



中国电信

CHINA TELECOM



Important Notices

- This presentation is merely a summary of the information relating to the acquisition. It does not contain all the information that may be important relating to the acquisition transaction. The presentation should be qualified in its entirety and read in conjunction with the Shareholder Circular, dated April 13, 2003, of China Telecom Corporation Limited (“the Company”) relating to a Major and Connected Transactions.
- This presentation contains certain statements which 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.
- These forward-looking statements are subject to risks, uncertainties and other factors, many of which are beyond our control. The actual performance, financial condition or results of operations of the Company may differ materially from those expressed or implied by these forward-looking statements. Because of these risks, uncertainties and other factors, certain forward-looking events and circumstances discussed in this presentation might not occur in the way we expect, or at all. You should not place any undue reliance on any forward-looking statements contained in this presentation. Further information regarding these risks, uncertainties and other factors can be found in the Company’s most recent report filed on Forms 20-F and 6-K with the U.S. Securities and Exchange Commission.



Agenda

- 1. Listco Performance Review**
- 2. Transaction Overview**
- 3. Target Group Business Overview and Outlook**
- 4. Benefits of The Acquisition**

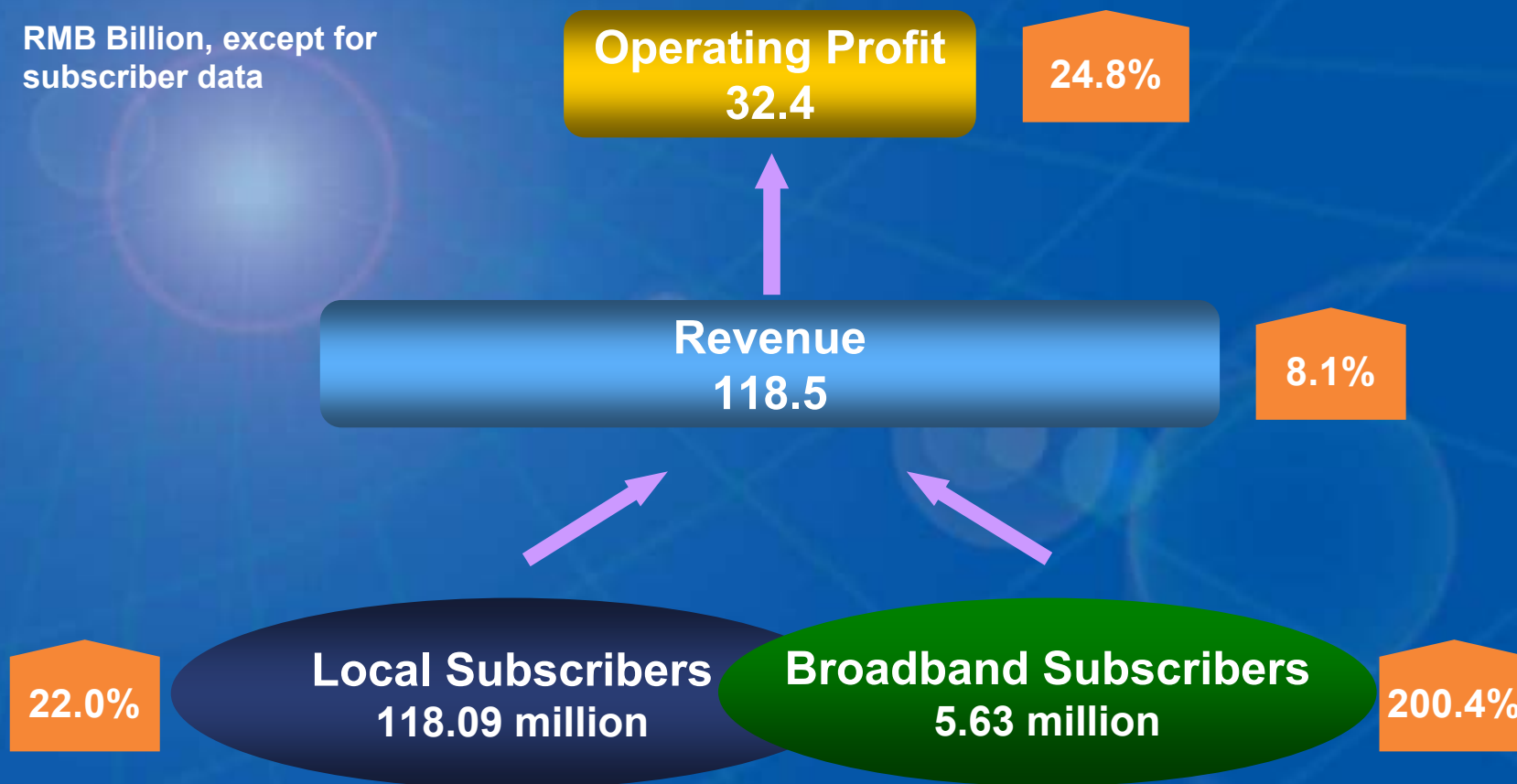


1. Listco Performance Review



Listco 2003 Results

RMB Billion, except for
subscriber data





Steady Business Growth

RMB Million

Revenue	2003	2002	Change
Local	58,021	55,006	5.5%
Upfront Connection	7,885	8,554	-7.8%
Internet	8,160	4,914	66.1%
Long Distance	23,658	23,817	-0.7%
Managed Data	2,540	2,431	4.5%
Leased Line	3,915	4,214	-7.1%
Interconnection	6,444	5,921	8.8%
Other	7,828	4,707	66.3%
Total Revenue	118,451	109,564	8.1%



2. Transaction Overview



Proposed Acquisition Overview

As of December 31, 2003	Listco Service Areas	Target Group (1) Service Areas	Pro Forma Combined
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Population (MM)	528.2	310.6	838.8
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Access Lines in Service (MM) (2)	118.1	42.9	161.0
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Wireline Telephone Penetration (3)	22.8%	14.5%	19.7%
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Broadband Subscribers (MM) (2)	5.6	1.6	7.2
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 Listco Service Areas

 Target Service Areas

Notes: (1) Includes Hubei Telecom, Hunan Telecom, Hainan Telecom, Guizhou Telecom, Yunnan Telecom, Shaanxi Telecom, Gansu Telecom, Qinghai Telecom, Ningxia Telecom and Xinjiang Telecom
(2) China Telecom subscribers
(3) Based on industry total number of access lines in service divided by population



Acquisition Terms

Consideration	Equity Value:	RMB 27.8 billion
	Target Group Net Debt:	RMB 40.0 billion ⁽¹⁾
	Aggregate Value:	RMB 67.8 billion
2004 Target Group Profit Forecast ⁽²⁾	RMB 4,761 million (including upfront connection fee)	
Valuation	P/E: 5.84x	
Key Conditions Precedent	Equity issue approved by EGM and class meetings Acquisition approved by EGM	
Completion	On or before December 31, 2004	
Financial Advisors to China Telecom	China International Capital Corporation (Hong Kong) Limited Morgan Stanley Dean Witter Asia Limited UBS AG	

Notes: (1) As of December 31, 2003

(2) See profit forecast assumptions on the next page



Profit Forecast Assumptions

- We did not prepare the forecast information with a view towards compliance with published guidelines of the American Institute of Certified Public Accountants" regarding forecasts or projections. We prepared the financial forecast in accordance with local market practice in Hong Kong. The information necessarily is based upon a number of assumptions and estimates that, while presented with numerical specificity, are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control, and upon assumptions with respect to future business decisions that are subject to change. Accordingly, we cannot provide any assurance that these results will be realized. The forecast information may vary materially from actual results. We have made no representation that those results will be achieved. You should not place undue reliance on this information.
- The management of the Company and the Target Group have prepared the forecast on the combined profit after taxation and minority interests but before extraordinary items of the Target Group for the year ending December 31, 2004. The management of the Company and the Target Group are not currently aware of any extraordinary items which have arisen or are likely to arise in respect of the year ending December 31, 2004. The forecast has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by the Target Group as summarized in Appendix III of the shareholders' circular dated April 13, 2004 and has been based on the following principal assumptions:
 - 1) There will be no material changes in existing political, legal, regulatory, fiscal or economic conditions in the PRC, Hong Kong, or any other territory in which the Target Group currently operates or which are otherwise material to the Target Group's revenues;
 - 2) There will be no material changes in legislation or regulations governing the telecommunications industry in the PRC, Hong Kong or any other country or territory in which the Target Group operates or which the Target Group has arrangements or agreements with, which would materially affect the business or operations of the Target Group;
 - 3) Inflation, interest rates or foreign currency exchange rates will not differ materially from those prevailing as of the date of this circular;
 - 4) There will be no material changes in the bases or rates of taxation appropriate to the Target Group, except as otherwise disclosed in the circular; and
 - 5) Based on information currently available, there will be no tariff reduction that will have a material adverse effect on the Target Group's business



Consideration

- Initial Consideration
 - RMB8.34 billion, or approximately 30% of total consideration

- Deferred Consideration
 - RMB19.46 billion, or approximately 70% of total consideration
 - Tenure: 10 Years
 - Prepayment allowed with no penalty
 - Interest rate: 5.184% p.a.⁽¹⁾ for the first 5 years after completion of the acquisition, may be adjusted thereafter
 - Interest payment: Semiannual

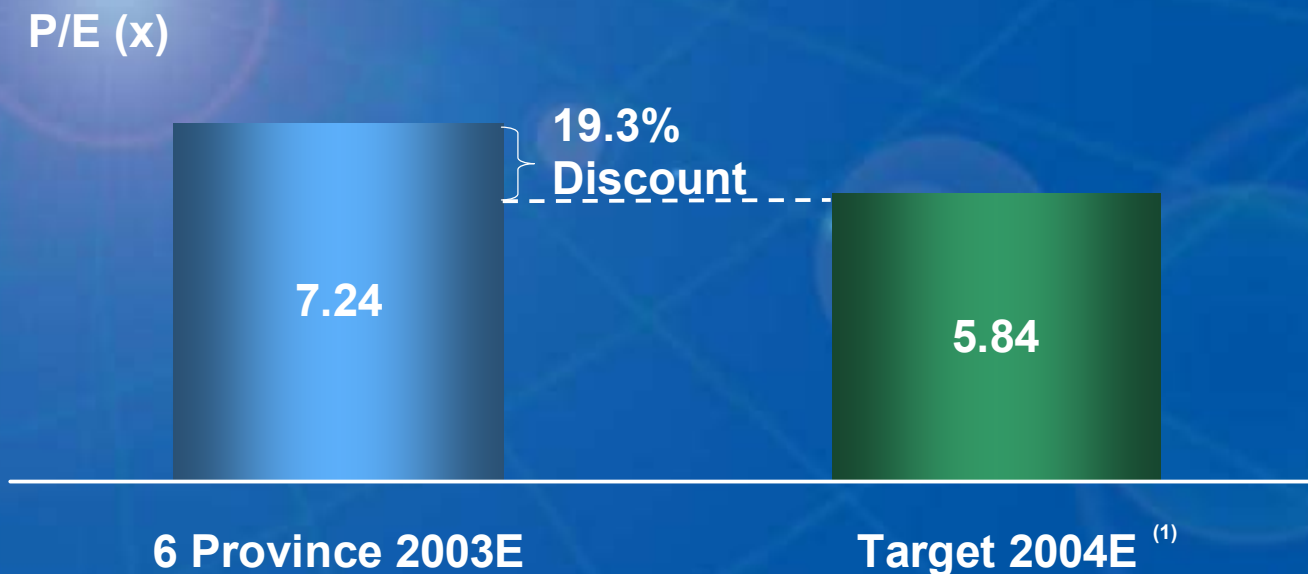
- Net Indebtedness
 - RMB 40.04 billion as of December 31, 2003

Note: (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 published by the People's Bank of China and prevailing on the date of the Acquisition Agreement less a discount of 10%



Acquisition Valuation

Discount Relative to 6 Province Acquisition



Note: (1) Based on acquisition consideration and profit forecast for the Target Group



Acquisition Highlights

Enhance Market Position

Improve Growth Prospects

Realize Operating Synergies

Fair and Reasonable Consideration



3. Target Group Business Overview and Outlook



Key Operating Statistics

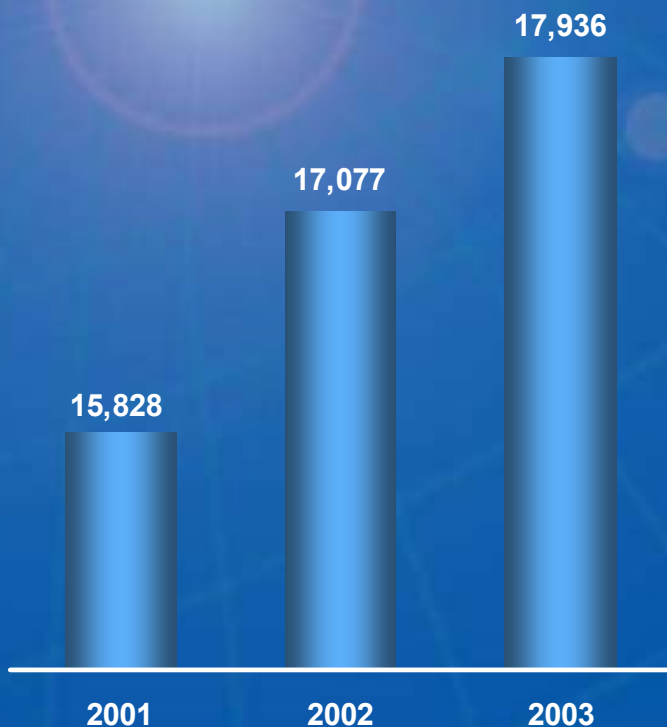
	2001	2002	2003
Number of Subscribers			
Access Lines in Service (Thousands)	30,373	36,268	42,897
Incl. Wireless Local Access (Thousands)	1,550	3,547	7,220
Broadband (Thousands)	103	537	1,601
Caller ID (Millions)	6.1	11.4	19.0
Usage			
Local (Billion Pulses)	103.3	112.9	108.3
Domestic Long Distance (Million Minutes)	11,890	12,699	13,503
Number of Managed Data Ports			
DDN services (Thousands)	81.0	88.1	84.2
Frame relay services (Thousands)	4.4	6.2	7.3
ATM services (Thousands)	0.1	0.7	0.7



Wireline Local Telephone Services

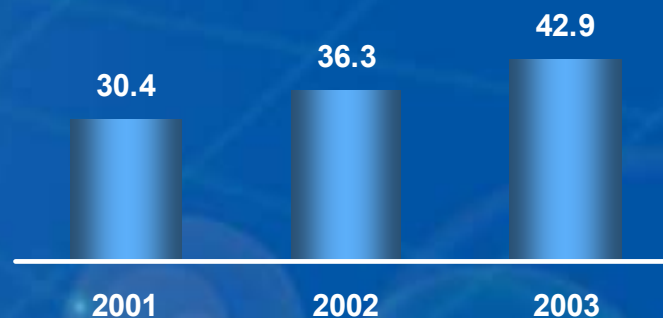
Local Revenue

RMB MM



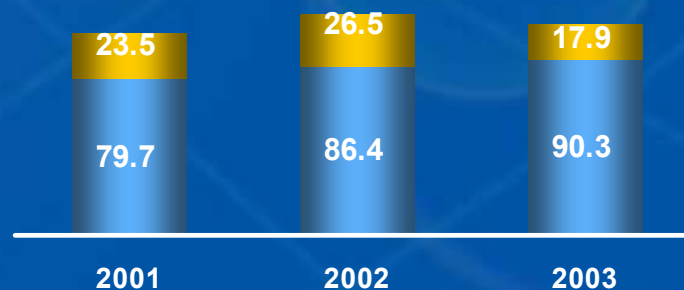
Access Lines in Service

Millions



Total Usage

Billion Pulses



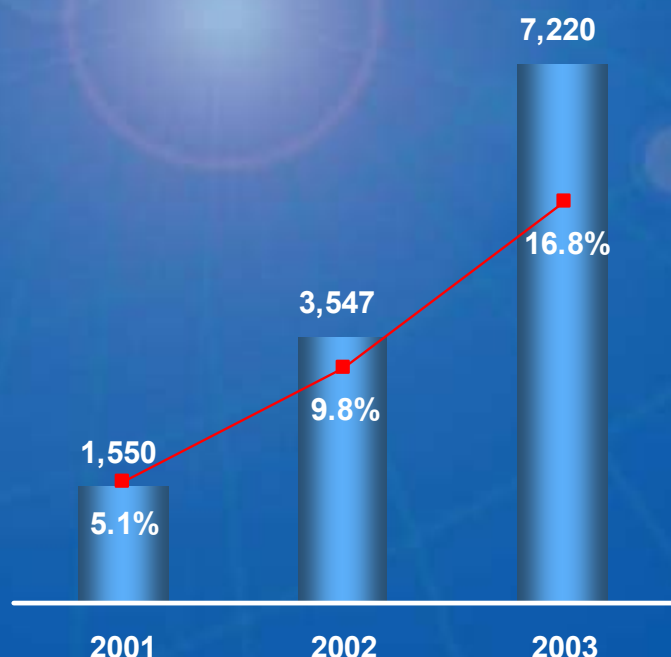
Voice Usage Dial-up Usage



Wireless Local Telephone Services

Wireless Local Access Subscribers

Thousands



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

Target Provinces Provide Significant Potential for PHS

- Target province market characteristics
 - Strong price sensitivity
 - Many small/medium-sized towns and cities
- PHS competitive advantages
 - Attractive tariffs
 - Most economical technology for limited mobility



Long Distance Telephone Services

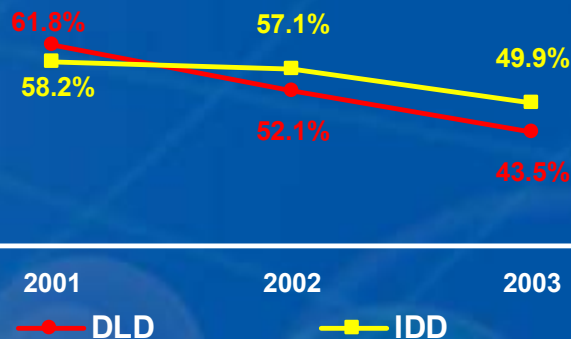
Revenue of Long Distance Telephone Services

RMB MM



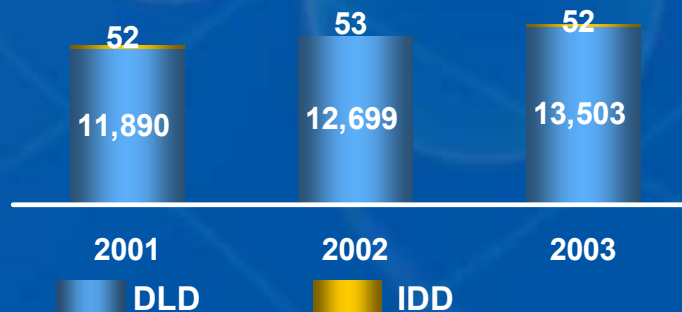
DLD IDD

Long Distance Market Share (1)



Long Distance Traffic Volume

Million Minutes



Note: (1) Based on outgoing call minutes



Internet Services

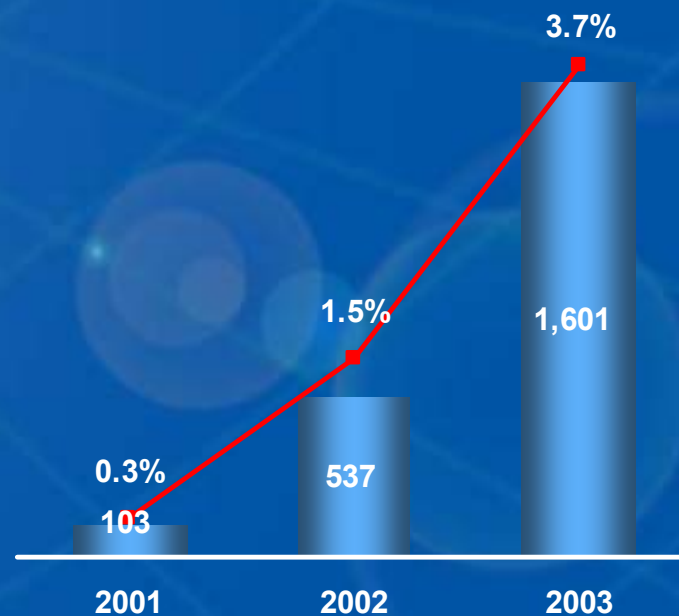
Internet Revenue

RMB MM



Broadband Subscribers

Thousands



—■— % of total access lines in service



Potential for Earnings Growth

Revenue

Strengthen channel management
Promote product incentives

Earnings

Enforce budget management
Centralize financial control

Capital Expenditures

Centralize procurement
Improve operating efficiency



Net Profit / (Loss)

RMB MM

(1,554)

(10,804)⁽¹⁾

4,761⁽²⁾

2002

2003

2004E

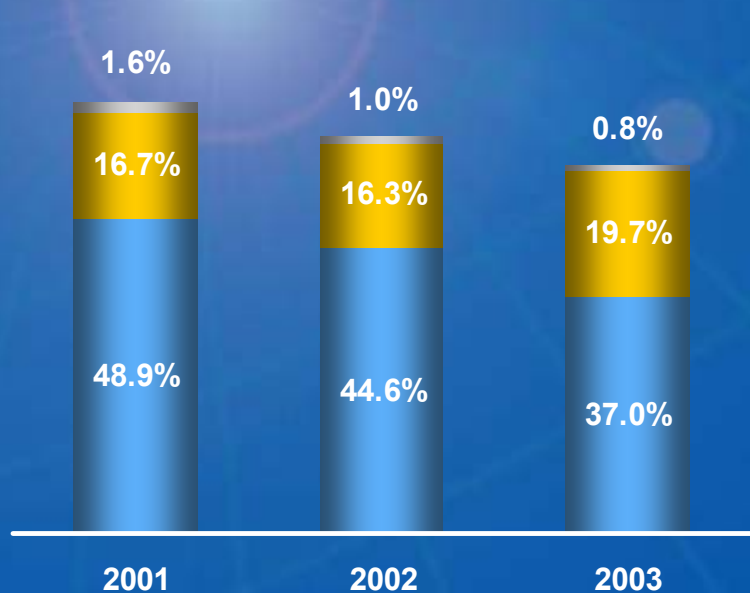
- Notes:
- (1) Includes deficit totaling RMB 14,832 million arising from the revaluation of certain PP&E and recognized as an expense for the year ended December 31, 2003. This revaluation was required by relevant PRC rules and regulations with respect to the Restructuring
 - (2) Please refer to profit forecast assumptions contained in this presentation



Steady Expense Decline

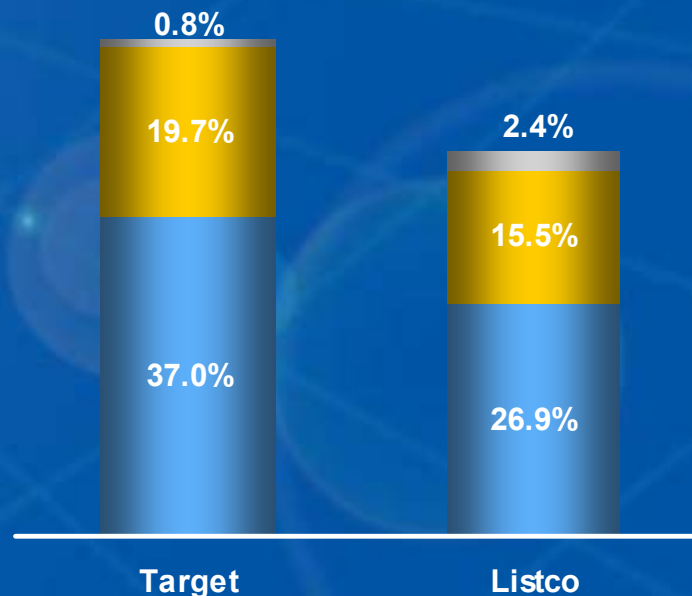
Target Group Expense Structure

% Operating Revenues



Listco vs. Target Group 2003 Expense Structure

% Operating Revenues



Network Operations & Support SG&A Other Operating Expenses



Control on Capital Expenditure

Historical and Planned Capital Expenditure (1)

% of Operating Revenues



Note: (1) Based on contracted amounts rather than cash paid



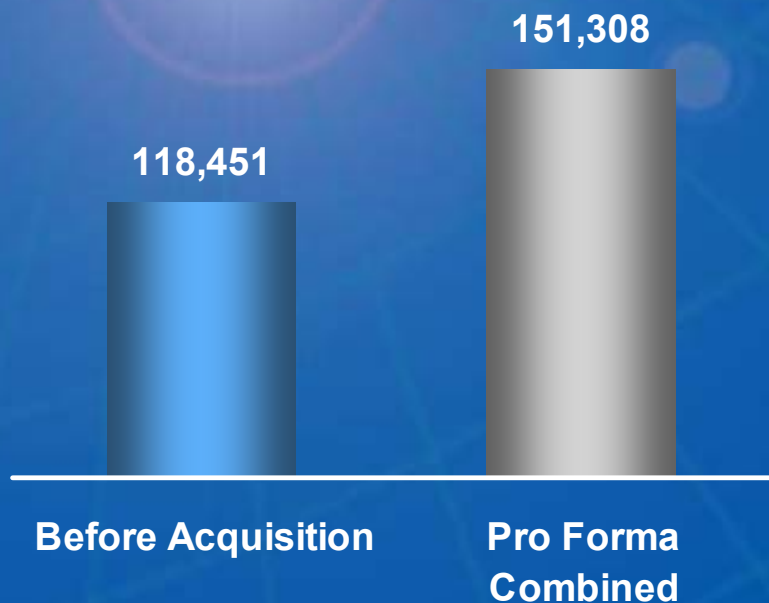
4. Benefits of The Acquisition



Enhance Market Position

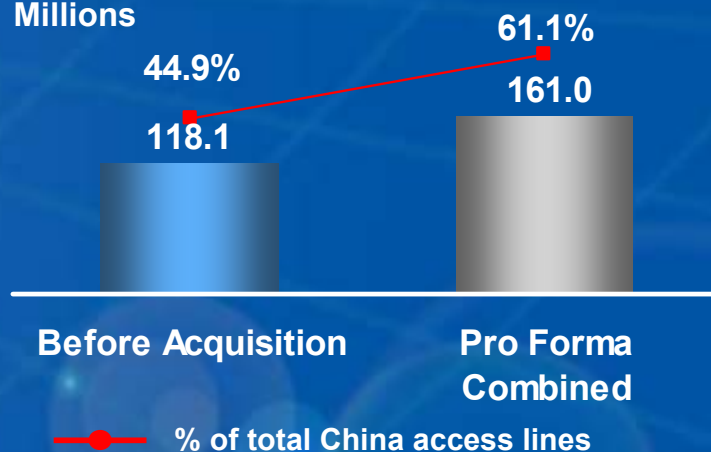
Total 2003 Operating Revenue (1)

RMB MM



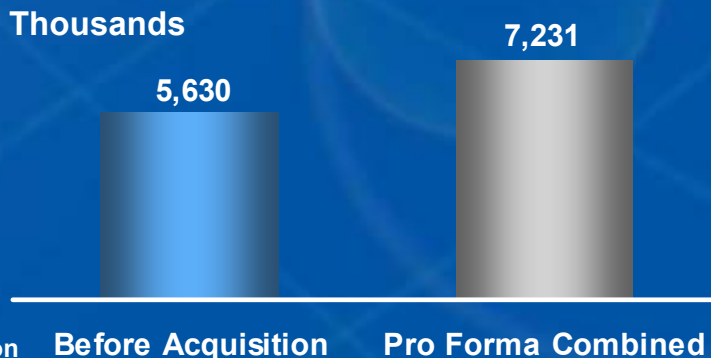
Access Lines in Service (2)

Millions



Broadband Subscribers (2)

Thousands

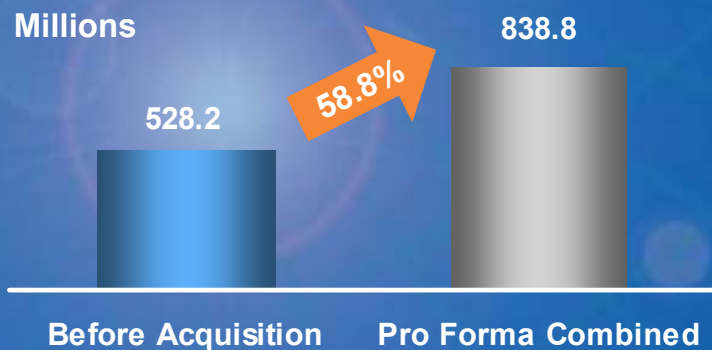


Notes: (1) Adjusted for reduction in interconnection revenue of RMB245 million
(2) As of December 31, 2003

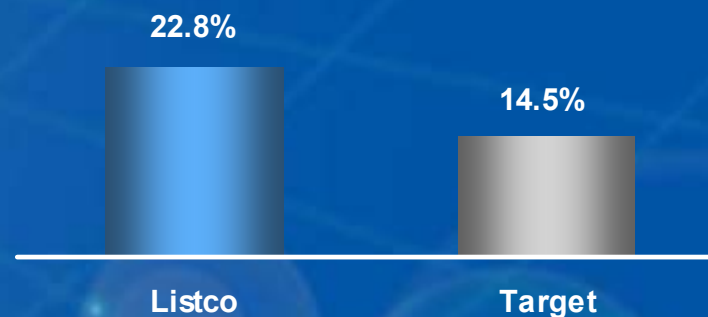


Improve Growth Prospects

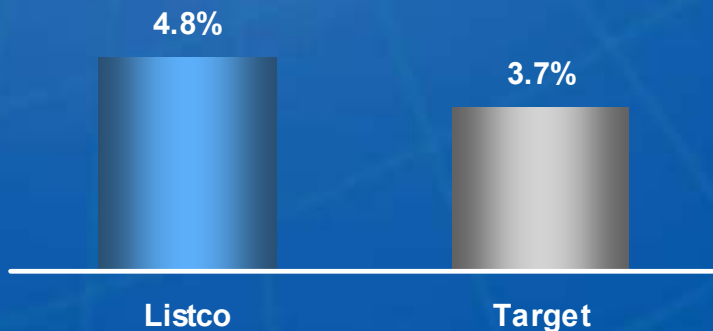
Covered Population (1)



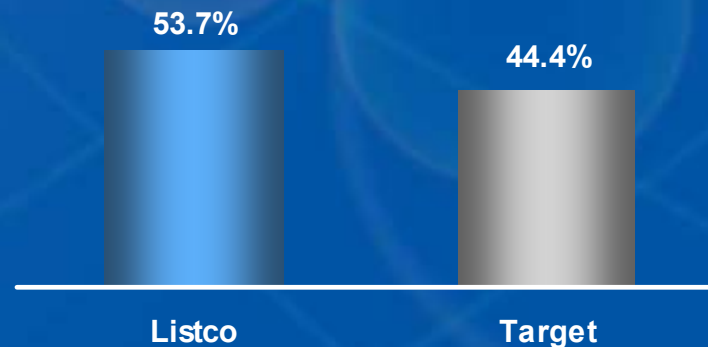
Wireline Telephone Penetration (1)



Broadband Penetration (1)(2)



Caller-ID Penetration (1)(2)



Notes: (1) As of December 31, 2003

(2) Penetration calculated as number of Broadband or Caller ID subscribers divided by number of total access lines



Reduce Interconnection Costs

(RMB MM)

2003 Pro Forma Adjustments

Interconnection Revenue

(245)

Interconnection Expenses

683

Cost Savings

438

Appendix 1: Key Financial Statistics of the Target Group



RMB MM	2001	2002	2003
<i>Income Statement Items</i>			
Total Operating Revenue	29,584	31,342	33,102
Operating (Loss) / Profit	(1,902)	(889)	404
<i>Operating Margin</i>	-6.4%	-2.9%	1.2%
Net Loss	(1,634)	(1,554)	(10,804) ⁽¹⁾
<i>Net Margin</i>	-5.5%	-5.0%	-32.6%
<i>Balance Sheet Items</i>			
Cash & Cash Equivalents	7,577	4,058	2,602
Total Assets	124,346	120,090	98,337
Total Debt and Finance Lease Obligations	43,527	42,557	42,691
Owner's Equity	34,316	34,177	19,522

Note: (1) Includes deficit totaling RMB 14,832 million arising from the revaluation of certain PP&E and recognized as an expense for the year ended December 31, 2003. This revaluation was required by relevant PRC rules and regulations with respect to the Restructuring



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