CHINA TELECOM CORP LTD
Form 20-F
June 24, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

OR

¨

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

Commission file number 1-31517

(Exact Name of Registrant as Specified in Its Charter)

China Telecom Corporation Limited

(Translation of Registrant s Name into English)

People s Republic of China

(Jurisdiction of Incorporation or Organization)

31 Jinrong Street, Xicheng District

Beijing, People s Republic of China 100140

(Address of Principal Executive Offices)

Mr. Jian Liang

China Telecom Corporation Limited

31 Jinrong Street, Xicheng District

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Telephone: (+86-10) 5850 1503

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
American depositary shares	**New York Stock Exchange, Inc.**
H shares, par value RMB1.00 per share	**New York Stock Exchange, Inc.***

* Not for trading, but only in connection with the listing on the New York Stock Exchange, Inc. of American depositary shares, each representing 100 H shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2008, 67,054,958,321 domestic shares and 13,877,410,000 H shares, par value RMB1.00 per share, were issued and outstanding. H shares are ordinary shares of the Company listed on The Stock Exchange of Hong Kong Limited.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing.

U.S. GAAP ¨

International Financial Reporting Standards as issued by the International Accounting Standards Board x

Other ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ¨ Item 18 ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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FORWARD-LOOKING STATEMENTS

This annual report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements are, by their nature, subject to significant risks and uncertainties, and include, without limitation, statements relating to:

- our business and operating strategies;
- our network expansion and capital expenditure plans;
- our operations and business prospects;
- the expected benefit of any acquisitions or other strategic transactions;
- our financial condition and results of operations;
- the expected impact of new services on our business, financial condition and results of operations;
- the future prospects of and our ability to integrate the acquired business;
- the industry regulatory environment as well as the industry outlook generally; and
- future developments in the telecommunications industry in the People s Republic of China, or the PRC.

The words anticipate , believe , could , estimate , expect , intend , may , plan , seek , will , would and similar expressions, as they intended to identify a number of these forward-looking statements.

These forward-looking statements are subject to risks, uncertainties and assumptions, some of which are beyond our control. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. We are under no obligation to update these forward-looking statements and do not intend to do so. Actual results may differ materially from the information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors set forth in Item 3. Key Information D. Risk Factors and the following:

- any changes in the regulations or policies of the Ministry of Industry and Information Technology, or the MIIT (which was created by the PRC State Council in March 2008 to assume, among other things, the duties of the former Ministry of Information Industry or, the MII) and other relevant government authorities relating to, among other matters:
  - the granting and approval of licenses;

tariff policies;

interconnection and settlement arrangements;

capital investment priorities;

the provision of telephone and other telecommunications services to rural areas in the PRC; and

spectrum and numbering resources allocation;

the effects of competition on the demand for and price of our services;

any potential further restructuring or consolidation of the PRC telecommunication industry;

the development of new technologies and applications or services affecting the PRC telecommunications industry and our current and future business; and

changes in political, economic, legal and social conditions in the PRC, including changes in the PRC government s specific policies with respect to foreign investment in and entry by foreign companies into the PRC telecommunications industry, economic growth, inflation, foreign exchange and the availability of credit.

CERTAIN DEFINITIONS AND CONVENTIONS

As used in this annual report, references to us , we , the Company , our Company and China Telecom are to China Telecom Corporation Limit and its consolidated subsidiaries except where we make clear that the term means China Telecom Corporation Limited or a particular subsidiary or business group only. References to matters relating to our H shares or American depositary shares, or ADSs, or matters of corporate governance are to the H shares, ADSs and corporate governance of China Telecom Corporation Limited. In respect of any time prior to our incorporation, references to us , we and China Telecom are to the telecommunications business in which our predecessors were engaged and which were subsequently assumed by us. All references to China Telecom Group are to China Telecommunications Corporation, our controlling shareholder. Unless the context otherwise requires, these references include all of its subsidiaries, including us and our subsidiaries. Unless otherwise indicated, references to and statements regarding China and the PRC in this annual report do not apply to Hong Kong Special Administrative Region, Macau Special Administrative Region or Taiwan.

PART I

Item 1. Identity of Directors, Senior Management and Advisers.

Not applicable.

Item 2. Offer Statistics and Expected Timetable.

Not applicable.

Item 3. Key Information.

A. Selected Financial Data

The following table presents our selected financial data. The selected balance sheet data as of December 31, 2007 and 2008, and the selected income statement and cash flow data for the years ended December 31, 2006, 2007 and 2008, are derived from our audited consolidated financial statements included elsewhere in this annual report, and should be read in conjunction with those financial statements. The selected balance sheet data as of December 31, 2004, 2005 and 2006 and the selected income statement and cash flow data for the years ended December 31, 2004 and 2005 are derived from our consolidated financial statements which are not included in this annual report. Our consolidated financial statements are prepared and presented in accordance with International Financial Reporting Standards, or IFRS.

The selected financial data reflect the acquisitions in 2004, 2007 and 2008 described under Item 4. Information on the Company A. History and Development of the Company Our Acquisitions in 2003 and in 2004 , Our Acquisitions in 2007 , Our Acquisition of Beijing Telecom in 2008 an Industry Restructuring and Our Acquisition of the CDMA Business in 2008 .

On June 30, 2004, we acquired the entire equity interests in each of Hubei Telecom Company Limited, Hunan Telecom Company Limited, Hainan Telecom Company Limited, Guizhou Telecom Company Limited, Yunnan Telecom Company Limited, Shaanxi Telecom Company Limited, Gansu Telecom Company Limited, Qinghai Telecom Company Limited, Ningxia Telecom

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Company Limited and Xinjiang Telecom Company Limited from China Telecom Group. On June 30, 2007, we acquired the entire equity interests in each of China Telecom System Integration Co., Limited, China Telecom (Hong Kong) International Limited and China Telecom (Americas) Corporation (formerly known as China Telecom (USA) Corporation) from China Telecom Group. On March 31, 2008, we entered into an acquisition agreement with China Telecom Group, pursuant to which we agreed to acquire the entire equity interests in China Telecom Group Beijing Corporation, or Beijing Telecom, from China Telecom Group. Because we and these acquired companies were under the common control of China Telecom Group, our acquisitions of these acquired companies are accounted for in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities of the acquired companies have been accounted for at historical amounts and our financial statements for periods prior to the respective acquisitions have been restated to include the financial position and results of operations of the acquired companies on a combined basis.

On October 1, 2008, we acquired from China Unicom (Hong Kong) Limited (formerly known as China Unicom Limited), or China Unicom, and China Unicom Corporation Limited, or CUCL, the entire Code Division Multiple Access technology, or CDMA, telecommunications business, or the CDMA Business, and related assets and liabilities for a total consideration of RMB43,800 million. The related direct transaction cost for the acquisition was RMB84 million. The final cost of the acquisition was RMB40,413 million as a result of RMB3,471 million reduction to the total consideration pursuant to the terms of the acquisition agreement. China Unicom is a company incorporated in Hong Kong whose shares are listed on the Hong Kong Stock Exchange and whose American depositary shares are listed on the New York Stock Exchange, or NYSE. Our acquisition of the CDMA Business and related assets and liabilities was accounted for using the purchase method.

	As of or for the year ended December 31,					
	2004 RMB	2005 RMB	2006 RMB	2007 RMB	2008 RMB	2008 US$
	(in millions, except share numbers and per share and per ADS data)					
Income Statement Data:						
Operating revenue	162,273	171,216	177,485	180,882	186,801	27,380
Operating expenses[1]	(122,459)	(132,074)	(138,485)	(143,141)	(181,656)	(26,626)
Operating income	39,814	39,142	39,000	37,741	5,145	754
Earnings before income tax	33,270	34,325	34,564	30,996	186	27
Income tax	(5,175)	(6,222)	(6,919)	(6,704)	793	116
Net income attributable to equity holders of the Company	28,042	28,061	27,562	24,195	884	130
Basic earnings per share[2]	0.36	0.35	0.34	0.30	0.01	0.00
Basic earnings per ADS[2]	35.57	34.67	34.06	29.90	1.09	0.16
Cash dividends declared per share	0.07	0.08	0.08	0.08	0.08	0.01
Balance Sheet Data:						
Cash and cash equivalents	15,669	19,606	23,113	21,427	27,866	4,084
Accounts receivable, net	14,102	16,725	16,373	16,979	17,289	2,534
Total current assets	36,000	41,847	45,671	44,110	55,499	8,135
Property, plant and equipment, net[3]	321,519	330,300	330,436	329,292	299,159	43,849
Total assets[3]	417,715	425,844	423,857	413,331	440,337	64,542
Short-term debt	66,776	76,905	80,378	67,767	83,448	12,231
Current portion of long-term debt	11,842	8,963	8,242	3,811	565	83
Accounts payable	34,234	34,828	32,968	29,013	34,458	5,051
Total current liabilities	153,694	159,437	159,451	140,245	176,790	25,913
Long-term debt	72,366	55,777	37,257	34,148	39,226	5,750
Deferred revenues	36,771	27,714	20,765	15,486	11,444	1,677
Total liabilities	253,701	236,642	213,060	187,359	225,789	33,095
Equity attributable to equity holders of the Company	162,601	187,758	209,349	224,521	213,036	31,226

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	As of or for the year ended December 31,					
	2004 RMB	2005 RMB	2006 RMB	2007 RMB	2008 RMB	2008 US$
	(in millions, except share numbers and per share and per ADS data)					
Cash Flow Data:						
Net cash from operating activities	66,438	69,461	75,042	75,783	76,756	11,250
Net cash used in investing activities(4)	(57,251)	(53,515)	(50,333)	(46,618)	(75,819)	(11,113)
Capital expenditures(4)	(57,328)	(53,704)	(50,399)	(46,847)	(46,652)	(6,838)
Net cash (used in)/generated from financing activities	(12,358)	(11,827)	(20,904)	(30,747)	5,585	819

(1) Includes an impairment loss in 2008 on property, plant and equipment of RMB24,167 million, which primarily consisted of an impairment loss on our Personal Handyphone System, or PHS, specific equipment of RMB23,954 million. See Note 7 to our audited consolidated financial statements.

(2) The basic earnings per share have been calculated based on the net income attributable to equity holders of the Company of RMB28,042 million, RMB28,061 million, RMB27,562 million, RMB24,195 million and RMB884 million for the years ended December 31, 2004, 2005, 2006, 2007 and 2008 respectively and the weighted average number of shares in issue during the relevant year of 78,839,968,917, 80,932,368,321, 80,932,368,321, 80,932,368,321 and 80,932,368,321 shares, respectively. The weighted average number of shares in issue for the year ended December 31, 2004 reflects the issuance of 5,318,181,818 new H shares in May 2004. Basic earnings per ADS have been computed as if all of our issued and outstanding shares, including domestic shares and H shares, are represented by ADSs during each of the years presented. Each ADS represents 100 H shares.

(3) Includes the effect of the revaluation of property, plant and equipment in connection with our historical acquisitions. It also includes the effect of the revaluation of property, plant and equipment as of December 31, 2004 and as of December 31, 2007, which were carried out in accordance with the Company s accounting policies under IFRS. See Note 7 to our audited consolidated financial statements.

(4) Capital expenditures are part of and not an addition to net cash used in investing activities.

Pursuant to the shareholders approval at the annual general meeting held on May 26, 2009, a final dividend of RMB6,067 million (RMB0.074963 equivalent to HK$0.085 per share) (inclusive of applicable tax) in respect of the year ended December 31, 2008 was declared, which is expected to be paid on or around June 30, 2009.

Pursuant to the shareholders approval at the annual general meeting held on May 30, 2008, a final dividend of approximately RMB6,125 million (RMB0.075747 equivalent to HK$0.085 per share) in respect of the year ended December 31, 2007 was declared, of which RMB5,699 million and RMB426 million were paid on June 16, 2008 and February 25, 2009, respectively.

Exchange Rate Information

Our financial statements are expressed in Renminbi. Solely for the convenience of the reader, this annual report contains translations of certain Renminbi and Hong Kong dollar amounts into U.S. dollars and vice versa at RMB6.8225 = US$1.00 and HK$7.7499 = US$1.00, the respective Renminbi and Hong Kong dollar noon buying rates in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2008. These translations should not be construed as representations that the Renminbi or Hong Kong dollar amounts could have been or could be converted into U.S. dollars at such rates or at all.

The Renminbi and Hong Kong dollar noon buying rates in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York were RMB6.8360 = US$1.00 and HK$7.7500 = US$1.00, respectively, on June19, 2009. The following table sets forth the high and low noon buying rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each month during the previous six months:

Noon Buying Rate

	RMB per US$1.00			HK$ per US$1.00	
	High	Low		High	Low
December 2008	6.8842	6.8225	December 2008	7.7522	7.7497
January 2009	6.8403	6.8225	January 2009	7.7618	7.7504
February 2009	6.8470	6.8241	February 2009	7.7551	7.7511
March 2009	6.8438	6.8240	March 2009	7.7593	7.7497
April 2009	6.8361	6.8180	April 2009	7.7508	7.7495

May 2009	6.8326	6.8176	May 2009	7.7526	7.7500
June 2009 (through June 19, 2009)	6.8371	6.8264	June 2009 (through June 19, 2009)	7.7516	7.7499

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The following table sets forth the average noon buying rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each of 2004, 2005, 2006, 2007 and 2008 calculated by averaging the noon buying rates on the last day of each month during each of the relevant years.

Average Noon Buying Rate

	RMB per US$ 1.00	HK$ per US$1.00
2004	8.2768	7.7899
2005	8.1826	7.7755
2006	7.9579	7.7685
2007	7.5806	7.8008
2008	6.9193	7.7814

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Relating to Our Business

We face increasing competition, which may materially and adversely affect our business, financial condition and results of operations.

The telecommunications industry in the PRC is rapidly evolving. Until the mid-1990s, we were the sole provider of wireline telecommunications services in our service regions and, as a result, we had a dominant market position in our service regions. We began to operate in a competitive market as the PRC government started to implement a number of measures to restructure the telecommunications industry and encourage competition in the industry in the mid-1990s.

In connection with the PRC s accession to the World Trade Organization, or the WTO, and the adoption of the Regulations on the Administration of Foreign-Invested Telecommunications Enterprises in January 2002, which implement the PRC s commitments to the WTO, the PRC government agreed to gradually liberalize various groups and regions of the telecommunications market in the PRC to foreign operators. See Item 4. Information on the Company B. Business Overview Regulatory and Related Matters Licensing . Both the percentage of ownership of Sino-foreign joint ventures offering telecommunications services in the PRC and the regions where those joint ventures are permitted to offer telecommunications services were increased gradually by December 11, 2007.

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In May 2008, in order to optimize the allocation of telecommunications resources in the PRC and improve the competitive landscape, the MIIT, the National Development and Reform Commission and the Ministry of Finance announced a policy initiative to further reform the telecommunications industry in the PRC that encourages the formation of three telecommunications services providers, each with nationwide network resources, comparable scale and standing, full-service capabilities and competitive strength, by way of a series of restructuring transactions. See Item 4. Information on the Company B. Business Overview Competition . Following the industry restructuring in 2008, China Unicom and our Company have full-service capabilities and compete with each other in both wireline and wireless telecommunications services. China Mobile Limited, or China Mobile, continues to be the leading provider of mobile telecommunications services in the PRC and competes with us in mobile telecommunications services and other telecommunications services.

In this increasingly competitive environment, our customers may choose to use other providers services. Increased competition from other existing telecommunications services providers, including China Mobile and China Unicom, as well as competition from new competitors could materially and adversely affect our business and prospect by, among other factors, forcing us to lower our tariffs to the extent permitted under relevant laws and regulations, reducing or reversing the growth of our customer base and reducing usage of our services. Any of these developments could materially adversely affect our revenues and profitability. We cannot assure you that the increasingly competitive environment and any change in the competitive landscape of the telecommunications industry in the PRC would not have a material adverse effect on our business, financial condition or results of operations.

The CDMA Business we acquired in 2008 may not meet our expectations with respect to its performance.

In May 2008, the MIIT, the National Development and Reform Commission and the Ministry of Finance jointly announced the policy initiative to further reform the telecommunications industry in the PRC that encourages the formation of three telecommunications services providers by way of a series of restructuring transactions, including the acquisition by our Company of the CDMA Business from China Unicom. On July 27, 2008, we entered into an acquisition agreement, or the CDMA Acquisition Agreement, with China Unicom and CUCL in respect of our acquisition of the CDMA Business, or the CDMA Acquisition. We acquired the CDMA Business from China Unicom and CUCL in October 2008 pursuant to the CDMA Acquisition Agreement.

In December 2008, we launched our e surfing mobile service brand and started to promote the concept of Internet handset in order to create a high-quality brand image among our customers and potential customers. In the same month, we launched our 189 prefix mobile number and established a new image for our CDMA mobile services. We have also undertaken other measures such as offering service plans that include both wireline and mobile functions. Despite these efforts, the CDMA Business and related assets we acquired from China Unicom and CUCL may not meet our expectations with respect to their performance due to the following:

- potential synergy between our CDMA Business and our wireline business may not be fully and timely realized to the extent of our expectation;
- the evolution of CDMA technology may not meet the requirements of the operation of our CDMA mobile services;
- future regulation of the mobile services may not be as favorable to us as we expect; and
- future market competition may be beyond our expectation.

The CDMA Acquisition may also expose us to additional or more severe uncertainties and risks, including uncertainties and risks associated with:

- the integration of our CDMA Business with our wireline business;

the management and development of our CDMA mobile services in which we had no experience prior to our acquisition of the CDMA Business;

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- potential loss of, or harm to, relationships with employees or customers; and
- unforeseen or hidden liabilities.

Any of the above could significantly disrupt our ability to manage our business and materially and adversely affect our business, financial condition and results of operations.

We face competition with respect to the 3G mobile services.

In January 2009, each of China Mobile Communications Corporation, or China Mobile Group, China Telecom Group and China United Network Communications Group Company Limited (formerly known as China United Telecommunications Corporation prior to its merger with China Network Communications Group Corporation), or Unicom Group, received a license from the MIIT to operate 3G businesses nationwide. The licenses permit China Mobile Group, China Telecom Group and Unicom Group to provide 3G services based on TD-SCDMA, CDMA2000 and WCDMA technologies, respectively. We have been authorized by China Telecom Group to operate 3G business nationwide based on CDMA2000 technology. China Mobile, China Unicom and our Company have all launched 3G services. We expect that 3G services will be the focus of the mobile services for all of the three telecommunications operators in the PRC.

However, we cannot assure you that:

- our 3G services will receive market acceptance;
- our 3G services will deliver the quality and levels of services currently anticipated;
- we will be able to provide all planned 3G services or we will be able to provide such services on schedule, or developing and providing such services will not be more costly than expected;
- there will be sufficient demand for 3G services for us to deliver these services profitably;
- our competitors 3G services will not be more popular among potential subscribers; or
- our 3G services will generate an acceptable or commercially viable rate of return.

The failure of any of the above possible developments to occur could hinder our growth or the recovery of our investment or cost in our 3G services, which could have a material adverse effect on our financial condition and results of operations as well as our revenue and profitability.

The CDMA handset promotional plans are expected to increase our costs and expenses and may adversely affect our profitability.

In order to accelerate the development of our CDMA mobile services and subscriber growth, we have offered CDMA handset promotional plans. Under those arrangements, CDMA handsets have been provided to subscribers for their use during the specified contract periods as long as such subscribers agreed to pay a deposit, prepay certain amount of service fees or commit a minimum amount of service fees during the contract period. The costs of the handsets provided to subscribers under these contractual arrangements are recognized as operating expenses when incurred. Although the use of these CDMA promotional plans could accelerate the growth of our CDMA mobile services revenue and subscriber base, it increases our expenses and may adversely affect our profitability and our financial condition and results of operations.

In addition, upon expiration of the contract period of these CDMA handset promotional plans, some subscribers may not renew their contracts and may subscribe to our competitors cellular services, which may lead to an increase of the churn rate of our CDMA mobile services. Such effects may adversely affect our profitability and our financial condition and results of operations.

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We will continue to be controlled by China Telecom Group, which could cause us to take actions that may conflict with the best interests of our other shareholders.

China Telecom Group, a wholly state-owned enterprise, owned approximately 70.89% of our outstanding shares as of June 19, 2009. Accordingly, subject to our Articles of Association and applicable laws and regulations, China Telecom Group, as our controlling shareholder, will continue to be able to exercise significant influence over our management and policies by:

- controlling the election of our directors and, in turn, indirectly controlling the selection of our senior management;
- determining the timing and amount of our dividend payments;
- approving our annual budgets;
- deciding on increases or decreases in our share capital;
- determining issuance of new securities;
- approving mergers and acquisitions; and
- amending our Articles of Association.

The interests of China Telecom Group as our controlling shareholder could conflict with our interests or the interests of our other shareholders. As a result, China Telecom Group may take actions with respect to our business that may not be in our or our other shareholders best interests.

We depend on China Telecom Group and its other subsidiaries to provide certain services and facilities for which we currently have limited alternative sources of supply.

In addition to being our controlling shareholder, China Telecom Group, by itself and through its other subsidiaries, also provides us with services and facilities necessary for our business activities, including, but not limited to:

- use of international gateway facilities;
- provision of services in areas outside our service regions necessary to enable us to provide end-to-end services to our customers;
- use of nationwide inter-provincial optic fibers; and
- lease of properties and assets, including lease of the capacity on the CDMA network.

The interests of China Telecom Group and its other subsidiaries as providers of these services and facilities may conflict with our interests. We currently have limited alternative sources of supply for these services and facilities. Therefore, we have limited leverage in negotiating with China Telecom Group and its other subsidiaries over the terms for the provision of these services and facilities. Termination or adverse changes of the terms for the provisions of these services and facilities could materially and adversely affect our business, results of operations and financial condition. See Item 4. Information on the Company A. History and Development of the Company Industry Restructuring and Our Acquisition of the CDMA Business in 2008 and Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions for a description of the services and facilities provided by China Telecom Group and its other subsidiaries.

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Since our services require interconnection with networks of other operators, disruption in interconnections with those networks could have a material adverse effect on our business and results of operations.

Under the relevant telecommunications regulations, telecommunications operators are required to interconnect with networks of other operators. We have entered into interconnection arrangements with other telecommunications operators. The effective provision of our wireline voice, mobile voice and other services requires interaction between our networks and those of China Telecom Group, Unicom Group, China Mobile Group and other telecommunications operators. Any interruption in our interconnection with the networks of those operators or other international telecommunications carriers with which we interconnect due to technical or competitive reasons may affect our operations, service quality and customer satisfaction, and, in turn, our business and results of operations. In addition, any obstacles in existing interconnection arrangements and leased line agreements or any change in their terms, as a result of natural events, accidents, or for regulatory, technological, competitive or other reasons, could lead to temporary service disruptions and increased costs that can seriously jeopardize our operations and adversely affect our profitability and growth.

We may be unable to obtain sufficient financing to fund our capital requirements, which could limit our growth potential and future prospects.

We believe that cash from operations, together with any necessary borrowings, will provide sufficient financial resources to meet our projected capital and other expenditure requirements. However, we may require additional funds to the extent we have underestimated our capital requirements or overestimated our future cash from operations. In addition, a significant feature of our business strategy is to continue to transform our Company from a traditional basic network operator into a modern integrated information services provider, which may require additional capital resources. The cost of implementing new technologies, upgrading our networks or expanding capacity may be significant. Furthermore, in order for us to effectively respond to technological changes and more intensive competition, we may be required to make substantial investments in the future and such investments requirements could have a material adverse effect on our business, financial condition and results of operations.

Financing may not be available to us on acceptable terms or at all. In addition, any future issuance of equity securities, including securities convertible or exchangeable into or that represent the right to receive equity securities, may require approval from the relevant government authorities. Our ability to obtain additional financing will depend on a number of factors, including:

- our future financial condition, results of operations and cash flows;
- general market conditions for financing activities by telecommunications companies; and
- economic, political and other conditions in the markets where we operate or plan to operate.

We cannot assure you that we can obtain sufficient financing at commercially reasonable terms or at all. If adequate capital is not available on commercially reasonable terms, our growth potential and future prospects could be adversely affected.

If we are not able to respond successfully to technological or industry developments, our business may be adversely affected.

The telecommunications market is characterized by rapid advancements in technology, evolving industry standards and changes in customer needs. We cannot assure you that we will be successful in responding to these developments. In addition, new services or technologies may render our existing services or technologies less competitive. In the event we do take measures to respond to technological developments and changes in industry standards, the integration of new technology or industry standards or the upgrading of our networks may require substantial time, effort and capital investment. We cannot assure you that we will succeed in integrating these new technologies and industry standards or adapting our network and systems in a timely and cost-effective manner, or at all. Our inability to respond successfully to technological or industry developments may adversely affect our business, results of operations and competitiveness.

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We face a number of risks relating to our Internet-related services.

We currently provide a range of Internet-related services, including dial-up and broadband Internet access and Internet-related applications. We face a number of risks in providing these services.

Our network may be vulnerable to unauthorized access, computer viruses and other disruptive problems. We cannot assure you that the security measures we have implemented will not be circumvented or otherwise fail to protect the integrity of our network. Unauthorized access could jeopardize the security of confidential information stored in our customers computer systems. Eliminating computer viruses and other security problems may also require interruptions, delays or suspension of our services, cause us to incur costs and divert management attention.

In addition, because we provide connections to the Internet and host websites for customers and develop Internet content and applications, we may be perceived as being associated with the content carried over our network or displayed on websites that we host. We cannot and do not screen all of this content and may face litigation claims due to a perceived association with this content. These types of claims have been brought against other providers of online services in the past. Regardless of the merits of the lawsuits, these types of claims can be costly to defend, divert management resources and attention, and may damage our reputation.

Risks Relating to the Telecommunications Industry in the PRC

Extensive government regulation of the telecommunications industry may limit our flexibility in responding to market conditions, competition or changes in our cost structure.

Our business is subject to extensive government regulation. The MIIT, which is the primary telecommunications industry regulator under the PRC s State Council, regulates, among other things:

- industry policies and regulations;
- licensing;
- tariffs;
- competition;
- telecommunications resource allocation;
- service standards;
- technical standards;
- interconnection and settlement arrangements;
- enforcement of industry regulations;

- universal service obligations;

- network information security; and

- network access license approval for telecom equipment and terminals.

Other PRC governmental authorities also take part in regulating tariff policies, capital investment and foreign investment in the telecommunications industry. Major capital investments, including telecommunications network development projects, are subject to the approval of relevant PRC government authorities. See Item 4. Information on the Company B. Business Overview Regulatory and Related Matters Capital Investment . The regulatory framework within which we operate may constrain our ability to implement our business strategies and limit our flexibility to respond to market conditions or to changes in our cost structure.

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Our revenues may be adversely affected by reductions in tariffs and other changes in tariff regulations mandated by the PRC government.

Tariffs are the prices we charge our customers for our telecommunications services. We are subject to extensive government regulations on tariffs, especially those relating to our basic telecommunications services. See Item 4. Information on the Company B. Business Overview Regulatory and Related Matters Tariff Setting . We derive a substantial portion of our revenues from services that are subject to tariffs regulated by the PRC government. In the past, our revenues have been adversely affected by reductions in tariffs and other changes in tariff regulations mandated by the PRC government. We cannot predict the likelihood, timing or magnitude of tariff adjustments by the government or the extent or potential impact on our business of future tariff adjustments. If the government substantially lowers the tariffs for our services, our business and profitability may be adversely affected. We cannot assure you that our business or results of operations will not be adversely affected by any government-mandated adjustments on tariff level in the future.

Future changes to the regulations and policies governing the telecommunications industry in the PRC may have a material adverse effect on our business and operations.

The regulations and policies governing the telecommunications industry in the PRC have experienced continuous changes in the past several years. Possible future changes to regulations and policies of the PRC government governing the telecommunications industry could adversely affect our business and operations. For example, to provide a uniform regulatory framework for the orderly development of the telecommunications industry, the PRC government is currently preparing a draft telecommunications law. If and when the telecommunications law is adopted by the National People s Congress or its Standing Committee, it is expected to provide a new regulatory framework for telecommunications regulation in the PRC. We cannot be certain how this law will affect our business and operations and whether it will contain more stringent regulatory requirements than the current telecommunications regulations.

The interpretation and enforcement of the PRC s WTO commitments regarding telecommunications services may also affect telecommunications regulations and the telecommunications industry in the PRC. Any future regulatory changes, such as those relating to the issuance of additional telecommunications licenses, tariff setting, interconnection and settlement arrangements, competition, changes in technical and service standards, universal service obligations and spectrum and numbering resources allocations, may have a material adverse effect on our business and operations.

The PRC government may require us, along with other providers in the PRC, to provide universal services with specified obligations, and we may not be compensated adequately for providing such services.

Under the Telecommunications Regulations promulgated by the State Council, telecommunications service providers in the PRC are required to fulfill universal service obligations in accordance with relevant regulations to be promulgated by the PRC government. The MIIT has the authority to delineate the scope of universal service obligations. The MIIT may also select universal service providers through a tendering process. The MIIT, together with other governmental authorities, is also responsible for formulating administrative rules relating to the establishment of a universal service fund and compensation schemes for universal services. The PRC government currently uses financial resources to compensate the expenses incurred in the Village to Village projects before the establishment of a universal service fund. In December 2006, the Ministry of Finance issued the Provisional Rules on Usage and Administration of Telecommunications Universal Service Fund, effective December 21, 2006, which provide a compensation scheme for certain expenses incurred in the Village to Village projects undertaken by telecommunications service providers. Under the compensation scheme, telecommunications operators may receive compensation from the PRC government for the Village to Village projects. These rules provide for the application for the compensation, the method to calculate the amount, the approval process and the distribution of the compensation. However, the compensation from the PRC government may not be sufficient to cover all of our expenses for providing the telecommunications services under the Village to Village projects.

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Under the Telecommunications Regulations, all PRC telecommunications operators shall provide universal services, but no formal timetable for the establishment of the systems to implement universal services has been released. Once relevant regulations with respect to universal service obligations are promulgated, we expect to perform our duties thereunder accordingly. We may not be able to realize adequate return on investments for expanding networks to, and providing telecommunications services in, those economically less developed areas due to potentially higher capital expenditure requirements, lower usage by customers and lack of flexibility in setting our tariffs. As a result, our financial condition and results of operations could be adversely affected.

Risks Relating to the People s Republic of China

Substantially all of our assets are located in the PRC and substantially all of our revenue is derived from our operations in the PRC. Accordingly, our results of operations and prospects are subject, to a significant extent, to the economic, political and legal developments in the PRC.

The PRC s economic, political and social conditions, as well as government policies, could affect our business.

Substantially all of our business, assets and operations are located in the PRC. The PRC s economy differs from the economies of most developed countries in many respects, including without limitation:

- government involvement;
- level of development;
- growth rate;
- control of foreign exchange; and
- allocation of resources.

While the PRC s economy has experienced significant growth in the past 30 years, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall economy of the PRC, but may also have a negative effect on us. For example, our operating results and financial condition may be adversely affected by government control over capital investments or changes in tax regulations applicable to us.

The PRC s economy has been transitioning from a planned economy to a more market-oriented economy. Although in recent years the PRC government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in the PRC is still owned by the PRC government. It also exercises significant control over the PRC s economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. We cannot predict the purpose and effect of future economic policies of the PRC government or the impact of such economic policies on our business and operations.

The current global financial crisis and an economic slowdown may reduce the demand for our services and have a material adverse effect on our business, financial condition and results of operations.

The global financial crisis that unfolded in 2008 and has continued during 2009 has been having a significant negative impact on businesses around the world. The PRC has entered into a period of slower economic growth and certain other major economies around the world have entered into a period of economic contraction. In particular, the current global financial crisis, weak consumer confidence and diminished consumer and business spending may lead to a significant slowdown in the market demand for telecommunications services. Economic contraction or significantly slower economic growth may also lead to limited access to or unavailability of financing for business developments of telecommunication services providers.

We cannot assure you when global economic recovery may occur, or, even when global economic recovery does occur, that demand for telecommunications services will increase. Any further slowdown in the economic growth of the PRC could lead to further reduced business activities and reduced demand for our services, which could materially and adversely affect our business, as well as our financial condition and results of operations.

Government control of currency conversion may adversely affect our financial condition.

We receive substantially all of our revenues in Renminbi, which currently is not a freely convertible currency. A portion of these revenues must be converted into other currencies to meet our foreign currency obligations. These foreign currency-denominated obligations include:

- payment of interest and principal on foreign currency-denominated debt;
- payment for equipment and materials purchased offshore; and
- payment of dividends declared, if any, in respect of our H shares.

Under the PRC s existing foreign exchange regulations, we will be able to pay dividends in foreign currencies without prior approval from the State Administration of Foreign Exchange by complying with certain procedural requirements. However, the PRC government may take measures at its discretion in the future to restrict access to foreign currencies for both current account transactions and capital account transactions. We may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs, if the PRC government restricts access to foreign currencies for current account transactions.

Foreign exchange transactions under our capital account, including foreign currency-denominated borrowings from foreign banks, issuance of foreign currency-denominated debt securities, if any, and principal payments in respect of foreign currency-denominated obligations, continue to be subject to significant foreign exchange controls and require the approval of the State Administration of Foreign Exchange. These limitations could affect our ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange to meet our payment obligations under the debt securities, if any, or to obtain foreign exchange for capital expenditures.

Fluctuation of the Renminbi could materially affect our financial condition and results of operations.

We receive substantially all of our revenues, and our financial statements are presented, in Renminbi. The value of the Renminbi against U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in the PRC s and international political and economic conditions. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the People s Bank of China, which are set daily based on the previous business day s inter-bank foreign exchange market rates and current exchange rates on the world financial markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by approximately 2% against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. Fluctuations in exchange rates may adversely affect the value, translated or converted into U.S. dollars or Hong Kong dollars, of our net assets, earnings and any declared dividends payable on our H shares in foreign currency terms. Our financial condition and results of operations may also be affected by changes in the value of certain currencies other than the Renminbi, in which our obligations are denominated. For further information on our foreign exchange risks and certain exchange rates, see Item 3. Key Information A. Selected Financial Data Exchange Rate Information and Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Exchange Rate Risk . We cannot assure you that any future movements in the exchange rate of the Renminbi against the U.S. dollar or other foreign currencies will not adversely affect our results of operations and financial condition.

The PRC legal system has inherent uncertainties that could limit the legal protections available to you.

We were incorporated under PRC laws and are governed by our Articles of Association. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the PRC government has promulgated laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited number of published cases and their non-binding nature, interpretation and enforcement of these laws and regulations involve uncertainties.

The ability of our shareholders to enforce their rights in respect of violations of corporate governance procedures may be limited. In this regard, our Articles of Association provide that most disputes between holders of H shares and our Company, directors, supervisors, officers or holders of domestic shares, arising out of our Articles of Association or the PRC Company Law and related regulations concerning the affairs of our Company, are to be resolved through arbitration by arbitration tribunal in Hong Kong or the PRC, rather than by a court of law. Awards that are made by PRC arbitral authorities recognized under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong. Hong Kong arbitration awards are also enforceable in the PRC. However, to our knowledge, no action has been brought in the PRC by any holder of H shares to enforce an arbitral award, and we are uncertain as to the outcome of any action, if brought in the PRC to enforce an arbitral award made in favor of holders of H shares. See Item 10. Additional Information B. Memorandum and Articles of Association .

To our knowledge, there has not been any published report of judicial enforcement in the PRC by holders of H shares of their rights under the Articles of Association of a PRC company or the PRC Company Law.

Unlike in the United States, the applicable PRC laws did not specifically allow shareholders to sue the directors, supervisors, senior management or other shareholders on behalf of the corporation to enforce a claim against such party or parties that the corporation has failed to enforce itself until January 1, 2006, when the amendments to the PRC Company Law passed in October 27, 2005 became effective. Although the amended PRC Company Law provides that shareholders, under certain circumstances, may sue the directors, supervisors and senior management on behalf of the company, no detailed implementation rules or judicial interpretations have been issued in this regard. In addition, our minority shareholders may not be able to enjoy protections to the same extent afforded to shareholders of companies incorporated under the state laws of the United States.

Although we will be subject to the Hong Kong Stock Exchange Listing Rules, or the Listing Rules, and the Hong Kong Codes on Takeovers and Mergers and Share Repurchases, or the Codes, the holders of H shares will not be able to bring actions on the basis of violations of the Listing Rules or the Codes, and must rely on the Stock Exchange of Hong Kong Limited, or the Hong Kong Stock Exchange, and The Securities and Futures Commission of Hong Kong to enforce the Listing Rules or the Codes, as the case may be.

You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.

We are a company incorporated under PRC laws, and substantially all of our assets and our subsidiaries are located in the PRC. In addition, most of our directors and officers reside within the PRC, and substantially all of the assets of our directors and officers are located within the PRC. As a result, it may not be possible to effect service of process within the United States or elsewhere outside the PRC upon most of our directors or officers, including with respect to matters arising under applicable laws and regulations. Moreover, our PRC counsel has advised us that the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom or most other Western countries. Our Hong Kong counsel has also advised us that Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States.

As a result, recognition and enforcement in the PRC of judgments of a court in the United States and any of the other jurisdictions mentioned above in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

Holders of H shares may be subject to PRC taxation.

On March 16, 2007, the Fifth Plenary Session of the Tenth National People s Congress passed the Enterprise Income Tax Law of the PRC, or the New Tax Law, which took effect on January 1, 2008. On December 6, 2007, the State Council of the PRC enacted the Enterprise Income Tax Law Implementing Regulations, or the Implementing Regulations, which became effective on January 1, 2008. Prior to the New Tax Law and the Implementing Regulations, dividends paid by us to holders of our H shares who are enterprises outside the PRC were exempted from PRC income tax and gains realized by enterprises upon the sale or other disposition of our H shares were exempted form PRC capital gains tax. Under the New Tax Law and the Implementing Regulations, a foreign enterprise which is a non-resident enterprise is subject to a 10% tax for its income derived from sources in the PRC after January 1, 2008, unless reduced under an applicable double-taxation treaty. In addition, dividends paid by us to a resident enterprise, including a foreign enterprise whose de facto management body is located in the PRC, are not subject to any PRC income tax. The capital gains realized by such resident enterprise are subject to the PRC enterprise income tax. Although the implementation of the New Tax Law in these respects remain uncertain, we are required to withhold taxes when paying any dividends to our H shareholders who are non-resident enterprises. See Item 10. Additional Information E. Taxation People s Republic of China .

Furthermore, under current PRC tax laws, regulations and rulings, dividends paid by us to holders of our H shares who are individuals outside the PRC are currently exempted from PRC income tax. In addition, gains realized by individuals upon the sale or other disposition of our H shares are temporarily exempted from PRC capital gains tax. If the exemptions are withdrawn in the future, holders of our H shares who are individuals may be required to pay withholding tax on dividends, which is currently imposed at the rate of 20%, or income tax, which may be imposed upon individuals at the rate of 20%, and holders of our H shares may be required to pay PRC capital gains tax upon the sale or other disposition of our H shares. See Item 10. Additional Information E. Taxation People s Republic of China .

Natural disasters and health hazards in the PRC may severely disrupt our business and operations and may have a material adverse effect on our financial condition and results of operations.

In early 2008, parts of the PRC, in particular its southern, central and eastern regions, experienced what was reportedly the most severe snow storm in the country in half a century, which resulted in significant and extensive damages to factories, power lines, homes, automobiles, crops and other properties, blackouts, transportation and communications disruptions and other losses in the affected areas. In addition, in May 2008, a major earthquake registering 8.0 on the Richter scale struck Sichuan province and certain other parts of the PRC, devastating much of the affected areas and causing tens of thousands of deaths and widespread injuries. Our network equipment and other assets in the affected areas sustained extensive damage in the earthquake, leading to service stoppage and other disruptions in our operations in those areas. We incurred a total loss of approximately RMB3,428 million in connections with the impairment, write-off and repair and maintenance of certain assets that were damaged due to the severe weather conditions and the major earthquake. Moreover, certain countries and regions, including the PRC, have encountered incidents of the H5N1 strain of bird flu, or avian flu, over the past six years, and more recently in 2009, the outbreak of influenza A (H1N1) strain. We are unable to predict the effect, if any, that any future natural disasters and health hazards may have on our business. Any future natural disasters and health hazards may, among other things, significantly disrupt our ability to adequately staff our business, and may generally disrupt our operations. Furthermore, such natural disasters and health hazards may severely restrict the level of economic activity in affected areas, which may in turn materially and adversely affect our business and prospects. As a result, any natural disasters or health hazards in the PRC may have a material adverse effect on our financial condition and results of operations.

Item 4. Information on the Company.

A. History and Development of the Company

Our Restructuring and Initial Public Offering in 2002

We were incorporated under PRC laws on September 10, 2002 as a joint stock company with limited liability under the name China Telecom Corporation Limited . As part of our initial restructuring, China Telecom Group s telecommunications operations in

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Shanghai Municipality, Guangdong Province, Jiangsu Province and Zhejiang Province, together with the related assets and liabilities, were transferred to us. In consideration of the net assets related to the telecommunications operations transferred to us, which had a carrying amount of RMB97,485 million as of December 31, 2001, we issued 68,317,270,803 of our shares to China Telecom Group. Immediately prior to our initial public offering, China Telecom Group transferred to Guangdong Rising Assets Management Co., Ltd., Jiangsu Guoxin Investment Group Co., Ltd. and Zhejiang Financial Development Company 8.37%, 1.43% and 3.19%, respectively, of our outstanding shares.

Following our restructuring, China Telecom Group continues to be the holder of the licenses required for operating our telecommunications business. In accordance with the approval of the MIIT (and prior to March 2008, the MII), we derive our exclusive rights to operate our business from our status as a subsidiary controlled by China Telecom Group, and China Telecom Group must hold and maintain all licenses received from the MIIT (and prior to April 2008, the MII) in connection with our business for our benefit. The government currently does not charge license fees for the telecommunications licenses held by China Telecom Group.

In 2002, we successfully completed our initial public offering of H shares and raised approximately RMB10,659 million in aggregate net proceeds for us. Upon completion of our initial public offering, our shares became listed on the Hong Kong Stock Exchange and ADSs representing our H shares are listed and traded on the NYSE.

Our Acquisitions in 2003 and in 2004

On December 31, 2003, we acquired from China Telecom Group the entire equity interests in each of Anhui Telecom Company Limited, Fujian Telecom Company Limited, Jiangxi Telecom Company Limited, Guangxi Telecom Company Limited, Chongqing Telecom Company Limited and Sichuan Telecom Company Limited and certain network management and research and development facilities (collectively, the First Acquisition).

The purchase price of the First Acquisition amounted to RMB46 billion. Of the purchase price, we paid an initial consideration of RMB11 billion in cash upon the completion of the acquisition and the remaining consideration had been fully paid by October 2008.

In connection with this acquisition and for the purpose of paying consideration to People s Government of Fujian province for acquiring the rural telecommunication assets in Fujian province, China Telecom Group agreed to transfer 969,317,182 of its shares in our Company to Fujian State-Owned Assets Investment Holdings Co., Ltd., a state-owned enterprise owned by the provincial government of the Fujian province to hold such transferred shares.

On December 31, 2003, our Company, together with our wholly owned subsidiary, Shanghai Telecom Company Limited, acquired from China Telecom Group the entire equity interest in China Telecom Group Yellow Pages Information Company Ltd.

On June 30, 2004, we acquired from China Telecom Group its entire equity interests in each of Hubei Telecom Company Limited, Hunan Telecom Company Limited, Hainan Telecom Company Limited, Guizhou Telecom Company Limited, Yunnan Telecom Company Limited, Shaanxi Telecom Company Limited, Gansu Telecom Company Limited, Qinghai Telecom Company Limited, Ningxia Telecom Company Limited and Xinjiang Telecom Company Limited (collectively, the Second Acquisition).

The purchase price of the Second Acquisition amounted to RMB27.8 billion. Of the purchase price, we paid an initial consideration of RMB8.34 billion in cash upon the completion of the acquisition. The remaining purchase price had been fully paid by us by March 2009.

Our Global Offering in 2004

In May 2004, we issued 4,466,693,018 H shares and 8,514,888 ADSs, each representing 100 H shares, at prices of HK$2.30 per H share and US$29.49 per ADS, respectively, by way of a global offering to Hong Kong and overseas investors. We raised net proceeds of RMB12,702 million from this issuance of new H shares and ADSs.

On June 30, 2004, we used RMB12,650 million of the net proceeds from this issuance to make a cash payment for the Second Acquisition. As part of the global offering, 531,818,182 existing domestic shares of RMB1.00 each owned by China Telecom Group and our other domestic shareholders were converted into H shares and sold to Hong Kong and overseas investors.

Our Acquisitions in 2007

We entered into an Equity Purchase Agreement with China Telecom Group on June 15, 2007, pursuant to which China Telecom Group agreed to transfer, and cause its wholly owned subsidiary China Huaxin Post and Telecommunications Development Center to transfer to us, 100% equity interest in each of China Telecom (Hong Kong) International Limited, China Telecom System Integration Co., Limited and China Telecom (Americas) Corporation (formerly known as China Telecom (USA) Corporation), (collectively, the Third Acquisition), for a total consideration of RMB1.408 billion in cash. The Third Acquisition was completed on June 30, 2007 and the consideration was fully paid in cash in July 2007 from our internal resources.

Our Corporate Organization Restructuring in 2008

For the purpose of improving our existing organization structure by managing our businesses through branches instead of subsidiaries, on January 10, 2008, we entered into merger agreements with certain of our wholly owned subsidiaries, including Shanghai Telecom Company Limited, Guangdong Telecom Company Limited, Jiangsu Telecom Company Limited, Zhejiang Telecom Company Limited, Anhui Telecom Company Limited, Fujian Telecom Company Limited, Jiangxi Telecom Company Limited, Guangxi Telecom Company Limited, Chongqing Telecom Company Limited, Sichuan Telecom Company Limited, Hubei Telecom Company Limited, Hunan Telecom Company Limited, Hainan Telecom Company Limited, Guizhou Telecom Company Limited, Yunnan Telecom Company Limited, Shaanxi Telecom Company Limited, Gansu Telecom Company Limited, Qinghai Telecom Company Limited, Ningxia Telecom Company Limited and Xinjiang Telecom Company Limited, or, collectively, the Merged Subsidiaries. These merger agreements were approved by our shareholders in an extraordinary general meeting on February 25, 2008. As a result, our Company has merged with the Merged Subsidiaries by way of absorption, and, the Merged Subsidiaries have been dissolved and all of their assets, businesses, liabilities, rights and obligations have been assumed by us. Our provincial branches have taken over the responsibilities of managing and operating the business in these provinces.

Our Acquisition of Beijing Telecom in 2008

On March 31, 2008, we entered into an Acquisition Agreement with China Telecom Group, pursuant to which we agree to acquire, and China Telecom Group agrees to sell, the entire equity interest in China Telecom Group Beijing Telecom (the Fourth Acquisition). The total consideration of the Fourth Acquisition was RMB5.557 billion in cash, which was fully paid by us in July 2008.

Beijing Telecom was a limited liability company incorporated under the laws of the PRC on July 16, 2002 and wholly owned by China Telecom Group. The principal business of Beijing Telecom was provision of telecommunications and information services, local fixed network services, domestic and international long distance services, broadband services, managed data services, leased line services and integrated information services in the Beijing municipality.

The Acquisition Agreement was approved by our shareholders in the extraordinary general meeting held on May 30, 2008. As we and Beijing Telecom were under the common control of China Telecom Group, the Fourth Acquisition has been reflected in the accompanying consolidated financial statements as a combination of entities under common control in a manner similar to a pooling-of-interests. On November 14, 2008, we entered into a merger agreement with Beijing Telecom, which requires us to assume all of the assets, businesses, liabilities, rights and obligations of Beijing Telecom upon its dissolution.

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Industry Restructuring and Our Acquisition of the CDMA Business in 2008

Industry Restructuring in 2008

On May 24, 2008, the MIIT, the National Development and Reform Commission and the Ministry of Finance issued a joint announcement relating to the further reform of the telecommunications industry in the PRC. According to the joint announcement, the principal objectives of the reform include, among others: (i) supporting the formation of three telecommunications services providers, each with nationwide network resources, comparable scale and standing, full-service capabilities and competitive strength, in order to help optimize the allocation of telecommunications resources and foster market competition; (ii) promoting homegrown innovation by telecommunications services providers; and (iii) enhancing the service capabilities and quality of, and the regulatory framework governing, the telecommunications industry. To achieve these objectives, the three ministries encouraged the following restructuring transactions: (a) the acquisition by China Telecom Group of the CDMA network (including both assets and subscriber base) then owned by China Unicom; (b) the acquisition by China Telecom Group of the basic telecommunications services business operated by China Satellite Communications Corporation, or China Satellite; (c) the merger between China Unicom and China Netcom; and (d) the acquisition of China Railcom by China Mobile. The joint announcement required that detailed implementation plans relating to these restructuring transactions be formulated by the relevant parties involved, subject to, in each case, agreement on terms among the relevant parties and approvals by applicable PRC government authorities, and carried out, as applicable, in accordance with customary practices in the domestic and international capital markets.

Our Acquisition of the CDMA Business

On June 2, 2008, we, China Unicom and CUCL entered into a framework agreement, or the CDMA Business Framework Agreement, which sets forth certain key terms in respect of our acquisition from CUCL of the CDMA Business then owned and operated by CUCL and related assets and liabilities. On July 27, 2008, we, China Unicom and CUCL entered into an acquisition agreement, or the CDMA Acquisition Agreement, which sets forth the terms and conditions in respect of our acquisition of the CDMA Business and related assets and liabilities (including the entire equity interest in China Unicom (Macau) Company Limited and 99.5% of the equity interest in Unicom Huasheng Telecommunications Technology Co. Ltd., or Unicom Huasheng). The CDMA Acquisition Agreement superseded the CDMA Business Framework Agreement. The total consideration for our acquisition of the CDMA Business was RMB43,800 million. The related direct transaction cost for the acquisition was RMB84 million. The final cost of the acquisition was RMB40,413 million as a result of RMB3,471 million reduction to the total consideration pursuant to the terms of the CDMA Acquisition Agreement. We paid RMB30,660 million on October 1, 2008 and RMB4,239 million on April 30, 2009, respectively. The remaining balance will be paid by us at or by a future date to be mutually agreed upon by China Unicom and us.

We agreed with CUCL that 29.3% of the employees who had employment agreements with CUCL and Unicom Huasheng as of December 31, 2007 would be transferred from CUCL and Unicom Huasheng to us. Employees transferred to us from CUCL included (i) employees whose responsibilities are directly related to the CDMA Business, and (ii) employees whose responsibilities include supporting the development and general management of the CDMA Business. Employees of third parties who are seconded to CUCL and whose responsibilities are directly related to the CDMA Business would also be transferred to us. We and CUCL also entered into detailed arrangements with respect to the transfer of employees from CUCL to us. As of December 31, 2008, around 30,000 employees were transferred from CUCL and Unicom Huasheng to us.

Our acquisition of the CDMA Business allows us to quickly offer the CDMA mobile service on a large scale with a nationwide coverage in the growing mobile telecommunications market in the PRC. It enables us to rapidly expand our mobile services by utilizing resources, sales networks and operational experience of our wireline services. It is also expected to enhance our competitiveness because we are able to offer a comprehensive range of services, including wireline, wireless and other telecommunications services, following our acquisition of the CDMA Business.

Related Transactions

Acquisition of the CDMA Network by China Telecom Group. On July 27, 2008, China Telecom Group, Unicom Group, and Unicom New Horizon Mobile Telecommunications Company Limited, or Unicom New Horizon, a wholly-owned subsidiary of Unicom Group, entered into a CDMA network disposal agreement, pursuant to which Unicom Group and Unicom New Horizon sold the CDMA cellular telecommunications network constructed by Unicom New Horizon, or the CDMA Network, to China Telecom Group for a consideration of RMB66.2 billion, or the CDMA Network Acquisition. On October 1, 2008, China Telecom Group acquired the CDMA Network.

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Lease of capacity on the CDMA Network by our Company from China Telecom Group. On July 27, 2008, we entered into a CDMA network capacity lease agreement with China Telecom Group to lease the capacity on the CDMA Network from China Telecom Group. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Ongoing Related Party Transactions between Us and China Telecom Group CDMA Network Capacity Lease Agreement for details of this agreement.

Transfer of Certain Basic Telecommunications Business from China Satellite to China Telecom Group

Following the approval by the SASAC and the MIIT, the basic telecommunications business of China Satellite was transferred to China Telecom Group, our controlling shareholder, without consideration in February 2009. The business transferred from China Satellite to China Telecom Group included IP telephone, satellite international private line services, very small aperture terminal, or VSAT, services, digital trunking communications services and other services related to basic telecommunications services in 21 service regions. These service regions consist of Beijing Municipality, Anhui Province, Chongqing Municipality, Fujian Province, Gansu Province, Guangdong Province, Guangxi Zhuang Autonomous Region, Guizhou Province, Hainan Province, Hubei Province, Hunan Province, Jiangsu Province, Jiangxi Province, Ningxia Hui Autonomous Region, Qinghai Province, Shaanxi Province, Shanghai Municipality, Sichuan Province, Xinjiang Uygur Autonomous Region, Yunnan Province and Zhejiang Province.

Under a non-competition agreement between us and China Telecom Group, our controlling shareholder, China Telecom Group has undertaken to us, for so long as our shares are listed on the Hong Kong Stock Exchange or another exchange, and China Telecom Group holds over 30% of our issued share capital or is regarded as our controlling shareholder under the Listing Rules of the Hong Kong Stock Exchange, China Telecom Group will not at any time, directly or indirectly, provide basic telecommunications services or specified value-added telecommunications services in our service regions that may compete with us. China Telecom Group provides certain basic telecommunications services in our service regions following the completion of the transfer of certain basic telecommunication business from China Satellite in February 2009, which results in direct competition with us in respect of such services in our service regions.

We were informed by China Telecom Group that it competed with us in respect of these services in our services regions. We believe that we have not faced effective competition from China Telecom Group in respect of these services in our service regions because of the fact that only a small number of customers subscribe for these services offered by China Telecom Group, that revenue from these services is very small in absolute amount and that certain services such as digital trunking communications services are still in the trial period. In March 2009, the Board of Directors of our Company including all independent non-executive directors resolved, after careful consideration, not to acquire the aforesaid basic telecommunications business from China Satellite, and waived the non-competition obligation of China Telecom Group under the non-competition agreement between our Company and China Telecom Group with respect to the basic telecommunications services transferred from China Satellite, while reserving the right to discuss with China Telecom Group at an appropriate time in future any business opportunity in this connection.

In connection with our restructuring and acquisitions set forth above, we entered into various arrangements with China Telecom Group relating to the mutual provision of ongoing telecommunications and other services. These arrangements include agreements for trademark licensing, centralized services, interconnection arrangements, optic fiber leasing, property leasing, IT services, comprehensive services CDMA network capacity lease and other services. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions for a more detailed description of these arrangements.

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Organizational Structure

Set out below is our corporate structure and significant subsidiaries as of June 19, 2009:

(1) Formerly known as China Unicom (Macau) Company Limited.
(2) Formerly known as Unicom Huasheng Telecommunications Technology Co. Ltd.

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In addition, our Company has a branch in each of 22 provinces, five autonomous regions and four centrally administered municipalities in the PRC. See Our Corporate Organization Restructuring in 2008 and Our Acquisition of Beijing Telecom in 2008 included elsewhere under this Item.

Debenture Issuance in 2008 and Proposed Issuance of Debentures in 2009

On April 22, 2008, we issued three-year medium-term notes in an aggregate principal amount of RMB10 billion with an annual interest rate of 5.30%. The notes were placed through a centralized book-building and allocation process in the PRC inter-bank debenture market at par value. All the proceeds from such note issuance were used to enhance our working capital and repay bank loans of higher interest rate.

On October 23, 2008, we issued five-year medium-term note in an aggregate amount of RMB10 billion with annual interest rate of 4.15%. The notes were placed through a centralized book-building and allocation process in the PRC inter-bank debenture market at par value. All the proceeds from such note issuance were used to enhance our working capital and satisfy our operating expenditure needs.

On August 5, 2008, we issued short-term commercial paper in an aggregate principal amount of RMB10 billion due in one year with an annual interest rate of 4.72%. The short-term commercial paper was issued through a centralized book-building and allocation process in the PRC inter-bank debenture market at par value. All the proceeds from this issue of short-term commercial paper were used to enhance our working capital and repay certain bank loans.

At the annual general meeting held on May 26, 2009, our shareholders approved the proposal for our Company to issue debentures. Pursuant to the resolutions passed at the annual general meeting, we may issue debentures denominated in local or foreign currencies, in one or more tranches, including, but not limited to, short-term commercial paper, medium-term note, company bonds, corporate debts, convertible bonds, asset securitization products and asset-backed notes, from the date of the annual general meeting until the date on which the annual general meeting of the Company for the year ended 2009 is held, with a maximum outstanding balance of RMB90 billion.

Our Company does not have any definitive plan to issue any debentures at this time.

General Information

Our principal executive offices are located at 31 Jinrong Street, Xicheng District, Beijing, PRC 100140 and our telephone number is (+86-10) 6642-8166. Our website address is www.chinatelecom-h.com. The information on our web site is not a part of this annual report. We have appointed CT Corporation System at 111 Eighth Avenue, New York, New York 10011 as our agent for service of process in the United States.

B. Business Overview

We are an integrated information service provider in the PRC with full-service capabilities. We offer a comprehensive range of telecommunications services, including wireline voice services, mobile voice services, Internet access services, value-added services, integrated information application services, managed data and leased line services and other related services.

Since 2005, we have started to implement our business strategy of transformation from a traditional basic telecommunications service provider to a modern integrated information services provider. In particular, we have strengthened our efforts in developing our non-voice services including transformation services, which currently include Internet access services, value-added services and integrated information application services. Our non-voice services have become an important driver for our revenue growth. In addition, we will continue to implement our customer-focused innovative informatization strategy to strengthen our efforts in customer and brand management in order to provide differentiated and innovative services to various groups of customers.

In the fourth quarter of 2008, we successfully acquired the CDMA Business from China Unicom and CUCL and began to offer mobile services, including mobile voice services, mobile value-added services and other mobile services. In January 2009, the MIIT issued to China Telecom Group, our controlling shareholder, a license to operate 3G business nationwide based on CDMA2000 technology. We have been authorized by China Telecom Group to operate CDMA2000 3G mobile business in the PRC. We launched our CDMA2000 3G mobile services in March 2009, and have launched our CDMA2000 3G mobile services in 22 provinces, five autonomous regions and four municipalities of the PRC.

The successful implementation of our business transformation strategy, our ability to offer mobile services and our continued efforts in offering customers value-added and integrated service plans have laid a foundation for the further development of our business.

Our total operating revenue increased by 3.3% from RMB180,882 million in 2007 to RMB186,801 million in 2008. Revenue from our wireline voice services accounted for 51.6% of our total operating revenue in 2008. Revenue from our mobile voice services accounted for 2.1% of our total operating revenue in 2008. Revenue from our Internet access services, value-added services and integrated information application services accounted for 21.8%, 8.7% and 5.8% of our total operating revenue in 2008, respectively. Revenue from our managed data and leased line services and other services accounted for 5.5% and 3.4% of our total operating revenue in 2008, respectively.

Our Full Services Integrated Operation Strategy

Following our acquisition of the CDMA Business in October 2008, we started to implement an operational strategy that focuses on developing our mobile services by targeting middle-to-high-end customers and offering our services on an integrated basis. In particular, we targeted middle-to-high-end customers of our BizNavigator and One Home service plans when offering our mobile services. Our e surfing mobile service brand was launched promptly after our acquisition of the CDMA Business to create a high-quality brand image among these customers and potential customers. In addition, we offered our wireline, mobile and other services on an integrated basis, through which we expect to differentiate ourselves from other telecommunication service providers. We offered integrated services in response to the demands of our different groups of customers, such as the demands of our government and enterprise customers in office automation and information management, the demands of our household customers in easy access to Internet and information search and the demands of individual customers in socializing and entertaining.

Subscribers and Service Usage

Our operating revenue depends largely on the size of our customer base, usage volume and the level and structure of our tariffs. The following table shows our selected operating data as of the dates and for the periods indicated and the structure of our tariffs is set forth elsewhere under this Item.

	As of or for the year ended December 31,		
	2006	**2007**	**2008**
Wireline Voice Services:			
Local wireline access lines in service (in millions)	223.3	220.6	208.3
Residential	122.4	121.8	118.4
Enterprise	22.7	25.0	27.8
Public telephones	15.5	15.8	15.3
Wireless local access	62.7	58.0	46.8
Wireline local voice usage (in billion pulses)(1)	423.5	407.4	372.5
Domestic long distance wireline usage (in billion minutes) (2)	96.8	99.9	98.7
International, Hong Kong, Macau and Taiwan long distance wireline usage (in billion minutes)(3)	1.7	1.7	1.6
Volume of inbound local call minutes (in billions)	124.9	136.0	119.2
Mobile Voice Services:			
Mobile subscribers (in millions)			27.9

	As of or for the year ended December 31, 2006	2007	2008
Mobile voice usage (in billion minutes)			26.4
Internet Access Services:			
Wireline broadband subscribers (in millions)	28.4	35.7	44.3
Wireless broadband subscribers (in millions)			2.4
Value-added Services			
Wireline caller ID service subscribers (in millions)	145.8	146.9	146.7
Wireline SMS usage volume (messages in billions)	23.3	23.3	18.5
Wireline Color Ring Tone subscribers (in millions)	36.7	63.2	79.2
Mobile Color Ring Tone subscribers (in millions)			8.6
Leased Digital Circuits:			
Total bandwidth (x2Mbps) (bandwidth leased in thousands)	284.7	398.9	569.8

(1) Pulses are the billing units for calculating local telephone usage fees.
(2) Includes calls originated by mobile subscribers that are carried over our long distance networks.
(3) Includes calls originated by subscribers of other operators that are carried through the international gateways of China Telecom Group.

Our Products and Services

Wireline Voice Services

Our local wireline telephone services are an important revenue source for our wireline voice services. The total number of wireline telephone subscribers decreased to 208.3 million as of December 31, 2008 from 220.6 million as of December 31, 2007. Among those subscribers we lost in 2008, 11.2 millions were PHS subscribers. We expect that we will lose a significant number of our PHS subscribers in the next few years. The total wireline local voice usage decreased by approximately 8.6% from 407.4 billion pulses in 2007 to 372.5 billion pulses in 2008.

Our long distance wireline services consist of domestic long distance wireline services and international, Hong Kong, Macau and Taiwan long distance wireline services. Total domestic long distance wireline usage was 98,723 million minutes in 2008, representing a decrease of approximately 1.2% from 99,902 million minutes in 2007. Total usage of international, Hong Kong, Macau and Taiwan long distance wireline services in 2008 was 1,572 million minutes, representing a decrease of approximately 5.5% from 1,664 million minutes in 2007.

The decrease in the number of wireline telephone subscribers was primarily attributable to the further reduction in domestic mobile tariffs and the increasing popularization of mobile voice and other alternative communications means. The decrease in voice wireline usage was primarily due to continued decline in tariffs for mobile services, a decrease in service usage by customers in certain regions affected by natural disasters in the PRC in 2008 as well as a decrease in service usage by certain customer groups as a result of the financial crisis in 2008.

With respect to local wireline telephone services, we have adopted initiatives to differentiate our subscribers and services plans, promoted multi-service plans to enhance customer loyalty, and developed value-added services such as Color Ring Tone and Best Tone to add more value to the wireline telephone services. In 2008, we continued our integration development strategy and promoted integrated services plans to government and enterprise customers as well as household customers. In light of the decrease in number of our PHS subscribers, we have taken actions to facilitate migration of our existing PHS subscribers to our mobile and other services.

In order to mitigate the impact of the decrease of our wireline long-distance voice services usage and stabilize our revenue in the increasingly competitive market environment for our long distance services market, we have adopted flexible operating strategies such as differentiating our customers and offering service plans that meet the needs of different subscribers in the market. For example, we launched a series of services plans in 2008, including one price for local and domestic long-distance calls plans and family number services plans, to target different customers based on their consuming characteristics. In 2008, we also focused on effective advertising for purposes of changing customers perception of high prices for our wireline long-distance services.

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Mobile Voice Services

We began to offer our CDMA mobile voice services in the fourth quarter of 2008. Our mobile voice services include local calls, domestic long distance calls, international long distance calls, intra-provincial roaming, inter-provincial roaming and international roaming. The number of subscribers of our mobile voice services was 27.9 million as of December 31, 2008, and the mobile voice usage was 26.4 billion minutes in 2008. Revenue from our mobile voice services was RMB3,972 million in 2008, representing 2.1% of our operating revenue in 2008.

Following our acquisition of the CDMA Business in the fourth quarter of 2008, we conducted a comprehensive analysis of our internal and external business environment and the industry development trends, and started to implement our mobile voice services development strategy, which focuses our marketing our mobile services to middle-to-high-end customers and emphasizes differentiation of our services and a sustained development of economy of scales.

In December 2008, we launched our e surfing mobile service brand and started to promote the concept of Internet handset in order to create a high-quality brand image among our customers or potential customers. We also added a mobile service element to our BizNavigator service plans and One Home services plans in order to quickly penetrate the middle-to-high-end customer market. We expect to continue to integrate our mobile voice services to our existing products in order to take advantage of our full services capabilities.

Internet Access Services

Our Internet access services consist of wireline Internet access services, including dial-up and broadband services, and wireless Internet access services. Internet access services have become increasingly important in our revenue structure. Revenue from our Internet access services generated 21.8% of our total operating revenue in 2008, compared to 17.6% in 2007.

In 2008, we continued to strengthen our Internet services offerings. For example, we offered broadband speed upgrade services to middle-to-high-end customers in order to enhance customer loyalty. We also cooperated extensively with computer resellers in order to expand our broadband subscriber base. As part of our broadband operational strategy, we continued to focus on integration of broadband access and applications, and to provide our customers high-quality and rich content and applications. Following the offering of our CDMA mobile services in the fourth quarter of 2008, we launched new broadband products such as wireless broadband services (CDMA+Wi-Fi) and promoted integrated operations of our mobile services and Internet access services.

As a result of our continuous efforts in developing our Internet access services, the number of our wireline broadband subscribers increased by 23.9% from 35.7 million as of December 31, 2007 to 44.3 million as of December 31, 2008. The number of our wireless broadband subscribers was 2.4 million as of December 31, 2008.

Value-added Services

Our value-added services comprise primarily wireline, Internet and mobile value-added services. Revenue from our value-added services generated 8.7% of our total operating revenue in 2008, compared to 7.3% in 2007.

Our wireline or traditional value-added services consist of Color Ring Tone services, super cordless telephone services, caller ID services, short messaging services, or SMS, and telephone payment services. Color Ring Tone refers to a service where subscribers can customize the answer ring tone heard by the caller from a wide selection of songs, melodies, sound effects or voice recordings to replace the monotonous ring connecting tone. Super cordless telephone refers to a service that provides a fixed-line telephone and a wireless access telephone, such as PHS, sharing the same telephone number. Telephone payment services primarily consist of telephone POS terminal services that enable our customers to swipe their bank cards on a telephone point of sale (POS) terminal for self-services, such as making payments, transferring funds and checking balances.

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Our Internet value-added services primarily consist of ChinaVNet services, Internet data center, or IDC, services, IP-virtual private dial-up network services, IPTV services, Internet through TV services, collaborative communication services and music gateway services. ChinaVNet services refer to products and applications, such as music, video, software and recharge of online game cards, provided through broadband access and operated on a nationwide basis.

Following our acquisition of the CDMA Business in the fourth quarter of 2008, we launched a number of mobile value-added products such as mobile Color Ring Tong services and Mobile Global Mega-Eye services. In addition to these value-added services, we plan to provide colorful SMS, mobile handset downloading services, mobile newspaper, mobile multi-media mailbox services and other mobile value-added services.

As an integrated telecommunications services provider, we will consolidate our Color Ring Tong services and develop and improve our location services, iTV application, security monitoring and other value-added services by taking advantages of our full-service capabilities.

The number of subscribers to our wireline caller ID services was 146.7 million as of December 31, 2008, a slight decrease from 146.9 million as of December 31, 2007. The usage volume of our wireline SMS decreased by 4.8 billion or 20.6% from 23.3 billion in 2007 to 18.5 billion in 2008 primarily due to a decrease in the number of our PHS subscribers. The number of subscribers to wireline Color Ring Tone services increased by 16.0 million or 25.3% from 63.2 million as of December 31, 2007 to 79.2 million as of December 31, 2008. The number of subscribers to our mobile Color Ring Tone service was 8.6 million as of December 31, 2008.

Integrated Information Application Services

Our integrated information services consist of Best Tone services and IT services and IT application services. Revenue from our integrated information application services generated 5.8% of our total operating revenue in 2008, compared to 3.6% in 2007.

Best Tone service provides our customers with phone number storage, enquiry and call transfer services, as well as various information needed in daily life.

IT services and IT application services include information technology-based integrated solutions such as system integration, outsourcing, special advisory, information application, knowledge services and software development. System integration services include designing, installation and testing services in relation to software and hardware system integration projects. Outsourcing services include leasing, operation and maintenance and failure recovery services in relation to network and IT software and hardware systems. Special advisory services include backup for disaster recovery, Internet management and security services. Information application services include office automation system application, electronic filing and electronic administration and Hotel Perfection Alliance services. Knowledge services refer to the consulting, training and project management services in relation to designing and optimizing networks, call centers and video applications, and designing, monitoring and evaluation of IT systems.

In 2008, we continued to focus on the development of our integrated information application services. We accelerated the development of our Best Tone services by focusing on promotion of business travel services and information search functions of our Best Tone services and enhancing customer recognition of our brand name. In addition, we concentrated on the promotion of certain IT services and IT application services such as video applications and network management in order to meet individualized demands of government and enterprise customers for communication and information services. Furthermore, we built cross-regional specialized teams to support the development of our IT services and IT application services. We expect to continue to strengthen our efforts in promoting the development of our integrated information application services and offer our customers integrated information application services that provide both traditional wireline service and mobile service functions.

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Managed Data and Leased Line Services

Our managed data services include Digital Data Network, or DDN, frame relay, or FR, and Asynchronous Transfer Mode, or ATM, services. We offer managed data services as part of our total telecommunications solutions to large enterprise customers, including government agencies, large corporations and institutions. Many of these customers choose FR and ATM services to form virtual private networks, or VPNs, and link their local area networks at different locations. We also collaborate with a number of international telecommunications service providers to build global communications networks for multinational corporations. Revenue from our managed data and leased line services generated 5.5% of our total operating revenue in 2008, compared to 5.1% in 2007.

In 2008, we continued to focus on government, financial and large enterprise customers. Our marketing efforts focused on providing global one-stop shop, tailored services and comprehensive solutions to these customers. These customers can enjoy a full range of consulting, trouble-shooting, billing and collection, and technical support services by contacting any designated account manager in our Company.

Other Services

Our other services primarily include sales, repairs and maintenance of customer-end equipment. Revenue from other services accounted for 3.4% of our total operating revenue in 2008.

Our Customers and Brand Management

Our customers include government and corporate customers as well as household customers. We offer certain of our services as a plan under the brand name BizNavigator and One Home , respectively. We promote BizNavigator as our brand targeting government and corporate customers and One Home as our brand targeting household customers. We have introduced three editions of BizNavigator , namely, Communication Edition, Information Edition and Industry Edition, each offering a different combination of our products and services to meet the different demands of our customers.

In 2008, we continued to enhance our marketing initiatives by further improving our products and services under the brand name BizNavigator and One Home .

For government and enterprise customers, we continued to improve the Communication Edition and the Industry Edition of BizNavigator by integrating wireline voice services, data services and broadband access services to meet the demands of small-and-medium-sized enterprises for more communication and information services. We also devoted substantial efforts in developing and improving integrated information services such as Best Tone services, IT services and IT application services in response to the needs of our government and corporate customers in respect of integrated office administration and information management. In addition, we continued to improve and promote IT application services such as e-Campus , e-Hospital and Hotel Perfection Alliance to target specific customer groups. Subscribers of our BizNavigator services increased from 1.9 million as of December 31, 2007 to 2.5 million as of December 31, 2008.

For household customers, we continued to improve our One Home services, especially the e6 and e8 service plans, by including more services in the plans. We also provided integrated household information solutions to middle-to-high-end customers that include multiple functions such as communications, wealth management and entertainment. We promoted these integrated information solutions by free trials and discounts. Subscribers of our One Home services increased from 10.6 million as of December 31, 2007 to 23.9 million as of December 31, 2008.

In the fourth quarter of 2008, we began to offer CDMA mobile services. In December 2008, we launched our mobile brand e surfing and our 189 prefix mobile numbers. In order to quickly penetrate the middle-to-high-end customer market, we added a mobile service element to our BizNavigator services and One Home services by taking advantage of our full-service capabilities.

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Tariffs

The levels and categorization of most of our current tariffs are subject to regulation by various government authorities. The MIIT has gradually liberalized the tariff level by allowing telecommunications service providers to set tariffs below certain tariff ceilings and permitting them to group their products and services, which could essentially lower the actual price for certain products and services included in the plan. See Regulatory and Related Matters Tariff Setting included elsewhere under this Item. Set forth below is the structure of the tariffs we charge our customers for the services we provide. We offer service plans to our customers, which could essentially lower the actual price for certain services included in these service plans.

Wireline Voice Services

Local Wireline Telephone Services. For our local wireline telephone services, we charge a fixed monthly fee and usage fees based on call usage in terms of pulses. The tariffs are regulated by the PRC government. The local call usage fees are either intra-district or inter-district, depending upon whether a call is within a single service district or between service districts. See Regulatory and Related Matters Tariff Setting included elsewhere under this Item. In addition, we also charge installation fees for installing telephone for our subscribers. We charge the installation fee based on the actual cost of the installation.

The following table sets forth the tariffs we charge for local telephone services:

	Tariff (in RMB)
Monthly fee:[1]	
Residential customers	10.0 25.0
Enterprise customers	15.0 35.0
Usage fee:	
Intra-district	0.18 0.22 for the first three minutes or less and 0.09 0.11 for each additional minute
Inter-district	0.20 0.50 per minute[2]
Communications fee:	
Internet dial-up	0.02 per minute

(1) Monthly fees for customers vary depending on whether a subscriber is located in the provincial capital city, other cities, a county or rural areas.

(2) The data in the table are the tariff ceilings for inter-district local telephone services set by the regulatory authorities. We are permitted to determine tariffs for public switched telephone networks services, or PSTN, provided the tariffs are below the tariff ceilings set by the regulatory authorities.

Domestic Long Distance Wireline Services. Currently, all domestic long distance wireline services using PSTN are charged at the unified rate of RMB0.07 per six seconds, with a discount rate of up to 40% applicable to calls made during off-peak hours, which are from 12:00 am to 7:00 am every day.

The following table sets forth the tariffs for our domestic long distance telephone services which are based on state tariff rates:

	Tariff (in RMB)
Public switched telephone networks services[1]	All at the unified rate of RMB0.07 per six seconds[2]
VoIP services[3]	Not regulated[4]

(1) The data in the table are the tariff ceilings for domestic long distance wireline services using public switched wireline telephone networks set by the regulatory authorities. We are permitted to determine tariffs for PSTN services provided the tariffs are below the tariff ceilings set by the regulatory authorities.

(2) A discount rate of up to 40% applies to calls made during off-peak hours, which are from 12:00 am to 7:00 am every day.

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(3) A separate usage fees for local services is charged when a VoIP long distance call is placed. The local usage fee of a VoIP call is the same as the local usage fee of an intra-district local voice call.

(4) Although we are permitted to set the tariffs for VoIP services, the tariffs are subject to certain filing and approval requirements of the regulatory authorities.

International, Hong Kong, Macau and Taiwan Long Distance Wireline Services. The following table sets forth our international, Hong Kong, Macau and Taiwan long distance wireline tariffs:

	Tariff (in RMB)
Public switched telephone networks services[1]:	
To Hong Kong, Macau and Taiwan	RMB0.20 per six seconds
To all international destinations	RMB0.80 per six seconds[2]
VoIP services:[3]	
To Hong Kong, Macau and Taiwan	Not regulated
To all international destinations	Not regulated

(1) The data in the table are the tariff ceilings for international, Hong Kong, Macau and Taiwan long distance wireline services using PSTN set by the regulatory authorities. We are permitted to determine tariffs for public switched wireilne telephone networks services provided the tariffs are below the tariff ceilings set by the regulatory authorities.

(2) A discount rate of up to 40% applies to calls made during off-peak hours.

(3) A separate usage fee for local services is charged when a VoIP long distance call is placed. The local usage fee of a VoIP call is the same as the local usage fee of an intra-district local voice call.

We offer international, Hong Kong, Macau and Taiwan long distance wireline services through the international gateways of China Telecom Group. China Telecom Group negotiates bilateral settlement arrangements and rates based on the international settlement standards in the telecommunications industry, and we follow those settlement arrangements and rates.

Wireline Interconnection. Under relevant regulations, we are exempt from any interconnection payment for outbound local traffic to mobile operators. See Regulatory and Related Matters Interconnection included elsewhere under this Item for tariff details.

Mobile Voice Services

The tariffs for our CDMA mobile voice services are generally regulated by the State. Generally we charge subscribers of our CDMA mobile voice services the following categories of tariffs: basic monthly fees, local usage charges, roaming charges and long-distance call charges.

The following table sets for the tariffs we charge for our post-paid and pre-paid mobile services:

	Post-paid Services RMB	Pre-paid Services RMB
Basic monthly fee[1]	50	0
Local usage charge (per minute)[1]	0.36 or 0.4	0.54 or 0.6
Domestic roaming charge (per minute)[2]	0.6 for caller 0.4 for receiver	0.6 for caller 0.4 for receiver
Domestic long-distance call charge [2]	RMB0.70 per six seconds	RMB0.70 per six seconds
International long-distance call charge:[2]		
To Hong Kong, Macau and Taiwan	RMB0.20 per six seconds	RMB0.20 per six seconds
To all international destinations	RMB0.80 per six seconds	RMB0.80 per six seconds

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(1) The basic monthly fee and local usage charge (per minute) are set by the regulatory authorities.
(2) The tariff rates of roaming charge and long-distance call charge are the tariff ceilings set by the regulatory authorities.

With respect to international roaming of our mobile voice services, we settle roaming revenue with international operators in accordance with roaming agreements between China Telecom Group and each of the international operators.

To accelerate the growth in our CDMA subscriber base, we offer CDMA handset promotion plans, providing discounts towards our customers CDMA handset purchase prices on the basis of their committed minimum amount of service fees. Our promotion plans are offered in a wide price range, which could essentially lower the actual tariffs we charge compared to the tariffs set forth in the above table, to target users in different market groups.

Internet Access Services

Internet access services are classified as market-based for purpose of tariff determination by relevant regulatory authorities. We determine tariffs for our Internet access services according to market conditions. See Regulatory and Related Matters Tariff Setting included elsewhere under this Item.

Value-added Services

Value-added services are classified as market-based for purpose of tariff determination by relevant regulatory authorities. We determine tariffs for our value-added services according to market conditions. See Regulatory and Related Matters Tariff Setting included elsewhere under this Item.

Integrated Information Application Services

Integrated information application services are classified as market-based for purpose of tariff determination by relevant regulatory authorities. We determine tariffs for our integrated information application services according to market conditions. See Regulatory and Related Matters Tariff Setting included elsewhere under this Item.

Managed Data and Leased Line Services

Managed Data Services. We determine most of the tariffs for our managed data services within a price range set by the PRC government. We generally charge a fee for installation and testing for our managed data services and a fixed monthly fee. We offer various promotion discounts for our customers who wish to upgrade to higher bandwidth services. These promotion discounts have stimulated demand for our managed data services in recent years.

The following table sets forth the monthly fees for DDN services at the bandwidth of 64Kbps and 2Mbps:

	Tariff (in RMB)
64Kbps	
Intra-district	1,500
Inter-district	2,000
Intra-provincial	3,500
Inter-provincial	3,500
2Mbps	
Intra-district	6,000
Inter-district	8,000
Intra-provincial	12,000
Inter-provincial	12,000

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The following tables set forth the monthly fees for FR and ATM services, which include monthly fees for port access and permanent virtual circuits, or PVCs:

	Monthly Fee for Port Access			
Bandwidth	**2Mbps**	**10Mbps**	**100Mbps**	**155Mbps**
		(RMB)		
Monthly fees	1,000	5,000	9,000	10,000

PVC monthly fees (RMB):[1]

	PVC Monthly Fees		
Bandwidth	**Intra-District**	**Inter-District**	**Domestic Long Distance**
		(RMB)	
256Kbps	800	1,150	2,200
2Mbps	1,500	2,200	4,000
10Mbps	5,000	11,500	15,500
155Mbps	14,500	39,000	130,000

(1) One-way tariff for PVC circuits of ATM services.

Leased Line Services. The leased line tariff rates are set by the PRC government based on bandwidth and whether the leased line is local or long distance. Leased line providers are permitted to charge monthly fees for leased lines on a discount basis and leased line tariffs have generally decreased in recent years. We provide different discounts to our customers on a case by case basis. See Regulatory and Related Matters Tariff Setting included elsewhere under this Item.

The following table sets forth the tariffs for 2Mbps and 155Mbps digital circuits as set by the PRC government:

	Tariff (in RMB)
2Mbps	
Intra-district	2,000
Inter-district	4,000
Intra-provincial[1]	6,000
Inter-provincial[1]	6,000
155Mbps	
Intra-district	44,000
Inter-district	88,000
Intra-provincial[1]	132,000
Inter-provincial[1]	132,000

(1) Does not include the tariffs for local digital circuits and access lines.

Interconnection and Roaming Arrangements

Interconnection

Interconnection refers to various arrangements that permit the connection of our networks to other mobile or fixed-line networks. These arrangements provide for the sharing and settlement of revenues from the base usage charges and, if applicable, roaming charges and domestic and international long distance charges.

China Telecom Group entered into interconnection settlement agreements with other telecommunications operators, including Unicom Group and China Mobile Group. We entered into an interconnection settlement agreement, as amended, with China Telecom Group, which allows our networks to interconnect with China Telecom Group s networks as well as networks of the other telecommunications operators, with whom China Telecom Group had interconnection arrangements. Our interconnection arrangements with China Telecom Group and other telecommunications operators enable our subscribers to communicate with the subscribers of those operators and to make and receive local, domestic and international long distance calls. All interconnection and settlement arrangements among public wireline telephone, mobile, and Internet networks in the PRC are governed by the Telecommunications Regulations and the rules on interconnection arrangements and settlement promulgated by the MIIT. See Regulatory and Related Matters Interconnection included elsewhere under this Item.

Roaming

We provide roaming services to our subscribers, which allow them to access our mobile telecommunications services while they are physically outside of their registered service area or in the coverage areas of other mobile telecommunications networks in other countries and regions with which we have roaming arrangements.

Currently, subscribers of our CDMA mobile services using CDMA dual-mode UIM cards can roam on mobile networks through China Telecom Group s international roaming agreements with GSM operators in 211 countries and regions and CDMA operators in 17 countries and regions, and subscribers of our CDMA mobile services using CDMA UIM cards can roam on CDMA mobile networks through China Telecom Group s international roaming agreements with CDMA operators in 17 countries and regions. A CDMA mobile service subscriber using roaming services is charged at our roaming usage rate for both incoming and outgoing calls, plus applicable long distance tariffs. With respect to international roaming, we settle roaming revenue with international operators in accordance with roaming agreements between China Telecom Group and each of the international operators. China Telecom Group has also agreed to arrange for us to participate in its future international roaming arrangements.

Marketing, Distribution and Customer Services

Marketing Initiatives

We market all of our telecommunications services under the China Telecom brand name, which is one of the best known brand names in the PRC. We have devoted substantial efforts in advertisements to promote recognition of and loyalty to our products and services. In order to respond to migration of our subscribers to mobile services and motivate our customers to continue to use our services, we have also grouped certain of our local and long distance services, differentiated price for one or more products and combined certain products into one integrated service plan to targeted customers to address their telecommunications needs.

Furthermore, we have adopted various marketing approaches and initiatives, such as customer experience, SMS, telesales, sales plans and joint promotion with our business partners such as Internet portal companies and software development companies, to promote our products and services, in particular our value-added services.

Sales, Distribution and Customer Services

In 2008, we continued to implement our dedicated service system, standardize and expand our business outlets, strengthen and promote our customer service hotlines, and improve our online customer services. By gradually integrating the dedicated service channel, electronic-based service channel, business outlet service channel and the agency service channel, we aim to provide our customers with more effective and efficient services. As part of the implementation of our strategy to provide integrated services, we enhanced information sharing with respect to information relating to sales and distribution channels within the Company. We also streamlined our service process, strengthened employee training and implemented measures to improve our customer services such as providing customers consolidated bills containing billing information with respect to different services.

Dedicated service channel. We have implemented a dedicated service channel comprising customer managers specifically assigned to market our services to large enterprises, communities and rural areas. We designed and customized products based on the various needs of our customers, and promote these products through our dedicated customer managers. We conduct periodic performance reviews and evaluations of the performance of these dedicated customer managers based on several factors, including revenue growth, customer satisfaction, business promotion and customer retention.

Electronic-based service channel. We provide customer services through our customer service hotlines with the access number of 10000 , online service centers and mobile service centers. Our customer service hotlines handle service inquiries, service applications, customers complaints and promote our products and services. Our online and mobile service centers provide all the customers with service inquiry, service application and other services. We maintain and enhance our communications with our customers through the electronic-based service channel. In 2008, we improved our customer services provided through electronic-based service channel to handle mobile-related services. In order to promote sales of our integrated services, we continue to make sales calls to target households and individual customers through our customer service hotlines with the access number of 10000 . In 2008, we also improved our online service centers to handle requests from customers of our mobile and Internet services. Furthermore, we improved functions of our mobile service centers in order to serve our customers on a timely basis.

Business outlet channel. Through our own business outlets as well as agents and business outlets set up with third parties, we provide our customers with better service experience, promote our corporate image and new products. In order to meet the needs of the development of our mobile services, we have increased the number of our business outlets and expanded their service coverage. In particular, we have strengthened our efforts in improving facilities of our business outlets in the northern region of the PRC.

Agency service channel. We have established guidelines to supervise and cooperate with our agencies and distributors and develop our business, expand our customer base and provide better customer services. Because certain agencies and distributors such as mobile handset chain stores, supermarkets and large-scale telecommunications equipment distribution stores are close mobile service customers and have advantages in selling terminal equipment including mobile handsets, we have worked with them closely to promote sales of our mobile, Internet access and value-added services.

Information Technology System

Prior to 2008, our information technology, or IT, system was primarily designed and operated to support our wireline voice services. Since our acquisition of the CDMA Business in October 2008, we have improved our IT system to support the offering of our wireline voice services, mobile voice services and other services on an integrated basis.

In the fourth quarter of 2008, we completed the incorporation of the CDMA network IT system of China Unicom into our IT system, which provided technologic support to the successful launch of our 189 prefix mobile number in a timely manner and the offering of our wireline and mobile services on an integrated basis. We also enhanced our IT system to support our operational strategy of customer differentiation.

In addition, we improved our IT system in 2008 to support various aspects of our operation of mobile services such as prompt calculation of charges, roaming and interconnection settlement, administration of our agencies and distributors and administration of terminal equipments and UIM cards. Our IT system has the capability to support offering of our wireline, mobile and other services on an integrated basis and to support different steps of our service offerings from account opening, fee calculation to customer services.

Network System

We have been able to realize significant economies of scale as a result of the extensive coverage and scale of our network. Our network employs a variety of advanced technologies and suitable architecture and can be efficiently migrated to the next generation of network technology. Our network system is managed and operated by our experienced network management and maintenance teams and offers flexible functionality and reliable operation. It supports a comprehensive range of end-to-end telecommunications services and enables customized products to be delivered for a variety of telecommunications needs. Our networks and services are supported by our strong research and development capabilities. We have formulated viable plans in light of future advances in technology to migrate our network system smoothly to the next generation of network technology in order to protect our existing investments.

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Network Architecture

Our network system consists of local access networks, transport networks, core networks, service platform and support networks.

Local access networks: Local access networks are directly connected to customers.

Transport networks: Transport networks provide the transport functions of voice and data signals for all of our services.

Core networks: Core networks include our wireline telephone network, basic data networks, Internet network and CDMA mobile network, and support our basic telecommunications services.

Service platform: The service platform provides the platform for a variety of applications and services such as SMS, Color Ring Tone, IPTV, video conferencing and information search services.

Support networks: Support networks include signaling networks, digital synchronous networks and network management systems and support the reliable and effective operation of our networks at all levels.

Network Capacity and Technology

Local access networks. We own extensive local access networks in our service regions. As of December 31, 2008, our local access networks covered all cities, counties and most rural villages in our service regions. In order to optimize our network and improve utilization, in addition to expanding our broadband local access networks utilizing our existing copper line resources, we are vigorously connecting additional large office buildings, business centers and residential buildings with fiber optic access. We also developed wireless LANs in certain business areas in major cities, including hotels, airports, exhibit centers and office buildings to provide business travelers with broadband access services.

Transport network. Our transport system is based on an advanced, high-speed, large-capacity, secure and reliable fiber optic network throughout our service regions. Our fiber optic transport network is also supplemented by satellite transmissions and digital microwave links.

Wireline telephone networks. We expanded the application of softswitch technology and optimized our telephone network system in 2007. The softswitch technology has been applied nationwide, and we have generally not constructed any new PSTN switchboard since then.

CDMA mobile network. China Telecom Group, our controlling shareholder, acquired the CDMA network from Unicom Group in October 2008. The CDMA network owned by China Telecom Group currently has a nationwide coverage in the PRC. We lease CDMA network capacity from China Telecom Group and have the exclusive right to use and operate the CDMA network to provide our CDMA mobile services. The core network of the CDMA network owned by China Telecom Group has adopted the soft switch technology and currently has an aggregate network exchange capacity of approximately 90 million subscribers. Currently, China Telecom Group owns approximately 120,000 base stations, among which approximately 45,000 or 38% are CDMA2000 EVDO base stations. In addition, China Telecom Group has completed upgrades of service network platforms transferred from Unicom Group and supporting our mobile short messaging services, mobile Color Ring Tong services and other mobile services, and has also undertaken substantial efforts in developing service network platforms to support our new mobile services launched under our e surfing mobile service brand. For example, China Telecom Group has completed service network platforms to support our Mobile Global Mega-Eye services, wireless broadband services (CDMA + Wi-Fi) and other mobile services to be launched by us.

Internet and managed data networks. We have developed a large-capacity, high-quality, reliable and extensive Internet and managed data network system in our service regions. Our Internet and managed data networks allow us to provide services both at the network layer, such as Internet access, managed data and VPN services, and at the application layer, such as Internet data center, content distribution and video-on-demand services.

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Our data network system includes a DDN network, an FR network and an ATM network. These networks cover all cities and counties in our service regions. Our ATM network allows multi-service access and flexible bandwidth management and provides high-quality, integrated end-to-end services.

CHINANET, our Internet network, deploys mainstream advanced routers as the main network technology. Most of its backbone routes allow high-speed transmission with the use of several 10Gbps circuits.

China Telecom Next Carrying Network, or CN2, is our next generation core multi-service carrier platform and has been fully implemented. It is capable of supporting voice, managed data, and video services at the same time. It covers most of our local networks and nine overseas cities. As the carrier network within the telecommunications network, CN2 is capable of carrying softswitch network, 3G mobile network, video-on-demand service, CHINANET and other important services. In addition, as a high-quality Internet network, CN2 provides Multi-protocol Label Switch Virtual Private Network service and Internet access service.

Support networks. The operation of our wireline telephone, Internet and managed data networks depends on various support networks, including a signaling network based on a signaling technology known as Signaling System No. 7 protocol, a digital synchronous network and network management systems for various networks and services.

Equipment procurement. We purchase most of our network equipment from leading international and domestic suppliers. We purchase a variety of network equipment from domestic suppliers, such as transport equipment and local switches. We make most of our purchases through competitive tenders primarily based on product and service quality, system compatibility and price.

Purchases from our five largest suppliers of telecommunications equipment accounted for approximately 26.2% of our total amount of annual purchases for 2008. Purchases from our largest supplier of telecommunications equipment accounted for approximately 12.1% of our total amount of annual purchases for 2008.

Competition

The telecommunications industry in the PRC is rapidly evolving. Until the mid-1990s, we were the sole provider of wireline telecommunications services in our service regions and, as a result, we had a dominant market position in our service regions. We began to operate in a competitive market as the PRC government started to implement a number of measures to restructure the telecommunications industry and encourage competition in the industry in the mid-1990s.

In May 2008, in order to optimize the allocation of telecommunications resources in the PRC and improve the competitive landscape, the MIIT, the National Development and Reform Commission and the Ministry of Finance announced the policy initiative to further reform the telecommunications industry in the PRC that encourages the formation of three telecommunications services providers, each with nationwide network resources, comparable scale and standing, full-service capabilities and competitive strength, by way of a series of restructuring transactions. The restructuring transactions proposed in the policy initiative included the acquisition by our Company of the CDMA Network (including both assets and subscriber base) owned by China Unicom, the merger between China Unicom and China Netcom, the acquisition by China Telecom Group of the basic telecommunications services business operated by China Satellite and the acquisition by China Mobile of China Railcom. Subsequently, we negotiated with, and acquired from, China Unicom and CUCL the CDMA Business, and China Unicom completed its merger with China Netcom by way of a scheme of arrangement under Hong Kong laws. Following the industry restructuring in 2008, China Unicom and our Company have full-service capabilities and compete with each other in both wireline and wireless telecommunications services. China Mobile continues to be the leading provider of mobile telecommunications services in the PRC. China Mobile directly competes with us in mobile telecommunications services and indirectly competes with us in wireline and other telecommunications services.

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Since the PRC s accession to the WTO, foreign operators have been permitted to gradually increase their investments in the telecommunications industry in the PRC. Like domestic service providers, foreign operators are subject to the licensing requirements of the MIIT. In addition, investments by foreign operators may not exceed limits set forth in the relevant laws and regulations with respect to the amount of investment and percentage of total ownership interests that foreign operators are permitted to make in telecommunications enterprises in the PRC. For example, the foreign ownership percentage in basic telecommunications services will be subject to a maximum limit of 49%. See Regulatory and Related Matters Licensing included elsewhere under this Item.

Trademarks

We conduct our business under the China Telecom brand name and logo. Currently, China Telecom Group owns certain trademarks in the PRC, some of which have been registered with the Trademark Office of the PRC State Administration for Industry and Commerce, or the Trademark Office, and some of which are in the process of being registered with the Trademark Office. China Telecom Group has executed a trademark license agreement with us. Under this agreement, China Telecom Group agreed to grant to us and our subsidiaries the right to use these trademarks upon the completion of the registration on a royalty-free basis until December 31, 2009, which is automatically renewable for three more years at our option. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions Ongoing Related Party Transactions between Us and China Telecom Group Trademark License Agreements .

Regulatory and Related Matters

Overview

The PRC s telecommunications industry is subject to extensive government regulation. A number of central government authorities have regulatory responsibilities for various aspects of the telecommunications industry. These authorities primarily include:

- The MIIT, which is responsible for, among other things:
  - formulating and enforcing industry policies and regulations as well as technical standards;
  - granting telecommunications service licenses;
  - supervising the operations and quality of service of telecommunications service providers;
  - allocating and administering telecommunications resources such as spectrum and numbers;
  - together with other relevant regulatory authorities, including National Development and Reform Commission, formulating tariff standards and tariff charging mechanisms for telecommunications services;
  - formulating interconnection and settlement arrangements between telecommunications networks; and
  - maintaining fair and orderly market competition among service providers.
- Provincial communications administrations under the MIIT, which oversee the implementation of the Ministry s regulations and exercise regulatory authorities delegated by the Ministry within their respective provinces, autonomous regions and centrally

administered municipalities.

The National Development and Reform Commission, which, together with the MIIT, sets government fixed tariffs and government guidance tariffs for certain telecommunications services. The actual tariffs charged by providers of telecommunications services are determined by provincial communications administrations, together with the price bureaus of the provinces, autonomous regions or centrally administered municipalities where those providers operate. See Tariff

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Setting below. It also approves investment and finance projects exceeding certain capital expenditure amounts as well as foreign investment projects exceeding certain investment amounts.

In order to provide a uniform regulatory framework to encourage the orderly development of the telecommunications industry, the PRC government is in the process of drafting a telecommunications law. We expect that, if and when the telecommunications law is adopted by the National People s Congress or its Standing Committee, the highest state legislative body in the PRC, it will become the basic telecommunications statute and provide a regulatory framework for the telecommunications industry in the PRC.

Telecommunications Regulations

The PRC s State Council promulgated the Telecommunications Regulations, which became effective as of September 25, 2000. The Telecommunications Regulations are substantially consistent with, and are primarily intended to streamline and clarify, the then existing rules and policies for the telecommunications industry. The Telecommunication Regulations provide the primary regulatory framework for the PRC s telecommunications industry in the interim period prior to the adoption of the telecommunications law.

The Telecommunications Regulations are intended to develop a transparent and fair regulatory environment to encourage fair and orderly competition and development in the telecommunications industry. The Telecommunications Regulations address all key aspects of telecommunications operations, including, among others, entry into the telecommunications industry, network interconnection, telecommunications resource allocation, tariffs and service standards.

Licensing

The Telecommunications Regulations adopt the existing regulatory distinction between basic and value-added telecommunications services, which are subject to different licensing requirements. Basic telecommunications services include, among others, wireline local and domestic long distance telephone services, international telecommunications services, mobile communications services (such as 900/1800MHz GSM, 800MHz CDMA and 3G mobile communications services), satellite communications services, paging services, data communications services (such as Internet data transmission services, international data communications services), trunking services, network access services and domestic and international telecommunications facility services. Value-added telecommunications services include, among others, value-added services provided over wireline telephone networks (e.g., telephone information, call center, voice mail and video conferencing services), value-added services provided over mobile networks, value-added services provided over Internet networks (e.g., Internet data center and Internet access and content services) and value-added services provided over other data networks (e.g., computer information, e-mail and electronic data interchange services).

Providers of any basic telecommunications services as well as providers of value-added services in two or more provinces, autonomous regions and centrally administered municipalities in the PRC must apply for licenses from the MIIT. In accordance with the approval of the MIIT, we derive our exclusive rights to operate our business from our status as a subsidiary controlled by China Telecom Group, which holds the licenses required for operating our telecommunications business. In January 2009, China Telecom Group received a license from the MIIT to operate 3G services nationwide, which permits China Telecom Group to provide 3G services based on CDMA2000 technology. We have been authorized by China Telecom Group to operate 3G services nationwide based on CDMA2000 technology.

The PRC s State Council has promulgated the Administrative Regulations on Telecommunications Companies with Foreign Investment, which became effective on January 1, 2002. According to those regulations, enterprises with foreign investment may operate basic and value-added telecommunications services subject to the approval of the MIIT and the Ministry of Commerce (formerly the Ministry of Foreign Trade and Economic Cooperation). Certain limitations have been placed on the total registered capital of, and maximum foreign shareholdings in, such enterprises.

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After its accession to the WTO in December 2001, the PRC promulgated the Administrative Regulations on Telecommunications Companies with Foreign Investment, effective on January 1, 2002, implementing its commitments to the WTO. Those commitments include the gradual reduction of foreign ownership restrictions in the telecommunications industry and the step-by-step opening of the telecommunications market in the PRC to foreign operators. However, the presence or absence of foreign investments in an applicant for telecommunications licenses will presumably bear no direct relation to the decision on whether to issue licenses, inasmuch as the issuance of new licenses is governed by a separate set of rules and regulations. In recent years, the PRC gradually fulfilled the market-opening commitments it made to the WTO and lifted many restrictions for foreign investors and service providers in respect of telecommunications services. The remaining restrictions regarding mobile services, value-added telecommunications services and fixed line services are as follows.

For mobile voice and data services:

there is no longer any geographic restriction and the foreign ownership shall be no more than 49%.

For value-added telecommunications services:

there is no longer any geographic restriction and the foreign ownership shall be no more than 50%.

For fixed line services:

there is no longer any geographic restriction and the ownership shall be no more than 49%.

The MII has promulgated the Measures on Administration of Telecommunication Business Licenses, which became effective on January 1, 2002. Those regulations apply to the application for, and examination and approval of, telecommunications business licenses in the PRC.

Tariff Setting

The levels and categorization of most of our current tariffs are subject to regulation by various government authorities, including the MIIT, the National Development and Reform Commission, and, at the local level, the relevant provincial communications administrations and price bureaus. Under the Telecommunications Regulations, telecommunications tariffs are categorized into government fixed tariffs, government guidance tariffs and market based tariffs. The telecommunications providers are permitted to set tariffs for certain services provided the tariff levels are below the tariff ceilings set by the MIIT and the National Development and Reform Commission.

The PRC government retains the ultimate authority to adopt changes to tariffs. However, the Telecommunications Regulations require the government to hold public hearings before setting or changing fixed or guidance tariff rates, which should be attended by, among others, telecommunications operators and consumers. See Item 3. Key Information D. Risk Factors Risks Relating to the Telecommunications Industry in the PRC Our revenues may be adversely affected by reductions in tariffs and other changes in tariff regulations mandated by the PRC government .

Under the Telecommunications Regulations, cost is the primary basis for tariff setting. In addition, the tariff level should also take into account social and economic development, the development of the telecommunications industry and consumers ability to afford the services.

The MIIT has gradually liberalized the tariff level by allowing telecommunications provider to set tariffs below certain tariff ceilings and permitting them to group their products and services, which could essentially lower the actual price for certain products and services included in the plan. Effective October 1, 2005, the MIIT and the National Development and Reform Commission set the tariff ceiling for local services, domestic long distance services, and international, Hong Kong, Macau and Taiwan long distance services. With respect to the tariffs for domestic and international long distance services, telecommunications service providers are required to file the tariffs with the MIIT and the National Development and Reform Commission for record purpose, and, at the local level, the relevant provincial communications administrations and price bureaus. With respect to the tariffs for local services, filings

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of the tariffs with the relevant provincial communications administrations and price bureaus for record purpose are required. With respect to service discounts plans, filings with the MIIT or, if service discounts plans are provided by the provincial subsidiaries of the telecommunications operator, with the relevant provincial communications administrations, are required. Currently, the MIIT allows tariffs for VoIP, Internet access services and certain value-added services provided over wireline telephone networks to be set by service providers. We expect that the tariff ceilings for the long distance services will decrease and the tariff ceilings for other services will remain stable. Following the telecommunications industry restructuring in 2008 and the formation of three telecommunications service providers each with full-service capabilities and competitive strength, it is expected that the MIIT will gradually liberalize the regulation on tariff setting.

Interconnection

Under the Telecommunications Regulations and the Administrative Rules on Interconnection between the Public Telecommunications Networks promulgated by the MII in May 2001, major telecommunications operators in the PRC cannot refuse requests for interconnection and must enter into interconnection agreements upon request by other service providers. Interconnection agreements must be filed with the MIIT. Interconnection agreements may not be terminated unilaterally without prior approval by the MIIT.

The Telecommunications Regulations further provide that the technical standards and settlement methods for network interconnections be formulated by the MIIT. In accordance with these regulations, China Telecom Group has entered into various interconnection agreements with other telecommunications service providers, including China Mobile and China Unicom.

The MIIT (or the MII prior to March 2008) issued three Notices on Adjustment to Settlement Standards for Interconnection Fees of Wireline Local Telephone Networks, in October 2005, January 2007 and April 2009, respectively, which provide for interconnection settlement arrangement standards for local inter-district calls between wireline local telephone operators. The following table sets forth selected interconnection revenue sharing and settlement arrangements for local calls:

Network from Which Calls Originated	Network at Which Calls Terminated	Current Main Settlement Arrangement
Mobile operator	Wireline local operator	(1) Mobile operator collects the cellular usage charge from its subscribers
		(2) Mobile operator pays RMB0.06 per minute to wireline operator
Wireline local operator	Mobile operator	No revenue sharing or settlement
Wireline local operator A	Wireline local operator B	(1) Operator A collects the usage charge from its subscribers
		(2) In the case of local calls from operator A not using operator B s local inter-district trunk circuit, operator A pays 50% of usage charge to operator B
		(3) In the case of local inter-district calls from operator A using operator B s local inter-district trunk circuit, operator A pays no more than RMB0.15 (RMB0.06 after June 1, 2009) per minute to operator B

Mobile operator A	Mobile operator B	(1) Mobile operator A collects the cellular usage charge from its subscribers (2) Mobile operator A pays RMB0.06 per minute to mobile operator B

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The following table sets forth selected current main interconnection revenue sharing and settlement arrangements for PSTN domestic long distance calls:

Network from Which Calls Originated	Network at Which Calls Terminated	Current Main Settlement Arrangement
Wireline local or mobile operator A	Wireline local or mobile operator B, through the long distance network of operator C	(1) Operator C collects the tariff from its subscribers (2) Operator C pays RMB0.06 per minute to operator A, RMB0.06 per minute to operator B, and gets the rest of the long distance tariff

The following table sets forth selected current main interconnection revenue sharing and settlement arrangements for PSTN international long distance calls, including calls originated from and terminated in Hong Kong, Macau and Taiwan:

Network from Which Calls Originated	Network at Which Calls Terminated	Current Mai