

Dear Shareholders,

China Telecom Corporation Limited performed with vitality in 2003. We have increased our overall strength significantly through our continuing efforts in innovation, solid execution, reforms and management improvement. Setting our goal to become "a world-class telecommunications operator" and our corporate objective to "maximise shareholders' value", we seized opportunities to accelerate growth. Further developing our business model of "market-oriented", "customer-centered" and "return-driven", we have significantly increased and enhanced our profitability and investment value. In 2003, while maintaining the pace of our organic growth, we also achieved external expansion through the successful acquisition of the telecommunications businesses from China Telecommunications Corporation in Anhui Province, Fujian Province, Jiangxi Province, Guangxi Zhuang Autonomous Region, Chongqing Municipality and Sichuan Province. Consequently, our market leadership position has been further consolidated.

REVIEW OF 2003

In a favourable environment of China's fast growing and strong economy, we upheld our priority in developing our business and achieved positive results in 2003.

Our revenue for 2003 reached RMB118,451 million, an increase of 8.1% from our restated revenue for 2002. Operating expenses reached RMB86,003 million, an increase of 2.9% from our restated operating expenses for 2002. The growth rate of our expenses was lower than the growth rate of our revenue. Net profit reached RMB24,686 million and net profit margin was 20.8%. Our basic earnings per share was RMB0.33.

Our core businesses had outstanding performance in 2003. The wireline telephone services, our pillar business, maintained stable growth and provided us

with a steady cash flow. Driven by the strong demand, our wireless local services grew rapidly to become a new driving force of our voice services and mitigated the substitution effect of mobile services. Our broadband Internet services has been our most rapidly growing line of service and has enormous potential.

As of the end of 2003, our wireline telephone subscriber base reached 118 million, an increase of 21.30 million subscribers, or 22.0%, from year-end 2002. Of this increase in our subscriber base, the number of our wireless local subscribers reached 18.35 million, an increase of 11.10 million, or 153.3%, from year-end 2002. The number of our broadband Internet subscribers reached 5.63 million, an increase of 3.76 million, or 200.4%, from year-end 2002. The steady growth in our local telephone subscriber base has strengthened our leading market position, while our continuously expanding broadband Internet subscriber base made room for further business growth.

Our successful acquisition of the telecommunications businesses in the six service regions has enabled us to achieve strong external growth, resulting in an increase of 49.15 million local telephone subscribers, an increase of RMB37,071 million in operating revenue and an increase of RMB6,529 million in net profit.

INNOVATION AND IMPLEMENTATION

Our businesses and operations were greatly bolstered by our efforts in innovation, restructuring, and enhanced management in 2003. We continued to focus on implementing our strategies. In particular, we stimulated revenue growth by enhancing our distribution channels, improved operating efficiency by implementing management innovation, increased competitive competence by implementing Business Process Re-engineering ("BPR"), and accelerated management modernisation by utilising information technology.

CHAIRMAN'S STATEMENT

In 2003, we continued to enhance our distribution channels as a necessary measure for evolving into a market-oriented business. With the establishment of our four major distribution channels and three major customer service units, we have generally completed the structure of a multi-level and seamless distribution channel that provides integrated services with full coverage. Such a unique distribution system has become our core competitive competence. We enhanced the overall competence of our employees in our marketing channels by optimizing our personnel structure, and increased our responsiveness to the market by optimizing our operating processes. We also improved our incentive mechanism by strengthening our merit-based evaluation scheme, such as sales accountability, and advanced support for our sales and services by optimizing our information system. In addition, we built up the service-level-agreement mechanism between the front-end and back-end operations, made timely allocations of network resources and therefore increased our responsiveness to the market in order to provide quality services.

We identified the direction of our management innovation and business focus by benchmarking with the best practices of the top telecommunications operators in the world. We incorporated all of our operating activities with our plans in controlling budget, and strengthened the implementation, supervision and evaluation of our plans. We further centralised and streamlined our financial management system, so as to strengthen our internal control and management on both levels of our headquarters and provincial subsidiaries. Such measures resulted in an efficient control on expenditures, which helped boost our operating performance. By continuously improving our internal control and establishing a multi-level control mechanism, we have effectively minimised our operating and financial risks.

We also made progress in the centralised management of our network resources, which has effectively reduced our maintenance costs for network operations. We optimised the use of our reserved network resources through centralised allotment, which effectively controlled our capital expenditures and further increased the security and reliability of our network operations. In addition, we completed the centralisation of our management for our local network billing system and established a consolidated settlement system at headquarters and provincial levels, which provided further support for our operations. We restructured our network operations and maintenance from a network-oriented system to a market-oriented and customer-oriented system, which consequently improved our network operating efficiency and responsiveness to our front-ends.

Benchmarking with the best practices in the world, we continued to implement BPR in our local branch companies and built up strong strategic business units to enhance our competitive ability. In implementing BPR, we continuously improved our residential customer process, commercial customer process, large enterprise customer process, billing process, investment process, and ongoing responsive local network resources management process. We also optimised the organisational structure of our local branch companies under the principle of centralisation and consolidation. By assigning a key performance indicator quota to each post, each employee bears his or her own operating responsibility. As a result, the market responsiveness and quality of our customer service improved significantly.

In 2003, our information technology made steadfast progress. We formulated an IT Strategic Plan ("ITSP"), setting up the goal for our technological structure to be "unified network platform", "unified data structure", and "unified application

and integration platform", and the goal for our organisational structure to be "professionalised IT divisions", "IT budgets" and "IT control processes", thereby establishing a new generation of integrated IT system for China Telecom known as CTG-MBOSS. In our ITSP, our Operation Supporting System (the "OSS"), which focuses on network operations, will help ensure efficient and stable network operations, provide strong support for our marketing activities, and accelerate our responses to the market. Our Business Supporting System (the "BSS"), which focuses on our customers and business, will effectively improve our customers' experience and satisfaction with our services. Our Management Supporting System (the "MSS"), which focuses on our management process, will effectively reduce our administrative expenses and strengthen support to management decisions.

OUTLOOK FOR 2004

The average annual growth rate for China's economy in the past 25 years was 9.4%. The GDP growth rate in 2003 exceeded 9%. Such continuously strong growth in China's economy has created further growth potential in the Chinese telecommunications industry. The Chinese government's goal of further improving its residents' living standards and its strategy for developing information technology have provided robust driving forces for the development of the telecommunications industry in China. In 2004, the government's grand plans for developing China into a strong telecommunications nation will bring invaluable opportunities for our growth.

The regulatory environment in China has become more transparent than ever. We expect that the PRC regulators will continue to focus on regulatory issues such as interconnection and encourage orderly competition in the market.

In 2004, we will seize all opportunities to accelerate growth. To meet the high demand in the wireline telephone market, we will continue to fully leverage on the advantage of our customer base, networks and full business lines, in order to enhance our profitability and maximise our shareholders' value. While maintaining high organic growth, we will continue to expand externally by seeking opportunities for high-quality acquisition targets. We will strive to do our utmost to build China Telecom into a large corporation that is highly competitive worldwide.

We will continue to devote our efforts in serving and repaying our society, and helping develop information technology for China's economy and contributing to the development of China into a strong telecommunications country.

DIVIDEND POLICY IN 2003

Based on our operating results, our Board of Directors will propose to declare a dividend of HK\$0.065 per share in the forthcoming Annual General Meeting.

Finally, I would like to take this opportunity to express my sincere appreciation to all of our shareholders, directors, supervisors, employees and customers.



Zhou Deqiang
Chairman and Chief Executive Officer

Beijing, PRC
17 March 2004

2003 is China Telecom's first year after completion of its IPO. In the face of the ever-changing competitive environment and the expectations of the capital market, how does China Telecom maintain its fast and healthy growth, improve its operating efficiency and continuously maximise shareholders' value?

