



中国电信

CHINA TELECOM

Disclaimer



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Management Introduction



ZHOU Deqiang

Chairman and CEO

CHANG Xiaobing

President

WU Andi

EVP / CFO

LI Ping

EVP / Company Secretary



- 1. Transaction Overview**
- 2. Target Business Overview**
- 3. Benefits of The Acquisition**



1. Transaction Overview

Transaction Overview



As of June 30, 2003	China Telecom Before Acquisition	Target Provinces	China Telecom After Acquisition
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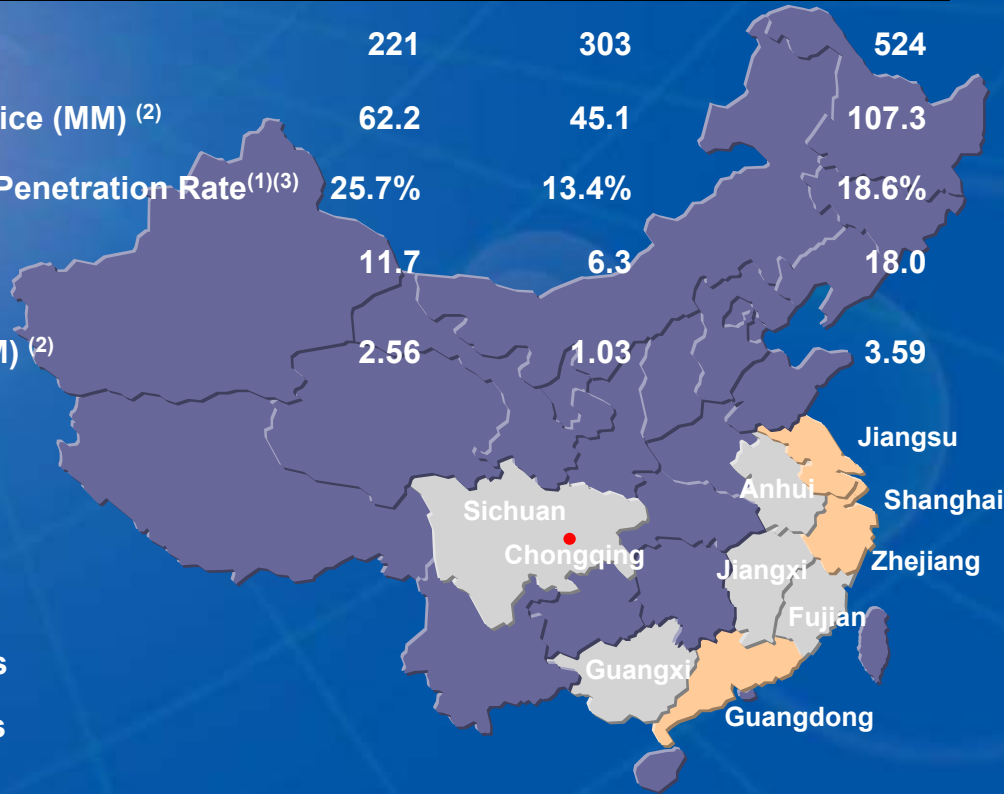
Population (MM) ⁽¹⁾	221	303	524
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Access Lines in Service (MM) ⁽²⁾	62.2	45.1	107.3
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Wire-line Telephone Penetration Rate ⁽¹⁾⁽³⁾	25.7%	13.4%	18.6%
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Dial-up Subs (MM) ⁽²⁾	11.7	6.3	18.0
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Broadband Subs (MM) ⁽²⁾	2.56	1.03	3.59
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ListCo Provinces
 Target Provinces

Note: (1) As of December 31, 2002
 (2) China Telecom Subs
 (3) Wire-line Telephone Penetration Rate = Number of Total User / Population

Terms of Acquisition



Target Assets	Anhui Telecom, Fujian Telecom, Jiangxi Telecom, Guangxi Telecom, Chongqing Telecom, Sichuan Telecom and their subsidiaries, and certain network management and R&D facilities currently owned by the Parent
2003 Earning Forecast for Target Group	RMB 4.004Bn (Excluding Upfront Connection Fee) RMB 6.352Bn (Including Upfront Connection Fee) ⁽¹⁾
Acquisition Consideration	Equity Value: RMB 46Bn Assumed Net Debt: RMB 34Bn ⁽²⁾ Enterprise Value: RMB 80Bn
Consideration Payment	<ul style="list-style-type: none"> ■ Initial consideration: RMB11Bn ■ Deferred consideration: RMB35Bn
Valuation Multiple	<ul style="list-style-type: none"> ■ P/E: 11.49x⁽¹⁾
EPS Accretion	21.1% ⁽³⁾⁽⁴⁾
Extraordinary General Meeting	December 15th, 2003
Financial Advisors to China Telecom	<ul style="list-style-type: none"> ■ Morgan Stanley Dean Witter Asia Limited ■ China International Capital Corporation (Hong Kong) Limited
Independent Financial Advisor	J.P. Morgan Securities (Asia Pacific) Limited

Notes: (1) Otherwise indicated, all information related to valuation hereafter excluding upfront connection fee of 2.348 billion RMB

(2) As of June 30th, 2003

(3) Calculation based on 20 trading days average closing price HK\$2.27 as of Oct 24th, 2003; P/E ratio of target company is based on company's earnings forecast and acquisition consideration

(4) EPS estimate for ListCo is based on the average of estimated EPS from Morgan Stanley and CICC research department. Illustrative purpose only, it does not reflect Company's guidance on earnings

Consideration Payment



Initial Consideration

- RMB11Bn cash from China Telecom's existing resources

Deferred Consideration

- Amount: RMB35Bn
- Terms: 10 Years (prepayment option)
- Interest Rate: Interest rate for the first 5 years after completion of the transaction is 5.184% ⁽¹⁾, and will be adjusted thereafter
- Interest payment: Semiannually
- Fixed exchange rate
- Flexible payment currency choices

Notes: (1) RMB lending rate of commercial banks in the PRC in respect of loans with tenure of over 5 years of 5.76% per year as set by the People's Bank of China and prevailing on the date of Acquisition Agreement less a discount of 10%

Purchase Price Analysis



Notes: (1) P/E ratio of ListCo is based on 20 trading days average price by October 24, 2003 and the average estimated EPS from Morgan Stanley and CICC research department; EPS estimate for ListCo for illustrative purpose only, not reflecting Company's guidance on earnings
(2) Borrowing rate 5.184%, lending rate 1.036%; income tax rate 33%



2. Target Business Overview

Key Operational Statistics



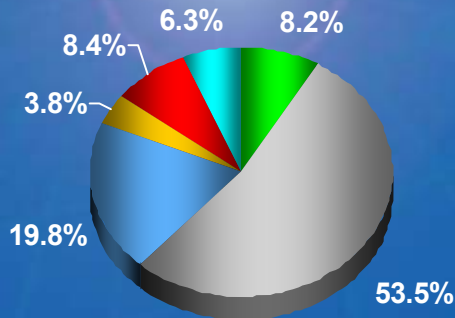
	2001	2002	1H2003
Number of Subscribers for the Target Group (MM)			
Access Lines in Service	32.4	39.9	45.1
Include: Wireless Local Access	1.3	4.0	6.5
Dial-up Internet Access	4.4	6.0	6.3
Broadband (Thousand)	86.7	494.7	1,030.6
Number of Natural Ports of Managed Data Service (Thousand)	70.1	82.0	84.8
Usage			
Local voice (Bn Pulses) ⁽¹⁾	91.3	100.5	52.8
DLD (MM Minutes)	12,070	13,168	6,790
IDD (MM Minutes)	155.3	168.7	77.4

Note: (1) Exclude dial-up volume

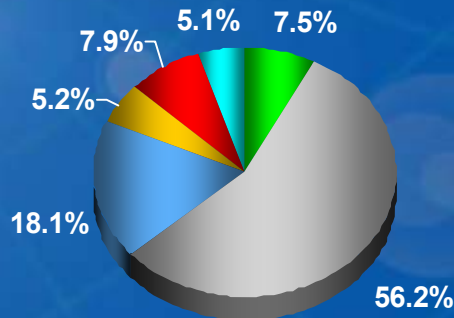
Improving Revenue Structure



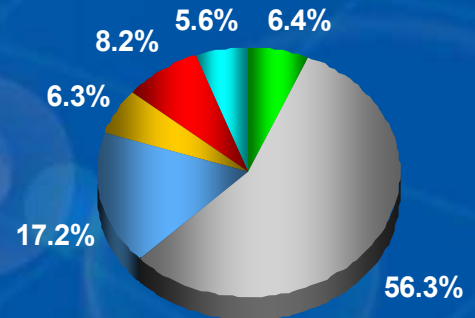
2001



2002



1H2003



 Upfront Connection Fee

 Local

 Long Distance

 Data and Internet

 Leased Line and Interconnection

 Other

Wire-line Telephone Service Experienced Rapid Growth



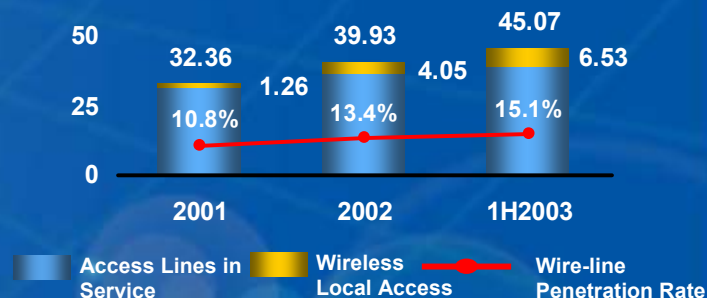
Local Revenue (1)

RMB MM



Access Lines in Service

MM



Local MOU(2)

Pulses/ Month/ Per Subscriber



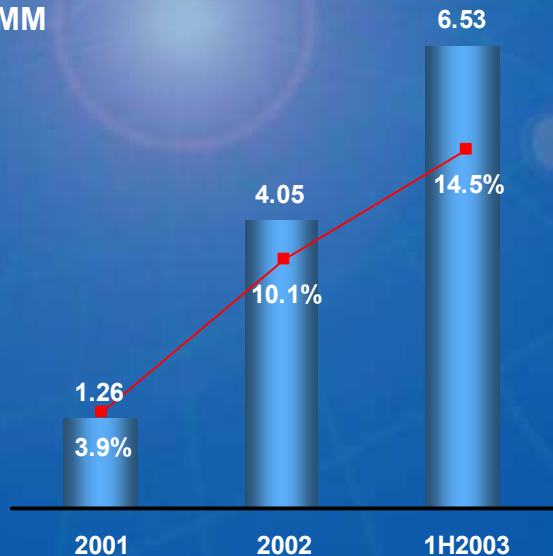
Note: (1) Excluding upfront connection fee
 (2) Excluding Dial-up minutes

Wireless Local Access Service Enjoyed Significant Growth

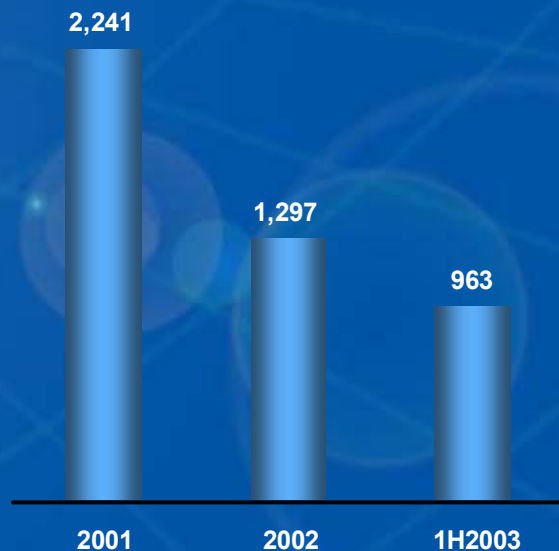


Subscribers of Wireless Local Access Service

MM



Per-line Investment for Wireless Local Access Service RMB



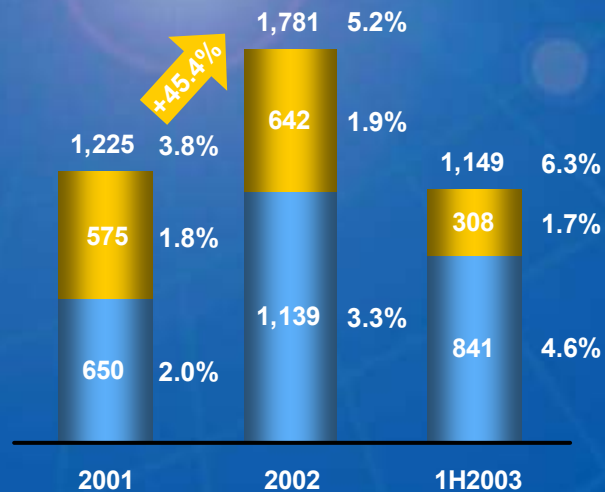
Wireless local access subscribers as %
of total access lines in service

Data & Internet Services



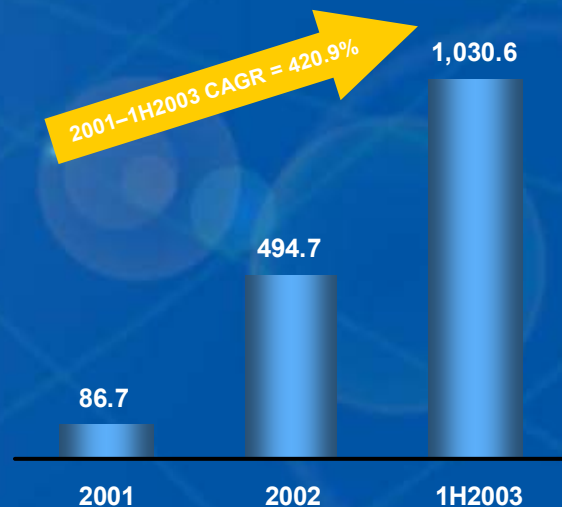
Revenue of Data & Internet Services And % of Revenue

RMB MM



Broadband Subscribers

Thousand



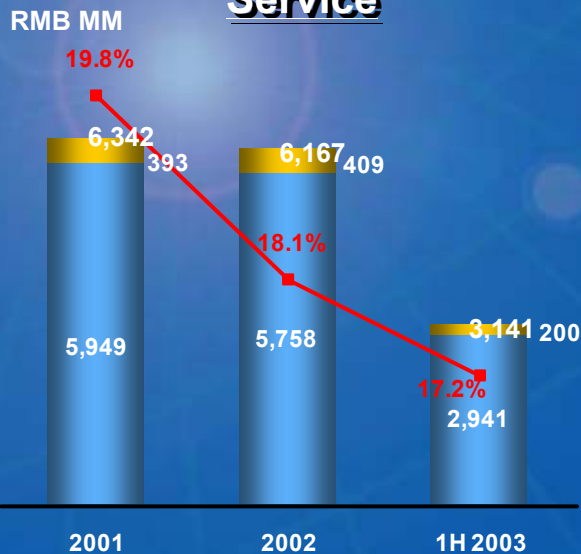
Data

Internet

Risk in Long Distance Service Moderated



Revenue of Long Distance Service

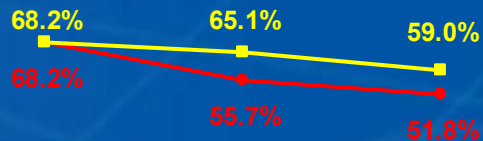


DLD

IDD

Total Long Distance Revenue Share

Long Distance Market Share⁽¹⁾



2001

2002

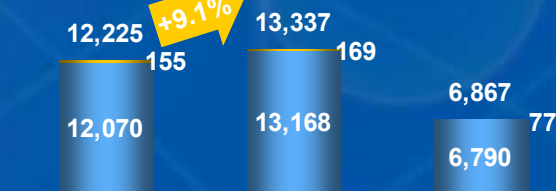
1H2003

DLD

IDD

Long Distance Traffic Volume

MM Minutes



DLD

IDD

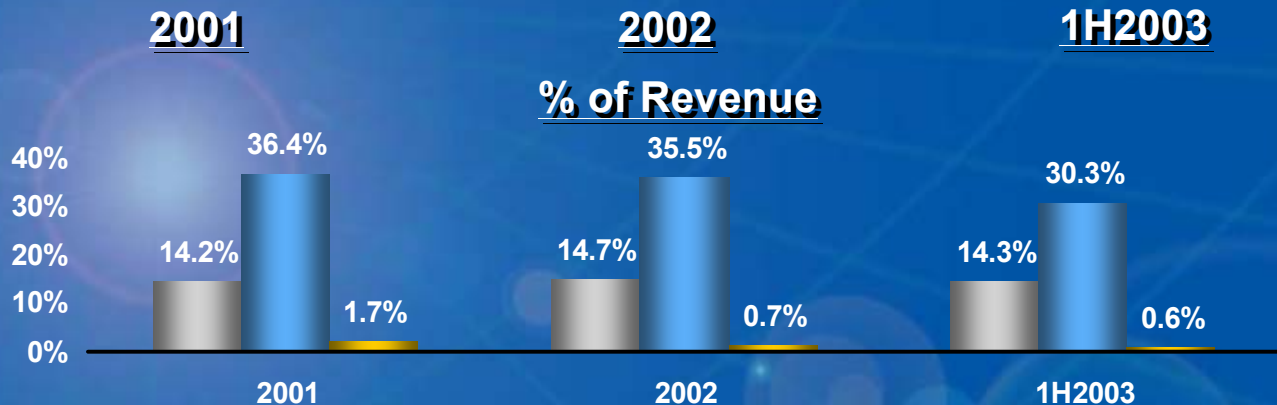
Note: (1) Market share of international long distance service is based on outgoing call minutes

Key Financial Statistics of the Target Group

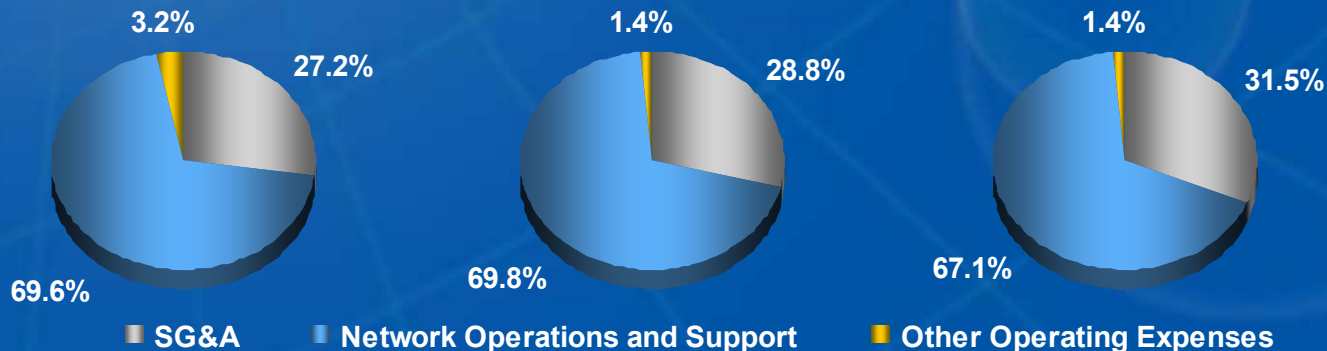


RMB MM	2001	2002	01-02 Growth	1H 2003
<u>Income Statement</u>				
Total Operating Revenue	31,951	34,068	6.6%	18,247
Upfront Connection Fee	2,606	2,536	—	1,174
Operating Expenses	27,433	29,449	7.3%	13,384
<i>% of Total Revenue</i>	85.9%	86.4%	—	73.3%
EBITDA	15,242	16,742	9.8%	9,999
<i>EBITDA Margin</i>	47.7%	49.1%	—	54.8%
Net Profit/(Loss)	3,103	(7,091)	N.M.	3,371
<i>Net Profit Margin</i>	9.7%	N.M.	—	18.5%
<u>Balance Sheet</u>				
Cash & Cash Equivalents	3,815	2,262	—	2,323
Interest-Bearing Debt	35,433	37,506	—	36,344
Shareholders' Equity	37,671	27,840	—	31,186
Total Assets	109,754	92,759	—	95,467

Cash Expense Structure of the Target Group



Cash Expense Structure



Declining Capital Expenditure of the Target Group



Capital Expenditure

RMB MM





3. Benefits of The Acquisition

Benefits of the Acquisition



Enhancement of Market Position

Improvement of Growth Prospect

Realization of Operating Synergy

Significant Earnings Accretion

**Improvement of Capital Structure,
Enhancement of Shareholder Return**

Enhancement of Market Position



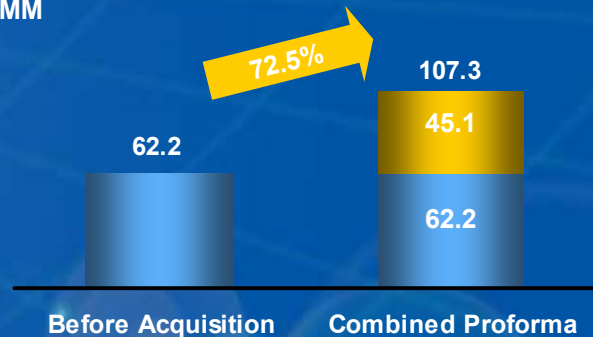
Total Operating Revenue (1)

RMB MM



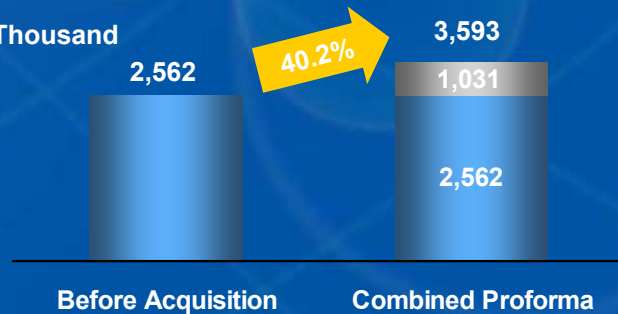
Access Lines in Service (1)

MM



Broadband Subscribers (1)

Thousand

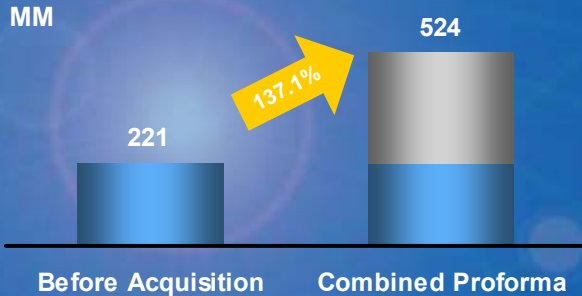


Note: (1) As of June 30th, 2003
 (2) Adjustment: deduction of interconnection revenue of RMB 13 million

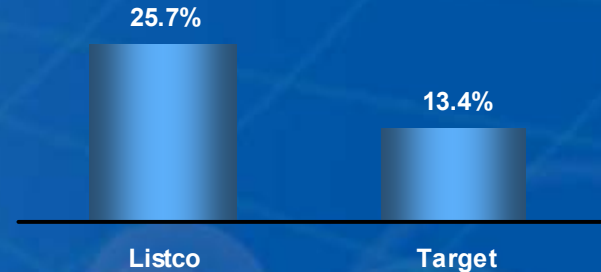
Improvement of Growth Prospect



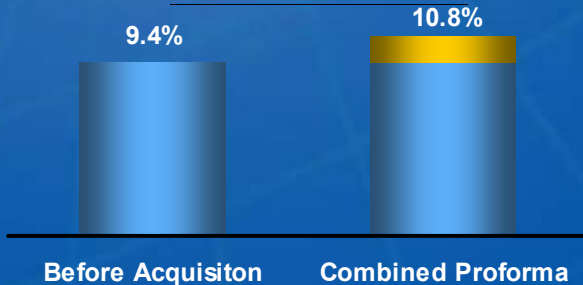
Covered Population⁽¹⁾



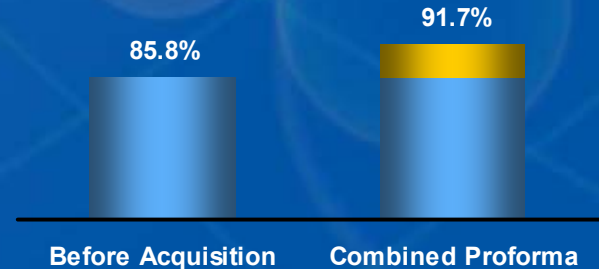
Wire line Telephone Penetration Rate in Service Region⁽¹⁾



Access Lines in Service Growth Rate⁽²⁾



Broadband Subscriber Growth Rate⁽²⁾



Note: (1) As of Dec 31th, 2002
(2) 1H 2003 subscriber growth over 2002

Realization of Operating Synergy



Reduce Cost

- Interconnection revenue decreased by 13MM, interconnection expense decreased by 140MM in the first half of 2003 on a pro forma basis

Achieve Management Synergy

- Centralize investment planning, procurement and financial management
- Launch business process reengineering initiatives
- Improve centralized management of network operation and R&D capabilities
- Wider implementation of employee incentive programs

Significant Earnings Accretion



EPS Excluding Upfront Connection Fee ⁽¹⁾ ⁽²⁾

HK\$

Accretion:

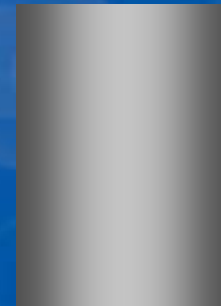
21.1%

0.161



ListCo

0.195



Pro Forma

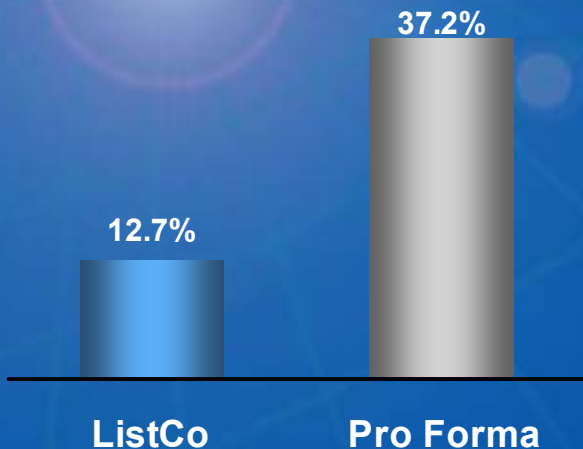
Note: (1) Borrowing interest rate 5.184%, lending interest rate 1.036%, income tax rate 33%
(2) EPS estimates for ListCo is based on average estimated EPS from Morgan Stanley and CICC research department. Illustrative purpose only, it does not reflect Company's guidance on earnings

Improvement of Capital Structure, Enhancement of Shareholder Return



Total Debt/ Total Capital^{(1) (2)}

%



Net Debt /EBITDA ⁽¹⁾⁽²⁾⁽³⁾

x



Note: (1) As of June 30, 2003

(2) Total Debt/Total Capital=Total Debt/(Total debt+ Deferred Revenue+ Shareholders' Equity + Minority Interest); Total debt=Long-term debt+ Short-term debt+ Financial lease; Net Debt = Total Debt – Cash

(3) We annualize EBITDA of 1H2003 to get Net Debt/EBITDA

Summary



- Revenue of 10 provinces will keep high growth rate post-acquisition
 - 6 provinces have higher growth potential than 4 provinces
 - New business such as broadband, wireless local access and VAS will become the driver for revenue growth
- Profitability will increase further
 - Broad subscriber base of 6 provinces will provide future profitability.
 - 10 provinces will be able to take advantage of economy of scale, reduce unit operating cost, and realize better cost control.
- Free Cash Flow will continue to grow
 - 10 provinces will maintain high growth rate, at the same time control capital expenditure and increase Free Cash Flow
- Maintain an efficient capital structure
 - Capital structure of 10 provinces post-acquisition will reach or be close to industry average, and therefore improves the return on equity.

Appendix 1: Consolidated Pro Forma P&L - Great Growth Potential



June 30, 2003

RMB MM	Target	ListCo	Consolidation Adjustment	Consolidated Pro Forma
Revenue	18,247	39,536	(13)	57,770
Operating Expenses				
Depreciation and Amortization	(5,136)	(10,859)	(25)	(16,020)
Network Operations and Support	(5,534)	(9,693)		(15,227)
SG&A Expenses	(2,602)	(5,476)		(8,078)
Other Operating Expenses	(112)	(1,310)	141	(1,281)
Total Operating Expenses	(13,384)	(27,338)		(40,606)
Operating Profit	4,863	12,198		17,164
Net Interest Expenses	(726)	(176)	(964)	(1,866)
Investment Income	—	2		2
Profit before Taxation	4,137	12,024		15,300
Taxation	(763)	(2,743)	284	(3,222)
Minority Interest	(3)	(21)		(24)
Net Profit	3,371	9,260		12,054
EPS		0.12		0.16
Weighted Average Shares (MM)		75,614		75,614

Notes: (1) Borrowing interest rate 5.184%, lending interest rate 1.036%, income tax rate 33%

Appendix 2: Key Operating Statistics of the Listed Group



	2001	2002	2003 1H
Subscriber (Million)			
Access Lines in Service	48.5	56.9	62.2
Wireless Local Access	1.5	3.4	5.4
Dial-up	9.6	11.6	11.7
Broadband (Thousand)	397	1,379	2,562
Managed Data Number of Standard Ports (Thousand)			
DDN (64k)	158.6	207.7	328.1
FR (128k)	20.4	24.3	38.7
ATM (2M)	7.8	10.8	12.1
Voice Usage			
Local (100 Million Pulses)	1,588	1,741	887
DLD (Billion Minutes)	30.6	33.6	19.1
IDD (Million Minutes)	1,406	1,325	712



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