainan Telecom Company Limited	Limited company	9 March 2004	580
Guizhou Telecom Company Limited	Limited company	12 March 2004	2,401
Yunnan Telecom Company Limited	Limited company	9 March 2004	3,747
Shaanxi Telecom Company Limited	Limited company	8 March 2004	2,482
Gansu Telecom Company Limited	Limited company	10 March 2004	3,413
Qinghai Telecom Company Limited	Limited company	10 March 2004	965
Ningxia Telecom Company Limited	Limited company	10 March 2004	795
Xinjiang Telecom Company Limited	Limited company	11 March 2004	4,660

All of the above subsidiaries are incorporated in the PRC.

