



## Chairman's Statement



“ For the past few years, being a wireline operator without a mobile license, we actively tackled the severe market challenges. Benefiting from the passion of our people for excellence and their dedication to strategic transformation, we succeeded in maintaining the company's robust fundamentals. Now we have obtained a mobile license and started our full services integrated operations. Our people's long dream has finally come true! Their determination to succeed and revitalise our business has nurtured in me a firm belief that China Telecom will be a legend again as we advance our full services integrated offering. ”

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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.

## 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.

## 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  
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