

CHAIRMAN'S STATEMENT

Dear shareholders,

In 2002 China Telecom Corporation Limited successfully completed its corporate restructuring and went on to complete its global initial public offering. The Company has seized this opportunity to advance closer to its goal of being a world-class telecommunications company and has turned in a strong performance for the year, surpassing its goals for 2002 and realising its promises to shareholders.

REVIEW OF 2002

Revenue for the year grew by 10.1% to RMB75,496 million and net income increased to RMB16,864 million with a net profit margin of 22.3%, while operating expenses of RMB54,118 million, 7.3% up from 2001, increased at a rate lower than that of revenue. We have expanded our wireline subscriber base by 17.3%, adding 8.38 million access lines in service, bringing our total to 56.86 million. We more than doubled the size of our broadband business, signing up approximately 0.98 million new customers to reach a year-end subscriber base of 1.38 million. Profitability was enhanced with basic earnings per share of RMB0.24.

Our strong performance is largely the result of the effective execution of our business strategies, continued improvement of our internal management systems, encouragement of innovation, and steadfast work ethic. This has led the Company into a new era of development along with a new corporate image.

- We firmly believe in the maximisation of shareholder value as our operating principle. We seek to develop a business model that is market-oriented, customer-centered, and return-driven. We strive to take advantage of organic and external growth opportunities to leverage our strength and continuously create value for our shareholders.
- We fine-tune our marketing strategy according to market conditions. We adopt different marketing strategies based on specific customer segments. This has enabled us to achieve stable growth in wireline voice services and high growth in broadband and Internet services. We have enhanced revenue driven by traffic volume growth and also actively developed new value-added services. As a result, we have successfully maintained a commanding market position.
- We continue to take measures to improve cost control and profitability. We have upgraded our overall budget planning and control capabilities through centralised cash, investment, and equipment procurement management. We have consistently implemented operating expense controls, especially in network operations and maintenance, and have reduced capital expenditures, thereby improving profitability.

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- We are continuing management reform initiatives. We have re-positioned our local branches as Basic Business Units and carried out a critical overhaul of their business operations. We have established an internal Service Level Agreement mechanism between front-end marketing units and back-end network support units. A Key Performance Indicator system has been established to improve performance evaluation. We have upgraded our information technology infrastructure (CTG — MBOSS). All of these efforts are designed to improve our operating efficiency, market responsiveness and service quality, so as to strengthen our core competitiveness.
- We continue to capitalise on our network advantages. Our network is characterised by reliability, extensive coverage and high capacity. While further optimising its structure, we have upgraded network intelligence. As a result, we are able to create new value-added products and services for our customers and are well-positioned to migrate seamlessly to the next generation of technology.
- We have taken innovative measures in the management of human resources. We have established a compensation system linked with value creation and growth in profitability. We have also set up a dual-track promotion system for employee career development. Together these new approaches have greatly stimulated the enthusiasm and creativeness of our employees, creating a strong basis for our new corporate culture.
- We have adopted OECD corporate governance standards. In accordance with relevant laws and regulations, we have adopted OECD



corporate governance norms. We have established a corporate governance structure consisting of shareholders' meetings, board of directors, supervisory committee, and corporate management with clear-cut responsibilities. Under the board of directors, we have established audit and remuneration committees in which independent directors play key roles. Further, we are continuing our efforts to improve information disclosure to ensure transparent, efficient and smooth communications between management and investors.

In 2002, we successfully completed our initial public offering, the world's largest telecom IPO for the year. Our shares have been listed on the Stock Exchange of Hong Kong and the New York Stock

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Exchange since November 2002. We take pride in the fact that *Fortune* magazine named us as one of the "most admired companies" for the year 2002.

OUTLOOK FOR 2003

We believe China's economy will continue to record strong and healthy growth in 2003 with the goal of further improving the people's living standards. The government's strategic focus is on the development of information technology. Under the slogan of "let technology drive industrial development, let industrial development drive technology", a nationwide promotional campaign will help stimulate demand for telecommunications services. With low penetration rates across most of China for wireline services, we see a huge potential for growth. Data communications and information technology solutions have shown strong demand among all customer segments. With the popularisation of the Internet, the communication of knowledge and information will drive the fast growth of our broadband services. Various information applications will stimulate high-capacity, value-added services of all kinds. We intend to take full advantage of the unique opportunity presented by China's large and growing market to create as much value as possible for our shareholders.

Over time, we believe the regulatory environment will become more transparent and mature. Tariff policy for wireline telecommunication services is basically stable. Regulations benefit us in the provision of new services that will enjoy strong demand and high margins. We are actively seeking to become a full service telecommunications operator.

The reform and restructuring of China's telecommunications sector continues to provide us with both opportunities and challenges. We welcome orderly competition as well as cooperation with others in the years to come in the best interest of our shareholders. As a responsible carrier, we seek to provide as many telecom services as

possible when they are commercially viable, so as to better serve our communities.

We have the unique right, but not the obligation, to grow through acquisitions of high-quality assets from our parent company and see this type of opportunity as an important means of expanding our operations. If we seek to carry out such an acquisition, however, it will be based on market conditions and commercial considerations and will be subject to minority shareholders' approval.

We are excited by our future prospects. We will continue to improve capital expenditures and operating expense control so as to enhance our profitability. We are building China Telecom on the values of innovation, integrity, cooperation, value creation based on a carefully executed strategy. We have a commitment to you, our shareholders and customers, to share the very best of this Information Age.

DIVIDEND POLICY

At the forthcoming annual general meeting, the board of directors will propose a dividend of HK\$0.065 per share on an annual basis. Actual dividend payment for the year 2002 will be prorated based on the period from the date of listing to 31 December 2002.

Finally, I would like to take this opportunity to express my sincere thanks to all of our constituents — our board members, supervisors, shareholders, employees and customers, for your great support this year.



Zhou Deqiang

Chairman and Chief Executive Officer

Beijing, PRC
24 April 2003



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