CHINA TELECOM CORP LTD
Form 20-F
April 29, 2014
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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, 2013

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 100033

(Address of Principal Executive Offices)

Ms. Yi Chen

China Telecom Corporation Limited

31 Jinrong Street, Xicheng District

Beijing, People s Republic of China 100033

Email: chenyi@chinatelecom.com.cn

Telephone: (+86-10) 5850 1508

Fax: (+86-10) 5850 1504

(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, 2013, 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 Website, 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 x

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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CHINA TELECOM CORPORATION LIMITED

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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 and our ability to successfully execute these 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 acquired businesses and assets;
- 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, 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;
- the convergence of television broadcast, telecommunications and Internet access networks, or three-network convergence; and
- spectrum and numbering resources allocation;

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

effects of our restructuring and integration following the completion of our acquisition of the Code Division Multiple Access technology, or CDMA, telecommunications business, or the CDMA Business in 2008;

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

changes in the PRC telecommunications industry as a result of the issuance of the third generation mobile telecommunications, or 3G, and the fourth generation mobile telecommunications, or 4G, licenses by the MIIT;

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

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; and

future implementation of a value-added tax to replace the business tax in the PRC.

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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 consolidated statements of financial position data as of December 31, 2012 and 2013, and the selected consolidated statements of comprehensive income (except for earnings per ADS) and consolidated cash flow data for the years ended December 31, 2011, 2012 and 2013, are derived from our audited consolidated financial statements included elsewhere in this annual report, and should be read in conjunction with those consolidated financial statements. The selected consolidated statements of financial position data as of December 31, 2009, 2010 and 2011 and the selected consolidated statements of comprehensive income (except for earnings per ADS) and consolidated cash flow data for the years ended December 31, 2009 and 2010 are derived from our consolidated financial statements which are not included in this annual report. Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board.

The selected financial data reflect the acquisitions and divestment in 2012 and 2013 described under Item 4. Information on the Company A. History and Development of the Company Our Acquisitions from China Telecom Group and Corporate Organization Restructuring , Our Acquisition from China Telecom Group of the CDMA Network Assets and Associated Liabilities , Our Sale of E-surfing Media Co., Ltd. and Our Acquisition of China Telecom (Europe) Limited .

On April 30, 2012, we sold to Besttone Holding Co., Ltd. (formerly known as China Satcom Guomai Communications Co., Ltd.), or Besttone Holding, which was controlled by China Telecom Group, our 100% equity interest in Besttone E-Commerce Co., Ltd., a subsidiary of the Company primarily engaged in the provision of e-commerce and booking services. Besttone Holding paid the consideration by issuing to us 21,814,894 of its shares, representing approximately 4.1% of its enlarged share capital.

On April 30, 2012, we acquired the digital trunking business from Besttone Holding for a consideration of RMB48 million. The assets and liabilities of the acquired digital trunking business have been restated to account for the acquisition as if it had occurred before the commencement of the earliest period presented.

On December 31, 2012, we purchased from China Telecom Group certain assets and associated liabilities relating to the CDMA network located in 30 provinces, municipalities and autonomous regions in the PRC for a total consideration of approximately RMB87,210.35 million, of which

RMB25,500 million was paid in January 2013 and the balance will be payable at any time on or before the fifth anniversary of December 31, 2012, or the Mobile Network Acquisition. The Mobile Network Acquisition was recognized as an assets acquisition and the assets and associated liabilities acquired by the Company are stated at their respective purchase prices, including related tax expenses, on December 31, 2012.

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On April 26, 2013, the Company entered into a disposal agreement with China Telecom Group, pursuant to which the Company has agreed to sell to China Telecom Group an 80% equity interest in E-surfing Media Co., Ltd., or E-surfing Media, a subsidiary of the Company primarily engaging in providing platform operating services for mobile Internet video and Internet video and offering video services for subscribers through cooperation with content providers, for an initial consideration of RMB1,195 million. The initial consideration was subject to an adjustment based on 80% of the change in the book value of the net assets of E-surfing Media during the period from December 31, 2012 to the completion date of the disposal. The risks and rewards of the ownership of the equity interest in E-surfing Media were transferred to China Telecom Group on June 30, 2013. The final consideration was arrived at RMB1,248 million and received by the Company by December 31, 2013.

On December 16, 2013, China Telecom Global Limited, or China Telecom Global, a wholly-owned subsidiary of the Company primarily engaged in the provision of international value-added network services, entered into an acquisition agreement with China Telecom Group, pursuant to which China Telecom Global has agreed to purchase from China Telecom Group 100% of the equity interest in China Telecom (Europe) Limited, or China Telecom Europe, for an initial consideration of RMB261 million. The consideration is subject to an adjustment based on the change in the net asset value of China Telecom Europe from June 30, 2013 to the completion date. The initial consideration has been paid within 15 Business Days upon the completion of the acquisition. The acquisition was completed on December 31, 2013, and the final consideration was RMB278 million. Because we and China Telecom Europe were under the common control of China Telecom Group, our acquisition of China Telecom Europe was accounted for in a manner similar to a pooling-of interests. Accordingly, the assets and liabilities of China Telecom Europe 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 China Telecom Europe on a combined basis.

	As of or for the year ended December 31,					
	2009 RMB (restated) (1)	2010 RMB (restated) (1)	2011 RMB (restated) (1)	2012 RMB (restated) (1)	2013 RMB	2013 US$
	(in millions, except share numbers and per share and per ADS data)					
Consolidated Statements of Comprehensive Income Data:						
Operating revenues	209,432	219,969	245,149	283,176	321,584	53,122
Operating expenses (2)	(187,427)	(196,554)	(221,028)	(261,968)	(294,116)	(48,585)
Operating income	22,005	23,415	24,121	21,208	27,468	4,537
Earnings before income tax	18,520	20,273	22,006	19,817	23,088	3,814
Income tax	(4,382)	(4,846)	(5,416)	(4,753)	(5,422)	(896)
Profit attributable to equity holders of the Company	13,934	15,309	16,494	14,949	17,545	2,898
Basic earnings per share(3)	0.17	0.19	0.20	0.18	0.22	0.04
Basic earnings per ADS(3)	17.22	18.92	20.38	18.47	21.68	3.58
Cash dividends declared per share	0.08	0.07	0.07	0.07	0.08	0.01

	As of or for the year ended December 31,					
	2009 RMB (restated) (1)	2010 RMB (restated) (1)	2011 RMB (restated) (1)	2012 RMB (restated) (1)	2013 RMB	2013 US$
	(in millions, except share numbers and per share and per ADS data)					
Consolidated Statements of Financial Position Data:						
Cash and cash equivalents	34,868	25,922	27,475	30,099	16,070	2,655
Accounts receivable, net	17,449	17,337	18,486	18,782	20,022	3,307
Total current assets	61,024	55,360	59,713	65,375	52,783	8,719
Property, plant and equipment, net	283,605	272,532	268,925	373,781	374,341	61,837
Total assets	440,120	420,708	419,331	545,291	543,239	89,737
Short-term debt	51,650	20,675	9,187	6,523	27,687	4,574

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	As of or for the year ended December 31,					
	2009 RMB (restated) (1)	2010 RMB (restated) (1)	2011 RMB (restated) (1)	2012 RMB (restated) (1)	2013 RMB	2013 US$
	(in millions, except share numbers and per share and per ADS data)					
Current portion of long-term debt	1,487	10,352	11,766	10,212	20,072	3,316
Accounts payable	34,344	40,072	44,460	68,948	81,132	13,402
Total current liabilities	143,536	127,012	127,397	193,610	200,098	33,054
Long-term debt	52,768	42,549	31,150	83,070	62,617	10,344
Deferred revenues (including current portion)	8,462	6,203	4,805	3,445	2,431	402
Total liabilities	202,859	174,494	162,376	279,191	264,575	43,705
Equity attributable to equity holders of the Company	236,413	245,718	256,167	265,139	277,741	45,880
Consolidated Cash Flow Data:						
Net cash generated from operating activities	74,965	75,599	73,025	70,722	88,351	14,595
Net cash used in investing activities(4)	(43,262)	(45,747)	(43,646)	(48,295)	(107,948)	(17,832)
Capital expenditures(4)	(40,318)	(41,611)	(48,506)	(50,071)	(70,921)	(11,715)
Net cash (used in) / generated from financing activities	(24,796)	(38,748)	(27,723)	(19,802)	5,637	931

(1) Certain comparative financial data prior to January 1, 2013 presented herein have been restated as a result of the acquisition of 100% equity interest in China Telecom (Europe) Limited from China Telecommunications Corporation. See Note 1 to our audited financial statements.
(2) Includes an impairment loss in 2009 on property, plant and equipment of RMB753 million, which mainly represented impairment made in respect of our Digital Data Network, or DDN, specific equipment, and an impairment loss in 2010 on property, plant and equipment of RMB139 million, which mainly represented impairment made in respect of certain of our obsolete telecommunications equipment.
(3) The basic earnings per share have been calculated based on the respective net profit attributable to equity holders of the Company in 2009, 2010, 2011, 2012 and 2013 and the weighted average number of shares in issue during each of the relevant years of 80,932,368,321 shares. 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.
(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 29, 2013, a final dividend of RMB5,433 million (RMB0.067135 equivalent to HK$0.085 per share, pre-tax) for the year ended December 31, 2012 was declared, all of which has been fully paid.

Pursuant to a resolution passed at the Directors meeting on March 19, 2014, a final dividend of approximately RMB6,098 million (RMB0.075347 equivalent to HK$0.095 per share) for the year ended December 31, 2013 was proposed for shareholders approval at the forthcoming annual general meeting.

Exchange Rate Information

Our business is primarily conducted in China and substantially all of our revenues are denominated in Renminbi. We present our historical consolidated financial statements in Renminbi. In addition, solely for the convenience of the reader, this annual report contains translations of certain Renminbi and Hong Kong dollar amounts into U.S. dollars at specific rates. For any date and period, the exchange rate refers to the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board. Unless otherwise indicated, conversions of Renminbi or Hong Kong dollars into U.S. dollars in this annual report are based on the exchange rate on December 31, 2013 (RMB6.0537 to US$1.00 and HK$7.7539 to US$1.00). We make no representation that any Renminbi or Hong Kong dollar amounts could have been, or could be, converted into U.S. dollars or vice versa, as the case may be, at any particular rate, the rates stated below, or at all. For a detailed explanation of the risk of currency rate fluctuations, please see Risk Factors Risks Relating to the People s Republic of China Fluctuation of the Renminbi could materially affect our financial condition and results of operations. The PRC government imposes controls over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade. Examples of such government regulations and restrictions are set forth in Risk Factors Risks Relating to the People s Republic of China Government control of currency conversion may adversely affect our financial condition.

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On April 24, 2014, the daily exchange rates reported by the Federal Reserve Board was RMB6.2534 to US$1.00 and HK$7.7533 to US$1.00. The following table sets forth additional information concerning exchange rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we use in this annual report or will use in the preparation of our future periodic reports or any information to be provided to you.

	RMB per US$1.00			HK$ per US$1.00	
	High	Low		High	Low
October 2013	6.1209	6.0815	October 2013	7.7545	7.7524
November 2013	6.0993	6.0903	November 2013	7.7535	7.7512
December 2013	6.0927	6.0537	December 2013	7.7550	7.7517
January 2014	6.0600	6.0402	January 2014	7.7663	7.7534
February 2014	6.1448	6.0591	February 2014	7.7645	7.7547
March 2014	6.2273	6.1183	March 2014	7.7669	7.7563
April 2014 (through April 24, 2014)	6.2534	6.1966	April 2014 (through April 24, 2014)	7.7568	7.7517

The following table sets forth the average exchange rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each of 2009, 2010, 2011, 2012 and 2013 calculated by averaging the exchange rates on the last day of each month during each of the relevant years.

Average Exchange Rate

	RMB per US$ 1.00	HK$ per US$1.00
2009	6.8295	7.7513
2010	6.7603	7.7692
2011	6.4475	7.7793
2012	6.2990	7.7556
2013	6.1412	7.7565

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.

After 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.

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In particular, in December 2013, 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 4G business nationwide. The licenses permit China Mobile Group, China Telecom Group and Unicom Group to provide 4G services based on LTE/Time Division Duplex standard, or TD-LTE technologies, respectively. We have been authorized by China Telecom Group to operate 4G business nationwide based on TD-LTE technologies. China Mobile, China Unicom and our Company have all launched 4G services based on TD-LTE technologies. The Company aims to adopt a flexible approach in deployment of LTE network with one hybrid network of integrated resources leveraging both TD-LTE technologies and LTE FDD technologies in order to leverage collaborated use of different spectrum resources to meet customers demand. We are actively applying with the MIIT for the relevant permits to provide 4G service based on LTE FDD technologies, but it remains unknown when the MIIT will grant such permits to us, if at all. If we fail to receive such permits within a reasonable period of time, the expansion of our client base and the development of our mobile service would be materially and adversely affected. In addition, We cannot assure you that: (i) our 4G services will deliver the quality and levels of services currently anticipated; (ii) we will be able to provide all planned 4G services or we will be able to provide such services on schedule; (iii) there will be sufficient demand for 4G services for us to deliver these services profitably; (iv) our competitors 4G, or newer technology based, services will not be more popular among potential subscribers; or (v) we will not encounter unexpected technological difficulties in providing 4G services. The failure of any of these possible developments to occur could impede our growth, which could have a material adverse effect on our business, financial condition and results of operations.

In December 2013, China Mobile received a license from the MIIT to operate fixed-line telecommunications businesses, which include fixed-line telephone, broadband and other fixed-line services. Prior to December 2013, China Unicom, China Tietong Telecommunications Corporation, or China Railcom, and our Company were the only operators licensed by the MIIT to provide fixed-line telecommunications services in China. China Mobile s entry into the fixed-line broadband market may intensify competition in this sector, which could have a material adverse effect on our business, financial condition and results of operations.

We also face increasing competition from other competitors outside the telecommunications industry. Television cable companies providing fixed-line broadband services, Internet services providers and mobile software and application developers (such as Over-the-Top messaging services providers who offer contents and services on the Internet without their proprietary telecommunications network infrastructure), are competing with us in voice or data services.

In addition, the PRC government has taken various initiatives to encourage competition in the telecommunications industry, such as the three-network convergence policy and the policy encouraging non-State owned companies to enter the industry. For more details of the three-network convergence policy, please see Item 4. Information on the Company B. Business Overview Three-Network Convergence Policy. In May 2010, the PRC State Council issued Certain Opinion on Encouraging and Guiding the Sound Development of Private Investment, encouraging private investment in industry sectors that are mainly state-controlled, such as basic telecommunications services. In June 2012, the MIIT issued Opinions on Encouraging and Guiding Private Investment in the Telecommunications Industry, encouraging private-sector investment in the telecommunications industry. On May 17, 2013, the MIIT issued the Trial Plan of Resale of Mobile Telecommunications Services, pursuant to which the MIIT would grant qualified companies mobile virtual network operator licenses which would allow them to purchase mobile telecommunications services in bulk from mobile networks operators and resell such services to customers. As of February 4, 2014, the MIIT granted 19 mobile virtual network operator licenses to qualified companies. As a result, the competitive landscape in the PRC telecommunications industry may further diversify, causing more intensified competition. As of March, 2014, we have entered into resale contracts for telecommunications services with 14 qualified companies and plan to enter into resale contracts with more qualified companies in 2014 in order to further expand the reach of our mobile telecommunications services.

Increasing 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.

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We may further lose wireline telephone subscribers and revenues derived from our wireline voice services may continue to decline, which may adversely affect our results of operations, financial condition and prospects.

We continued to lose wireline telephone subscribers and revenues derived from our wireline voice services continued to decline during the past several years mainly due to the increasing popularity of mobile voice services and other alternative means of communication, such as Over-the-Top messaging services. Tariffs for mobile services have continued decreasing in recent years, which further accelerated substitution of the wireline voice services by the mobile services. The number of our fixed-line subscribers decreased by 3.9% at the end of 2012 compared to that at the end of 2011 and further decreased by 4.4% at the end of 2013. Revenues from our wireline voice services decreased by 12.9% in 2012 compared to 2011 and further decreased by 10.9% in 2013. The percentage of revenues derived from our wireline voice services out of our total operating revenues continued to decrease, from 20.3% in 2011 to 15.3% in 2012 and 12.0% in 2013.

We have been taking various measures in order to mitigate the impact of loss of our wireline telephone subscribers and stabilize our revenues from wireline voice services. See Item 4. Information on the Company B. Business Overview Our Products and Services Wireline Voice Services. However, we cannot assure you that we will be successful in mitigating the adverse impact of the substitution of wireline voice services by mobile voice services and other alternative means of communication or in slowing down the decline of our revenues generated from wireline voice services. Migration from wireline voice services to mobile services and other alternative means of communication may further intensify in the future, which may affect the financial performance of our wireline voice services and thus adversely affect our results of operations, financial condition and prospects as a whole.

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 April 24, 2014. 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 certain inter-provincial optic fibers; and
- lease of properties and assets.

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 Our Acquisition from China Telecom Group of the CDMA Network Assets and Associated Liabilities 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. 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. 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 may 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 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 into a modern integrated information services provider, which may require additional capital resources. The cost of implementing new technologies, upgrading our networks, expanding capacity or acquisitions of businesses or assets may be significant. Furthermore, in order for us to effectively respond to technological changes and more intensive competition, we may need to make substantial investments in the future.

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 prospects could be materially and adversely affected. Furthermore, additional issuances of equity securities will result in dilution to our shareholders. Incurrence of debt would result in increased interest expense and could require us to agree to restrictive operating and financial covenants.

If we are not able to respond successfully and cost-efficiently to technological or industry developments, our business may be materially and 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, such as the three-network convergence, cloud computing and Internet of Things, 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. For example, we continue to make significant investment to improve our broadband network, including the upgrade of optic fiber coverage capacity, and our mobile network. However, we may not be able to recover our investment as expected.

Our ability to respond to technological developments may also be adversely affected by external factors, some of which are beyond our control. For example, we have started implementing Internet Protocol version 6, or IPv6, the next-generation Internet Protocol version, on our networks. However, the successful deployment and application of IPv6 depends on a number of external factors, including, among others, timely development of IPv6-compatible devices and applications by third-party suppliers. If the future transition to IPv6 is delayed due to factors beyond our control, we may face obstacles in further developing our Internet-related services in the future. 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 and cost-efficiently to technological or industry developments may materially and adversely affect our business, results of operations and competitiveness.

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, reduce our customer satisfaction and cause us to incur costs.

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.

We are subject to an anti-monopoly investigation by the PRC National Development and Reform Commission over our pricing practices for Internet dedicated leased line access services to Internet service providers.

In 2011, the PRC National Development and Reform Commission, or the NDRC, initiated an anti-monopoly investigation over our pricing practices with respect to our Internet dedicated leased line access services to Internet service providers. In response to this investigation, we have conducted a self-evaluation of the relevant pricing practices and submitted in November 2011 to the NDRC a proposal for enhancement initiatives as well as an application for suspension of investigation, setting out our plan to carry out capacity expansion and reduce the price for direct interconnection with other backbone network operators, further standardize our tariff arrangement of Internet dedicated leased line access services, continue to upgrade our broadband access capacity and reduce the bandwidth unit price of Internet access for public customers. In December 2013, we submitted to the NDRC an implementation report on the remedial measures. As of the date of this annual report, the NDRC has not made a final determination with respect to the anti-monopoly investigation. In the event of any adverse determination by the NDRC investigation, we may be required to carry out additional remedial measures and/or subject to penalties being imposed on us.

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Future implementation of a value-added tax to replace the business tax in the PRC may decrease our revenues and profitability.

Our business operations in China are subject to PRC business tax, which is assessed against substantially all of our revenues at a rate of 3%. On November 16, 2011, the Ministry of Finance and the State Administration of Taxation introduced a pilot tax program under which the PRC business tax will be replaced with a value-added tax, or VAT. The pilot VAT program started on January 1, 2012 in the transportation services industry and certain modern services industries in Shanghai. On April 10, 2013, the State Council announced that the pilot VAT program would apply nationwide in the PRC starting from August 1, 2013 and that the pilot program may expand to other modern service industries, including the telecommunications industry.

As of the date of this annual report on Form 20-F, the timetable for applying the pilot VAT program to the telecommunications industry and the applicable tax rate has remained unknown. Depending on the specifications of the VAT program as applicable to the telecommunication industry, our revenues and profitability may decrease as a result of the telecommunications industry being subject to the pilot VAT program.

Risks Relating to the Telecommunications Industry in the PRC

The current and future government regulations and policies that extensively govern 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;

network access license approval for telecom equipment and terminals; and

network construction plans.

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Other PRC governmental authorities also take part in regulating tariff policies, capital investment and foreign investment in the telecommunications industry. 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.

In addition, these regulations and policies that govern the telecommunications industry in the PRC have experienced continuous changes in the past several years. The interpretation and enforcement of the PRC s World Trade Organization commitments regarding telecommunications services may also affect telecommunications regulations. 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. Any significant future changes in regulations or policies that govern the telecommunications industry 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 reduce our tariff or to provide universal services with specified obligations, and we may not be compensated adequately for reducing our tariff or providing such services.

Tariffs are the prices we charge our customers for our telecommunications services. We are subject to 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 tariff regulations of the PRC government. Our revenues have been adversely affected by adjustments in tariffs and other changes in the past, and we may be adversely affected by any future tariff regulations mandated by the PRC government. We cannot predict the likelihood, timing or magnitude of tariff adjustments by the government or their potential impact on our business.

In addition, 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 MOF 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 by the telecommunications services providers in undertaking the Village to Village projects. 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.

Under the Telecommunications Regulations, all PRC telecommunications operators shall provide universal services, and 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. If the government substantially lowers the tariffs for our services, or if we are required to provide universal services with specified obligations without proper compensation by the government, our business and profitability may be materially 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 revenues are 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;

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- 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.

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, results of operations and cash flows.

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. 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. In April 2012, the PRC government expanded the floating band of Renminbi trading prices against the U.S. dollar in the inter-bank spot foreign currency exchange market from 0.5% to 1.0%. 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.

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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 an 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 on 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, or the Listing Rules, and the Hong Kong Codes on Takeovers and Mergers and Share Buy-backs, 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 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.

Under the Enterprise Income Tax Law of the PRC, or the EIT Law, and its implementing regulations, holders of our H shares or ADSs which are non-resident enterprises for the EIT Law s purpose are subject to enterprise income tax at the rate of 10.0% with respect to dividends paid by us and income derived from sale of our H shares or ADSs, unless reduced under an applicable tax treaty. In addition, a resident enterprise, including a foreign enterprise whose de facto management body is located in the PRC, is not subject to any PRC income tax with respect to dividends paid to it by us. The capital gains realized by such resident enterprise are subject to the PRC enterprise income tax. Specifically, according to the Notice of the PRC State Administration of Taxation Concerning the Withholding Enterprise Income Tax on Dividend Distributed by PRC Resident Enterprises to Overseas Non-Resident Enterprise Holders of H shares issued in November 2008 and the Approval of the PRC State Administration of Taxation Concerning the Collection of Enterprise Income Tax on Dividend from B-shares Received by

Non Resident Enterprise issued in July 2009, when PRC resident enterprises distribute dividend to overseas non-resident enterprise holders of H shares for the year 2008 and the years thereafter, the 10.0% enterprise income tax will be withhold. The Company will withhold the 10.0% enterprise income tax when it pays dividend to holders of H shares or ADSs who are non-resident enterprises. See Item 10. Additional Information E. Taxation People s Republic of China.

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Furthermore, dividends paid by us to holders of our H shares or ADSs who are individuals outside the PRC are subject to a withholding tax of 20.0% unless reduced by an applicable tax treaty. In addition, gains realized by individuals upon the sale or other disposition of our H shares or ADSs are temporarily exempted from PRC capital gains tax. If the exemptions are withdrawn in the future, holders of our H shares or ADSs who are individuals 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.

Several natural disasters and health hazards have struck mainland China in recent years. In 2010, another major earthquake registering 7.1 on the Richter scale struck Qinghai Province. Our network equipment and other assets in the affected areas sustained some damage in the earthquakes, leading to service stoppage and other disruptions in our operations in those areas. In March 2011, a major earthquake registering 9.0 on the Richter scale struck Japan, which affected our international communications services. In 2013, another major earthquake registering 7.0 on the Richter scale struck Sichuan Province, and floods struck 18 provinces including Gansu and Heilongjiang Provinces, causing widespread damages to telecommunications equipment in the affected areas and resulting in disruptions of the telecommunications services. 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 or other regions in the world may have a material adverse effect on our financial condition and results of operations.

The audit report included in this annual report are prepared by auditors who are not fully inspected by the Public Company Accounting Oversight Board and, as such, you are deprived of the benefits of such inspection.

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the U.S. Securities and Exchange Commission, as auditors of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or the PCAOB, is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards.

Because we have substantial operations within the PRC and the PCAOB is currently unable to conduct inspections of the work of our auditors as it relates to those operations without the approval of the Chinese authorities, our auditors are not currently inspected fully by the PCAOB. On May 24, 2013, the PCAOB announced that it had entered into a memorandum of understanding on enforcement and cooperation with the China Securities Regulatory Commission, or the CSRC, and the MOF, which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to inspections undertaken by the PCAOB, the CSRC or the MOF in the United States and China. It was reported that the PCAOB continues to be in discussions with the CSRC and the MOF to permit joint inspections in the PRC of audit firms that are registered with the PCAOB and audit Chinese companies that trade on U.S. exchanges. However, direct PCAOB inspections of independent registered accounting firms in China are still not permitted by Chinese authorities.

Inspections of other firms that the PCAOB has conducted outside the PRC have identified deficiencies in those firms audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. This lack of PCAOB inspections in the PRC prevents the PCAOB from regularly evaluating our auditor s audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

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The inability of the PCAOB to conduct full inspections of auditors in the PRC makes it more difficult to evaluate the effectiveness of our auditor s audit procedures or quality control procedures as compared to auditors outside the PRC that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

Proceedings instituted by the SEC against five PRC-based accounting firms, including our independent registered public accounting firm, could result in financial statements being determined to be not in compliance with the requirements of the Exchange Act.

In late 2012, the SEC commenced administrative proceedings pursuant to Rule 102(e) of its Rules of Practice against the Chinese affiliates of the big four accounting firms (including our auditors) as well as Dahua (which is the former BDO International affiliate in the PRC), or the Rule 102(e) proceedings. The Rule 102(e) proceedings relate to these firms inability to produce documents, including audit work papers, in response to the request of the SEC pursuant to Section 106 of the Sarbanes-Oxley Act, as the auditors located in the PRC are not in a position to lawfully produce documents directly to the SEC because of restrictions under the PRC law and specific directives issued by the CSRC. The issues raised by the Rule 102(e) proceedings are not specific to our auditors or to us, but affect equally all the PRC-based accounting firms and the PRC-based companies with securities listed in the United States.

In January 2014, the SEC administrative law judge reached an initial decision that the Chinese affiliates of the big four accounting firms should be barred from practicing before the SEC for six months, or the Initial Decision. However, it is currently impossible to determine the ultimate outcome of this matter as the accounting firms have filed a Petition for Review of the Initial Decision and as a result the effect of the Initial Decision is suspended pending that review. The SEC Commissioners will review the Initial Decision, determine whether there has been any violation by these accounting firms of the U.S. federal securities laws or the rules and regulations thereunder and, if so, issue a final order to determine the appropriate sanctions, if any, to be placed on these accounting firms. Once such an order has been made, the accounting firms would have a further right to appeal to the U.S. federal courts, and the effect of the order might be further stayed pending the outcome of that appeal.

Depending upon the final outcome, U.S.-listed companies with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which could result in financial statements being determined to be not in compliance with the Sarbanes-Oxley Act or the Exchange Act, as well as possible delisting. Moreover, any negative news about the Rule 102(e) proceedings against these accounting firms may cause uncertainty regarding the U.S.-listed companies with major PRC operations and the market price of our ADSs may be adversely affected.

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 Shanghai Municipality, Guangdong Province, Jiangsu Province and Zhejiang Province, together with the related assets and liabilities, were transferred to us in consideration of 68,317,270,803 of our 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 Ministry of Information Industry, or 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 March 2008, the MII) in connection with our business for our benefits. 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 H shares have been listed for trading on the Hong Kong Stock Exchange, and ADSs representing our H shares have been listed for trading on the NYSE.

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Our Corporate Organization Restructuring in 2013

On April 26, 2013, the Company entered into a disposal agreement with China Telecom Group, pursuant to which the Company has agreed to sell to China Telecom Group an 80% equity interest in E-surfing Media, a subsidiary of the Company primarily engaging in providing platform operating services for mobile Internet video and Internet video and offering video services for subscribers through cooperation with content providers, for an initial consideration of RMB1,195 million. The initial consideration was subject to an adjustment based on 80% of the change in the book value of the net assets of E-surfing Media during the period from December 31, 2012 to the completion date of the disposal. The risks and rewards of the ownership of the equity interest in E-surfing Media were transferred to China Telecom Group on June 30, 2013. The final consideration was arrived at RMB1,248 million and received by the Company by December 31, 2013.

On June 9, 2013, we set up a wholly-owned subsidiary, iMUSIC Culture & Technology Co., Ltd., or iMUSIC, which engages in the provision of music production and related information services. The registered capital of iMUSIC is RMB250 million.

On August 19, 2013, we set up a subsidiary, Zhejiang Yixin Technology Co., Ltd., or Zhejiang Yixin, with Netease, Inc., a leading Internet technology company in China, to launch YiChat , a mobile Internet multimedia instant messaging application for smart phones. Zhejiang Yixin has a registered capital of RMB10 million, of which 73% is owned by us and the remaining 27% is owned by Netease, Inc. As of the date of this annual report, YiChat has over 70 million registered users.

On December 16, 2013, China Telecom Global, a wholly-owned subsidiary of the Company primarily engaged in the provision of international value-added network services, entered into an acquisition agreement with China Telecom Group, pursuant to which China Telecom Global has agreed to purchase from China Telecom Group 100% of the equity interest in China Telecom Europe, for an initial consideration of RMB261 million. The consideration was subject to an adjustment based on the change in the net asset value of China Telecom Europe from June 30, 2013 to the completion date. The initial consideration has been paid within 15 Business Days upon the completion of the acquisition. The acquisition was completed on December 31, 2013, and the final consideration was RMB278 million.

Industry Restructuring and Our Acquisition of the CDMA Business in 2008

Industry Restructuring in 2008

In 2008, pursuant to a joint announcement relating to the further reform of the telecommunications industry in the PRC issued by the MIIT, the NDRC and the MOF, the following restructuring transactions took place in the telecommunications industry: (a) the acquisition by China Telecom Group of the assets of the CDMA network and the acquisition by us of the subscriber base of the CDMA network then owned by China Unicom; (b) the acquisition by China Telecom Group of the basic telecommunications service 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.

Our Acquisition of the CDMA Business

On July 27, 2008, we, China Unicom and CUCL entered into an acquisition agreement, or the CDMA Acquisition Agreement, pursuant to which we agreed to acquire from CUCL 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) for a total consideration of RMB43,800 million. The cost of the acquisition had been fully paid by us by February, 2010.

Related Transactions

Lease of capacity on the CDMA Network by our Company from 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 RMB66,200 million, or the CDMA Network Acquisition. On October 1, 2008, China Telecom Group completed the acquisition of the CDMA Network. 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. As we acquired from China Telecom Group certain assets and associated liabilities relating to the CDMA network in 2012, we did not renew the CDMA network capacity lease agreement with China Telecom Group after it expired on December 31, 2012.

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Our Sale of Besttone E-Commerce Co., Ltd.

On April 28, 2011, we entered into an acquisition agreement with Besttone Holding, under which, we agreed to sell to Besttone Holding our 100% equity interest in Besttone E-Commerce Co., Ltd., a subsidiary of the Company primarily engaged in the provision of e-commerce and booking services. Besttone Holding agreed to pay the consideration by issuing to us 21,814,894 of its shares, representing around 4.1% of its enlarged share capital. The transaction was completed on April 30, 2012.

Our Acquisition from China Telecom Group of the CDMA Network Assets and Associated Liabilities

On August 22, 2012, we and China Telecom Group entered into an acquisition agreement, or CDMA Network Acquisition Agreement, pursuant to which we agreed to purchase from China Telecom Group certain assets and associated liabilities relating to the CDMA network located in 30 provinces, municipalities and autonomous regions in the PRC for an initial consideration of RMB84,595.41 million, subject to an adjustment based on the change in the value of such assets and associated liabilities from March 31, 2012 to the completion date, or the Mobile Network Acquisition. The Mobile Network Acquisition was completed on December 31, 2012, or the Completion Date, and the final consideration of the Mobile Network Acquisition was agreed to be RMB87,210.35 million, or the Final Consideration.

Pursuant to the CDMA Network Acquisition Agreement, (i) RMB25,500 million of the Final Consideration was paid in January 2013 and (ii) the balance of the Final Consideration, or the Deferred Payment, will be payable at any time on or before the fifth anniversary of the Completion Date. Payment of the Final Consideration was and will be funded from our internal resources and relevant debt financing sources. The Company may, from time to time, prepay all or part of the Deferred Payment at any time after the Completion Date without any penalty until the fifth anniversary of the Completion Date. The Company will pay interest on the outstanding amount of the Deferred Payment to China Telecom Group at half-yearly intervals and the interest will accrue from the day following the Completion Date. The interest rate will be set at a five basis points premium to the yield of the five-year super AAA rated Medium Term Notes most recently published by the National Association of Financial Market Institutional Investors before the Completion Date and will be adjusted once a year in accordance with the last yield of the five-year super AAA rated Medium Term Notes published by the National Association of Financial Market Institutional Investors at the end of each year. The interest rate for the first year after the Completion Date is 4.83%. In the event any amount payable by the Company under the CDMA Network Acquisition Agreement is not paid when due, the Company will be subject to liquidated damages on such amount at a daily rate of 0.03% of the arrears from the date following the applicable due date to the date when such amount has been paid in full.

Our Sale of E-surfing Media

On April 26, 2013, the Company entered into a disposal agreement with China Telecom Group, pursuant to which the Company has agreed to sell to China Telecom Group an 80% equity interest in E-surfing Media, a subsidiary of the Company primarily engaging in providing platform operating services for mobile Internet video and Internet video and offering video services for subscribers through cooperation with content providers, for an initial consideration of RMB1,195 million. The initial consideration was subject to an adjustment based on 80% of the change in the book value of the net assets of E-surfing Media during the period from December 31, 2012 to the completion date of the disposal. The risks and rewards of the ownership of the equity interest in E-surfing Media were transferred to China Telecom Group on June 30, 2013. The final consideration was arrived at RMB1,248 million and received by the Company by December 31, 2013.

Our Acquisition of China Telecom (Europe) Limited

On December 16, 2013, China Telecom Global, a wholly-owned subsidiary of the Company primarily engaged in the provision of international value-added network services, entered into an acquisition agreement with China Telecom Group, pursuant to which China Telecom Global has agreed to purchase from China Telecom Group 100% of the equity interest in China Telecom Europe, for an initial consideration of RMB261 million. The consideration was subject to an adjustment based on the change in the net asset value of China Telecom Europe from June 30, 2013 to the completion date. The initial consideration has been paid within 15 Business Days upon the completion of the acquisition. The acquisition was completed on December 31, 2013, and the final consideration was RMB278 million.

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Organizational Structure

Set out below is a chart illustrating our corporate structure and significant subsidiaries as of April 24, 2014:

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(1) Formerly known as China Telecom (Hong Kong) International Limited
(2) Formerly known as China Unicom (Macau) Company Limited.
(3) Formerly known as Unicom Huasheng Telecommunications Technology Co., Ltd.
(4) Formerly known as Bestpay Co., Ltd.

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 Acquisition from China Telecom Group and Corporate Organization Restructuring included elsewhere under this Item.

General Information

Our principal executive offices are located at 31 Jinrong Street, Xicheng District, Beijing, PRC 100033 and our telephone number is (+86-10) 6642-8166. Our website address is www.chinatelecom-h.com. The information on our website 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. Following our acquisition of the CDMA Business in 2008, we began to offer a comprehensive range of telecommunications services, including wireline voice services, mobile voice services, Internet access services, value-added services, integrated information application services, telecommunications network resource services and lease of network equipment and other related services. See A. History and Development of the Company Industry Restructuring and Our Acquisition of the CDMA Business in 2008.

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. Specifically, we have enhanced our efforts in developing our non-voice services, such as Internet access services, value-added services and integrated information application services, while we continue to strengthen our traditional services such as the wireline voice services, in achieving a more structurally optimized business and enhanced competitive strength. We aim to provide differentiated and innovative services to create value for customers by leveraging on our integrated resources.

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 extended our CDMA2000 3G mobile services nationwide in the PRC.

In December 2013, the MIIT issued to China Telecom Group, our controlling shareholder, a license to operate 4G business nationwide based on TD-LTE technology. We have been authorized by China Telecom Group to operate TD-LTE 4G mobile business in the PRC. We launched our TD-LTE 4G mobile services on February 14, 2014 and have extended our TD-LTE 4G mobile services to around 100 cities in the PRC.

Our Operation Strategy

In 2013, we continued to leverage on our economies of scale and focus on our data business to further increase both of our revenues and profits. In particular, we have implemented the following five operational strategies:

- We strengthened the coordination of our national marketing activities to improve the efficiency of our marketing activities;
- We expanded and optimized our offerings of mobile terminal equipment to drive our sales;
- We promoted our customized applications to enhance our competitive advantages through differentiated services;

We leveraged the synergies between our different marketing channels through better coordination; and

We paid special attention to our customers perceptions of our products and services, and endeavored to improve our customers satisfaction.

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Subscribers and Service Usage

Our operating revenues depend 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.

	As of or for the year ended December 31,		
	2011	**2012**	**2013**
Wireline Voice Services:			
Local wireline access lines in service (in millions)	169.6	163.0	155.8
Residential	108.0	103.5	97.6
Government and enterprises	36.8	38.7	40.2
Public telephones	13.9	13.3	12.6
Wireless local access	10.9	7.5	5.4
Wireline local voice usage (in billion pulses)(1)	206.4	172.2	148.7
Domestic long distance wireline usage (in billion minutes) (2)	52.9	41.2	33.5
International, Hong Kong, Macau and Taiwan long distance wireline usage (in billion minutes)(3)	1.1	1.0	0.8
Mobile Voice Services:			
Mobile subscribers (in millions)	126.5	160.6	185.6
Mobile voice usage (in billion minutes)	407.8	509.2	603.6
Internet Access Services:			
Wireline broadband subscribers (in millions)	76.8	90.1	100.1
3G mobile internet traffic (in KTB)	23.6	72.3	175.1
Value-added Services			
Mobile SMS Usage (in billion messages)	49.9	55.8	64.2
Mobile Color Ring Tone subscribers (in millions)	75.4	92.2	102.0
Wireline caller ID service subscribers (in millions)	115.6	109.9	103.1
Wireline Color Ring Tone subscribers (in millions)	73.8	68.1	62.2

(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

The total number of wireline telephone subscribers decreased to 155.8 million as of December 31, 2013 from 163.0 million as of December 31, 2012. As of December 31, 2013, we had 5.4 million PHS subscribers which contributed to 0.11% of our operating revenues in 2013.

Our wireline voice services include local wireline services, domestic long distance wireline services and international, Hong Kong, Macau and Taiwan long distance wireline services. The total local wireline usage decreased by approximately 13.6% from 172.2 billion pulses in 2012 to 148.7 billion pulses in 2013. Total domestic long distance wireline usage was 33,517 million minutes in 2013, representing a decrease of approximately 18.7% from 41,234 million minutes in 2012. Total usage of international, Hong Kong, Macau and Taiwan long distance wireline services in 2013 was 812 million minutes, representing a decrease of approximately 15.9% from 965 million minutes in 2012.

The decrease in the number of wireline telephone subscribers and our wireline voice service usage was primarily attributable to the continuing decline in tariffs for mobile services and the increasing penetration of mobile voice and other alternative communications means, such as Over-the-Top messaging services. The rate of decrease of our wireline voice service usage has slowed down in 2013 compared to 2012 primarily as a result of our in-depth integration of wireline voice services with mobile, broadband, value-added and integrated information services, as well as marketing initiatives to promote usage.

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Mobile Voice Services

Our mobile voice services include local calls, domestic long distance calls, international long distance calls, intra-provincial roaming, inter-provincial roaming and international roaming. In 2013, we continued to experience rapid growth in our mobile services. In 2013, the number of subscribers of our mobile services increased from 160.6 million as of December 31, 2012 to 185.6 million as of December 31, 2013. The number of subscribers of our 3G services increased from 69.1 million as of December 31, 2012 to 103.1 million as of December 31, 2013, representing 55.6% of our mobile subscribers. The mobile voice usage increased to 603.6 billion minutes in 2013 from 509.2 billion minutes in 2012.

In 2013, we continued to focus on further developing our 3G services. We seek to further expand our mobile subscriber base through marketing efforts in open channel sales of mobile handsets, in particular 3G smartphone models.

In addition, we continued to enhance the scale development of industry applications to attract government and enterprise subscribers.

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. We offer Internet access services through integrated and customizable service plans along with other services, which creates the synergy that mutually benefits our Internet access, mobile and other services.

In 2013, we continued the project of Broadband China Fiber Cities to accelerate the optic fiber upgrade of our network and to increase the broadband connection speed. As of December 31, 2013, more than 90% of the urban areas were covered with at least 20Mbps customer access bandwidth, up by nine percentage points over the previous year. The number of our wireline broadband subscribers increased by 11.1% to 100.1 million as of December 31, 2013 from 90.1 million as of December 31, 2012. In addition, by utilizing our competitive wireline broadband access capacity, we continued to develop and incorporate new applications and services in order to build customer loyalty and increase the overall value of our services. Moreover, we further enhanced the coverage and access capabilities of our wireless broadband network. In 2013, we have added approximately 120,000 new Wi-Fi access points in the PRC, where our customers can have Internet access.

Value-Added Services

Our value-added services comprise primarily wireline and mobile value-added services.

Our wireline value-added services include our wireline voice related services, such as caller ID services, Color Ring Tone services and short messaging services, or SMS. 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. Our wireline value-added services also include wireline Internet related services, such as Internet data center, or IDC, services, IP-virtual private dial-up network, or IP-VPDN, services, and Internet protocol TV, or IPTV, services.

Our mobile value-added services primarily consist of (i) function-based services, such as mobile Color Ring Tone services, multimedia messaging services, or MMS and email services, (ii) content-based services and applications, such as content services relating to music, videos and books, as well as (iii) industry-specific applications for government and enterprises, such as government administration and supervision, transport and logistics, digital hospital and integrated e-Surfing Radio-frequency identification, or RFID. Our broad portfolio of mobile Internet products and applications has gained wide market acceptance and contributed to the development of our mobile value-added services. The usage volumes of music and video content services through our mobile network increased significantly. Our industry-specific applications continue to gain market acceptance.

The number of subscribers to our wireline caller ID services was 103.1 million as of December 31, 2013, a decrease from 109.9 million as of December 31, 2012. The usage volume of our mobile SMS increased by 15.1% from 55.8 billion messages in 2012 to 64.2 billion messages in 2013. The number of subscribers to our mobile Color Ring Tone services increased to 102 million as of December 31, 2013 from 92.2 million as of December 31, 2012.

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Integrated Information Application Services

Our integrated information application services consist of Best Tone services, IT services and IT application services as well as V-Net services. 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. V-Net 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.

In 2013, our integrated information application services continued to expand. To further enhance these services, we seek to develop services incorporating new technologies such as cloud computing and Internet of Things.

Telecommunications Network Resource Services and Lease of Network Equipment

Our telecommunications network resource services primarily include services relating to our optic fiber and circuits, such as optic fiber and circuit leasing; virtual private network, or VPN, and bandwidth leasing. We offer telecommunications network resource services as certain of our total telecommunications solutions to large enterprise customers, including government agencies, large corporations and institutions. Many of these customers choose to lease our circuits to form VPNs based on various technologies, and links their local area networks at different locations. We also collaborate with a number of international telecommunications service providers to provide global communications services for multinational corporations. In addition, we lease network equipment to large enterprise customers.

In 2013, 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, rental, repairs and maintenance of equipment.

Our Customers and Brand Management

In 2013, we continued to promote our full-service brand names under our enterprise brand China Telecom, improved our brand management system, and further enhanced e-Surfing as our leading brand name through, among others, providing contents for our e-Surfing 3G smartphones. We also launched the sub-brands of e-Surfing such as e-Surfing Young, e-Surfing Home and e-Surfing Navigator. In addition, corresponding with the launch of our 4G services, we unveiled our e-Surfing 4G brand in February 2014. Through providing contents to our services on a multi-dimensional level and our coordinated marketing efforts, we continue to enhance the brand recognition and market influence for e-Surfing.

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.

Wireline Voice 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. See Regulatory and Related Matters Tariff Setting included elsewhere under this Item. In addition, we also charge installation fees for installing a telephone for our subscribers. We charge the installation fee based on the actual cost of the installation.

Currently, all domestic long distance wireline services using public switched telephone network, or PSTN, are charged at the unified rate with a discount rate during off-peak hours.

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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.

Mobile Voice Services

The tariffs for our CDMA mobile voice services are generally regulated by the PRC government. 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.

With respect to international roaming of our mobile voice services, we settle roaming revenues 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, to target users in different market groups.

Internet Access Services, Value-added Service and Integrated Information Application Services

Internet access services, value-added services and integrated information application services are classified as market-based for purpose of tariff determination by relevant regulatory authorities.

We determine tariffs for these services according to market conditions. See Regulatory and Related Matters Tariff Setting included elsewhere under this Item.

Telecommunications Network Resource Services and Lease of Network Equipment

Telecommunications Network Resource Services. We determine most of the tariffs for our telecommunications network resource services within a price range set by the PRC government. We generally charge a fee for installation and testing for our telecommunications network resource 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 telecommunications network resource services in recent years.

Lease of Network Equipment. The leased network equipment tariff rates are set by the PRC government based on bandwidth and whether the leased network equipment is local or long distance. Leased network equipment providers are permitted to charge monthly fees for leased network equipment on a discount basis and leased network equipment 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.

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.

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International Roaming

We provide both CDMA and Global System for Mobile Communications, or GSM, international roaming services to our subscribers, which allow them to access mobile telecommunications services and use voice, SMS and data services while they are physically outside of their registered service area but in the coverage areas of other mobile telecommunications networks in other countries and regions with which we or our GSM roaming sponsor have roaming arrangements.

As of December 31, 2013, subscribers of our CDMA mobile services can roam on mobile networks in more than 200 countries and regions based on international roaming agreements between China Telecom Group and the local network operators. A CDMA mobile service subscriber using roaming services is charged at our roaming usage rates for both incoming and outgoing calls, plus applicable long distance tariffs. With respect to international roaming, we settle roaming revenues 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, Sales, Distribution and Customer Services

Marketing Sales and Distribution

Our marketing strategy is to establish our image as a full-service telecommunications service provider and utilize our comprehensive services platform and nationwide marketing and distribution network. We have devoted substantial efforts in advertisements to promote recognition of and loyalty to our products and services. In order to respond to market competition as well as attract and motivate customers to use our services, we have also grouped certain of our local voice, long distance voice and data 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.

In order to achieve the scale development of our business, we tailored products and marketing strategies to target different customer groups. For the government and enterprise market, we focused on the development of key industry-specific applications for government agencies, corporations and financial institutions, to drive the scale development of mid-to-high-end mobile subscriber base. For the student market, we emphasize the marketing of smartphones, broadband and e-Surfing products and services. We promoted customer-selected service packages to our residential customers and have increased the synergy between our mobile services and wireline broadband services. We seek to further expand our business in the rural areas through establishing distribution channels, bundled promotional plans and organized marketing activities. For the overseas market, we continue to focus on overseas carriers, overseas Chinese companies and multinational corporations. Our overseas network coverage continues to expand, while we are improving our overseas distribution channels.

We implement our marketing strategy through an integrated sales and distribution channel network, which covers: (i) dedicated service channel comprising customer managers specifically assigned to market our services to large enterprises, communities and rural areas;
(ii) electronic-based service channel such as customer service hotlines and online service centers; (iii) business outlet channel, including self-owned and third-party business outlets; and (iv) mobile handset chain stores, electronics chain stores, supermarkets and large-scale telecommunications equipment distribution stores. As part of our strategy to provide integrated services, we continue to enhance information sharing with respect to information relating to sales and distribution across the integrated sales and distribution channel network. In 2013, sales in our self-owned business outlets increased primarily due to enhancement of the sales function at our self-owned business outlets. Open channel sales continue to grow through cooperation with well-known electronics chain stores, top retail stores and their affiliated stores.

In 2013, we continued to leverage on the growing mobile subscriber base to invigorate the handset value chain, and further stimulated the handset supply and sales through subsidies and direct supply to sales outlets. The portfolio of handsets offered was further enlarged and the cost performance was further enhanced. In 2013, we offered around 280 new 3G terminal models to our customers, including certain star 3G handsets priced around RMB1,000 per unit.

Furthermore, we have adopted various marketing approaches and initiatives, such as customer experience, customer relationship management, 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.

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Customer Service

We provide customer services through all channels on our integrated sales and distribution channel network. Our customer services typically include service inquiries, service applications, customers complaints, product and service promotions, service initiation and termination, payment reminder services and emergency services. Through establishing and implementing our customer full-service standard, we have significantly improved our basic customer services, such as service processing time, request responding time and providing service related and other information to customers through text messages.

Information Technology System

We employ our information technology, or IT, system to support our wireline voice services, mobile voice services and other services. In recent years, through continuous upgrading, our IT system has the capability to support our wireline, mobile and other services on an integrated basis and to support other services related operations such as account opening, billing and customer services.

Network System

Our network has extensive coverage and scale and employs a variety of advanced technologies and suitable architecture. It offers comprehensive functions and a reliable operation. In addition, 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 network system is managed and operated by our experienced network management and maintenance teams and is supported by our strong research and development capabilities. And in light of future advances in technology, we have formulated viable plans to migrate our network system efficiently to the next generation.

On December 31, 2012, we completed the acquisition from China Telecom Group of certain assets and associated liabilities relating to the CDMA network located in 30 provinces, municipalities and autonomous regions in the PRC. In addition, we lease certain CDMA network facilities in Xizang Autonomous Region from China Telecom Group and have the exclusive right to use and operate such CDMA network to provide our CDMA mobile services. See Item 4. Information on the Company A. History and Development of the Company Our Acquisition from China Telecom Group of the CDMA Network Assets and Associated Liabilities and Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions for details.

Network Architecture

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

- Access networks: Access networks include wireline access network and CDMA wireless access network, which are directly connected to customers to provide broadband, data and voice services.

- Data networks: Data networks include Internet network and basic data network, and provide network support for all telecommunications services based on IP.

- Core networks: Core networks include our wireline telephone network, mobile core network, and support our basic telecommunications services.

- Transport networks: Transport networks provide electronic transmission of various service signals for access networks, data networks and core networks.

- Service networks: The service networks provide the platform and ancillary systems for a variety of value-added services and application products.

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

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.

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Purchases from our five largest suppliers of telecommunications equipment accounted for approximately 42.3% of our total amount of annual purchases in 2013. Purchases from our single largest supplier of telecommunications equipment accounted for approximately 13.5% of our total amount of annual purchases in 2013.

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 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.

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 in basic telecommunications services will be subject to a limit of 49.0%. See Regulatory and Related Matters Licensing included elsewhere under this Item.

We also face increasing competition from other competitors outside the telecommunications industry. Television cable companies providing fixed-line broadband services, Internet services providers and mobile software and application developers (such as Over-the-Top messaging services providers), among others, are competing with us in voice or data services.

In recent years, the PRC Government has taken various initiatives to encourage competition in the telecommunications industry, such as the three-network convergence policy and the policy encouraging non-State owned companies to enter the industry. In May 2010, the PRC State Council issued Certain Opinion on Encouraging and Guiding the Sound Development of Private Investment, encouraging private investment in industry sectors that are mainly state-controlled, such as basic telecommunications services. In June 2012, the MIIT issued Opinions on Encouraging and Guiding Private Investment in the Telecommunications Industry, encouraging private-sector investment in the telecommunications industry. On May 17, 2013, the MIIT issued the Trial Plan of Resale of Mobile Telecommunications Services, pursuant to which the MIIT would grant qualified companies mobile virtual network operator licenses which would allow them to purchase mobile telecommunications services in bulk from mobile networks operators and resell such services to customers. In an effort to further encourage private-sector investment in the broadband network construction and business operation, as well as encourage private capital to enter into the telecommunications market through equity investment, the State Council issued the Notice on the Broadband China Policy and the Implementation Plan on August 1, 2013 and Certain Opinion on Promoting Information Consumption and Stimulating Domestic Demand on August 8, 2013, and the MIIT also issued the Informationization Development Plan on September 29, 2013. As a result, the competitive landscape in the PRC telecommunications industry may further diversify, causing more intensified competition. As of February 2014, the MIIT has issued mobile virtual network operator licenses to 19 private enterprises, of which 14 enterprises have entered into resale contracts for telecommunications services with us. Starting the second quarter of 2014, mobile virtual network operators will offer mobile telecommunications services in a number of PRC cities.

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, 2015, 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.

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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 the NDRC, 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 NDRC, 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 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 Telecommunications 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, 3G and 4G 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).

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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. In December 2013, China Telecom Group received a license from the MIIT to operate 4G services nationwide, which permits China Telecom Group to provide 4G services based on TD-LTE technology. We have been authorized by China Telecom Group to operate 4G services nationwide based on TD-LTE technology.

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. 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. 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 49.0%.
- For value-added telecommunications services:
  - there is no longer any geographic restriction and the foreign ownership shall be no more than 50.0%.
- For fixed line services:
  - there is no longer any geographic restriction and the ownership shall be no more than 49.0%.

The MIIT has promulgated the Administrative Measures for the Licensing of Telecommunications Business Operations, which became effective on April 10, 2009. Those regulations apply to the application for, and examination and approval of, telecommunications business licenses in the PRC.

Pursuant to the Circular on the Framework Plan for the China (Shanghai) Pilot Free Trade Zone issued by the State Council on September 18, 2013, qualified foreign investment enterprises will be permitted to provide specific value-added telecommunications services in the China (Shanghai) Pilot Free Trade Zone, subject to protections on Internet information security and approval by the State Council in case of a breakthrough in the limitations provided for under the administrative regulations.

Tariff Setting

The levels and categorization of most of our current tariffs are subject to regulation by various government authorities, including the MIIT, the NDRC, 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 NDRC.

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.

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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 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 tariff plans. Effective October 1, 2005, the MIIT and the NDRC 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 NDRC for record purposes, and, at the local level, the relevant provincial communications administrations and price bureaus. With respect to the tariffs for local services, filings of the tariffs with the relevant provincial communications administrations and price bureaus for record purposes 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.

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 several 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. In October 2009, the MIIT issued a Notice on Adjustment to Settlement Standards for Interconnection Fees of Telecommunications Network, which provides for settlement arrangement standards for certain network interconnections between telecommunications operators. Effective from January 1, 2014, the settlement standards are further adjusted pursuant to the Notice on Adjustment to Settlement Standards for Interconnection Fees of Public Telecommunications Network issued by the MIIT on December 17, 2013. Prior to January 1, 2014, when a mobile user of a basic telecommunications operator (excluding China Mobile s TD-SCDMA 157 and 188 prefix numbers users) initiates a call to a mobile user of another basic telecommunications operator, the settlement charge is set uniformly at a rate of RMB0.06 per minute payable by the basic telecommunications operator originating the call to the basic telecommunications operator receiving the call. In the event a China Mobile s TD-SCDMA 157 and 188 prefix numbers user initiates a call to a user of our Company or China Unicom within the scope of local network, China Mobile will pay a settlement charge of RMB0.012 per minute to our Company or China Unicom. In the event a mobile user of our Company or China Unicom initiates a call to a China Mobile s TD-SCDMA 157 and 188 prefix numbers user, our Company or China Unicom will pay a settlement charge of RMB 0.06 per minute to China Mobile. With effect from January 1, 2014, when a mobile users of our Company or China Unicom initiates a call to a mobile user of China Mobile (not including TD-SCDMA 157 and 188 prefix numbers users), the interconnection settlement charges payable by our Company or China Unicom to China Mobile will be adjusted from the prevailing rate of RMB0.06 per minute to RMB0.04 per minute. Other existing voice interconnection settlement standards remain unchanged. The MIIT will assess the above interconnection settlement policy once every two years based on the development conditions of the telecommunications market and will make adjustments when appropriate. Meanwhile, the SMS interconnection settlement standard is adjusted from RMB0.03 per message to RMB0.01 per message, and the MMS interconnection settlement standard is adjusted from RMB0.10 per message to RMB0.05 per message.

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The following table sets forth selected interconnection revenues 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. Starting January 1, 2010, mobile operator (China Mobile) pays RMB0.012 per minute to wireline operator for calls originated from 157 or 188 prefix phone numbers (TD-SCDMA users).
Wireline local operator	Mobile operator	(1) Wireline operator collects the usage charge from its subscribers
		(2) No revenues sharing or settlement prior to June 1, 2010. Wireline operator pays RMB0.001 per minute to mobile operator after June 1, 2010
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 50.0% 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 RMB0.06 per minute to operator B
Mobile operator A	Mobile operator B	(1) Mobile operator A collects the cellular usage charge from its subscribers
		(2) Prior to January 1, 2014, mobile operator A pays RMB0.06 per minute to mobile operator B. Starting January 1, 2010, mobile operator A (China Mobile) pays RMB0.012 per minute to mobile operator B for calls

originated from 157 or 188 prefix phone numbers (TD-SCDMA users). Starting January 1, 2014, mobile operator A (China Telecom or China Unicom) pays RMB0.04 per minute to mobile operator B (China Mobile) for calls originated from a mobile user of operator A (China Telecom or China Unicom) to a mobile user of operator B (China Mobile) (not including TD-SCDMA 157 and 188 prefix numbers).

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The following table sets forth selected current main interconnection revenues 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 l	