REPORT OF THE DIRECTORS

The board of directors (the "Board") of China Communications Services Corporation Limited (the "Company") is pleased to present the Report of the Directors of the Company, together with the audited financial statements of the Company and its subsidiaries (the"Group") prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2013.

PRINCIPAL BUSINESSES

The Group is a leading telecommunications service provider in the PRC that provides integrated support services in the field of informatization. We offer telecommunications infrastructure services, including design, construction and project supervision and management; business process outsourcing services, including network maintenance, facilities management and distribution of telecommunications services and products; and applications, content and other services, including system integration, software development and system support, and value-added services. The major customers of the Group include domestic telecommunications operators, domestic non-operator customers such as government agencies, industrial customers and small and medium enterprises, and overseas customers.

RESULTS

Results of the Group for the year ended 31 December 2013 and the financial position of the Company and the Group as at that date are set out in the audited financial statements on page 91 to page 170 in this annual report.

DIVIDENDS

The Board proposed a cash dividend of RMB0.1293 per share for the year ended 31 December 2013 based on dividend payout ratio of 40% over the profit attributable to equity shareholders of the Company, and total dividend amounted to approximately RMB895.53 million. The proposed dividends will be submitted for consideration and approval at the 2013 annual general meeting to be held on 27 June 2014. The Company proposed to distribute the dividends on the basis of the total share capital as at the close of trading on the record date for dividend distribution. Dividends will be denominated and declared in RMB. Dividends of domestic shares will be paid in RMB, where as dividends of H shares will be paid in Hong Kong dollars. The relevant exchange rate will be the average of the mid-point rates of RMB to Hong Kong dollars as announced by the People's Bank of China for the week prior to the date of approval of declaration of dividends at the 2013 annual general meeting.

Further details in respect of the dividends and distribution by the Company are set out in note 15 of the audited financial statements on page 126 of this annual report.

For the overseas resident individual shareholders of the Company, pursuant to relevant laws and regulations including the Law of the People's Republic of China on Individual Income Tax, the Regulations for the Implementation of the Law of the People's Republic of China on Individual Income Tax, and the letter dated 28 June 2011 from the State Administration of Taxation to the Inland Revenue Department of Hong Kong, for individual H share shareholders receiving dividends who are Hong Kong or Macau residents or whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of 10%, the Company, as a withholding agent, is required to withhold and pay individual income tax at the rate of 10%. For individual H share shareholders receiving dividends whose country of domicile is a country which has entered in to a tax treaty with the PRC stipulating a dividend tax rate lower than 10%, the Company will withhold the individual income tax at a tax rate of 10%. The Company can process applications on behalf of those shareholders to seek entitlement of the relevant agreed preferential treatments pursuant to relevant regulations, and upon approval by the tax authorities, the extra amount of tax with held will be refunded. For individual H shareholders receiving dividends whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate higher than 10% but lower than 20%, the Company will withhold the individual income tax at the agreed-upon effective tax rate when distributing dividends and no application procedures will be necessary. For individual H shareholders receiving dividends whose country of domicile is a country which has not entered into any tax treaty with the PRC or are under other situations, the Company will withhold the individual income tax at a tax rate of 20% when distributing dividends.

For the overseas non-resident enterprise shareholders of the Company (including HKSCC Nominees Limited, corporate nominees or trustees, or other organizations or entities that are considered non-resident enterprise shareholders), pursuant to the Law of the People's Republic of China on Enterprise Income Tax, the Regulations for the Implementation of the Law of the People's Republic of China on Enterprise Income Tax and relevant rules and regulations, as a withholding agent, the Company is required to withhold and pay the enterprise income tax at the tax rate of 10% on behalf of the overseas non-resident enterprise shareholders.

Should the shareholders of the H shares of the Company have any doubt in relation to the aforesaid arrangements, they are recommended to consult their tax advisors for relevant tax impact in mainland China, Hong Kong and other countries (regions) on the possession and disposal of the H shares of the Company.

DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY

The following table sets out information concerning the directors and senior management of the Company as at the date of this report:

Name	Position in the Company	Date of the first appointment
Wang Xiaochu	Honorary Chairman[1]	8 April 2008
Li Ping	Chairman Executive Director	8 April 2008 3 August 2006
Si Furong	Executive Director President	21 February 2014 19 December 2013
Hou Rui	Executive Director Chief Financial Officer Executive Vice President	23 February 2011 30 December 2010 27 October 2010
Li Zhengmao	Non-executive Director	27 November 2012
Zhang Junan	Non-executive Director	12 October 2006
Wang Jun	Independent Non-executive Director	26 September 2006
Zhao Chunjun	Independent Non-executive Director	26 September 2006
Wei Leping	Independent Non-executive Director	28 June 2012
Siu Wai Keung, Francis	Independent Non-executive Director	28 June 2012
Liang Shiping	Executive Vice President	3 March 2010
Yan Dong	Executive Vice President Chief Risk Officer	18 June 2013
Chung Wai Cheung, Terence	Company Secretary, Assistant Chief Financial Officer and Qualified Accountant	16 October 2006

(1) Honorary Chairman is not a member of the Board and does not have any power or right to vote on any matters considered by the Board.

Mr. Yan Dong was appointed as an executive vice president of the Company on 18 June 2013. Mr. Yuan Jianxing resigned as an executive director and an executive vice president of the Company on 8 August 2013. Mr. Wang Qi resigned as an executive vice president of the Company on 2 December 2013. Mr. Zheng Qibao resigned as an executive director and president of the Company on 19 December 2013. Mr. Si Furong was appointed as president on 19 December 2013 and an executive director of the Company on 21 February 2014.

SUPERVISORS OF THE COMPANY

The following table sets out information concerning the supervisors of the Company as at the date of this report:

Name	Position in the Company	Date of the first appointment
Xia Jianghua	Chairperson of the Supervisory Committee	3 August 2006
Hai Liancheng	Independent Supervisor	3 August 2006
Si Jianfei	Employee Representative Supervisor	18 June 2013

Mr. Yan Dong resigned as the Employee Representative Supervisor on 18 June 2013. One the same day, the employees' congress of the Company elected Mr. Si Jianfei as the Employee Representative Supervisor.

Profiles of the directors, supervisors and senior management are set out in the"Profiles of Directors, Supervisors and Senior Management" section of this annual report.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers all of the independent non-executive directors are independent.

SHARE CAPITAL

The Company was incorporated on 30 August 2006. In December 2006, by way of an initial public offering (the "IPO"), the Company issued 1,484,986,000 H shares of RMB1.00 each at a price of HK$2.20 per share. At the same time, the promoters of the Company transferred 148,498,600 domestic state-owned shares of RMB1.00 each to National Council for Social Security Fund of the PRC (the "NSSF") and converted them into H shares on the basis of one domestic share to one H share. Immediately after the IPO, the registered capital of the Company amounted to RMB5,444,986,000, of which 1,633,484,600 H shares of the Company were listed and traded on The Stock Exchange of Hong Kong Limited (the"Stock Exchange").

On 9 April 2008, the Company announced the completion of placing a total of 359,365,600 H shares, including an issue of 326,696,000 new H shares and an issue of 32,669,600 H shares placed on behalf of NSSF upon conversion of the same number of existing domestic shares of the Company allocated to NSSF by China Telecommunications Corporation ("China Telecom"). After the completion of placing, the total issued shares of the Company increased to 5,771,682,000 shares, of which 1,992,850,200 shares were H shares.

As disclosed in the prospectus of the Company dated 27 November 2006, China Telecom entered into equity transfer arrangements with China Mobile Communications Corporation ("China Mobile") and China United Telecommunications Corporation (now known as China United Network Communications Group Company Limited ("China Unicom")), respectively. Pursuant to the arrangements, China Telecom agreed to transfer 506,880,000 and 236,300,000 domestic shares to China Mobile and China Unicom, respectively. On 24 March 2009, the equity transfers were formally completed and became effective. On the same date, Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation completed the transfers of 236,313,086 and 87,664,532 domestic shares, respectively, to China Telecom.

According to the equity transfer agreement between China Telecom and China National Postal and Telecommunications Appliances Corporation on 28 May 2010, China Telecom agreed to transfer 108,899,720 domestic shares of the Company to China National Postal and Telecommunications Appliances Corporation. On 21 June 2011, the equity transfer was formally completed.

Pursuant to the resolutions passed at the extraordinary general meeting, H shareholders class meeting and the domestic shareholders class meeting of the Company held on 28 June 2011 and as approved by domestic and overseas regulatory authorities, the Company announced the launch of H share and domestic share rights issue plan of an aggregate of 1,154,336,400 new shares, including 398,570,040 H rights shares and 755,766,360 domestic rights shares on the basis of 2 rights shares for every 10 existing shares on 30 December 2011 at the price of HK$3.19 per H rights share and RMB2.59 per domestic rights share, respectively. On 10 February 2012, the H rights shares were traded on the Stock Exchange. After completion of the rights issue, the total number of issued shares of the Company was increased to 6,926,018,400 shares, including 2,391,420,240 H shares and 4,534,598,160 domestic shares.

As at 31 December 2013, the share capital of the Company was RMB6,926,018,400 divided into 6,926,018,400 shares of RMB1.00 each. The share capital of the Company was comprised of the following as at the 31 December 2013:

Shares	**Number of shares**	**Approximate percentage of issued share capital (%)**
Domestic shares (Total)	4,534,598,160	65.47%
Domestic shares held by:		
China Telecommunications Corporation	3,559,362,496	51.39%
China Mobile Communications Corporation	608,256,000	8.78%
China United Network Communications Group Company Limited	236,300,000	3.41%
China National Postal and Telecommunications Appliances Corporation	130,679,664	1.89%
H shares (Total)	2,391,420,240	34.53%
Total	6,926,018,400	100.00%

MATERIAL INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2013, the interests or short positions of persons who at any of the Company's general meetings (excluding the directors and supervisors of the Company) are entitled to exercise or control the exercise of 5% or more of the voting power in the shares and underlying shares of equity derivatives of the Company in each class as recorded in the register required to be maintained under Section 336 of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) (the"SFO") were as follows:

Name of shareholder	Type of shares	Capacity	Number of shares held	Percentage of the respective type of share (%)	Percentage of the total number of shares in issue (%)
China Telecommunications Corporation	Domestic shares	Beneficial owner	3,559,362,496 (L)	78.49	51.39
China Mobile Communications Corporation	Domestic shares	Beneficial owner	608,256,000 (L)	13.41	8.78
China United Network Communications Group Company Limited	Domestic shares	Beneficial owner	236,300,000 (L)	5.21	3.41
Commonwealth Bank of Australia	H Shares	Interest of corporation controlled by the substantial shareholder	213,332,842 (L)	8.92	3.08
Blackrock, Inc.	H Shares	Interest of corporation controlled by the substantial shareholder	122,669,167 (L)	5.13	1.77
		Interest of corporation controlled by the substantial shareholder	2,158,000 (S)	0.09	0.03

Note: (L)-Long Position
(S)-Short Position

Save as stated above, as at 31 December 2013, in the register required to be maintained under Section 336 of the SFO, no other persons were recorded as holding any interests or short positions in the shares or underlying shares of the equity derivatives of the Company.

DIRECTORS' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2013, none of the directors and supervisors of the Company had any interests or short positions in the shares, underlying shares of equity derivatives or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be maintained under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers. As at 31 December 2013, the Company had not granted its directors or supervisors, or their respective spouses or children below the age of 18 any rights to subscribe for the shares or debentures of the Company or any of its associated corporations and none of them has ever exercised any such right to subscribe for shares or debentures.

SHARE APPRECIATION RIGHTS

Please refer to note 40 to the audited financial statements for details of the share appreciation rights scheme of the Company and the share appreciation rights granted during they year ended 31 December 2013.

PUBLIC FLOAT

As at the date of this annual report, based on information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained the prescribed public float under the Listing Rules.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the directors and supervisors has entered into a service contract with the Company. According to the service contract, each of the contracts has an initial term of three years and is renewable in accordance with the Articles of Association of the Company when the initial term expires except for Mr. Si Furong, Mr. Li Zhengmao and Mr. Si Jianfei. These contracts are terminable at the option of either party by giving three months' notice in writing or according to the terms of the contract prior to the expiry of the contract. No such service contract is not determinable by the Company within one year without payment of compensation (other than statutory compensation). Mr. Li Zhengmao was appointed for a term commencing from the date of the extraordinary general meeting approving his appointment on 27 November 2012 to the date of annual general meeting of the Company for the year 2014 to be held in 2015. Mr. Si Jianfei was elected for a term commencing from 18 June 2013 to the date of annual general meeting of the Company for the year 2014 to be held in 2015. Mr. Si Furong was appointed for a term commencing from the date of the extraordinary general meeting approving his appointment on 21 February 2014 to the date of annual general meeting of the Company for the year 2014 to be held in 2015.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

For the year ended 31 December 2013, no director or supervisor of the Company had any material interest, whether direct or indirect, in any contract of significance entered into by the Company, any of its holding companies or subsidiaries or fellow subsidiaries, apart from the service contracts mentioned above.

EMOLUMENTS OF THE DIRECTORS AND SUPERVISORS

Based on the overall remuneration policy of the Company and with reference to the payroll standard of the same industry companies in the market, the remuneration of directors and supervisors is determined after taking into account the scope and complexities of their duties. Please refer to note 12 to the audited financial statements for details of the emoluments of the directors and supervisors of the Company in 2013.

PURCHASE, SALE AND REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any securities of the Company during the reporting period.

SUMMARY OF FINANCIAL INFORMATION

Please refer to pages 171 to 172 of this annual report for a summary of the operating results, assets and liabilities of the Group for each of the years in the five-year period ended 31 December 2013.

BANK LOANS AND OTHER BORROWINGS

Please refer to note 34 to the audited financial statements for details of bank loans and other borrowings of the Group.

PROPERTY, PLANT AND EQUIPMENT

Please refer to note 17 to the audited financial statements for movements in the fixed assets of the Group for the year ended 31 December 2013.

DISTRIBUTABLE RESERVES

Please refer to note 47 to the audited financial statements for details of the movements in the reserves of the Group for the year ended 31 December 2013.

DONATIONS

For the year ended 31 December 2013, the Group made charitable and other donations of a total amount of RMB0.44 million.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Please refer to note 23 and note 24 to the audited financial statements for details of the Company's subsidiaries and the Company's associated companies as at 31 December 2013.

CHANGES IN EQUITY

Please refer to the consolidated statement of changes in equity contained in the audited financial statements (pages 96 to 97 of this annual report).

PLAN OF EMPLOYEES' RETIREMENT BENEFITS

Please refer to note 39 to the audited financial statements for details of the retirement benefits provided by the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights in the Articles of Association requiring the Company to offer new shares to the existing shareholders in proportion to their shareholdings.

MAJOR CUSTOMERS AND SUPPLIERS

For the reporting period, the sales to the five largest customers of the Group represented 64.0% of the total revenues of the Group; of which, the sales to the largest customer of the Group represented 42.7% of the total revenues of the Group. The purchases from the five largest suppliers of the Group accounted for less than 4.7% of the total annual purchases of the Group.

To the knowledge of the Board, other than China Telecom and China Mobile (both of them being the shareholders holding more than 5% of the issued share capital of the Company), none of the directors of the Group, their associates, and any person (holding more than 5% of the issued share capital of the Company) has any interests in such suppliers or customers.

CONTINUING CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Listing Rules, the transactions between the Group and China Telecom and its subsidiaries (excluding our Group and including China Telecom Corporation Limited, collectively the "China Telecom Group") constitute connected transactions of the Group.

The following table sets out the amounts of continuing connected transactions of the Group during the year ended 31 December 2013:

Unit: RMB million

	Year ended 31 December 2013		Year ending 31 December 2014	Year ending 31 December 2015
	Annual Caps	**Actual Amounts**	**Annual Caps**	**Annual Caps**
Engineering related services provided to China Telecom Group	17,000	14,436	17,000	17,000
Ancillary telecommunications services provided to China Telecom Group	9,000	6,640	10,000	11,000
Operations support services provided to/by China Telecom Group				
Revenue	2,800	2,271	2,900	3,000
Expenditure	650	598	650	650
IT application services provided to/by China Telecom Group				
Revenue	2,000	1,637	2,100	2,300
Expenditure	430	248	460	490
Centralized services provided to China Telecom Group	400	320	410	420
Property leasing provided to/by China Telecom Group				
Revenue	166	84	166	166
Expenditure	160	149	170	180
Supplies procurement services provided to/by China Telecom Group				
Revenue	4,600	4,163	5,100	5,600
Expenditure	3,100	2,996	3,600	4,100

CONTINUING CONNECTED TRANSACTIONS AGREEMENTS BETWEEN THE COMPANY AND CHINA TELECOM

The Company and China Telecom entered into six continuing connected transactions agreements on 16 November 2006 to manage the continuing connected transactions between the Group and China Telecom Group. These agreements include Engineering Framework Agreement, Ancillary Telecommunications Services Framework Agreement, Operation Support Services Framework Agreement, IT Application Services Framework Agreement, Property Leasing Framework Agreement and Centralized Services Agreement. Each of these agreements had an initial term expired on 31 December 2008 and, subject to approval from the shareholders (if applicable), the aforementioned six amended continuing connected transactions agreements would be automatically renewed for a further period of not more than three years each time, unless terminated by either party by giving a written notice three months in advance.

The Company announced on 15 June 2007, and completed on 31 August 2007, its acquisition of China Telecom's specialized telecommunications support business ("Target Business") located in 13 provinces (municipalities and autonomous regions). In connection with the acquisition of the Target Business, a supplemental agreement in respect of the aforementioned six continuing connected transactions agreements was entered into between the Company and China Telecom on 15 June 2007 (the "2007 Supplemental Agreement"). The 2007 Supplemental Agreement extended the validity period of the six continuing connected transactions agreements to 31 December 2009, and extended the coverage of those agreements to 19 provinces (municipalities and autonomous regions), being the Group's primary service regions immediately after the completion of the acquisition of the Target Business. On 19 September 2008, the Company entered into a supplementary agreement with China Telecom in respect of the aforementioned six agreements (the"2008 Supplementary Agreement") and extended the term of the six continuing connected transactions agreements to 31 December 2010. On 29 October 2009, the Company entered into a Supplies Procurement Service Framework Agreement with China Telecom effective from 1 January 2009 to 31 December 2010. On 9 November 2010, the Company entered into another supplemental agreement with China Telecom in respect of the aforementioned seven agreements (the "2010 Supplementary Agreement") and extended the term of the seven continuing connected transactions agreements to 31 December 2012 with other terms unchanged. On 20 September 2012, the Company entered into another supplemental agreement with China Telecom in respect of the aforementioned seven agreements (the"2012 Supplementary Agreement") and extended the term of the seven continuing connected transactions agreements to 31 December 2015 with other terms generally remained unchanged.

Subject to approval from the shareholders (if applicable), the aforementioned seven amended continuing connected transactions agreements will be automatically renewed for a further period of not more than three years each time, unless terminated by either party by giving a written notice three months in advance. In connection with the entry of the 2012 Supplementary Agreement, the Company also set new annual caps for the three years ending 31 December 2015 in respect of the transactions contemplated under the seven continuing connected transactions agreements (see table above). The 2012 Supplementary Agreement and the new annual caps (excluding the new annual caps for the Property Leasing Framework Agreement and Centralized Services Agreement that did not require any independent shareholders approval under the Listing Rules) were approved by the independent shareholders of the Company at the extraordinary general meeting held on 27 November 2012.

Details of the terms of the above continuing connected transactions are set out below.

ENGINEERING FRAMEWORK AGREEMENT

Pursuant to the Engineering Framework Agreement, the Company agreed to provide certain engineering related services, such as design, construction, project supervision and management services for telecommunications infrastructure projects undertaken by the China Telecom Group. The charges payable for engineering-related services rendered under the Engineering Framework Agreement shall be determined by reference to market rates or as reflected by prices obtained through the tender process. The Company shall be accorded priority by China Telecom Group in the provision of the engineering related services except in the tender process, provided that the terms and conditions offered by independent third parties to China Telecom Group are no more favourable than those offered by the Company for the same services. In return, the Company has undertaken to China Telecom Group that the Company shall not provide services to it on terms which are less favourable than those offered by the Company to independent third parties.

ANCILLARY TELECOMMUNICATIONS SERVICES FRAMEWORK AGREEMENT

Pursuant to the Ancillary Telecommunications Services Framework Agreement, the Company agreed to provide to China Telecom Group certain ancillary telecommunications services such as maintenance of network facilities including equipment, ducts and cables, equipment rooms and base stations; distribution of telecommunications products and services; provision of application, content and other services such as fixed-line value-added services, wireless value-added services, Internet value-added services, and the development of online gaming, certificate authentication and the value-added business platform of Internet cafés (the"Ancillary Telecommunications Services"). The Ancillary Telecommunications Services Framework Agreement stipulates that the Ancillary Telecommunications Services be provided at:

(1) government-prescribed price;

(2) where there is no government-prescribed price but where there is a government-guidance price, the government-guidance price;

(3) where there is neither a government-prescribed price nor a government-guidance price, the market price. The market price is defined as the price at which the same type of services are provided by independent third parties in the ordinary course of business; or

(4) where none of the above is applicable, the price is to be agreed between the relevant parties for the provision of the above services, which shall be the reasonable cost incurred in providing the same plus a reasonable profit (for this purpose, "reasonable costs"means the costs confirmed by both parties after negotiations, and "reasonable profits" means a profit ratio confirmed by both parties during the course of normal commercial negotiation, taking into account factors such as historical price, transaction size, average profit ratio within the relevant industry, supply and demand, labour cost, local commodity prices and economic development levels).

The Company will be given priority by China Telecom Group in the provision of the Ancillary Telecommunications Services, provided that the terms and conditions offered by independent third parties to China Telecom Group are no more favourable than those offered by us for the same services. In return, we have undertaken to China Telecom Group that we shall not provide Ancillary Telecommunications Services to it on terms which are less favourable than those offered by us to independent third parties.

OPERATION SUPPORT SERVICES FRAMEWORK AGREEMENT

Pursuant to the Operation Support Services Framework Agreement, the Company agreed to provide to China Telecom Group operation support services, including but not limited to facilities management and renovation, network facilities management in relation to buildings used for telecommunications purposes, human resources management, equipment maintenance, advertisements, conferencing services, vehicles and certain repair and leasing of equipment. Under the same Operation Support Services Framework Agreement, China Telecom Group has agreed to provide operation support services such as logistic services, warehouse, medical care, food and beverage, education, hotel and travel services, labour services and other services to us. Each of the parties will accord priority to the other party in the provision of the operation support services, provided that the terms and conditions offered by independent third parties to the relevant party are no more favourable than those offered by the other party for the same services. In return, each of the parties has undertaken to the other that it shall not provide services to the other on terms which are less favourable than those offered to independent third parties. The operation support services under the Operation Support Services Framework Agreement are provided in accordance with the same pricing policy as that of the Ancillary Telecommunications Services Framework Agreement.

IT APPLICATION SERVICES FRAMEWORK AGREEMENT

Pursuant to the IT Application Services Framework Agreement, the Company agreed to provide China Telecom Group with telecommunications network support services, software and hardware development and other related IT services. China Telecom Group has also agreed to provide to the Company certain IT application services, including voice and data, value-added services and information application services. The charges payable for such IT application services under the IT Application Services Framework Agreement shall be determined by reference to market rates, for example, rates as reflected by prices obtained through the tender process (with a minimum of three parties tendering bids). The party receiving the relevant services will accord priority to the party providing such services, provided that the terms and conditions offered by independent third parties to the relevant party are no more favourable than those offered by the other party for the same services. In return, each of the parties has undertaken to the other that it shall not provide services to the other on terms which are less favourable than those offered to independent third parties.

CENTRALIZED SERVICES AGREEMENT

Pursuant to the Centralized Services Agreement, the centralized services to be provided by the Company to China Telecom Group include:

1. the corporate headquarters management function to manage assets and specialized telecommunications support businesses retained by China Telecom in the PRC other than the Group's primary service areas and any remaining assets of China Telecom in the Group's primary service areas, such as hotels, manufacturing plants, schools and hospitals that are not in association with the specialized telecommunications support businesses; and

2. the provincial headquarters management function to manage remaining assets of China Telecom in the primary service areas of the Group.

Except as otherwise agreed by the parties, the aggregate administrative expenses incurred by us for the provision of the centralized services referred to above (all expenses incurred in connection with the above-mentioned headquarters management functions except remuneration for Directors, share appreciation rights and provision of bad debts) will be apportioned pro rata between the Company and China Telecom Group according to the proportional net asset value of each of the relevant parties.

PROPERTY LEASING FRAMEWORK AGREEMENT

Pursuant to the Property Leasing Framework Agreement, the rental charges of each property of the Company and China Telecom Group leased by each party from another party are based on market rates. Rental charges are payable monthly in arrears, except as otherwise agreed by parties, and are subject to review every three years by both parties confirming after negotiations whether to adjust the rental charges and the amount of such adjustment.

SUPPLIES PROCUREMENT SERVICES FRAMEWORK AGREEMENT

Pursuant to the Supplies Procurement Services Framework Agreement, the comprehensive supplies procurement services provided by the Company to China Telecom Group included procurement of imported telecommunications supplies, domestic telecommunications supplies and domestic non-telecommunications supplies; the agency services provided by the Company (as an agent of supplies procurement) to China Telecom Group; sales of telecommunications supplies manufactured by the Company; resale of supplies purchased from independent third parties; management of biddings, verification of technical specifications, warehousing, transportation and installation services. Pursuant to the Supplies Procurement Services Framework Agreement, the comprehensive supplies procurement services provided by China Telecom Group to the Company included sales of telecommunications supplies manufactured by China Telecom Group; resale of supplies purchased from independent third parties; the agency services provided by the China Telecom Group (as an agent of supplies procurement) to the Company; warehousing, transportation and installation services.

The independent non-executive directors of the Company have confirmed that all continuing connected transactions for the year ended 31 December 2013 to which the Group was a party:

1. had been entered into, and that the agreements governing those transactions had been entered into, by the Group in the ordinary and usual course of business;

2. had been entered into either:

    (i) on normal commercial terms; or

    (ii) where there was no available comparison to judge whether they are on normal commercial terms, are on terms no less favourable than those available to or (if applicable) from independent third parties; and

3. had been entered into on terms that are fair and reasonable so far as the overall interests of the independent shareholders of the Company are concerned.

The independent non-executive directors have further confirmed that:

The values of continuing connected transactions entered into between the Group and its connected persons which are subject to annual caps have not exceeded their respective annual caps or revised annual caps.

The auditors of the Company have performed procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants on the continuing connected transactions and issued a letter to the Board to advise that:

1. none of the continuing connected transactions entered into between the Group and China Telecom Group during the year ended 31 December 2013 have not been approved by the Directors;

2. they have performed sample checks on the continuing connected transactions entered into between the Group and China Telecom Group during the year ended 31 December 2013 and have not found that the continuing connected transactions were not in accordance with the pricing policies as stated in the relevant agreements;

3. they have performed sample checks on the continuing connected transactions entered into between the Group and China Telecom Group during the year ended 31 December 2013 and have not found that the continuing connected transactions were not in accordance with the terms of the agreements governing the transactions; and

4. they have not noted that the continuing connected transactions exceeded the 2013 annual caps as disclosed in the announcement dated 20 September 2012 of the Company and approved by the independent shareholders of the Company on 27 November 2012.

EMPLOYEES

As at 31 December 2013, the Group had 128 thousand employees as follows:

	Number of Staff (thousand)	Percentage (%)
Management	9	7.0
Technical and marketing	59	46.1
Operations	60	46.9
Total	128	100.0

The Company regards talent management as one of its major strategies for the new period and continuously optimizes the human resources structure and creates a new mechanism so as to give full play to the functions of talents. The Company adopts a remuneration policy which is linked to staff's performance. Staff's remuneration consists of basic salary, performance pay and benefits. Furthermore, the Company attaches much importance to staff training. Directed by the needs of the Company's strategic development and practical requirements, the Company utilizes resources within and outside the Company to improve the quality and capability of its core staff through various types of trainings.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Please see the"Corporate Governance Report" set out in this annual report for details of our compliance with the Corporate Governance Code.

MATERIAL LEGAL PROCEEDINGS

As at 31 December 2013, so far as the directors are aware, the Company was not involved in any material litigation or arbitration and no material litigation or claims had been made against, or were pending or threatened against the Company.

AUDITORS

The Company is a subsidiary of China Telecommunications Corporation, which is a state-owned enterprise under the supervision of the State-owned Assets Supervision and Administration Commission of the State Council (the "SASAC"). Pursuant to the relevant regulations issued by the Ministry of Finance of the People's Republic of China and the SASAC, there are restrictions in respect of the years of audit services that an accounting firm can continuously provide to a state-owned enterprise and its subsidiaries. Pursuant to the relevant regulations, the former auditors of the Company, KPMG and KPMG Huazhen (SGP), retired as the international auditors and domestic auditors of the Company respectively effective upon the close of the 2012 annual general meeting of the Company. On the same general meeting, the shareholders of the Company approved the appointment of Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the international auditors and domestic auditors of the Company, respectively, for the year ended 31 December 2013. Deloitte Touche Tohmatsu has audited the accompanying financial statements, which were prepared in accordance with International Financial Reporting Standards. A resolution for the appointment of Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the international and domestic auditors of the Company for the year ending 31 December 2014 will be proposed at the upcoming 2013 annual general meeting of the Company.

By order of the Board
Li Ping
Chairman

Beijing, PRC
26 March 2014