

CHINA TELECOM CORP LTD

Form 6-K

April 16, 2009

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 6-K

**Report of Foreign Private Issuer**

**Pursuant to Rule 13a-16 or 15d-16 of  
the Securities Exchange Act of 1934**

**For the Month of April 2009**

**Commission File Number 1-31517**

## **China Telecom Corporation Limited**

(Translation of registrant's name into English)

**31 Jinrong Street, Xicheng District**

**Beijing, China 100140**

(Address of principal executive offices)

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(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F  Form 40-F

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): )

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): )

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes  No

(If  is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- .)

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<b>Exhibit Number</b>		<b>Page Number</b>
1.1	Annual report for the year ended December 31, 2008, released on April 9, 2009. FORWARD-LOOKING STATEMENTS	A-1

Certain statements contained in this Form 6-K may be viewed as forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and 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 Corporation Limited (the Company) to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements. The forward-looking statements include, without limitation, the continued growth of the telecommunications industry in China; the development of the regulatory environment; and the Company's ability to successfully execute its business strategies.

Such forward-looking statements reflect the current views of the Company with respect to future events. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors, including, without limitation, any changes in the regulatory regime and significant policies for the telecommunications industry in China, including changes in the structure or functions of the primary industry regulator, Ministry of Industry and Information Technology, or the MIIT (which has assumed the regulatory functions of the former Ministry of Information Industry), or any changes in the regulatory policies of the MIIT and other relevant government authorities in China; any decisions by the Chinese government in relation to the technology standards and licenses of third generation mobile telecommunication; the results of the ongoing restructuring of the telecommunications industry in China; any changes in the effects of competition on the demand and price of the Company's telecommunications services; any changes in telecommunications and related technology and applications based on such technology; and changes in political, economic, legal and social conditions in China, including the Chinese government's policies with respect to economic growth, foreign exchange, foreign investment and entry by foreign companies into China's telecommunications market. Please also see the Risk Factors section of the Company's latest Annual Report on Form 20-F, as filed with the Securities and Exchange Commission.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHINA TELECOM CORPORATION LIMITED

Date: April 16, 2009

By: /s/ Wang Xiaochu  
Name: Wang Xiaochu  
Title: Chairman and CEO

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**Exhibit 1.1**

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2008 Milestones

January

The Southern regions of China suffered from a rare snowstorm disaster. The Management of China Telecom rushed to the affected areas to lead the relief and rescue work.

May

After a devastating earthquake measuring 8.0 on the Richter scale at Wenchuan county in the Sichuan province of China, the Management of China Telecom and the staff devoted their full efforts to fight against the disaster, heading up to restore the communications of Wenchuan with outside areas.

June

China Telecom entered into a Framework Agreement with China Unicom to acquire its CDMA business for a consideration of RMB43,800 million.

October

China Telecom commenced the takeover and operation of the CDMA business, becoming a full services integrated operator.

December

China Telecom launched the 189 prefix number mobile service providing customers with enhanced mobile experience.

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China Telecom Corporation Limited ( China Telecom or the Company , together with its subsidiaries, collectively the Group ) is a full services integrated operator and the world s largest wireline telecommunications and broadband services provider, providing telecommunications and information services including wireline voice, mobile voice, data, video and multimedia in the PRC. As of the end of 2008, the Company has wireline access lines in service of 208 million, broadband subscribers of over 44 million and mobile subscribers of about 28 million. The Company s H shares and American Depositary Shares ( ADSs ) are listed on The Stock Exchange of Hong Kong Limited and the New York Stock Exchange, respectively.

Corporate Information

Board of Directors	Audit Committee	Legal Representative
Executive Directors	Tse Hau Yin, Aloysius ( <i>Chairman</i> )	Wang Xiaochu
	Wu Jichuan	
Wang Xiaochu ( <i>Chairman</i> )	Qin Xiao	International Auditor
Shang Bing	Xu Erming	
Wu Andi		KPMG
Zhang Jiping	Remuneration	
Zhang Chenshuang	Committee	Legal Advisers
Yang Xiaowei		
Yang Jie	Xu Erming ( <i>Chairman</i> )	Jingtian & Gongcheng
Sun Kangmin	Wu Jichuan	Freshfields Bruckhaus Deringer
	Qin Xiao	Sullivan & Cromwell LLP
Non-Executive Director	Tse Hau Yin, Aloysius	
Li Jinming	Nomination Committee	
Independent Non-Executive	Wu Jichuan ( <i>Chairman</i> )	
Directors	Tse Hau Yin, Aloysius	
	Cha May Lung, Laura	
Wu Jichuan	Xu Erming	

Qin Xiao

Tse Hau Yin, Aloysius

Supervisory Committee

Cha May Lung, Laura

Xu Erming

Xiao Jinxue (*Chairman*)

Zhu Lihao (*Independent Supervisor*)

Company Secretary &

Ma Yuzhu (*Employee Representative*)

Qualified Accountant

Xu Cailiao

Han Fang

Yung Shun Loy, Jacky

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## Financial Highlights

Excluding amortisation of the upfront connection fees

	2006	2007	2008	Rates of change (2008 over 2007)
Operating revenues ( <i>RMB millions</i> )	172,514	177,588	<b>184,779</b>	4.0%
EBITDA ( <i>RMB millions</i> )	85,719	87,054	<b>85,889</b> <sup>1,5</sup>	(1.3)%
EBITDA margin	49.7%	49.0%	<b>46.5%</b> <sup>1,5</sup>	(2.5p.p.)
Net profit <sup>2</sup> ( <i>RMB millions</i> )	22,591	23,010 <sup>4</sup>	<b>20,066</b> <sup>5</sup>	(12.8)%
Capital expenditure ( <i>RMB millions</i> )	50,136	46,334	<b>48,410</b>	4.5%
Free cash flow <sup>6</sup> ( <i>RMB millions</i> )	28,664	34,016	<b>36,768</b>	8.1%
Total debt/Equity <sup>3</sup>	60.2%	47.1%	<b>57.9%</b>	10.8p.p.
Earnings per share ( <i>RMB</i> )	0.279	0.284 <sup>4</sup>	<b>0.248</b> <sup>5</sup>	(12.8)%
Dividend per share ( <i>HK\$</i> )	0.085	0.085	<b>0.085</b>	
Net asset <sup>3</sup> value per share ( <i>RMB</i> )	2.587	2.774	<b>2.632</b>	(5.1)%

Including amortisation of the upfront connection fees

	2006	2007	2008
Operating revenues ( <i>RMB millions</i> )	177,485	180,882	<b>186,801</b>
EBITDA ( <i>RMB millions</i> )	90,690	90,348	<b>84,696</b> <sup>1</sup>
EBITDA margin	51.1%	49.9%	<b>45.3%</b> <sup>1</sup>
Net profit <sup>2</sup> ( <i>RMB millions</i> )	27,562	24,195	<b>884</b>

<sup>1</sup> For convenience of the investors' analysis, EBITDA is calculated before CDMA network capacity lease fee.

<sup>2</sup> Net profit represents profit attributable to equity holders of the Company.

<sup>3</sup> Equity and net asset value represent total equity attributable to equity holders of the Company.

<sup>4</sup> Excluding the effect of the related assets revaluation in 2007, which is carried out at least once every three years.

<sup>5</sup> Excluding the impact of impairment loss of the PHS assets and natural disasters.

<sup>6</sup> Free cashflow is calculated from EBITDA minus CDMA network capacity lease fee, capital expenditure and income tax.

<sup>7</sup> The above financial data have included Beijing Telecom acquired in 2008.

For further information, please browse our website at [www.chinatelecom-h.com](http://www.chinatelecom-h.com)

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The charts below are based on financials excluding amortisation of the upfront connection fees

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### Chairman's Statement

2008 was a signature year for China Telecom. We seized the opportunity brought about by the restructuring of the telecommunications industry and successfully completed the CDMA business acquisition, accomplishing our long-awaited goal of full services integrated operations. In October 2008, we began the operation of CDMA mobile services, followed by the launch of our mobile brand "e surfing". In December 2008, we launched our "189" prefix mobile number and established a brand new image for China Telecom's mobile service. In 2008, we experienced the severe and unprecedented natural disasters of snowstorms and earthquakes. Our management and all our people have devoted their full efforts towards the fight against the disasters and the subsequent relief works, which demonstrated their high regards of responsibility as well as their tremendous contribution to the country and its people. Benefiting from our robust operating fundamentals, the underlying results for the year remained solid.

### Operating Results in 2008

In 2008, the Company deepened strategic transformation with continuous rapid growth in various transformation services, which effectively mitigated and offset the decline in the traditional wireline voice services and enabled the Company to maintain robust fundamentals. In 2008, the operating revenues reached RMB186,801 million, out of which the total revenue from the mobile service accounted for RMB6,154 million. EBITDA<sup>1</sup> was RMB84,696 million and the profit attributable to equity holders of the Company was RMB884 million. Excluding the amortisation of upfront connection fees and the impact of one-off items including impairment loss of the Personal Handyphone System (PHS) assets and losses related to natural disasters<sup>2</sup>, the operating revenues were RMB184,779 million, representing a growth of 4.0% over last year. EBITDA<sup>1</sup> was RMB85,889 million, representing a decrease of 1.3% from 2007, and the EBITDA margin was 46.5%. Profit attributable to equity holders of the Company was RMB20,066 million, representing a decline of 12.8% over last year. Capital expenditure was RMB48,410 million, accounting for 26.2% of our revenues, similar to that for 2007. Free cash flow<sup>3</sup> reached RMB36,768 million, representing an increase of 8.1% from 2007.

Taking into consideration the return to shareholders, the Company's cash flow and its capital requirements for future development, the Board of Directors has decided to recommend to the shareholders at the forthcoming Annual General Meeting that the dividend being an equivalent of HK\$0.085 per share, which is the same as last year, despite the 2008 results being severely impacted by certain one-off items. This fully reflects the confidence of the Board of Directors in the future business development.

<sup>1</sup> For convenience of the investors' analysis, EBITDA is calculated before CDMA network capacity lease fee.

<sup>2</sup> The amortisation of upfront connection fees were RMB2,022 million; losses related to natural disasters were RMB3,428 million, after-tax effect was RMB2,838 million; impairment loss of the PHS assets was RMB23,954 million, after-tax effect was RMB18,366 million. For the convenience of the investors' analysis and based on the IFRS, we had adjusted certain financial indicators correspondingly. Excluding the amortisation of upfront connection fees, the operating revenues of the Company were RMB184,779 million. Excluding the amortisation of upfront connection fees and the impact of natural disasters, the EBITDA was RMB85,889 million. Excluding the amortisation of upfront connection fees and the impact of natural disasters and impairment loss of the PHS assets, the adjusted profit attributable to equity holders of the Company was RMB20,066 million.

<sup>3</sup> Free cash flow is calculated from EBITDA (excluding amortisation of upfront connection fees) minus CDMA network capacity lease fee, capital expenditure and income tax.



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### Deepening Strategic Transformation and Laying a Solid Foundation

In modern information society, there has been rapid development and change in people's demand for information. Several years ago, we already realised that with the accelerating national informatisation, social communications channels would quickly transform from traditional voice to integrated information services including voice, data, video and etc. The comprehensive usage of the Internet and the growing popularity of mobile telecommunications services would soon become the mainstream in the telecommunications market. In order to adapt to such changes in advance and to grasp the new growth opportunities, we were the first one in the Chinese telecommunications sector to implement strategic transformation to mitigate the substitution and cannibalisation of wireline voice usage. We confidently innovated our business model, adjusted our business structure, as well as firmly executed our strategies and precision management. After several years of execution and exploration, the Company's strategic transformation achieved remarkable results. The rapid growth of the non-voice services successfully maintained the Company's robust fundamentals. Our broadband service has always been at the market leading position, laying a solid foundation for the promotion of informatisation. Scale development of value-added services and integrated information services allowed us to satisfy the growing information needs of the society. The launch of mobile services and obtaining of the 3G license provided us with the new energy and momentum to prepare for a new stage of integration of our wireline and mobile services.

In 2008, the Company continued to advocate the Customer-focused Innovative Informatisation Strategy. We put enormous efforts into our brand operation and customer segmentation for differentiated customer service offering. Thus, the scale of our brand customers continued to expand. As at the end of 2008, customers of BizNavigator and One Home reached 2.53 million and 23.93 million, respectively. In 2008, revenue from government and enterprises customers increased by 10.9%, while revenue from household customers increased by 2.9%. We also launched our new mobile service brand e surfing shortly after the acquisition of the CDMA business. We established an image of Internet handsets and focused on the customers' demand for informatisation to rapidly expand into the mobile service market. After a few months' efforts, the Company's mobile service has shown favourable growth momentum with a net increase of 2.72 million customers in the first two months of 2009, a turnaround from the decline in subscribers after the acquisition of the CDMA business in the fourth quarter of last year. The total number of mobile subscribers reached 30.63 million as at the end of February 2009.

The Company was constantly innovating its business model and adjusting its business structure, while expanding the operational scale of its wireline non-voice services. Revenue from the wireline non-voice services reached RMB82,294 million, accounting for 46.1% of the wireline revenue in 2008, an increase of 8.9 percentage points from last year. In order to support our integrated information services, we continued to accelerate the development of broadband services. Broadband access revenue for the whole year of 2008 reached RMB40,243 million, a rise of 28.6% compared to last year and contributed 5.0 percentage points of the Company's overall revenue growth. We emphasised on cultivating the development of direct information services such as Best Tone services and devoted our efforts to its core services including information search, business traveling information and integrated media. Revenue from direct information services including Best Tone services for the whole year reached RMB4,787 million, an increase of 44.6% from 2007. Our goal is to increase the revenue from direct information services including Best Tone services to RMB10 billion level within two to three years.

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Insisting on value-oriented principle and optimising resources allocation, we strived to enhance the Company's operating efficiency and effectiveness, which is one of the key goals of our strategic transformation. By fully utilising our existing wireline resources, we continued to strictly control capital expenditure and timely adjusted our investment direction by tilting investments towards high growth transformation services to ensure our development and enhance our investment return. We have strengthened our budget management by progressively implementing customer based multi-dimensional budget management. Our resources allocation targeted at those customer groups, businesses and regions with high growth and high returns. We have innovated our financial management system and strengthened our comprehensive risk management. We paid special attention to high-risk areas and reinforced control of major issues and key aspects to improve the Company's risk management capacity.

### A New Era of Full Services Integrated Operations

Now, we are entering into the new era of full services integrated operations. The next two to three years will be an important strategic opportunity for us. We will adhere to the "Customer-Focused Innovative Informatisation Strategy" to implement initiatives to consolidate wireline services. 3G business development will be a golden chance for us to integrate the 3G services into our full services integrated operations, so as to achieve unified deployment and steady corporate development. We will take full advantage of the technical advantage of CDMA for its timely and cost effective upgrade to accelerate the construction and optimisation of the CDMA2000EV-DO network in key and popular areas. In order to seize the opportunities in mobile internet services, we will establish "Internet handset" operation model to accelerate the introduction to the market of applications and functions such as wireless broadband services, e surfing, video applications, Push Mail, wireless "Mega-Eye", "Integrated Office", "imusic", "Mobile IM" and e surfing chat.

We persisted in our integrated operations and differentiated development, leveraging the synergies of our wireline and mobile networks. We bundled our core services such as wireline, Internet and information content and application with mobile services while fully utilising the strengths of CDMA technology. We carried out business integration and innovation, integrated our products, in accordance with the needs of our customers and established competitive edge through differentiated offerings. We provided our customers with enriched and more convenient integrated information services capitalising on our full services integrated operations with a view to achieving success on our way progressing towards integrated operation of wireline and mobile services.

### Enhancing Corporate Governance

In order to enhance operating efficiency and investor confidence, we are firmly committed to adopting international best practices to continuously improve corporate governance and transparency. In 2008, we completed the re-election of the Board of Directors. The proportion of independent Directors remains above 1/3, comprising prominent experts in telecommunications, securities, law, finance and management, while further strengthening the decision-making capability of the Board of Directors. Our continuous efforts in corporate governance were widely recognised by the capital markets. We have been accredited with a number of awards, including "Asia's Best Managed Fixed Telecom Company" by Euromoney for two consecutive years and the "Best Managed Company - China 2008" by FinanceAsia.

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### Corporate Social Responsibility

As one of the leading telecommunications operators in China, we shoulder the important mission and social responsibility to stabilise economic development in the backdrop of the global financial crisis. We actively participated in the construction of social informatisation and strive to enhance the level of informatisation of the society. We devoted ourselves to contributing to the country's economic development. In light of the challenges brought about by the severe natural disasters in 2008, we completed our mission of post-disaster relief works outstandingly to provide timely emergency repairs of telecommunications facilities, fully demonstrating a high degree of social responsibility awareness and emergency communications capability. In accordance with the corporate belief of "Customer First, Service Foremost", we practically fulfilled our promises to provide high quality services and promoted the simultaneous growth of the Company's value and customers' value.

### Outlook for Future

Looking ahead, we are fully confident. China's vigorously promoting the integration of industry and informatisation as well as a series of initiatives to stimulate domestic demand provides valuable opportunities for our business development. The successful strategic transformation over the past few years has laid a solid foundation for full services integrated operations. The CDMA technology have characteristics of superior level of security, higher data speed and more effective spectrum utilisation, which provides a unique technical strength for our differentiated services. We are fully aware that extra efforts are required to expand and consolidate our CDMA services, which are of relatively small scale at present. We will firmly seize the opportunities and diligently leverage our strengths to promote more advanced and more in-depth corporate transformation to enhance shareholders' value.

Finally, on behalf of the Board of Directors, I would like to take this opportunity to express my sincere appreciation to all our shareholders and customers for their support. I would also like to express sincere thanks to Mr. Leng Rongquan, Mr. Li Ping, Mr. Zhang Youcai, Mr. Lo Hong Sui, Vincent and Mr. Shi Wanpeng for their brilliant contributions during their term of services as the Directors of our Company and welcome Mr. Shang Bing, Mr. Yang Xiaowei, Mr. Wu Jichuan, Mr. Qin Xiao and Madam Cha May Lung, Laura in joining our team.

Wang Xiaochu  
*Chairman and Chief Executive Officer*

Beijing, China  
24 March 2009

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## Business Review

The following table sets out key operating data for 2006, 2007 and 2008:

	Unit	2006	2007	2008	Rates of change (2008 over 2007)
Local wireline access lines in service	Million	223.31	220.64	<b>208.34</b>	(5.6)%
Wireline local voice usage	Million pulses	423,453	407,445	<b>372,477</b>	(8.6)%
Wireline domestic long distance usage	Million minutes	96,830	99,902	<b>98,723</b>	(1.2)%
Wireline international, Hong Kong, Macau and Taiwan long distance usage	Million minutes	1,679	1,664	<b>1,572</b>	(5.5)%
Broadband subscribers	Million	28.38	35.74	<b>44.27</b>	23.9%
Wireless broadband subscribers	Million			<b>2.35</b>	N/A
Wireline caller ID service subscribers	Million	145.84	146.88	<b>146.74</b>	(0.1)%
Wireline SMS usage	Million messages	23,278	23,346	<b>18,496</b>	(20.8)%
Wireline Color Ring Tone subscribers	Million	36.69	63.21	<b>79.25</b>	25.4%
Mobile subscribers	Million			<b>27.91</b>	N/A
Mobile voice usage	Million minutes			<b>26,375</b>	N/A
Mobile Color Ring Tone subscribers	Million			<b>8.64</b>	N/A
One Home subscribers	Million		10.61	<b>23.93</b>	125.4%

In 2008, the Company continued to adhere to customer branding management, insisted on integrated development strategy, vigorously promoted integrated information application services, overcame the adverse effects brought onto its business operations by snowstorms, earthquakes and the international financial crisis, and accomplished steady business development. In the meantime, the Company successfully completed the acquisition and transition of the CDMA business and launched the CDMA services operations, entering into a new era of full services integrated operations.

In 2008, total operating revenues were RMB186,801 million, an increase of 3.3% from 2007. Excluding the amortisation of upfront connection fees, the operating revenues were RMB184,779 million, representing an annual growth rate of 4.0%. Within these figures, revenue from the wireline services amounted to RMB178,625 million, representing an increase of 0.6% from 2007. Total revenue from the mobile services was RMB6,154 million. The increase in operating revenues was mainly attributed to the wireline non-voice services, accounting for 46.1% of revenue from wireline services, an increase of 8.9 percentage points from 2007. Among these, Internet and data services, wireline value-added services and integrated information application services drove up revenue growth of the wireline services by 5.6 percentage points and 3.3 percentage points, respectively.

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### Wireline Transformation Services

Wireline transformation services such as the Internet services, value-added services and integrated information application services recorded rapid growth in 2008. Revenue from wireline non-voice services was RMB82,294 million, an increase of 24.8% from 2007. Among them, revenue from Internet and data services totaled RMB51,017 million, representing an annual growth rate of 24.4%. Revenue from value-added services and integrated information application services amounted to RMB25,658 million, an annual growth rate of 29.7% from 2007.

In 2008, the Company continued to deepen its Internet services operations, offering broadband speed upgrade services for mid-to-high-end customers to enhance customer loyalty. Broadband ARPU rose steadily to RMB83.8. The Company also cooperated extensively with computer resellers to lower their prices, accelerating the expansion in the scale of its broadband subscriber base. Broadband subscribers grew by 8.53 million on a net basis to 44.27 million in 2008. The Company's broadband operational strategy continued to focus on interaction of broadband access and applications, cooperated extensively through a more open business model to integrate high-quality and rich content and applications. Under our full services integrated operations, the Company launched new broadband products such as wireless broadband services (CDMA + Wi-Fi) and advocated the integrated development of its mobile services and Internet services. Leveraging the CDMA verification advantages, the Company promoted broadband account number-based operations and continued to develop internet services and internet application services, to stimulate faster and healthier development of the broadband services.

Revenue from integrated information application services was RMB10,853 million, delivering an annual growth rate of 65.1% and driving up revenue growth by 2.4 percentage points, while the direct information services including Best Tone services, IT services and IT application services driving up revenue growth by 0.8 and 0.9 percentage points respectively. By focusing on key services such as business traveling services and information search, the Company accelerated the scale development of the Best Tone services, promoted the construction of standardised platforms within the Company, pro-actively carried out peer benchmarking within the industry, strengthened specialised operational capacity and enhanced customer service perception. Revenue from direct information services including Best Tone services in 2008 was RMB4,787 million, an increase of 44.6% from 2007. In order to meet the customised demand for communications

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and information services from government and enterprise customers, the Company concentrated on the promotion of specialised operations such as video applications and network management experts, cooperated extensively and developed industry-specific applications to highlight the advantages of multi-services integration and customisation. The Company also built cross-regional specialised supporting teams to accomplish the fast scale development of IT services and IT application services. Revenue from IT services and IT application services in 2008 was RMB3,517 million, an increase of 83.8% from 2007. Going forward, the Company will continue to intensify its efforts in promoting the scale development of its integrated information services. With the integration of its traditional wireline services and mobile services, the Company will provide customers with more comprehensive and integrated information applications and services.

#### Wireline Voice Services

Revenue from the Company's wireline voice services in 2008 was RMB96,331 million, a decrease of 13.7% from 2007. This continuous decline in revenue was mainly attributable to further loss of subscribers and decrease in usage following further reduction of mobile tariffs. Wireline subscribers at the end of 2008 were 208.35 million, a net decrease of 12.29 million, among which PHS subscribers decreased by 11.20 million. Additionally, the international financial crisis and natural disasters also led to a decline in the usage of the wireline voice services in some regions and customer groups, resulting in a decrease in revenue for the wireline voice services. In 2008, revenue from local telephone services was RMB59,307 million, a decrease of 15.9% from 2007. Revenue from domestic long distance services amounted to RMB22,081 million, a decrease of 10.3% from 2007. Revenue from international, Hong Kong, Macau and Taiwan long distance services totaled RMB2,579 million, a decrease of 15.5% from 2007. Revenue from interconnection services was RMB12,364 million, a decrease of 8.3% from 2007.

Facing continuous decline in the usage of its wireline voice services, the Company continued to focus on integrated development strategy and service packaging to slow down the rate of revenue decline in its wireline voice services. Through the promotion of integrated services packages to government and enterprise customers as well as household customers, the Company has stabilised the subscriber groups of wireline services other than PHS services. In light of the exacerbating loss of PHS subscribers, the Company strengthened the packaging of PHS, fixed line, broadband and mobile services. As of the end of 2008, 38.9% of PHS subscribers took multi-service packages, effectively increasing the loyalty of PHS subscribers in service. Going forward, the Company will gradually migrate its mid-to-high-end PHS subscribers to our mobile services through value enhancing schemes, reducing PHS marketing costs and operational costs and improving operational efficiency while respecting the rights of PHS subscribers for a stable and quality PHS network, accomplishing a smooth and steady transfer to the mobile services. Moreover, in order to mitigate the decrease of its long-distance voice services usage, the Company launched a series of services packages including One price for domestic and long-distance calls and FNS (Family Number Service) for value-segmented customers based on their consuming characteristics, and focused on effective advertising to reduce customer-perceived prices to stabilise the long-distance voice services.



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### Customer Branding Management

In 2008, the Company continued to deepen customer branding management of BizNavigator and One Home .

For government and enterprise customers, the Company continued to optimise applications of the communication and industry versions of BizNavigator integrating voice services, data services and broadband access services to add value, promote its scale development to meet the demands of small and medium enterprises for more communication and information services. In 2008, the penetration rate of the communication and industry versions of BizNavigator reached 21.0%. At the same time, in order to satisfy the needs of key government and enterprise customers for integrated office administration and information management, the Company deepened its exploration of needs of its industry-specific customers, by devoting enormous efforts in developing integrated information services such as Best Tone services, IT services and IT application services, while continuing to promote the developed industries applications such as e-Campus , e-Hospital and Hotel Perfection Alliance . Revenue from government and enterprise customers in 2008 increased by 10.9% from 2007.

For household customers, the Company continued to optimise the multi-services integrated packages of One Home services, especially the e6 and e8 services, enriching their service content and accelerating scale promotion. In 2008, the number of One Home subscribers increased by 13.32 million on the net basis, with a penetration rate of 20.2% among household subscribers. At the same time, the Company further differentiated the household market, providing integrated household information solutions including communications, wealth management and entertainment to satisfy the needs of its mid-to-high-end customers for convenient Internet access and daily life information. Those integrated information solutions were marketed and promoted through free trials and package discounts. In 2008, revenue from household customers increased by 2.9% from 2007.

### CDMA Business Acquisition, Transition and Operation

In 2008, the Company successfully acquired CDMA mobile business, entering a new era of full services integrated operations. In the three months from October to December 2008, the Company smoothly completed the acquisition and transition of the CDMA business. The Company also promptly consolidated CDMA products and applications, fulfilled basic management functions such as streamlining KPIs and optimising process. As of the end of 2008, there were 27.91 million CDMA mobile subscribers. In the fourth quarter of 2008, our total mobile revenue amounted to RMB6,154 million.

Following the acquisition and transition of the CDMA business, the Company carried out a comprehensive analysis of the internal and external environment as well as industry development trends to identify the mobile services development strategy of capturing the mid-to-high-end market, offering differentiated services, and developing an effective economy of scale . Through the launch of e surfing in December 2008, the Company preceded to adopt the concept of Internet handset backed by strong

promotional efforts, creating a high-quality brand image in the eyes of customers. Based on customer resources and multi-services advantages, the Company supplemented its original brand packages, including BizNavigator and One Home , with mobile services elements to achieve rapid penetration of the mid-to-high-end customer market.

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There has been a turnaround from the decline in subscribers after the acquisition of the CDMA business in October 2008, with the monthly net increases of subscribers for January and February 2009 being 1.02 million and 1.70 million, respectively, demonstrating a relatively rapid trend of customer expansion. The increase in the number and quality of subscribers has driven up mobile usage as well as revenue.

In the meantime, the Company persistently pursued innovation, trying to make a breakthrough in its products and business model in order to create differentiated competitive edge. The Company has completed the development and launch of various differentiated mobile value-added products such as wireless broadband services (CDMA + Wi-Fi) and Mobile Global Mega-Eye services, striving to establish visible comparative competitive advantages. For the cooperation model with CP/SP, the Company abandoned the traditional operator-dominated models to attract more dynamic teams to join the Company's product innovation and content operation. Combined with the introduction of its 3G services, the Company will target at those influential youngsters with stronger preferences for information applications, and integrate mobile Internet information services and applications with the mobile terminals, which provide customers with an end-to-end mobile Internet experience.

In addition, to better support the development of the mobile services, the Company constantly enhanced its service distribution channel system with an aim to offer full integrated services covering all customer groups. The Company pro-actively advocated social channels for mobile handsets purchase, management and sales. For channel service, the Company strengthened the sharing of channel resources, optimised service process, reinforced trainings and consolidated billing and customer service to uphold integrated business development. The Company also devoted enormous efforts to develop electronic channels and enhance self-servicing capability to provide customers with user-friendly services which will enable them to handle business through mobile handsets and the Internet. The Company has also reinforced the construction of infrastructures such as operations offices in the Northern regions and accelerating intensive sales coverage in cities through the integration of electronic and direct sales channels to support full services integrated operations. In terms of business development for terminals, the Company, on one hand, boosted the motivation of each level of the mobile handset industry value chain through scale development of its customers, progressively reduced the proportion of centralised procurement and accelerated the localisation and commercialisation of handset purchases. On the other hand, the Company has also increased terminal customisation and support for handset manufacturers and retailers, in particular encouraging manufacturers to increase inputs in the production of mid-to-high-end mobile phones to promote a wider variety of handset products to meet the needs of business development.

### **Rational Allocation of Resources to Support Full Services Integrated Operations**

In 2008, the Company's capital expenditure was RMB48,410 million, an increase of 4.5% from 2007, accounting for 26.2% of total revenues, and remained at similar level as 2007. For investment management and control, the Company further emphasised the corporate principle of optimising resources allocation via focusing on key areas, and reinforced investment in its broadband services, value-added services and integrated information services to keep investment in line with business priorities and revenue growth. Investment in the transformation services increased by 19.3% compared to last year. The ratio of transformation services investment to total investment increased 12 percentage points from last year. With the increasing demand for infrastructure under full services integrated operations, the Company has continued a strict investment control over its wireline voice infrastructure and communications infrastructure to achieve the goal of reducing investment risk and improving the Company's overall return on investment.

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The Company spared no effort in supporting customer branding operations and scale development. For government and enterprise customers, we successfully completed the development of BizNavigator terminals and broadband management system platforms, upgraded Global Mega-eye platforms, and expanded and enhanced our outsourcing call centers. For household customers, we deployed e8 terminal management platforms, completed network construction related to WLAN and optical access networks, etc. and promoted the standardisation of IPTV 2.0 upgrades. For the key products of e surfing , we completed key integrated product development and system construction for the launch of 189