



中国电信

CHINA TELECOM

2003 Annual Results Presentation



Disclaimer

Certain statements contained in this document may be viewed as “forward-looking statements” within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of China Telecom Limited (the “Company”) to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements. Further information regarding these risks, uncertainties and other factors is included in the Company’s most recent Annual Report on Form 20-F to be filed with the U.S. Securities and Exchange Commission (the “SEC”) and in the Company’s other filings with the SEC.



Management

Zhou Deqiang

Chairman/CEO

Chang Xiaobing

President/COO

Wu Andi

EVP/CFO

Li Ping

EVP/Company Secretary

Agenda



Annual Highlight

Business Review

Financial Review

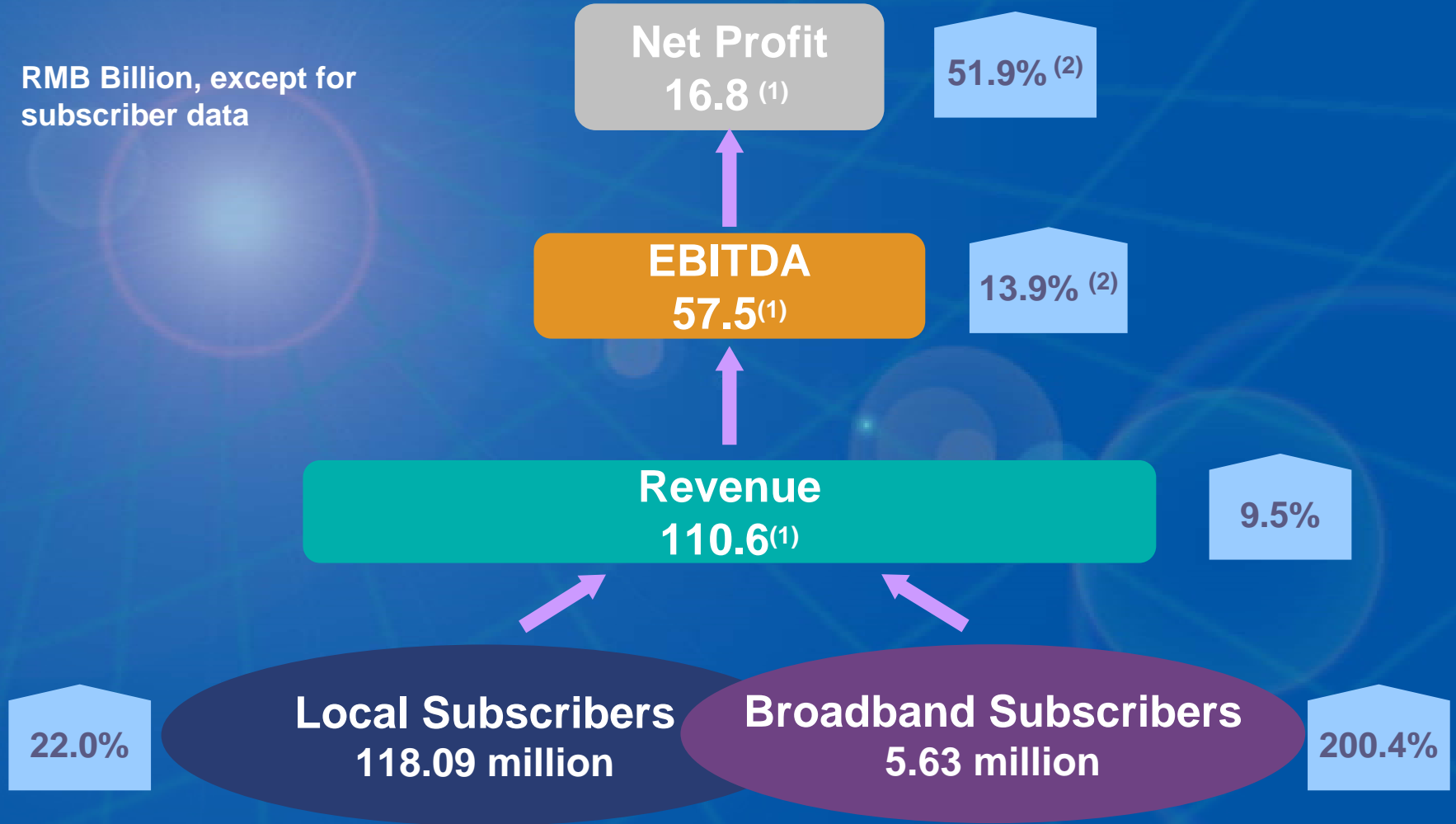


Annual Highlight



Excellent Performance Achieved...

RMB Billion, except for subscriber data



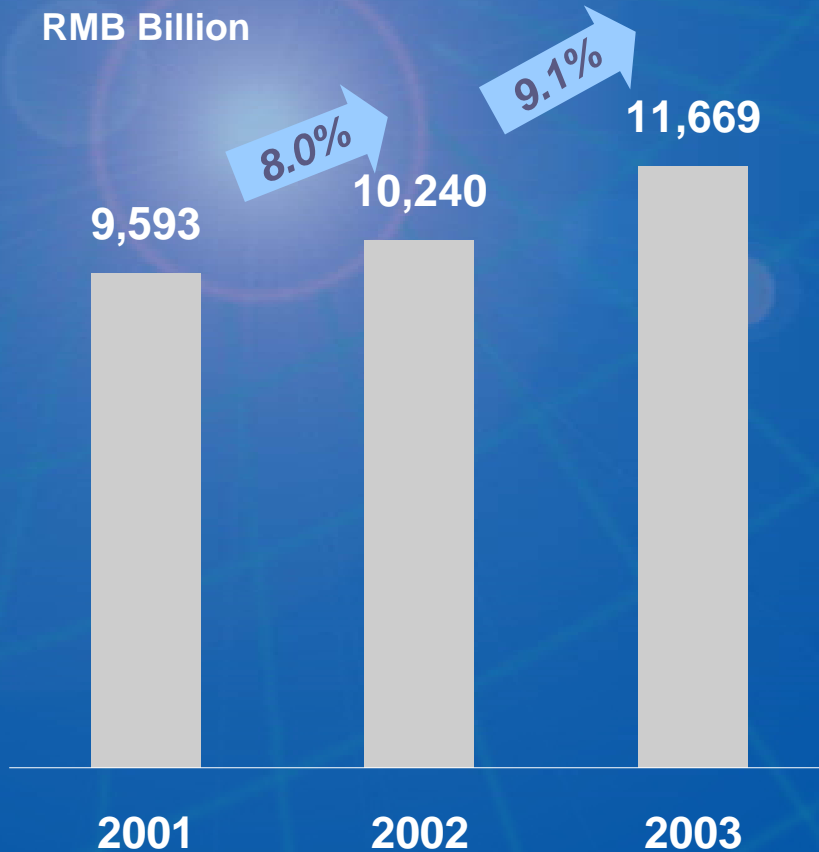
Note: (1) Excluding up-front connection fee
(2) Effect of one-time appraisal deficit and related tax impact in 2002 excluded in calculation



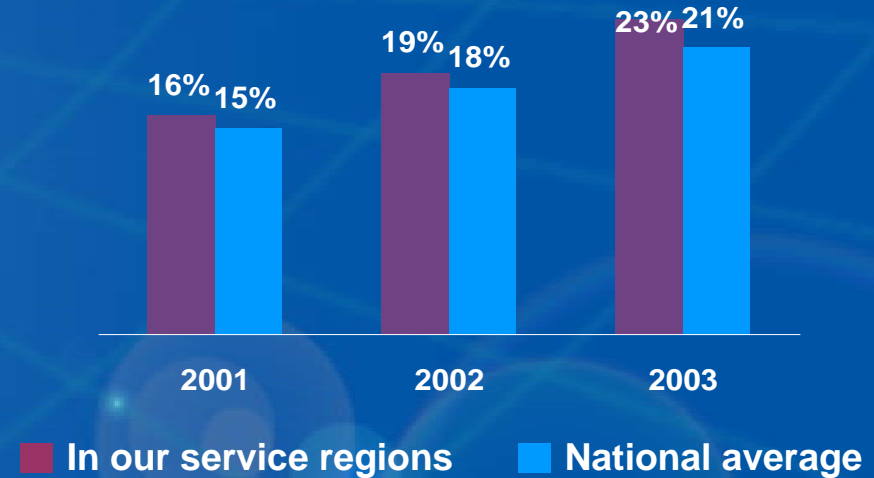
In a Favorable Environment...

GDP⁽¹⁾

RMB Billion



Local Telephony Penetration⁽²⁾



Internet Users⁽³⁾

Million



Source :

(1) National Bureau of Statistics , based on comparable price

(2) Statistics release of the MII and its provincial branches in our service regions

(3) CNNIC, national data

...Driven by Continued Reforms and Innovations



**External Growth
Achieved via
Acquisition**

**Managerial Innovations
driving
Efficiency gains**

**Creating
Shareholder
Value**

**Stronger Distribution
driving
Revenue Growth**

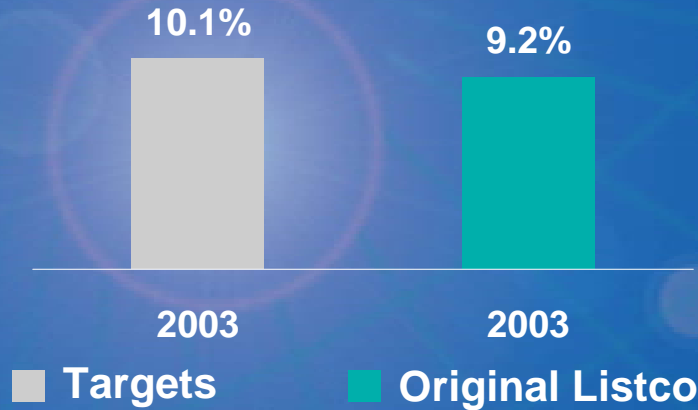
**Corporate IT
Strategy
Implemented**

**Competitiveness
Enhanced thru
BPR**

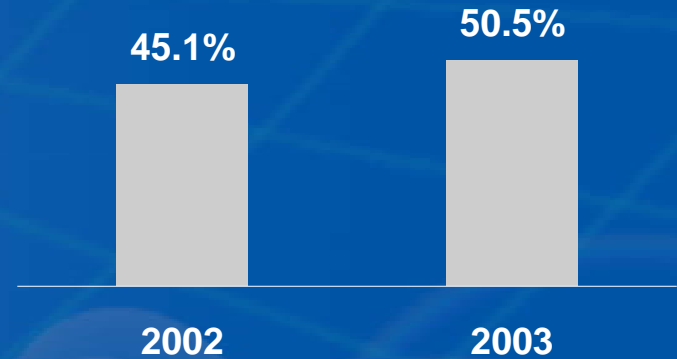


Acquisition Review: Target Performance⁽¹⁾

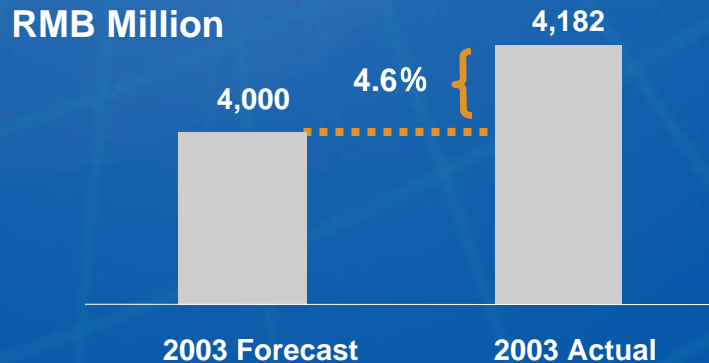
Faster Revenue Growth⁽²⁾



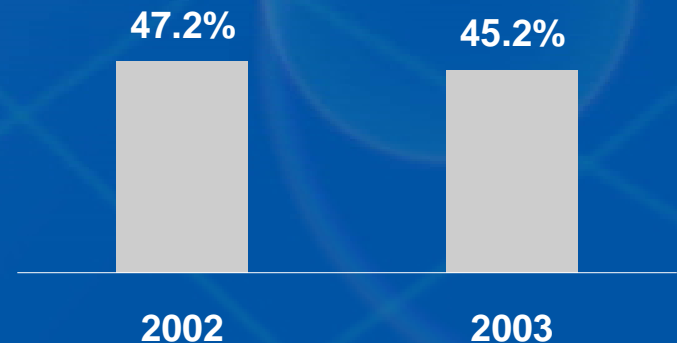
Marked Margin Expansion⁽²⁾



Net Profit Beating Forecast⁽²⁾



Lower Capex/Sales⁽³⁾



Note : (1) All financials unaudited
(2) Excluding up-front connection fee
(3) Including up-front connection fee

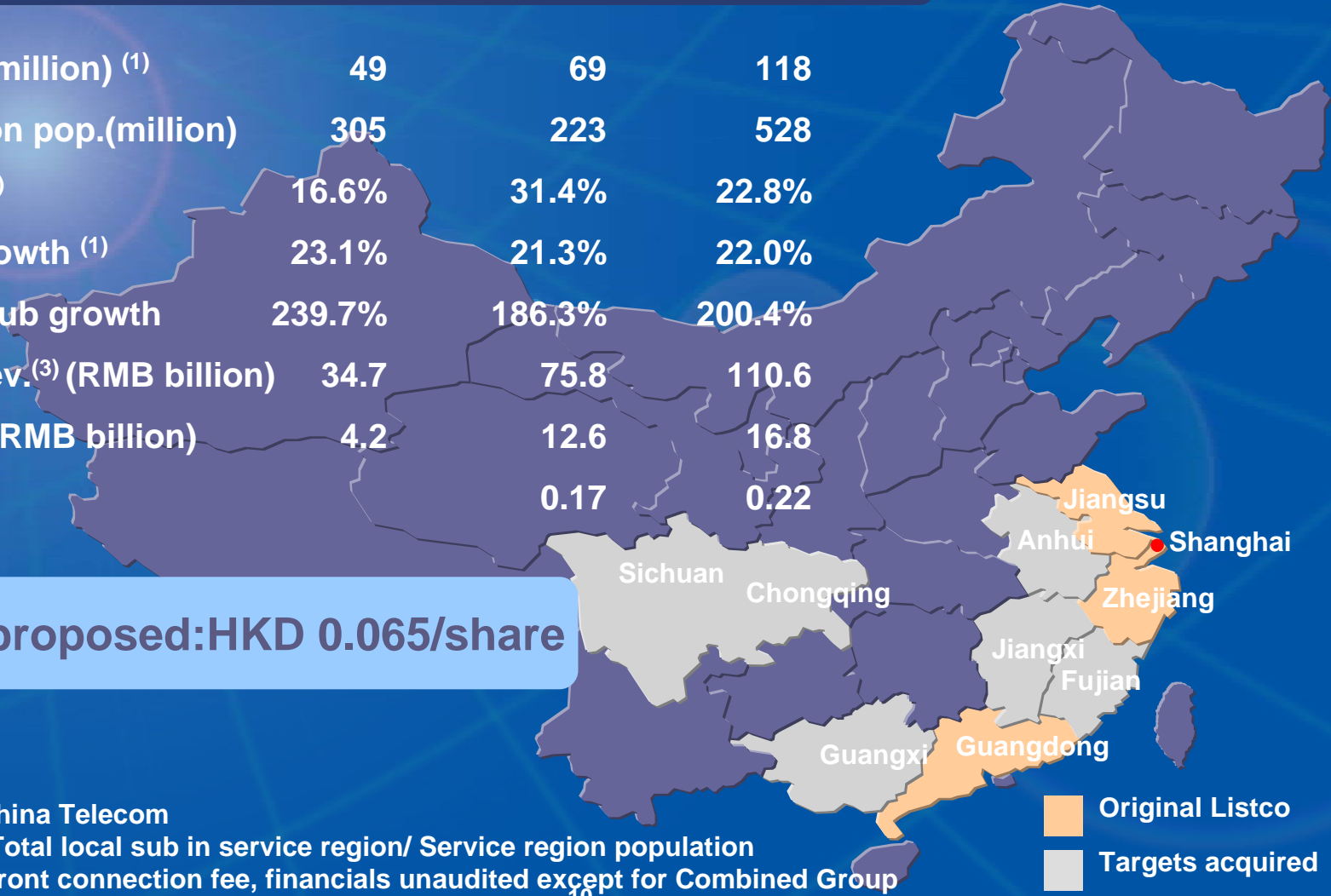


Acquisition review: Significant Benefits

As of or for 2003	Targets Acquired	Original Listco	Combined Group
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Local Subs (million) ⁽¹⁾	49	69	118
Service region pop.(million)	305	223	528
Penetration ⁽²⁾	16.6%	31.4%	22.8%
Local sub growth ⁽¹⁾	23.1%	21.3%	22.0%
Broadband sub growth	239.7%	186.3%	200.4%
Operating Rev. ⁽³⁾ (RMB billion)	34.7	75.8	110.6
Net profit ⁽³⁾ (RMB billion)	4.2	12.6	16.8
EPS ⁽³⁾ (RMB)		0.17	0.22

Dividend proposed:HKD 0.065/share



Note:
 (1) Local sub of China Telecom
 (2) Penetration = Total local sub in service region/ Service region population
 (3) Excluding up-front connection fee, financials unaudited except for Combined Group

Original Listco
 Targets acquired



Business Review



Overview: Continued Steady Growth

RMB Million

Revenue	2003	2002	Change	Contribution to Rev. Growth(p.p.)
Local Telephony	58,021	55,006	5.5%	3.0
Internet	8,160	4,914	66.1%	3.2
Long Distance	23,658	23,817	-0.7%	-0.1
Managed Data	2,540	2,431	4.5%	0.1
Leased Line	3,915	4,214	-7.1%	-0.3
Interconnection	6,444	5,921	8.8%	0.5
Other	7,828	4,707	66.3%	3.1
Total Revenue	110,566	101,010	9.5%	9.5

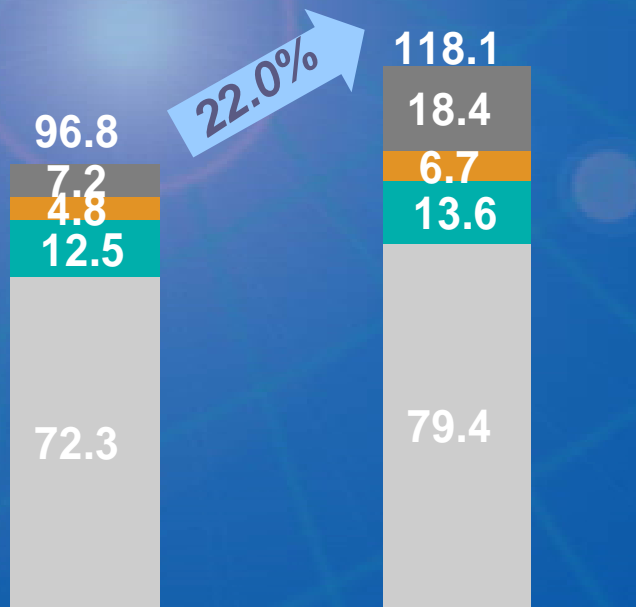
Note: Total revenue excluding up-front connection fee of RMB 7,885 million



Local Telephony: Positive Trend

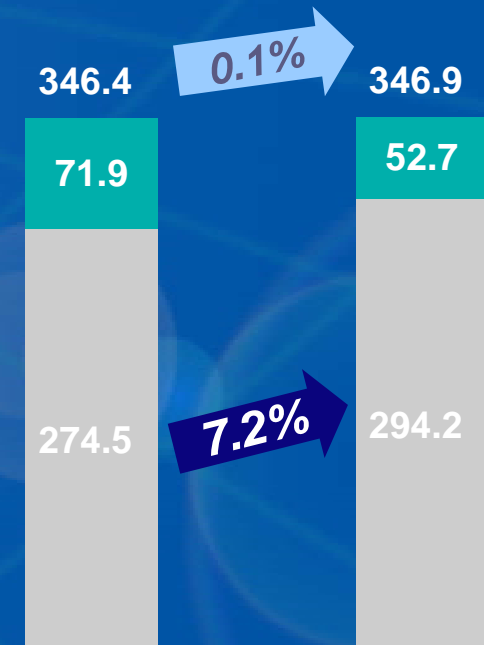
Local Subs

Million



Local Usage

Billion Pulses



2002

2003

- Residential
- Enterprise
- Public Phone
- Wireless Local Access

2002

2003

- Voice
- Dial-up

Local Telephony: Competition Effectively Countered to Boost Usage



Monthly Usage Growth Rate (YoY), 2003

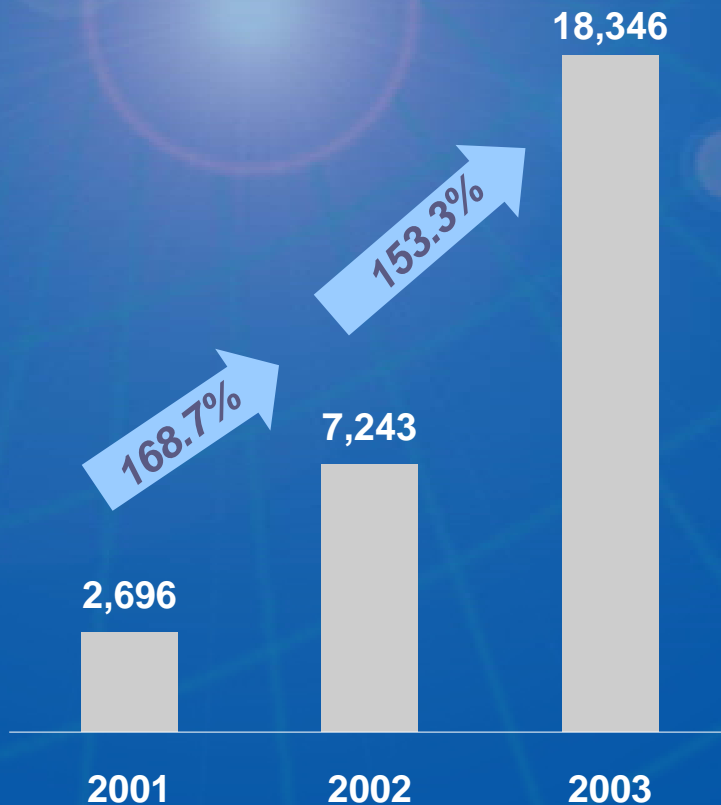


Local Telephony: Proactive & Cautious Approach toward PHS



Strong Sub Growth

Thousands



Declining Unit Cost & Improving Return

Centralized Procurement

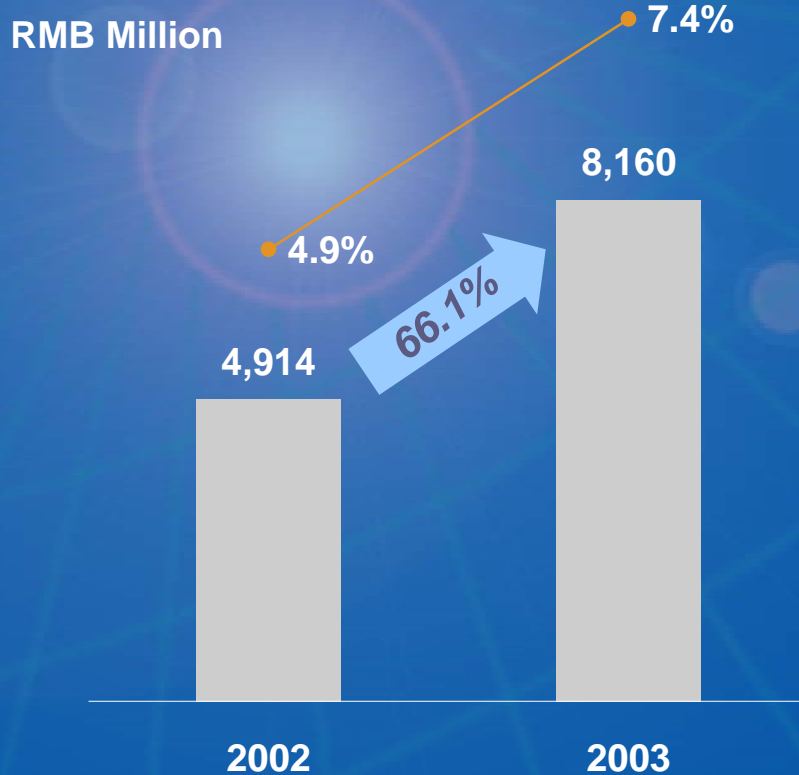
Higher Utilization

Return further improved as Capex/Sub down 12% YoY

Broadband and other Internet: Continued Strong Growth



Internet Revenue



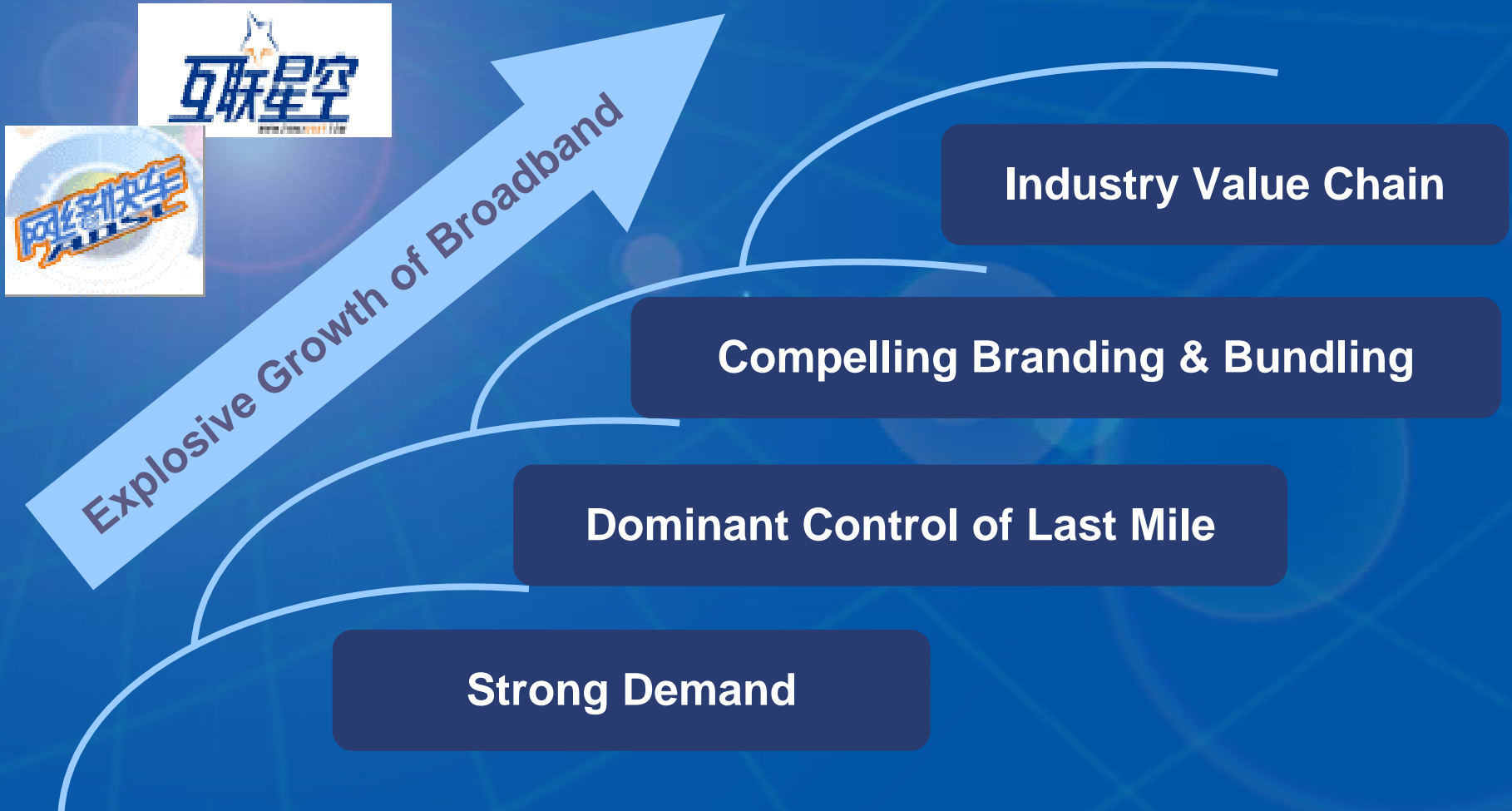
Sustained Broadband Growth



— Percentage of total rev. (excl. Up-front connection fee)

■ Internet revenue

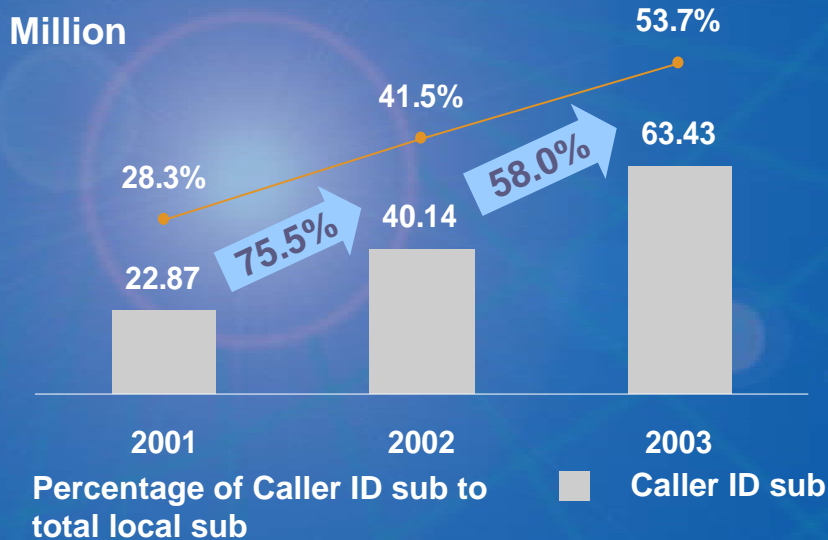
Broadband & Other Internet: Growing into A New Pillar Business



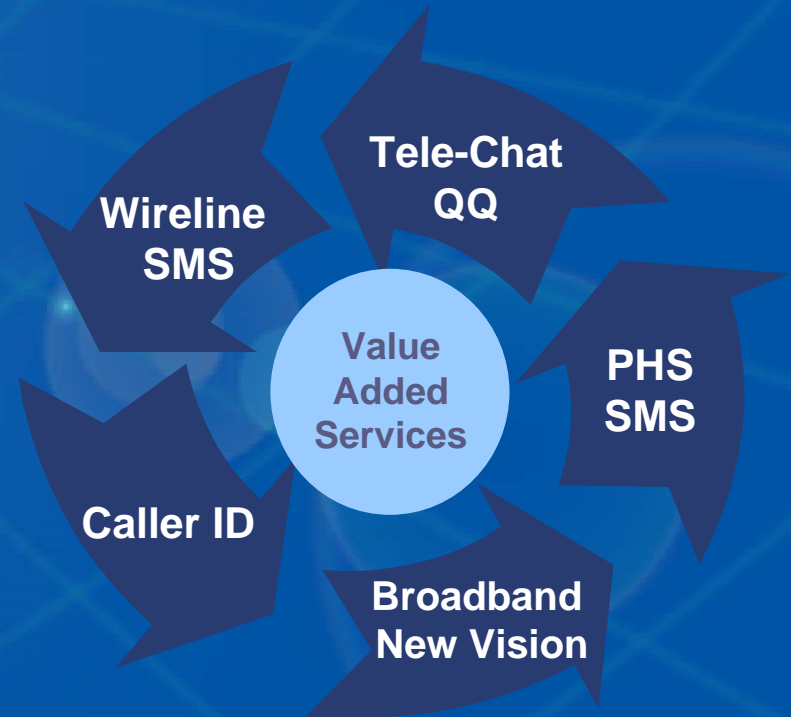


VAS: A Rising Star

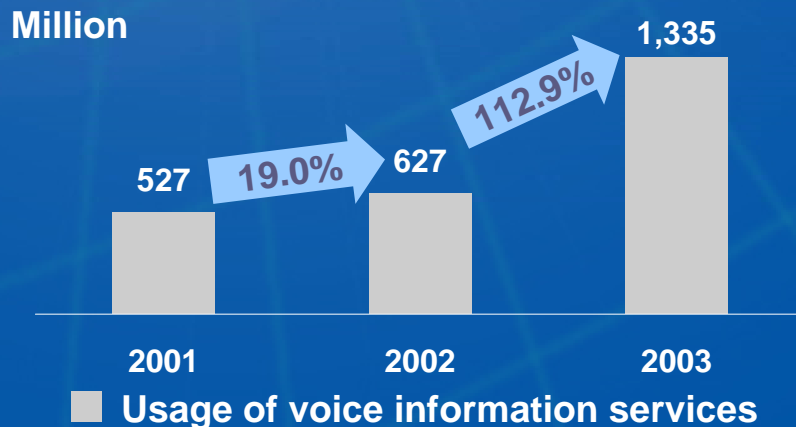
Rapid Growth of Caller ID



Expanding the VAS Horizon



Voice Information Taking Off

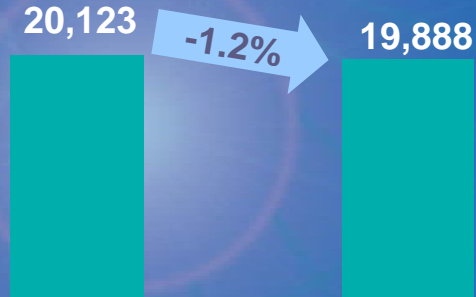




Long Distance: Steady Growth

DLD Revenue

RMB Million

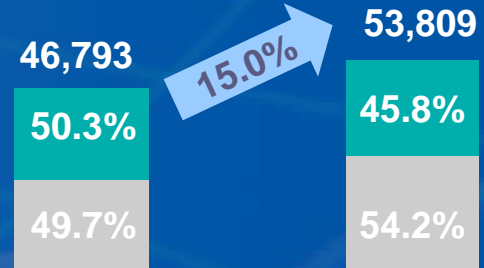


2002

2003

DLD Usage

Million Minutes

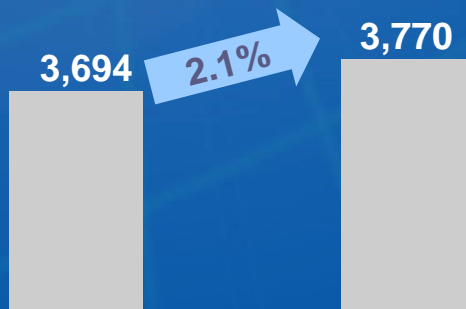


2002

2003

IDD Revenue

RMB Million

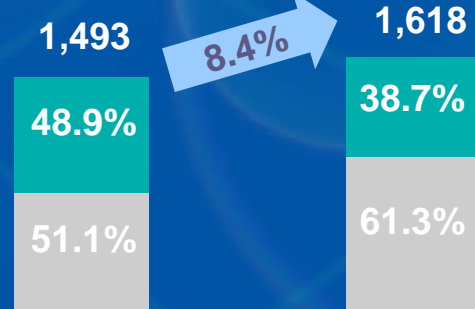


2002

2003

IDD Usage

Million Minutes



2002

2003

VOIP

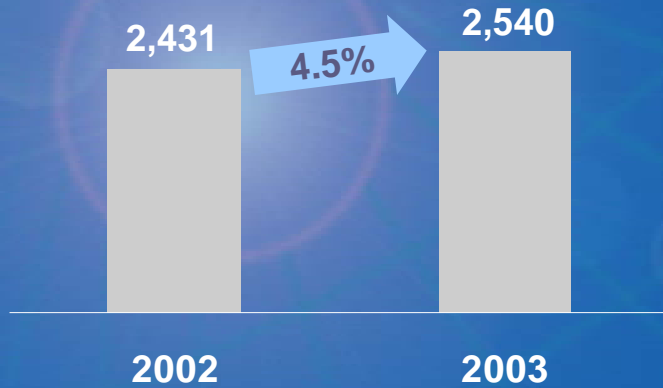
PSTN



Managed Data & Leased Line: Smooth Growth

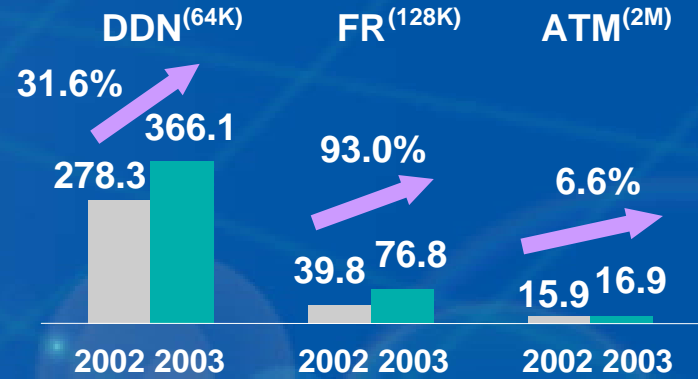
Managed Data Revenue

RMB Million



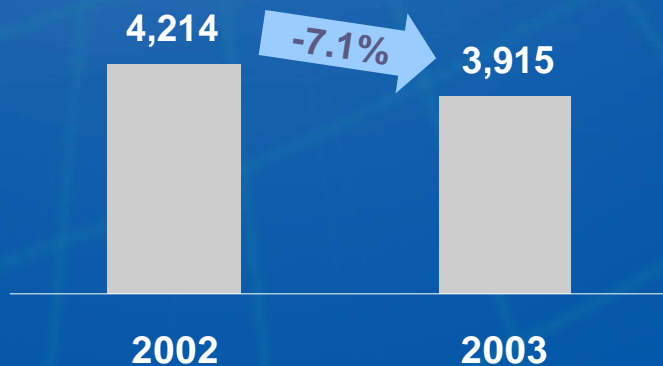
Managed Data Usage

Thousand port equivalents



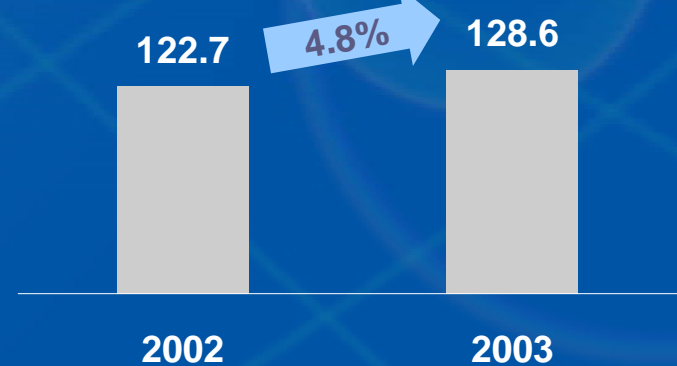
Leased Line Revenue

RMB Million



Digital Circuits Leased

Thousand 2M equivalents

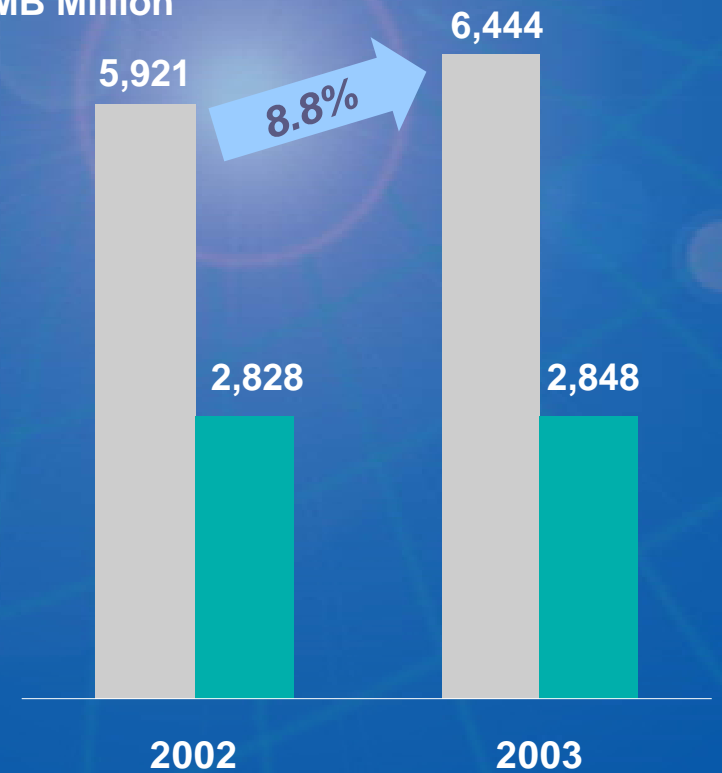




Interconnection: Rapid Growth

Interconnection Income & Expense

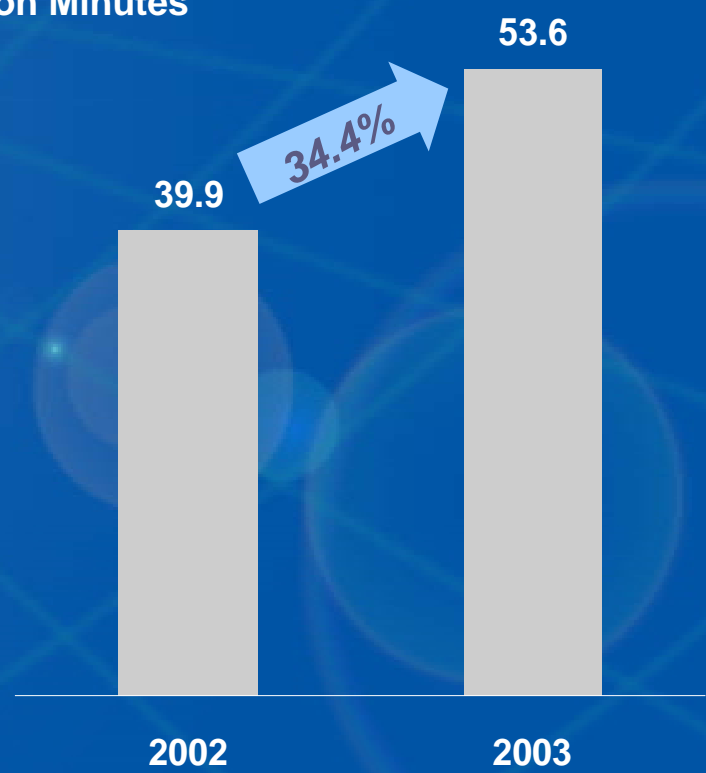
RMB Million



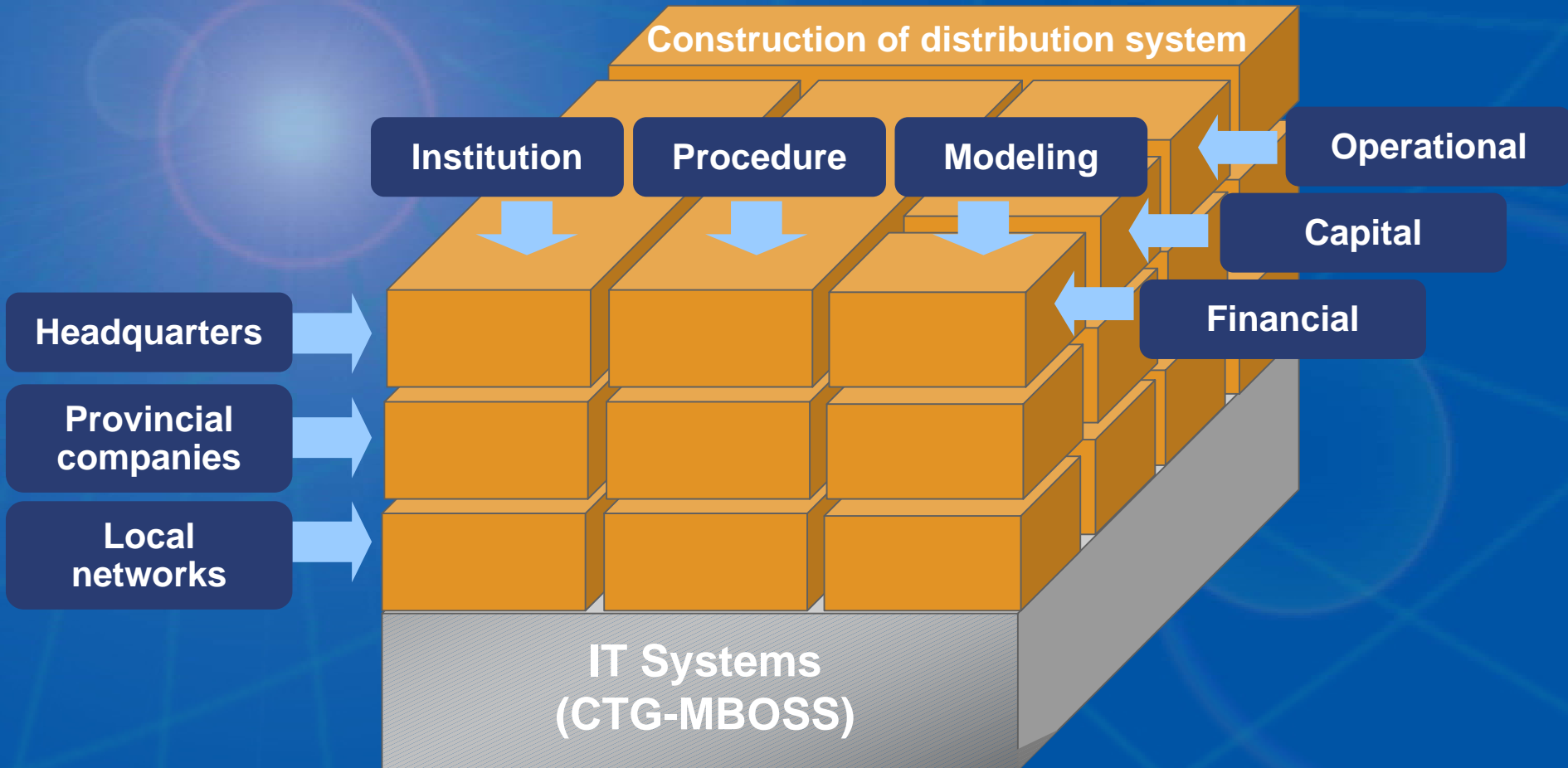
■ Intercon rev. ■ Intercon. expense

Inbound Local Call Volume

Billion Minutes



Managerial Innovation - Core Competitiveness of China Telecom Strengthened

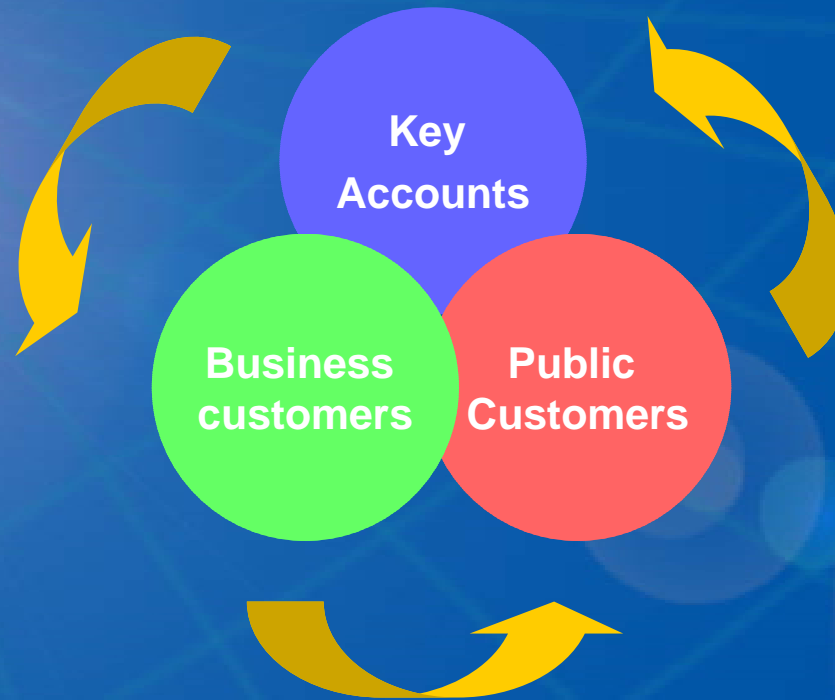


Managerial Innovation - Enhancement of the Distribution System



Distribution Channels

- Key Account Managers
- Community managers
- Rural contract personnel
- 10000 service hot line



Product Bundling

- Fixed line
- PHS
- Data
- Broadband

Internal Measures

- Re-allocate human resource
- Streamline IT systems
- Implement sales-based compensation
- Re-design business procedures

Managerial Innovation - Business Process Re-engineering Further Implemented



- Average capex saving:9%
- Utilization: ↑ 6%

- Key Account direct service time proportion:↑30%
- Customer satisfaction:↑2 p.c points

BPR

- Front-end personnel:50%+

Major Services:

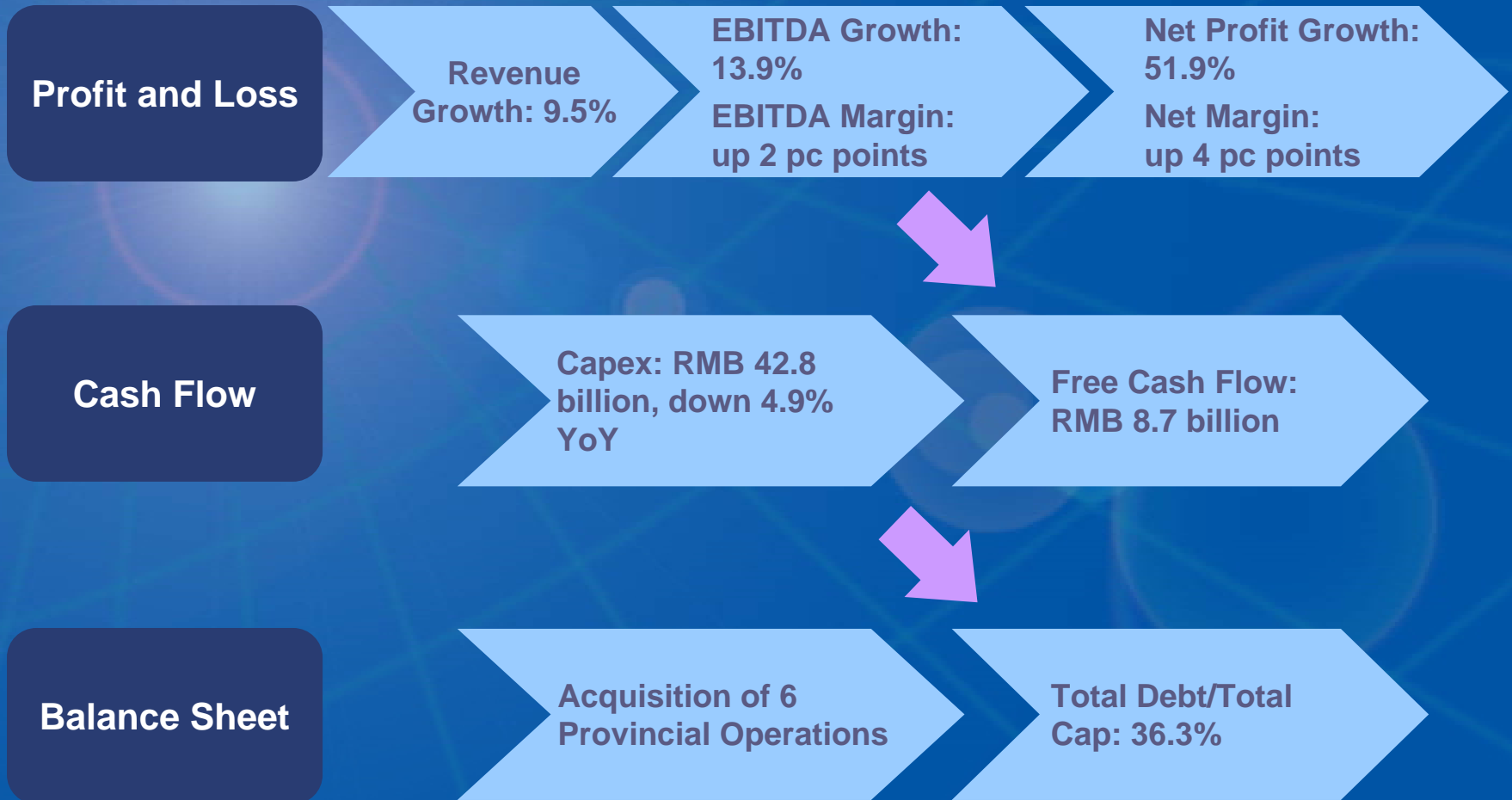
- Average time of provisioning:↓40%
- Average breakdown duration:↓50%



Financial Review



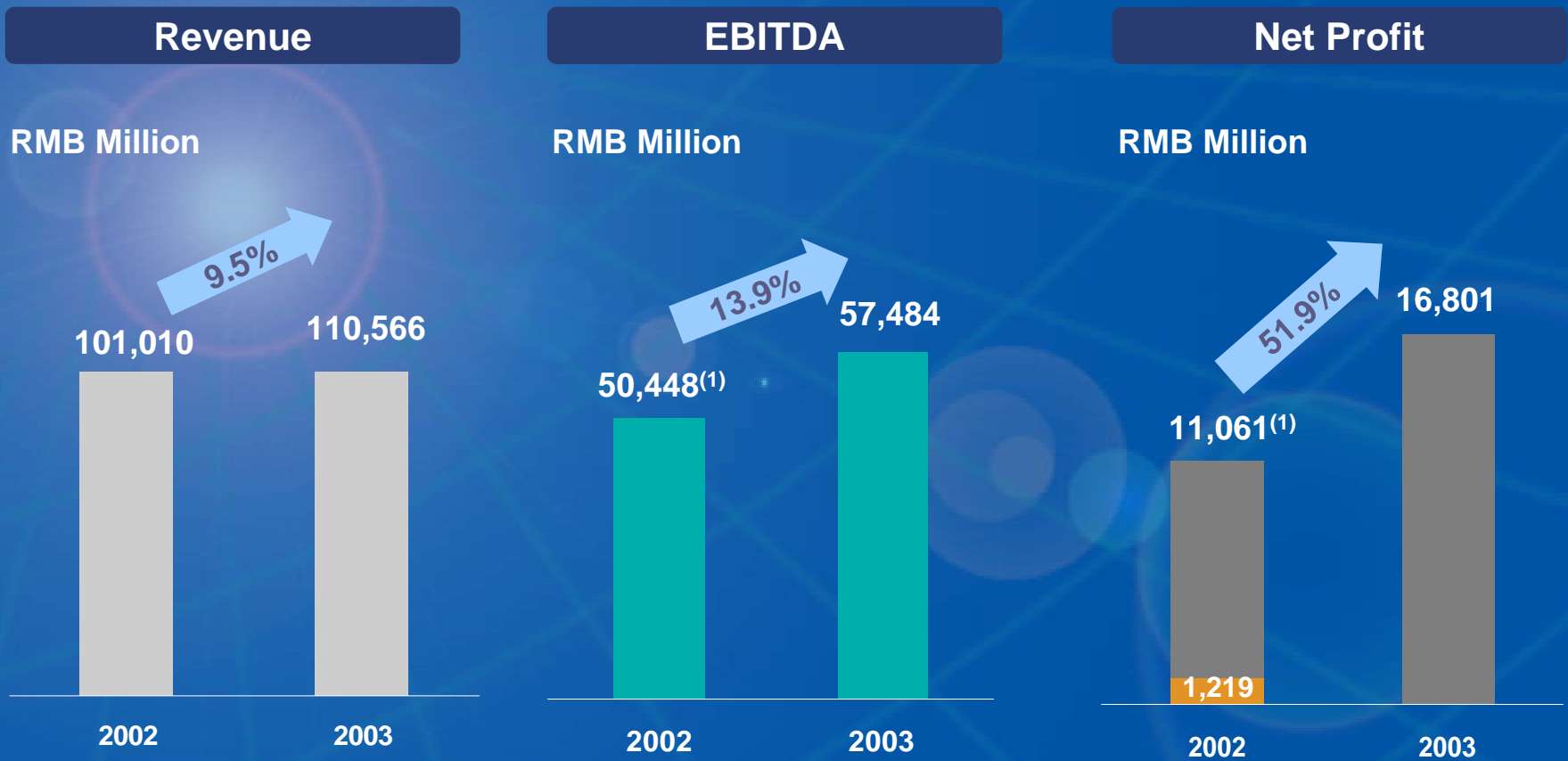
Strong Financial Performance



Note: All figures excluding up-front connection fee and effects of asset appraisal deficit and related tax impact in 2002



Significant Revenue and Net Profit Growth



Note:

All figures exclude up-front connection fee

(1) Excluding effects of asset appraisal deficit and related tax impact in 2002

Strict Cost Control and Improved Profitability



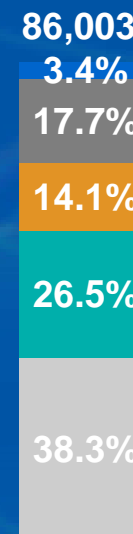
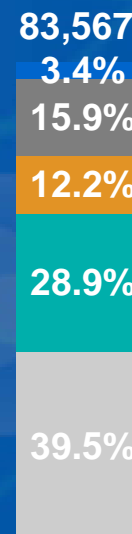
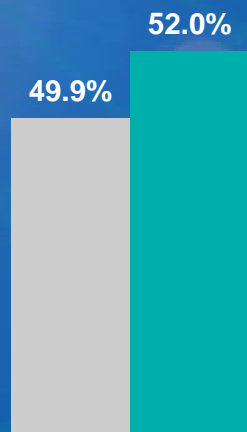
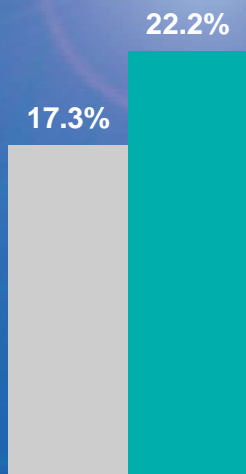
Operating and EBITDA Margin (1)

Operating Expense Structure

Operating Margin

EBITDA Margin

RMB Million



Note:
 (1) Excluding up-front connection fee, and excluding effects of asset appraisal deficit and related tax impact in 2002

(2) Excluding personnel expenses

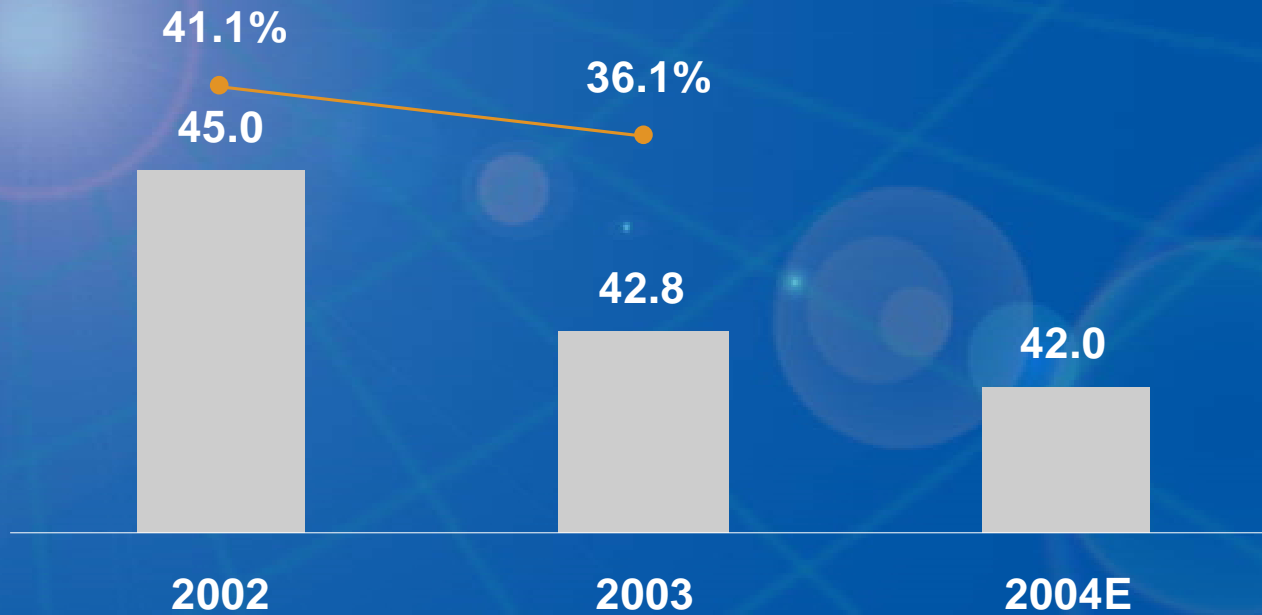
- Depreciation
- Network O&S (2)
- SG&A (2)
- Personnel
- Interconnect & Others



Capex Control Target Met

Capital Expenditure

RMB Billion



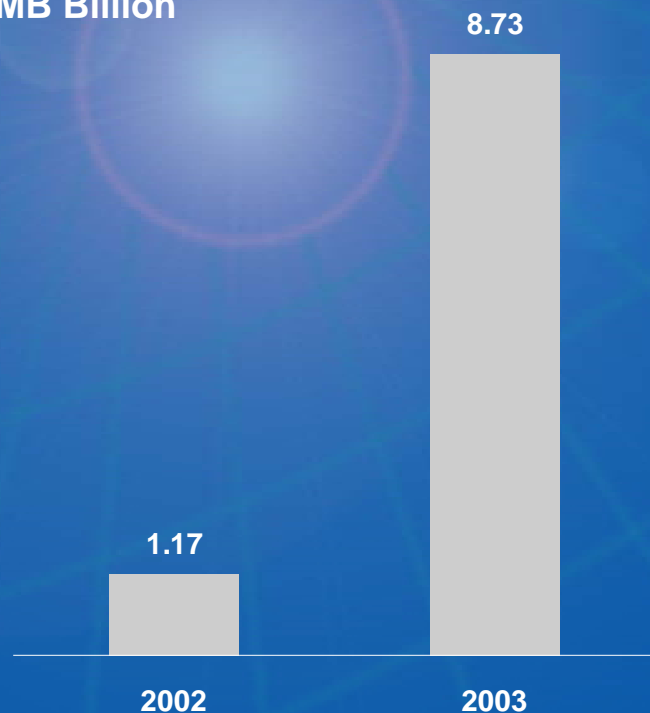
— Capex / Revenue (including up-front connection fee)

Significant FCF Growth and Return Enhancement

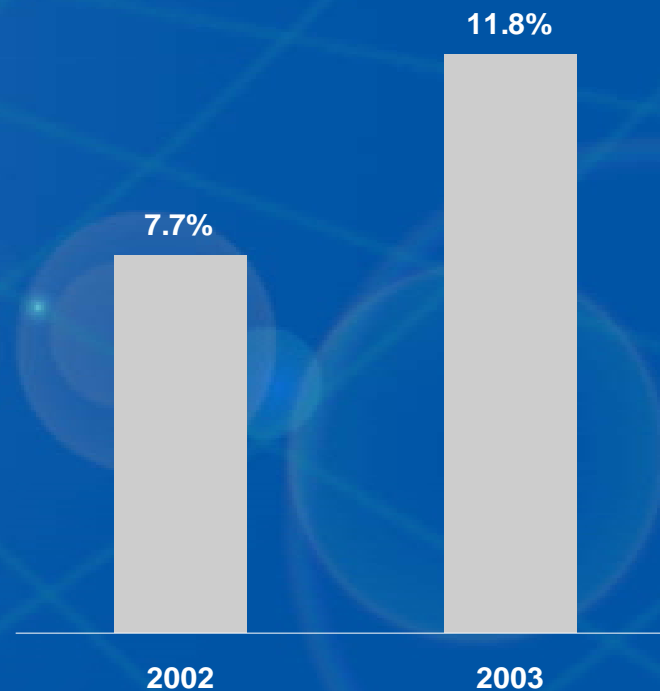


Free Cash Flow (1)(3)

RMB Billion



ROE (2)(3)



Note:

(1) FCF = EBITDA- Income tax- Capex

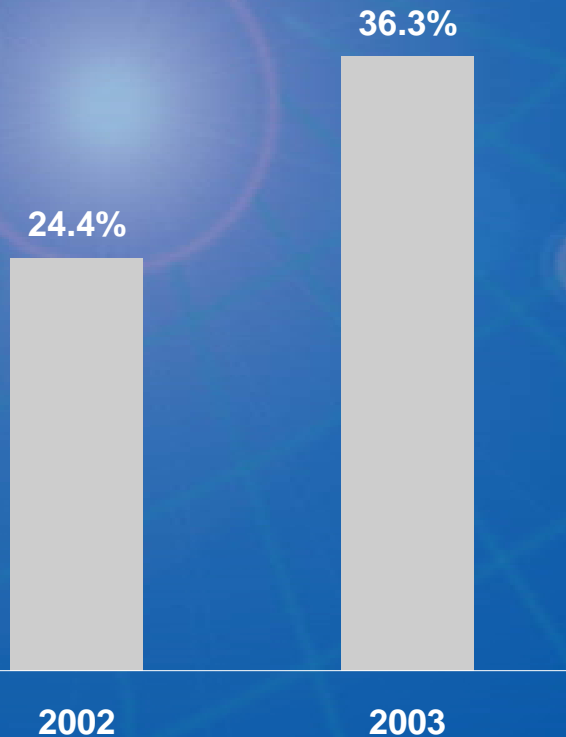
(2) ROE = Net profit / Average shareholders' equity

(3) Excluding up-front connection fee and, excluding effects of asset appraisal deficit and related tax impact in 2002

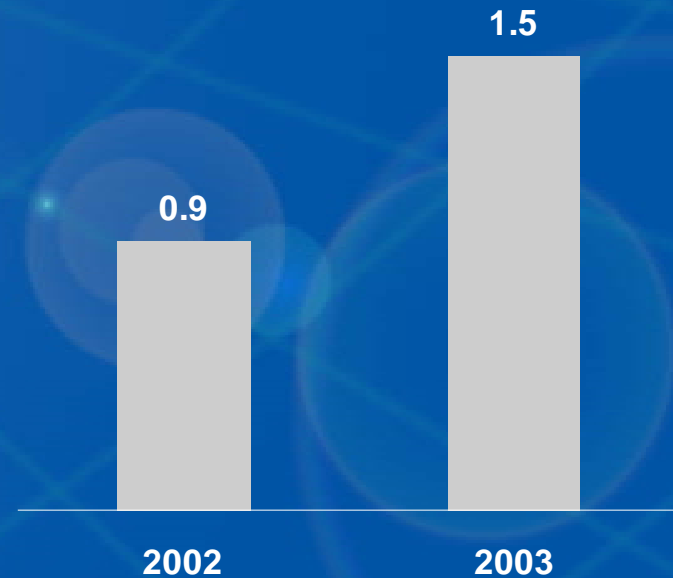


Solid Capital Structure

Total Debt / Total Cap ⁽¹⁾



Net Debt ⁽²⁾ / EBITDA ⁽³⁾



Note: (1) Total cap = Total debt + Deferred revenue + Shareholders' equity + Minority interest

(2) Net debt = Total debt - Cash and cash equivalents

(3) Excluding up-front connection fee and effects of asset appraisal deficit and related tax impact in 2002



Appendix I: Key Data from the Income Statement

RMB million	2003	2002
Operating Revenue	110,566	101,010
Operating Expense	(86,003)	(83,567)
Operating Profit	24,563	17,443
Net Interest Expense	(1,814)	(2,144)
Income Tax	(5,933)	(4,266)
Net Profit	16,801	11,061
<hr/>		
EPS (RMB)	0.22	0.16
Weighted Average Number of Shares (Million)	75,614	69,242

Note : All figures excluding up-front connection fee; 2002 figures excluding effects of asset appraisal deficit and related tax impact where applicable



Appendix II: Key Data from the Balance Sheet

RMB million	2003	2002
Cash and Cash Equivalents	10,119	18,685
Other Current Assets	15,385	15,015
Non-Current Assets	280,101	269,911
Total Assets	305,605	303,611
<hr/>		
Current Liabilities	96,666	99,548
Non-Current Liabilities	76,398	50,029
Minority Interest	1,269	1,186
Shareholders' Equity	131,272	152,848
Liabilities and Shareholders' Equity	305,605	303,611
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China Telecom

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