

CHINA TELECOM CORP LTD
Form 20-F
April 28, 2015
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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, 2014

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)

Mr. Xu Fei

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

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

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

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

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

None

(Title of Class)

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

None

(Title of Class)

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

As of December 31, 2014, 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 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

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

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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

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 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

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

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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 they relate to us, are 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 (prior to March 2008, the Ministry of Information Industry, or the MII), 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 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

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 Limited 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, 2013 and 2014, and the selected consolidated statements of comprehensive income (except for earnings per ADS) and consolidated cash flow data for the years ended December 31, 2012, 2013 and 2014, 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, 2010, 2011 and 2012 and the selected consolidated statements of comprehensive income (except for earnings per ADS) and consolidated cash flow data for the years ended December 31, 2010 and 2011 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 and the establishment of new subsidiaries in 2014 described under Item 4. Information on the Company A. History and Development of the Company Industry Restructuring and Our Acquisition of the CDMA Business in 2008 , Our Acquisition from China Telecom Group of the CDMA Network Assets and Associated Liabilities , Changes in Our Corporate Organization in 2013 and Changes in Our Corporate Organization in 2014 .

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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As of or for the year ended December 31,
2010 RMB 2011 RMB 2012 RMB 2013 RMB 2014 RMB 2014 US\$
(in millions, except share numbers and per share and per ADS data)

Consolidated Statements of**Comprehensive Income Data:**

| | | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|----------|
| Operating revenues | 219,969 | 245,149 | 283,176 | 321,584 | 324,394 | 52,283 |
| Operating expenses ⁽¹⁾ | (196,554) | (221,028) | (261,968) | (294,116) | (295,886) | (47,688) |
| Operating income | 23,415 | 24,121 | 21,208 | 27,468 | 28,508 | 4,595 |
| Earnings before income tax | 20,273 | 22,006 | 19,817 | 23,088 | 23,257 | 3,748 |
| Income tax | (4,846) | (5,416) | (4,753) | (5,422) | (5,498) | (886) |
| Profit attributable to equity holders of the Company | 15,309 | 16,494 | 14,949 | 17,545 | 17,680 | 2,849 |
| Basic earnings per share ⁽²⁾ | 0.19 | 0.20 | 0.18 | 0.22 | 0.22 | 0.04 |
| Basic earnings per ADS ⁽²⁾ | 18.92 | 20.38 | 18.47 | 21.68 | 21.85 | 3.52 |
| Cash dividends declared per share | 0.07 | 0.07 | 0.07 | 0.08 | 0.08 | 0.01 |

As of or for the year ended December 31,
2010 RMB 2011 RMB 2012 RMB 2013 RMB 2014 RMB 2014 US\$
(in millions, except share numbers and per share and per ADS data)

Consolidated Statements of Financial**Position Data:**

| | | | | | | |
|--|---------|---------|---------|---------|---------|--------|
| Cash and cash equivalents | 25,922 | 27,475 | 30,099 | 16,070 | 20,436 | 3,294 |
| Accounts receivable, net | 17,337 | 18,486 | 18,782 | 20,022 | 21,562 | 3,475 |
| Total current assets | 55,360 | 59,713 | 65,375 | 52,783 | 59,543 | 9,597 |
| Property, plant and equipment, net | 272,532 | 268,925 | 373,781 | 374,341 | 372,876 | 60,097 |
| Total assets | 420,708 | 419,331 | 545,291 | 543,239 | 561,274 | 90,461 |
| Short-term debt | 20,675 | 9,187 | 6,523 | 27,687 | 43,976 | 7,088 |
| Current portion of long-term debt | 10,352 | 11,766 | 10,212 | 20,072 | 82 | 13 |
| Accounts payable | 40,072 | 44,460 | 68,948 | 81,132 | 88,458 | 14,257 |
| Total current liabilities | 127,012 | 127,397 | 193,610 | 200,098 | 206,325 | 33,254 |
| Long-term debt and payable | 42,549 | 31,150 | 83,070 | 62,617 | 62,918 | 10,141 |
| Deferred revenues (including current portion) | 6,203 | 4,805 | 3,445 | 2,431 | 1,858 | 299 |
| Total liabilities | 174,494 | 162,376 | 279,191 | 264,575 | 271,166 | 43,704 |
| Equity attributable to equity holders of the Company | 245,718 | 256,167 | 265,139 | 277,741 | 289,183 | 46,608 |

Consolidated Cash Flow Data:

| | | | | | | |
|--|----------|----------|----------|-----------|----------|----------|
| Net cash generated from operating activities | 75,599 | 73,025 | 70,722 | 88,351 | 96,405 | 15,538 |
| Net cash used in investing activities ⁽³⁾ | (45,747) | (43,646) | (48,295) | (107,948) | (81,708) | (13,169) |
| Capital expenditures ⁽³⁾ | (41,611) | (48,506) | (50,071) | (70,921) | (80,273) | (12,938) |
| Net cash (used in) / generated from financing activities | (38,748) | (27,723) | (19,802) | 5,637 | (10,327) | (1,664) |

- (1) Includes 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.
- (2) The basic earnings per share have been calculated based on the respective net profit attributable to equity holders of the Company in 2010, 2011, 2012, 2013 and 2014 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.

(3) 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, 2014, a final dividend of RMB6,198 million (RMB0.076583 equivalent to HK\$0.095 per share, pre-tax) for the year ended December 31, 2013 was declared, all of which has been fully paid. Pursuant to a resolution passed at the Directors' meeting on March 18, 2015, a final dividend of approximately RMB6,085 million (RMB0.075187 equivalent to HK\$0.095 per share, pre-tax) for the year ended December 31, 2014 was proposed for shareholders' approval at the forthcoming annual general meeting.

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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, 2014 (RMB6.2046 to US\$1.00 and HK\$7.7531 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 **D. Risk Factors Risks Relating to the People's Republic of China** Fluctuation of the Renminbi could materially affect our financial condition, results of operations and cash flows. under this Item. The PRC government imposes controls over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange. 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.

On April 22, 2015, the daily exchange rates reported by the Federal Reserve Board was RMB6.1927 to US\$1.00 and HK\$7.7500 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 2014 | 6.1385 | 6.1107 | October 2014 | 7.7645 | 7.7541 |
| November 2014 | 6.1429 | 6.1117 | November 2014 | 7.7572 | 7.7519 |
| December 2014 | 6.2256 | 6.1490 | December 2014 | 7.7616 | 7.7509 |
| January 2015 | 6.2535 | 6.1870 | January 2015 | 7.7563 | 7.7508 |
| February 2015 | 6.2695 | 6.2399 | February 2015 | 7.7584 | 7.7517 |
| March 2015 | 6.2741 | 6.1955 | March 2015 | 7.7686 | 7.7534 |
| April 2015 (through April 22, 2015) | 6.2152 | 6.1927 | April 2015 (through April 22, 2015) | 7.7525 | 7.7499 |

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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 2010, 2011, 2012, 2013 and 2014 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 |
|------|--------------------------|--------------------------|
| 2010 | 6.7603 | 7.7692 |
| 2011 | 6.4475 | 7.7793 |
| 2012 | 6.2990 | 7.7556 |
| 2013 | 6.1412 | 7.7565 |
| 2014 | 6.1704 | 7.7554 |

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 (Hong Kong) Limited (formerly known as China Unicom Limited), or China Unicom, and our Company have full-service capabilities and compete with each other in both wireline and wireless telecommunications services. China Mobile Limited, or China Mobile, continues to be the leading provider of mobile telecommunications services in the PRC and competes with us in mobile telecommunications services and other telecommunications services.

In 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. In June 2014, China Telecom Group was approved by the MIIT, and authorized us, to commence the LTE FDD and TD-LTE hybrid network trial in 16 cities in the PRC. In August, November and December, 2014, China Telecom Group was approved by the MIIT, and authorized us, to expand the LTE hybrid network trial to reach a total of 40, 41 and 56 cities, respectively. On February 27, 2015, China Telecom Group was granted by the MIIT the permit, and authorized us, to provide 4G service based on LTE FDD technologies nationwide. However, 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 addition, one of our major competitors, China Unicom, was also granted the permit to provide 4G services based on LTE FDD technologies on February 27, 2015. We expect that the market competition will be further intensified as a result of our competitors expanding their 4G services, which could materially and adversely affect our business and prospect.

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In December 2013, China Mobile Group received permission from the MIIT to authorize China Mobile to operate fixed-line telecommunications businesses. 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 has intensified and may continue to 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. During the past few years, some of our traditional revenue contributors have experienced a slowdown in the growth rate or negative growth, primarily due to the alternative means of communication becoming increasingly popular among the consumers. For example, the aggregate revenues contributed by our wireline and mobile voice services grew at a rate of 4.7% in 2012 and 4.7% in 2013 but decreased at a rate of 8.9% in 2014. We cannot assure you that such trend will not continue with respect to some of our traditional services, or our other services will not experience slowdown amid the intense market competition, which could have a material adverse effect on our business, financial condition and results of operations.

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 April 15, 2015, the MIIT granted 42 mobile virtual network operator licenses to qualified companies, and we have entered into resale contracts for telecommunications services with 26 qualified companies. We plan to enter into resale contracts with more qualified companies in order to further expand the reach of our mobile telecommunications services. On December 25, 2014, the MIIT issued the Notice on Opening the Broadband Access Market to Private Capital, encouraging private capital to invest in the construction and operation of the broadband access network and cooperate with basic telecommunications operators in various ways to provide broadband access services and broadband resale services to customers. As a result, the competitive landscape in the PRC telecommunications industry may further diversify, causing more intensified competition.

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, reducing or reversing the growth of our customer base and reducing usage of our services. Any of these developments could materially and adversely affect our revenues and profitability. We cannot assure you that the increasingly competitive environment and any change in the competitive landscape of the telecommunications industry in the PRC would not have a material adverse effect on our business, financial condition or results of operations.

The growth of our 4G business is subject to significant uncertainties involved in the operations of the Tower Company.

On July 11, 2014, the Company, China United Network Communications Corporation Limited and China Mobile Communication Company Limited entered into a Promoters Agreement for China Communications Facilities Services Corporation Limited to jointly establish China Communications Facilities Services Corporation Limited (later renamed as China Tower Corporation Limited, the Tower Company). The Tower Company is primarily engaged in the construction, maintenance and operation of telecommunications towers as well as ancillary facilities. See Item 4. Information on the Company A. History and Development of the Company Establishment of the Tower Company . Our Company, China United Network Communications Corporation Limited and China Mobile Communication Company Limited are in discussions with a view to selling telecommunications towers and ancillary facilities to the Tower Company. The Tower Company will be responsible for constructing and operating telecommunications towers and ancillary facilities, while the basic telecommunications services providers, including us, will rent these telecommunications assets from the Tower Company. According to the policies of the MIIT, starting from January 1, 2015, in principle, the three telecommunications operators, including us, will no longer construct their own telecommunications towers. The Tower Company will have a significant effect on the growth of our 4G business and our results of operations. However, the operations of the Tower Company are subject to significant uncertainties, including uncertainties as to the construction progress of the telecommunications towers and the terms of provision of services by the Tower Company to us. If the operations of the Tower Company cannot be carried out in a smooth and timely manner, or if we fail to rent the relevant telecommunications assets and utilize other services necessary for the expansion of our 4G network coverage from the Tower Company on commercially desirable terms, the growth of our 4G business as well as our financial condition and results of operations may be materially and adversely affected.

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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 voice services have continued decreasing in recent years, which further accelerated substitution of the wireline voice services by the mobile voice services. The number of our fixed-line subscribers decreased by 4.4% at the end of 2013 compared to that at the end of 2012 and further decreased by 7.9% at the end of 2014. Revenues from our wireline voice services decreased by 10.9% in 2013 compared to 2012 and further decreased by 13.1% in 2014. The percentage of revenues derived from our wireline voice services out of our total operating revenues continued to decrease, from 15.3% in 2012 to 12.0% in 2013 and 10.4% in 2014.

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 22, 2015. 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;

&nbs