中国通信服务
CHINA COMSERVICE

中 國 通 信 服 務 股 份 有 限 公 司

CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 552)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

HIGHLIGHTS

- Total revenues were RMB61,517 million, up by 14.4%.
- Profit attributable to equity shareholders of the Company was RMB2,407 million, up by 13.0%.
- Gross profit margin and net profit margin remained at relatively steady levels of 15.9% and 3.9%, respectively.
- The Group further reinforced its leading position in the domestic telecommunications operator market and revenues from domestic telecommunications operators amounted to RMB39,745 million, up by 16.2%.
- The board of directors of the Company recommended a final dividend of RMB0.1390 per share for 2012, up by 13.7%.

CHAIRMAN'S STATEMENT

Dear Shareholders,

2012 is the commencing year of the second five-year since the Group's listing. During the year, the Group achieved robust results again in the challenging environment through our effective operating and management strategies. The total revenues exceeded RMB60 billion for the first time, representing a stable and favorable opening. We are delighted to note that both the Group's revenues and profit have kept increasing steadily for the past six years since its listing, and its leading position in the industry has been further strengthened. In the meantime, the investment to be brought by the coming issuance of 4G license will also create new development opportunities for the Group.

Operating Results

In 2012, the Group achieved a stable growth in operating results, with the total revenues of RMB61,517 million, representing a year-on-year growth of 14.4%. Profit attributable to equity shareholders was RMB2,407 million, representing a year-on-year growth of 13.0%. Having considered the interests of and returns to our shareholders, the Board proposed to maintain 40% dividend payout ratio and pay a final dividend of RMB0.1390 per share for the financial year ended 31 December 2012. Total dividend amount is approximately RMB963 million.

Reinforcing the Leading Position in Domestic Telecommunications Operator Market

In 2012, driven by factors such as the development of mobile Internet industry and the "Broadband China" strategy, the domestic telecommunications operators have steadily increased their spending in capital expenditure as well as their network operation and maintenance. Under such circumstances, the Group devoted more efforts in market development and service enhancement to efficiently support the full-service operations of domestic telecommunications operators, which led to a rapid business growth from the domestic telecommunications operator market, with revenue increased by 16.2% compared to that of 2011, representing 64.6% of total revenues. In addition, the Group proactively involved in the trial construction projects of LTE and well prepared for seizing market opportunities.

Vigorously Expanding into Domestic Non-operator Market and Overseas Market

Immense opportunities have been brought to the domestic non-operator market by the continuous progress of informatization and urbanization and tremendous demands for informatization services from industrial customers and small and medium-sized enterprises. During the year, the Group focused on key clients from government and industries such as construction and transportation sectors and made favorable progress in developing large-scaled projects such as Smart City in Nanjing. In 2012, the revenue from domestic non-operator market increased by 15.5%, representing 29.9% of total revenues, showing a favorable growth momentum.

In 2012, the revenue from overseas market declined by 7.0%, and its proportion to total revenues was 5.5%. Although the revenue from overseas market decreased temporarily due to the Group's proactive risk management and the delay of certain overseas large-scaled turnkey project, the Group adhered to its "Overseas Market – Focused and Four Steps" strategy and further strengthened its foundation of overseas turnkey projects. In addition, the Group adopted an synergistic approach in developing outsourcing projects and fine-tuned the collaboration mechanism with equipment manufacturers. All the above measures will bolster the healthy development of the Group's overseas market in the future.

Completion of Rights Issue

With strong shareholder support, the Group successfully completed the rights issue in early 2012 and recorded over-subscription for the rights shares. During the year, the Group has gradually applied the proceeds from the rights issue as planned, including acquisitions of certain equity interest and assets in Ningxia, Xinjiang and Sino-British Submarine System Co., Ltd., establishment of project fund to support the development of large-scaled turnkey business as well as investment into research and development for emerging industries such as LTE, cloud computing, mobile Internet and Internet of Things. The proceeds from the rights issue effectively enhanced the Group's capital strength, and bolstered its long-term development.

Corporate Governance

The Group has strived to further enhance its internal control and risk management and to maintain high standard of corporate governance. In 2012, the Group's persistent efforts in fostering sound corporate governance have been fully recognized by capital market: the Group was awarded as No.1 of the "Best Managed Companies in China" by *Euromoney*, one of "The Best of Asia" by *Corporate Governance Asia*, and the Gold Award in "Best Investor Relations" by *The Asset* for the third consecutive year.

Corporate Social Responsibility

The Group has always been committed to corporate social responsibility. The Group established all-round emergency and rescue mechanism, which provided reliable communication support services to its customers. In addition, the Group has actively developed new products to promote the energy saving of enterprises and industries, making due contribution to establish an energy-efficient community.

Prospects

China is promoting the intensified integration of informatization and industrialization and pushing forward the synchronous development of new industrialization, informatization, urbanization and agricultural modernization, all of which will bring forward tremendous business opportunities. The industrialization and commercialization of LTE are speeding up, new technologies such as mobile Internet and cloud computing are emerging and "Broadband China" strategy is being promoted further, all of these will bring valuable development opportunities to the Group in domestic telecommunications operator market. Meanwhile, the Group will enjoy further development potentials for domestic non-operator market and overseas market arising from urbanization and informatization, particularly the extensive investment for the construction of Smart City, as well as vigorous demands for telecommunications construction from emerging markets such as Middle East, Africa and Latin America. However, the Group also faces challenges such as intensifying competition in the market. Nevertheless, we are confident in our future. We will continue to innovate and transform, with the aim to build up a "hundred-billion enterprise" with superior performance and a culture of harmony and happiness, and thus create greater value for our customers and shareholders.

Finally, on behalf of the Board, I would like to express my sincere gratitude to Mr. Liu Aili who resigned as non-executive director of the Company in September 2012, for his outstanding contributions to the Group and I would also like to take this opportunity to welcome Mr. Li Zhengmao to join the Board. Furthermore, I would like to express my sincere gratitude to all of the Group's shareholders, customers and all sectors of society for their long-standing care and support to the Group.

Li Ping
Chairman

Beijing, PRC
27 March 2013

PRESIDENT'S STATEMENT

Dear Shareholders,

I am very pleased to present the operating results of the Group in 2012.

Financial Performance

In 2012, the Group recorded total revenues of RMB61,517 million, representing a year-on-year growth of 14.4%. Profit attributable to equity shareholders amounted to RMB2,407 million, representing a year-on-year growth of 13.0%. The sustained and stable growth of our operating results was mainly attributable to the adaptive resources allocation by the Group and seizure of business opportunities arising from the continued spending in network construction and operational maintenance by the domestic telecommunications operators, as well as the Group's proactive efforts to expand into the domestic non-operator market.

The cost of revenues of the Group amounted to RMB51,732 million, representing a year-on-year increase of 14.5%. Through measures such as costs control and synergistic operations, the Group alleviated the cost and market pressure effectively, and maintained a relatively stable gross profit margin and net profit margin of 15.9% and 3.9%, respectively. In addition, the Group repaid interest-bearing debt and enhanced centralized fund management, and saved finance cost by 59.7% as compared with last year. During the year, there was an increasing demand for working capital due to the increased efforts in market development of the Group, and free cash flow[1] decreased as compared with last year to RMB166 million.

Business Development

In 2012, the Group maintained sound growth in all of its three major businesses. The revenue from telecommunications infrastructure ("TIS") services continued to grow stably, representing a year-on-year increase of 12.0% and accounting for 46.2% of total revenues. During the year, the Group focused on key areas such as fiber optic broadband and upgrade and expansion of networks, actively participated in LTE trial construction, and provided comprehensive and thorough services to domestic telecommunications operators. The TIS revenue from domestic telecommunications operators achieved a year-on-year growth of 18.1%. Among them, the TIS revenue from China Mobile and China Unicom increased rapidly, representing a year-on-year growth of 25.2%, which reflects customers' recognition over the Group's continuous improvement of its service quality.

In 2012, the revenue from business process outsourcing ("BPO") services grew by 17.8% over the last year and accounted for 42.7% of total revenues. The Group firmly seized the continued demand of operation and maintenance outsourcing as a result of the full-service operations of domestic telecommunications operators, and the revenue from network maintenance services continued a rapid growth of 21.6%. In addition, the Group fully leveraged its advantages in delivering integrated services, and the revenue from the distribution of telecommunications services and products achieved a steady growth of 17.3% over the last year.

[1] Free cash flow = Profit for the year + Depreciation and amortization –Changes in working capital – Capital expenditure

In 2012, the Group endeavored to seek business transformation and continued to promote mechanism and product innovation. The revenue from applications, content and other ("ACO") services achieved a year-on-year increase of 11.9%, accounting for 11.1% of total revenues. Among that, revenue from IT applications grew rapidly and recorded a year-on-year increase of 24.8% due to the broadened market driven by the informatization. Meanwhile, in order to become a management and technology oriented enterprise, the Group devoted more efforts in research and development in the areas such as cloud computing, mobile Internet and Internet of Things.

Market Expansion

The Group has been focusing on three major markets. While reinforcing its leading position in the domestic telecommunications operator market, the Group also actively explored the domestic non-operator market and the overseas market. In 2012, the revenue from the domestic telecommunications operator market amounted to RMB39,745 million, representing a rapid year-on-year growth of 16.2%, accounting for 64.6% of total revenues. The revenue from the domestic non-operator market amounted to RMB18,361 million, representing a year-on-year growth of 15.5%, accounting for 29.9% of total revenues, showing a good developing momentum. The revenue from the overseas market amounted to RMB3,411 million, representing a year-on-year decrease of 7.0%, accounting for 5.5% of total revenues. Despite the temporary decrease in overseas revenue during the year, the Group continued to consolidate the foundation of overseas turnkey projects, with the confidence that the overseas market will become the key driver for its growth in the future.

Enhancement of Management Efficiency

The Group has actively promoted management enhancement activities, optimized organization structure and enhanced institutional construction to effectively raise its operational and management capabilities. During the year, the Group enhanced resources integration capability through synergistic operation, and saved finance cost through strengthened capital management and the use of funding pool.

The Group further adopted the talents management strategy and developed market-oriented teams. During the year, the Group continued to enhance the market-oriented incentive policy while allocating human resources to key strategic areas such as domestic non-operator market and overseas market, and thus securing the human resources support for the Group's sustained and healthy development.

Prospect for 2013

Looking forward, with the aim to build a "hundred-billion enterprise" with superior performance and a culture of harmony and happiness, we will unwaveringly seek innovation and transformation. The Group has determined to focus on the following tasks during 2013 so as to create greater value for both its customers and shareholders:

- Strengthen our leading position in domestic telecommunications operator market: Seize the valuable investment opportunities arising from 4G licensing, participate in LTE construction projects actively, continuously promote our service standard, and develop high-end maintenance and operation businesses;

- Seek scale development of domestic non-operator market: Capture the market opportunities driven by urbanization and informatization, focus on key customers such as government, industrial customers and small and medium-sized enterprises, with a specific focus on the development of "Smart City" projects, particularly "intelligent building" projects, by providing top level design consulting and key application services;

- Foster key projects and key regional markets overseas: Centralize resources allocation, promote synergistic operation in subcontracting project, realize breakthrough in scale of overseas turnkey projects through synergistic marketing, and enhance overseas risk management;

- Strengthen our efforts in research and development synergistically and enhance product innovation: Enhance product innovation and promote business transformation actively, devote more R&D resources to areas such as LTE, "intelligent building" and Big Data; and

- Promote synergistic management and enhance resources integration: Further promote centralized fund management, enhance marketing capability by strengthening brand building, strengthen risk management, and thus realize healthy and sustainable development of the Group.

Zheng Qibao
President

Beijing, PRC
27 March 2013

GROUP RESULTS

China Communications Services Corporation Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2012, extracted from the audited financial statements of the Group as set out in its 2012 annual report.

Consolidated Income Statement
For the year ended 31 December 2012
(Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000 (Restated)
Revenues	5	**61,517,375**	53,780,127
Cost of revenues	6	**(51,732,008)**	(45,198,637)
Gross profit		**9,785,367**	8,581,490
Other operating income	7	**851,336**	684,821
Selling, general and administrative expenses		**(7,514,881)**	(6,464,571)
Other operating expenses		**(69,258)**	(64,408)
Finance costs	8	**(26,030)**	(64,556)
Share of profits/(losses) of associates		**4,844**	(2,600)
Profit before tax	9	**3,031,378**	2,670,176
Income tax	10	**(585,514)**	(538,778)
Profit for the year		**2,445,864**	2,131,398
Attributable to:			
Equity shareholders of the Company		**2,406,792**	2,129,212
Non-controlling interests		**39,072**	2,186
Profit for the year		**2,445,864**	2,131,398
Basic and diluted earnings per share (RMB)	13	**0.353**	0.358

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2012
(Expressed in Renminbi)

	Note	2012 *RMB'000*	2011 *RMB'000* (Restated)
Profit for the year		**2,445,864**	2,131,398
Other comprehensive income for the year (after tax)			
Exchange differences on translation of financial statements of subsidiaries outside of Mainland China		**(4,308)**	(3,425)
Available-for-sale securities: net movement in the fair value reserve	*11*	**(100)**	(18,305)
		(4,408)	(21,730)
Total comprehensive income for the year		**2,441,456**	2,109,668
Attributable to:			
Equity shareholders of the Company		**2,402,384**	2,107,482
Non-controlling interests		**39,072**	2,186
Total comprehensive income for the year		**2,441,456**	2,109,668

Consolidated Balance Sheet
At 31 December 2012
(Expressed in Renminbi)

	Note	31 December 2012 RMB'000	31 December 2011 RMB'000 (Restated)	1 January 2011 RMB'000 (Restated)
Non-current assets				
Property, plant and equipment, net		**4,517,754**	4,495,582	4,223,420
Investment properties		**765,075**	729,045	732,491
Construction in progress		**387,190**	229,348	191,765
Lease prepayments		**933,697**	935,659	925,531
Goodwill		**103,005**	103,005	103,005
Other intangible assets		**170,105**	144,439	150,464
Interests in associates		**52,106**	62,661	61,433
Other investments		**662,300**	663,116	694,912
Deferred tax assets		**204,803**	197,392	153,327
Other non-current assets		**27,880**	28,876	–
Total non-current assets		**7,823,915**	7,589,123	7,236,348
Current assets				
Inventories		**1,894,825**	1,705,641	1,839,009
Accounts and bills receivable, net	*14*	**21,321,955**	17,323,211	12,943,390
Prepayments and other current assets		**4,773,469**	4,636,968	3,975,362
Restricted deposits		**266,979**	320,039	269,099
Cash and cash equivalents		**8,879,491**	7,380,435	8,570,349
Total current assets		**37,136,719**	31,366,294	27,597,209
Total assets		**44,960,634**	38,955,417	34,833,557
Current liabilities				
Interest-bearing borrowings		**409,805**	998,335	1,780,523
Accounts and bills payable	*15*	**14,843,934**	12,780,549	9,809,836
Receipts in advance for contract work		**1,386,805**	1,166,285	1,089,174
Accrued expenses and other payables		**6,763,252**	6,853,292	6,597,266
Income tax payable		**309,761**	305,717	285,618
Total current liabilities		**23,713,557**	22,104,178	19,562,417
Net current assets		**13,423,162**	9,262,116	8,034,792
Total assets less current liabilities		**21,247,077**	16,851,239	15,271,140

Consolidated Balance Sheet (Continued)
At 31 December 2012
(Expressed in Renminbi)

	Note	**31 December 2012** *RMB'000*	31 December 2011 *RMB'000* (Restated)	1 January 2011 *RMB'000* (Restated)
Non-current liabilities				
Interest-bearing borrowings		**89,883**	131,374	–
Other non-current liabilities		**134,105**	60,156	1,232
Deferred tax liabilities		**20,930**	23,485	53,101
Total non-current liabilities		**244,918**	215,015	54,333
Total liabilities		**23,958,475**	22,319,193	19,616,750
Equity				
Share capital	*16*	**6,926,018**	5,771,682	5,771,682
Reserves		**13,576,721**	10,512,426	9,092,812
Equity attributable to equity shareholders of the Company		**20,502,739**	16,284,108	14,864,494
Non-controlling interests		**499,420**	352,116	352,313
Total equity		**21,002,159**	16,636,224	15,216,807
Total liabilities and equity		**44,960,634**	38,955,417	34,833,557

Notes:

1. BASIS OF PRESENTATION

Pursuant to the Equity Transfer Agreements entered into by the Group and the subsidiaries of China Telecommunications Corporation ("CTC") on 20 June 2012, the Group completed acquisition on 30 June 2012 of (i) 100% equity interest in each of Ningxia Communications Constructions Co., Ltd. ("Ningxia Construction") and Ningxia Telecom Constructions Supervision Consultancy Co., Ltd. ("Ningxia Supervision"); and (ii) 100% equity interest in Xinjiang Communications Planning & Designing Institute Co., Ltd. ("Xinjiang Planning & Designing") (collectively the "Target Interests"), for a consideration of RMB51.07 million, payable in cash.

Pursuant to the Equity Transfer Agreements entered into by the Group and China Telecommunications Corporation Industrial Assets Management Centre (a directly wholly-owned subsidiary of CTC) on 20 June 2012, the Group completed acquisition on 26 July 2012 of 51% equity interest in Sino-British Submarine Systems Co., Ltd. ("SBSS") and all the associated rights and obligations for a total consideration of RMB264.60 million.

Since the Group, the Target Interests and SBSS are under common control of CTC, the acquisitions of the Target Interests and SBSS have been accounted for as a combination of entities under common control in a manner similar to pooling-of-interests. Accordingly, the assets and liabilities of the Target Interests and SBSS have been accounted for at historical costs and the consolidated financial statements of the Group prior to the acquisitions of the Target Interests and SBSS have been restated to include the results of operations and assets and liabilities of the Target Interests and SBSS on a combined basis. The considerations paid by the Company for the acquisitions of the Target Interests and SBSS were accounted for as an equity transaction in the consolidated statement of changes in equity.

The results of operations for the year ended 31 December 2011, the balance as at 31 December 2011 and the cash flow effect for the year ended 31 December 2011 previously reported by the Group have been restated to reflect the acquisitions of the Target Interests and SBSS are set out below:

	The Group *RMB'000* (as previously reported)	**Target Interests and SBSS acquired** *RMB'000*	**The Group** *RMB'000* (as restated)
Results of operations for the year ended 31 December 2011			
Revenues	53,507,397	272,730	53,780,127
Gross profit	8,509,079	72,411	8,581,490
Profit for the year	2,105,872	25,526	2,131,398
Basic and diluted earnings per share (in RMB)	0.366		0.358
Balance as at 31 December 2011			
Total assets	38,196,675	758,742	38,955,417
Total liabilities	22,071,848	247,345	22,319,193
Total equity	16,124,827	511,397	16,636,224
Cash flow effect for the year ended 31 December 2011			
Net cash generated from operating activities	1,223,642	37,490	1,261,132
Net cash used in investing activities	(860,541)	(209,723)	(1,070,264)
Net cash used in financing activities	(1,521,836)	155,167	(1,366,669)

For the year presented, all significant balances and transactions between the Group, the Target Interests and SBSS have been eliminated.

In addition to acquisition of the Target Interests and SBSS, as described in note 13, the restated basic and diluted earnings per share include the impact of the rights issue of the Company on 8 February 2012.

2. STATEMENT OF COMPLIANCE

These financial statements of the Company and the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). IFRSs include all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and related interpretations. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

3. CHANGES IN ACCOUNTING POLICIES

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following development is relevant to the Group's financial statements:

Amendments to IFRS 7, Financial instruments: Disclosures – Transfers of financial assets

The amendments to IFRS 7 require certain disclosures to be included in the annual financial statements in respect of all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset existing at the reporting date, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 SEGMENT REPORTING

The Group principally has one reportable segment, which is the provision of integrated telecommunications support services in the informatization sector. Therefore, no additional reportable segment has been presented. Additional information about major customers and geographical areas of the Group has been disclosed in note 5.

5 REVENUES

Revenues are derived from the provision of integrated telecommunications support services, net of sales taxes, and after allowance for trade discounts. The Group's revenues by business nature can be summarised as follows:

	2012	2011
	RMB'000	*RMB'000*
		(Restated)
Revenues from telecommunications infrastructure services	**28,413,360**	25,377,847
Revenues from business process outsourcing services	**26,304,137**	22,325,184
Revenues from applications, content and other services	**6,799,878**	6,077,096
	61,517,375	53,780,127

The Group's major customers are telecommunications operators which include CTC and its subsidiaries ("CTC Group") and China Mobile Communications Corporation and its subsidiaries ("CM Group"), each contributing a revenue exceeding 10% of the Group's total revenues. Revenues from the provision of integrated telecommunications support services to CTC Group and CM Group for the year ended 31 December 2012 amount to RMB26,080 million and RMB11,222 million respectively (2011: RMB22,996 million (as restated) and RMB9,062 million (as restated) respectively), being 42.4% and 18.2% of the Group's total revenues respectively (2011: 42.8% (as restated) and 16.9% (as restated) respectively). In addition, the revenues derived from areas outside of Mainland China for the year ended 31 December 2012 amounts to RMB3,411 million (2011: RMB3,666 million (as restated)).

6. COST OF REVENUES

	2012	2011
	RMB'000	*RMB'000*
		(Restated)
Depreciation and amortisation	**439,095**	430,290
Direct personnel costs	**9,229,460**	8,517,004
Operating lease charges	**928,795**	861,420
Purchase of materials and telecommunications products	**17,645,654**	16,253,237
Subcontracting charges	**18,447,867**	14,528,052
Others	**5,041,137**	4,608,634
	51,732,008	45,198,637

7. OTHER OPERATING INCOME

	2012	2011
	RMB'000	*RMB'000*
		(Restated)
Interest income	**104,699**	85,802
Dividend income from listed securities	**1,217**	–
Dividend income from unlisted securities	**68,129**	43,227
Government grants	**187,995**	113,534
Gain on disposal of investments	**20,309**	42,311
Gain on disposal of property, plant and equipment and other assets	**97,477**	60,543
Penalty income	**1,565**	1,424
Management fee income	**315,634**	309,211
Write-back of non-payable liabilities	**21,138**	11,824
Others	**33,173**	16,945
	851,336	684,821

8. FINANCE COSTS

	2012	2011
	RMB'000	*RMB'000*
		(Restated)
Interest on bank advances and other borrowings wholly repayable within five years	**26,030**	64,556

For the years ended 31 December 2012 and 2011, no borrowing costs were capitalised in relation to construction in progress.

9. PROFIT BEFORE TAX

	2012	2011
	RMB'000	*RMB'000*
		(Restated)
(a) Staff costs:		
Salaries, wages and other benefits	**12,805,944**	11,441,675
Contributions to defined contribution retirement schemes	**1,006,851**	924,111
	13,812,795	12,365,786

	2012	2011
(b) Other items:		
Depreciation		
– Property, plant and equipment	**644,561**	610,750
– Investment properties	**40,890**	38,869
Amortisation		
– Lease prepayments	**28,613**	28,939
– Other intangible assets	**44,724**	44,235
Auditors' remuneration	**40,085**	42,150
Cost of inventories	**17,645,654**	16,253,237
Write-down of inventories	**17,843**	18,160
Reversal of write-down of inventories	**(3,117)**	(798)
Impairment losses on accounts and bills and other receivables	**108,087**	140,015
Reversal of impairment losses on accounts and bills and other receivables	**(54,379)**	(40,076)
Operating lease charges	**1,137,790**	1,051,307
Research and development costs	**1,193,138**	853,736
Share of associates' taxation	**1,274**	446

Research and development costs include RMB930 million (2011: RMB705 million (as restated)) relating to staff costs, which amount is also included in the staff cost disclosed in note 9(a).

10. INCOME TAX

(a) Income tax in the consolidated income statement represents:

	2012	2011
	RMB'000	*RMB'000*
		(Restated)
Current tax		
PRC enterprise income tax	**575,697**	567,818
Overseas enterprise income tax	**19,580**	17,026
Deferred tax		
Origination and reversal of temporary differences	**(9,763)**	(46,066)
Total income tax	**585,514**	538,778

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2012	2011
	RMB'000	*RMB'000*
		(Restated)
Profit before tax	**3,031,378**	2,670,176
Expected income tax expense at a statutory tax rate of 25% (2011: 25%) *(note (i))*	**757,845**	667,544
Differential tax rates on subsidiaries' income *(note (i))*	**(221,631)**	(185,175)
Non-deductible expenses *(note (ii))*	**77,434**	53,283
Non-taxable income	**(37,375)**	(28,224)
Tax losses not recognised	**29,671**	39,402
Utilisation of previously unrecognised tax losses	**(23,365)**	(5,413)
Effect on opening deferred tax resulting from changes in PRC statutory tax rate *(note (iii))*	**2,935**	(2,639)
Income tax	**585,514**	538,778

Notes:

(i) The provision for income tax of the Group is calculated based on a statutory rate of 25% of the assessable profit of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the years ended 31 December 2012 and 2011, except for certain domestic subsidiaries of the Group, which are taxed at a preferential rate of 15%, where applicable; and for certain overseas subsidiaries of the Group, which are taxed at respective statutory rates.

(ii) The amount includes personnel and other miscellaneous expenses in excess of statutory deductible limits for tax purposes.

(iii) The amounts in the years ended 31 December 2012 and 2011 represent the tax effect on opening balances of deferred tax assets arising from the change in the enterprise income tax rate applicable to certain subsidiaries due to changes in preferential tax qualification during the years concerned. The deferred tax assets were remeasured for the change in applicable tax rates.

11 OTHER COMPREHENSIVE INCOME

Available-for-sale securities

	2012	2011
	RMB'000	*RMB'000*
Changes in fair value recognised during the year	**(303)**	(24,408)
Net deferred tax credited to other comprehensive income	**203**	6,103
Net movement in the fair value reserve during the year recognised in other comprehensive income	**(100)**	(18,305)

12 DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year:

	2012	2011
	RMB'000	*RMB'000*
Final dividend proposed after the balance sheet date RMB0.1390 per share (2011: RMB0.1222[i] per share)	**962,717**	846,359

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved during the year:

	2012	2011
	RMB'000	*RMB'000*
Final dividend in respect of the financial year ended 31 December 2011, approved during the year, of RMB0.1222[i] per share (2010: RMB0.1260 per share)	**846,359**	727,232

[i] Calculated on the basis of the total share capital of the Company after the rights issue on 8 February 2012 (see note 16).

13 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the year ended 31 December 2012 of RMB2,406,792 thousand (2011: RMB2,129,212 thousand (as restated)) and the weighted average number of shares in issue during the year ended 31 December 2012 of 6,821,990 thousand shares (2011: 5,949,749 thousand shares). As described in note 16, the Company completed the rights issue on 8 February 2012. In calculating earnings per share, the weighted average number of shares outstanding during the years ended 31 December 2012 and 2011 were calculated as if the bonus elements without consideration included in the rights issue had been existed from the beginning of the comparative year.

There was no difference between basic and diluted earnings per share as there were no dilutive potential shares outstanding for the years presented.

14 ACCOUNTS AND BILLS RECEIVABLE, NET

	The Group	
	2012	2011
	RMB'000	*RMB'000*
		(Restated)
Bills receivable	**610,038**	318,955
Unbilled revenues for contract work	**6,264,423**	4,707,326
Trade receivables	**14,922,933**	12,734,079
	21,797,394	17,760,360
Less: impairment losses	**(475,439)**	(437,149)
	21,321,955	17,323,211

(a) Included in accounts and bills receivable are amounts due from fellow subsidiaries of RMB9,599 million (2011: RMB7,600 million (as restated)) as at 31 December 2012. The amounts due from fellow subsidiaries are unsecured, interest-free and are expected to be recovered within one year.

(b) In general, debts are due for payment upon billing. Subject to negotiation, credit terms within a range of one to three months are available for certain customers with well-established trading and payment records.

(c) The ageing analysis of accounts and bills receivable (net of impairment losses) is as follows:

	The Group	
	2012	2011
	RMB'000	*RMB'000*
		(Restated)
Current	**10,142,555**	6,810,680
Within 1 year	**9,119,059**	8,941,248
After 1 year but less than 2 years	**1,567,009**	1,158,232
After 2 years but less than 3 years	**400,854**	298,345
After 3 years	**92,478**	114,706
Amount past due	**11,179,400**	10,512,531
	21,321,955	17,323,211

(d) Impairment of accounts and bills receivable

Impairment losses in respect of accounts and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against accounts and bills receivable directly.

The movement in allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	The Group	
	2012	2011
	RMB'000	*RMB'000*
		(Restated)
At 1 January	**437,149**	395,797
Impairment loss recognised	**94,323**	84,904
Reversal of impairment loss previously recognised	**(50,683)**	(38,212)
Uncollectible amounts written off	**(5,350)**	(5,340)
At 31 December	**475,439**	437,149

At 31 December 2012, the Group's accounts and bills receivable of RMB427 million (2011: RMB346 million (as restated)) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific impairment losses of RMB320 million (2011: RMB266 million (as restated)) were recognised. The Group does not hold any collateral over these balances.

(e) Accounts and bills receivable that is not impaired

The ageing analysis of accounts and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2012	2011
	RMB'000	*RMB'000*
		(Restated)
Neither past due nor impaired	**10,142,555**	6,810,680
Within 1 year	**9,102,624**	8,941,248
After 1 year but less than 2 years	**1,184,804**	882,393
After 2 years but less than 3 years	**329,012**	222,100
After 3 years	**80,462**	41,966
At 31 December	**20,839,457**	16,898,387

Receivables that were neither past due nor impaired relate to major telecommunication service providers for whom there was no history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowances is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

15 ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	The Group	
	2012	2011
	RMB'000	*RMB'000*
		(Restated)
Accounts payable	**12,439,999**	10,710,923
Bills payable	**2,403,935**	2,069,626
	14,843,934	12,780,549

The ageing analysis of accounts and bills payable is as follows:

	The Group	
	2012	2011
	RMB'000	*RMB'000*
		(Restated)
Within 1 year	**13,686,729**	11,885,201
After 1 year but less than 2 years	**724,781**	623,612
After 2 years but less than 3 years	**197,282**	178,110
After 3 years	**235,142**	93,626
	14,843,934	12,780,549

Included in accounts and bills payable are amounts due to CTC Group and an associate of the Group of RMB1,245 million (2011: RMB813 million (as restated)) as at 31 December 2012. The amounts due to CTC Group and an associate of the Group are unsecured, interest-free and are expected to be settled within one year.

16 SHARE CAPITAL

	2012	2011
	RMB'000	*RMB'000*
Registered, issued and fully paid:		
4,534,598,160 (31 December 2011: 3,778,831,800) domestic shares of RMB1.00 each	**4,534,598**	3,778,832
2,391,420,240 (31 December 2011: 1,992,850,200) H shares of RMB1.00 each	**2,391,420**	1,992,850
	6,926,018	5,771,682

	2012	2011
	Thousand shares	*Thousand shares*
At 1 January	**5,771,682**	5,771,682
Issue of domestic shares	**755,766**	–
Issue of H shares	**398,570**	–
At 31 December	**6,926,018**	5,771,682

On 8 February 2012, the Company issued 398,570,040 H shares on the basis of 2 H rights shares for every 10 existing H shares at a price of HK$3.19 per H rights share, and issued 755,766,360 domestic shares on the basis of 2 domestic rights shares for every 10 existing domestic shares at a price of RMB2.59 per domestic rights share. The total gross proceeds raised under the rights issue were RMB2,991 million, and the net proceeds raised under the rights issue were RMB2,956 million, after deduction of issuing expenses amounted to approximately RMB35 million. The rights issue increased RMB1,154 million of the Company's share capital and RMB1,802 million of the Company's share premium.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULT OF OPERATIONS

Overview

In 2012, against a backdrop of the unstable macro-economic environment in China and the world, the Group overcame such challenges and persisted to focus on three major markets and allocated its resources in an adaptive manner to bolster the Company's sustained and stable development. Our total revenues amounted to RMB61,517.38 million, representing an increase of 14.4% from 2011. Profit attributable to equity shareholders of the Company amounted to RMB2,406.79 million, representing an increase of 13.0% from RMB2,129.21 million[2] of 2011. Basic earnings per share were RMB0.353. Free cash flow amounted to RMB165.60 million.

Total Revenues

Our total revenues in 2012 were RMB61,517.38 million, representing an increase of 14.4% from 2011. Among our businesses, revenues from telecommunications infrastructure ("TIS") services were RMB28,413.36 million, representing an increase of 12.0% from 2011; revenues from business process outsourcing ("BPO") services were RMB26,304.14 million, representing an increase of 17.8% from 2011; revenues from applications, content and other ("ACO") services were RMB6,799.88 million, representing an increase of 11.9% from 2011. In terms of business structure, construction services and distribution of telecommunications services and products were the two major businesses that contributed to the Group's overall incremental total revenues. In terms of customer structure, revenues from the domestic telecommunications operators amounted to RMB39,744.73 million, representing 64.6% of the total revenues, an increase of 16.2% from 2011; revenues from the domestic non-operator customers and overseas customers amounted to RMB21,772.65 million and its proportion of total revenues decreased slightly to 35.4%, representing an increase of 11.3% from 2011. Domestic telecommunications operators were the major driving force of the Group's total revenues growth in 2012.

2 On 20 June 2012, the Company published an announcement, in relation to the acquisitions on equity interest and assets of certain telecommunications infrastructure services companies, including 100% equity interest in Ningxia Communications Constructions Co., Ltd., 100% equity interest in Ningxia Telecom Constructions Supervision Consultancy Co., Ltd., 100% equity interest in Xinjiang Communications Planning & Designing Institute Co., Ltd., and 51% equity interest in Sino-British Submarine System Co., Ltd. , etc. Relevant results were consolidated into the consolidated financial statements in accordance with the accounting standards and any historical figures preceding the acquisitions were also restated. Details of which are set out in the note to the audited financial statements for the year.

The following table sets forth a breakdown of our total revenues for 2011 and 2012, together with their respective rates of change:

	2012 *RMB'000*	2011 *RMB'000* (Restated)	Percentage Change
Telecommunications Infrastructure Services			
Design services	**5,788,005**	5,129,299	12.8%
Construction services	**20,638,017**	18,558,778	11.2%
Project supervision and management services	**1,987,338**	1,689,770	17.6%
	28,413,360	25,377,847	12.0%
Business Process Outsourcing Services			
Network maintenance	**6,414,319**	5,276,067	21.6%
Distribution of telecommunications services and products	**16,944,175**	14,442,791	17.3%
Facilities management	**2,945,643**	2,606,326	13.0%
	26,304,137	22,325,184	17.8%
Applications, Content and Other Services			
IT applications	**3,877,499**	3,105,890	24.8%
Internet service	**544,250**	537,218	1.3%
Voice VAS	**752,547**	746,429	0.8%
Others	**1,625,582**	1,687,559	–3.7%
	6,799,878	6,077,096	11.9%
Total	**61,517,375**	53,780,127	14.4%

Telecommunications Infrastructure Services

In 2012, revenues from TIS services of the Group were RMB28,413.36 million, representing an increase of 12.0% over RMB25,377.85 million in 2011, which was our primary source of revenues, and accounted for 46.2% of our total revenues, representing a decrease of 1.0 percentage points from 47.2% in 2011. During the year, driven by the accelerating development in mobile Internet and the "Broadband China" strategy, the domestic telecommunications operators increased their capital expenditure moderately. Under this circumstance, the Group adopted more proactive and effective measures, TIS revenues from domestic telecommunications operators grew rapidly and amounted to RMB22,375.06 million in 2012, representing an increase of 18.1% over RMB18,951.28 million in 2011. At the same time, the Group exerted more effort in the expansion of domestic non-operator market and overseas market. However, due to the factors such as the changes in market demand in certain regions in China and the delay in progress of certain overseas turnkey project, TIS revenues from such markets decreased by 6.0% to RMB6,038.30 million over RMB6,426.57 million in 2011.

Business Process Outsourcing Services

In 2012, revenues from BPO services of the Group were RMB26,304.14 million, representing an increase of 17.8% over RMB22,325.18 million in 2011. Revenues from BPO services accounted for 42.7% of our total revenues, representing an increase of 1.2 percentage points from 41.5% in 2011. Among BPO services, revenues from network maintenance were RMB6,414.32 million, representing an increase of 21.6% from 2011 and kept growing strongly. Rapid revenue growth was mainly attributable to the increased spending in network optimization and maintenance due to the enlarged network and subscriber base of domestic telecommunications operators. In addition, by leveraging the advantages of our integrated services, the Group provided ancillary services such as the distribution of telecommunications machineries according to the requirements of the customers. Meanwhile, the rapid growth of mobile subscribers in China and their demand for handsets also promoted the handsets distribution business of the Group. Revenues from distribution of telecommunications services and products amounted to RMB16,944.18 million, representing an increase of 17.3% from 2011.

Applications, Content and Other Services

In 2012, revenues from ACO services of the Group were RMB6,799.88 million, representing an increase of 11.9% over RMB6,077.10 million from 2011. Revenues from ACO services accounted for 11.1% of our total revenues, representing a decrease of 0.2 percentage points from 11.3% in 2011. During the year, the Group further expanded the informatization services to government and enterprise customers and the Internet application service to telecommunications operators, which led to a rapid increase in revenues from IT applications and became a major revenue generator for ACO services. The revenues from IT applications were RMB3,877.50 million, representing an increase of 24.8% from 2011.

Cost of Revenues

Our cost of revenues in 2012 was RMB51,732.01 million, representing an increase of 14.5% from 2011 and accounting for 84.1% of our total revenues.

The following table sets out a breakdown of our cost of revenues in 2011 and 2012 and their respective rates of change:

	2012 *RMB'000*	2011 *RMB'000* (Restated)	Percentage Change
Direct personnel costs	**9,229,460**	8,517,004	8.4%
Depreciation and amortization	**439,095**	430,290	2.0%
Purchase of material and telecommunications products	**17,645,654**	16,253,237	8.6%
Subcontracting charges	**18,447,867**	14,528,052	27.0%
Operating lease charges and others	**5,969,932**	5,470,054	9.1%
Total cost of revenues	**51,732,008**	45,198,637	14.5%

Direct Personnel Costs

In 2012, direct personnel costs were RMB9,229.46 million, representing 15.0% of our total revenues and an increase of 8.4% over RMB8,517.00 million in 2011. With the rapid growth in business volume in 2012, the Group consistently applied reasonable control over its total headcount and subcontracted our low-end tasks, thereby minimizing the staff costs and avoiding related risk. The proportion of direct personnel costs of our total revenues decreased by 0.8 percentage points compared to 2011.

Depreciation and Amortization

In 2012, depreciation and amortization were RMB439.10 million, representing 0.7% of our total revenues and an increase of 2.0% over RMB430.29 million in 2011. Its proportion of our total revenues decreased by 0.1 percentage points compared to 2011.

Purchase of Materials and Telecommunications Products

In 2012, the costs of materials and telecommunications products purchase were RMB17,645.65 million, representing 28.7% of our total revenues and an increase of 8.6% over RMB16,253.24 million in 2011. The increase in costs of materials and telecommunications products was mainly attributable to the favorable development of the Group's distribution of telecommunications services and products business, which drove a corresponding increase in the cost of telecommunications products purchase, including the telecommunications machineries and handsets. The cost of materials and telecommunications products as a percentage of our total revenues decreased by 1.5 percentage points compared to 2011.

Subcontracting Charges

In 2012, subcontracting charges were RMB18,447.87 million, representing 30.0% of our total revenues and an increase of 27.0% over RMB14,528.05 million in 2011. Such increase was mainly resulted from our TIS services. The Group's business volume increased rapidly in 2012, and having considered its strategic development, effectiveness and efficiency, the Group continued to focus on high-value businesses and outsource certain low-end tasks, resulting in a rapid growth in subcontracting charges. Subcontracting charges as a proportion of our total revenues increased by 3.0 percentage points compared to 2011.

Operating Lease Charges and Others

In 2012, operating lease charges and others were RMB5,969.93 million, representing 9.7% of our total revenues and an increase of 9.1% over RMB5,470.05 million in 2011. Its proportion of our total revenues decreased by 0.5 percentage points compared to 2011.

Gross Profit

In 2012, the Group's gross profit amounted to RMB9,785.37 million, representing an increase of 14.0% over RMB8,581.49 million in 2011. The Group's gross profit margin in 2012 was 15.9%, representing a slight decrease of 0.1 percentage points over 16.0% in 2011. In 2012, the Group's effort in the enhancement of project management and cost control alleviated the challenges arising from the changes in market conditions to certain extent, resulting in a fairly stable operational efficiency and overall gross profit margin.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses in 2012 were RMB7,514.88 million, representing an increase of 16.2% over RMB6,464.57 million in 2011, and accounting for 12.2% of our total revenues. In 2012, the Group strengthened cost control on selling and administrative expense. However, due to the factors such as the increase in research and development by the Group from a strategic perspective, selling, general and administrative expenses as a percentage of total revenues increased by 0.2 percentage points compared to 2011.

Finance Costs

In 2012, the Group's finance costs were RMB26.03 million and decreased by 59.7% over RMB64.56 million in 2011. In 2012, the Group reduced finance costs by implementing effective centralized fund management and repaying interest-bearing borrowings.

Income Tax

Certain of our domestic subsidiaries were recognized as new and high-technology enterprises and were entitled to a preferential income tax rate of 15%. Certain of western enterprise could also enjoy the Preferential Policies for Western Development Program. Apart from these subsidiaries, the Company and other domestic subsidiaries of the Group were subject to an income tax rate of 25%. The overseas subsidiaries of the Group were subject to different countries' tax rates. The income tax of the Group in 2012 was RMB585.51 million and our effective tax rate was 19.3%, decreased by 0.9 percentage points compared to 20.2% in 2011. The difference between our effective tax rate and the statutory tax rate was mainly due to the preferential income tax treatment for new and high-technology enterprises and the preferential policy of deduction for research and development expenses before income tax enjoyed by certain of our subsidiaries.

Profit Attributable to Equity Shareholders of the Company and Basic Earnings per Share

In 2012, profit attributable to equity shareholders of the Company was RMB2,406.79 million, representing an increase of 13.0% over RMB2,129.21 million in 2011. Profit attributable to equity shareholders of the Company accounted for 3.9% of our total revenues, remaining at a relative stable level as compared with 2011. Basic earnings per share[3] were RMB0.353, decreased by 1.4% over the last year. The decrease in basic earnings per share was due to the Company's enlarged share capital arising from the rights issue conducted in early 2012.

Capital Expenditure

We implement stringent budget management over capital expenditure, and adjust our capital expenditure plan according to the changes of market condition. In 2012, our capital expenditure amounted to RMB929.05 million, a decrease of 15.0% from RMB1,093.32 million in 2011. The capital expenditure in 2012 accounted for 1.5% of our total revenues. Our capital expenditure included the purchases of production facilities and equipment, machinery and meters, plant and office buildings, intangible assets and other operating assets.

Cash Flow

Our net cash inflow in 2012 increased to RMB1,507.10 million over the net cash outflow of RMB1,175.80 million in 2011. As at the end of 2012, our cash and cash equivalents amounted to RMB8,879.49 million, of which 89.3% was denominated in Renminbi.

The following table sets out our cash flow positions in 2011 and 2012, respectively:

	2012	2011
	RMB'000	*RMB'000*
		(Restated)
Net cash generated from operating activities	**952,233**	1,261,132
Net cash used in investing activities	**(1,046,434)**	(1,070,264)
Net cash generated from/(used) in financing activities	**1,601,298**	(1,366,669)
Net increase/(decrease) in cash and cash equivalents	**1,507,097**	(1,175,801)

In 2012, net cash generated from operating activities was RMB952.23 million, representing a decrease of RMB308.90 million from RMB1,261.13 million in 2011. The decrease in net cash generated from operating activities was mainly because more cash was needed to support the rapid development of the Group's domestic and overseas business, and certain customers of the Group delayed their payment.

3 As described in the note 13 to the extracted financial statements, the Company completed the rights issue in February 2012. In calculating earnings per share, the weighted average number of shares outstanding during the years ended 31 December 2012 and 2011 were calculated as if the bonus elements without consideration included in the rights issue had been existed from the beginning of the comparative year.

In 2012, net cash used in investing activities was RMB1,046.43 million, representing a decrease of RMB23.83 million from RMB1,070.26 million in 2011. Cash used in investing activities in 2012 mainly comprised of capital expenditure including the purchase of equipment.

In 2012, net cash generated from financing activities was RMB1,601.30 million, representing an increase of RMB2,967.97 million from the outflow of RMB1,366.67 million in 2011. The increase in net cash generated from financing activities was mainly due to the successful completion of the Group's rights issue.

Working Capital

As at the end of 2012, working capital (i.e. current assets minus current liabilities) was RMB13,423.16 million, while working capital was RMB9,262.12 million in 2011. The increase in working capital was mainly due to an increase in monetary assets arising from the rights issue, and certain customers of the Group delayed their payments.

Indebtedness

As at the end of 2012, total indebtedness of the Group was RMB499.69 million and decreased by RMB630.02 million from RMB1,129.71 million at the year end of 2011. Indebtedness of the Group were mainly fixed interest rate loans and denominated in US dollar, of which Renminbi loan accounted for 2.7%, US dollar loan accounted for 60.2% and HK dollar loan accounted for 37.1%, and of which 73.4% was fixed interest rate loans and 26.6% was floating interest rate loans.

As at the end of 2012, our gearing ratio[4] was 2.4%, a decrease of 4.1 percentage points from 6.5% in 2011.

Contractual Obligations

The following table sets out our contractual obligations as at 31 December 2012:

	Total	**2013**	**2014**	**2015**	**2016**	**2017 and after**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Short-term debt	409,805	409,805	–	–	–	–
Long-term debt	89,883	–	17,851	17,851	17,851	36,330
Operating lease commitments	669,567	233,698	142,337	87,886	79,167	126,479
Capital commitments	190,657	190,657	–	–	–	–
Of which:						
Authorized and contracted for	96,168	96,168	–	–	–	–
Authorized but not contracted for	94,489	94,489	–	–	–	–
Total of contractual obligations	1,359,912	834,160	160,188	105,737	97,018	162,809

4 Gearing ratio equals to total interest-bearing debts divided by the sum of total interest-bearing debts and equity attributable to equity shareholders of the Company at the end of each financial year.

Exchange Rate

Most of our revenues and expenses are settled in Renminbi and therefore the risks associated with foreign currency exchange rates have no significant impact on our business performance. As at the end of 2012, the balance of our cash and cash equivalents in foreign currencies accounted for 10.7% of our total cash and cash equivalents, of which 2.3% and 6.4% were denominated in US dollars and Hong Kong dollars, respectively.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the year ended 31 December 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The audit committee has reviewed with the management and the Company's international auditors, KPMG, the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the annual report for the year ended 31 December 2012.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES AND THE CORPORATE GOVERNANCE CODE

As a company incorporated in the PRC and listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company not only has complied with the relevant provisions of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") but also has abided by the PRC Company Law and the applicable laws, regulations and regulatory requirements of Hong Kong and the PRC as the basic guidelines for the Company's corporate governance. Throughout the twelve months ended 31 December 2012, the Company has complied with the code provisions as set out in the former Code on Corporate Governance Practices and the new Corporate Governance Code (effective from 1 April 2012) contained in Appendix 14 to the Listing Rules, save that certain independent non-executive directors and other non-executive directors did not attend the shareholders' general meetings due to other business commitments.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules to govern securities transactions by Directors. Having made specific enquiries in writing to the directors, each of the directors has confirmed his compliance with the Model Code in connection with the transactions of the Company's securities in the reporting period.

CLOSURE OF SHARE REGISTER

1. Annual General Meeting

The H share register of members of the Company will be closed, for the purpose of determining shareholders' entitlement to attend the Annual General Meeting, from Tuesday, 28 May 2013 to Thursday, 27 June 2013 (both days inclusive), during which period no transfer of H shares will be registered. In order to attend the Annual General Meeting, all share transfers, accompanied by the relevant share certificates, must be lodged for registration with Computershare Hong Kong Investor Services Limited at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Monday, 27 May 2013. H share shareholders who are registered with Computershare Hong Kong Investor Services Limited on 27 June 2013 are entitled to attend the Annual General Meeting.

2. Proposed Final Dividend

The Board proposes a final dividend of RMB0.1390 per share (pre-tax) for the year ended 31 December 2012. The dividend proposal will be submitted for consideration at the Annual General Meeting to be held on 27 June 2013. If such proposed dividend distribution is approved by the shareholders, the final dividend will be distributed to those shareholders whose names appear on the register of members of the Company on Monday, 15 July 2013. The register of members will be closed from Wednesday, 10 July 2013 to Monday, 15 July 2013 (both days inclusive). In order to be entitled to the final dividend, H shares shareholders who have not registered the transfer documents are required to deposit the transfer documents together with the relevant share certificates at Computershare Hong Kong Investor Services Limited, at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong at or before 4:30 p.m. on Tuesday, 9 July 2013. Dividends will be denominated and declared in Renminbi. Dividends on domestic shares will be paid in Renminbi, whereas dividends on H shares will be paid in Hong Kong dollars. The relevant exchange rate will be the average of the mid-point rates of Renminbi to Hong Kong dollars as announced by the People's Bank of China for the week prior to the date of the approval of declaration of dividends at the Annual General Meeting.

The Company shall be obliged to withhold and pay income tax on behalf of overseas non-resident enterprise shareholders and overseas resident individual shareholders of H shares whose names appear on the Company's H share register of members on Monday, 15 July 2013 according to following regulations:

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 a rate of 10%. For individual H share 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 lower than 10%, the Company will withhold the individual income tax at a 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 withheld 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 a 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.

ANNUAL REPORT

The annual report for the year ended 31 December 2012 will be dispatched to shareholders and made available on the HKExnews website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.chinaccs.com.hk) in due course.

FORWARD-LOOKING STATEMENTS

The Company would also like to caution readers about the forward-looking nature of certain of the above statements. These forward-looking statements are subject to risks and uncertainties and assumptions, some of which are beyond our control. Potential risks and uncertainties include those concerning the continued growth of the telecommunications industry in China, the development of the regulatory environment and our ability to successfully execute our business strategies. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. We do not intend to update these forward-looking statements. Actual results may differ materially from the information contained in the forward-looking statements as a result of a number of factors.

As at the date of this announcement, our executive directors are Mr. Li Ping (Chairman), Mr. Zheng Qibao (President), Mr. Yuan Jianxing (Executive Vice President) and Ms. Hou Rui (Executive Vice President and Chief Financial Officer), our non-executive directors are Mr. Li Zhengmao and Mr. Zhang Junan, and our independent non-executive directors are Mr. Wang Jun, Mr. Zhao Chunjun, Mr. Wei Leping and Mr. Siu Wai Keung, Francis.