THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Communications Services Corporation Limited, you should at once hand this circular and the accompanying forms of proxies to the purchaser or the transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular is for information purposes only and does not constitute an offer or an invitation to subscribe for or purchase any securities, nor is it calculated to invite any such offer or invitation.

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: 0552)

MAJOR AND CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

Financial Advisers to China Communications Services Corporation Limited
(in alphabetical order)

CICC

Goldman Sachs

Independent Financial Adviser to the Independent Board Committee

ING

A letter from the Board is set out from pages 6 to 44 of this circular. A letter from the Independent Board Committee is set out on pages 45 to 46 of this circular. A letter from ING Bank N.V., the Independent Financial Adviser, is set out on pages 47 to 70 of this circular.

A notice convening an extraordinary meeting of the Company to be held at 3:00 p.m. on 7 August 2007 at Beijing Nan Yue Yuan Hotel, 186 Zheng Wang Fen, Feng Tai District, Beijing, PRC, is set out on pages 255 to 257 of this circular. Form of proxies for use at the extraordinary general meeting is enclosed with this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxies in accordance with the instructions printed thereon and return the same to the Company's share registrar, Computershare Hong Kong Investor Services Limited, Room 1806–1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so wish.

20 June 2007

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the meanings:

"Acquisition"	the proposed acquisition by the Company of the Total Acquisition Assets pursuant to the Acquisition Agreement, as further described in this circular
"Acquisition Agreement"	the conditional sale and purchase agreement dated 15 June 2007 between the Company and China Telecommunications Corporation relating to the Acquisition
"Announcement"	the announcement of the Company dated 15 June 2007 in respect of, among others, the Acquisition and the Prospective Connected Transactions of the Company
"Associate"	has the meaning given to it by the Listing Rules
"Board"	the board of directors of the Company
"China" or "PRC"	the People's Republic of China (excluding, for the purposes of this circular, Hong Kong, Macau and Taiwan)
"China Mobile"	China Mobile Communications Corporation, a state-owned enterprise established under the laws of the PRC, and its subsidiaries (including China Mobile Limited, a company whose shares are listed on the Stock Exchange)
"China Netcom"	China Network Communications Group Corporation, a state-owned enterprise established under the laws of the PRC, and its subsidiaries (including China Netcom Group Corporation (Hong Kong) Limited, a company whose shares are listed on the Stock Exchange)
"China Railcom"	China Tie Tong Telecommunication Co., Ltd., a company established under the laws of the PRC, and its subsidiaries
"China Telecom Group"	China Telecommunications Corporation and its subsidiaries, including China Telecom Listco Group but excluding the Combined Group
"China Telecom Listco"	China Telecom Corporation Limited, a company established under the laws of the PRC and whose shares are listed on the Stock Exchange
"China Telecom Listco Group"	China Telecom Listco and its subsidiaries

"China Telecommunications Corporation"	China Telecommunications Corporation (中國電信集團公司), a state-owned enterprise established under the laws of the PRC on 17 May 2000 and the controlling shareholder of the Company
"China Unicom"	China United Telecommunications Corporation, a company established under the laws of the PRC, and its subsidiaries (including China Unicom Limited, a company whose shares are listed on the Stock Exchange)
"CICC"	China International Capital Corporation (Hong Kong) Limited, which is licensed by the Securities and Futures Commission for Types 1, 4, 6 and 9 regulated activities under the Securities and Futures Ordinance, being a financial adviser to the Company in respect of the Acquisition and the Prospective Connected Transactions
"Combined Group"	the Listed Group and the Target Business
"Combined Service Areas"	the Listed Service Areas and the Target Service Areas
"Company" or "we" or "us"	China Communications Services Corporation Limited (中國通信服務股份有限公司), a joint stock limited company incorporated in the PRC with limited liability on 30 August 2006, whose H Shares are listed on the Stock Exchange
"Date of Appraisal"	31 January 2007, being the benchmark date used by the valuer for valuation of the Target Business in connection with the Acquisition
"Directors"	the directors of the Company
"Existing Connected Transactions"	the connected transactions entered into between a member of Listed Group (other than the Target Business) and the China Telecommunications Corporation and its subsidiaries (excluding the Listed Group) in respect of the transactions under the engineering framework agreement, ancillary telecommunications services framework agreement, operation support services framework agreement, IT application services framework agreement, centralized services agreement, property leasing framework agreement and the strategic cooperation agreement, details of which are set out in the Prospectus
"Existing Waiver"	the waiver from the strict compliance with the relevant requirements of the Listing Rules granted by the Stock Exchange in its letter dated 21 November 2006 to the Company

"Extraordinary General Meeting" or "EGM"	the extraordinary general meeting of the Company to be convened on 7 August 2007
"Financial Advisers"	CICC and Goldman Sachs, the financial advisers to the Company in respect of the Acquisition and the Prospective Connected Transactions
"GDP"	gross domestic product
"Goldman Sachs"	Goldman Sachs (Asia) L.L.C, which is licensed by the Securities and Futures Commission for Types 1, 4, 5, 6 and 9 regulated activities under the Securities and Futures Ordinance, being a financial adviser to the Company in respect of the Acquisition and the Prospective Connected Transactions
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"H share(s)"	overseas listed foreign invested shares in the Company's issued share capital with a par value of RMB1.00 per share which are listed on the Stock Exchange
"IFRS"	International Financial Reporting Standards promulgated by the International Accounting Standards Board
"Independent Board Committee"	the committee of Directors, consisting of Wang Jun, Chan Mo Po, Paul, Zhao Chunjun, Wu Shangzhi and Hao Weimin, who are independent non-executive Directors, formed to advise the Independent Shareholders in respect of the terms of the Acquisition and the terms of certain Prospective Connected Transactions
"Independent Financial Adviser" or "ING"	ING Bank N.V., a registered institution under the SFO, registered for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) of the regulated activities
"Independent Shareholders"	Shareholders other than China Telecommunications Corporation and its Associates
"IPO"	the initial public offering of the Company in 2006 and which comprises an international offering and a Hong Kong public offering

"Latest Practicable Date"	14 June 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listed Group" or "we"	the Company together with it subsidiaries in the Listed Service Areas (and for the avoidance of doubt, for the purpose of this circular, excluding the Target Business)
"Listed Service Areas"	the service regions of the Company prior to the Acquisition and as disclosed in the Company's Prospectus comprising Shanghai municipality and Zhejiang, Fujian, Hubei, Guangdong and Hainan provinces
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"MII"	the Ministry of Information Industry of the PRC (中華人民共和國信息產業部)
"Non-exempt Prospective Connected Transactions"	The Prospective Connected Transactions, excluding the Property Leasing Framework Agreement
"Prospective Connected Transactions"	the connected transactions between the Combined Group and the China Telecom Group described in the section headed "Prospective Connected Transactions" under section 7 of the letter from the board in this circular
"Prospectus"	the prospectus dated 27 November 2006 issued by the Company in connection with its Hong Kong public offering
"RMB"	Renminbi, the lawful currency of the PRC
"SASAC"	the State-Owned Assets Supervision and Administration Commission of the PRC (國務院國有資產監督管理委員會)
"Savills"	Savills Valuation and Professional Services Limited, a chartered surveyor and independent property valuer to the Company
"Shareholders"	shareholders of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Strategic Cooperation Agreement"	the Strategic Cooperation Framework Agreement entered into between the Company and China Telecom Listco on 30 August 2006 to set out the terms of the strategic cooperation between them

"Supplemental Agreement"	The supplemental agreement between the Company and China Telecommunications Corporation to supplement and amend the terms of each of the Engineering Framework Agreement, Ancillary Telecommunications Services Framework Agreement, Operation Support Services Framework Agreement, IT Application Services Framework Agreement, Centralized Services Agreement and the Property Leasing Framework Agreement
"Supplemental Strategic Agreement"	The supplemental agreement between the Company and China Telecom Listco to supplement and amend the terms of the Strategic Cooperation Agreement
"Target Assets"	the assets to be acquired under the acquisition agreement, the details of which are set out in this circular, and which includes, *inter alia*, equipment, leases, office buildings, land and certain equity interests in companies within the Listed Service Areas and in which majority equity interests are already owned by the Company or are already consolidated as part of the Listed Group's financial information
"Target Business"	the telecommunications infrastructure ("**TIS**") services, business process outsourcing ("**BPO**") services and applications and content and other ("**ACO**") services in the Target Service Areas and the entire equity interest of Guangdong Nanfang Communications GSM Intelligent Card System Co., Ltd. (廣東南方通信全球通智能卡系统有限公司) and NingBo Public Information Industry Co., Ltd. (寧波公眾信息產業有限公司) which are located in Guangdong and Zhejiang provinces to be purchased by the Company from China Telecommunications Corporation pursuant to the Acquisition Agreement
"Target Service Areas"	Jiangsu Province, Anhui Province, Jiangxi Province, Hunan Province, Guangxi Zhuang Autonomous Region, Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province and Xinjiang Uygur Autonomous Region in the PRC
"Total Acquisition Assets"	the Target Business and the Target Assets

For your convenience, this circular contains translations between H.K. dollars and RMB amounts at HK$1 = RMB0.9777 the prevailing rate on the Latest Practicable Date. The translations are not representations that the RMB amounts could actually be converted into H.K. dollars at such rates, or at all.

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: 0552)

Chairman and Non-executive Director
Wang Xiaochu

Vice-Chairman and Executive Director
Li Ping

Non-executive Directors
Liu Aili
Zhang Junan

Independent Non-executive Directors
Wang Jun
Chan Mo Po, Paul
Zhao Chunjun
Wu Shangzhi
Hao Weimin

Registered office
Level 5
No. 2 and B
Fuxingmen South Avenue
Xicheng District
Beijing
PRC

Place of business in Hong Kong
Room 3203–3205
Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong

20 June 2007

To the Shareholders

Dear Sir or Madam,

Major and Connected Transaction and Continuing Connected Transactions

1. INTRODUCTION

The Company announced, by way of the Announcement, that it entered into the Acquisition Agreement with China Telecommunications Corporation, pursuant to which China Telecommunications Corporation agreed to sell, and the Company agreed to purchase, the Total Acquisition Assets (namely, the Target Business and the Target Assets) subject to and upon the terms and conditions contained in the Acquisition Agreement on 15 June 2007. The Acquisition constitutes both a major and a connected transaction for the Company under the Listing Rules, and is conditional, amongst other things, the approval of the Independent Shareholders at the EGM.

In connection with the Acquisition, the Company has also entered into the Supplemental Agreement and the Supplemental Strategic Agreement to amend the terms of the relevant framework agreements for the Prospective Connected Transactions and the Strategic Cooperation Agreement (as defined in this circular), respectively. The annual caps of the Prospective Connected Transactions will also be amended further to the Acquisition. The Supplemental Agreement, the Supplemental Strategic Agreement and the revised caps of the Non-exempt Prospective Connected Transactions are subject to, *inter alia*, Independent Shareholders' approval at the EGM.

The purpose of this circular is to provide, amongst other things, further information about the terms of the Acquisition, the Prospective Connected Transactions, letters from the Independent Board Committee and from ING (the independent financial adviser), further financial and other information of the Target Business and the Target Assets (including the Accountants' Report on the financial information of the Target Business for the three years ended 31 December 2006 and the pro forma financial information of the Combined Group to illustrate how the proposed acquisition of the Target Business and the Target Assets might have affected the Company's most recent financial information) and a notice to shareholders of the Company convening the Extraordinary General Meeting to approve, amongst other things, the terms of the Acquisition, the Supplemental Agreement, the Supplemental Strategic Agreement and the Non-exempt Prospective Connected Transactions of the Company.

2. THE TOTAL ACQUISITION ASSETS

(a) The Acquisition

The Company entered into the Acquisition Agreement on 15 June 2007 after the trading hours of the Stock Exchange, pursuant to which the Company agreed to acquire and China Telecommunications Corporation, the Company's controlling shareholder and promoter, agreed to sell, the Total Acquisition Assets (comprising of the Target Business and the Target Assets), subject to certain conditions.

The purchase price to be paid for the Total Acquisition Assets is RMB4,630 million (equivalent to approximately HK$4,735.6 million). The indebtedness of the Target Business as of 31 December 2006 amounted to approximately RMB75.2 million (equivalent to approximately HK$76.9 million). Upon completion of the Acquisition, the Combined Group will provide specialised telecommunications support services primarily in the Combined Service Areas and the Target Assets will become the assets to be owned by the Company.

The Target Business in each of the Target Service Areas consists of companies and business assets which together comprise the leading providers of specialised telecommunications support services offering telecommunications infrastructure ("**TIS**") services, business process outsourcing ("**BPO**") services and applications and content and other ("**ACO**") services to telecommunications operators in the relevant Target Service Areas. The aggregate appraised value of the Target Business comprises 78.7% of the aggregate appraised value of the Total Acquisition Assets. The Target Service Areas are Jiangsu province, Anhui province, Jiangxi province, Hunan province, Guangxi Zhuang autonomous region, Chongqing municipality, Sichuan province, Guizhou province, Yunnan province, Shaanxi province, Gansu province, Qinghai province and Xinjiang Uygur autonomous region in the PRC. For the financial year ended 31 December 2006, the revenue of the Target Business was RMB3,468.7 million, RMB1,013.9 million and RMB647.3

million for TIS services, BPO services and ACO services, respectively. The cumulative annual growth rate of revenue for the three years ended 31 December 2006 of the TIS services provided by the Target Business was 8.8%, 8.8% for the BPO services and 24.0% for the ACO services.

The principal businesses of the Target Business in the Target Service Areas are:

- **TIS services** — The Target Business offers a range of telecommunications infrastructure services, including design, construction and engineering and project supervision and management for telecommunications network infrastructure related projects.

- **BPO services** — The Target Business offers a range of BPO services for telecommunications operators including network maintenance, facilities management, and distribution of telecommunications services and products.

- **ACO services** — The Target Business offers a variety of value added telecommunications and information technology services, including system integration, Internet services and value added voice services, as well as other services.

The Target Business also includes two companies, Guangdong Nanfang Communications GSM Intelligent Card System Co., Ltd. (廣東南方通信全球通智能卡系统有限公司) and NingBo Public Information Industry Co., Ltd. (寧波公眾信息產業有限公司) located in the Guangdong and Zhejiang provinces, respectively. These two companies are engaged in the business of manufacturing and distribution of encryption cards and IC cards, and providing localised web portal services in the Guangdong and Zhejiang provinces respectively. Their aggregate appraised value comprises 0.61% of the aggregate appraised value of the Target Business and is relatively insignificant compared to that of the aggregate appraised value of the Target Business. The businesses conducted by these two companies were not previously conducted by the Company in the Guangdong and Zhejiang provinces. However, since the businesses of the two companies are complementary to the existing business of the Group, the Company intends to acquire them to facilitate the growth and expansion of the Company's operations. Accordingly, the acquisition of these companies is in the interest of the Company. Upon the completion of the Acquisition the above-mentioned two companies will be held by the relevant provincial subsidiaries of the Company in Guangdong province and Zhejiang province and will both become subsidiaries of the Company after the Acquisition. The other companies to be acquired by the Company as part of the Target Business further to the Acquisition which are not set out in this Letter from the Board can be found in Appendix I of this circular.

The Acquisition also involves the acquisition of the Target Assets and the aggregate appraised value of the Target Assets comprises 21.3% of the aggregate appraised value of the Total Acquisition Assets. The Target Assets include non-specialised assets such as office buildings, equipment, leases and land in the Combined Service Areas which will be used by the Company in the Combined Service Areas for daily operations. The Target Assets also include minority shareholding interests of 10% each in two companies, Guangdong Electronic Certification Authority Co., Ltd. (廣東電子商務認證有限公司) and Shanghai Telephone Property Co., Ltd. (上海德律風物業有限公司), which are already part of the Listed Group on the basis that the financial information of such companies are consolidated as part of the Listed Group's financial information. The original purchase cost of the Target Assets is RMB904.6 million. The aggregate appraised value of the Target Assets is RMB984.7 million. The Target Assets represent stand-alone and non-specialised assets which do not qualify as a business or businesses and will be acquired by the Company pursuant to the Acquisition Agreement. Accordingly, no historical financial information is available to be provided in relation to the Target Assets as in the case of the Target Business. The following is a table showing the breakdown of the Target Assets in terms of their original purchase price and their appraised value:

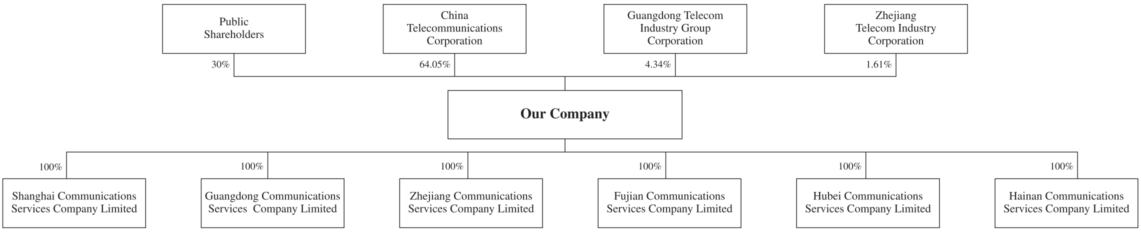
	Original Purchase Cost	**Appraised Value**
	RMB million	*RMB million*
Office buildings	573.2	473.2
Equipment	91.5	39.4
Construction in progress	46.1	47.1
Land[1]	70.2	256.9
Leases	37.1	83.9
Minority equity interest	12.3	10.3
Other assets	74.2	73.9
Total	904.6	984.7

(1) The difference between the original purchase cost and the appraised value is attributed in part to the rising property price in the PRC.

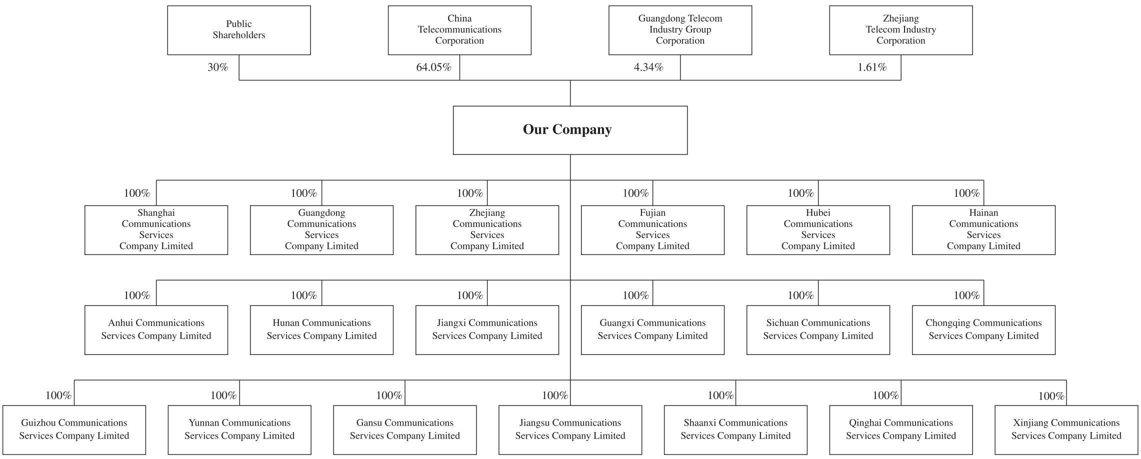
The Company plans to introduce the provision of logistics services as a new business and as part of its business expansion initiatives, which comprises of the provision of comprehensive professional logistics services, including purchase agency, transportation, delivery, testing, warehousing and inspection, logistics information management and distribution ("Comprehensive Logistics Services"). In this regard, the Company intends to use part of the Target Assets to embark on the Comprehensive Logistics Services.

Set out below are the corporate structures of the Company and its principal subsidiaries prior to and immediately following the Acquisition. After the completion of the Acquisition, the Target Business and the Target Assets will be held by the relevant provincial subsidiaries of the Company.

Corporate structure immediately before the Acquisition



Corporate structure immediately following completion of the Acquisition



**Note:* Names of the provincial subsidiaries in the Target Service Areas in the chart above pending final approval by relevant company registration authorities.

(b) The Consideration

The Acquisition was negotiated and entered into on an arm's length basis and on normal commercial terms. The total purchase price for the Acquisition payable by the Company is RMB4,630 million (equivalent to approximately HK$4,735.6 million), to be paid in cash within 60 days from the completion date of the Acquisition. The Company will finance the Acquisition by using RMB1,200 million from the proceeds of its IPO, RMB1,430 million from its cash on hand and RMB2,000 million from debt financing on normal commercial terms.

The purchase price of the Acquisition was determined based on various factors, including the quality of the assets being acquired, their growth prospects, earnings potential, competitive advantages in their respective markets, the prospective profit contributions by the Total Acquisition Assets to the Combined Group, the comparable companies public trading multiples and other relevant valuation benchmarks. The purchase price for the Acquisition represents a multiple of approximately 16.4 times the 2007 forecast combined net profit attributable to the owner of the Target Business which is unlikely to be less than RMB283 million (equivalent to approximately HK$289.5 million). Such forecast has been prepared under the IFRS by the Directors of the Company and the management of the Target Business, and based on the following principal assumptions:

(1) there will be no material changes in existing political, legal, regulatory, fiscal or economic conditions in the PRC, Hong Kong, or any other territory in which the Target Business currently operates or which are otherwise material to the Target Business' revenues;

(2) there will be no material changes in legislation or regulations governing the telecommunications industry in the PRC, Hong Kong or any other country or territory in which the Target Business operates or which the Target Business has arrangements or agreements with, which would materially affect the business or operations of the Target Business;

(3) inflation, interest rates or foreign currency exchange rates will not differ materially from those prevailing as of the date of this circular;

(4) there will be no material changes in the bases or rates of taxation appropriate to the Target Business, except as otherwise disclosed on the date of this circular. In addition, the enactment of the Corporate Income Tax Law of the PRC passed by the Fifth Plenary Session of the Tenth's National People's Congress on 16 March 2007 to be effective on 1 January 2008 is not expected to have any significant financial effect on the Target Business for the year ended 31 December 2007; and

(5) based on information currently available, there will be no tariff reduction that will have a material adverse effect on the business of the Target Business.

Each of the Financial Advisers to the Company confirms that it is satisfied that the profit forecast has been made by the Directors after due and careful enquiry.

(c) Conditions to Completion of the Acquisition

The Company and China Telecommunications Corporation have agreed that the completion of the Acquisition will take place on 31 August 2007 or such other date as the parties may agree and is subject to the following conditions:

(i) the sale of the Total Acquisition Assets being duly approved by China Telecommunications Corporation and its relevant subsidiaries in accordance with their constitutional documents;

(ii) the passing of ordinary resolutions by Independent Shareholders approving the terms of the Acquisition, the terms of the Prospective Connected Transactions between the Company and China Telecommunications Corporation (in relation to the proposed amendments to the framework agreements and the proposed annual caps but excluding the Property Leasing Framework Agreement);

(iii) the obtaining of all necessary approvals from the relevant governmental and regulatory authorities, including the SASAC's approval; and

(iv) there having been no material adverse change to the financial conditions, business operations or prospects of the Target Business and, where applicable, the Target Assets.

The parties to the Acquisition Agreement agreed that China Telecommunications Corporation and its relevant subsidiaries will be entitled to any increase of the net assets of the Target Business resulting from the profits of the Target Business as determined under the PRC accounting standards between 31 January 2007, being the Date of Appraisal, and the date of completion of the Acquisition, and that China Telecommunications Corporation and its relevant subsidiaries shall make up for any decrease of the net assets of the Target Business resulting from any loss sustained by the Target Business between 31 January 2007, being the Date of Appraisal, and the date of completion. The adjustment mechanism, as agreed between the Company and China Telecommunications Corporation, is in line with the principles set out in the "Notice of the Forwarding the Implementation Opinions of the State-owned Assets Supervision and Administration Commission about Further Standardisation of the Work Relating to the Reconstructing of State-owned Enterprises" issued by the General Office of the State Council of the PRC (the "Notice") and provides for the vendor to make up to the purchaser any negative change in the net assets of the Target Business and for the purchaser to account to the vendor for any increase in net assets. The amount of change in net assets will be subject to a special audit and payments will be made in cash subject to alternative arrangements as the parties may agree. Changes in the net asset value of the Target Assets will not be included in the adjustment as the scope of the Notice does not include the sale and purchase of standalone assets. The Board believes such adjustment mechanism is fair and reasonable.

3. REASONS FOR AND BENEFITS OF THE ACQUISITION

It is the Company's existing strategy to strengthen its competitive position through selective acquisitions. As disclosed in the Prospectus, the Company plans to expand its business geographically in the domestic PRC market through selective acquisitions, including the acquisitions of other affiliates of China Telecommunications Corporation engaging in similar business in regions other than the Company's Listed Service Areas. Under the non-competition undertaking entered into with China Telecommunications Corporation in connection with the initial public offering of the Company, the Company has a priority right (expiring on the third anniversary of its listing date) to acquire from China Telecom Group, its retained specialised telecommunications support businesses outside of the Company's Listed Service Areas, at the discretion of the Company.

The Acquisition represents a new and important opportunity for the Company to enhance its market position and competitiveness, improve its growth prospects, realise operating synergies and rationalise its capital structure hence allowing the Company to benefit further from the sustained growth of the telecommunications industry in the PRC and the increase in demand for specialised telecommunications support services.

(a) Enhancement of market position and competitiveness

Our key customers, including China Telecom Group, China Mobile and China Unicom, are China's top fixed-line and wireless telecommunications operators that have national operations. There is increasing demand for telecommunications support service providers to offer high quality and cost efficient services on a national scale. The Acquisition complements the Company's existing business strategy to meet the customers' comprehensive needs.

The Target Business in each of the Target Service Areas is the leading provider of specialized telecommunications support services. The addition of 13 provinces will enable the Company to expand its geographic footprint and will allow the Company to standardise its services and technology in its Combined Service Areas, hence enhancing the Company's competitiveness through the provision of nation-wide integrated one-stop services.

The Acquisition will also boost the Group's ability to deploy resources across wider regions based on our customers' comprehensive needs. After completion of the Acquisition, our primary service areas will consist of 19 geographically adjacent regions which will create flexibility in internal resources allocation to facilitate quick response to market trends and customers' comprehensive needs, especially in light of the Company's on-going efforts to increase customer base and develop new business outside of China Telecom Group.

The Acquisition is also expected to increase the Company's customer base, revenue and net profit. The Company believes that the enhanced financial position resulting from such growth in customer base, revenue and net profit will enable us to better address the competitive pressure and capture growth opportunities.

(b) Improvement of growth prospects

The Board believes that the Target Service Areas are markets with high growth potential. The majority of the Target Business is located in the middle and western provinces where the PRC central government has implemented policies to promote economic development. These policies are likely to stimulate a boom in the spending on infrastructure construction, including telecommunications network infrastructure construction and upgrade hence benefiting the Company. The Target Business will be direct beneficiaries to leverage the Listed Group's know-how, top-ranked technical qualifications and competitive advantages to win market share in the Target Service Areas.

The Acquisition will better position the Company to capture strategic opportunities such as the 3G rollout in the PRC, as capital expenditure of telecommunications network is, to a significant degree, based on geographic areas to be covered.

The Target Business, like the Listed Group, was part of the overall operations of China Telecommunications Corporation, the predecessor of most of the PRC telecommunications operators with long and established relationship with telecommunications services customers and a deep understanding of the telecommunications industry, will integrate with our current operations nation-wide and effectively capture strategic opportunities.

(c) Realization of operating synergies

The Board believes that the Acquisition represents an opportunity to create shareholders' value through potential operating synergies.

The Board believes that the Acquisition of the Target Business will enable the Company to reach economies of scale through sharing of resources and expertise across provinces and business areas, ultimately benefiting the Company's clients.

The Target Business' historical gross margin, being 21.6% for the year ended 31 December 2006, has been higher than that of the Listed Group due to a favorable revenue mix; however, selling, general and administrative expenses as 17.2% of revenue for the same period have been higher. There is room for cost-cutting and the Company intends to apply the same measures that have been successfully used for the Listed Group to the Target Business, including centralized financial management, procurement and IT management systems, to achieve cost efficiencies. Cost synergies are also reflected in the shared research and development spending, corporate management resources, and understanding of key customers' needs. The best business practices and revenue models can be readily replicated in all 19 provinces.

(d) Rationalisation of Capital Structure

The Board believes that the Acquisition serves as an important step towards optimisation of the Company's capital structure, thereby maximising shareholders' value. The Acquisition will be an all-cash transaction. RMB2,630 million of the consideration will come from the IPO proceeds and cash on hand, and the rest will come from debt financing. The relevant pro forma financial information (including details on the Combined Group's earnings, assets and liabilities) of the Combined Group has been included as Appendix IV (Financial Information of the Combined Group) of this circular. The table below summarizes the pro forma capital structure and leverage levels of the Company immediately before and after the Acquisition:

	31 December 2006	
	Immediately before the Acquisition[1]	**Immediately following the Completion of the Acquisition[2]**
	RMB'000	*RMB'000*
Cash and cash equivalents	7,071,029	6,003,755
Short-term debt and current portion of long-term debt	95,500	2,157,700

	31 December 2006	
	Immediately before the Acquisition(1)	Immediately following the Completion of the Acquisition(2)
	RMB'000	*RMB'000*
Long-term debts	—	13,000
Total debts	95,500	2,170,700
Total debts/Equity	1.0%	23.7%
Total debts/total capitalisation(3)	1.0%	19.2%

Notes:

(1) Representing the financial information of the Company as at 31 December 2006.

(2) Representing the unaudited pro forma combined financial information of the Combined Group. For further details of the combined pro forma financial information of the Combined Group prepared in compliance with all the disclosure requirements under Rule 4.29 of the Listing Rules, please refer to Appendix IV of this circular (Financial Information of the Combined Group). The combined pro forma financial information of the Combined Group has been prepared to illustrate how the proposed acquisition of the Target Business and the Target Assets might have affected the Company's most recent financial information.

(3) Total capitalisation represents total equity plus total debts.

FINANCIAL INFORMATION

The following is a summary of the audited combined results of the Target Business for each of the years ended 31 December 2004, 2005 and 2006 prepared in accordance with IFRS as extracted from the Accountants' Report on Financial Information of the Target Business included in Appendix I of this circular.

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Revenues	4,206,858	4,776,637	5,129,932
Cost of revenues	(3,250,072)	(3,748,519)	(4,024,385)
Gross profit	956,786	1,028,118	1,105,547
Other operating income	61,901	25,192	37,267
Selling, general and administrative expenses	(751,873)	(773,622)	(883,995)
Other operating expenses	(11,668)	(12,728)	(16,052)
Deficit on revaluation of property, plant and equipment	—	—	(30,330)
Net financing income	1,461	1,238	1,671
Share of profits less losses of associates	1,944	2,989	2,005
Profit before tax	258,551	271,187	216,113
Income tax	(73,968)	(87,949)	(93,902)
Profit for the year	184,583	183,238	122,211

The following is a summary of the audited combined balance sheets of the Target Business as at 31 December 2004, 2005 and 2006 prepared in accordance with IFRS as extracted from the Accountants' Report on Financial Information of the Target Business included in Appendix I of this circular.

	31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment, net	632,643	754,469	764,739
Investment properties	147,028	149,893	158,626
Construction in progress	54,380	6,384	26,239
Lease prepayments	52,976	58,077	52,221
Intangible assets	7,856	8,141	12,344
Interests in associates	21,478	23,955	16,240
Other investments	47,304	44,305	35,078
Deferred tax assets	15,461	24,255	32,959
Total non-current assets	979,126	1,069,479	1,098,446

	31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Current assets			
Inventories	141,359	122,596	152,106
Accounts and bills receivable, net	1,921,924	2,117,584	2,453,507
Prepayments and other current assets	671,092	793,475	1,178,296
Cash and cash equivalents	1,132,849	1,269,952	1,092,726
Total current assets	3,867,224	4,303,607	4,876,635
Total assets	4,846,350	5,373,086	5,975,081
LIABILITIES AND EQUITY			
Current liabilities			
Short term borrowings and current portion of long term borrowings	105,200	92,500	62,200
Accounts and bills payable	1,097,345	1,144,743	1,322,040
Receipts in advance for contract work	178,228	187,063	67,230
Accrued expenses and other payables	956,045	1,137,699	1,582,642
Income tax payable	114,733	123,892	113,964
Total current liabilities	2,451,551	2,685,897	3,148,076
Net current assets	1,415,673	1,617,710	1,728,559
Total assets less current liabilities	2,394,799	2,687,189	2,827,005
Non-current liabilities			
Long term borrowings, less current portion	22,000	12,000	13,000
Deferred tax liabilities	—	—	18,473
Total non-current liabilities	22,000	12,000	31,473
Total liabilities	2,473,551	2,697,897	3,179,549
Owner's equity	2,137,013	2,515,137	2,735,804
Minority interests	235,786	160,052	59,728
Total equity	2,372,799	2,675,189	2,795,532
Total liabilities and equity	4,846,350	5,373,086	5,975,081

Disclosure of the reconciliation of the property interests of our Group and the valuation of such property interests as required under Rule 5.07 of the Hong Kong Listing Rules is set out below.

	RMB'000
Valuation of properties as at 31 March 2007 as set out in the Property Valuation Report included in Appendix II of this circular (unaudited)	1,446,670
Less: Valuation of properties related to Target Assets included in the valuation report	(845,280)
Valuation of properties related to Target Business as at 31 March 2007	601,390
Net book value of properties as at 31 December 2006 as set out in the Accountants' Report of Target Business included in Appendix I of this circular	
— Buildings	414,712
— Building improvements	17,845
— Investment properties	158,626
— Lease prepayments	52,221
— Construction in progress	26,239
	669,643
Less: Disposal of properties during the period from 1 January 2007 to 31 March 2007 (unaudited)	(149,609)
Less: Depreciation from 1 January 2007 to 31 March 2007 (unaudited)	(4,761)
Net book value of properties of Target Business as at 31 March 2007 (unaudited)	515,273
Net revaluation surplus	86,117

Further detailed information in respect of the Target Business' historical results of operations and financial position is set out in Appendix I of this circular.

4. PROSPECTIVE FINANCIAL INFORMATION

The Company and the Target Business have prepared certain prospective financial information for the year ending 31 December 2007 in compliance with Rule 14A.56(8) and Rule 14.62 of the Listing Rules. Neither the Target Business nor the Company intends to update this information during the year or to update such information in future years, although the Directors are aware of the requirements of Rule 13.09 notes 9 and 10 of the Listing Rules. This information is necessarily based upon a number of assumptions that, while presented with numerical specificity and considered reasonable by the Target Business and the Company, are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company or the Target

Business, and upon assumptions with respect to future business decisions which are subject to change. Accordingly, there can be no assurance that this result will be realised. The prospective financial information presented below may vary from actual results, and these variations may be material.

The Company and the Target Business believe that, on the bases and the assumptions discussed in this circular and in the absence of unforeseen circumstances, the forecast combined net profit attributable to the owner of the Target Business for the year ending 31 December 2007 under IFRS of the Target Business is unlikely to be less than RMB283 million (equivalent to approximately HK$289.5 million). Such forecast has been based on the following principal assumptions:

(1) there will be no material changes in existing political, legal, regulatory, fiscal or economic conditions in the PRC, Hong Kong, or any other territory in which the Target Business operates or which are otherwise material to the revenues of the Target Business;

(2) there will be no material changes in legislation or regulations governing the telecommunications industry in the PRC, Hong Kong or any other country or territory in which the Target Business operates or which the Target Business has arrangements or agreements with, which would materially affect the business or operations of the Target Business;

(3) inflation, interest rates or foreign currency exchange rates will not differ materially from those prevailing as of the date of this circular;

(4) there will be no material changes in the bases or rates of taxation applicable to the Target Business, except as otherwise disclosed in this circular. In addition, the enactment of the Corporate Income Tax Law of the PRC passed by the Fifth Plenary Session of the Tenth's National People's Congress on 16 March 2007 to be effective on 1 January 2008 is not expected to have any significant financial effect on the Target Business for the year ended 31 December 2007; and

(5) based on information currently available, there will be no tariff reduction that will have a material adverse effect on the business of the Target Business.

The text of the letters from the reporting accountants and the Financial Advisers in respect of the profit forecast are set out in this circular.

5. INFORMATION OF THE TARGET BUSINESS

THE PRC TELECOMMUNICATIONS INDUSTRY BACKGROUND

China is the largest telecommunications market in the world in terms of the number of fixed-line and mobile telephone subscribers, reflecting China's sustained economic growth over the past two decades, and the PRC government's policies promoting telecommunications usage and orderly competition among telecommunications operators.

According to MII, the total number of fixed line subscribers increased from 6.9 million as at the end of 1990 to 367.8 million as at 31 December 2006. There are currently four licensed fixed-line operators in China, namely, China Telecom Group, China Unicom, China Netcom Group and China Railcom.

The mobile services industry sector also saw significant growth in the PRC with the number of mobile telephone subscribers increasing from 3.6 million as at the end of 1995 to 461.1 million as at 31 December 2006. China Mobile and China Unicom are the only licensed providers of mobile communications services in China.

According to MII, China is also one of the largest market in the world in terms of the number of Internet subscribers, with a total of 137 million subscribers as at 31 December 2006. In line with China's economic development and the increase in corporate users in recent years, the demand for business and data communications services also increased in the same period. The rise of the Internet and the wider adoption of broadband applications as well as the increased demand for corporate networks and communications, have stimulated demand for managed data services, particularly from business customers.

Total telecommunications spending in China is closely linked with the growth of the overall economy and the gross domestic product. From 2003 to 2006, China's gross domestic product grew from RMB13.6 trillion to RMB20.9 trillion. Growth in the PRC economy in the recent years has led to significant increases in per capita income levels, business activity and consumer wealth, which, in turn led to increasing demand for telecommunications services. This greater demand is reflected in the significant growth of penetration rate and total usage of fixed-line telephone, mobile telephone, broadband and other Internet related services, and business and data communications services in China. From 2003 to 2006, total revenues for China's telecommunications industry grew from RMB459.3 billion to RMB648.0 billion.

China has an extensive telecommunications network infrastructure. According to the MII, in 2005, the aggregate capital expenditure of telecommunications operators in the PRC amounted to RMB209.7 billion, comprising 1.1% of the GDP for the year.

The PRC government has been actively promoting 3G development in the PRC. In 1998, the development of "TD-SCDMA", one of the 3G technologies which are adopted by ITU as widely accepted 3G standards, commenced in the PRC. In 2007, China Telecom Group, China Mobile, and China Netcom have been conducting expanded field testing of TD-SCDMA in 10 cities, including Baoding, Beijing, Tianjin, Qinhuangdao, Shenyang, Shanghai, Xiamen, Guangzhou, Shenzhen and Qingdao.

In addition to TD-SCDMA, research and development of other 3G technologies like WCDMA and CDMA2000 commenced in 1998 and over 100 methods of know-how have been developed since international telecommunications equipment manufacturers like Nokia and Motorola are also establishing R&D centers in China.

Despite of the active promotion of 3G developments in the PRC, there is currently no further clear official indication as to when and what 3G licenses will be granted to Chinese operators.

MARKET ENVIRONMENT OF THE TARGET BUSINESS

The Target Service Areas are Jiangsu province, Anhui province, Jiangxi province, Hunan province, Guangxi Zhuang autonomous region, Chongqing municipality, Sichuan province, Guizhou province, Yunnan province, Shaanxi province, Gansu province, Qinghai province and Xinjiang Uygur autonomous region in the PRC, which accounted for 32.8% of the total GDP of China in 2005, with a compound annual growth rate of GDP of 12.8% from 2003 to 2005. The wireline penetration rate and mobile penetration rate in the Target Service Areas reached 24.1% and 26.3% respectively as of 31 December 2006. The map below indicates the Target Service Areas and the Listed Service Areas. The accompanying table sets out selected demographic and market information related to the Target Service Areas and the whole country.

	Listed Service Areas	Target Service Areas	Combined Service Areas
Total population[(1)] (in millions)	261.9	572.2	834.1
GDP[(2)] (in billions)	5,758.1	6,027.7	11,785.9
GDP per capita[(2)] (in thousands)	22.2	10.6	14.2
CAPEX of PRC telecommunications operators[(2)] (in billions)	65.8	67.7	133.5
Wireline penetration rate[(3)] (%)	38.9	24.1	28.7
Mobile penetration rate[(3)] (%)	58.1	26.3	36.3
Internet penetration rate[(4)] (%)	17.1	7.9	10.8

Notes:

(1) Data in respect of population for the year ended 31 December 2006 was published by National Bureau of Statistics of China.

(2) Data in respect of GDP, GDP per capita and CAPEX of PRC telecommunications operators is for the year ended 31 December 2005, published by MII.

(3) Data in respect of wireline penetration rate and mobile penetration rate for the year ended 31 December 2006 was published by MII.

(4) Data in respective of Internet penetration rate for the year ended 31 December 2006 was published by China Internet Network Information Center.

Telecommunications Infrastructure Services

According to the MII, in 2005, the aggregate capital expenditure of telecommunications operators in the Target Service Areas and the Listed Service Areas amounted to RMB67.7 billion and RMB65.8 billion respectively.

According to the MII, there are currently a total of 153 telecommunications network design service providers, 487 construction service providers and 104 project supervision and management service providers in China in 2005, of which only 59 telecommunications network design service providers, 11 construction services providers and 37 project supervision and management service providers hold qualifications that fall within the top tier of qualifications.

The following table shows the number of enterprises that have been awarded first tier qualifications relating to TIS services:

	Number of First-tier Telecommunications Network Design Service Providers	Number of First-tier Telecommunications Construction Service Providers	Number of First-tier Telecommunications Project Supervision and Management Service Providers
Listed Service Areas	15	5	7
Target Service Areas	19	2	10
Total nationwide	59	11	37

Source: MII report published in August 2006.

Business Process Outsourcing Services

BPO services, which include the provision of network maintenance and distribution of telecommunications services to telecommunications operators, are comparatively less regulated than the infrastructure services sector in the telecommunications industry. Telecommunications operators usually outsource network maintenance to service providers that understand their needs and network facilities. Telecommunications equipment manufacturers provide core network equipment maintenance services as part of their turn-key solutions to operators. In addition to operators' own sales outlets, which usually provide the most comprehensive services and products, telecommunications operators also rely on a diversified group of service providers ranging from large scale franchise dealers capable of providing a full range of distribution services, to small retail agents selling stored value cards only.

Demand for BPO services is a function of the operating expenditure (for example, network operating and support costs and sales expenses) of telecommunications operators. The following table shows the operating expenses of the publicly listed PRC telecommunications operators in the past three years ended 31 December 2006:

	2004	**2005**	**2006**
		(RMB in billion)	
China Telecom Listco	74.2	80.7	85.2
China Mobile	88.7	113.0	135.9
China Unicom	52.1	58.6	62.6
China Netcom	40.8	41.7	41.3

Source: Data come from annual reports of each of the telecommunications operators.

Applications, Content and Other Services

Propelled by rapid technology advancement in the telecommunications sector and China's fast economic growth, the demand for applications, content and other services, which include systems integration, Internet services and value added telecommunications services, has grown rapidly in China over the recent years.

According to China Internet Network Information Centre, as of the end of 2006, there were 45.0 million Internet users, 0.8 million domain names, and 161.1 thousand websites in the Target Service Areas, compared to 44.8 million Internet users, 1.8 million domain names, and 361.2 thousand websites in the Listed Service Areas.

OVERVIEW OF THE BUSINESS OF THE TARGET BUSINESS

The Target Business in each of the Target Service Areas consists of companies and businesses which together comprise a leading provider of specialised telecommunications support services offering TIS services, BPO services and ACO services to telecommunications operators in the relevant Target Service Areas. The following table sets out the amount and percentages of contribution by the Target Business' different services to the total revenue of the Target Business for the periods indicated:

	Years ended 31 December					
	2004		2005		2006	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Telecommunications Infrastructure Services:						
Design services	573,696	14%	629,265	13%	720,529	14%
Construction services	2,212,153	53%	2,451,765	51%	2,535,974	49%
Project supervision and management services	144,023	3%	170,369	4%	212,245	4%
Sub-total	2,929,872	70%	3,251,399	68%	3,468,748	67%
Business Process Outsourcing Services:						
Network maintenance	94,173	2%	109,060	2%	145,953	3%
Distribution of telecommunications services and products	495,557	12%	561,927	12%	501,823	10%
Facilities management	266,023	6%	293,961	6%	366,081	7%
Sub-total	855,753	20%	964,948	20%	1,013,857	20%
Applications, Content and Others:	421,233	10%	560,290	12%	647,327	13%
Total revenues of the Target Business	4,206,858	100%	4,776,637	100%	5,129,932	100%

Telecommunications Infrastructure Services

The Target Business in the Target Service Areas provides telecommunications infrastructure services, including telecommunications network planning and design, construction and project supervision and management in the Target Service Areas. Details of the key services are as follows:

- **Design services** — The Target Business offers planning and design services for fixed-line and mobile telecommunications networks, which includes, consultancy, planning field survey and design of telecommunications networks, civil engineering projects and other facilities.

- **Construction services** — The Target Business carries out the construction, installation and adjustment work relating to fixed-line and mobile telecommunications infrastructures, and help telecommunications operators form their network capability to provide telecommunications services.

- **Project supervision and management services** — The Target Business provides project supervision and management services to clients to help them control the quality, progress, cost and security of communications related projects, organise project completion inspections and acceptance and conduct settlement auditing services.

Telecommunications Infrastructure Services are the Target Business' main services, generating 67% of the total revenues of the Target Business in 2006. Revenue from these services increased by RMB321.5 million in 2005 and RMB217.4 million in 2006.

The Target Business is ranked among the leading service providers in a number of key areas of our core businesses. The Target Business has 2 out of 2 top tier construction qualifications, 11 out of 19 top tier design qualifications and 7 out of 10 top tier project supervision and management qualifications in the Target Service Areas, based on statistics published by the MII.

Business Process Outsourcing Services

The Target Business provides comprehensive, quality BPO services to telecommunications operators in China, offering a range of network maintenance, distribution of telecommunications services and products and facilities management services in the Target Service Areas. Details of these services are:

- **Network maintenance** — The Target Business offers services for the maintenance and repair of telecommunications network infrastructure and enterprise intranet, including the maintenance of telecommunications pipelines, cables and telecommunications related physical premises and the maintenance of mobile telecommunications base stations.

- **Distribution of telecommunications services and products** — The Target Business provides distribution channels for telecommunications services and products, including, subscriber base development for telecommunications services for telecommunications operators, installing and removing fixed-lines and broadband lines, bill delivery and fee collection for telecommunications operators and the distribution of scratch cards for telecommunications operators.

- **Facilities management** — The Target Business provides facilities management services for telecommunications operators, including the management, maintenance and security of communications premises and equipment rooms, as well as other telecommunications facilities. The Target Business also provides maintenance services for intelligent buildings and management services for office buildings, residential compounds and commercial buildings. In 2006, the Target Business managed approximately 10.24 million square metres of facilities.

Applications, Content and Others

The Target Business offers a variety of IT applications, value added voice services, and other services for telecommunications operators and enterprise customers, as well as the public in the Target Service Areas. Details of these services are:

- **Applications** — The Target Business offers information technology applications services, including system integration, communications network support services and software and hardware development to telecommunications operators and other enterprise users.

- **Value added voice services** — The Target Business offers call centre services for telecommunications operators and enterprise customers and provides marketing, customer-assistance and after-sale services on behalf of the Target Business' customers through such call centres.

- **Internet Services** — The Target Business offers, either independently or in cooperation with telecommunications operators, Internet services like information and content services (such as online games and "infortainment" news), the provision internet resources, the provision of e-commerce certificate authentication and electronic payment services and the operation of Internet cafes.

Major Customers

The following table sets forth the amount of revenue from customers of the Target Business and respective percentages of revenue from customers to the total revenue of the Target Business for the years indicated:

	Years ended 31 December					
	2004		**2005**		**2006**	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
China Telecom Group	2,439,220	58.0%	2,662,576	55.8%	2,915,400	56.8%
China Mobile	316,618	7.5%	422,036	8.8%	518,106	10.1%
China Unicom	134,217	3.2%	169,034	3.5%	184,831	3.6%
Others	1,316,803	31.3%	1,522,991	31.9%	1,511,595	29.5%
	4,206,858	100.0%	4,776,637	100.0%	5,129,932	100.0%

Employees

As at 31 December 2006, the total number of employees of the Target Business was 35,671, including 3,541 management staff, 11,739 technical and marketing staff, and 20,391 operational staff.

Year on Year Comparison

The discussion below relates to the financial condition and results of operations of the Target Business for the years ended 31 December 2004, 2005 and 2006.

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Revenues	4,206,858	4,776,637	5,129,932
Gross profit	956,786	1,028,118	1,105,547
Profit attributable to equity owner	154,329	157,940	120,676

2006 Compared to 2005

Revenue of the Target Business increased by RMB353.3 million, or 7.4%, from RMB4,776.6 million for 2005 to RMB5,129.9 million for 2006. The Target Business saw an increase in revenue of 6.7% for its TIS services, 5.1% for its BPO services and 15.5% for its ACO services. The increase is attributable to the business growth and expansion of the Target Business within each of the Target Service Areas. Gross profit increased by RMB77.4 million from RMB1,028.1 million for 2005 to RMB1,105.5 million for 2006. The increase in gross profit is in line with the revenue growth of the Target Business. Net profit attributable to equity owner decreased by RMB37.3 million from RMB157.9 million for 2005 to RMB120.7 million for 2006. This decrease is attributable to a deficit on revaluation of property, plant and equipment and increased expenses associated with business expansion.

2005 Compared to 2004

Revenue increased by RMB569.8 million, or 13.5%, from RMB4,206.9 million for 2004 to RMB4,776.6 million for 2005. The Target Business saw an increase in revenue of 11.0% for its TIS services (attributable to increase in market share), 12.8% for its BPO services (attributable to favourable growth and increase in market share) and 33.0% for its ACO services (attributable to the increase in the business volume of its system integration services). Gross profit increased by RMB71.3 million from RMB956.8 million for 2004 to RMB1,028.1 million for 2005. The increase in gross profit is generally in line with the revenue growth of the Target Business. Net profit attributable to equity owner slightly increased by RMB3.6 million from 2005 to 2006.

Liquidity and Capital Resources

As of 31 December 2004, 2005 and 2006, the Target Business had interest-bearing borrowings of RMB127.2 million, RMB104.5 million and RMB75.2 million respectively. Gearing ratios of the Target Business as at 31 December 2004, 2005 and 2006 were approximately 5.4%, 3.9% and 2.7%. Gearing ratio represents total debts to total equity.

Total cash and cash equivalents of the Target Business as of 31 December 2004, 2005 and 2006 amounted to RMB1,132.8 million, RMB1,270.0 million and RMB1,092.7 million respectively.

After completion of the Acquisition, all the cash and cash equivalents of the Target Business will be carried over to the Company. Total cash and cash equivalents of the Company and its subsidiaries prior to the Acquisition amounted to RMB7,071.0 million as of 31 December 2006.

Exposure to Exchange Rates

Substantially all the revenue and expenses of the Target Business are denominated in RMB. As a result, foreign currency exchange rate risk has not had a material impact on the performance of the Target Business.

6. RELATIONSHIP WITH CHINA TELECOMMUNICATIONS CORPORATION

As of the Latest Practicable Date, China Telecommunications Corporation directly and indirectly owned 70.0% of the Company's issued share capital. China Telecommunications Corporation has retained and operated certain specialised telecommunications support business through its subsidiaries outside the Listed Service Areas, including the Target Service Areas within China, prior to the completion of the Acquisition. Under the non-competition undertaking entered into with China Telecommunications Corporation in connection with the IPO of the Company, the Company has a priority right (expiring on the third anniversary of its listing date) to acquire from China Telecommunications Corporation, its retained specialised telecommunications support businesses outside of the Company's Listed Service Areas, at the discretion of the Company.

As disclosed in the Prospectus, the transactions under the non-competition undertaking is exempt from announcement and independent shareholders' approval requirements. The non-competition undertaking will be amended in connection with the Acquisition to expand the geographic scope of the non-competition undertaking to include the Target Service Areas. The proposed amendments to the non-competition undertaking is also exempt from announcement and independent shareholders approval requirements.

7. PROSPECTIVE CONNECTED TRANSACTIONS

Upon the completion of the Acquisition, there will be a number of continuing transactions between (a) the Combined Group on the one hand; and (b) the China Telecom Group on the other. The transactions of the Target Business with the China Telecom Group will constitute continuing connected transactions for the Company under the Listing Rules upon completion of the Acquisition. These continuing connected transactions fall within the scope of the various framework agreements entered into in respect of the Existing Connected Transactions in connection with the Company's IPO disclosed in the Company's Prospectus. Details of these continuing connected transactions between the Combined Group and the China Telecom Group (including China Telecom Listco) are discussed in this section.

The additional Prospective Connected Transactions arising as a result of the Acquisition and which relate to the operations of the Target Business are mainly identical in nature and in substance to the corresponding Existing Connected Transactions. The pricing standards and principal terms of the Prospective Connected Transactions are also identical to those of the Existing Connected Transactions.

The Company now seeks to amend the proposed annual caps under the Existing Waiver granted by the Stock Exchange at the time of the IPO so as to include the additional continuing connected transactions which will arise as a result of the completion of the Acquisition.

The Listed Group and the Target Business have included certain historical amounts in this circular of the Prospective Connected Transactions that occurred for the three financial years ended 31 December 2006.

(a) Continuing Connected Transactions Between the Company and China Telecom Group

The Company entered into various agreements with China Telecommunications Corporation relating to the mutual provision of ongoing specialised telecommunications support services.

The mutual provision of ongoing telecommunications and other services between the Company and China Telecommunications Corporation constitute continuing connected transactions within the meaning of the Listing Rules. Such agreements include the following:

Engineering Framework Agreement

The Company has entered into an engineering framework agreement dated 16 November 2006 with China Telecommunications Corporation (the "Engineering Framework Agreement"), pursuant to which the Company has agreed to provide certain engineering related services, such as design, construction, project supervision and management for telecommunications infrastructure projects undertaken by China Telecom Group. The term of the Engineering Framework Agreement will expire on 31 December 2008, automatically renewable for further periods of no more than three years subject to shareholders' approval unless terminated early by either party with a three months' written notification. The Company has entered into the Supplemental Agreement to extend the current term of the Engineering Framework Agreement to 31 December 2009 and hence shareholders' approval for the Supplemental Agreement and the proposed annual caps for the three years ended 31 December 2009 is sought. The current scope of the Engineering Framework Agreement covers transactions between the Company (and its subsidiaries) and China Telecommunications Corporation (and its subsidiaries), as may be applicable from time to time.

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. According to the relevant regulations and under the internal policy of China Telecom Group, whenever the value of any design and/or project supervision and management contracts exceeds RMB0.5 million, or the value of any construction contracts exceeds RMB2 million, the award of the relevant contract is required to be the subject of a tender process (with a minimum of three parties tendering bids). The Company 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 us for the same services, and in return, the Company has undertaken to China Telecom Group that it shall not provide services to it on terms which are less favourable than those offered by the Company to independent third parties.

The revenue for the transactions between the Target Business and China Telecom Group falling within the scope of the Engineering Framework Agreement for the three years ended 31 December 2006 were RMB1,959.1 million, RMB2,141.3 million and RMB2,253.5 million. The revenue for the transactions between the Combined Group and the China Telecom Group falling within the scope of the Engineering Framework Agreement for the three years ended 31 December 2006 were RMB5,427.7 million, RMB5,467.6 million and RMB6,379.8 million.

The transactions under the Engineering Framework Agreement are continuing connected transactions on normal commercial terms subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Ancillary Telecommunications Services Framework Agreement

The Company has entered into an ancillary telecommunications services framework agreement dated 16 November 2006 with China Telecommunications Corporation (the "**Ancillary Telecommunications Services Framework Agreement**"), pursuant to which we have agreed to provide to the 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 development of online gaming, certificate authentication and value added business platform of Internet cafes (the "**Ancillary Telecommunications Services**"). The terms of the Ancillary Telecommunications Services Framework Agreement will expire on 31 December 2008, automatically renewable for further periods of no more than three years subject to shareholders' approval unless terminated early by either party with a three months' written notification. The Company proposes to enter into the Supplemental Agreement to extend the current term of the Ancillary Telecommunications Services Framework Agreement to 31 December 2009 and hence shareholders' approval for the Supplemental Agreement and the proposed annual caps for the three years ended 31 December 2009 is sought. The scope of the Ancillary Telecommunications Services Framework Agreement covers transactions between the Company (and its subsidiaries) and China Telecommunications Corporation (and its subsidiaries), as may be applicable from time to time.

The Company also proposes to amend the Ancillary Telecommunications Services Framework Agreement, by way of the Supplemental Agreement, to include the provision of Comprehensive Logistics Services to China Telecom Group. The Company believes that the expansion into this area of specialised telecommunications services is in line with the Company's expansion plans and will ensure the Company's sustainable growth. The Company's Comprehensive Logistics Services business will include the provision of compressive professional logistics services, including purchase agency, warehousing, transportation, delivery, testing and inspection, logistics information management and distribution.

The Ancillary Telecommunications Services Framework Agreement stipulates that the Ancillary Telecommunications Services shall 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 applies;

(3) where there is neither a government-prescribed price nor a government-guidance price, the market price applies. 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 the China Telecom Group in the provision of the Ancillary Telecommunications Services, provided that the terms and conditions offered by independent third parties to the China Telecom Group are no more favourable than those offered by the Company for the same services, and in return, the Company has undertaken to China Telecommunications Corporation that the Company and its subsidiaries shall not provide Ancillary Telecommunications Services to it on terms which are less favourable than those offered by the Company to independent third parties.

The revenue for the transactions between the Target Business and China Telecom Group falling within the scope of the Ancillary Telecommunications Services Framework Agreement for the three years ended 31 December 2006 were RMB235.9 million, RMB239.3 million and RMB268.2 million. The revenue for the transactions between the Combined Group and the China Telecom Group falling within the scope of the Ancillary Telecommunications Services Framework Agreement for the three years ended 31 December 2006 were RMB1,616.0 million, RMB1,735.4 million and RMB2,466.2 million.

The transactions under the Ancillary Telecommunications Services Framework Agreement are continuing connected transactions on normal commercial terms subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Operation Support Services Framework Agreement

The Company has entered into an operation support services framework agreement dated 16 November 2006 with China Telecommunications Corporation (the "**Operation Support Services Framework Agreement**") to govern the arrangements with respect to mutual provision of operation support services. The Company agreed to provide operation support services, including but not limited to facilities management and renovation, network facilities management in relation to buildings used for telecommunications purposes, labour resources management, equipment maintenance, advertisement, conferencing services, vehicles, and certain repair and leasing of equipment to the China Telecommunications Corporation. Under the same Operation Support Services Framework Agreement, China Telecom Group agreed to provide operation support services such as logistics services, warehouse, medical care, food and beverages, educational, hotel and travelling services, labour services and so on to us. The terms of the Operation Support Services Framework Agreement will expire on 31 December 2008, automatically renewable for further periods of no more than three years subject to shareholders' approval unless terminated early by either party with a three months' written notification. The Company proposes to enter into a Supplemental Agreement to extend the current term of the Operation Support Services Framework Agreement to 31 December 2009 and hence shareholders' approval for the Supplemental Agreement and the proposed annual caps for the three years ended 31 December 2009 is sought. The scope of the Operation Support Services Framework Agreement covers transactions between the Company (and its subsidiaries) and China Telecommunications Corporation (and its subsidiaries), as may be applicable from time to time.

Each of the parties to the Operation Support Services Framework Agreement 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, and 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.

The revenue for the transactions between the Target Business and China Telecom Group falling within the scope of the Operation Support Services Framework Agreement for the three years ended 31 December 2006 were RMB208.1 million, RMB225.1 million and RMB284.0 million, and the expenditure were RMB51.1 million, RMB49.7 million and RMB85.8 million. The revenue for the transactions between the Combined Group and the China Telecom Group falling within the scope of the Operation Support Services Framework Agreement for the three years ended 31 December 2006 were RMB1,103.7 million, RMB1,240.6 million and RMB1,301.3 million, and the expenditure were RMB128.7 million, RMB151.4 million and RMB190.0 million.

The transactions under the Operation Support Services Agreement are continuing connected transactions on normal commercial terms subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

IT Application Services Framework Agreement

The Company has entered into an IT application services framework agreement dated 16 November 2006 with China Telecommunications Corporation (the "**IT Application Services Framework Agreement**") to govern the arrangements with respect to mutual provision of IT application services. 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 us certain IT application services including but not limited to, basic telecommunications services such as voice and data, value added services and information application services. The terms of the IT Application Services Framework Agreement will expire on 31 December 2008, automatically renewable for further periods of no more than three years subject to shareholders' approval unless terminated early by either party with a three months' written notification. The Company proposes to enter into a Supplemental Agreement to extend the current term of the IT Application Services Framework Agreement to 31 December 2009 and hence shareholders' approval for the Supplemental Agreement and the proposed annual caps for the three years ended 31 December 2009 is sought. The scope of the IT Application Services Framework Agreement covers transactions between the Company (and its subsidiaries) and China Telecommunications Corporation (and its subsidiaries), as may be applicable from time to time.

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, and 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 revenue for the transactions between the Target Business and China Telecom Group falling within the scope of the IT Application Services Framework Agreement for the three years ended 31 December 2006 were RMB30.3 million, RMB53.7 million and RMB104.9 million, and the expenditure were RMB3.8 million, RMB4.7 million and RMB11.6 million. The revenue for the transactions between the Combined Group and the China Telecom Group falling within the scope of the IT Application Services Framework Agreement for the three years ended 31 December 2006 were RMB163.7 million, RMB160.1 million and RMB251.9 million, and the expenditure were RMB105.2 million, RMB181.5 million and RMB182.5 million.

The transactions under the IT Application Services Agreement are continuing connected transactions on normal commercial terms subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Centralized Services Agreement

The Company has entered into a centralized services agreement dated 16 November 2006 with China Telecommunications Corporation (the "**Centralized Services Agreement**"). The terms of the Centralized Services Agreement will expire on 31 December 2008, automatically renewable for further periods of no more than three years subject to shareholders' approval unless terminated early by either party with a three months' written notification. The Company proposes to enter into a Supplemental Agreement to extend the current term of the Centralized Services Agreement to 31 December 2009 and hence shareholders' approval for the Supplemental Framework Agreement and the new annual caps for the three years ended 31 December 2009 is sought. The scope of the Centralized Services Agreement covers transactions between the Company (and its subsidiaries) and China Telecommunications Corporation (and its subsidiaries), as may be applicable from time to time.

The centralized services to be provided by the Company to China Telecommunications Corporation include:

1. the corporate headquarter management function to manage assets of China Telecommunications Corporation's certain retained specialised telecommunications support businesses in the PRC other than the Combined Group and any remaining assets, such as hotels, manufacturing plants not in association with the specialized telecommunications support businesses, schools and hospitals in the Target Service Areas and Listed Service Areas; and

2. the provincial headquarters management function to manage remaining assets resulting from the Target Service Areas and the Listed Service Areas.

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

Prior to the restructuring in connection with the IPO and the Acquisition, as the Company and the Target Business conducted its operations as part of the overall business of the China Telecom Group, no such comparable centralized services were provided and therefore no historical figures of a comparable nature are available except as disclosed below which relates to the Listed Group for the year ended 31 December 2006.

The historical amount for the transactions between the Listed Group and the China Telecom Group falling within the scope of the Centralized Services Agreement for the year ended 31 December 2006 is RMB45.1 million.

The transactions under the Centralized Services Agreement are continuing connected transactions on normal commercial terms subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Property Leasing Framework Agreement

After the completion of the Acquisition, China Telecom Group will be leasing from the Company and its subsidiaries a total of 24 properties covering an aggregate gross floor area of approximately 39,118 square metres for use as business premises, offices, equipment storage facilities and sites for network equipment. These properties are located throughout the Listed Service Areas and the Target Service Areas. The Company and its subsidiaries will also be leasing from the China Telecom Group a total of 284 properties covering an aggregate gross floor area of approximately 268,368 square metres for use as business premises, offices and equipment storage facilities. These arrangements will fall within the property leasing agreement dated 16 November 2006 between the Company and China Telecommunications Corporation to govern the mutual leasing arrangements (the "**Property Leasing Framework Agreement**").

The terms of the Property Leasing Framework Agreement will expire on 31 December 2008, automatically renewable for further periods of no more than three years unless terminated earlier by either party with a three months' written notification. The Company proposes to enter into a Supplemental Agreement to extend the current term of the Property Leasing Framework Agreement to 31 December 2009 and to set new annual caps for the transactions under this agreement for the financial years ended 31 December 2009. The scope of the Property Leasing Framework Agreement covers transactions between the Company (and its subsidiaries) and China Telecommunications Corporation (and its subsidiaries), as may be applicable from time to time.

The rental charges in respect of each property are based on market rates. Rental charges are payable monthly in arrears, except otherwise agreed by parties, and subject to review every three years by both parties confirming after negotiations whether to adjust the rental charges and the amount of such adjustment.

The revenue for the transactions between the Target Business and China Telecom Group falling within the scope of the Property Leasing Framework Agreement for the three years ended 31 December 2006 were RMB5.8 million, RMB3.2 million and RMB4.8 million, and the expenditure were RMB7.1 million, RMB8.4 million and RMB10.3 million. The historical amounts for the transactions between the Combined Group and China Telecom Group falling within the scope of the Property Leasing Framework Agreement for the three years ended 31 December 2006 were RMB44.1 million, RMB42.0 million and RMB50.2 million, and the expenditure were RMB34.5 million, RMB44.4 million and RMB55.7 million.

The transactions under the Property Leasing Framework Agreement are continuing connected transactions on normal commercial terms subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules but exempt from the independent shareholders' approval as the percentage ratios (other than profits ratio) calculated by reference to Rule 14.07 of the Listing Rules are expected on an annual basis to be more than 0.1% but less than 2.5%. As such, the extension of the term and the annual caps of the Property Leasing Framework Agreement is not subject to the approval of the independent shareholders.

Savills, an independent appraiser appointed by us for the purpose of the Acquisition, has reviewed the Property Leasing Framework Agreement and has confirmed that the rental rates payable under the Property Leasing Framework Agreement with regards to the Target Business represent market rates and are fair and reasonable so far as the Company is concerned.

(b) Proposed Changes of Annual Caps and Reasons for the Proposed New Annual Caps

The table below shows the proposed annual caps for transactions between the Combined Group and the China Telecom Group under the above framework agreements.

			Annual Caps under the Existing Waiver		**Proposed New Annual Caps**		
Transactions			**2007**	**2008**	**2007**	**2008**	**2009**
					(RMB in million)		
1.	Engineering Framework Agreement	Revenue	4,700	4,700	8,000	8,000	8,000
2.	Ancillary Telecommunications Services Framework Agreement	Revenue	2,300	2,300	3,660	3,660	3,660
3	Operation Support Services Framework Agreement	Revenue	1,300	1,300	1,750	1,750	1,750
		Expenditure	170	170	260	260	260
4.	IT Application Services Framework Agreement	Revenue	250	250	700	700	700
		Expenditure	190	190	210	210	210
5.	Centralized Services Agreement	Reimbursed apportioned cost	250	250	350	350	350
6.	Property Leasing Framework Agreement	Revenue	68.5	68.5	76	76	76
		Expenditure	76.5	76.5	106.5	106.5	106.5

The increase in the proposed annual caps of each of the Prospective Connected Transactions (excluding the Strategic Cooperation Agreement to which annual caps are not applicable) can be mainly attributed to the larger size of the Combined Group and the growth and expansion of the Company's business. The proposed annual caps were arrived at based on the historical transaction amounts of the Combined Group, industry trends and the forecast growth of the Combined Group.

In particular, the cumulative annual growth rate of revenue for the three years ended 31 December 2006 for the Target Business in relation to the services provided under the Engineering Framework Agreement is 7.3% and the Company expects this growth rate to be maintained for the next three financial years. The Company believes that in order to reduce operational costs, China Telecom Listco will progressively appoint service providers to procure raw materials used in connection with the engineering related services it receives. The Combined Group will be providing such procurement services in connection with the engineering related services to be provided to the China Telecom Listco Group and hence the proposed annual caps for the three financial years ending 31 December 2009 takes into account the expected levels of raw materials procurement.

The cumulative annual growth rate of revenue for the three years ended 31 December 2006 for the Target Business in relation to the services provided under the Ancillary Telecommunications Services Framework Agreement is 6.6%. The historical revenue for transactions under this agreement grew rapidly in 2006 within the Listed Service Areas with a growth rate of 46.9% from 2005 to 2006. The proposed annual caps for the Ancillary Telecommunications Services Framework Agreement have taken into account: (i) the rapid historical growth of both the Listed Group and the Target Business; (ii) China Telecom Listco's plans to continue outsourcing more of their support services to the Combined Group and (iii) the projected level of the new Comprehensive Logistics Services to be provided by the Combined Group to China Telecom Listco.

The cumulative annual growth rate of revenue for the three years ended 31 December 2006 for the Target Business in relation to the services provided under the IT Application Services Framework Agreement is 86.1%.The proposed annual caps have taken into account the potential expansion of this area of services provided by the Target Business.

The cumulative annual growth rate of revenue for the three years ended 31 December 2006 for the Target Business in relation to the services provided and under the Operation Support Services Framework Agreement is 16.8%. The proposed annual caps are based on the expected growth rate of the services to be provided by the Target Business under the Operation Support Services Framework Agreement.

The Company expects that the future revenue under the Property Leasing Framework Agreement would remain stable in the next three years.

The cumulative annual growth rate of expenditure for the three years ended 31 December 2006 for the Target Business in relation to the services provided under the IT Application Services Framework Agreement is 73.9%, under the Property Leasing Framework Agreement is 20.3% and under the Operation Support Services Framework Agreement is 29.6%.

(c) Continuing Connected Transactions Between the Company and China Telecom Listco — the Strategic Cooperation Agreement

At the time of the IPO of the Company, in order to strengthen the Company's well-established relationship with China Telecom Listco and to bring forth further strategic mutual benefits, the Company entered into a Strategic Cooperation Agreement dated 30 August 2006 with China Telecom Listco (on behalf of its six wholly-owned subsidiaries in the Listed Service Areas and their respective subsidiaries) for a period of three years commencing from 1 January 2007 until 31 December 2009, renewable by mutual agreement and extendable in geographical areas. The areas for the strategic business cooperation between the parties included engineering related services in connection with design, construction, project supervision and management businesses; maintenance and management services including but not limited to network maintenance and facilities management; and certain BPO services such as integrated information solution and call centres; and provision of applications, content and other services such as system integration and value added services.

The relevant services provided under the Strategic Cooperation Agreement shall be provided at an applicable standard price determined in the following order:

1. government prescribed price;

2. where there is no government prescribed price but there is a government guidance price, the government guidance price applies;

3. where there is neither a government prescribed price nor a government guidance price, the market price applies. 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 based on arm's length negotiation and shall be the reasonable cost incurred in providing the same plus a reasonable profit.

The above pricing mechanism is hereinafter referred to as the "Applicable Standard Prices". The Company would be accorded priority by China Telecom Listco in the provision of the relevant services, provided that the terms and conditions offered by independent third parties to China Telecom Listco are no more favourable than those offered by the Company for the same services, and in return, under the same terms and conditions, the Company has undertaken to China Telecom Listco 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.

In connection with the Acquisition, the terms of the Strategic Cooperation Agreement will be amended by a supplemental agreement (the "Supplemental Strategic Agreement") to include transactions between the Target Business (which will be acquired by the Company pursuant to the Acquisition) and the subsidiaries of China Telecom Listco in the Target Service Areas. The amendments in the Supplemental Strategic Agreement will be subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Details of the Supplemental Strategic Agreement are set out in the paragraphs below.

In relation to the provision by the Combined Group of engineering related services in connection with design, construction, project supervision and management businesses, China Telecom Listco has undertaken that, the relevant subsidiaries of China Telecom Listco in the Combined Service Areas, shall spend an annual minimum amount of not less than 10.6% (the original undertaking for the Listed Group provided for 12.5%) of the total annual capital expenditure of the relevant wholly-owned provincial subsidiaries of China Telecom Listco in the Combined Service Areas, provided the provision of the engineering related services by the Company are on terms and conditions similar or no less favourable than those offered by any independent third parties and in return, the Company shall offer at least 5% discount for the engineering related services to be provided to the relevant wholly-owned provincial subsidiaries of China Telecom Listco based on the Applicable Standard Prices. Such discount is on normal commercial terms and in-line with market practice to give discount as a favourable treatment offered to large enterprise customers which are able to commit to a minimum purchase volume per annum. China Telecom Listco's undertaking is based on the historical amounts of transactions between the Target Business and wholly-owned subsidiaries of China Telecom Listco in the Target Service Areas and the committed amounts of transactions under the current undertaking of China Telecom Listco to the Company applicable to the Listed Service Areas under the existing terms of the Strategic Cooperation Agreement.

The percentage of discount depends on a number of factors, including the committed minimum purchase volume, competition and market conditions. Given that China Telecom Listco has undertaken that the relevant subsidiaries of China Telecom Listco within the Combined Service Areas shall spend an annual minimum amount of not less than 10.6% of the total annual capital expenditure of the wholly-owned provincial subsidiaries of China Telecom Listco in the Combined Service Areas, the Directors are of the view that the 5% discount to be given to China Telecom Listco is on normal commercial terms.

In relation to the provision by the Combined Group of maintenance and management services including but not limited to network maintenance and facilities management businesses, China Telecom Listco has undertaken, the relevant subsidiaries of China Telecom Listco in the Combined Service Areas shall spend an annual minimum amount of not less than RMB1,780 million (the original undertaking for the Listed Group provided for RMB1,330 million) provided that the provision of the maintenance and management services by the Company are on terms and conditions no less favourable than those offered by any independent third parties and in return, the Company has undertaken to fully utilise its competitive edge on having established professional operation with economies of scales to assist China Telecom Listco to achieve the goals of lowering its costs and expenditure. The amount of China Telecom Listco's undertaking is based on the historical amounts of transactions between the Target Business and China Telecom Listco in the Target Service Areas and the committed amounts of transactions under the current undertaking of China Telecom Listco to the Company applicable to the Listed Service Areas under the existing terms of the Strategic Cooperation Agreement.

The Directors believe there will not be any adverse impact on the operation of the Company in rendering certain assistance to China Telecom Listco. By assisting China Telecom Listco in controlling its costs, the Company will be able to strengthen its relationship with China Telecom Listco and this will in turn benefit the Company as the large customer base of China Telecom Listco will be a potential source of additional business opportunities for the Company. In addition, the one-stop integrated business model of the Company has in itself enabled the Company to provide cost-efficient outsourcing services to China Telecom Listco.

For the purpose of calculation of the amount of transactions falling under the above undertakings for the year ended 31 December 2007, all the transactions entered into by the Target Business with China Telecom Listco would be aggregated.

In relation to the provision of BPO services, integrated information solution, call centre and other services such as system integration and value added services by the Combined Group, China Telecom Listco has undertaken to use its best endeavours to grant the Company business opportunities, provided the provision of such services by the Company are on terms and conditions similar or no less favourable than those offered by any independent third parties. In return, the Company will utilize its capacities and resources to support the strategic transformation of China Telecom Listco into an integrated information service provider.

The independent shareholders of China Telecom Listco have passed a resolution at an extraordinary general meeting dated 25 October 2006 to approve the Strategic Cooperation Agreement and the transactions contemplated thereunder. The Supplemental Strategic Agreement is also conditional upon China Telecom Listco having obtained the requisite independent shareholders' approval under Chapter 14A of the Listing Rules. China Telecom Listco has, on even date, made an announcement in relation to the Supplemental Strategic Agreement and will be convening an extraordinary general meeting to obtain the approval of its independent shareholders for the Supplemental Strategic Agreement. The annual caps for the provision of the relevant services contemplated under the Strategic Cooperation Agreement have already been included and set out in the Engineering Framework Agreement, the Ancillary Telecommunications Services Framework Agreement, the Operation Support Services Framework Agreement and the IT Application Services Framework Agreement referred to above and therefore no separate annual caps shall be applied to the Strategic Cooperation Agreement as amended by the Supplemental Strategic Agreement.

8. COMPLIANCE WITH THE HONG KONG LISTING RULES

Each of the asset ratio and the revenue ratio under Rule 14.07 of the Listing Rules of the Acquisition exceeds 25% but is below 75%. Accordingly, under the Listing Rules, the Acquisition constitutes both a major and a connected transaction for the Company.

Pursuant to the Listing Rules, each of the percentage ratios (other than the profits ratio) for the annual caps of the prospective connected transactions under each of the framework agreements described in section 7 (other than the Strategic Cooperation Agreement and the Property Leasing Framework Agreement) above is on an annual basis higher than 2.5%. As such, these annual caps as well as the Supplemental Agreement amending certain terms of the relevant framework agreement are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Strategic Cooperation Agreement is also subject to the reporting, announcement and independent shareholders' approval under the Chapter 14A of the Listing Rules as the annual cap for the transactions under the Strategic Cooperation Agreement are subsumed under certain framework agreements subject to these requirements. Correspondingly, independent shareholders' approval for the Supplemental Strategic Agreement is sought. The Property Leasing Framework Agreement is subject to reporting and announcement requirements but exempt from independent shareholders approval requirements.

In determining the proposed annual values of the categories above of the connected transactions for the Combined Group, the Board has considered the relative size of the total assets and operating revenues of the Target Business against the Listed Group, the budget of the Combined Group in terms of capital expenditures, general and administrative expenses and sales and maintenance expenses. The Board (including the independent non-executive directors) is of the view that the monetary limits are set so as to (i) not hinder the ability of the Combined Group to conduct its business in the ordinary and usual course and (ii) allow the Combined Group to benefit from future growth.

The Company undertakes to comply with the rules in relation to annual review of continuing connected transactions set out in the Listing Rules. The Company specifically undertakes upon any variation or renewal of the above relevant agreements, the Company will comply in full with all applicable requirements set out in Chapter 14A of the Listing Rules.

9. FURTHER INFORMATION

The Company is principally engaged in the provision of specialized telecommunications support services to telecommunications operators in the PRC, offering telecommunications infrastructure services (including design, construction and project supervision and management), business process outsourcing services and applications, content and other services. China Telecommunications Corporation is a state-owned enterprise engaged in the investment holding of companies primarily involved in the provision of telecommunications services, the provision of specialized telecommunications support services and other business.

Save as the proposed Acquisition described in this circular, the Company has no current intention to acquire further assets from China Telecommunications Corporation.

As disclosed in the Prospectus, the Company has set up a right of first refusal and priority right committee (the ***Right of First Refusal and Priority Right Committee***) which comprises entirely of the independent non-executive directors to consider the exercise of the priority right of the Company. The Right of First Refusal and Priority Right Committee had convened on 14 June 2007 to consider the exercise of this priority right and the proposed Acquisition and was of the view that such exercise would be in interests of the Company.

The Board (including the Independent Board Committee) is of the opinion that the terms of the Acquisition are on normal commercial terms which are fair and reasonable and in the best interests of the Company and shareholders as a whole, and the Acquisition is carried out in the ordinary and usual course of business of the Company.

An Independent Board Committee has been established to advise the Independent Shareholders in respect of the terms of the Acquisition and the terms of the Prospective Connected Transactions. The letter to the Independent Shareholders from the Independent Board Committee containing its recommendations is set out on pages 45 to 46 of this circular. The Independent Board Committee considers that the terms of the (i) the Acquisition; (ii) the proposed amendment of the annual caps of the Non-exempt Prospective Connected Transactions and (iii) the Supplemental Agreement (including the extension of the term of the relevant framework agreements governing the Non-exempt Prospective Connected Transactions) and the Supplemental Strategic Agreement are fair and reasonable, on normal commercial terms and are in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole. ING has been retained as the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders in respect of the terms of the Acquisition, the Supplemental Agreement, the Supplemental Strategic Agreement and the annual caps of the Non-Exempt Prospective Connected Transactions.

The Board (including the independent non-executive directors) is of the opinion that the terms of the Acquisition, the Prospective Connected Transactions (including the proposed annual caps and the Supplement Agreement) and the amendment to the Strategic Cooperation Agreement described in section 7 of this circular have been entered into, and will be carried out, in the ordinary and usual course of business of the Combined Group and on normal commercial terms which are fair and reasonable so far as the interests of the Independent Shareholders of the Company are concerned and recommends that the Independent Shareholders vote in favour of the ordinary resolutions set out in the EGM Notice. The Company confirms that none of the independent non-executive directors has any interests in the Acquisition and the Prospective Connected Transactions.

As of the Latest Practicable Date, China Telecommunications Corporation directly and indirectly owns and is entitled to exercise control of 70% of the voting rights in respect of the issued share capital of the Company and is hence a connected person of the Company as defined under Rule 14A.11 of the Listing Rules. China Telecommunications Corporation and its Associates being connected persons to the Acquisition, will abstain from voting on the ordinary resolutions to approve the terms of the Acquisition, the Supplement Agreement, the Supplemental Strategic Agreement and the proposed annual caps of the Non-exempt Prospective Connected Transactions. Any vote of the Independent Shareholders at the EGM shall be taken by poll.

The register of members of the Company will be closed from 8 July 2007 to 7 August 2007 (both days inclusive).

10. NOTICE OF EGM

A notice convening an extraordinary meeting of the Company to be held at 3: 00 p.m. on 7 August 2007 at Beijing Nan Yue Yuan Hotel, 186 Zheng Wang Fen, Feng Tai District, Beijing, PRC, is set out from pages 255 to 257 of this circular. Form of proxies for use at the extraordinary general meeting is enclosed with this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxies in accordance with the instructions printed thereon and return the same to the Company's share registrar, Computershare Hong Kong Investor Services Limited, Room 1806–1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so wish.

11. WAIVERS FOR PROPERTY VALUATION REPORT

As stated in Appendix II to the circular, an application has been made by the Company to the Stock Exchange for a waiver from strict compliance with Rule 5.06(1) and paragraph 3(a) of Practice Note 16 of the Listing Rules. Paragraph 3(a) of Practice Note 16 of the Listing Rules requires a full valuation report in respect of those properties legally and beneficially owned by the Company's subsidiaries to be set out in the Circular. Rule 5.06(1) of the Listing Rules requires a valuation report to contain description of each property as specified by that rule, such as an address, a brief description of the property, the existing use, the terms of tenure, the approximate age and the current planning or zoning use, and certain further additional details (such as the existing stage of development and the estimated completion date) for each property, depending on its status of development.

According to the valuers' report as set out in Appendix II to the circular, the Properties to be acquired by the Company comprise:

(a) 133 parcels of land and 309 buildings;

(b) 3 parcels of land and 6 buildings currently under construction; and

(c) approximately 403 properties leased from the parent company of the Company, China Telecommunications Corporation and/or its affiliates and third parties.

(Each a "Property", and together the "Properties").

All of the Properties are situated in the People's Republic of China (the "PRC").

These Properties comprise mainly land and buildings to be used by the Combined Group as business premises, offices, equipment storage facilities, sites for network equipment, retail outlets and spare parts storage facilities.

The Company has included a summary property valuation report in Appendix II to the circular ("**Property Valuation Report**"). The properties to be acquired by the Company are described in the Property Valuation Report under the categories "Property interests held in the PRC", "Property interests in the PRC under development" and "Properties rented in the PRC". A summary of the land use rights certificates and building ownership certificates or real estate title proof in relation to the properties in each category is provided in each corresponding section of the report.

Due to the large number of properties involved (more than 700), it is not practical and would be unduly burdensome for the Company to comply strictly with the relevant provisions of the Listing Rules by stating all the particulars required, particularly in relation to each individual relevant property or parcel of land, in the Property Valuation Report. Savills Valuation and Professional Services Limited (the "**Valuer**"), who prepared the Property Valuation Report has estimated that by doing so the report could take up more than 1,000 pages of English text and the same number of pages of Chinese text. Given the fact that the 403 of the leased properties have no commercial value, detailed disclosure in respect of each of them will not be useful to the Shareholders. In addition, as disclosed in the accountants' report reproduced in Appendix I of the circular, the aggregate net book values of the Properties of the Target Business constitute only 11.2% of the value of the Target Business' total assets (as at 31 December 2006) and individually none of them are of material importance to the business of the Listed Group (and, post completion of the Proposed Acquisition, the Combined Group) to warrant individual disclosure. Accordingly, the Company is of the view that the inclusion in the circular of detailed information relating to each Property set out in an exceptionally voluminous report would be of little relevance and assistance to the independent shareholders.

For the reasons stated above, application has been made by the Company to the Stock Exchange for a waiver from strict compliance with paragraph 3(a) of Practice Note 16 and Rule 5.06 of the Listing Rules in respect of the information set out in Rule 5.06(1) on the condition that:

- the full valuers' report (which will be prepared in the Chinese language only) complying with all the requirements of Chapter 5 and Practice Note 12 to the Listing Rules will be available for inspection from the date of the circular up to and including the date of the EGM; and

- a summary valuers' report prepared on the basis of the full valuation report which (i) sets out separately different types of interest in land and building, and (ii) for each of such categories, sets out separately interests in land and buildings in the different geographic regions included in Appendix II to the circular.

12. ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the following sections of the circular:

(i) the accountants' report from KPMG on the Target Business;

(ii) the financial information on the Listed Group;

(iii) the unaudited pro forma financial information of the Combined Group;

(iv) the letter from the Independent Board Committee;

(v) the letter from the Independent Financial Adviser;

(vi) the property valuation report from Savills Valuation Professional Services Limited;

(vii) the general information; and

(viii) the EGM notice.

By Order of the Board
Li Ping
Vice-Chairman and Executive Director

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: 0552)

20 June 2007

To the Independent Shareholders

Dear Sir or Madam,

Major and Connected Transaction and Continuing Connected Transactions

We refer to the circular issued by the Company to Shareholders dated 20 June 2007 (the "Circular") of which this letter forms part of terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

On 15 June 2007, the Board announced that the Company has entered into the Acquisition Agreement with China Telecommunications Corporation in respect of the Acquisition. In the same announcement, the Board also announced (i) the proposed amendment of the annual caps of the Non-exempt Prospective Connected Transactions; and (ii) the Supplemental Agreement (including the extension of the term of the relevant framework agreements governing the Non-exempt Prospective Connected Transactions) and the Supplemental Strategic Agreement. Further details are contained in the Letter from the Board set out on pages 6 to 44 of the Circular.

The Independent Board Committee was formed to make a recommendation to the Independent Shareholders as to whether, in its view, (i) the Acquisition; (ii) the proposed amendment of the annual caps of the Non-exempt Prospective Connected Transactions; and (iii) the Supplemental Agreement (including the extension of the term of the relevant framework agreements governing the Non-exempt Prospective Connected Transactions) and the Supplemental Strategic Agreement are fair and reasonable in so far as the Independent Shareholders are concerned.

ING Bank N.V. has been appointed to act as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders with regard (i) the Acquisition; (ii) the proposed amendment of the annual caps of the Non-exempt Prospective Connected Transactions; and (iii) the Supplemental Agreement (including the extension of the term of the relevant framework agreements governing the Non-exempt Prospective Connected Transactions) and the Supplemental Strategic Agreement. The text of the letter of advice from ING Bank N.V. containing their recommendation and the principal factors they have taken into account in arriving at their recommendation are set out from pages 47 to 70 of this Circular.

The Independent Shareholders are recommended to read the letter of advice from the Independent Financial Adviser, the letter from the Board contained in the Circular as well as the additional information set out in the appendices to the Circular.

As your independent Board Committee, we have discussed with the management of the Company the reasons for (i) the Acquisition; (ii) the proposed amendment of the annual caps of the Non-exempt Prospective Connected Transactions; and (iii) the Supplemental Agreement (including the extension of the term of the relevant framework agreements governing the Non-exempt Prospective Connected Transactions) and the Supplemental Strategic Agreement and the basis upon which their terms have been determined. We have also considered the key factors taken into account by ING Bank N.V. in arriving at its opinion regarding (i) the Acquisition; (ii) the proposed amendment of the annual caps of the Non-exempt Prospective Connected Transactions; and (iii) the Supplemental Agreement (including the extension of the term of the relevant framework agreements governing the Non-exempt Prospective Connected Transactions) and the Supplemental Strategic Agreement.

The Independent Board Committee concurs with the view of ING Bank N.V. and considers that the terms of the (i) the Acquisition; (ii) the proposed amendment of the annual caps of the Non-exempt Prospective Connected Transactions; and (iii) the Supplemental Agreement (including the extension of the term of the relevant framework agreements governing the Non-exempt Prospective Connected Transactions) and the Supplemental Strategic Agreement are fair and reasonable, on normal commercial terms and are in the interests of the Company and the Shareholders (including the Independent Shareholders) as a whole. Our view related to fairness and reasonableness is necessarily based on the information, facts and circumstances currently prevailing. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions set out in the notice of the Extraordinary General Meeting at the end of this Circular.

Yours faithfully
For and on behalf of
Independent Board Committee
Wang Jun
Chan Mo Po, Paul
Zhao Chunjun
Wu Shangzhi
Hao Weimin

The following is the full text of the letter from ING Bank N.V. to the Independent Board Committee and the Independent Shareholders prepared for the purpose of inclusion in this circular.

ING
WHOLESALE BANKING

39/F One International Finance Center
1 Harbour View Street, Central
Hong Kong

20 June 2007

To the Independent Board Committee and Independent Shareholders of
China Communications Services Corporation Limited

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION AND CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the independent board committee and the independent shareholders of China Communications Services Corporation Limited ("China Comservice" or the "Company"): (i) in respect of the terms of China Comservice's acquisition of certain specialised telecommunications support service business and related assets in China (the "Total Acquisition Assets") from China Telecommunications Corporation (the "Acquisition"); and (ii) in connection with the Acquisition, (a) the amendments to the Strategic Cooperation Agreement between China Telecom Corporation Limited ("China Telecom Listco") and China Comservice; and (b) the amended terms of the continuing connected transactions, including annual caps (the "Annual Caps"), between China Telecommunications Corporation and China Comservice under the following agreements: (1) the Engineering Framework Agreement; (2) the Ancillary Telecommunications Services Framework Agreement; (3) the Operation Support Services Framework Agreement; (4) the IT Application Services Framework Agreement; and (5) the Centralised Services Agreement ((i) & (ii) are collectively referred to in this letter as the "Transactions"). The details of the Transactions are set out in a circular (the "Circular"), dated 20 June 2007 to the shareholders of the Company (the "Shareholders").

This letter sets out our evaluation of the terms of the Transactions and our recommendations thereon, and is prepared for inclusion in the Circular. Unless otherwise defined, all terms defined in the Circular shall have the same meanings herein.

As at the Latest Practicable Date, China Telecommunications Corporation directly and indirectly owns and is entitled to exercise control of approximately 70% of the voting rights in respect of the issued share capital of the Company. Accordingly, China Telecommunications Corporation is a substantial shareholder and a connected person of the Company under the Listing Rules. As such, the Transactions constitute connected transactions for the Company pursuant to the Listing Rules. The Transactions are subject to approval of the Independent Shareholders. In accordance with the Listing Rules, any connected person with a material interest in the Transactions, and any shareholder with a material interest in the Transactions must abstain from voting on the resolutions in respect of the Transactions at the EGM. Accordingly, China Telecommunications Corporation and its associates (as defined under the Listing Rules) will abstain from voting.

ING Bank N.V. is independent from, and not connected with, the Company or any of its substantial shareholders, directors, or chief executive, or any of their respective associates, and is accordingly considered qualified to give independent advice to the Independent Board Committee and the Independent Shareholders.

We were neither a party to the negotiations entered into by China Comservice and/or its subsidiaries (the "China Comservice Group") in relation to the Transactions, nor were we involved in the deliberations leading up to the decision of the directors of the China Comservice Group (the "Directors") to enter into the Transactions. We do not, by this letter, warrant the merits of the Transactions, other than to form an opinion, for the purpose of Chapter 14A of the Listing Rules, on whether the terms of the Transactions are fair and reasonable and that the entering into of the Transactions is in the ordinary and usual course of business, on normal commercial terms, and is in the interests of the Company and its Shareholders as a whole.

In formulating our recommendation, we have relied on the statements, information and representations provided by the management of the Company. We have assumed that all such statements, information and representations contained or referred to in the Circular provided by the management of the Company and for which the Directors have collectively and individually accepted full responsibility, are true, accurate, and complete in all material respects at the time they were made and continue to be so at the date hereof.

We have also relied on our discussions with the Directors and members of the management of the Company regarding the statements, information and representations contained in the Circular. We have been advised by the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Circular. The Directors have further confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading in any material respect.

We consider that we have reviewed sufficient information to reach an informed view and to justify relying on the accuracy of the information contained in the Circular to provide a reasonable basis for our advice. We are not aware of, and have no reason to suspect that, any facts or circumstances, which would render the information provided or the representations made to us untrue, inaccurate or misleading in any material respects, nor do we suspect that any material facts have been omitted or withheld from the information supplied in the Circular. We have not, however, carried out any independent verification of the information provided to us by the Company, or conducted any in-depth investigation into the business and affairs of the China Comservice Group and China Telecom Group and their respective associates, and the Total Acquisition Assets.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion regarding the terms of the Transactions, we have considered the following principal factors and reasons:

1. Existing Relationship between China Telecommunications Corporation and China Comservice

China Comservice was incorporated in the People's Republic of China ("China") on 30 August 2006 as a joint stock company with limited liability. Pursuant to a restructuring agreement between China Telecommunications Corporation and China Comservice, China Telecommunications Corporation transferred its specialised telecommunications support business in the Shanghai municipality, and in the Guangdong, Zhejiang, Fujian, Hubei and Hainan provinces (the "Listed Service Areas") to China Comservice in consideration for 3,623,400,000 China Comservice shares (the "Restructuring"). China Comservice was subsequently listed on the Stock Exchange in December 2006.

Following the Company's initial public offering (the "IPO"), China Telecommunications Corporation remains a majority shareholder in China Comservice, beneficially holding approximately 70% of the voting rights in respect of the issued share capital of the Company as at the Latest Practicable Date. China Telecommunications Corporation and its subsidiaries are also major customers of China Comservice, contributing 48%, 45% and 53% of total revenue of the China Comservice Group for the years ended 31 December 2004, 2005 and 2006, respectively.

Existing Connected Transactions

A strategic cooperation agreement was entered into between China Comservice and China Telecom Listco on 30 August 2006 (the "Strategic Cooperation Agreement") to establish the terms upon which there could be strategic business cooperation between both parties in the areas of China Comservice's engineering related services, maintenance and management services, certain business process outsourcing services and the provision of application, content and other related services. Various other framework agreements were also entered into between China Comservice and China Telecommunications Corporation in connection with the Company's IPO, in relation to the mutual provision of ongoing specialised telecommunications support services.

The following table sets forth a summary of the various framework agreements underlying the Existing Connected Transactions:

Table (1): Agreements for the Existing Connected Transactions

	Agreements	**Description**
1.	Engineering Framework Agreement	China Comservice agreed to provide to the China Telecom Group certain engineering related services, such as design, construction, project supervision and management, for telecommunications infrastructure projects undertaken by the China Telecom Group.
2.	Ancillary Telecommunications Services Framework Agreement	China Comservice agreed to provide to the China Telecom Group certain ancillary telecommunications services such as maintenance of network facilities, distribution of telecommunications products and services, and the provision of application, content and other services.
3.	Operation Support Services Framework Agreement	China Comservice agreed to provide to the 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, labour resources management, equipment maintenance, advertisement, conferencing services, vehicles and certain repair and leasing of equipment. The China Telecom Group agreed to provide to China Comservice operation support services such as logistics, warehousing, medical care, food and beverages, educational, hotel and traveling services, and labour services.
4.	IT Application Services Framework Agreement	China Comservice agreed to provide to the China Telecom Group telecommunications network support, software and hardware development, and other related information technology (“IT”) services.

	Agreements	Description
		The China Telecom Group agreed to provide to China Comservice certain IT application services including but not limited to basic telecommunications, value added and information application services.
5.	Centralised Services Agreement	China Comservice agreed to provide to the China Telecom Group centralised services including: (i) corporate headquarter management functions to manage the China Telecom Group's certain assets and specialised telecommunications support businesses outside of the Listed Service Areas; and (ii) provincial headquarter management functions to manage the China Telecom Group's remaining assets within the Listed Service Areas.
6.	Property Leasing Framework Agreement	The China Telecom Group agreed to lease from China Comservice properties located within the Listed Service Areas for use as business premises, offices, equipment storage facilities and sites for network equipment. China Comservice Group agreed to lease from the China Telecom Group other properties for use as business premises, offices and equipment storage facilities.

As stated in the Prospectus, the joint sponsors of the IPO, China International Capital Corporation (Hong Kong) Limited and Goldman Sachs (Asia) L.L.C., had reviewed the terms of the Existing Connected Transactions, and were of the view that the Existing Connected Transactions had been entered into in the ordinary and usual course of business of the Company on normal commercial terms, and the terms of such transactions were fair and reasonable as far as the Company is concerned, and were in the interest of the Shareholders as a whole.

2. Background of the Acquisition

2.1 *Overview*

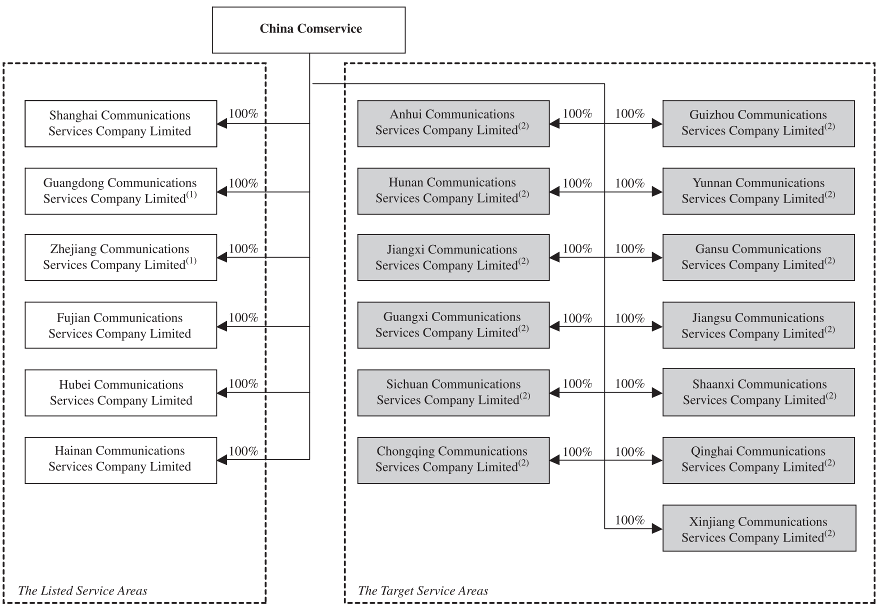
Following the Restructuring, China Telecommunications Corporation retained ownership of specialised telecommunications support businesses in the southern 15 provinces, municipalities and autonomous regions in China outside the Listed Service Areas. A non-competition undertaking was entered into between China Comservice and China Telecommunications Corporation on 16 November 2006 pursuant to which the China

Telecom Group agreed not to compete directly or indirectly with China Comservice's specialised telecommunications support businesses within the Listed Service Areas and the ten other northern provinces in China. Under this non-competition undertaking, China Comservice obtained a priority right to acquire from China Telecommunications Corporation its specialised telecommunications support businesses outside the Listed Service Areas. This priority right expires three years from the listing date of China Comservice on the Stock Exchange.

On 15 June 2007, the Directors announced that the Company had entered into an agreement on the same day to acquire from China Telecommunications Corporation, subject to certain conditions, companies and businesses in ten other provinces, two autonomous regions and one centrally administrated municipality in China (namely Jiangsu province, Anhui province, Jiangxi province, Hunan province, Guangxi Zhuang autonomous region, Chongqing municipality, Sichuan province, Guizhou province, Yunnan province, Shaanxi province, Gansu province, Qinghai province and Xinjiang Uygur autonomous region) (the "Target Service Areas"), as well as other related assets which comprise the Total Acquisition Assets, for a consideration of RMB4,630 million (the "Consideration").

The corporate structure of the China Comservice Group immediately following the Acquisition (the "Combined Group") will be as set out below:

Table (2): Corporate Structure of the Combined Group



Notes:

(1) These include the Complementary Businesses (as defined below) which form part of the Total Acquisition Assets.

(2) Names of the provincial subsidiaries in the Target Service Areas in the chart above are pending final approvals by relevant company registration authorities.

2.2 *The Total Acquisition Assets*

As set out in "Letter from the Board" of the Circular, the Total Acquisition Assets comprise:

(i) *The Target Business*

Companies and business assets which collectively are leading integrated providers of specialised telecommunications support services in each of the Target Service Areas. Their principal activities comprise the provision of telecommunications infrastructure services, business process outsourcing services and applications, content and other related services. Accordingly, the Target Business in the Target Service Areas is similar to that of China Comservice's existing business in the Listed Service Areas.

Included as part of the Target Business are two other companies, Guangdong Nanfang Communications GSM Intelligent Card System Co., Ltd and NingBo Public Information Industry Co., Ltd, which are engaged in the business of manufacturing and distributing encryption cards and integrated circuit cards, and providing localised web portal services in the Guangdong and Zhejiang province, respectively. These companies have been included as part of the Acquisition as they are complementary to the business of the China Comservice Group and are expected to facilitate its growth and expansion plans (the "Complementary Businesses"). Accordingly, China Comservice believes that the acquisition of the Complementary Businesses is in the interest of the Company. Upon the completion of the Acquisition, the Complementary Businesses will be held by the relevant provincial subsidiaries of the Company in Guangdong and Zhejiang.

(ii) *The Target Assets*

Included as part of the Acquisition are non-specialised assets such as office buildings, equipment, leases and land in the Listed Service Areas and the Target Service Areas, which will be used by the China Comservice Group in its daily operations. The Target Assets also include minority shareholding interest of 10% each in two companies, Guangdong Electronic Certification Authority Co., Ltd. and Shanghai Telephone Property Co., Ltd., which are already part of the China Comservice Group.

Based on valuations prepared by China United Assets Appraisal Co., Ltd (the "Chinese Valuer") dated 31 January 2007, the Target Business and the Target Assets accounted for 78.7% and 21.3%, respectively of the appraised value of the Total Acquisition Assets determined by the Chinese Valuer. In addition, the Complementary Business comprised 0.61% of the aggregate appraised value of the Target Business.

2.3 ***Rationale for the Acquisition***

As stated in the Prospectus, the Company plans to expand its business geographically in the domestic Chinese market through selective acquisitions, including the acquisitions of other affiliates of the China Telecommunications Corporation engaged in the provision of similar specialised telecommunications support services, which would be accretive in terms of earnings per share ("EPS") and enhance financial returns to shareholders.

The background to, and reasons for, the Acquisition are set out in the "Letter from the Board" of the Circular. In summary, the Directors believe that the Acquisition will:

(1) *Provide the Company with a new and important opportunity to enhance its market position and competitiveness*

The Acquisition will expand the Company's geographical coverage from six service areas to a total of 19 service regions and areas across China, allowing the Company to meet its customers' comprehensive needs for a high quality and cost efficient telecommunications support services provider on a national scale. The Company will also be able to enhance its competitiveness through the provision of nation-wide integrated one-stop services.

(2) *Improve the Company's growth prospects*

The Target Service Areas are located in middle and western China, which are areas with high growth potential. In view of the government's announced policies to promote economic development in these regions, significant growth is expected in infrastructure construction spending, including telecommunications network infrastructure constructions and upgrades, which are expected to benefit the China Comservice Group. The Acquisition will also better position the Company to benefit from opportunities in relation to the rollout of third generation network in China.

(3) *Allow the Company to realise operational synergies*

The Acquisition represents an opportunity for the Company to create shareholders' value by achieving cost efficiencies and operational synergies through the sharing of resources and expertise across the service areas and business lines.

(4) *Allow the Company to rationalise its capital structure*

The Company currently has very low leverage. Approximately 43% of the Consideration for the Acquisition will be financed by debt, which is an important step towards the optimisation of the Company's capital structure, thereby maximising shareholder value.

The Board is of the view that the above factors would allow the Company to benefit from the sustained growth of the telecommunications industry in China and expected increase in demand for specialised telecommunications support services.

2.4 *The Consideration*

China Comservice has agreed to acquire the Total Acquisition Assets for a consideration of RMB4,630 million, payable in cash within 60 days from the completion date of the Acquisition.

The Consideration represents a multiple of 30.7 and 16.4 times the 2006 historical and 2007 forecast net profit of the Target Business, respectively.

We further understand from the Company that the Consideration was determined with reference to various factors, including the quality of the assets being acquired, their growth prospects, earnings potential, competitive advantages in their respective markets, the prospective profit contributions by the Total Acquisition Assets to the Combined Group and the trading multiples of comparable quoted companies.

It has also been agreed between the Company and China Telecommunicatons Corporation that the China Telecom Group shall be entitled to any increase in the net assets of the Target Business resulting from the profits of the Target Business, as determined by a special audit under the Chinese accounting standards, during the period from 31 January 2007 (date of appraisal) to the date of completion of the Acquisition. Correspondingly, China Telecom Group shall make up for any decrease in the net assets of the Target Business resulting from any loss sustained by the Target Business during the same period, further details of which are set out in the "Letter from the Board" of the Circular.

For the purpose of this letter, we have based our analysis on the Consideration of RMB4,630 million.

2.5 *Historical Financial Performance of the Target Business*

The following sets out certain information of the Target Business for the three years ended 31 December 2006 and certain aggregated statistics of the Target Service Areas for the year ended 31 December 2006:

Table (3): Consolidated Information of the Target Business and the Target Service Areas

	Year ended 31 December		
	2004	**2005**	**2006**
	Amounts in RMB million unless otherwise stated		
Target Business			
Revenues	4,207	4,777	5,130
Change (%)		*14%*	*7%*
Gross profit	957	1,028	1,106
Gross profit margin (%)	*23%*	*22%*	*22%*
Change (%)		*7%*	*8%*
Other operating income	62	25	37
Selling, general and administrative expenses	(752)	(774)	(884)
Other operating expenses	(12)	(13)	(16)
Deficit on revaluation of property, plant and equipment	—	—	(30)
Net financing income	1	1	2
Share of profits less losses of associates	2	3	2
Profit before tax	259	271	216
Income tax	(74)	(88)	(94)
Profit for the year	185	183	122
Net profit margin (%)	*4%*	*4%*	*2%*
Change (%)		*–1%*	*–33%*
Net profit attributable to shareholders	154	158	121
Net profit margin (%)	*4%*	*3%*	*2%*
Change (%)		*2%*	*–24%*
Total assets	4,846	5,373	5,975
Cash and cash equivalents	1,133	1,270	1,093
Total debt	127	105	75
Owners' equity	2,137	2,515	2,736

	Year ended 31 December 2004	2005	2006
	Amounts in RMB million unless otherwise stated		
Target Service Areas			
Population (millions)			572.2
GDP (billions)			6,027.7
GDP per capita (thousands)			10.6
Wireline penetration rate (%)			24.1
Mobile penetration rate (%)			26.3
Internet penetration rate (%)			7.9
Capital expenditure of telecommunications operators (billions)			67.7

Sources: Appendix I – Accountants' Report and the "Letter from the Board" of the Circular

For the year ended 31 December 2005, the revenue of the Target Business grew by 14% due to the increase in revenue of 11% for telecommunications infrastructure services (attributable to an increase in market share), 13% for business process outsourcing services (attributable to favourable growth and increase in market share) and 33% for applications, content and other services (attributable to the increase in the business volume of its system integration services). Both gross profit margin and net profit margin were maintained at similar levels as in the previous year.

For the year ended 31 December 2006, revenue grew by 7% as a result of the increase in revenue of 7% for telecommunications infrastructure services, 5% for business process outsourcing services and 16% for applications, content and other services. The increase is attributable to the business growth and expansion of the Target Business within each of the Target Service Areas. While gross profit margin was maintained at 22%, net profit decreased during the year ended 31 December 2006 mainly due to the recognition of a deficit of RMB30.3 million in connection with the revaluation of the Target Business' property, plant and equipment and higher selling, general and administrative expenses associated with business expansion.

Further detailed information about the historical financial performance of the Target Business is set out in the Circular.

2.6 *Comparable Company Analysis*

As part of our analysis of the Consideration, we have compared the implied valuation multiples represented by the Consideration with those of selected listed Chinese companies (the "Comparables") operating similar businesses as the Total Acquisition Assets. The Comparables have been selected after taking into account, inter alia, their scope of business and operating environment relative to the Total Acquisition Assets.

While the trading multiples of the Comparables reflect the current market sentiment towards the business sector and provide some guidance on valuation, such analysis does not take into account differences in accounting policies and standards, regulatory and operating environments, tax treatments and other unique characteristics amongst the Comparables and those of the Total Acquisition Assets.

In our assessment of the Consideration, we have applied the commonly used price-to-earnings ratio ("PER"). We set out in the following table the PER of the Comparables based on their respective share prices as at the Latest Practicable Date and publicly available historical and forecast financial data, and those represented by the Consideration:

Table (4): Trading Multiples of the Comparables

Comparables	**PER(1)**		**Increase (decrease) in net profit(4)**
	2006A	**2007F**	**2007F**
China Comservice	42.0x	31.5x	33%
China Telecom Corporation Limited	13.1x	15.4x	–15%
China Mobile Limited	22.3x	18.8x	18%
China Unicom Limited	39.7x	21.5x	84%
China Netcom Group Corporation (Hong Kong) Limited	12.1x	12.4x	–2%
ZTE Corporation	68.6x	42.6x	61%
Comba Telcom Systems Holdings Limited	24.5x	14.3x	71%
Average	**31.7x**	**22.4x**	**36%**
The Total Acquisition Assets	**30.7x(2)**	**16.4x(3)**	**87%**

Notes:

(1) Based on:

— the Comparables' annual reports for their respective historical earnings for the year ended 31 December 2006

— Market analysts' estimates, as sourced from Bloomberg, for their respective forecast earnings for the year ending 31 December 2007

(2) Based on historical net profit for the year ended 31 December 2006 as extracted from the Accountants' Report in Appendix I of the Circular, adjusted to exclude one-off revaluation deficit of RMB30.3 million

(3) Based on forecast net profit of the Target Business of RMB283 million for the year ending 31 December 2007, as set out in the "Letter from the Board" in the Circular

(4) Projected annual growth in net profit from year ended 31 December 2006 to year ending 31 December 2007, based on historical and forecast net profit as set out in (1), (2) and (3) above

Both the 2006 and 2007 PER represented by the Consideration are below the average of the Comparables. In addition, the net profit of the Target Business is expected to grow significantly by 87% in 2007, which is higher than those for the Comparables and their average earnings growth of 36%.

As set out in the "Letter from the Board" of the Circular, the forecast net profit of the Target Business for the year ending 31 December 2007 is unlikely to be less than RMB283 million. We understand from the Company that the 2007 forecast net profit of the Target Business includes certain cost efficiencies which are expected to arise from the Acquisition. As set out in the "Letter from the Board", in order to realise operating synergies, the Company intends to apply the same measures that have been successfully used for the Listed Group to the Target Business to achieve cost efficiencies. These measures include centralised financial management, procurement and IT management systems. We understand from the Company that these measures partly accounted for the increase in the Listed Group's normalised net profit, as disclosed in the China Comservices' 2006 annual results presentation, by 44% from RMB503 million for the year ended 31 December 2005 to RMB725 million for the year ended 31 December 2006. Further details of the forecast financial information and the Company's strategy are set out in the sections headed "Prospective Financial Information" and "Reasons for and benefits of the Acquisition" in the "Letter from the Board", respectively as well as in Appendix V of the Circular.

2.7 *Comparable Precedent Transactions*

We set forth below past asset acquisitions by Chinese telecommunications operators from their connected parties and the forecast PER represented by such acquisitions as compared with the corresponding PER traded by these acquiror as at their respective latest practicable date:

Table (5): PER Discount of Comparable Precedent Transactions

Announced Date	**Acquiror**	**Price** *(RMB million)*	**Acquiror PER(1)**	**Target PER(1)**	**Discount**
23 Sept 2005	China Netcom Group Corporation (Hong Kong) Limited	12,800	8.5x	6.0x	29%
28 April 2004	China Mobile Limited	30,210	12.6x	9.7x	23%
13 April 2004	China Telecom Corporation Limited	27,800	13.2x	8.9x	33%
20 Nov 2003	China Unicom Limited	3,200	17.3x	12.8x	26%
27 Oct 2003	China Telecom Corporation Limited	46,000	15.4x	11.5x	25%
29 Nov 2002	China Unicom Limited	4,800	16.7x	10.4x	38%
Average					**29%**

Note:

(1) Based on circulars and related public information announced by the relevant telecommunication companies

It should be noted that each of these precedent transactions must be judged on its own commercial and financial merits. The price and level of PER discount that any acquirer is prepared to pay in any particular acquisition depends on various factors such as the potential synergies that the acquirer can gain from its investment in the target company or asset, the prevailing market conditions, attractiveness and profile of the target company's underlying business and assets, size of consideration, existing level of control in the target company and general economic and business risk.

Based on the above, we note that Chinese telecommunications operators had acquired assets with PERs at an average discount of 29% to the PERs traded by their share price at the time of the target acquisitions.

The Consideration represents 16.4 times the 2007 forecast net profit of the Target Business, which is a discount of approximately 48% to China Comservice's PER of 31.5 times as at the Latest Practicable Date.

2.8 *Financial Effects of the Acquisition on the China Comservice Group*

Set out below is certain unaudited pro forma financial information of the Combined Group before and after the Acquisition, based on the financial information of the Combined Group in Appendix IV to the Circular:

Table (6): Unaudited Pro Forma Financial Information of the Combined Group

	Year ended 31 December 2006	
	Listed Group	**Pro Forma Combined Group**
	Amounts in RMB million unless otherwise stated	
Revenue[1]	14,183	19,313
Profit attributable to shareholders[1]	696	725
Shareholders' equity[1]	9,481	9,007
Total debt[1]	96	2,171
Cash and cash equivalents[1]	7,071	6,004
Net cash	6,975	3,833
Basic and diluted earnings per share (RMB)[1]	0.172	0.179

Note:

(1) Based on China Comservice's annual report for the year ended 31 December 2006 and pro forma financial statements of the Combined Group as set out in Appendix IV of the Circular.

(a) *Earnings*

Assuming that the Acquisition was completed as at 1 January 2006, the Acquisition would have resulted in a 4% increase in the EPS of the China Comservice Group for the year ended 31 December 2006. The pro forma EPS of the Combined Group includes the revaluation deficit of RMB30.3 million, as well as the expected interest expenses arising from using debt and the interest income foregone from the cash used to finance the Acquisition. Had the one-time revaluation deficit been excluded, the pro forma EPS of the Combined Group for the year ended 31 December 2006 following the Acquisition would have increased by approximately 9%. In addition, the Combined Group is expected to benefit from the 87% increase in the forecast net profit of the Target Business for the year ending 31 December 2007. Accordingly, earnings accretion in the year ending 31 December 2007 is expected to be higher compared to the previous year for the Combined Group.

(b) *Shareholders' equity*

As at 31 December 2006, the existing China Comservice Group had shareholders' equity of RMB9,481 million. Assuming the Acquisition was completed as at 31 December 2006, the shareholders' equity of the Combined Group on a pro forma basis would be RMB9,007 million, which is a decline of RMB474 million. As detailed in Appendix IV, this decline in shareholders' equity is due to effect of accounting for the Acquisition using the as-if-pooling-of-interests accounting method. No new shares would be issued and no existing shares would be withdrawn by the Company in relation to the Acquisition.

(c) *Total debt and gearing*

China Comservice plans to finance the Consideration as follows: (i) RMB1,200 million from the proceeds of the IPO; (ii) RMB1,430 million from its cash on hand; and (iii) RMB2,000 million from debt financing on normal commercial terms.

As at 31 December 2006, the existing China Comservice Group had total debt and cash balance of RMB96 million and RMB7,071 million, respectively, resulting in a net cash position of RMB6,975 million. Assuming that the Acquisition was completed as at 31 December 2006, the Combined Group would remain in a net cash position of RMB3,833 million on a pro forma basis, comprising total debt and cash balance of RMB2,171 million and RMB6,004 million, respectively. The increase in total debt is consistent with the Company's intention to optimise its capital structure.

The Prospectus sets out the Company's dividend policy for the years commencing on or after 1 January 2007. Given the Combined Group's net cash position following the Acquisition, it does not appear to us that the Company's dividend policy would be affected by the Acquisition. The final decision to declare or pay any dividends in the future, and the amount of any dividends, will depend on various factors stipulated in the Prospectus and will be subject to the Board and Shareholders' approval.

3. Connected Transactions

Subsequent to the Acquisition, transactions will arise on a continuing basis between the Combined Group and the China Telecom Group, and certain of these constitute continuing connection transactions for the Company under the Listing Rules subject to Independent Shareholders' approvals (the "Non-exempt Prospective Connected Transactions"). These Non-exempt Prospective Connected Transactions generally fall within the scopes of the existing Strategic Cooperation Agreement and the various framework agreements entered into between the China Comservice and China Telecommunications Corporation listed in items 1 to 5 of Table (1). They are mainly identical in nature and in substance to the corresponding Existing Connected Transactions for the Listed Service Areas.

In view of the Acquisition, the Company seeks to make amendments to the existing agreements with China Telecommunications Corporation and China Telecom Listco by way of two supplemental agreements. The Company also seeks to increase the existing Annual Caps granted by the Stock Exchange at the time of the IPO.

Details of the terms and amendments of the Strategic Cooperation Agreement and the various agreements in relation to the Existing and Non-exempt Prospective Connected Transactions are set out in the Prospectus and the "Letter from the Board" of the Circular.

3.1 Supplemental Strategic Agreement

The Strategic Cooperation Agreement provides for the cooperation among the wholly-owned subsidiaries of the Company and China Telecom Listco in Zhejiang, Fujian, Hubei, Guangdong, Hainan provinces and Shanghai municipality. In view of the Acquisition, a supplemental agreement (the "Supplemental Strategic Agreement") will be entered into to include the transactions between the Target Business (which will be acquired by the Company pursuant to the Acquisition) and the subsidiaries of China Telecom Listco in the Target Service Areas in the scope of the Strategic Cooperation Agreement.

Under the Strategic Cooperation Agreement, minimum spending amounts have been set out for the provision of engineering related services and maintenance and management services by the China Comservice Group to the China Telecom Listco Group. The Company has also proposed changes to the minimum spending amounts for the three years ending 31 December 2009:

(i) *Engineering related services*

	Minimum Spending Amounts	**Basis**
Existing minimum spending amounts	Not less than 12.5% of total annual capital expenditure by the China Telecom Listco Group in the Listed Service Areas	Historical levels of engineering related services revenues generated from the China Telecom Listco Group, as a percentage of total annual capital expenditure by the China Telecom Listco Group in the Listed Service Areas.
Proposed prospective minimum spending amounts	Not less than 10.6% of total annual capital expenditure by the China Telecom Listco Group in the Listed Service Areas and the Target Service Areas	Historical levels of engineering related services revenues generated from the China Telecom Listco Group, as a percentage of total annual capital expenditure by the China Telecom Listco Group in the Target Service Areas and the committed amount of transactions under the current undertakings of China Telecom Listco to the Company in the Listed Service Areas.

(ii) *Maintenance and management services*

	Minimum Spending Amounts	**Basis**
Existing minimum spending amounts	Not less than RMB1,330 million in the Listed Service Areas	Historical levels of maintenance and management services revenues generated from the China Telecom Listco Group in the Listed Service Areas.
Proposed prospective minimum spending amounts	Not less than RMB1,780 million in the Listed Service Areas and the Target Service Areas	Historical levels of maintenance and management services revenues generated from the China Telecom Listco Group in the Target Service Areas and the committed amount of transactions under the current undertakings of China Telecom Listco to the Company in the Listed Service Areas.

As set out in the "Letter from the Board" of the Circular, other than as described above, there are no further changes to the existing terms of the Strategic Cooperation Agreement.

3.2 *Supplemental Agreement*

As set out in "Letter from the Board" of the Circular, the Company proposes to enter into a supplemental agreement (the "Supplemental Agreement") to extend the current term of the agreements governing the Existing Connected Transactions and to include the provision of Comprehensive Logistics Services to the China Telecom Group.

3.2.1 *Extension of the term of the relevant framework agreements governing the Non-exempt Prospective Connected Transactions*

The Supplemental Agreement provides that the term of the Engineering Framework Agreement, the Ancillary Telecommunications Services Framework Agreement, the Operation Support Services Framework Agreement, the IT Application Services Framework Agreement and the Centralised Services Framework Agreement be extended from 31 December 2008 to 31 December 2009.

We note that the Engineering Framework Agreement, the Ancillary Telecommunications Services Framework Agreement, the Operation Support Services Framework Agreement, the IT Application Services Framework Agreement and the Centralised Services Framework Agreement were all entered into on 16 November 2006. The agreements provide that they are automatically renewable for further periods of no more than three years upon expiry on 31 December 2008 subject to shareholders' approval. The Supplementary Agreement therefore provides for an extension of the term of these agreements by one year.

3.2.2 *Changes to the Scope of the Ancillary Telecommunications Services Framework Agreement*

The Supplemental Agreement provides the expansion of the scope under the Ancillary Telecommunications Services Framework Agreement to include the provision of logistics services to the China Telecom Group. Logistic services include purchase agency, warehousing, transportation, delivery, testing and inspection, logistics information management and distribution, and will be targeted at clients in the telecommunications sector such as telecommunications operators, telecommunications equipment vendors and IT equipment manufacturers. The Company is of the view that such an expansion is consistent with their expansion plans in the area of specialised telecommunications support services and will contribute to the Company's future growth.

3.2.3 *Other terms*

Save for those set out in Sections 3.2.1 and 3.2.2 above, there are no substantive changes to the other terms of the framework agreements in relation to the Non-exempt Prospective Connected Transactions, including the pricing standards and principal terms which are also identical to those of the Existing Connected Transactions.

3.3 *The Annual Caps*

The following table provides an overview of the existing and proposed revised Annual Caps applicable to the Non-exempt Prospective Connected Transactions:

Table (7): Annual Caps

	Agreement	Basis of Measurement	Years ending 31 December 2007 to 2008 Existing Annual Caps *(RMB million)*	Years ending 31 December 2007 to 2009 Revised Annual Caps *(RMB million)*
1.	Engineering Framework Agreement	Revenue	4,700	8,000
2.	Ancillary Telecommunications Services Framework Agreement	Revenue	2,300	3,660(1)
3.	Operation Support Services Framework Agreement	Revenue	1,300	1,750
		Expenditure	170	260
4.	IT Application Services Framework Agreement	Revenue	250	700
		Expenditure	190	210
5.	Centralised Services Agreement	Reimbursed apportioned cost	250	350

Note:

(1) Includes annual cap relating to the provision of new logistics services as discussed in Section 3.2.2 above.

The reasons and underlying basis for the Company's proposed amendments to the Annual Caps in view of the Non-exempt Prospective Connected Transactions for the three years ending 31 December 2009 are discussed in the following sections:

(i) *Engineering Framework Agreement*

Annual Caps	Historical Reference Amount	Reasons for proposed revisions
RMB8,000 million from 2007 to 2009 (increase of RMB3,300 million)	Revenue of approximately RMB1,959 million, RMB2,141 million and RMB2,254 million for the three years ended 31 December 2006, respectively in the Target Service Areas. Revenue of approximately RMB5,428 million, RMB5,468 million and RMB6,380 million for the three years ended 31 December 2006, respectively in both the Listed Service Areas and the Target Service Areas (the "Combined Service Areas").	Historical revenues of the Target Service Areas and the Combined Service Areas grew at a compounded annual growth rate ("CAGR") of 7.3% and 8.4%, respectively between 2004 and 2006. Based on the historical revenue of the Combined Services Areas of RMB6,380 million for the year ended 31 December 2006, the proposed Annual Cap represents a CAGR of 7.8% between 2006 and 2009, which is consistent with the Combined Group's expected level of revenue growth in the next three years. In addition, the Company believes that in order to reduce operating costs, China Telecom Listco will progressively appoint service providers to procure raw materials used in connection with the engineering related services it receives. The Combined Group will be providing such procurement services to the China Telecom Listco Group, which has been taken into account in the proposed Annual Cap.

(ii) *Ancillary Telecommunications Services Framework Agreement*

Annual Caps	Historical Reference Amount	Reasons for proposed revisions
RMB3,660 million from 2007 to 2009 (increase of RMB1,360 million)	Revenue of approximately RMB236 million, RMB239 million and RMB268 million for the three years ended 31 December 2006, respectively in the Target Service Areas. Revenue of approximately RMB1,616 million, RMB1,735 million and RMB2,466 million for the three years ended 31 December 2006, respectively in the Combined Service Areas.	Historical revenues of the Target Service Areas and the Combined Service Areas grew at a CAGR of 6.6% and 23.5%, respectively between 2004 and 2006. Based on the historical revenue of the Combined Service Areas of RMB2,466 million for the year ended 31 December 2006, the proposed Annual Cap represents a CAGR of 14.1% between 2006 and 2009, which is consistent with the Combined Group's expected level of revenue growth in the next three years. China Telecom Listco also plans to continue outsourcing more of its support service requirements as they expand. Further, as explained in Section 3.2.2 above, the scope of the Ancillary Telecommunications Services Framework Agreement will include the provision of new logistics services to the China Telecom Group. The Company has considered all of the foregoing in determining the revised Annual Cap. The Annual Cap in relation to the new logistics services is approximately 10% of the proposed Annual Cap for the Ancillary Telecommunications Services Framework Agreement.

(iii) *Operation Support Services Framework Agreement*

Annual Caps	Historical Reference Amount	Reasons for proposed revisions
Revenue of RMB1,750 million and expenditure of RMB260 million from 2007 to 2009 (increase in revenue of RMB450 million and expenditure of RMB90 million)	Revenue of approximately RMB208 million, RMB225 million and RMB284 million for the three years ended 31 December 2006, respectively in the Target Service Areas. Expenditure of approximately RMB51 million, RMB50 million and RMB86 million for the three years ended 31 December 2006, respectively in the Target Service Areas. Revenue of approximately RMB1,104 million, RMB1,241 million and RMB1,301 million for the three years ended 31 December 2006, respectively in the Combined Service Areas. Expenditure of approximately RMB129 million, RMB151 million and RMB190 million for the three years ended 31 December 2006, respectively in the Combined Service Areas.	Historical revenues in the Target Service Areas and the Combined Service Areas grew at a CAGR of 16.8% and 8.6%, respectively between 2004 and 2006. Based on the historical revenue of the Combined Service Areas of RMB1,301 million for the year ended 31 December 2006, the proposed Annual Cap represent a CAGR of 10.4% between 2006 and 2009, which is consistent with the Combined Group's expected level of revenue growth in the next three years. The Company expects future expenditures in the Target Service Areas to remain stable at the 2006 levels.

(iv) *IT Application Services Framework Agreement*

Annual Caps	Historical Reference Amount	Reasons for proposed revisions
Revenue of RMB700 million and expenditure of RMB210 million from 2007 to 2009 (Revenue increase of RMB450 million and expenditure increase of RMB20 million)	Revenue of approximately RMB30 million, RMB54 million and RMB105 million for the three years ended 31 December 2006, respectively in the Target Service Areas. Expenditure of approximately RMB4 million, RMB5 million and RMB12 million for the three years ended 31 December 2006, respectively in the Target Service Areas. Revenue of approximately RMB164 million, RMB160 million and RMB252 million for the three years ended 31 December 2006, respectively in the Combined Service Areas. Expenditure of approximately RMB105 million, RMB182 million and RMB183 million for the three years ended 31 December 2006, respectively in the Combined Service Areas.	Historical revenues in the Target Service Areas and the Combined Service Areas grew at a CAGR of 86.1% and 24.0%, respectively between 2004 and 2006. Based on the historical revenue of the Combined Service Areas of RMB252 million for the year ended 31 December 2006, the proposed Annual Cap represents a CAGR of 40.6% between 2006 and 2009, which is consistent with the Combined Group's expected level of revenue growth in the next three years. There are also plans for the Company to widen the scope of its IT application services to the China Telecom Group (for example, including China Telecom Group's northern China operations). Historical expenditures in the Target Service Areas and the Combined Service Areas grew at a CAGR of 73.9% and 32.0%, respectively between 2004 to 2006. The Company expects lower but nonetheless strong growth to continue in the next three years. Based on the historical expenditure of the Combined Service Areas of RMB183 million for the year ended 31 December 2006, the proposed Annual Cap represents a CAGR of 4.7% between 2006 and 2009, which is consistent with the Combined Group's expected level of expenditure growth in the next three years.

(v) *Centralised Services Agreement*

Annual Caps	Historical Reference Amount	Reasons for proposed revisions
Reimbursed apportioned cost of RMB350 million from 2007 to 2009 (increase of RMB100 million)	No historical amount available for the Target Service Areas. Reimbursed apportioned cost of approximately RMB45 million for the year ended 31 December 2006 in the Listed Service Areas.	The proposed increase in the annual cap is based on the Company's projection of costs expected to be incurred in relation to certain management functions provided by the headquarter and provincial subsidiaries of the Combined Group in the Target Service Areas to the China Telecom Group. These include labour costs and benefits, depreciation, daily operational expenditure business development costs, maintenance, research and development costs. All such costs are apportioned to the various operations based on their respective net asset value.

The annual caps for the provision of the relevant services contemplated under the Strategic Cooperation Agreement have already been included under the Annual Caps.

4. Annual Review of Continuing Connected Transaction

Under the Listing Rules, the independent non-executive directors of the Company must each year review the Non-exempt Prospective Connected Transactions and confirm in the Company's annual report and accounts that the Non-exempt Prospective Connected Transactions have been entered into: (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms; and (iii) in accordance with the terms of the Strategic Cooperation Agreement, various related agreements as listed in Table (1) above, the Supplemental Strategic Agreement and the Supplemental Agreement.

The Company will also be required to comply with all other continuing obligations under the Listing Rules, including its auditors' confirmation that the Non-exempt Prospective Connected Transactions have not exceeded the Annual Caps and will re-comply with the relevant Listing Rules if any of the Annual Caps is exceeded or when the Strategic Cooperation Agreement, various related agreements as listed in Table (1) above, the Supplemental Strategic Agreement and the Supplemental Agreement are renewed or when there is a material change to the terms of these agreements.

RECOMMENDATION

Having analysed and considered the principal factors as set out in this letter above, we would draw your attention to the following key factors, which should be read in conjunction with and interpreted in the full context of the Circular, in arriving at our conclusion:

1. As part of the Company's strategic plan, formulated at the time of the IPO and set out in the Prospectus, the Company intends to expand the business geographically in the domestic Chinese market through selective acquisitions, including the acquisition of other affiliates of China Telecommunications Corporation engaging in similar business in regions other than the Listed Service Areas.

2. The Directors believe that the Acquisition will: (i) provide the Company with a new and important opportunity to enhance its market position and competitiveness; (ii) improve the Company's growth prospects; (iii) allow the Company to realise operational synergies; and (iv) allow the Company to rationalise its capital structure.

3. The Consideration of RMB4,630 million represents 30.7 and 16.4 times the 2006 historical and 2007 forecast net profit of the Target Business, respectively. Both the 2006 and 2007 PER represented by the Consideration are below the average of the Comparables. In addition, the net profit of the Target Business is expected to grow by 87% in 2007 as compared to the net profit in 2006 (adjusted to exclude one-off revaluation deficit of RMB30.3 million), which is higher than those for the Comparables and their average earnings growth of 36%.

4. We note that Chinese telecommunications operators have in the past acquired assets with PERs at an average discount of 29% to the PERs traded by their share prices, compared with a discount of 48% in the case of the Acquisition.

5. The Acquisition would result in the pro forma EPS of the Combined Group for the year ended 31 December 2006 increasing by 4%, or 9% if a RMB30.3 million deficit arising from the revaluation of certain fixed assets of the Total Acquisition Assets is excluded. In addition, the Combined Group is expected to benefit from an expected 87% increase in the forecast net profit of the Target Business for the year ending 31 December 2007. Accordingly, earnings accretion for the Combined Group in the year ending 31 December 2007 is expected to be higher compared to the previous year.

6. The Consideration would be fully payable in cash, following which, the Combined Group would still be in a pro forma net cash position of RMB3,833 million as at 31 December 2006.

7. Other than changes as discussed in Section 3 above, the Non-exempt Prospective Connected Transactions are substantially identical in nature and substance to the corresponding Existing Connected Transactions. The joint sponsors for the Company's 2006 IPO, China International Capital Corporation (Hong Kong) Limited and Goldman Sachs (Asia) L.L.C., had reviewed the terms of the Existing Connected Transactions, and were of the view that the Existing Connected Transactions had been entered into in the ordinary and usual course of business of the Company on normal commercial terms and the terms of such transactions were fair and reasonable as far as the Company is concerned and were in the interest of the Shareholders as a whole.

8. The amendments to the spending amounts set out in the Supplemental Strategic Agreement are based on the historical amounts spent by the China Telecom Group in both the Listed Service Areas and the Target Service Areas.

9. The revised Annual Caps for the three years ending 31 December 2009 have been determined by the Company with reference to the expected level of relevant revenues or expenditures to be generated or incurred by the Combined Group during the three years ending 31 December 2009.

10. The expansion of the scope of the Ancillary Telecommunications Services Framework Agreement as discussed in Section 3.2.2 above is consistent with the Company's expansion plans in the area of specialised telecommunications support services.

11. The Non-exempt Prospective Connected Transactions will be subject to annual review by the independent non-executive directors of the Company who will confirm that they are carried out in the ordinary and usual course of business of the Company, on normal commercial terms, and in accordance with the terms of the Strategic Cooperation Agreement, various related agreements as listed in Table (1) above, the Supplemental Strategic Agreement and the Supplemental Agreement.

Based on the above, we are of the opinion that the entering into of the Acquisition Agreement, the Supplemental Agreement and the Supplemental Strategic Agreement is in ordinary course of business and that the terms of the Acquisition, the Supplemental Agreement, the Supplemental Strategic Agreement and the Annual Caps are fair and reasonable, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole so far as the Company and the Independent Shareholders are concerned. Accordingly, we would advise the Independent Shareholders, as well as recommend the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolutions as set out in the notice of the EGM at the end of the Circular.

Yours faithfully,
For and on behalf of
ING Bank N.V.
Malcolm E.O. Brown
Managing Director

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong. As described in the section headed "Documents Available for Inspection" in Appendix VI, a copy of the accountants' report is available for inspection.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

20 June 2007

The Directors
China Communications Services Corporation Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the combined financial information relating to the Target Business (as defined below) in Sections I to IX below, including the combined balance sheets of the Target Business as at 31 December 2004, 2005 and 2006, the combined income statements, the combined statements of changes in equity and the combined statements of cash flows of the Target Business for each of the years ended 31 December 2004, 2005 and 2006 (the "relevant periods"), and a summary of significant accounting policies and other explanatory notes (collectively, the "Financial Information") for inclusion in the shareholders' circular of China Communications Services Corporation Limited (the "Company") dated 20 June 2007 (the "Circular") in connection with the proposed acquisition of the Target Business by the Company (the "Acquisition") as described below and also more fully in the section headed "Letter from the Board" contained in the Circular.

Pursuant to an acquisition agreement dated 15 June 2007 entered into between the Company and China Telecommunications Corporation ("CTC"), the Company agreed to acquire the telecommunications infrastructure services, business process outsourcing services and applications, content and other services located in Jiangsu Province, Anhui Province, Jiangxi Province, Hunan Province, Guangxi Zhuang Autonomous Region, Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province and Xinjiang Uygur Autonomous Region (collectively, the "Target Service Areas"), together with the equity interests in Guangdong Nanfang Communication GSM Intelligent Card System Co., Ltd. and NingBo Public Information Industry Co., Ltd. (collectively, the "Target Business"). Target Business is carried out by the relevant entities or the business divisions controlled by CTC. Please refer to Section V Note 1(c) for particulars of the principal entities included in the Target Business.

During the relevant periods, the annual financial statements of each of the entities included in the Target Business were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the People's Republic of China (the "PRC") ("PRC accounting rules and regulations") and were audited by certified accountants registered in the PRC. Please refer to Section V Note 1(b) for details of auditors' information.

The auditors' opinions to the 2004 and 2005 annual financial statements of certain entities included in the Target Business were qualified mainly relating to the non-compliance with the accounting treatment in respect of the recognition of revenues and expenses under the PRC accounting rules and regulations. As a basis for forming an opinion on the Financial Information of the Target Business for the purpose of this report, we have carried out appropriate audit procedures and made all adjustments considered necessary in respect of the 2004 and 2005 annual financial statements of those entities included in the Target Business.

BASIS OF PREPARATION

The Financial Information has been prepared by management of the Target Business based on the management accounts, or where appropriate, audited financial statements of the entities included in the Target Business and on the basis set out in Section V Note 1(c) below after making such adjustments as are appropriate. Adjustments have been made, for the purpose of this report, to restate those management accounts or audited financial statements to conform with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB") and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL INFORMATION

Management of the Target Business is responsible for the preparation and the true and fair presentation of the Financial Information in accordance with IFRS promulgated by the IASB and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Financial Information based on our audit.

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the management accounts, or where appropriate, audited financial statements of the entities included in the Target Business for the relevant periods in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial

Information is free from material misstatement. In addition, we have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the reporting accountant" issued by the HKICPA.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation and true and fair presentation of the Financial Information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Target Business. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Financial Information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, for the purpose of this report, all adjustments considered necessary have been made and the Financial Information, on the basis of presentation set out in Section V Note 1(c) below, gives a true and fair view of the state of affairs of the Target Business as at 31 December 2004, 2005 and 2006, and of the combined results and combined cash flows of the Target Business for each of the years ended 31 December 2004, 2005 and 2006 in accordance with IFRS.

I. COMBINED INCOME STATEMENTS

		Years ended 31 December		
		2004	2005	2006
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Revenues	*3*	4,206,858	4,776,637	5,129,932
Cost of revenues	*4*	(3,250,072)	(3,748,519)	(4,024,385)
Gross profit		956,786	1,028,118	1,105,547
Other operating income	*5*	61,901	25,192	37,267
Selling, general and administrative expenses		(751,873)	(773,622)	(883,995)
Other operating expenses	*6*	(11,668)	(12,728)	(16,052)
Deficit on revaluation of property, plant and equipment	*12(b)*	—	—	(30,330)
Net financing income	*7*	1,461	1,238	1,671
Share of profits less losses of associates		1,944	2,989	2,005
Profit before tax	*8*	258,551	271,187	216,113
Income tax	*9*	(73,968)	(87,949)	(93,902)
Profit for the year		184,583	183,238	122,211
Attributable to:				
Equity owner		154,329	157,940	120,676
Minority interests		30,254	25,298	1,535
Profit for the year		184,583	183,238	122,211

II. COMBINED BALANCE SHEETS

		31 December		
		2004	2005	2006
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment, net	*12*	632,643	754,469	764,739
Investment properties	*13*	147,028	149,893	158,626
Construction in progress	*14*	54,380	6,384	26,239
Lease prepayments	*15*	52,976	58,077	52,221
Intangible assets	*16*	7,856	8,141	12,344
Interests in associates	*17*	21,478	23,955	16,240
Other investments	*18*	47,304	44,305	35,078
Deferred tax assets	*19*	15,461	24,255	32,959
Total non-current assets		979,126	1,069,479	1,098,446
Current assets				
Inventories	*20*	141,359	122,596	152,106
Accounts and bills receivable, net	*21*	1,921,924	2,117,584	2,453,507
Prepayments and other current assets	*23*	671,092	793,475	1,178,296
Cash and cash equivalents	*24*	1,132,849	1,269,952	1,092,726
Total current assets		3,867,224	4,303,607	4,876,635
Total assets		4,846,350	5,373,086	5,975,081
Current liabilities				
Short term borrowings and current portion of long term borrowings	*25*	105,200	92,500	62,200
Accounts and bills payable	*26*	1,097,345	1,144,743	1,322,040
Receipts in advance for contract work		178,228	187,063	67,230
Accrued expenses and other payables	*27*	956,045	1,137,699	1,582,642
Income tax payable		114,733	123,892	113,964
Total current liabilities		2,451,551	2,685,897	3,148,076
Net current assets		1,415,673	1,617,710	1,728,559
Total assets less current liabilities		2,394,799	2,687,189	2,827,005

		31 December		
		2004	**2005**	**2006**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Non-current liabilities				
Long term borrowings, less current portion	*25*	22,000	12,000	13,000
Deferred tax liabilities	*19*	—	—	18,473
Total non-current liabilities		22,000	12,000	31,473
Total liabilities		2,473,551	2,697,897	3,179,549
Owner's equity	*28*	2,137,013	2,515,137	2,735,804
Minority interests		235,786	160,052	59,728
Total equity		2,372,799	2,675,189	2,795,532
Total liabilities and equity		4,846,350	5,373,086	5,975,081

III. COMBINED STATEMENTS OF CHANGES IN EQUITY

	Retained earnings/ owner's capital	Revaluation reserve	Other reserve	Total owner's equity	Minority interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2004	1,839,616	—	—	1,839,616	235,247	2,074,863
Contributions *(Note i)*	240,802	—	—	240,802	1,473	242,275
Profit distributions *(Note ii)*	(54,220)	—	—	(54,220)	(22,872)	(77,092)
Distributions *(Note iii)*	(51,174)	—	—	(51,174)	(656)	(51,830)
Acquisition of minority interests through contributions from owner	7,660	—	—	7,660	(7,660)	—
Profit for the year	154,329	—	—	154,329	30,254	184,583
As at 31 December 2004	2,137,013	—	—	2,137,013	235,786	2,372,799
As at 1 January 2005	2,137,013	—	—	2,137,013	235,786	2,372,799
Contributions *(Note i)*	176,355	—	—	176,355	1,235	177,590
Profit distributions *(Note ii)*	(35,402)	—	—	(35,402)	(5,296)	(40,698)
Distributions *(Note iii)*	(12,256)	—	—	(12,256)	(5,484)	(17,740)
Acquisition of minority interests through contributions from owner	91,487	—	—	91,487	(91,487)	—
Profit for the year	157,940	—	—	157,940	25,298	183,238
As at 31 December 2005	2,515,137	—	—	2,515,137	160,052	2,675,189
As at 1 January 2006	2,515,137	—	—	2,515,137	160,052	2,675,189
Contributions *(Note i)*	427,678	—	—	427,678	388	428,066
Profit distributions *(Note ii)*	(241,693)	—	—	(241,693)	(3,030)	(244,723)
Distributions *(Note iii)*	(288,449)	—	—	(288,449)	(1,194)	(289,643)
Acquisition of minority interests through contributions from owner	98,023	—	—	98,023	(98,023)	—
Profit for the year	120,676	—	—	120,676	1,535	122,211
Recognition of deferred tax assets and liabilities *(Note 19)*	—	—	(16,683)	(16,683)	—	(16,683)
Revaluation of property, plant and equipment *(Note 12(b))*	—	121,115	—	121,115	—	121,115
As at 31 December 2006	2,631,372	121,115	(16,683)	2,735,804	59,728	2,795,532

Notes:

(i) The contributions during the relevant periods mainly represent the injection of cash and other assets, including property, plant and equipment.

(ii) Profit distributions represent the appropriation made and dividend declared by certain entities included in the Target Business.

(iii) The distributions during the relevant periods mainly represent the reduction in capital of certain entities included in the Target Business and distributions of cash and other assets, including property, plant and equipment by certain entities included in the Target Business upon transformation into limited liability companies.

IV. COMBINED STATEMENTS OF CASH FLOWS

	Note	2004	2005	2006
		Years ended 31 December		
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Operating activities				
Profit before tax		258,551	271,187	216,113
Adjustments for:				
Depreciation and amortisation		106,662	115,665	131,934
Impairment losses for bad and doubtful debt		11,795	13,223	24,968
Impairment losses on property, plant and equipment		—	871	4,800
Interest income		(8,845)	(9,770)	(11,750)
Finance costs		7,381	8,423	9,971
Share of profits less losses of associates		(1,944)	(2,989)	(2,005)
Dividend income		(36,497)	(1,765)	(6,343)
(Gain)/loss on disposal of investments		(3,991)	28	(2,152)
Impairment losses on investments		—	1,000	240
(Gain)/loss on disposal of property, plant and equipment and other assets		(745)	1,124	2,431
Deficit on revaluation of property, plant and equipment		—	—	30,330
Write off of non-payable liabilities		(2,071)	(5,088)	(6,652)
Operating profit before changes in working capital		330,296	391,909	391,885
Decrease/(increase) in inventories		77	18,769	(29,620)
Increase in accounts and bills receivable		(226,358)	(184,879)	(361,989)
Decrease/(increase) in prepayments and other current assets		39,984	(42,692)	(46,182)
Increase in accounts and bills payable		178,661	47,577	186,543
Increase/(decrease) in receipts in advance for contract work		22,213	8,835	(119,833)
Increase in accrued expenses and other payables		4,667	87,855	4,199
		349,540	327,374	25,003
Interest paid		(7,391)	(8,217)	(8,757)
Interest received		8,849	9,764	11,792
Income tax paid		(88,295)	(88,660)	(103,055)
Cash generated from/(used in) operating activities		262,703	240,261	(75,017)

		Years ended 31 December		
		2004	2005	2006
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Investing activities				
Payments on acquisition of property, plant and equipment and other assets		(183,398)	(156,429)	(239,204)
Proceeds from disposal of property, plant and equipment and other assets		24,592	12,642	48,063
Net cash inflow arising from acquisition of entities	*30(a)*	4,376	11,828	—
Payments on acquisition of investments		(14,508)	(21)	(622)
Proceeds from disposal of investments		48,277	2,399	13,339
Dividends received		38,719	1,067	8,369
Net cash used in investing activities		(81,942)	(128,514)	(170,055)
Financing activities				
Proceeds from bank and other loans		113,200	44,500	46,200
Repayments of bank and other loans		(77,000)	(67,200)	(75,500)
Dividends paid		(99,003)	(46,517)	(119,052)
Contributions from owner		89,479	94,458	143,901
Distributions to owner		(40,120)	(17,740)	(10,003)
Advances (to)/from owner and fellow subsidiaries		(45,280)	17,855	82,300
Net cash (used in)/generated from financing activities		(58,724)	25,356	67,846
Net increase/(decrease) in cash and cash equivalents		122,037	137,103	(177,226)
Cash and cash equivalents at the beginning of year		1,010,812	1,132,849	1,269,952
Cash and cash equivalents at the end of year	*24*	1,132,849	1,269,952	1,092,726

For major non-cash transactions, please refer to Note 30(b).

V. NOTES TO THE FINANCIAL INFORMATION

1. PRINCIPAL ACTIVITIES AND ORGANISATION AND RESTRUCTURING

(a) Principal activities

The Target Business (as defined below) is a leading integrated service provider to the telecommunications industry in the thirteen provinces, municipalities and autonomous regions in the People's Republic of China (the "PRC"), namely, Jiangsu Province, Anhui Province, Jiangxi Province, Hunan Province, Guangxi Zhuang Autonomous Region, Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province and Xinjiang Uygur Autonomous Region (collectively, the "Target Service Areas"), together with the equity interests in Guangdong Nanfang Communication GSM Intelligent Card System Co., Ltd. and NingBo Public Information Industry Co., Ltd. (collectively, the "Target Business"). Its principal activities comprise provision of a full range of telecommunications support services to the telecommunication operators, including (i) telecommunications infrastructure services (including design, construction and supervision and management); (ii) business process outsourcing (including network maintenance, facilities management, distribution of telecommunications service and products); and (iii) applications, content and others in the Target Service Areas, Guangdong Province and Zhejiang Province.

(b) Organisation and Restructuring

From 2006, China Telecommunications Corporation ("CTC") undergone a restructuring programme in connection with its telecommunications infrastructure services, business process outsourcing services and applications, content and other services located in the Target Service Areas (the "Restructuring"), forming the Target Business to be acquired by China Communications Services Corporation Limited (the "Company") pursuant to an acquisition agreement dated 15 June 2007 entered into between the Company and CTC.

The financial statements for the years ended 31 December 2004, 2005 and 2006 of entities included in the Target Business were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the PRC and were audited by the following auditors:

Name of company	2004	2005	2006
Jiangsu Posts & Telecommunications Planning and Designing Institute Co., Ltd. 江蘇省郵電規劃設計院有限責任公司	ZhongXi Certified Public Accountants Co., Ltd.	ZhongXi Certified Public Accountants Co., Ltd.	ZhongXi Certified Public Accountants Co., Ltd.
Jiangsu Posts & Telecommunications Construction Engineering Co., Ltd. 江蘇省郵電建設工程有限公司	ZhongXi Certified Public Accountants Co., Ltd.	ZhongXi Certified Public Accountants Co., Ltd.	ZhongXi Certified Public Accountants Co., Ltd.
Jiangsu Posts & Telecommunications Construction And Supervision Corp. 江蘇郵通建設監理有限公司	Jiangsu ZhongXing CPA Co., Ltd.	Jiangsu ZhongXing CPA Co., Ltd.	ZhongXi Certified Public Accountants Co., Ltd.
Sucom International Co., Ltd. 蘇信國際有限公司	Not applicable *(Note i)*	ZhongXi Certified Public Accountants Co., Ltd.	ZhongXi Certified Public Accountants Co., Ltd.
Jiangsu Telecom Science and Technology R&D Institute Co., Ltd. 江蘇省電信科學技術研究院有限責任公司	ZhongXi Certified Public Accountants Co., Ltd.	ZhongXi Certified Public Accountants Co., Ltd.	ZhongXi Certified Public Accountants Co., Ltd.

Name of company	2004	2005	2006
Jiang Su Telecom Enterprise Property Management Co., Ltd. 江蘇省電信實業集團物業管理有限公司	ZhongXi Certified Public Accountants Co., Ltd.	ZhongXi Certified Public Accountants Co., Ltd.	ZhongXi Certified Public Accountants Co., Ltd.
Anhui Telecommunications Engineering Co., Ltd. 安徽電信工程有限責任公司	Zhongxing-New Century Certified Public Accountants Co., Ltd.	Zhongxing-New Century Certified Public Accountants Co., Ltd.	Baker Tilly China Ltd.
Anhui Telecom Planning and Designing Co., Ltd. 安徽電信規劃設計有限責任公司	Anhui Hua Pu Certificated Public Accountants	Zhongxing-New Century Certified Public Accountants Co., Ltd.	Baker Tilly China Ltd.
Anhui Boda Telecom Engineering Supervising Co., Ltd. 安徽博達通信工程監理有限責任公司	Zhongxing-New Century Certified Public Accountants Co., Ltd.	Zhongxing-New Century Certified Public Accountants Co., Ltd.	Baker Tilly China Ltd.
Anhui Hexin Technology Development Co., Ltd. 安徽和信科技發展有限責任公司	Anhui Hua Pu Certificated Public Accountants	Zhongxing-New Century Certified Public Accountants Co., Ltd.	Baker Tilly China Ltd.
Anhui Guoxin Communications Co., Ltd. 安徽國信通信有限責任公司	Zhongxing-New Century Certified Public Accountants Co., Ltd.	Zhongxing-New Century Certified Public Accountants Co., Ltd.	Baker Tilly China Ltd.
Anhui Guorui Communications Co., Ltd. 安徽國瑞通信有限責任公司	Anhui Xinzhongtian Certified Public Accountants	Zhongxing-New Century Certified Public Accountants Co., Ltd.	Baker Tilly China Ltd.
Anhui Xinxin Property Management Co., Ltd. 安徽鑫信物業管理有限責任公司	Zhongxing-New Century Certified Public Accountants Co., Ltd.	Zhongxing-New Century Certified Public Accountants Co., Ltd.	Baker Tilly China Ltd.
Jiangxi Post & Telecom Construction Engineering Co., Ltd. 江西省郵電建設工程有限公司	Zhongxing-New Century Certified Public Accountants Co., Ltd.	Zhongxing-New Century Certified Public Accountants Co., Ltd.	Baker Tilly China Ltd.
Jiangxi Post & Telecom Planning and Designing Institute Co., Ltd. 江西省郵電規劃設計院有限公司	Zhongxing-New Century Certified Public Accountants Co., Ltd.	Zhongxing-New Century Certified Public Accountants Co., Ltd.	Baker Tilly China Ltd.
Jiangxi Telecom Green-web Information Co., Ltd. 江西電信綠色網盟信息有限責任公司	Zhongxing-New Century Certified Public Accountants Co., Ltd.	Zhongxing-New Century Certified Public Accountants Co., Ltd.	Baker Tilly China Ltd.
Jiangxi Hongyu Network Technology Co., Ltd. 江西宏宇網絡科技有限公司	Zhongxing-New Century Certified Public Accountants Co., Ltd.	Zhongxing-New Century Certified Public Accountants Co., Ltd.	Baker Tilly China Ltd.

Name of company	2004	2005	2006
Jiangxi Lianchuang Communications Engineering Consulting & Supervising Co., Ltd. 江西聯創通信工程諮詢監理有限公司	Zhongxing-New Century Certified Public Accountants Co., Ltd.	Zhongxing-New Century Certified Public Accountants Co., Ltd.	Baker Tilly China Ltd.
Jiangxi Xinhe Property Co., Ltd. 江西信和物業有限公司	Zhongxing-New Century Certified Public Accountants Co., Ltd.	Zhongxing-New Century Certified Public Accountants Co., Ltd.	Baker Tilly China Ltd.
Jiangxi Yuchuang Network Technology Development Co., Ltd. 江西省宇創網絡科技開發有限公司	Jiangxi Qiushi CPA Co., Ltd.	Zhongxing-New Century Certified Public Accountants Co., Ltd.	Baker Tilly China Ltd.
Nanchang Communications Engineering Co., Ltd. 南昌通信工程有限責任公司	Jiangxi Qiushi CPA Co., Ltd.	Zhongxing-New Century Certified Public Accountants Co., Ltd.	Baker Tilly China Ltd.
Hunan Tianxin Communications & Construction Project Management Co., Ltd. 湖南省天信建設監理有限公司	Tianzhi-Zixin Certified Public Accountants Co., Ltd.	Deloitte Touche Tohmatsu CPA Ltd.	Baker Tilly China Ltd.
Changsha Tianchen Telecommunications Facility & Property Management Co., Ltd. 長沙天辰物業管理有限公司	Tianzhi-Zixin Certified Public Accountants Co., Ltd.	Deloitte Touche Tohmatsu CPA Ltd.	Baker Tilly China Ltd.
Changsha Planning & Designing Institute of Telecommunication Co., Ltd. 長沙市電信規劃設計院有限公司	Pan-China Certified Public Accountants	Deloitte Touche Tohmatsu CPA Ltd.	Baker Tilly China Ltd.
Hunan Planning & Designing Institute of Post & Telecommunication Co., Ltd. 湖南省郵電規劃設計院有限公司	Pan-China Certified Public Accountants	Deloitte Touche Tohmatsu CPA Ltd.	Baker Tilly China Ltd.
Hunan Communications Construction Co., Ltd. 湖南省通信建設有限公司	Pan-China Certified Public Accountants	Hunan Xingye Limited Liability Certified Public Accountant	Baker Tilly China Ltd.
Hunan Communications & Construction Project Management Co., Ltd. 湖南省通信建設監理有限公司	Pan-China Certified Public Accountants	Hunan Xingye Limited Liability Certified Public Accountant	Baker Tilly China Ltd.
Hunan Timeson Communications Co., Ltd. 湖南天辰通信有限責任公司	Pan-China Certified Public Accountants	Deloitte Touche Tohmatsu CPA Ltd.	Baker Tilly China Ltd.
Hunan Kangpu Communications Technology Co., Ltd. 湖南省康普通信技術有限責任公司	Pan-China Certified Public Accountants	Deloitte Touche Tohmatsu CPA Ltd.	Baker Tilly China Ltd.

Name of company	2004	2005	2006
Hunan Telecommunications Facility & Property Management Co., Ltd. 湖南電信物業管理有限公司	Pan-China Certified Public Accountants	Deloitte Touche Tohmatsu CPA Ltd.	Baker Tilly China Ltd.
Hunan Transfar & Timeson Technology Co., Ltd. 湖南創發天辰科技有限責任公司	Not applicable *(Note i)*	Deloitte Touche Tohmatsu CPA Ltd.	Baker Tilly China Ltd.
Guangxi Communication Layout & Design Consulting Co., Ltd. 廣西通信規劃設計諮詢有限公司	Pan-China Certified Public Accountants	Deloitte Touche Tohmatsu CPA Ltd.	Baker Tilly China Ltd.
Guangxi Shengxin Property Management Co., Ltd. 廣西盛信物業管理有限公司	Pan-China Certified Public Accountants	Deloitte Touche Tohmatsu CPA Ltd.	Baker Tilly China Ltd.
Guangxi Communication Engineering Construction Co., Ltd. 廣西通信工程建設有限公司	Pan-China Certified Public Accountants	Deloitte Touche Tohmatsu CPA Ltd.	Baker Tilly China Ltd.
Chongqing Telecommunication Planning and Designing Institute Co., Ltd. 重慶市電信規劃設計院有限公司	Pan-China Certified Public Accountants	Deloitte Touche Tohmatsu CPA Ltd.	Baker Tilly China Ltd.
Chongqing First Information & Network Co., Ltd. 重慶菲斯特信息網絡有限責任公司	Pan-China Certified Public Accountants	Deloitte Touche Tohmatsu CPA Ltd.	Baker Tilly China Ltd.
Chongqing Dingxin Construction Supervision Co., Ltd. 重慶鼎信建設監理有限公司	Pan-China Certified Public Accountants	Deloitte Touche Tohmatsu CPA Ltd.	Baker Tilly China Ltd.
Chongqing Information Industry Engineering Co., Ltd. 重慶信息產業工程有限公司	Pan-China Certified Public Accountants	Deloitte Touche Tohmatsu CPA Ltd.	Baker Tilly China Ltd.
Chongqing Anda Property Management Co., Ltd. 重慶安達物業管理有限公司	Pan-China Certified Public Accountants	Deloitte Touche Tohmatsu CPA Ltd.	Baker Tilly China Ltd.
Sichuan Communication Research Planning & Designing Co., Ltd. 四川通信科研規劃設計有限責任公司	Pan-China Certified Public Accountants	Deloitte Touche Tohmatsu CPA Ltd.	Baker Tilly China Ltd.
Sichuan Enrising Information Technology Co., Ltd. 四川創立信息科技有限責任公司	Not applicable *(Note ii)*	Not applicable *(Note ii)*	Baker Tilly China Ltd.
Chengdu Information Engineering Co., Ltd. 成都信息工程有限責任公司	Sichuan Xintong Certified Public Accountants Co., Ltd.	Deloitte Touche Tohmatsu CPA Ltd.	Baker Tilly China Ltd.

Name of company	2004	2005	2006
Sichuan Public Communication Construction Superintendence Co., Ltd. 四川公衆通信建設監理有限責任公司	Pan-China Certified Public Accountants	Deloitte Touche Tohmatsu CPA Ltd.	Baker Tilly China Ltd.
Sichuan Qingfeng Communication Co., Ltd. 四川擎烽通信有限責任公司	Sichuan Rongda Accounting Firm	Deloitte Touche Tohmatsu CPA Ltd.	Baker Tilly China Ltd.
Chengdu Communication Construction Engineering Co., Ltd. 成都通信建設工程有限責任公司	Sichuan Xintong Certified Public Accountants Co., Ltd.	Deloitte Touche Tohmatsu CPA Ltd.	Baker Tilly China Ltd.
Xinhua Property Management Co., Ltd. 四川電信新華物業管理有限公司	Pan-China Certified Public Accountants	Deloitte Touche Tohmatsu CPA Ltd.	Baker Tilly China Ltd.
Sichuan Teleken Corporation Limited 四川通信建設工程有限公司	Pan-China Certified Public Accountants	Deloitte Touche Tohmatsu CPA Ltd.	Baker Tilly China Ltd.
Guizhou Communication Engineering Construction Supervision Co., Ltd. 貴州通信工程建設監理有限公司	Pan-China Certified Public Accountants	Deloitte Touche Tohmatsu CPA Ltd.	Baker Tilly China Ltd.
Guizhou Communication Construction Design & Consultation Co., Ltd. 貴州通信建設設計諮詢有限公司	Pan-China Certified Public Accountants	Deloitte Touche Tohmatsu CPA Ltd.	Baker Tilly China Ltd.
Guizhou Communication Construction Engineering Co., Ltd. 貴州通信建設工程有限公司	Pan-China Certified Public Accountants	Deloitte Touche Tohmatsu CPA Ltd.	Baker Tilly China Ltd.
Yunnan Post & Telecommunications Engineering Limited Company 雲南郵電工程有限公司	Pan-China Certified Public Accountants	Deloitte Touche Tohmatsu CPA Ltd.	Baker Tilly China Ltd.
Yunnan Planning and Designing Institute of Posts & Telecommunications Co., Ltd. 雲南郵電規劃設計院有限公司	Pan-China Certified Public Accountants	Deloitte Touche Tohmatsu CPA Ltd.	Baker Tilly China Ltd.
Yunnan Fenjin Communication Engineering Project Management Co., Ltd. 雲南奮進通信工程監理有限公司	Yunnan Xinli Accounting Firm Co., Ltd.	Yunnan Xinli Accounting Firm Co., Ltd.	Baker Tilly China Ltd.
Yunnan Telecom Netit Group Netit Real Estate Management Co., Ltd. 雲南電信網信集團網信物業管理有限公司	Pan-China Certified Public Accountants	Deloitte Touche Tohmatsu CPA Ltd.	Baker Tilly China Ltd.

Name of company	2004	2005	2006
Yunnan Post & Telecom Science Development Co., Ltd. 雲南郵電科技開發有限公司	Pan-China Certified Public Accountants	Deloitte Touche Tohmatsu CPA Ltd.	Baker Tilly China Ltd.
Shaanxi Communication Information Technology Co., Ltd. 陝西通信信息技術有限公司	Shaanxi Hongxin Certified Public Accountants Ltd.	China Rightson Certified Public Accountants Co., Ltd.	China Rightson Certified Public Accountants Co., Ltd.
Shaanxi Communication Construction Co., Ltd. 陝西通信建設有限公司	Shaanxi Hongxin Certified Public Accountants Ltd.	China Rightson Certified Public Accountants Co., Ltd.	China Rightson Certified Public Accountants Co., Ltd.
Shaanxi Xinyuan Estate Management Company Ltd. 陝西信元物業管理有限公司	Shaanxi Hongxin Certified Public Accountants Ltd.	China Rightson Certified Public Accountants Co., Ltd.	China Rightson Certified Public Accountants Co., Ltd.
Shaanxi Scientific and Designing Institute of Posts & Telecommunications Ltd. 陝西通信規劃設計研究院有限公司	Shaanxi Hongxin Certified Public Accountants Ltd.	China Rightson Certified Public Accountants Co., Ltd.	China Rightson Certified Public Accountants Co., Ltd.
Shaanxi Zhongji Consulting Supervision Co., Ltd. 陝西中基建設監理諮詢有限公司	Shaanxi Hongxin Certified Public Accountants Ltd.	China Rightson Certified Public Accountants Co., Ltd.	China Rightson Certified Public Accountants Co., Ltd.
Gansu Communication Industry Property Management Group Co., Ltd. 甘肅省通信產業物業管理有限公司	China Rightson Certified Public Accountants Co., Ltd.	China Rightson Certified Public Accountants Co., Ltd.	China Rightson Certified Public Accountants Co., Ltd.
Gansu Communication Construction Supervision Co., Ltd. 甘肅省通信產業工程監理有限公司	Gansu Tongda Certified Public Accountants Office	Gansu Tongda Certified Public Accountants Office	China Rightson Certified Public Accountants Co., Ltd.
Gansu Tongxin Zhaobiao Consulting Company Limited 甘肅通信招標技術諮詢有限公司	China Rightson Certified Public Accountants Co., Ltd.	China Rightson Certified Public Accountants Co., Ltd.	China Rightson Certified Public Accountants Co., Ltd.
Gansu Communication Industry Consulting & Design Co., Ltd. 甘肅省通信產業諮詢設計有限公司	China Rightson Certified Public Accountants Co., Ltd.	China Rightson Certified Public Accountants Co., Ltd.	China Rightson Certified Public Accountants Co., Ltd.
GanSu Communication Industry Engineering Construction Co., Ltd. 甘肅省通信產業工程建設有限公司	China Rightson Certified Public Accountants Co., Ltd.	China Rightson Certified Public Accountants Co., Ltd.	China Rightson Certified Public Accountants Co., Ltd.
Qinghai P&T Design Co., Ltd. 青海省郵電規劃設計有限公司	Pan-China Certified Public Accountants	Deloitte Touche Tohmatsu CPA Ltd.	Tin Wha CPAs
Qinghai Telecommunication Engineering and Supervision Co., Ltd. 青海盛信通信建設監理有限責任公司	Zhongxincai Accoutant Office	Deloitte Touche Tohmatsu CPA Ltd.	Tin Wha CPAs

Name of company	2004	2005	2006
Qinghai Xinanju Property Management Co., Ltd. 青海省新安居物業管理有限公司	Not applicable *(Note i)*	Deloitte Touche Tohmatsu CPA Ltd.	Tin Wha CPAs
Xinjiang Public Information Industry Co., Ltd. 新疆公衆信息產業股份有限公司	Tianjin Wuzhou Certified Public Accountants	China Rightson Certified Public Accountants Co., Ltd.	China Rightson Certified Public Accountants Co., Ltd.
East Riches Technology Development Co., Ltd. 新疆怡利科技發展有限公司	Xinjiang Ruixin Limited Liability Certified Public Accountant	China Rightson Certified Public Accountants Co., Ltd.	China Rightson Certified Public Accountants Co., Ltd.
Xinjiang Tely Telecom Industry Co., Ltd. 新疆特力電信實業有限責任公司	China Rightson Certified Public Accountants Co., Ltd.	China Rightson Certified Public Accountants Co., Ltd.	China Rightson Certified Public Accountants Co., Ltd.
Xinjiang Tongxin Jianli Co., Ltd. 新疆通信監理有限公司	China Rightson Certified Public Accountants Co., Ltd.	China Rightson Certified Public Accountants Co., Ltd.	China Rightson Certified Public Accountants Co., Ltd.
Guangdong Nanfang Communication GSM Intelligent Card System Co., Ltd. 廣東南方通信全球通智能卡系統有限公司	Tin Wha Hua Yue CPAs Guangdong	KPMG Huazhen	KPMG Huazhen
NingBo Public Information Industry Co., Ltd. 寧波公眾信息產業有限公司	Ningbo Dewei Certified Accountant Company	KPMG Huazhen	KPMG Huazhen

Notes:

(i) These entities were established and commenced operations in 2005.

(ii) This entity was established and commenced operation in 2006.

(iii) All the above auditors are certified accountants registered in the PRC.

(iv) None of the above companies ever prepared IFRS financial statements which were audited by any auditors.

(v) The English translation of the company names is for reference only. The official names of the companies are in Chinese, other than Sucom International Co., Ltd.

(c) Basis of presentation

As CTC controlled the Target Business before the Restructuring and continue to control the Target Business after the Restructuring and the control is not transitory; therefore, the Financial Information has been prepared as a business combination under common control in a manner similar to pooling-of-interests for all entities and business divisions included in the Target Business. The Financial Information presents the results of operations of the Target Business as if the Target Business had been in existence throughout the relevant periods or when the relevant businesses were acquired or established by CTC. The assets and liabilities have been stated at historical carrying amounts as modified by the revaluation of property, plant and equipment (see Note 12).

Management believes that all historical costs of operations have been reflected in the Financial Information. Expenses that were specifically identified to the Target Business, which were mainly corporate administrative expenses provided to the Target Business by CTC, are reflected in the Financial Information. Income taxes have been determined as if the Target Business was a separate taxable entity for all periods presented.

As at the date of this report, the particulars of the principal entities included in the Target Business, all of which are private, are set out below:

Name of company	Place and date of incorporation/ establishment	Attributable equity interest of the Target Business	Issued and fully paid up/ registered capital	Principal activities
Jiangsu Posts & Telecommunications Planning and Designing Institute Co., Ltd. 江蘇省郵電規劃設計院有限責任公司	The PRC 23 November 2001	100%	RMB65,856,891	Provision of telecommunications design service
Jiangsu Posts & Telecommunications Construction Engineering Co., Ltd. 江蘇省郵電建設工程有限公司	The PRC 23 November 2001	100%	RMB76,530,670	Provision of telecommunications construction and engineering services
Jiangsu Posts & Telecommunications Construction And Supervision Corp. 江蘇郵通建設監理有限公司	The PRC 28 June 1998	100%	RMB23,000,000	Provision of project supervision and management services
Sucom International Co., Ltd. 蘇信國際有限公司	Hong Kong 26 September 2005	100%	USD500,000	Provision of telecommunications construction and engineering services, telecommunications design services and project supervision and management services
Jiangsu Telecom Science and Technology R&D Institute Co., Ltd. 江蘇省電信科學技術研究院有限責任公司	The PRC 1 November 2001	100%	RMB27,407,900	Provision of system integration and other value added services
Jiang Su Telecom Enterprise Property Management Co., Ltd. 江蘇省電信實業集團物業管理有限公司	The PRC 27 November 1998	100%	RMB13,000,000	Provision of facilities management service
Anhui Telecommunications Engineering Co., Ltd. 安徽電信工程有限責任公司	The PRC 11 July 1987	100%	RMB41,682,234	Provision of telecommunications construction and engineering services
Anhui Telecom Planning and Designing Co., Ltd. 安徽電信規劃設計有限責任公司	The PRC 25 April 2000	100%	RMB17,280,870	Provision of telecommunications design service

Name of company	Place and date of incorporation/ establishment	Attributable equity interest of the Target Business	Issued and fully paid up/ registered capital	Principal activities
Anhui Boda Telecom Engineering Supervising Co., Ltd. 安徽博達通信工程監理有限責任公司	The PRC 1 September 2000	100%	RMB5,000,000	Provision of project supervision and management services
Anhui Hexin Technology Development Co., Ltd. 安徽和信科技發展有限責任公司	The PRC 28 June 2001	100%	RMB27,000,000	Provision of IT application, system integration and other value added services
Anhui Guoxin Communications Co., Ltd. 安徽國信通信有限責任公司	The PRC 8 February 2001	100%	RMB28,209,104	Provision of distribution of telecommunications services, system integration and facilities management services
Anhui Guorui Communications Co., Ltd. 安徽國瑞通信有限責任公司	The PRC 21 March 2001	100%	RMB23,000,000	Provision of distribution of telecommunications services, telecommunications construction, engineering and maintenance services
Anhui Xinxin Property Management Co., Ltd. 安徽鑫信物業管理有限責任公司	The PRC 15 March 2002	100%	RMB14,581,024	Provision of facilities management service
Jiangxi Post & Telecom Construction Engineering Co., Ltd. 江西省郵電建設工程有限公司	The PRC 8 December 1989	100%	RMB80,974,516	Provision of telecommunications construction and engineering services
Jiangxi Post & Telecom Planning and Designing Institute Co., Ltd. 江西省郵電規劃設計院有限公司	The PRC 6 March 2001	100%	RMB25,771,343	Provision of telecommunications design service
Jiangxi Telecom Green-web Information Co., Ltd. 江西電信綠色網盟信息有限責任公司	The PRC 26 November 2003	100%	RMB10,000,000	Provision of internet service
Jiangxi Hongyu Network Technology Co., Ltd. 江西宏宇網絡科技有限公司	The PRC 26 April 2002	100%	RMB1,000,000	Provision of value added telecommunications and information technology services
Jiangxi Lianchuang Communications Engineering Consulting & Supervising Co., Ltd. 江西聯創通信工程諮詢監理有限公司	The PRC 20 December 2001	100%	RMB2,000,000	Provision of project supervision and management services
Jiangxi Xinhe Property Co., Ltd. 江西信和物業有限公司	The PRC 12 August 2004	100%	RMB5,600,000	Provision of facilities management service

Name of company	Place and date of incorporation/ establishment	Attributable equity interest of the Target Business	Issued and fully paid up/ registered capital	Principal activities
Jiangxi Yuchuang Network Technology Development Co., Ltd. 江西省宇創網絡科技開發有限公司	The PRC 27 February 1998	100%	RMB17,370,000	Provision of telecommunications construction, engineering and design services
Nanchang Communications Engineering Co., Ltd. 南昌通信工程有限責任公司	The PRC 20 May 1997	100%	RMB8,000,000	Provision of telecommunications construction and engineering services
Hunan Tianxin Communications & Construction Project Management Co., Ltd. 湖南省天信建設監理有限公司	The PRC 30 April 1998	100%	RMB3,000,000	Provision of project supervision and management services
Changsha Tianchen Telecommunications Facility & Property Management Co., Ltd. 長沙天辰物業管理有限公司	The PRC 28 April 1998	100%	RMB3,000,000	Provision of facilities management service
Changsha Planning & Designing Institute of Telecommunication Co., Ltd. 長沙市電信規劃設計院有限公司	The PRC 25 April 1996	100%	RMB6,000,000	Provision of telecommunications design service
Hunan Planning & Designing Institute of Post & Telecommunication Co., Ltd. 湖南省郵電規劃設計院有限公司	The PRC 30 June 1988	100%	RMB34,749,191	Provision of telecommunications design service
Hunan Communications Construction Co., Ltd. 湖南省通信建設有限公司	The PRC 8 April 1981	100%	RMB41,896,620	Provision of telecommunications construction and engineering services
Hunan Communications & Construction Project Management Co., Ltd. 湖南省通信建設監理有限公司	The PRC 18 December 1995	100%	RMB4,000,000	Provision of project supervision and management services
Hunan Timeson Communications Co., Ltd. 湖南天辰通信有限責任公司	The PRC 15 December 1995	100%	RMB40,000,000	Investment holding and provision of telecommunications and network construction services
Hunan Kangpu Communications Technology Co., Ltd. 湖南省康普通信技術有限責任公司	The PRC 19 September 1996	100%	RMB5,620,000	Distribution of telecommunications products
Hunan Telecommunications Facility & Property Management Co., Ltd. 湖南電信物業管理有限公司	The PRC 19 June 2001	100%	RMB5,000,000	Provision of facilities management service

Name of company	Place and date of incorporation/ establishment	Attributable equity interest of the Target Business	Issued and fully paid up/ registered capital	Principal activities
Hunan Transfar & Timeson Technology Co., Ltd. 湖南創發天辰科技有限責任公司	The PRC 23 September 2005	100%	RMB30,000,000	Provision of value added telecommunications and information technology services
Guangxi Communication Layout & Design Consulting Co., Ltd. 廣西通信規劃設計諮詢有限公司	The PRC 7 July 1990	100%	RMB58,107,692	Provision of telecommunications design service
Guangxi Shengxin Property Management Co., Ltd. 廣西盛信物業管理有限公司	The PRC 28 February 2002	100%	RMB3,000,000	Provision of facilities management service
Guangxi Communication Engineering Construction Co., Ltd. 廣西通信工程建設有限公司	The PRC 2 May 1990	100%	RMB45,945,506	Provision of telecommunications construction and engineering services
Chongqing Telecommunication Planning and Designing Institute Co., Ltd. 重慶市電信規劃設計院有限公司	The PRC 17 October 2001	100%	RMB7,500,000	Provision of telecommunications design service
Chongqing First Information & Network Co., Ltd. 重慶菲斯特信息網絡有限責任公司	The PRC 31 May 1995	100%	RMB30,000,000	Provision of telecommunications construction and engineering services, network maintenance service, system integration and sales of telecommunication products
Chongqing Dingxin Construction Supervision Co., Ltd. 重慶鼎信建設監理有限公司	The PRC 21 March 2002	100%	RMB10,000,000	Provision of project supervision service
Chongqing Information Industry Engineering Co., Ltd. 重慶信息產業工程有限公司	The PRC 30 July 1998	100%	RMB62,000,000	Provision of telecommunications construction and engineering services and network maintenance service
Chongqing Anda Property Management Co., Ltd. 重慶安達物業管理有限公司	The PRC 2 March 1999	100%	RMB8,000,000	Provision of facilities management service
Sichuan Communication Research Planning & Designing Co., Ltd. 四川通信科研規劃設計有限責任公司	The PRC 23 March 2001	100%	RMB90,000,000	Provision of telecommunications design service
Sichuan Enrising Information Technology Co., Ltd. 四川創立信息科技有限責任公司	The PRC 4 August 2006	100%	RMB35,000,000	Provision of system integration and maintenance services

Name of company	Place and date of incorporation/ establishment	Attributable equity interest of the Target Business	Issued and fully paid up/ registered capital	Principal activities
Chengdu Information Engineering Co., Ltd. 成都信息工程有限責任公司	The PRC 29 September 1999	100%	RMB10,000,000	Provision of telecommunications construction and engineering services
Sichuan Public Communication Construction Superintendence Co., Ltd. 四川公衆通信建設監理有限責任公司	The PRC 29 March 1999	100%	RMB2,390,000	Provision of project supervision and management services
Sichuan Qingfeng Communication Co., Ltd. 四川擎烽通信有限責任公司	The PRC 5 April 2002	100%	RMB42,080,000	Provision of decoration service
Chengdu Communication Construction Engineering Co., Ltd. 成都通信建設工程有限責任公司	The PRC 25 March 1999	100%	RMB3,249,440	Provision of telecommunications construction and engineering services
Xinhua Property Management Co., Ltd. 四川電信新華物業管理有限公司	The PRC 1 July 1996	100%	RMB600,000	Provision of facilities management service
Sichuan Teleken Corporation Limited 四川通信建設工程有限公司	The PRC 23 March 2001	100%	RMB92,000,000	Provision of telecommunications construction and engineering services
Guizhou Communication Engineering Construction Supervision Co., Ltd. 貴州通信工程建設監理有限公司	The PRC 1 April 1999	100%	RMB2,100,000	Provision of project supervision and management services
Guizhou Communication Construction Design & Consultation Co., Ltd. 貴州通信建設設計諮詢有限公司	The PRC 31 July 1998	100%	RMB26,820,299	Provision of telecommunications design service
Guizhou Communication Construction Engineering Co., Ltd. 貴州通信建設工程有限公司	The PRC 26 October 1990	100%	RMB17,010,291	Provision of telecommunications construction and engineering services
Yunnan Post & Telecommunications Engineering Limited Company 雲南郵電工程有限公司	The PRC 15 February 1981	100%	RMB37,300,000	Provision of telecommunications construction and engineering services
Yunnan Planning and Designing Institute of Posts & Telecommunications Co., Ltd. 雲南郵電規劃設計院有限公司	The PRC 24 June 1991	100%	RMB14,420,000	Provision of telecommunications design service
Yunnan Fenjin Communication Engineering Project Management Co., Ltd. 雲南奮進通信工程監理有限公司	The PRC 8 June 2000	100%	RMB6,500,000	Provision of project supervision and management services

Name of company	Place and date of incorporation/ establishment	Attributable equity interest of the Target Business	Issued and fully paid up/ registered capital	Principal activities
Yunnan Telecom Netit Group Netit Real Estate Management Co., Ltd. 雲南電信網信集團網信物業管理有限公司	The PRC 16 December 1997	100%	RMB5,613,317	Provision of facilities management service
Yunnan Post & Telecom Science Development Co., Ltd. 雲南郵電科技開發有限公司	The PRC 27 December 2000	100%	RMB5,002,034	Provision of telecommunication construction and engineering services and distribution of telecommunication product
Shaanxi Communication Information Technology Co., Ltd. 陝西通信信息技術有限公司	The PRC 26 February 2002	100%	RMB21,770,000	Provision of value added telecommunications and information technology services
Shaanxi Communication Construction Co., Ltd. 陝西通信建設有限公司	The PRC 10 March 2001	100%	RMB17,887,120	Provision of telecommunications construction and maintenance services
Shaanxi Xinyuan Estate Management Company Ltd. 陝西信元物業管理有限公司	The PRC 26 June 1997	100%	RMB2,154,032	Provision of facilities management service
Shaanxi Scientific and Designing Institute of Posts & Telecommunications Ltd. 陝西通信規劃設計研究院有限公司	The PRC 13 March 1984	100%	RMB56,427,747	Provision of telecommunications design service
Shaanxi Zhongji Consulting Supervision Co., Ltd. 陝西中基建設監理諮詢有限公司	The PRC 29 September 1997	100%	RMB6,340,000	Provision of project supervision and management services
Gansu Communication Industry Property Management Group Co., Ltd. 甘肅省通信產業物業管理有限公司	The PRC 28 May 2001	100%	RMB62,995,298	Provision of facilities management service
Gansu Communication Construction Supervision Co., Ltd. 甘肅省通信產業工程監理有限公司	The PRC 22 October 1999	100%	RMB12,000,000	Provision of project supervision and management services
Gansu Tongxin Zhaobiao Consulting Company Limited 甘肅通信招標技術諮詢有限公司	The PRC 30 August 2001	100%	RMB1,000,000	Provision of project management service and distribution of telecommunications services and products
Gansu Communication Industry Consulting & Design Co., Ltd. 甘肅省通信產業諮詢設計有限公司	The PRC 10 June 1985	100%	RMB16,699,802	Provision of telecommunications design service

Name of company	Place and date of incorporation/ establishment	Attributable equity interest of the Target Business	Issued and fully paid up/ registered capital	Principal activities
GanSu Communication Industry Engineering Construction Co., Ltd. 甘肅省通信產業工程建設有限公司	The PRC 15 February 2004	100%	RMB17,918,884	Provision of telecommunications construction and engineering services
Qinghai P&T Design Co., Ltd. 青海省郵電規劃設計有限公司	The PRC 21 November 1995	100%	RMB7,324,950	Provision of telecommunications design service
Qinghai Telecommunication Engineering and Supervision Co., Ltd. 青海盛信通信建設監理有限責任公司	The PRC 10 September 2001	100%	RMB2,000,000	Provision of project supervision and management services
Qinghai Xinanju Property Management Co., Ltd. 青海省新安居物業管理有限公司	The PRC 10 August 2005	100%	RMB3,000,000	Provision of facilities management service
Xinjiang Public Information Industry Co., Ltd. 新疆公衆信息產業股份有限公司	The PRC 19 August 1997	98.38%	RMB61,700,000	Provision of IT application, system integration and other value added services
East Riches Technology Development Co., Ltd. 新疆怡利科技發展有限公司	The PRC 29 April 1993	100%	RMB8,000,000	Provision of telecommunications construction, engineering and design services and system integration
Xinjiang Tely Telecom Industry Co., Ltd. 新疆特力電信實業有限責任公司	The PRC 4 September 1995	100%	RMB44,839,096	Provision of telecommunications construction, engineering and design services and distribution of telecommunications products
Xinjiang Tongxin Jianli Co., Ltd. 新疆通信監理有限公司	The PRC 30 March 1998	100%	RMB2,899,871	Provision of project supervision and management services
Guangdong Nanfang Communication GSM Intelligent Card System Co., Ltd. 廣東南方通信全球通智能卡系統有限公司	The PRC 9 February 2001	100%	RMB5,000,000	Manufacture and distribution of intelligent cards and provision of IT application and other value added services
NingBo Public Information Industry Co., Ltd. 寧波公眾信息產業有限公司	The PRC 29 December 1998	100%	RMB15,000,000	Provision of IT application and other value added services

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"). IFRS includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IAS") and related interpretations. The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Target Business did not prepare any combined financial statements previously. These are the first IFRS combined Financial Information of the Target Business on the basis set out in Note 1(c) and IFRS 1 has been applied.

The IASB has issued a number of new IFRS and revised a number of existing IFRSs that are effective for accounting periods beginning on or after 1 January 2007. The Target Business has not early applied any new standards or interpretation that is not yet effective for the current accounting period (see Note 36).

A summary of the significant accounting policies adopted by the Target Business is set out below.

(b) Basis of preparation of the Financial Information

The Financial Information is presented in Renminbi ("RMB") which is the functional and presentation currency of the Target Business, rounded to the nearest thousand.

The Financial Information is prepared on the historical cost basis, except that property, plant and equipment (see Note 12) is stated at its revalued amount as explained in the accounting policies set out below.

The preparation of the Financial Information in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have significant effect on the Financial Information and estimates with a significant risk of material adjustment in the subsequent period are discussed in Note 33.

The accounting policies set out below have been consistently applied for all periods presented in preparing the Financial Information.

(c) Basis of consolidation

(i) *Subsidiaries and minority interests*

Subsidiaries are those companies controlled by the entities now comprising the Target Business. Control exists when the entities in the Target Business has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the Financial Information from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the combined financial information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of the entities included in Target Business not owned by CTC and in respect of which CTC has not agreed any additional terms with the holders of those interests which could result in CTC as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the combined balance sheets within equity, separately from equity attributable to the equity holder of the Target Business. Minority interests in the results of the Target Business are presented on the face of the combined income statements as an allocation of the total profit or loss for the year between minority interests and the equity owner.

Where losses applicable to the minority exceed the minority's interest in the equity of an entity, the excess, and any further losses applicable to the minority, are charged against the interest of the Target Business except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the entity subsequently reports profits, the interest of the Target Business is allocated all such profits until the minority's share of losses previously absorbed by the Target Business has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the combined balance sheets in accordance with Notes 2(p) or (q) depending on the nature of the liability.

(ii) *Associates*

Associates are those entities in which the entities now comprising the Target Business have significant influence, but not control over its management, including participation in the financial and operating decisions.

An investment in an associate is accounted for in the combined financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the share of the associate's net assets in the Target Business. The combined income statements include the entities in the Target Business's share of the post-acquisition, post-tax results of the associates for the relevant periods, including any impairment loss on goodwill relating to the investment in associates recognised for the relevant periods (see Notes 2(d) and 2(l)).

When share of losses of the Target Business exceeds its interest in the associate, the interest of the Target Business is reduced to nil and recognition of further losses is discontinued except to the extent that the Target Business has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the interest of the Target Business in the associate is the carrying amount of the investment under the equity method together with the long-term interests in the Target Business that in substance form part of the net investment in the Target Business in the associate.

Unrealised profits and losses resulting from transactions between the Target Business and its associates are eliminated to the extent of the interest of the Target Business in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the combined income statements.

(d) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the interest of the Target Business in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see Note 2(l)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

Any excess of the interest of the Target Business in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in the combined income statements.

On disposal of a cash-generating unit or an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(e) Other investments in equity securities

Other than investments in subsidiaries and associates, investments in equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the combined balance sheets at cost less impairment losses (see Note 2(l)).

Investments are recognised/derecognised on the date the Target Business commits to purchase/sell the investments or they expire.

(f) Investment properties

Investment properties are land or/and buildings which are owned to earn rental income and/or for capital appreciation.

Investment properties are stated in the combined balance sheets at cost less accumulated depreciation and impairment losses (see Note 2(l)). Depreciation is calculated to write off the cost less residual value if applicable and is charged to the combined income statements on a straight-line basis over the estimated useful lives ranging from 20 years to 30 years.

Rental income from investment properties is accounted for as described in Note 2(v)(iv).

When an item of property, plant and equipment is transferred to investment property following a change in its use or when an investment property becomes owner-occupied and reclassified as property, plant and equipment, its carrying amount at the date of reclassification becomes its initial cost for accounting purposes.

(g) Other property, plant and equipment

The following items of property, plant and equipment are initially recognised in the combined balance sheets at cost less accumulated depreciation and impairment losses (see Note 2(l)):

— buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see Note 2(k)); and

— other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 2(y)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the combined income statements on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings	20–30 years
Buildings improvements	5 years
Motor vehicles	5-10 years
Furniture, fixtures and other equipment	5–10 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

Subsequent to the revaluation which was based on depreciated replacement costs (see Note 12), property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation, less subsequent accumulated depreciation and impairment losses and any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. When an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs is revalued simultaneously. When an asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to owner's equity as a component of revaluation reserve. However, a revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised as an expense in the combined income statements.

However, a revaluation decrease is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation reserve in respect of that same asset. Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date.

(h) Construction in progress

Construction in progress is stated at cost less impairment losses (see Note 2(l)). Cost comprises direct costs of construction and borrowing costs on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the period of construction.

Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment and investment properties when substantially all the activities necessary to prepare the asset for its intended use are completed. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

(i) Lease prepayments

Lease prepayments represent land use rights paid to the PRC's governmental authorities. Land use rights are carried at cost and are charged to the combined income statements on a straight-line basis over the respective periods of the rights.

(j) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Target Business are stated in the combined balance sheets at cost less accumulated amortisation and impairment losses (see Note 2(l)) (where the estimated useful life is finite).

Amortisation of intangible assets with finite useful lives is charged to the combined income statements on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Intangible assets are amortised over 2 years to 10 years from the date they are available for use.

(k) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Target Business determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Assets that are held by Target Business under leases which do not transfer to the Target Business substantially all the risks and rewards of ownership are classified as being held under operating leases.

Where the Target Business has the use of assets held under operating leases, payments made under the leases are charged to the combined income statements in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the combined income statements as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the combined income statements in the accounting period in which they are incurred.

(l) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

— For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

— For trade and other current receivables and other financial assets carried at cost or amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the combined income statements. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

— For available-for-sale securities, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in the combined income statements. The amount of the cumulative loss that is recognised in the combined income statements is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the combined income statements.

— Impairment losses recognised in the combined income statements in respect of available-for-sale equity securities are not reversed through the combined income statements. Any subsequent increase in the fair value of such assets is recognised directly in equity.

(ii) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— investment properties;

— construction in progress;

— lease prepayments;

— intangible assets;

— investment in associates; and

— goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— *Recognition of impairment losses*

An impairment loss is recognised in the combined income statements whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the combined income statements in the relevant period in which the reversals are recognised.

(m) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(n) Construction contracts

The accounting policy for contract revenue is set out in Note 2(v)(i). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the combined balance sheets as the "Unbilled revenue for contract work" (as an asset) or the "Receipts in advance for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included in the combined balance sheets under "Accounts and bills receivable". Amounts received before the related work is performed are included in the combined balance sheets, as a liability, as "Receipts in advance for contract work".

(o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see Note 2(l)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see Note 2(l)).

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the combined income statements over the period of the borrowings, together with any interest and fees payables, using the effective interest method.

(q) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(s) Employee benefits

(i) *Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) *Termination benefits*

Termination benefits are recognised when, and only when, the Target Business demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(t) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the combined income statements except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination).

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Target Business has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Target Business intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(u) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Target Business has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(v) Revenue recognition

Provided it is probable that the economic benefits will flow to the Target Business and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the combined income statements as follows:

(i) *Contract revenue*

When the outcome of a construction contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(ii) *Services rendered*

Revenue from design services rendered is recognised in the combined income statements in proportion to the stage of completion of the transaction at the balance sheet date.

Revenue from other services rendered is recognised upon the delivery or performance of the services.

(iii) *Sales of goods*

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(iv) *Rental income from operating leases*

Rental income receivable under operating leases is recognised in the combined income statements in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in the combined income statements as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(v) *Dividends*

— Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

— Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(vi) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

(w) Government grants

Government grants are recognised in the combined balance sheets initially when there is reasonable assurance that they will be received and that the Target Business will comply with the conditions attaching to them. Grants that compensate the Target Business for expenses incurred are recognised as revenue in the combined income statements on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Target Business for the cost of an asset are deducted in arriving at the carrying amount of the asset and consequently are recognised in the combined income statements over the useful life of the asset.

(x) Translation of foreign currencies

Foreign currency transactions during the year are translated into RMB at the applicable rates of exchange quoted by the People's Bank of China ("PBOC") prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into RMB at the applicable rates ruling at the balance sheet date. Foreign currency differences, other than those capitalised as construction in progress (see Note 2(h)), are recognised as income or expense in the combined income statements.

(y) Borrowing costs

Borrowing costs are expensed in the combined income statements in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(z) Research and development costs

Research and development costs are recognised as expenses in the period in which they are incurred.

(aa) Segment reporting

A segment is a distinguishable component of the Target Business that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(bb) Dividends or profit distributions

Dividends or profit distributions are recognised as a liability in the period in which they are declared.

(cc) Related parties

For the purposes of the Financial Information, a party is considered to be related to the Target Business if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Target Business or exercise significant influence over the Target Business in making financial and operating policy decisions, or has joint control over the Target Business;

(ii) the Target Business and the party are subject to common control;

(iii) the party is an associate of the Target Business or a joint venture in which the Target Business is a venturer;

(iv) the party is a member of key management personnel of the Target Business or the parent of the Target Business, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit or employees of the Target Business or of any entity that is a related party of the Target Business.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Target Business, directly or indirectly, including any director (whether executive or otherwise) of the Target Business.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

3. REVENUES

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

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Revenue from telecommunications infrastructure services	2,929,872	3,251,399	3,468,748
Revenue from business process outsourcing services	855,753	964,948	1,013,857
Revenue from applications, content and others	421,233	560,290	647,327
	4,206,858	4,776,637	5,129,932

4. COST OF REVENUES

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Depreciation and amortisation	57,673	65,141	76,982
Direct personnel costs	803,756	926,193	1,035,282
Operating lease charges	16,214	23,212	35,925
Purchase of materials and telecommunication products	1,211,233	1,408,507	1,379,267
Subcontracting charges	633,110	753,131	821,756
Others	528,086	572,335	675,173
	3,250,072	3,748,519	4,024,385

5. OTHER OPERATING INCOME

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Dividend income from unlisted securities	36,497	1,765	6,343
Government grants	11,121	7,520	13,541
Net gain on disposal of investments	3,991	—	2,152
Net gain on disposal of property, plant and equipment and other assets	745	—	—
Penalty income	470	840	1,561
Write-off of non-payable liabilities	2,071	5,088	6,652
Others	7,006	9,979	7,018
	61,901	25,192	37,267

6. OTHER OPERATING EXPENSES

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Impairment losses on other investments	—	1,000	240
Impairment losses on property, plant and equipment	—	871	4,800
Net loss on disposal of property, plant and equipment and other assets	—	1,124	2,431
Net loss on disposal of investments	—	28	—
Donation	526	56	208
Penalty charge	2,752	1,343	1,712
Others	8,390	8,306	6,661
	11,668	12,728	16,052

7. NET FINANCING INCOME

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Interest income	8,845	9,770	11,750
Net foreign exchange loss	(3)	(109)	(108)
Interest on bank advances and other borrowings wholly repayable within five years	(7,381)	(8,423)	(9,971)
	1,461	1,238	1,671

During the relevant periods, no borrowing costs were capitalised in relation to construction in progress.

8. PROFIT BEFORE TAX

		Years ended 31 December		
		2004	**2005**	**2006**
		RMB'000	*RMB'000*	*RMB'000*
(i)	Staff costs:			
	Salaries, wages and other benefits	1,131,487	1,252,273	1,418,189
	Contributions to defined contribution retirement schemes	73,924	78,502	88,368
		1,205,411	1,330,775	1,506,557
(ii)	Other items:			
	Depreciation and amortisation	106,662	115,665	131,934
	Auditors' remuneration	4,399	6,687	7,595
	Cost of inventories	1,211,233	1,408,507	1,379,267
	Impairment losses on accounts and other receivables	11,795	13,223	24,968
	Operating lease charges	26,082	32,826	48,264
	Research and development costs	7,634	5,606	3,930
	Share of associates' taxation	557	4	487

9. INCOME TAX

(a) Income tax in the combined income statements represents:

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Current tax			
PRC enterprise income tax	83,064	96,743	100,816
Deferred tax			
Origination and reversal of temporary differences *(note 19)*	(9,096)	(8,794)	(6,914)
Total income tax	73,968	87,949	93,902

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

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Profit before tax	258,551	271,187	216,113
Expected PRC income tax expense at a statutory tax rate of 33% *(note (i))*	85,322	89,492	71,317
Differential tax rates on subsidiaries' income *(note (i))*	(40,619)	(41,852)	(30,701)
Non-deductible expenses *(note (ii))*	31,714	36,668	44,898
Non-taxable income *(note (iii))*	(6,962)	(2,499)	(2,140)
Tax losses not recognised	4,513	6,140	10,528
Income tax	73,968	87,949	93,902

Notes:

(i) The provision of PRC income tax of the Target Business is calculated based on a statutory rate of 33% of the assessable profit of the Target Business as determined in accordance with the relevant PRC income tax rules and regulations for all periods presented, except for certain entities of the Target Business, which are exempted or taxed at preferential rates of 15% or 16.5%.

(ii) The amounts include personnel and other miscellaneous expenses in excess of statutory deductible limits for tax purpose. The amounts for the year ended 31 December 2006 also include the deficit on revaluation of property, plant and equipment.

(iii) Non-taxable income mainly represents dividend income.

10. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The remuneration of the directors and the supervisors of the Target Business during the relevant periods are as follows:

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Fee	—	—	—
Salaries, allowances and benefits in kind	—	—	—
Discretionary bonus	—	—	—
Pension scheme contributions	—	—	—
Total	—	—	—

The number of directors and supervisors whose remuneration falls within the following band is as follows:

	Years ended 31 December		
	2004	**2005**	**2006**
HK$ equivalent			
Nil to 1,000,000	—	—	—

None of the directors and the supervisors received any fees and bonuses as inducements to join or upon joining the Target Business, or compensation for loss of office during the relevant periods. No directors or supervisors waived or agreed to waive any emoluments during the relevant periods.

11. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Target Business during the relevant periods are as follows:

	Years ended 31 December		
	2004	**2005**	**2006**
Directors and supervisors	—	—	—
Employees	5	5	5
	5	5	5

The remuneration paid to the above highest paid individuals are as follows:

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Salaries, allowances and benefits in kind	420	474	524
Bonuses	896	920	1,133
Pension scheme contributions	327	398	390
	1,643	1,792	2,047

The number of these highest paid individuals whose remuneration falls within the following brand is as follows:

	Years ended 31 December		
	2004	**2005**	**2006**
HK$ equivalent			
Nil to 1,000,000	5	5	5

No emoluments have been paid to these individuals as an inducement to join or upon joining the Target Business or as compensation for loss of office during the relevant periods.

12. PROPERTY, PLANT AND EQUIPMENT, NET

	Buildings	**Buildings improvements**	**Motor vehicles**	**Furniture, fixtures and other equipment**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:					
As at 1 January 2004	392,984	18,517	268,878	261,872	942,251
Through acquisition of entities into the Target Business	—	—	544	237	781
Transferred from construction in progress	6,002	—	—	2,318	8,320
Additions	47,259	1,174	37,693	57,009	143,135
Disposals	(3,494)	—	(56,115)	(13,251)	(72,860)
As at 31 December 2004	442,751	19,691	251,000	308,185	1,021,627
Accumulated depreciation and impairment losses:					
As at 1 January 2004	69,734	5,530	152,044	118,101	345,409
Through acquisition of entities into the Target Business	—	—	98	18	116
Depreciation charge	17,126	3,772	34,574	40,921	96,393
Written back on disposal	(272)	—	(41,828)	(10,834)	(52,934)
As at 31 December 2004	86,588	9,302	144,888	148,206	388,984
Net carrying value:					
As at 31 December 2004	356,163	10,389	106,112	159,979	632,643

	Buildings	Buildings improvements	Motor vehicles	Furniture, fixtures and other equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:					
As at 1 January 2005	442,751	19,691	251,000	308,185	1,021,627
Through acquisition of entities into the Target Business	—	—	1,804	2,197	4,001
Transferred from construction in progress	70,087	4,995	—	2,441	77,523
Additions	53,946	6,079	35,983	65,587	161,595
Disposals	(3,232)	(306)	(15,468)	(22,641)	(41,647)
As at 31 December 2005	563,552	30,459	273,319	355,769	1,223,099
Accumulated depreciation and impairment losses:					
As at 1 January 2005	86,588	9,302	144,888	148,206	388,984
Through acquisition of entities into the Target Business	—	—	1,241	1,256	2,497
Depreciation charge	19,576	6,780	32,438	45,417	104,211
Written back on disposal	(1,077)	(305)	(11,854)	(14,697)	(27,933)
Impairment losses	—	—	—	871	871
As at 31 December 2005	105,087	15,777	166,713	181,053	468,630
Net carrying value:					
As at 31 December 2005	458,465	14,682	106,606	174,716	754,469

	Buildings	Buildings improvements	Motor vehicles	Furniture, fixtures and other equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost or valuation:					
As at 1 January 2006	563,552	30,459	273,319	355,769	1,223,099
Transferred from construction in progress	6,002	3,008	—	4,111	13,121
Additions	51,149	9,670	44,056	85,926	190,801
Transferred to investment properties	(45,244)	—	—	—	(45,244)
Disposals	(53,318)	(7,034)	(35,435)	(49,684)	(145,471)
Distributions	(98,193)	(1,000)	(1,944)	(7,234)	(108,371)
Revaluation	22,755	(131)	(60,564)	(109,781)	(147,721)
As at 31 December 2006	446,703	34,972	219,432	279,107	980,214
Representing:					
Cost	—	—	—	—	—
Valuation (on a depreciated replacement cost basis as at 31 December 2006)	446,703	34,972	219,432	279,107	980,214
	446,703	34,972	219,432	279,107	980,214
Accumulated depreciation and impairment losses:					
As at 1 January 2006	105,087	15,777	166,713	181,053	468,630
Depreciation charge	21,169	6,576	36,953	53,473	118,171
Transferred to investment properties	(1,695)	—	—	—	(1,695)
Written back on disposal	(24,451)	(5,030)	(31,472)	(38,253)	(99,206)
Impairment losses	—	—	18	4,782	4,800
Distributions	(30,432)	(3)	(1,386)	(4,898)	(36,719)
Revaluation	(37,687)	(193)	(99,352)	(101,274)	(238,506)
As at 31 December 2006	31,991	17,127	71,474	94,883	215,475
Net carrying value:					
As at 31 December 2006	414,712	17,845	147,958	184,224	764,739

(a) All the buildings of the Target Business are located in the PRC.

(b) Valuation

Revaluation has been carried out on 31 December 2006. All the property, plant and equipment of the Target Business were valued by management of the Target Business, on a depreciated replacement cost basis, with reference to the revaluation reports issued by China United Assets Appraisal Co., Ltd, independent valuers registered in the PRC.

The surplus arising from the valuation of these assets has been credited to owner's equity as at 31 December 2006 amounting to RMB121 million. The deficit arising from the valuation of these assets amounting to RMB30 million, has been recognised as an expense for the year ended 31 December 2006.

The revaluation did not have an impact on depreciation expenses for each of the years ended 31 December 2004, 2005 and 2006 as the revaluation was performed and recorded as at 31 December 2006.

The above buildings were also valued separately by Savills Valuation and Professional Services Limited, independent qualified valuers in Hong Kong, as at 31 March 2007. The value arrived at by them was approximately the same as that arrived at by management of the Target Business as adjusted for the depreciation for the periods from 1 January 2007 to 31 March 2007.

(c) Certain of the bank loans of the Target Business were secured by certain of the property, plant and equipment of the Target Business as described in Note 25.

(d) Had property, plant and equipment been carried at cost less accumulated depreciation, the historical carrying amounts as at 31 December 2006 would have been as follows:

	RMB'000
Buildings	354,270
Buildings improvements	17,783
Motor vehicles	109,170
Furniture, fixtures and other equipment	192,731
	673,954

13. INVESTMENT PROPERTIES

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Cost:			
As at 1 January	66,270	161,931	170,810
Transferred from construction in progress	60,854	4,549	—
Transferred from property, plant and equipment	—	—	45,244
Additions	34,807	4,330	19,604
Disposals	—	—	(2,899)
Distributions	—	—	(50,100)
As at 31 December	161,931	170,810	182,659
Accumulated depreciation:			
As at 1 January	10,491	14,903	20,917
Transferred from property, plant and equipment	—	—	1,695
Depreciation charge	4,412	6,014	8,276
Written back on disposal	—	—	(609)
Distributions	—	—	(6,246)
As at 31 December	14,903	20,917	24,033
Net carrying value			
As at 31 December	147,028	149,893	158,626
Fair value	149,643	152,662	171,494

All the investment properties of the Target Business are located in the PRC and are with medium-term leases.

The Target Business leases out its properties under operating leases. The leases typically run for period of one year to seven years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals. At the balance sheet date, the total future minimum lease payments of the Target Business under non-cancellable operating leases were receivable as follows:

	31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	6,850	9,830	11,498
After one year but within five years	14,855	14,732	19,105
After five years	8,571	7,332	8,621
	30,276	31,894	39,224

During the years ended 31 December 2004, 2005 and 2006, RMB15 million, RMB18 million and RMB23 million were recognised as rental income in the combined income statements respectively and RMB1 million, RMB2 million and RMB2 million in respect of direct operating expenses relating to investment properties were recognised as expenses in the combined income statements respectively.

14. CONSTRUCTION IN PROGRESS

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Cost:			
As at 1 January	62,479	54,380	6,384
Additions	61,075	34,076	33,880
Transferred to property, plant and equipment	(8,320)	(77,523)	(13,121)
Transferred to investment properties	(60,854)	(4,549)	—
Distributions	—	—	(904)
As at 31 December	54,380	6,384	26,239

15. LEASE PREPAYMENTS

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Cost:			
As at 1 January	56,578	54,402	60,562
Additions	12,031	6,160	12,734
Disposals	(14,207)	—	(1,982)
Distributions	—	—	(16,408)
As at 31 December	54,402	60,562	54,906
Accumulated amortisation:			
As at 1 January	1,563	1,426	2,485
Amortisation charge	1,068	1,059	1,486
Written back on disposal	(1,205)	—	—
Distributions	—	—	(1,286)
As at 31 December	1,426	2,485	2,685
Net carrying value:			
As at 31 December	52,976	58,077	52,221

Lease prepayments represent payments for land use rights paid to the PRC authorities. All of the lease prepayments of the Target Business are located in the PRC. The land use rights of the Target Business have remaining terms ranging from 33 to 50 years as at 31 December 2006.

16. INTANGIBLE ASSETS

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Cost:			
As at 1 January	11,591	13,203	15,098
Additions	5,021	4,718	8,304
Disposals	(3,409)	(2,823)	(3,156)
Distributions	—	—	(42)
As at 31 December	13,203	15,098	20,204
Accumulated amortisation:			
As at 1 January	3,967	5,347	6,957
Amortisation charge	4,789	4,381	4,001
Written back on disposal	(3,409)	(2,771)	(3,084)
Distributions	—	—	(14)
As at 31 December	5,347	6,957	7,860
Net carrying value			
As at 31 December	7,856	8,141	12,344

Intangible assets mainly represent computer software used in telecommunications infrastructure projects.

17. INTERESTS IN ASSOCIATES

	31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Share of net assets	21,478	23,955	16,240

As at 31 December 2006, the associates of the Target Business are unlisted, established and operated in the PRC. The interests in associates of the Target Business are individually and in aggregate not material to the Target Business' financial condition or result of operations.

18. OTHER INVESTMENTS

	31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
At cost:			
Unlisted equity securities	47,304	44,305	35,078

The above investments are individually and in the aggregate not material to the Target Business' financial condition or results of operations.

19. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Impairment losses, primarily for receivables and inventories	8,219	10,895	16,523
Revaluation of lease prepayments	—	—	1,790
Unused tax losses *(note (i))*	660	831	728
Unpaid expenses	6,582	12,529	13,918
Deferred tax assets	15,461	24,255	32,959
Revaluation of property, plant and equipment *(note (ii))*	—	—	(18,473)
Deferred tax liabilities	—	—	(18,473)
Impairment losses, primarily for receivables and inventories	8,219	10,895	16,523
Revaluation of property, plant and equipment *(note (ii))*	—	—	(18,473)
Revaluation of lease prepayments	—	—	1,790
Unused tax losses *(note (i))*	660	831	728
Unpaid expenses	6,582	12,529	13,918
Net deferred tax assets	15,461	24,255	14,486

Movements in temporary differences for the relevant periods are as follows:

	As at 1 January 2004	**Recognised in combined income statement**	**As at 31 December 2004**
	RMB'000	*RMB'000*	*RMB'000*
Impairment losses, primarily for receivables and inventories	4,548	3,671	8,219
Unused tax losses *(note (i))*	1,150	(490)	660
Unpaid expenses	667	5,915	6,582
Net deferred tax assets	6,365	9,096	15,461
		(note 9(a))	

	As at 1 January 2005	**Recognised in combined income statement**	**As at 31 December 2005**
	RMB'000	*RMB'000*	*RMB'000*
Impairment losses, primarily for receivables and inventories	8,219	2,676	10,895
Unused tax losses *(note (i))*	660	171	831
Unpaid expenses	6,582	5,947	12,529
Net deferred tax assets	15,461	8,794	24,255
		(note 9(a))	

	As at 1 January 2006	Recognised in combined income statement	Recognised in owner's equity	As at 31 December 2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Impairment losses, primarily for receivables and inventories	10,895	5,628	—	16,523
Revaluation of property, plant and equipment *(note (ii))*	—	—	(18,473)	(18,473)
Revaluation of lease prepayments	—	—	1,790	1,790
Unused tax losses *(note (i))*	831	(103)	—	728
Unpaid expenses	12,529	1,389	—	13,918
Net deferred tax assets/(liabilities)	24,255	6,914	(16,683)	14,486
		(note 9(a))		

(i) Expiry of recognised tax losses

	31 December 2006
	RMB'000
Year of expiry	
— 2008	2,206

(ii) As described in Note 12, in accordance with the accounting policy of the Target Business, the property, plant and equipment of the Target Business were revalued as at 31 December 2006. The tax bases of these assets were not adjusted to conform to such revalued amounts and accordingly, a deferred tax liability of RMB18 million was recognised in owner's equity in respect of the revaluation surplus of these assets.

(iii) The Target Business has not recognised deferred tax assets in respect of tax losses of RMB22 million, RMB39 million and RMB71 million as at 31 December 2004, 2005 and 2006 respectively as it is not probable that future taxable profits against which the losses can be utilised will be available. The tax losses will be expired in 2011.

20. INVENTORIES

	31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Construction materials	43,382	50,794	63,921
Finished goods	92,979	66,195	82,399
Spare parts and consumables	4,998	5,607	5,786
	141,359	122,596	152,106

The analysis of the amount of inventories recognised as an expense is as follows:

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount of inventories consumed and sold	1,211,233	1,408,507	1,379,267
Write down of inventories	—	—	3,784
	1,211,233	1,408,507	1,383,051

21. ACCOUNTS AND BILLS RECEIVABLE, NET

	31 December 2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Bills receivable	1,565	11,704	37,980
Unbilled revenue for contract work *(note 22)*	772,165	711,625	756,636
Trade receivables	1,148,194	1,394,255	1,658,891
	1,921,924	2,117,584	2,453,507

(a) Included in accounts and bills receivable are amounts due from fellow subsidiaries of RMB1,520 million, RMB1,495 million and RMB1,594 million as at 31 December 2004, 2005 and 2006 respectively. 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 six 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:

	31 December 2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Within one year	1,790,666	1,919,542	2,108,774
After one year but less than two years	101,145	171,487	306,090
After two years but less than three years	15,896	19,466	33,363
After three years	14,217	7,089	5,280
	1,921,924	2,117,584	2,453,507

22. CONSTRUCTION CONTRACTS

The aggregate amounts of costs incurred plus recognised profit less recognised losses to date, included in the gross amount due from/to customers for contract work at 31 December 2004, 2005 and 2006 are RMB1,465 million, RMB1,725 million and RMB1,751 million respectively.

In respect of construction contracts in progress at the balance sheet date, the amounts of retentions receivable from customers, recorded within "Accounts and bills receivable" at 31 December 2004, 2005 and 2006 are RMB11 million, RMB17 million and RMB24 million respectively.

23. PREPAYMENTS AND OTHER CURRENT ASSETS

	31 December 2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Advances to staff	110,425	89,512	93,649
Amounts due from fellow subsidiaries	295,899	375,704	702,959
Amounts due from associates	5,000	5,000	15,000
Prepayments in connection with construction work and equipment purchases	128,506	121,672	132,334
Prepaid expenses and deposits	19,066	37,312	23,349
Others	112,196	164,275	211,005
	671,092	793,475	1,178,296

Amounts due from fellow subsidiaries are unsecured, interest free and are expected to be recovered within one year.

24. CASH AND CASH EQUIVALENTS

	31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Cash at bank and in hand	1,092,030	1,210,404	1,057,567
Deposits with banks and other financial institutions	40,819	59,548	35,159
Cash and cash equivalents	1,132,849	1,269,952	1,092,726

Substantially all of the cash and cash equivalents are denominated in Renminbi and are deposited with several state-controlled banks in the PRC in the ordinary course of business. Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

Included in cash and cash equivalents are the following amounts denominated in a currency other than the functional currency of the Target Business:

	31 December		
	2004	**2005**	**2006**
	USD'000	*USD'000*	*USD'000*
US dollars	500	721	561

The cash and cash equivalents denominated in Renminbi bear interest at 0.72% to 2.52%, 0.72% to 2.52% and 0.72% to 2.52% per annum for the years ended 31 December 2004, 2005 and 2006 respectively.

The cash and cash equivalents denominated in US dollars bear interest at 0.8%, 0.8% to 1.15% and 0.8% to 1.15% per annum for the years ended 31 December 2004, 2005 and 2006 respectively.

25. INTEREST-BEARING BORROWINGS

The short term borrowings of the Target Business are denominated in Renminbi and comprise:

	31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Borrowings from banks			
— guaranteed	56,200	31,000	13,000
— collateralised	47,000	54,500	22,600
Loans from fellow subsidiaries			
— unsecured	—	—	20,600
Current portion of long-term borrowings			
— guaranteed	—	—	4,000
— collateralised	2,000	7,000	2,000
	105,200	92,500	62,200

The interest rates of the Target Business per annum on short term borrowings was:

	31 December		
	2004	**2005**	**2006**
Borrowings from banks			
— guaranteed	5.31%–7.25%	5.58%–7.25%	5.26%–7.25%
— collateralised	5.04%–6.59%	5.31%–6.59%	5.85%–7.34%
Loans from fellow subsidiaries			
— unsecured	—	—	5.02%–5.85%

The long-term borrowings of the Target Business are denominated in Renminbi and comprise:

		31 December		
		2004	**2005**	**2006**
		RMB'000	*RMB'000*	*RMB'000*
Borrowings from banks				
— guaranteed	Interest rates ranging from 6.42% to 6.59% per annum with maturities through 16 February 2007	10,000	7,000	4,000
— collateralised	Interest rates ranging from 5.70% to 6.24% per annum with maturities through 3 June 2009	14,000	12,000	5,000
Loans from fellow subsidiaries				
— unsecured	Interest rates at 5.02% per annum with maturities through 7 November 2008	—	—	10,000
		24,000	19,000	19,000
Less: current portion of long term borrowings		(2,000)	(7,000)	(6,000)
		22,000	12,000	13,000

The long term borrowings were repayable as follows:

	31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Within one year or on demand	2,000	7,000	6,000
After one year but within two years	7,000	9,000	2,000
After two years but within five years	15,000	3,000	11,000
	24,000	19,000	19,000

As at 31 December 2006, borrowings from bank amounting to RMB17 million was guaranteed by a shareholder and CTC Group (as defined below).

As at 31 December 2006, bank loans amounting to RMB28 million were secured by certain property, plant and equipment of the Target Business with net book value of RMB103 million.

26. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Accounts payable	1,083,810	1,132,413	1,305,161
Bills payable	13,535	12,330	16,879
	1,097,345	1,144,743	1,322,040

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

	31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	945,976	1,035,455	1,200,627
After one year but less than two years	117,689	73,071	70,894
After two years but less than three years	19,062	17,722	29,753
After three years	14,618	18,495	20,766
	1,097,345	1,144,743	1,322,040

Included in accounts and bills payable are amounts due to fellow subsidiaries of RMB70 million, RMB60 million and RMB60 million as at 31 December 2004, 2005 and 2006 respectively. Amounts due to fellow subsidiaries are unsecured, interest free and are expected to be settled within one year.

27. ACCRUED EXPENSES AND OTHER PAYABLES

	31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Wages and welfare payables	410,047	447,197	425,292
Amounts due to fellow subsidiaries	201,954	299,614	605,942
Advances received	62,290	69,721	103,805
Other taxes payable	91,582	117,011	93,203
Dividends payable	34,143	28,324	153,995
Payables for construction and purchase of fixed assets	17,641	19,114	42,746
Others	138,388	156,718	157,659
	956,045	1,137,699	1,582,642

Amounts due to fellow subsidiaries are unsecured, interest free and are expected to be settled within one year.

Dividends payable represent dividends declared by certain of the entities included in the Target Business and payable to the then owners.

28. OWNER'S EQUITY

The owner's equity of the Target Business mainly represents the then capital and retained earnings/accumulated losses of the entities included in the Target Business and the equity contributions from or distributions to CTC.

29. RETIREMENT BENEFIT OBLIGATIONS

In accordance with the labour regulations of the PRC, the Target Business participates in various defined contribution retirement schemes organised by the municipal and provincial governments for its employees. The Target Business is required to make contributions to the retirement schemes at rates ranging from 18% to 20% of the salaries, bonuses and certain allowances of the employees. A member of the scheme is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date.

The Target Business has no other material obligation for the payment of pension benefits associated with these schemes beyond the annual contributions described above.

30. NOTES TO COMBINED STATEMENTS OF CASH FLOWS

(a) Acquisition of entities into the Target Business

During the relevant periods, the Target Business acquired several entities as follows:

	Years ended 31 December	
	2004	**2005**
	RMB'000	*RMB'000*
Property, plant and equipment	665	1,504
Accounts and bills receivable, net	652	18,867
Prepayments and other current assets	170	1,410
Cash and cash equivalents	4,376	11,828
Accounts and bills payable	(126)	(1,784)
Accrued expenses and other payables	(488)	—
Income tax payable	(1,659)	(4,173)
Net identifiable assets and liabilities	3,590	27,652
Contributed by owner *(note)*	(3,590)	(27,652)
Total purchase price paid, satisfied in cash	—	—
Less: Cash and cash equivalents of entities acquired	(4,376)	(11,828)
Net cash inflow in respect of the purchase of entities	(4,376)	(11,828)

Note: These represent the acquisition of entities made by owner, being transferred to the Target Business by way of capital contribution.

(b) Major non-cash transactions

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Contributions in form of property, plant and equipment, lease prepayments and other assets	152,796	83,132	284,165
Distributions in form of property, plant and equipment, lease prepayments and other assets	11,710	—	279,640

31. COMMITMENTS AND CONTINGENT LIABILITIES

(i) Capital commitments

As at each balance sheet date, the Target Business has capital commitment for acquisition and construction of property, plant and equipment as follows:

	31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Authorised and contracted for	22,160	19,060	18,782

(ii) Operating lease commitments

At the balance sheet date, the total future minimum lease payments of the Target Business under non-cancellable operating leases were payable as follows:

	31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	6,382	6,707	10,252
After one year but within five years	8,090	10,228	19,522
After five years	1,600	662	1,585
	16,072	17,597	31,359

The Target Business leases a number of properties under operating leases. The leases typically run for period of one year to six years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

(iii) Contingent liabilities

The Target Business had no material contingent liabilities and no financial guarantees issued.

32. FINANCIAL INSTRUMENTS

Exposure to credit, interest and liquidity risks arises in the normal course of the entities of the Target Business. These risks are limited by the financial management policies and practices of the Target Business described below.

(a) Credit risk

Management has a credit policy in place and the exposure to credit risks is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. Normally, the Target Business does not obtain collateral from customers.

The major customers of the Target Business are CTC and its subsidiaries (collectively referred to as "CTC Group"), and China Mobile Limited. The Target Business has a certain concentration of credit risk as the largest customer of the Target Business accounted for 79%, 71% and 65% of the total accounts and bills receivable as at 31 December 2004, 2005 and 2006 respectively. The Target Business has no significant credit risk with any of these customers since the Target Business maintains long-term and stable business relationships with these large customers in the telecommunications industry.

(b) Interest rate risk

The interest rates and terms of repayment of outstanding loans and the interest rates of deposits of the Target Business at balance sheet date are disclosed in Notes 25 and 24 respectively.

(c) Liquidity risk

Individual operating entities within the Target Business are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the board of the entities when the borrowings exceed certain predetermined levels of authority. The Target Business' policy is to regularly monitor current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

(d) Fair value

The fair values of cash and cash equivalents, accounts and bills receivable, prepayments and other current assets, accounts and bills payable and accrued expenses and other payables are not materially different from their carrying amounts.

The fair values of the short term interest-bearing borrowings in the Target Business are estimated to approximate to their fair value based on the nature or short-term maturity.

The fair values of the long term interest-bearing borrowings in the Target Business are estimated by discounting future cash flows using current market interest rates offered to the Target Business for borrowings with substantially the same characteristics and maturities. The fair values of the long term interest-bearing borrowings in the Target Business are not materially different from their carrying amounts.

The fair values of other investments in the Target Business could not be reasonably estimated without incurring excessive costs, since there are no listed market prices for such interest in the PRC.

(e) Foreign currency risk

Substantially all the revenue-generating operations of the Target Business are transacted in Renminbi, which is not freely convertible into foreign currencies. On 1 January 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange quoted by the PBOC. However, the unification of the exchange rate does not imply convertibility of Renminbi into other foreign currencies. All foreign exchange transactions continue to take place either through the PBOC or other institutions authorised to buy and sell foreign currencies. Approval of foreign currency payments, including remittances of dividends, by the PBOC or other institutions requires submitting a payment application form together with relevant supporting documents.

33. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In determining the carrying amounts of certain assets and liabilities, the Target Business makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. The estimates and assumptions of the Target Business are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the accounting policies of the Target Business.

(i) Construction contracts

As explained in Notes 2(n) and 2(v)(i) revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the recent experience of the Target Business and the nature of the construction activity undertaken by the Target Business, the Target Business makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. As a result, until this point is reached the amounts due from customers for contract work as disclosed in Note 22 will not include profit which the Target Business may eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the balance sheet date, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

(ii) Impairment for bad and doubtful debts

The Target Business estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Target Business bases the estimates on the aging of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-off would be higher than estimated.

(iii) Impairment on long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of long-lived assets as described in Note 2(l). The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of revenue and amount of operating costs. The Target Business uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

34. RELATED PARTIES

The Target Business is controlled by CTC and has significant transactions and relationships with members of CTC. Apart from the transactions and balances disclosed in the Financial Information set out above, there are the following related party transactions:

(a) Transactions with CTC Group

Because of the relationships between the Target Business, CTC and members of the CTC, it is possible that the terms of those transactions are not the same as those that would result from transactions among unrelated parties.

The principal transactions with CTC Group which were carried out in the ordinary course of business are as follows:

		Years ended 31 December		
		2004	**2005**	**2006**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Income from related parties:				
Engineering related services	*(i)*	1,959,060	2,141,246	2,253,516
IT application services	*(ii)*	30,284	53,651	104,851
Provision of ancillary telecommunications services	*(iii)*	235,905	239,329	268,230
Provision of operation support services	*(iv)*	208,140	225,142	284,013
Property leasing	*(v)*	5,831	3,208	4,790
Expenses paid to related parties:				
Property leasing charges	*(vi)*	7,139	8,396	10,340
IT application service charges	*(vii)*	3,840	4,708	11,607
Operation support service charges	*(viii)*	51,115	49,699	85,791
Interest paid	*(ix)*	280	456	476

(i) The amount represents the engineering related services, such as design, construction and project management for telecommunications infrastructure project provided to CTC Group.

(ii) The amount represents the telecommunications network support services, software and hardware development and other IT related services provided to CTC Group.

(iii) The amount represents ancillary telecommunications services such as maintenance of network facilities including optical ducts and cables, exchange buildings and base stations; operation of distribution channels, fixed line and wireless value-added service, internet contents and information services provided to CTC Group.

(iv) The amount represents the facilities management, advertising, conferencing services and certain repair and leasing of equipments services provided to CTC Group.

(v) The amount represents rental income in respect of premises leased to CTC Group.

(vi) The amount represents operating leases in respect of business premises paid and payable to CTC Group.

(vii) The amount represents basic telecommunications service, value-added service and information application service charged by CTC Group.

(viii) The amount represents the charge paid and payable to CTC Group for logistics, labour resources, cultural, educational, hygiene and other supporting services.

(ix) Interest paid/payable represents the interest paid or payable to CTC Group in respect of the loans from fellow subsidiaries.

Amounts due from/to CTC Group included in respective balances are summarised as follows:

		31 December	
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Accounts and bills receivable, net	1,520,368	1,494,859	1,594,477
Prepayments and other current assets	295,899	375,704	702,959
Total amounts due from CTC Group	1,816,267	1,870,563	2,297,436
Interest-bearing borrowings	—	—	30,600
Accounts and bills payable	69,578	59,530	60,335
Receipts in advances for contract work	64,120	37,856	11,537
Accrued expenses and other payables	242,710	341,392	717,245
Total amounts due to CTC Group	376,408	438,778	819,717

Amounts due from/to CTC Group are unsecured, interest free and are expected to be recovered within one year (except for interest-bearing borrowings which is mentioned in Note 25). As at 31 December 2004, 2005 and 2006, no impairment losses for bad and doubtful debts were recorded in respect of amounts due from CTC Group.

Management of the Target Business is of the opinion that the above transactions with related parties were conducted on normal commercial terms in the ordinary course of business and the terms are fair and reasonable so far as the owner of the Target Business are concerned.

(b) Transactions with other state-controlled entities in the PRC

The Target Business is controlled by the state and operates in an economic regime currently predominated by entities directly or indirectly owned or controlled by the PRC government and numerous government authorities and agencies (collectively referred to as "state-controlled entities"). Apart from transactions mentioned in the above, the Target Business conducts a majority of its business activities with other state-controlled entities in the ordinary course of business. These transactions are carried out at terms similar to those that would be entered into with non-state-controlled entities. Transactions with other state-controlled entities in the PRC include but not limited to the following:

— sales and purchase of goods, properties and other assets

— rendering and receiving services

— depositing and borrowing money

— use of public utilities

The Target Business prices its services and products based on guideline ceiling rates prescribed by relevant government agencies, where applicable, or based on the commercial negotiations. The Target Business has also established its procurement policies and approval processes for purchase of products and services, which do not depend on whether the counter parties are state-controlled entities or not.

Having considered the transactions potentially affected by related party relationships, the pricing strategy, procurement policies and approval processes, and the information that would be necessary for an understanding of the potential effect of the related party relationships on the combined financial statements, management is of the opinion that the following amounts due from/to state-controlled entities in the PRC require disclosure.

Cash deposited with the state-controlled banks in the PRC and the interest income are as follows:

	31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Cash and cash equivalents	1,120,195	1,264,802	1,083,311

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Interest income	6,584	7,410	9,154

(c) Transactions with key management personnel

Remuneration for key management personnel, including amounts paid to the management and supervisors of the Target Business as disclosed in Note 10 and certain of the highest paid individuals as disclosed in Note 11, is as follows:

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Salaries and other emoluments	1,036	1,234	1,299
Retirement benefits	2,082	2,171	2,682
Bonuses	608	765	840
	3,726	4,170	4,821

Total remuneration is included in "Staff costs" in Note 8.

(d) Contributions to defined contribution retirement plans

The Target Business participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff. The details of the employee benefits plan of the Target Business are disclosed in Note 29. As at 31 December 2006, there was no material outstanding contribution to post-employment benefit plans.

(e) Transactions with ten largest state-controlled customers and suppliers

Management of the Target Business considers that the transactions with state-controlled entities which require disclosure in the Financial Information have been set out above. The following are the additional disclosure in respect of transactions entered into by the Target Business with its ten largest state-controlled customers and suppliers:

Transactions with the ten largest customers of the Target Business, which are state-controlled entities, amounting to approximately RMB3,020 million, RMB3,439 million and RMB3,843 million during the years ended 31 December 2004, 2005 and 2006 respectively.

Transactions with the ten largest suppliers of the Target Business, which are state-controlled entities, amounting to RMB58 million, RMB81 million and RMB48 million during the years ended 31 December 2004, 2005 and 2006 respectively.

35. SEGMENTAL REPORTING

For the relevant periods, the Target Business principally has one business segment, the provision of integrated telecommunications service to the telecommunications industry in the PRC. The Target Business mainly operates in the PRC. Accordingly, no business and geographical segment information is presented.

36. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ACCOUNTING PERIOD BEGINNING 1 JANUARY 2007

Up to the date of issue of the Financial Information, the IASB has issued amendments, new standards and interpretations which are not yet effective for the accounting year beginning 31 December 2006 and which have not been adopted in the Financial Information. Of these developments, the following relate to matters they may be relevant to the operations and the Financial Information of the Target Business:

		Effective for accounting periods beginning on or after
IFRS 7	Financial instruments: Disclosures	1 January 2007
IFRS 8	Operating segments	1 January 2007
Amendment to IAS 1 (August 2005)	Presentation of financial statements: capital disclosures	1 January 2009

The Target Business is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that while the adoption of them may result in new or amended disclosures, it is unlikely to have a significant impact on the results of operations and financial position of the Target Business.

VI. ULTIMATE CONTROLLING PARTY

At 31 December 2006, management of the Target Business considers the ultimate controlling party of the Target Business to be CTC, a state-owned enterprise established in the PRC. CTC does not produce financial statements available for public use.

VII. DIRECTORS' AND SUPERVISORS' REMUNERATION

Save as disclosed in Section V Note 10 above, no remuneration has been paid or is payable in respect of the relevant periods by the Target Business to the directors and supervisors of the Target Business.

VIII. NON-ADJUSTING POST BALANCE SHEET EVENTS

(a) The Corporate Income Tax Law of the People's Republic of China ("new tax law") has been passed by the Fifth Plenary Session of the Tenth National People's Congress on 16 March 2007 and will take effect on 1 January 2008. According to the new tax law, except for certain entities included in the Target Business which are taxed at preferential rates, the income tax rate applicable to the Target Business will be reduced from 33% to 25% from 1 January 2008. From 1 January 2008, the above-mentioned entities that are currently taxed at preferential rates will be subject to a five-year transition period during which the tax rates will gradually be increased to the unified rate of 25% and certain high-tech enterprises will continue to be entitled to a reduced tax rate of 15%. However, the new tax law has not set out the details as to how the existing preferential tax rate will gradually increase to the standard rate of 25% and the detailed implementation rules regarding the preferential tax policies (e.g. the details of how a taxpayer can be qualified as a high-tech enterprise to enjoy the preferential rate of 15%) have yet to be made public. Consequently, management is not in a position to estimate the impact of the new tax law on the deferred tax assets and liabilities of the above-mentioned entities which are being taxed at preferential rates. The financial effect of the new tax law, if any, will be reflected in the 2007 financial statements of the Target Business. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable.

(b) Subsequent to 31 December 2006, CTC finalised the Restructuring of the Target Business in each of the Target Service Areas by rationalising the capital structure of certain entities included in the Target Business in order to facilitate the proposed acquisition of the Target Business. As a result, a net contribution of RMB436 million has been made by CTC during 2007.

(c) Pursuant to the acquisition agreement on 15 June 2007 entered into between the Company and CTC, the Company will acquire the Target Business and other assets from CTC for a consideration of RMB4,630 million in total.

Upon the completion of the above transaction, which is conditional upon the fulfilment of certain conditions as specified in the acquisition agreement, including, the approval by the Company's independent shareholders in an extraordinary meeting to be held on 7 August 2007, the Company will become the holding company of the Target Business.

IX. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for any of the entities included in the Target Business in respect of any period subsequent to 31 December 2006 except that audited financial statements of certain entities included in the Target Business for the one month period ended 31 January 2007 prepared in accordance with the PRC accounting rules and regulations were issued on 30 April 2007.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong, China

The following is the text of a letter, summary of values and valuation certificate, prepared for the purpose of incorporation in this circular, and received from Savills Valuation and Professional Services Limited, an independent valuer, in connection with their valuations as at 31 March 2007 of the property interests of the Group.

savills
第一太平戴維斯

T: (852) 2801 6100
F: (852) 2501 5590

23/F Two Exchange Square
Central, Hong Kong

EA LICENCE: C-023750
savills.com

20 June 2007

The Directors
China Communications Services Corporation Limited
Level 5
No. 2 and B
Fuxingmen South Avenue
Xicheng District
Beijing
The People's Republic of China

Dear Sirs

In accordance with your instructions for us to value the property interests to be acquired or held by China Communications Services Corporation Limited (中國通信服務股份有限公司) (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") in the People's Republic of China ("the PRC"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property interests as at 31 March 2007 for the purpose of incorporation in a circular issued by the Company.

Our valuation of each of the property interest is our opinion of its market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as a typical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

Our valuation is prepared in accordance with the HKIS Valuation Standards on Properties (1st Edition January 2005) published by The Hong Kong Institute of Surveyors.

We have valued portion of the properties in Group I by using "Direct comparison Approach" whenever market comparable transactions are available and assumed sale of the property interests with the benefit of vacant possession. However, for the rest of the properties in Group I, due to the fact that specific uses for those properties have been restricted, there are no readily identifiable market comparable, and the buildings and structures of these properties cannot be valued on the basis of direct comparison. They have therefore been valued on the basis of their depreciated replacement cost. We would define "depreciated replacement cost" for these purposes to be our opinion of the land value in its existing use and an estimate of the new replacement costs of the buildings, including fees and finance charges, from which deductions are then made to allow for age, condition and functional obsolescence. The depreciated replacement cost approach generally provides the most reliable indication of value for property in the absence of a known market based on comparable sales.

The properties in Group II, which are under construction, have been valued on the basis of "Depreciated Replacement Cost" with regard to their prevailing cost level and state of construction as at date of valuation, and we have also assumed that all consents, approvals and licences from the relevant Government authorities for these developments will be granted without any onerous conditions or undue delay which might affect their values.

The properties in Group III will be leased by the Group have no commercial value due to the prohibition against assignment, sub-letting or lack of substantial profit rent.

We have been provided with copies of extracts of title documents relating to the properties. However, we have not inspected the original documents to verify the ownership or to verify any amendments, which may not appear on the copies handed to us. In the course of our valuation, we have relied to a very considerable extent on the information given by the Company and its legal advisers on PRC laws, Jingtian & Gongcheng Attorneys at Law, regarding the titles and other legal matters relating to the properties, and have accepted advice given to us on matters such as planning approvals or statutory notices, easements, tenure, leases, particulars of occupancy, construction costs incurred, identification of the properties, site and floor areas and all other relevant matters. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by the Company and are therefore only approximations. We have not been able to carry out on-site measurements to verify the correctness of the site and floor areas of the properties. We have assumed that the site and floor areas shown on the documents handed to us are correct.

We have inspected the exterior, where possible, the interior of the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have not carried out investigations on site in respect of the properties in Group II to determine the suitability of the ground conditions and the services, etc. for further development. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In preparing our valuation report, we have complied with the requirements contained within the provisions of Chapter 5, Practice Notes 12 and 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except for those in respect of paragraphs 3(a) of Practice Note 16 and Rules 5.06(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Unless otherwise stated, all monetary amounts stated are in Renminbi.

Our summary of values and valuation certificate are attached herewith.

Yours faithfully
For and on behalf of
Savills Valuation and Professional Services Limited
Charles C K Chan
MSc FRICS FHKIS MCIArb RPS(GP)
Managing Director

Note: Charles C K Chan, Chartered Estate Surveyor, MSc, FRICS, FHKIS, MCIArb, RPS(GP), has about 17 years' experience in the valuation of properties in the PRC.

SUMMARY OF VALUES

No.	Property	Market value in existing state as at 31 March 2007 *RMB*
	Group I — Property interests held in the PRC	
1.	Properties in Shanghai Municipality, The PRC	3,970,000
2.	Properties in Guangdong Province, The PRC	88,790,000
3.	Property in Zhejiang Province, The PRC	140,000
4.	Properties in Fujian Province, The PRC	9,690,000
5.	Properties in Sichuan Province, The PRC	111,320,000
6.	Properties in Xinjiang Uygur Autonomous Region, The PRC	48,930,000
7.	Properties in Hunan Province, The PRC	115,150,000
8.	Properties in Guangxi Province, The PRC	38,480,000
9.	Properties in Anhui Province, The PRC	229,980,000
10.	Properties in Guizhou Province, The PRC	118,740,000
11.	Properties in Gansu Province, The PRC	63,670,000
12.	Properties in Jiangxi Province, The PRC	47,380,000
13.	Properties in Jiangsu Province, The PRC	296,960,000
14.	Properties in Chongqing Municipality, The PRC	33,260,000
15.	Properties in Yunnan Province, The PRC	55,530,000
16.	Properties in Shaanxi Province,The PRC	56,520,000
17.	Properties in Qinghai Province, The PRC	12,250,000
	Sub-total:	1,330,760,000

No.	Property	Market value in existing state as at 31 March 2007
		RMB
Group II — Property interests under development in the PRC		
18.	Properties under development in Sichuan Province, The PRC	76,200,000
19.	Property under development in Gansu Province, The PRC	4,860,000
20.	Property under development in Jiangsu Province, The PRC	16,000,000
21.	Property under development in Chongqing Municipality, The PRC	18,850,000
	Sub-total:	115,910,000
Group III — Properties rented in the PRC		
22.	Properties rented in Zhejiang Province, The PRC	No commercial value
23.	Properties rented in Sichuan Province, The PRC	No commercial value
24.	Properties rented in Xinjiang Uygur Autonomous Region, The PRC	No commercial value
25.	Properties rented in Hunan Province, The PRC	No commercial value
26.	Properties rented in Guangxi Province, The PRC	No commercial value
27.	Properties rented in Anhui Province, The PRC	No commercial value
28.	Properties rented in Guizhou Province, The PRC	No commercial value
29.	Properties rented in Gansu Province, The PRC	No commercial value
30.	Properties rented in Jiangxi Province, The PRC	No commercial value
31.	Properties rented in Jiangsu Province, The PRC	No commercial value
32.	Properties rented in Chongqing Province, The PRC	No commercial value
33.	Properties rented in Yunnan Province, The PRC	No commercial value

No.	Property	Market value in existing state as at 31 March 2007 *RMB*
34.	Properties rented in Shaanxi Province, The PRC	No commercial value
35.	Properties rented in Qinghai Province, The PRC	No commercial value
	Sub-total:	Nil
	Grand Total:	**1,446,670,000**

VALUATION CERTIFICATE

Group I — Property interests held in the PRC

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2007
1.	Properties in Shanghai Municipality, The PRC	The properties comprise 2 commercial units with a total gross floor area of approximately 455.21 sq.m. (4,900 sq.ft.) completed in 1997. The land use rights of the properties have been granted for a term of 49.3 years for office uses.	The properties are occupied for office uses.	RMB3,970,000

Notes:

1. We have been provided with legal opinion on the title to the properties issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

   Land Use Rights

   (i) the owners of the properties have legally acquired the land use rights of and are the legal users of the land of the properties and are entitled to transfer, lease, mortgage or dispose of the land by other means.

   Buildings

   (ii) the owners of the properties have acquired the building ownership of the buildings of the properties and are entitled to transferred, lease, mortgage or dispose of these buildings by other means.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2007
2.	Properties in Guangdong Province, The PRC	The properties comprise 9 parcels of land with a total site area of approximately 38,663.58 sq.m. (416,175 sq.ft.), 4 commercial buildings and units, 5 warehouses and other buildings and units with a total gross floor area of approximately 52,646.58 sq.m. (566,688 sq.ft.), mainly completed between 1982 and 1994.	The properties are occupied for office and other ancillary uses.	RMB88,790,000

Details of types of land and the approximate site areas are shown as follows:

Type	Site Area *(sq.m.)*
Granted Lands	7,444.74
Allocated Lands	31,218.84
Total	38,663.58

(Please see note 1 for the definition of Granted Lands and Allocated Lands.)

Details of the uses and approximate gross floor areas of the building portion of the properties are shown as follows:

Type	Approximate Floor Area *(sq.m.)*
Commercial	12,237.53
Warehouse	40,409.05
Total	52,646.58

Notes:

1. The land use rights of the properties are held under two categories. They are the lands held with granted land use rights certificates ("Granted Lands") and the lands held with allocated land use rights certificates ("Allocated Land").

2. The properties comprise a parcel of Granted Lands with a site area of approximately 7,444.74 sq.m. and 8 parcels of Allocated Lands with a total site area of approximately 31,218.84 sq.m.

3. Among the buildings and units of the properties, a building and unit with a gross floor area of approximately 9,016.05 sq.m. was erected on Granted Lands and 8 buildings and units with a total gross floor area of approximately 43,630.53 sq.m. were erected on Allocated Lands.

4. According to the information provided, a building and unit of the properties with a gross floor area of approximately 3,343.25 sq.m. is leased to connected parties at an annual rental of about RMB2,000,000, and 7 buildings and units of the properties with a total gross floor area of approximately 12,368.00 sq.m. are leased to independent third parties at a total annual rental of about RMB5,568,000.

5. We have been provided with legal opinion on the title to the properties issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

Land Use Rights

(i) Granted Lands — the owners have legally acquired the land use rights of and are the legal users of the Granted Lands of the properties. The owners are entitled to transfer, lease, mortgage or dispose of the land use rights of the Granted Lands by other means.

(ii) Allocated Lands — the owners will apply to the relevant authority for the grant of land use rights of the Allocated Lands and there is no legal impediment for such application. Upon the owners have been granted with the land use rights of the Allocated Lands, the owners are entitled to transfer the land use rights of the Allocated Lands.

Buildings

(iii) Buildings erected on Granted Lands — the owners have acquired the building ownership of these buildings and are entitled to transfer, lease, mortgage or dispose of these buildings by other means.

(iv) Buildings erected on Allocated Lands — Upon the owners have been granted with the land use rights of the Allocated Lands, the owners are entitled to transfer the buildings erected on Allocated Lands.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2007
3.	Property in Zhejiang Province, The PRC	The property comprises a commercial unit with a gross floor area of approximately 64.32 sq.m. (692 sq.ft.) and an apportioned site area of approximately 10.74 sq.m. (116 sq.ft.) completed in 1999. The land use rights of the property have been granted for a term of 50 years for office uses.	The property is occupied for office uses.	RMB140,000

Notes:

1. We have been provided with legal opinion on the title to the property issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

   Land Use Rights

   (i) The owner has legally acquired the land use rights of and is the legal user of the land of the property. The owner is entitled to transfer, lease, mortgage or dispose of the land use rights of the land by other means.

   Buildings

   (ii) The owner has acquired the building ownership of the building and is entitled to transfer, lease, mortgage or dispose of the building by other means.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2007
4.	Properties in Fujian Province, The PRC	The properties comprise 2 parcels of land with a total site area of approximately 5,381.00 sq.m. (57,921 sq.ft.), 1 commercial building and units, 2 warehouses and 1 other building and units with a total gross floor area of approximately 10,415.00 sq.m. (112,107 sq.ft.), mainly completed between 1960 and 1995.	The properties are occupied for office and other ancillary uses.	RMB9,690,000

Details of type of land and the approximate site area are shown as follows:

Type	Site Area *(sq.m.)*
Allocated Lands	5,381.00
Total	5,381.00

(Please see note 1 for the definition of Allocated Lands.)

Details of the uses and approximate gross floor areas of the building portion of the properties are shown as follows:

Type	Approximate Floor Area *(sq.m.)*
Commercial	5,329.10
Warehouse	5,068.90
Others	17.00
Total	10,415.00

Notes:

1. The land use rights of the properties are held under a category. They are the lands held with allocated land use rights certificates ("Allocated Land").

2. The properties comprise two parcels of Allocated Lands with a total site area of approximately 5,381.00 sq.m.

3. According to the information provided, portion of a building and unit of the properties with a total gross floor area of approximately 948.00 sq.m. is leased to three independent third parties at a total annual rental of about RMB61,440.

4. We have been provided with legal opinion on the title to the properties issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

Land Use Rights

(i) Allocated Lands – the owners will apply to the relevant authority for the grant of land use rights of the Allocated Lands and there is no legal impediment for such application. Upon the owners have been granted with the land use rights of the Allocated Lands, the owners are entitled to transfer the land use rights of the Allocated Lands.

Buildings

(ii) Buildings erected on Allocated Lands — Upon the owners have been granted with the land use rights of the Allocated Lands, the owners are entitled to transfer the buildings erected on Allocated Lands.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2007
5.	Properties in Sichuan Province, The PRC	The properties comprise 28 parcels of land with a total site area of approximately 21,890.18 sq.m. (235,626 sq.ft.), 34 commercial buildings and units, a warehouse and 13 other buildings and units with a total gross floor area of approximately 50,895.01 sq.m. (547,834 sq.ft.), mainly completed between 1974 and 2006.	The properties are occupied for office and other ancillary uses.	RMB111,320,000

Details of types of land and the approximate site areas are shown as follows:

Type	Site Area *(sq.m.)*
Granted Lands	11,458.57
Authorized Lands	10,431.62
Total	21,890.18

(Please see note 1 for the definition of Granted Lands and Authorized Lands.)

Details of the uses and approximate gross floor areas of the building portion of the properties are shown as follows:

Type	Approximate Floor Area *(sq.m.)*
Commercial	39,819.23
Warehouse	1,426.93
Others	9,648.85
Total	50,895.01

Notes:

1. The land use rights of the properties are held under two categories. They are the lands held with granted land use rights certificates ("Granted Lands") and the lands been authorised by the Ministry of Land and Resources of the PRC for China Telecom Group to manage and operate ("Authorized Lands").

2. The properties comprise 13 parcels of Granted Lands with a total site area of approximately 11,458.57 sq.m. and 15 parcels of Authorized Lands with a total site area of approximately 10,431.62 sq.m.

3. Among the buildings and units of the properties, 17 buildings and units with a total gross floor area of approximately 22,602.62 sq.m. were erected on Granted Lands and 31 buildings and units with a total gross floor area of approximately 28,292.39 sq.m. were erected on Authorized Lands.

4. According to the information provided, 5 buildings and units of the properties with a total gross floor area of approximately 2,430.6 sq.m. are leased to connected parties at a total annual rental of about RMB242,000, and 26 buildings and units of the properties with a total gross floor area of approximately 1,614.73 sq.m. are leased to independent third parties at a total annual rental of about RMB646,000.

5. We have been provided with legal opinion on the title to the properties issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

Land Use Rights

(i) Granted Lands — the owners have legally acquired the land use rights of and are the legal users of the Granted Lands of the properties. The owners are entitled to transfer, lease, mortgage or dispose of the Granted Lands by other means.

(ii) Authorized Lands — after China Telecom Group has obtained the land use rights of the Authorized Lands, China Telecom Group is entitled to dispose of the Authorized Lands by means of capital contribution or lease to its directly held enterprises, subsidiaries and associated enterprises. After the capital contribution, the existing occupiers of the Authorized Lands can apply for the change of the names of registered owner of the land. There is no legal impediment for such application. Upon completion of the change of registration, the existing occupiers will legally acquire the land use rights of the Authorized Lands and are entitled to transfer, lease, mortgage or dispose of the land use rights of the land.

Buildings

(iii) Buildings erected on Granted Lands — the owners have acquired the building ownership of these buildings and are entitled to transfer, lease, mortgage or disposal of these buildings by other means.

(iv) Buildings erected on Authorized Lands — the owners have acquired the building ownership of theses buildings and are entitled to transfer, lease, mortgage or dispose of the buildings.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2007
6.	Properties in Xinjiang Uygur Autonomous Region, The PRC	The properties comprise 7 parcels of land with a total site area of approximately 25,267.69 sq.m. (271,981 sq.ft.), 15 commercial buildings and units and 1 other building and units with a total gross floor area of approximately 18,152.66 sq.m. (195,395 sq.ft.), mainly completed between 1989 and 2004.	The properties are occupied for office and other ancillary uses.	RMB48,930,000

Details of types of land and approximate site areas are shown as follows:

Type	Site Area *(sq.m.)*
Granted Lands	21,862.98
Authorized Lands	3,404.71
Total	25,267.69

(Please see note 1 for the definition of Granted Lands and Authorized Lands.)

Details of the uses and approximate gross floor areas of the building portion of the properties are shown as follows:

Type	Approximate Floor Area *(sq.m.)*
Commercial	14,914.65
Others	3,238.01
Total	18,152.66

Notes:

1. The land use rights of the properties are held under two categories. They are the lands held with granted land use rights certificates ("Granted Lands") and the lands been authorised by the Ministry of Land and Resources of the PRC for China Telecom Group to manage and operate ("Authorized Lands").

2. The properties comprise 4 parcels of Granted Lands with a total site area of approximately 21,862.98 sq.m. and 3 parcels of Authorized Lands with a total site area of approximately 3,404.71 sq.m.

3. Among the buildings and units of the properties, 13 buildings and units with a total gross floor area of approximately 6,837.04 sq.m. were erected on Granted Lands and 3 buildings and units with a total gross floor area of approximately 11,315.62 sq.m. were erected on Authorized Lands.

4. According to the information provided, 3 buildings and units of the properties with a total gross floor area of approximately 6,251 sq.m. are leased to independent third parties at a total annual rental of about RMB4,913,000.

5. We have been provided with legal opinion on the title to the properties issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

Land Use Rights

(i) Granted Lands — the owners have legally acquired the land use rights of and are the legal users of the Granted Lands of the properties. The owners are entitled to transfer, lease, mortgage or dispose of the land use rights of the Granted Lands by other means.

(ii) Authorized Lands — after China Telecom Group has obtained the land use rights of the Authorized Lands. China Telecom Group is entitled to dispose of the Authorized Lands by means of capital contribution or lease to its directly held enterprises, subsidiaries and associated enterprises. After the capital contribution, the existing occupiers of the Authorized Lands can apply for the change of the names of registered owner of the land. There is no legal impediment for such application. Upon completion of the change of registration, the existing occupiers will legally acquire the land use rights of the Authorized Lands and are entitled to transfer, lease, mortgage or dispose of the land use rights of the land by other means according to the laws, administrative regulations, regulative documents and approval for land disposal.

Buildings

(iii) Buildings erected on Granted Lands — the owners have acquired the building ownership of these buildings and are entitled to transfer, lease, mortgage or dispose of these buildings by other means.

(iv) Buildings erected on Authorized Lands — the owners have acquired the building ownership of theses buildings and are entitled to transfer, lease, mortgage or dispose of the buildings by other means.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2007
7.	Properties in Hunan Province, The PRC	The properties comprise 4 parcels of land with a total site area of approximately 20,189.51 sq.m. (217,320 sq.ft.), 8 commercial buildings and units, 2 warehouses and 5 other buildings and units with a total gross floor area of approximately 34,080.34 sq.m. (366,841 sq.ft.), mainly completed between 1974 and 2000.	The properties are occupied for office and other ancillary uses.	RMB115,150,000

Details of types of land and approximate site areas are shown as follows:

Type	**Site Area** *(sq.m.)*
Granted Lands	10,674.82
Authorized Lands	9,514.69
Total	20,189.51

(Please see note 1 for the definition of Granted Lands and Authorized Lands.)

Details of the uses and approximate gross floor areas of the building portion of the properties are shown as follows:

Type	**Approximate Floor Area** *(sq.m.)*
Commercial	27,749.89
Warehouse	1,439.29
Others	4,891.16
Total	34,080.34

Notes:

1. The land use rights of the properties are held under two categories. They are the lands held with granted land use rights certificates ("Granted Lands") and the lands been authorised by the Ministry of Land and Resources of the PRC for China Telecom Group to manage and operate ("Authorized Lands").

2. The properties comprise 2 parcels of Granted Lands with a total site area of approximately 10,674.82 sq.m. and 2 parcels of Authorized Lands with a total site area of approximately 9,514.69 sq.m.

3. Among the buildings and units of the properties, 7 buildings and units with a total gross floor area of approximately 24,840.4 sq.m. were erected on Granted Lands and 8 buildings and units with a total gross floor area of approximately 9,239.94 sq.m. were erected on Authorized Lands.

4. We have been provided with legal opinion on the title to the properties issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

Land Use Rights

(i) Granted Lands — the owner has legally acquired the land use rights of and is the legal user of the Granted Lands of the properties. The owner is entitled to transfer, lease, mortgage or dispose of the land use rights of the Granted Lands by other means.

(ii) Authorized Lands — after China Telecom Group has obtained the land use rights of the Authorized Lands, China Telecom Group is entitled to dispose of the Authorized Lands by means of capital contribution or lease to its directly held enterprises, subsidiaries and associated enterprises. After the capital contribution, the existing occupiers of the Authorized Lands can apply for the change of the names of registered owner of the land. There is no legal impediment for such application. Upon completion of the change of registration, the existing occupiers will legally acquire the land use rights of the Authorized Lands and are entitled to transfer, lease, mortgage or dispose of the land use rights of the land by other means according to the laws, administrative regulations, regulative documents and approval for land disposal.

Buildings

(iii) Buildings erected on Granted Lands — the owners have acquired the building ownership of these buildings and are entitled to transferred, lease, mortgage or dispose of these buildings by other means.

(iv) Buildings erected on Authorized Lands — the owners have acquired the building ownership of theses buildings and is entitled to transfer, lease, mortgage or dispose of the buildings by other means.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2007
8.	Properties in Guangxi Province, The PRC	The properties comprise 3 parcels of land with a total site area of approximately 6,641.69 sq.m. (71,491 sq.ft.), 4 commercial buildings and units with a total gross floor area of approximately 19,271.94 sq.m. (207,443 sq.ft.), mainly completed between 1992 and 2005. Details of types of land and the approximate site areas are shown as follows:	The properties are occupied for office and other ancillary uses.	RMB38,480,000

Type	Site Area *(sq.m.)*
Granted Lands	3,138.34
Authorized Lands	3,503.35
Total	6,641.69

(Please see note 1 for the definition of Granted Lands and Authorized Lands.)

Notes:

1. The land use rights of the properties are held under two categories. They are the lands held with granted land use rights certificates ("Granted Lands") and the lands been authorised by the Ministry of Land and Resources of the PRC for China Telecom Group to manage and operate ("Authorized Lands").

2. The properties comprise a parcel of Granted Lands with a site area of approximately 3,138.34 sq.m. and two parcels of Authorized Lands with a total site area of approximately 3,503.35 sq.m.

3. Among the buildings and units of the properties, a building and unit with a gross floor area of approximately 8,069.27 sq.m. were erected on Granted Lands and 3 buildings and units with a total gross floor area of approximately 11,202.67 sq.m. were erected on Authorized Lands.

4. According to the information provided, a building and unit of the properties with a gross floor area of approximately 78.66 sq.m. is leased to connected parties at a total annual rental of about RMB28,300, and 5 buildings and units of the properties with a total gross floor area of approximately 2,229.52 sq.m. are leased to independent third parties at a total annual rental of about RMB861,000.

5. We have been provided with legal opinion on the title to the properties issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

   Land Use Rights

   (i) Granted Lands — the owner has legally acquired the land use rights of and is the legal user of the Granted Lands of the properties. The owners are entitled to transferred, lease, mortgage or dispose of the land use rights of the Granted Lands by other means.

(ii) Authorized Lands — after China Telecom Group has obtained the land use rights of the Authorized Lands, China Telecom Group is entitled to dispose of the Authorized Lands by means of capital contribution or lease to its directly held enterprises, subsidiaries and associated enterprises. After the capital contribution, the existing occupiers of the Authorized Lands can apply for the change of the names of registered owner of the land. There is no legal impediment for such application. Upon completion of the change of registration, the existing occupiers will legally acquire the land use rights of the Authorized Lands and are entitled to transfer, lease, mortgage or dispose of the land use rights of the land by other means according to the laws, administrative regulations, regulative documents and approval for land disposal.

Buildings

(iii) Buildings erected on Granted Lands — the owners have acquired the building ownership of these buildings and are entitled to transferred, lease, mortgage or dispose of these buildings by other means.

(iv) Buildings erected on Authorized Lands — the owners have acquired the building ownership of theses buildings and is entitled to transfer, lease, mortgage or dispose of the buildings by other means.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2007
9.	Properties in Anhui Province, The PRC	The properties comprise 25 parcels of land with a total site area of approximately 104,700.38 sq.m. (1,126,995 sq.ft.), 29 commercial buildings and units and 7 other buildings and units with a total gross floor area of approximately 94,364.17 sq.m. (1,015,736 sq.ft.), mainly completed between 1956 and 2006.	The properties are occupied for office and other ancillary uses.	RMB229,980,000

Details of types of land and the approximate site areas are shown as follows:

Type	Site Area *(sq.m.)*
Granted Lands	49,841.33
Authorized Lands	54,859.05
Total	104,700.38

(Please see note 1 for the definition of Granted Lands and Authorized Lands.)

Details of the uses and approximate gross floor areas of the building portion of the properties are shown as follows:

Type	Approximate Floor Area *(sq.m.)*
Commercial	60,908.37
Others	33,455.80
Total	94,364.17

Notes:

1. The land use rights of the properties are held under two categories. They are the lands held with granted land use rights certificates ("Granted Lands") and the lands been authorised by the Ministry of Land and Resources of the PRC for China Telecom Group to manage and operate ("Authorized Lands").

2. The properties comprise 14 parcels of Granted Lands with a total site area of approximately 49,841.33 sq.m. and 11 parcels of Authorized Lands with a total site area of approximately 54,859.05 sq.m.

3. Among the buildings and units of the properties, 24 buildings and units with a total gross floor area of approximately 71,365.20 sq.m. were erected on Granted Lands and 12 buildings and units with a total gross floor area of approximately 22,998.97 sq.m. were erected on Authorized Lands.

4. According to the information provided, 4 buildings and units of the properties with a total gross floor area of approximately 3,211.04 sq.m. are leased to connected parties at a total annual rental of about RMB1,368,000, and 9 buildings and units of the properties with a total gross floor area of approximately 8,290.14 sq.m. are leased to independent third parties at a total annual rental of about RMB1,732,000.

5. We have been provided with legal opinion on the title to the properties issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

Land Use Rights

(i) Granted Lands — the owners have legally acquired the land use rights of and are the legal users of the Granted Lands of the properties. The owners are entitled to transfer, lease, mortgage or dispose of the land use rights of the Granted Lands by other means.

(ii) Authorized Lands — after China Telecom Group has obtained the land use rights of the Authorized Lands, China Telecom Group is entitled to dispose of the Authorized Lands by means of capital contribution or lease to its directly held enterprises, subsidiaries and associated enterprises. After the capital contribution, the existing occupiers of the Authorized Lands can apply for the change of the names of registered owner of the land. There is no legal impediment for such application. Upon completion of the change of registration, the existing occupiers will legally acquire the land use rights of the Authorized Lands and are entitled to transfer, lease, mortgage or dispose of the land use rights of the land by other means according to the laws, administrative regulations, regulative documents and approval for land disposal.

Buildings

(iii) Buildings erected on Granted Lands — the owners have acquired the building ownership of these buildings and are entitled to transfer, lease, mortgage or dispose of these buildings by other means.

(iv) Buildings erected on Authorized Lands — the owners have acquired the building ownership of theses buildings and are entitled to transfer, lease, mortgage or dispose of the buildings by other means.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2007
10.	Properties in Guizhou Province, The PRC	The properties comprise 8 parcels of land with a total site area of approximately 5,091.39 sq.m. (54,804 sq.ft.) and 8 commercial buildings and units with a total gross floor area of approximately 28,890.64 sq.m. (310,979 sq.ft.), mainly completed between 2001 and 2003.	The properties are occupied for office and other ancillary uses.	RMB118,740,000

Details of types of land and the approximate site areas are shown as follows:

Type	Site Area *(sq.m.)*
Granted Lands	251.79
Authorized Lands	4,839.60
Total	5,091.39

(Please see note 1 for the definition of Granted Lands and Authorized Lands.)

Details of the uses and approximate gross floor areas of the building portion of the properties are shown as follows:

Type	Approximate Floor Area *(sq.m.)*
Commercial	28,890.64
Total	28,890.64

Notes:

1. The land use rights of the properties are held under two categories. They are the lands held with granted land use rights certificates ("Granted Lands") and the lands been authorised by the Ministry of Land and Resources of the PRC for China Telecom Group to manage and operate ("Authorized Lands").

2. The properties comprise 7 parcels of Granted Lands with a total site area of approximately 251.79 sq.m. and a parcel of Authorized Lands with a site area of approximately 4,839.60 sq.m.

3. Among the buildings and units of the properties, 7 buildings and units with a total gross floor area of approximately 6,829.29 sq.m. were erected on Granted Lands and a building and unit with a gross floor area of approximately 22,061.35 sq.m. was erected on Authorized Lands.

4. According to the information provided, 2 buildings and units of the properties with a total gross floor area of approximately 1,410.56 sq.m. are leased to connected parties at a total annual rental of about RMB314,000, and 15 buildings and units of the properties with a total gross floor area of approximately 17,505.98 sq.m. are leased to independent third parties at a total annual rental of about RMB2,023,000.

5. We have been provided with legal opinion on the title to the properties issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

Land Use Rights

(i) Granted Lands — the owners have legally acquired the land use rights of and are the legal users of the Granted Lands of the properties. The owners are entitled to transfer, lease, mortgage or dispose of the land use rights of the Granted Lands by other means.

(ii) Authorized Lands — after China Telecom Group has obtained the land use rights of the Authorized Lands, China Telecom Group is entitled to dispose of the Authorized Lands by means of capital contribution or lease to its directly held enterprises, subsidiaries and associated enterprises. After the capital contribution, the existing occupiers of the Authorized Lands can apply for the change of the names of registered owner of the land. There is no legal impediment for such application. Upon completion of the change of registration, the existing occupiers will legally acquire the land use rights of the Authorized Lands and are entitled to transfer, lease, mortgage or dispose of the land use rights of the land by other means according to the laws, administrative regulations, regulative documents and approval for land disposal.

Buildings

(iii) Buildings erected on Granted Lands — the owners have acquired the building ownership of these buildings and are entitled to transfer, lease, mortgage or dispose of these buildings by other means.

(iv) Buildings erected on Authorized Lands — the owners have acquired the building ownership of theses buildings and are entitled to transfer, lease, mortgage or dispose of the buildings by other means.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2007
11.	Properties in Gansu Province, The PRC	The properties comprise 2 parcels of land with a total site area of approximately 13,094.50 sq.m. (140,949 sq.ft.) and a commercial building with a total gross floor area of approximately 20,808.72 sq.m. (223,985 sq.ft.), completed in 2005. Details of types of land and the approximate site areas are shown as follows: **Type** — **Site Area** *(sq.m.)* Granted Lands — 3,292.10 Authorized Lands — 9,802.40 Total — 13,094.50 (Please see note 1 for the definition of Granted Lands and Authorized Lands.)	The properties are occupied for office and other ancillary uses.	RMB63,670,000

Notes:

1. The land use rights of the properties are held under two categories. They are the lands held with granted land use rights certificates ("Granted Lands") and the lands been authorised by the Ministry of Land and Resources of the PRC for China Telecom Group to manage and operate ("Authorized Lands").

2. The properties comprise a parcel of Granted Lands with a site area of approximately 3,292.10 sq.m. and a parcel of Authorized Lands with a site area of approximately 9,802.40 sq.m.

3. The building of the properties with a total gross floor area of approximately 20,808.72 sq.m. was erected on Granted Lands.

4. According to the information provided, portion of the building of the properties with a total gross floor area of approximately 6,884.73 sq.m. is leased to connected parties at a total annual rental of about RMB3,401,000 and portion of it with a gross floor area of approximately 1,458.72 sq.m. is leased to independent third parties at a total annual rental of about RMB59,400.

5. We have been provided with legal opinion on the title to the properties issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

   Land Use Rights

   (i) Granted Lands — the owners have legally acquired the land use rights of and are the legal users of the Granted Lands of the properties. The owners are entitled to transfer, lease, mortgage or dispose of the land use rights of the Granted Lands by other means.

   (ii) Authorized Lands — after China Telecom Group has obtained the land use rights of the Authorized Lands, China Telecom Group is entitled to disposal of the Authorized Lands by means of capital contribution or lease to its directly held enterprises, subsidiaries and associated enterprises. After the capital contribution, the existing occupiers of the Authorized Lands can apply for the change of the names of registered owner of the land. There is no legal impediment for such application. Upon completion of the change of registration, the existing occupiers will legally acquire the land use rights of the Authorized Lands and are entitled to transfer, lease, mortgage or dispose of the land use rights of the land by other means according to the laws, administrative regulations, regulative documents and approval for land disposal.

Buildings

(iii) Buildings erected on Granted Lands — the owners have acquired the building ownership of these buildings and are entitled to transfer, lease, mortgage or dispose of these buildings by other means.

(iv) Buildings erected on Authorized Lands — the owners have acquired the building ownership of theses buildings and are entitled to transfer, lease, mortgage or dispose of the buildings by other means.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2007
12.	Properties in Jiangxi Province, The PRC	The properties comprise 9 parcels of land with a total site area of approximately 19,205.98 sq.m. (206,733 sq.ft.) and 14 commercial buildings and units with a total gross floor area of approximately 24,979.62 sq.m. (268,881 sq.ft.), mainly completed between 1974 and 2001. Details of types of land and the approximate site areas are shown as follows:	The properties are occupied for office and other ancillary uses.	RMB47,380,000

Type	Site Area *(sq.m.)*
Granted Lands	134.78
Authorized Lands	19,071.20
Total	19,205.98

(Please see note 1 for the definition of Granted Lands and Authorized Lands.)

Notes:

1. The land use rights of the properties are held under two categories. They are the lands held with granted land use rights certificates ("Granted Lands") and the lands been authorised by the Ministry of Land and Resources of the PRC for China Telecom Group to manage and operate ("Authorized Lands").

2. The properties comprise a parcel of Granted Lands with a site area of approximately 134.78 sq.m. and 8 parcels of Authorized Lands with a total site area of approximately 19,071.20 sq.m.

3. Among the buildings and units of the properties, 3 buildings and units with a total gross floor area of approximately 1,197.84 sq.m. were erected on Granted Lands and 11 buildings and units with a total gross floor area of approximately 23,781.78 sq.m. were erected on Authorized Lands.

4. According to the information provided, a building and units of the properties with a gross floor area of approximately 4,514.10 sq.m. is leased to independent third parties at a annual rental of about RMB953,000.

5. We have been provided with legal opinion on the title to the properties issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

   Land Use Rights

   (i) Granted Lands — the owners have legally acquired the land use rights of and are the legal users of the Granted Lands of the properties. The owners are entitled to transfer, lease, mortgage or dispose of the land use rights of the Granted Lands by other means.

   (ii) Authorized Lands — after China Telecom Group has obtained the land use rights of the Authorized Lands, China Telecom Group is entitled to dispose of the Authorized Lands by means of capital contribution or lease to its directly held enterprises, subsidiaries and associated enterprises. After the capital contribution, the existing occupiers of the Authorized Lands can apply for the change of the names of registered owner of the land. There is no legal impediment for such application. Upon completion of the change of registration, the existing occupiers will legally acquire the land use rights of the Authorized Lands and are entitled to transfer, lease, mortgage or dispose of the land use rights of the land by other means according to the laws, administrative regulations, regulative documents and approval for land disposal.

Buildings

(iii) Buildings erected on Granted Lands — the owners have acquired the building ownership of these buildings and are entitled to transfer, lease, mortgage or dispose of these buildings by other means.

(iv) Buildings erected on Authorized Lands — the owners have acquired the building ownership of theses buildings and are entitled to transfer, lease, mortgage or dispose of the buildings by other means.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2007
13.	Properties in Jiangsu Province, The PRC	The properties comprise 16 parcels of land with a total site area of approximately 44,234.45 sq.m. (476,140 sq.ft.), 44 commercial buildings and units, 5 warehouses and 53 other buildings and units with a total gross floor area of approximately 85,058.07 sq.m. (915,565 sq.ft.), mainly completed between 1930 and 2004.	The properties are occupied for office and other ancillary uses.	RMB296,960,000

Details of types of land and the approximate site areas are shown as follows:

Type	Site Area *(sq.m.)*
Granted Lands	8,715.05
Authorized Lands	35,519.40
Total	44,234.45

(Please see note 1 for the definition of Granted Lands and Authorized Lands.)

Details of the uses and approximate gross floor areas of the building portion of the properties are shown as follows:

Type	Approximate Floor Area *(sq.m.)*
Commercial	53,740.99
Warehouse	2,311.18
Others	29,005.90
Total	85,058.07

Notes:

1. The land use rights of the properties are held under two categories. They are the lands held with granted land use rights certificates ("Granted Lands") and the lands been authorised by the Ministry of Land and Resources of the PRC for China Telecom Group to manage and operate ("Authorized Lands").

2. The properties comprise 9 parcels of Granted Lands with a total site area of approximately 8,715.05 sq.m. and 7 parcels of Authorized Lands with a total site area of approximately 35,519.40 sq.m.

3. Among the buildings and units of the properties, 23 buildings and units with a total gross floor area of approximately 30,105.18 sq.m. were erected on Granted Lands and 79 buildings and units with a total gross floor area of approximately 54,952.89 sq.m. were erected on Authorized Lands.

4. According to the information provided, a building and unit of the properties with a gross floor area of approximately 860 sq.m. is leased to connected parties at an annual rental of about RMB115,500, and 49 buildings and units of the properties with a total gross floor area of approximately 31,801.95 sq.m. are leased to independent third parties at a total annual rental of about RMB12,938,000.

5. We have been provided with legal opinion on the title to the properties issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

Land Use Rights

(i) Granted Lands — the owners have legally acquired the land use rights of and are the legal users of the Granted Lands of the properties. The owners are entitled to transfer, lease, mortgage or dispose of the land use rights of the Granted Lands by other means.

(ii) Authorized Lands — after China Telecom Group has obtained the land use rights of the Authorized Lands, China Telecom Group is entitled to dispose of the Authorized Lands by means of capital contribution or lease to its directly held enterprises, subsidiaries and associated enterprises. After the capital contribution, the existing occupiers of the Authorized Lands can apply for the change of the names of registered owner of the land. There is no legal impediment for such application. Upon completion of the change of registration, the existing occupiers will legally acquire the land use rights of the Authorized Lands and are entitled to transfer, lease, mortgage or dispose of the land use rights of the land by other means according to the laws, administrative regulations, regulative documents and approval for land disposal.

Buildings

(iii) Buildings erected on Granted Lands — the owners have acquired the building ownership of these buildings and are entitled to transfer, lease, mortgage or dispose of these buildings by other means.

(iv) Buildings erected on Authorized Lands — the owners have acquired the building ownership of theses buildings and are entitled to transfer, lease, mortgage or dispose of the buildings by other means.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2007
14.	Properties in Chongqing Municipality, The PRC	The properties comprise 5 parcels of land with a site area of approximately 15,495.01 sq.m. (166,788 sq.ft.), 6 commercial buildings and units, 2 warehouses and an other building and units with a total gross floor area of approximately 15,620.50 sq.m. (168,139 sq.ft.), mainly completed between 1995 and 2001.	The properties are occupied for office and other ancillary uses.	RMB33,260,000

Details of types of land and approximate site areas are shown as follows:

Type	Site Area *(sq.m.)*
Granted Lands	223.31
Authorized Lands	15,271.70
Total	15,495.01

(Please see note 1 for the definition of Authorized Lands.)

Details of the uses and approximate gross floor areas of the building portion of the properties are shown as follows:

Type	Approximate Floor Area *(sq.m.)*
Commercial	7,409.10
Warehouse	7,715.61
Others	495.79
Total	15,620.50

Notes:

1. The land use rights of the properties are held under two categories. They are the lands held with granted land use rights certificates ("Granted Lands") and the lands been authorized by the Ministry of Land and Resources of the PRC for China Telecom Group to manage and operate ("Authorized Lands").

2. The properties comprise 4 parcels of Granted Lands with a total site area of approximately 223.31 sq.m. and a parcel of Authorized Lands with a site area of approximately 15,271.70 sq.m.

3. The 5 buildings and units of the properties with a total gross floor area of approximately 11,936.36 sq.m. were erected on Authorized Lands.

4. According to the information provided, 2 buildings and units of the properties with a total gross floor area of approximately 7,134.00 sq.m. are leased to connected parties at a total annual rental of about RMB916,000, and 4 buildings and units of the properties with a total gross floor area of approximately 3,253.60 sq.m. are leased to independent third parties at a total annual rental of about RMB690,000.

5. We have been provided with legal opinion on the title to the properties issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

Land Use Rights

(i) Granted Lands — the owners have legally acquired the land use rights of and are the legal users of the Granted Lands of the properties. The owners are entitled to transfer, lease, mortgage or dispose of the land use rights of the Granted Lands by other means.

(ii) Authorized Lands — after China Telecom Group has obtained the land use rights of the Authorized Lands, China Telecom Group is entitled to dispose of the Authorized Lands by means of capital contribution or lease to its directly held enterprises, subsidiaries and associated enterprises. After the capital contribution, the existing occupiers of the Authorized Lands can apply for the change of the names of registered owner of the land. There is no legal impediment for such application. Upon completion of the change of registration, the existing occupiers will legally acquire the land use rights of the Authorized Lands and are entitled to transfer, lease, mortgage or dispose of the land use rights of the land by other means according to the laws, administrative regulations, regulative documents and approval for land disposal.

Buildings

(iii) Buildings erected on Granted Lands — the owners have acquired the building ownership of these buildings and are entitled to transfer, lease, mortgage or dispose of these buildings by other means.

(iv) Buildings erected on Authorized Lands — the owners have acquired the building ownership of theses buildings and are entitled to transfer, lease, mortgage or dispose of the buildings by other means.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2007
15.	Properties in Yunnan Province, The PRC	The properties comprise 8 parcels of land with a total site area of approximately 11,007.20 sq.m. (118,482 sq.ft.), 16 commercial buildings and units and 4 other buildings and units with a total gross floor area of approximately 18,953.55 sq.m. (204,016 sq.ft.), mainly completed between 1970 and 1999.	The properties are occupied for office and other ancillary uses.	RMB55,530,000

Details of type of land and the approximate site area are shown as follows:

Type	Site Area *(sq.m.)*
Granted Lands	11,007.20
Total	11,007.20

(Please see note 1 for the definition of Granted Lands.)

Details of the uses and approximate gross floor areas of the building portion of the properties are shown as follows:

Type	Approximate Floor Area *(sq.m.)*
Commercial	15,856.20
Others	3,097.35
Total	18,953.55

Notes:

1. The land use rights of the properties are held with granted land use rights certificates ("Granted Lands").

2. The properties comprise 8 parcels of Granted Lands with a total site area of approximately 11,007.20 sq.m.

3. According to the information provided, a building and unit of the properties with a gross floor area of approximately 848.25 sq.m. is leased to connected party at an annual rental of about RMB275,000, and 3 buildings and units of the properties with a total gross floor area of approximately 2,441.12 sq.m. are leased to independent third parties at a total annual rental of about RMB453,000.

4. We have been provided with legal opinion on the title to the properties issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

Land Use Rights

(i) Granted Lands — the owners have legally acquired the land use rights of and are the legal users of the Granted Lands of the properties. The owners are entitled to transfer, lease, mortgage or dispose of the land use rights of the Granted Lands by other means.

Buildings

(ii) Buildings erected on Granted Lands — the owners have acquired the building ownership of these buildings and are entitled to transfer, lease, mortgage or dispose of these buildings by other means.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2007
16.	Properties in Shaanxi Province, The PRC	The properties comprise 4 parcels of land with a total site area of approximately 24,398.90 sq.m. (262,630 sq.ft.) and 6 commercial buildings and units with a total gross floor area of approximately 12,608.55 sq.m. (135,718 sq.ft.), mainly completed between 1987 and 1999. Details of types of land and the approximate site areas are shown as follows:	The properties are occupied for office and other ancillary uses.	RMB56,520,000

Type	**Site Area** *(sq.m.)*
Granted Lands	400.80
Authorized Lands	23,998.10
Total	24,398.90

(Please see note 1 for the definition of Granted Lands and Authorized Lands.)

Notes:

1. The land use rights of the properties are held under two categories. They are the lands held with granted land use rights certificates ("Granted Lands") and the lands been authorised by the Ministry of Land and Resources of the PRC for China Telecom Group to manage and operate ("Authorized Lands").

2. The properties comprise a parcel of Granted Lands with a site area of approximately 400.80 sq.m. and 3 parcels of Authorized Lands with a total site area of approximately 23,998.10 sq.m.

3. Among the buildings and units of the properties, 4 buildings and units with a total gross floor area of approximately 2,697.36 sq.m. were erected on Granted Lands and 2 buildings and units with a total gross floor area of approximately 9,911.19 sq.m. were erected on Authorized Lands.

4. According to the information provided, 2 buildings and units of the properties with a total gross floor area of approximately 1,271.90 sq.m. are leased to independent third parties at a total annual rental of about RMB1,200,000.

5. We have been provided with legal opinion on the title to the properties issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

   Land Use Rights

   (i) Granted Lands — the owners have legally acquired the land use rights of and are the legal users of the Granted Lands of the properties. The owners are entitled to transfer, lease, mortgage or dispose of the land use rights of the Granted Lands by other means.

(ii) Authorized Lands — after China Telecom Group has obtained the land use rights of the Authorized Lands, China Telecom Group is entitled to dispose of the Authorized Lands by means of capital contribution or lease to its directly held enterprises, subsidiaries and associated enterprises. After the capital contribution, the existing occupiers of the Authorized Lands can apply for the change of the names of registered owner of the land. There is no legal impediment for such application. Upon completion of the change of registration, the existing occupiers will legally acquire the land use rights of the Authorized Lands and are entitled to transfer, lease, mortgage or dispose of the land use rights of the land by other means according to the laws, administrative regulations, regulative documents and approval for land disposal.

Buildings

(iii) Buildings erected on Granted Lands — the owners have acquired the building ownership of these buildings and are entitled to transfer, lease, mortgage or dispose of these buildings by other means.

(iv) Buildings erected on Authorized Lands — the owners have acquired the building ownership of theses buildings and are entitled to transfer, lease, mortgage or dispose of the buildings by other means.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2007
17.	Properties in Qinghai Province, The PRC	The properties comprise 2 parcels of land with a total site area of approximately 12,484.06 sq.m. (134,378 sq.ft.), 10 commercial buildings and units and 4 warehouses with a total gross floor area of approximately 8,591.62 sq.m. (92,480 sq.ft.), mainly completed between 1975 and 2003.Details of type of land and the approximate site area are shown as follows:	The properties are occupied for office and other ancillary uses.	RMB12,250,000

Type	Site Area (sq.m.)
Authorized Lands	12,484.06
Total	12,484.06

(Please see note 1 for the definition of Authorized Lands.)

Details of the uses and approximate gross floor areas of the building portion of the properties are shown as follows:

Type	Approximate Floor Area (sq.m.)
Commercial	8,219.82
Warehouse	371.80
Total	8,591.62

Notes:

1. The land use rights of the properties are held under the category of Authorized Lands. It is the land been authorised by the Ministry of Land and Resources of the PRC for China Telecom Group to manage and operate ("Authorized Lands").

2. The properties comprise 2 parcels of Authorized Lands with a total site area of approximately 12,484.06 sq.m.

3. We have been provided with legal opinion on the title to the properties issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

Land Use Rights

(i) Authorized Lands — after China Telecom Group has obtained the land use rights of the Authorized Lands, China Telecom Group is entitled to dispose of the Authorized Lands by means of capital contribution or lease to its directly held enterprises, subsidiaries and associated enterprises. After the capital contribution, the existing occupiers of the Authorized Lands can apply for the change of the names of registered owner of the land. There is no legal impediment for such application. Upon completion of the change of registration, the existing occupiers will legally acquire the land use rights of the Authorized Lands and are entitled to transfer, lease, mortgage or dispose of the land use rights of the land by other means according to the laws, administrative regulations, regulative documents and approval for land disposal.

Buildings

(ii) Buildings erected on Authorized Lands — the owners have acquired the building ownership of theses buildings and are entitled to transfer, lease, mortgage or dispose of the buildings by other means.

VALUATION CERTIFICATE

Group II — Property interests held under development in the PRC

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2007
18.	Properties under development in Sichuan Province, The PRC	The properties comprise two buildings and units under construction and a project under construction on a parcel of Granted Land with a site area of approximately 10,020.00 sq.m. (107,855 sq.ft.) (Please see note 1 for the definition of Granted Land). Upon completion, the properties will have a total gross floor area of approximately 10,821.78 sq.m. (116,486 sq.ft.). The properties are scheduled to be completed in 2007. The land use rights of the properties have been granted for a term of 50 years for industrial uses.	The properties are currently under construction. Upon completion, the properties will be occupied for office uses.	RMB76,200,000

Notes:

1. The land use rights of the properties are held under the category of Granted Land. It is the land held with granted land use rights certificate ("Granted Land").

2. As advised, the two buildings and units under construction are commodity housing purchased from a property developer (independent third parties) and the owners of the two buildings and units do not have to bear any outstanding construction costs. The capital value when completion of the two buildings and units as at 31 March 2007 was RMB74,400,000.

3. According to the information provided, the incurred and outstanding construction costs to complete the project under construction as at 31 March 2007 were about RMB236,000 and RMB364,000 respectively. The capital value when completion of the project as at 31 March 2007 was RMB783,000.

4. We have been provided with legal opinion on the title to the properties issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

   Land Use Rights

   (i) The owners have legally acquired the land use rights of and are the legal users of the Granted Lands of the properties. The owners are entitled to transfer, lease, mortgage or dispose of the Granted Lands by other means.

   (ii) The approval and permits of the development of the properties have been obtained.

   (iii) One of the properties with a site area and gross floor area of 10,020.00 sq.m. and 652.80 sq.m. has been transferred to Sichuan Qingfeng Telecom Company Limited (a subsidiary of China Telecom Group). There is no substantial legal impediment for the legal procedures of change of name in the relevant approval and permits for the development.

   (iv) The owners of the remaining two buildings have entered into Sales and Purchase Agreements with the developer of the two buildings (independent third parties). The Sales and Purchase Agreements are legal and valid and there is no legal impediment for the owners to acquire the ownership of the buildings.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2007
19.	Property under development in Gansu Province, The PRC	The property comprise a 3-storey warehouse under construction on a parcel of Granted Land with a site area of approximately 3,896.60 sq.m. (41,943 sq.ft.) (Please see note 1 for the definition of Granted Land). Upon completion, the property will have a gross floor area of approximately 6,326.50 sq.m. (68,098 sq.ft.). The property is scheduled to be completed in 2009. The land use rights of the property have been granted for a term of 49.8 years for industrial uses.	The property is currently under construction. Upon completion, the property will be occupied for warehouse uses.	RMB4,860,000

Notes:

1. The land use rights of the property are held by the Group under the category of Granted Land. It is the land held with granted land use rights certificate ("Granted Land").

2. According to the information provided, the incurred and outstanding construction costs to complete the property as at 31 March 2007 were about RMB2,740,000 and RMB3,760,000 respectively.

3. The capital value when completion of the property as at 31 March 2007 was RMB5,100,000.

4. We have been provided with legal opinion on the title to the property issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

   (i) The owner of the property has obtained the approval and permits for the development of the property.

   (ii) The owner of the property is entitled to transfer the property.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2007
20.	Property under development in Jiangsu Province, The PRC	The property comprise portion of a 6-storey office building under construction on a parcel of Granted Land with a site area of approximately 5,275.20 sq.m. (56,782 sq.ft.) (Please see note 1 for the definition of Granted Land). Upon completion, the property will have a gross floor area of approximately 10,000.00 sq.m. (107,640 sq.ft.). The property is scheduled to be completed in 2008.	The property is currently under construction. Upon completion, the property will be occupied for office and other ancillary uses.	RMB16,000,000

Notes:

1. The land use rights of the property are held under the category of Granted Land. It is the land held with granted land use rights certificate ("Granted Land").

2. According to the information provided, the incurred and outstanding construction costs to complete the whole building of the property as at 31 March 2007 were about RMB18,100,000 and RMB42,300,000 respectively.

3. The capital value when completion of the property as at 31 March 2007 was RMB40,000,000.

4. We have been provided with legal opinion on the title to the property issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

   Land Use Rights

   (i) The approval and permits of the development of the property have been obtained.

   (ii) The owner of the property is entitled to transfer the property.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2007
21.	Property under development in Chongqing Municipality, The PRC	The property comprise a portion on Level 4 of an 18-storey residential/ commercial building which is under construction. Upon completion, the property will have a gross floor area of approximately 1,417.93 sq.m. (15,263 sq.ft.) and an apportioned site area of approximately 101.58 sq.m. (1,093 sq.ft.). The property is scheduled to be completed in 2007. The land use rights of the property have been granted for a term of 31.1 years for commercial uses.	The property is currently under construction. Upon completion, the property will be occupied for office and other ancillary uses.	RMB18,850,000

Notes:

1. As advised, the property under construction is commodity housing purchased from a property developer (independent third parties) and the owner of the property do not have to bear any outstanding construction costs. The capital value when completion of the property as at 31 March 2007 was RMB18,850,000.

2. The Real Estate Title Certificate of the property has been obtained and the title to the property is held by the owner with granted land use rights for commercial uses.

3. We have been provided with legal opinion on the title to the property issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

   (i) The owner has legally acquired the land use rights of and is the legal user of the property. The owner is entitled to transfer, lease, mortgage or dispose of the property by other means.

VALUATION CERTIFICATE

Group III — Properties interests rented in the PRC

	Property	Description and tenancy particulars	Particulars of occupancy	Market value in existing state as at 31 March 2007
22.	Properties rented in Zhejiang Province, The PRC	The properties comprise 2 commercial buildings and units with a total gross floor area of approximately 354.20 sq.m. (3,813 sq.ft.) mainly completed in 2002. The properties are subject to verbal tenancy with unspecified lease term and rental.	The properties are currently occupied for office and other ancillary uses.	No commercial value

Notes:

1. We have been provided with legal opinion on the title to the properties issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

   (i) The leased buildings and units have a total floor area of 1,193.73 sq.m.

   (ii) The lessors of the buildings and units of the properties have acquired the relevant building ownership certificates and are entitled to lease their properties.

VALUATION CERTIFICATE

	Property	Description and tenancy particulars	Particulars of occupancy	Market value in existing state as at 31 March 2007
23.	Properties rented in Sichuan Province, The PRC	The properties comprise 121 commercial, warehouses and other buildings and units with a total gross floor area of approximately 87,445.25 sq.m. (941,261 sq.ft.) mainly completed between 1956 and 2005. Details of the approximate gross floor areas of the properties are shown as follows:	The properties are currently occupied for office, retail outlets, warehouse and other ancillary uses.	No commercial value

Type	Gross Floor Area *(sq.m.)*
Commercial	65,066.82
Warehouse	727.67
Others	21,650.76
Total	87,445.25

The properties are subject to various tenancy agreements for respective terms with majority term of 1 year and the latest expiry date in October 2011. The total current annual rental of the properties is about RMB4,480,000.

Notes:

1. We have been provided with legal opinion on the title to the properties issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

   (i) The leased buildings and units have a total floor area of 87,445.25 sq.m.

   (ii) The lessors of 118 buildings and units of the properties with a total gross floor area of 81,690.25 sq.m. have acquired the relevant building ownership certificates and are entitled to lease their properties.

   (iii) The lessors of the remaining buildings and units of the properties cannot be confirmed as the legal owners. If the lessors are not the legal owners, the lessees would not be the legal users of the properties.

VALUATION CERTIFICATE

	Property	Description and tenancy particulars	Particulars of occupancy	Market value in existing state as at 31 March 2007
24.	Properties rented in Xinjiang Uygur Autonomous Region, The PRC	The properties comprise 54 commercial, warehouses and other buildings and units with a total gross floor area of approximately 21,063.80 sq.m. (226,731 sq.ft.) mainly completed between 1956 and 2006. Details of the approximate gross floor areas of the properties are shown as follows:	The properties are currently occupied for office, retail outlets, warehouse and other ancillary uses.	No commercial value

Type	Gross Floor Area *(sq.m.)*
Commercial	17,155.17
Warehouse	630.00
Others	3,278.63
Total	21,063.80

The properties are subject to various tenancy agreements for respective terms with majority term of 1 year and the latest expiry date in September 2016. The total current annual rental of the properties is about RMB4,125,000.

Notes:

1. We have been provided with legal opinion on the title to the properties issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

   (i) The leased buildings and units have a total floor area of 21,063.80 sq.m.

   (ii) The lessors of 45 buildings and units of the properties with a total gross floor area of 20,254.00 sq.m. have acquired the relevant building ownership certificates and are entitled to lease their properties.

   (iii) The lessors of the remaining buildings and units of the properties cannot be confirmed as the legal owners. If the lessors are not the legal owners, the lessees would not be the legal users of the properties.

VALUATION CERTIFICATE

	Property	Description and tenancy particulars	Particulars of occupancy	Market value in existing state as at 31 March 2007
25.	Properties rented in Hunan Province, The PRC	The properties comprise 58 commercial, warehouses and other buildings and units with a total gross floor area of approximately 43,055.75 sq.m. (463,452 sq.ft.) mainly completed between 1965 and 2005. Details of the approximate gross floor areas of the properties are shown as follows: **Type** — **Gross Floor Area** *(sq.m.)* Commercial — 23,990.61 Warehouse — 3,496.47 Others — 15,568.67 Total — 43,055.75 The properties are subject to various tenancy agreements for respective terms with majority of unspecified term and the latest expiry date of fixed lease term is in February 2008. The total current annual rental of the properties is about RMB324,700.	The properties are currently occupied for office, retail outlets, warehouse and other ancillary uses.	No commercial value

Notes:

1. We have been provided with legal opinion on the title to the properties issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

   (i) The leased buildings and units have a total floor area of 43,055.75 sq.m.

   (ii) The lessors of 47 buildings and units of the properties with a total gross floor area of 34,046.75 sq.m. have acquired the relevant building ownership certificates and are entitled to lease their properties.

   (iii) The lessors of the remaining buildings and units of the properties cannot be confirmed as the legal owners. If the lessors are not the legal owners, the lessees would not be the legal users of the properties.

VALUATION CERTIFICATE

	Property	Description and tenancy particulars	Particulars of occupancy	Market value in existing state as at 31 March 2007
26.	Properties rented in Guangxi Province, The PRC	The properties comprise 5 commercial and warehouses buildings and units with a total gross floor area of approximately 21,618.96 sq.m. (232,706 sq.ft.) mainly completed between 1978 and 2001. Details of the approximate gross floor areas of the properties are shown as follows: **Type** / **Gross Floor Area** *(sq.m.)* Commercial 16,261.94 Warehouse 5,357.02 Total 21,618.96 The properties are subject to verbal tenancies with unspecified lease terms and rentals.	The properties are currently occupied for office and warehouse uses.	No commercial value

Notes:

1. We have been provided with legal opinion on the title to the properties issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

   (i) The leased buildings and units have a total floor area of 21,618.96 sq.m.

   (ii) The lessors of the buildings and units of the properties have acquired the relevant building ownership certificates and are entitled to lease their properties.

VALUATION CERTIFICATE

	Property	Description and tenancy particulars	Particulars of occupancy	Market value in existing state as at 31 March 2007
27.	Properties rented in Anhui Province, The PRC	The properties comprise 32 commercial buildings and units with a total gross floor area of approximately 18,983.72 sq.m. (204,341 sq.ft.) mainly completed between 1956 and 2005. The properties are subject to various tenancy agreements for respective terms with majority term of 1 year and the latest expiry date in October 2007. The total current annual rental of the properties is about RMB334,000.	The properties are currently occupied for office, retail outlets and other ancillary uses.	No commercial value

Notes:

1. We have been provided with legal opinion on the title to the properties issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

   (i) The leased buildings and units have a total floor area of 18,983.72 sq.m.

   (ii) The lessors of the buildings and units of the properties have acquired the relevant building ownership certificates and are entitled to lease their properties.

VALUATION CERTIFICATE

	Property	Description and tenancy particulars	Particulars of occupancy	Market value in existing state as at 31 March 2007
28.	Properties rented in Guizhou Province, The PRC	The properties comprise 13 commercial and warehouses buildings and units with a total gross floor area of approximately 31,457.50 sq.m. (338,609 sq.ft.) mainly completed between 1972 and 2003. The properties also comprise a parcel of land with a site area of approximately 6,488.42 sq.m. (69,841 sq.ft.) Details of the approximate gross floor areas of the properties are shown as follows: **Type** / **Gross Floor Area** *(sq.m.)* Commercial 24,550.92 Warehouse 6,906.58 Total 31,457.50 The properties are subject to verbal tenancies with unspecified lease term and rental.	The 13 building and units of the properties are currently occupied for office, retail outlets and warehouse uses whilst the parcel of land is vacant.	No commercial value

Notes:

1. We have been provided with legal opinion on the title to the properties issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

   (i) The leased buildings and units have a total floor area of 31,457.50 sq.m.

   (ii) The lessors of the buildings and units of the properties have acquired the relevant building ownership certificates and are entitled to lease their properties.

   (iii) The Ministry of Land and Resources of the PRC has authorized China Telecom Group to manage and operate the land with site area of 6,488.42 sq.m. After China Telecom Group has obtained the land use rights of the land, China Telecom Group is entitled to dispose of the land by means of capital contribution to Guizhou Telecom Enterprise Limited. Guizhou Telecom Enterprise Limited shall proceed with the change of registration of land use rights of the land and there is no substantial legal impediment for this legal procedure. After the procedure, Guizhou Telecom Enterprise Limited is entitled to lease the land in conformity with the law.

VALUATION CERTIFICATE

	Property	Description and tenancy particulars	Particulars of occupancy	Market value in existing state as at 31 March 2007
29.	Properties rented in Gansu Province, The PRC	The properties comprise 8 commercial buildings and units with a total gross floor area of approximately 16,710.86 sq.m. (179,876 sq.ft.) mainly completed between 1996 and 2001. The properties are subject to various tenancy agreements for respective terms with majority term of 1 year and the latest expiry date in 2009. The total current annual rental of the properties is about RMB763,000.	The properties are currently occupied for office, retail outlets and other ancillary uses.	No commercial value

Notes:

1. We have been provided with legal opinion on the title to the properties issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

   (i) The leased buildings and units have a total floor area of 16,710.86 sq.m.

   (ii) The lessors of two buildings and units of the properties with a total gross floor area of 2,401.46 sq.m. have acquired the relevant building ownership certificates and are entitled to lease their properties.

   (iii) The lessors of the remaining buildings and units of the properties cannot be confirmed as the legal owners. If the lessors are not the legal owners, the lessees would not be the legal users of the properties.

VALUATION CERTIFICATE

	Property	Description and tenancy particulars	Particulars of occupancy	Market value in existing state as at 31 March 2007
30.	Properties rented in Jiangxi Province, The PRC	The properties comprise 22 commercial buildings and units with a total gross floor area of approximately 25,700.17 sq.m. (276,637 sq.ft.) mainly completed between 1970 and 1998. The properties are subject to various tenancy agreements for respective terms with majority term of 1 year and the latest expiry date in April 2009. The total current annual rental of the properties is about RMB394,000.	The properties are currently occupied for office, retail outlets and other ancillary uses.	No commercial value

Notes:

1. We have been provided with legal opinion on the title to the properties issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

    (i) The leased buildings and units have a total floor area of 25,700.17 sq.m.

    (ii) The lessors of 20 buildings and units of the properties with a total gross floor area of 19,425.27 sq.m. have acquired the relevant building ownership certificates and are entitled to lease their properties.

    (iii) The lessors of the remaining buildings and units of the properties cannot be confirmed as the legal owners. If the lessors are not the legal owners, the lessees would not be the legal users of the properties.

VALUATION CERTIFICATE

	Property	Description and tenancy particulars	Particulars of occupancy	Market value in existing state as at 31 March 2007
31.	Properties rented in Jiangsu Province, The PRC	The properties comprise 32 commercial, warehouse and other buildings and units with a total gross floor area of approximately 27,089.86 sq.m. (291,595 sq.ft.) mainly completed between 1995 and 2004. Details of the approximate gross floor areas of the properties are shown as follows:	The properties are currently occupied for office, retail outlets, warehouse and other ancillary uses.	No commercial value

Type	Gross Floor Area *(sq.m.)*
Commercial	3,177.38
Warehouse	21,500.00
Others	2,412.48
Total	27,089.86

The properties are subject to various tenancy agreements for respective terms with majority term of 1 year and the latest expiry date in February 2011. The total current annual rental of the properties is about RMB4,257,000.

Notes:

1. We have been provided with legal opinion on the title to the properties issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

   (i) The leased buildings and units have a total floor area of 27,089.86 sq.m.

   (ii) The lessors of 20 buildings and units of the properties with a total gross floor area of 3,933.94 sq.m. have acquired the relevant building ownership certificates and are entitled to lease their properties.

   (iii) The lessors of the remaining buildings and units of the properties cannot be confirmed as the legal owners. If the lessors are not the legal owners, the lessees would not be the legal users of the properties.

VALUATION CERTIFICATE

	Property	Description and tenancy particulars	Particulars of occupancy	Market value in existing state as at 31 March 2007
32.	Properties rented in Chongqing Province, The PRC	The properties comprise 17 commercial, warehouse and other buildings and units with a total gross floor area of approximately 13,718.19 sq.m. (147,663 sq.ft.) mainly completed between 1995 and 2004. Details of the approximate gross floor areas of the properties are shown as follows: **Type** — **Gross Floor Area** *(sq.m.)* Commercial — 11,195.67 Warehouse — 1,840.00 Others — 682.52 Total — 13,718.19 The properties are subject to various tenancy agreements for respective terms with majority term of 1 year and the latest expiry date in December 2011. The total current annual rental of the properties is about RMB1,885,000.	The properties are currently occupied for office, retail outlets, warehouse and other ancillary uses.	No commercial value

Notes:

1. We have been provided with legal opinion on the title to the properties issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

   (i) The leased buildings and units have a total floor area of 13,718.19 sq.m.

   (ii) The lessors of 14 buildings and units of the properties with a total gross floor area of 13,382.69 sq.m. have acquired the relevant building ownership certificates and are entitled to lease their properties.

   (iii) The lessors of the remaining buildings and units of the properties cannot be confirmed as the legal owners. If the lessors are not the legal owners, the lessees would not be the legal users of the properties.

VALUATION CERTIFICATE

	Property	Description and tenancy particulars	Particulars of occupancy	Market value in existing state as at 31 March 2007
33.	Properties rented in Yunnan Province, The PRC	The properties comprise 28 commercial buildings and units with a total gross floor area of approximately 5,510.11 sq.m. (59,311 sq.ft.) mainly completed between 1858 and 2005. The properties are subject to various tenancy agreements for respective terms with majority term of 1 year and the latest expiry date in January 2011. The total current annual rental of the properties is about RMB684,000.	The properties are currently occupied for office and retail outlets uses.	No commercial value

Notes:

1. We have been provided with legal opinion on the title to the properties issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

   (i) The leased buildings and units have a total floor area of 5,510.11 sq.m.

   (ii) The lessors of 25 buildings and units of the properties with a total gross floor area of 4,664.03 sq.m. have acquired the relevant building ownership certificates and are entitled to lease their properties.

   (iii) The lessors of the remaining buildings and units of the properties cannot be confirmed as the legal owners. If the lessors are not the legal owners, the lessees would not be the legal users of the properties.

VALUATION CERTIFICATE

	Property	Description and tenancy particulars	Particulars of occupancy	Market value in existing state as at 31 March 2007
34.	Properties rented in Shaanxi Province, The PRC	The properties comprise 7 commercial and other buildings and units with a total gross floor area of approximately 7,061.86 sq.m. (76,014 sq.ft.) mainly completed between 1990 and 2004.	The properties are currently occupied for office, retail outlets and other ancillary uses.	No commercial value

Details of the approximate gross floor areas of the properties are shown as follows:

Type	Gross Floor Area *(sq.m.)*
Commercial	6,981.86
Others	80.00
Total	7,061.86

The properties are subject to various tenancy agreements for respective terms with majority term of 1 year and the latest expiry date in February 2008. The total current annual rental of the properties is about RMB661,000.

Notes:

1. We have been provided with legal opinion on the title to the properties issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

    (i) The leased buildings and units have a total floor area of 7,061.86 sq.m.

    (ii) The lessors of 6 buildings and units of the properties with a total gross floor area of 4,262.00 sq.m. have acquired the relevant building ownership certificates and are entitled to lease their properties.

    (iii) The lessors of the remaining buildings and units of the properties cannot be confirmed as the legal owners. If the lessors are not the legal owners, the lessees would not be the legal users of the properties.

VALUATION CERTIFICATE

	Property	Description and tenancy particulars	Particulars of occupancy	Market value in existing state as at 31 March 2007
35.	Properties rented in Qinghai Province, The PRC	The properties comprise 4 commercial buildings and units with a total gross floor area of approximately 4,270.76 sq.m. (45,970 sq.ft.) mainly completed between 1982 and 1997. The properties are subject to various tenancy agreements for respective terms with majority term of 1 year and the latest expiry date in December 2007. The total current annual rental of the properties is about RMB176,000.	The properties are currently occupied for office and retail outlets uses.	No commercial value

Notes:

1. We have been provided with legal opinion on the title to the properties issued by the Group's PRC legal advisers, which contains, *inter alia*, the following information:

   (i) The leased buildings and units have a total floor area of 4,270.76 sq.m.

   (ii) The lessors of the properties cannot be confirmed as the legal owners. If the lessors are not the legal owners, the lessees would not be the legal users of the properties.

A. SUMMARY OF FINANCIAL STATEMENTS

The following consolidated balance sheets of China Communications Services Corporation Limited (the "Company") (together with its subsidiaries are referred to as the "Listed Group") as at 31 December 2004, 2005 and 2006 and the consolidated income statements for the years ended 31 December 2004, 2005 and 2006 are derived from the audited financial statements of the Listed Group prepared under IFRS. All such financial information should be read in conjunction with the audited consolidated financial statements, and a summary of significant accounting policies and other explanatory notes, which are included in the Listed Group's 2006 annual report or prospectus dated 27 November 2006. The audited financial statements of the Listed Group for the year ended 31 December 2006, as extracted from the Listed Group's 2006 annual report, are set out in Part B for this Appendix.

Consolidated Income Statements

	Years ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Revenues	12,248,828	13,232,291	14,182,800
Cost of revenues	(9,874,637)	(10,544,380)	(11,423,596)
Gross profit	2,374,191	2,687,911	2,759,204
Other operating income	164,494	115,672	159,414
Selling, general and administrative expenses	(1,733,861)	(1,951,122)	(1,890,702)
Other operating expenses	(31,751)	(21,066)	(12,298)
Deficit on revaluation of property, plant and equipment	—	—	(105,299)
Net financing income	42,643	38,403	85,644
Share of profits less (losses) of associates	5,442	11,687	(30)
Negative goodwill	43,299	159,499	4,039
Profit before tax	864,457	1,040,984	999,972
Income tax	(273,960)	(260,482)	(280,712)
Profit for the year	590,497	780,502	719,260
Attributable to:			
Equity shareholders/owner	525,619	597,556	696,078
Minority interests	64,878	182,946	23,182
Profit for the year	590,497	780,502	719,260
Basic and diluted earnings per share *(RMB)*	0.133	0.151	0.172

Consolidated Balance Sheets

	31 December 2004	31 December 2005	31 December 2006
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets			
Property, plant and equipment, net	2,617,316	2,567,336	2,232,848
Investment properties	648,175	675,863	286,892
Construction in progress	185,546	396,124	265,804
Lease prepayments	142,974	145,050	103,190
Intangible assets	22,790	25,596	32,968
Interests in associates	156,481	180,749	7,927
Other investments	347,374	208,605	138,475
Deferred tax assets	14,744	18,803	74,221
Total non-current assets	4,135,400	4,218,126	3,142,325
Current assets			
Inventories	631,239	524,096	828,124
Accounts and bills receivable, net	2,393,410	2,995,507	3,351,262
Prepayments and other current assets	1,800,643	2,086,453	938,640
Cash and cash equivalents	4,516,021	3,685,916	7,071,029
Total current assets	9,341,313	9,291,972	12,189,055
Total assets	13,476,713	13,510,098	15,331,380
Current liabilities			
Interest-bearing borrowings	184,383	209,545	95,500
Accounts and bills payable	1,996,561	1,947,466	2,860,065
Receipts in advance for contract work	1,202,994	880,638	612,818
Accrued expenses and other payables	2,872,115	2,808,127	2,069,705
Income tax payable	367,872	371,126	110,202
Total current liabilities	6,623,925	6,216,902	5,748,290
Net current assets	2,717,388	3,075,070	6,440,765
Total assets less current liabilities	6,852,788	7,293,196	9,583,090
Total liabilities	6,623,925	6,216,902	5,748,290
Equity			
Share capital	—	—	5,444,986
Reserves	6,138,601	6,772,775	4,036,323
Owner's equity/equity attributable to equity shareholders of the Company	6,138,601	6,772,775	9,481,309
Minority interests	714,187	520,421	101,781
Total equity	6,852,788	7,293,196	9,583,090
Total liabilities and equity	13,476,713	13,510,098	15,331,380

B. FINANCIAL STATEMENTS OF THE LISTED GROUP FOR THE YEAR ENDED 31 DECEMBER 2006

Consolidated Income Statement
For the year ended 31 December 2006
(Expressed in Renminbi)

	Note	2006 RMB'000	2005 RMB'000
Revenues	3	14,182,800	13,232,291
Cost of revenues	4	(11,423,596)	(10,544,380)
Gross profit		2,759,204	2,687,911
Other operating income	5	159,414	115,672
Selling, general and administrative expenses		(1,890,702)	(1,951,122)
Other operating expenses	6	(12,298)	(21,066)
Deficit on revaluation of property, plant and equipment	16(b)	(105,299)	—
Net financing income	7	85,644	38,403
Share of profits less (losses) of associates		(30)	11,687
Negative goodwill	8	4,039	159,499
Profit before tax	9	999,972	1,040,984
Income tax	10	(280,712)	(260,482)
Profit for the year		719,260	780,502
Attributable to:			
Equity shareholders/owner		696,078	597,556
Minority interests		23,182	182,946
Profit for the year		719,260	780,502
Special dividend	14(a)	535,011	—
Basic and diluted earnings per share (RMB)	15	0.172	0.151

Consolidated Balance Sheet
At 31 December 2006
(Expressed in Renminbi)

	Note	2006 RMB'000	2005 RMB'000
Non-current assets			
Property, plant and equipment, net	16	2,232,848	2,567,336
Investment properties	17	286,892	675,863
Construction in progress	18	265,804	396,124
Lease prepayments	19	103,190	145,050
Intangible assets	20	32,968	25,596
Interests in associates	22	7,927	180,749
Other investments	23	138,475	208,605
Deferred tax assets	24	74,221	18,803
Total non-current assets		3,142,325	4,218,126
Current assets			
Inventories	25	828,124	524,096
Accounts and bills receivable, net	26	3,351,262	2,995,507
Prepayments and other current assets	28	938,640	2,086,453
Cash and cash equivalents	29	7,071,029	3,685,916
Total current assets		12,189,055	9,291,972
Total assets		15,331,380	13,510,098
Current liabilities			
Interest-bearing borrowings	30	95,500	209,545
Accounts and bills payable	31	2,860,065	1,947,466
Receipts in advance for contract work		612,818	880,638
Accrued expenses and other payables	32	2,069,705	2,808,127
Income tax payable		110,202	371,126
Total current liabilities		5,748,290	6,216,902
Net current assets		6,440,765	3,075,070
Total assets less current liabilities		9,583,090	7,293,196
Total liabilities		5,748,290	6,216,902

	Note	2006 RMB'000	2005 RMB'000
Equity			
Share capital	33	5,444,986	—
Reserves		4,036,323	6,772,775
Equity attributable to equity shareholders of the Company		9,481,309	6,772,775
Minority interests		101,781	520,421
Total equity		9,583,090	7,293,196
Total liabilities and equity		15,331,380	13,510,098

Balance Sheet
At 31 December 2006
(Expressed in Renminbi)

	Note	2006 RMB'000
Non-current assets		
Property, plant and equipment, net	16	9
Investments in subsidiaries	21	5,373,776
Total non-current assets		5,373,785
Current assets		
Prepayments and other current assets	28	2,360
Cash and cash equivalents	29	3,150,555
Total current assets		3,152,915
Total assets		8,526,700
Current liabilities		
Accrued expenses and other payables	32	54,780
Total current liabilities		54,780
Net current assets		3,098,135
Total assets less current liabilities		8,471,920
Total liabilities		54,780
Equity		
Share capital	33	5,444,986
Reserves		3,026,934
Total equity		8,471,920
Total liabilities and equity		8,526,700

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

(Expressed in Renminbi)

		Equity attributable to equity shareholders of the Company									
		Share capital	Share premium (note f)	Capital reserve (note g)	Revaluation reserve	Statutory surplus reserve (note e)	Other reserve	Retained earnings/ shareholder's equity	Total	Minority interests	Total equity
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 1 January 2005		—	—	—	—	—	—	6,138,601	6,138,601	714,187	6,852,788
Contributions	*(a)*	—	—	—	—	—	—	835,836	835,836	23,085	858,921
Acquisition of minority interests through contributions from CTC		—	—	—	—	—	—	317,849	317,849	(317,849)	—
Distributions	*(b)*	—	—	—	—	—	—	(890,590)	(890,590)	—	(890,590)
Profit for the year		—	—	—	—	—	—	597,556	597,556	182,946	780,502
Profit distributions	*(c)*	—	—	—	—	—	—	(226,477)	(226,477)	(81,948)	(308,425)
As at 31 December 2005		—	—	—	—	—	—	6,772,775	6,772,775	520,421	7,293,196
As at 1 January 2006		—	—	—	—	—	—	6,772,775	6,772,775	520,421	7,293,196
Contributions	*(a)*	—	—	—	—	—	—	478,335	478,335	—	478,335
Acquisition of minority interests through contributions from CTC		—	—	—	—	—	—	315,957	315,957	(315,957)	—
Profit distributions	*(c)*	—	—	—	—	—	—	(655,027)	(655,027)	(126,996)	(782,023)
Distributions	*(b)*	—	—	—	—	—	—	(834,638)	(834,638)	—	(834,638)
Net assets distributed to CTC in connection with the Restructuring	*(d)*	—	—	—	—	—	—	(1,660,674)	(1,660,674)	—	(1,660,674)
Recognition of deferred tax assets	*24*	—	—	—	—	—	42,507	—	42,507	—	42,507
Revaluation of property, plant and equipment	*16(b)*	—	—	—	294,442	—	—	—	294,442	1,131	295,573
Capitalisation upon legal establishment of the Company	*1*	3,960,000	—	1,413,776	—	—	—	(4,384,991)	988,785	—	988,785
Issuance of shares upon public offering	*(f)*	1,484,986	1,807,727	—	—	—	—	—	3,292,713	—	3,292,713
Share issue expenses	*(f)*	—	(249,944)	—	—	—	—	—	(249,944)	—	(249,944)
Profit for the year		—	—	—	—	—	—	696,078	696,078	23,182	719,260
Appropriation	*(e)*	—	—	—	—	69,969	—	(69,969)	—	—	—
As at 31 December 2006		5,444,986	1,557,783	1,413,776	294,442	69,969	42,507	657,846	9,481,309	101,781	9,583,090

Notes:

(a) The capital contributions during the years ended 31 December 2005 and 2006 represent the injection of cash and other assets, including property, plant and equipment and the increase in shareholdings in the subsidiaries.

(b) The distributions during the years ended 31 December 2005 and 2006 represent the reduction in capital of certain subsidiaries and distributions of cash and other assets, including property, plant and equipment by certain subsidiaries upon transformation into limited liability companies.

(c) Profit distributions represent the appropriation made and dividend declared by certain of the subsidiaries of the Group prior to the establishment of the Company.

(d) Pursuant to the Restructuring (as defined in note 1(b)), certain assets and liabilities of the Predecessor Operations were not transferred to the Group and were reflected as distributions to the then owner in the consolidated statement of changes in equity for the year ended 31 December 2006.

(e) Statutory surplus reserve

According to the Company's Article of Association, the Company is required to transfer 10% of its net profit as determined in accordance with the PRC Accounting Rules and Regulations to its statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, or to expand the Company's business, and may be converted into share capital by the issuance of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

For 2006, the Company transferred RMB69,969,000, being 10% of the current year's net profit as determined in accordance with the PRC Accounting Rules and Regulations, to this reserve.

(f) Share premium

The share premium represents the difference between the total amount of the par value of shares issued and the amount of the net proceeds received from the initial public offering.

(g) Capital reserve

The capital reserve represents the difference between the total amount of the par value of shares issued and the amount of the net assets transferred from CTC, Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation upon the formation of the Company.

Consolidated Cash Flow Statement
For the year ended 31 December 2006
(Expressed in Renminbi)

	Note	2006 *RMB'000*	2005 *RMB'000*
Operating activities			
Profit before tax		999,972	1,040,984
Adjustments for:			
— Depreciation and amortisation		400,221	401,579
— Impairment losses on property, plant and equipment		—	2,079
— Interest income		(111,451)	(59,982)
— Finance costs		17,898	22,081
— Share of profits less (losses) of associates		30	(11,687)
— Negative goodwill		(4,039)	(159,499)
— Dividend income		(22,473)	(30,198)
— Gain on disposal of investments		(28,948)	(4,327)
— Impairment losses on investments		—	2,177
— Gain on disposal of property, plant and equipment and other assets		(6,163)	(3,576)
— Deficit on revaluation of property, plant and equipment		105,299	—
— Write off of non-payable liabilities		(268)	(18,783)
Operating profit before changes in working capital		1,350,078	1,180,848
(Increase)/decrease in inventories		(334,030)	107,536
Increase in accounts and bills receivable		(515,527)	(399,156)
(Increase)/decrease in prepayments and other current assets		(260,885)	243,183
Increase/(decrease) in accounts and bills payable		1,102,712	(54,065)
Decrease in receipts in advance for contract work		(267,820)	(322,356)
Decrease in accrued expenses and other payables		(138,409)	(187,826)
Net cash inflow from operations		936,119	568,164
Interest paid		(17,898)	(17,514)
Interest received		57,912	54,728
Income tax paid		(476,662)	(330,208)
Cash generated from operating activities		499,471	275,170

	Note	2006 RMB'000	2005 RMB'000
Investing activities			
Payments on acquisition of property, plant and equipment and other assets		(1,159,883)	(583,499)
Proceeds from disposal of property, plant and equipment and other assets		253,621	125,194
Net cash inflow arising from acquisition of subsidiaries	*35(a)*	16,139	13,849
Payments for acquisition of investments		(13,162)	(18,145)
Proceeds from disposal of investments		250,102	140,221
Dividends received		21,601	45,787
Net cash used in investing activities		(631,582)	(276,593)
Financing activities			
Proceeds from bank and other loans		664,900	214,000
Repayments of bank and other loans		(618,945)	(188,838)
Dividends paid		(661,314)	(316,582)
Contributions from owner		1,458,519	391,059
Distributions to owner		(841,544)	(523,495)
Advances from/(to) owner and fellow subsidiaries		373,466	(404,826)
Net proceeds from issuance of new shares upon listing and interest income on subscription monies		3,142,142	—
Net cash generated from/(used in) financing activities		3,517,224	(828,682)
Net increase/(decrease) in cash and cash equivalents		3,385,113	(830,105)
Cash and cash equivalents at the beginning of year		3,685,916	4,516,021
Cash and cash equivalents at the end of year	*29*	7,071,029	3,685,916

For major non-cash transactions, please refer to note 35(b).

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

1. PRINCIPAL ACTIVITIES AND ORGANISATION

(a) Principal activities

China Communications Services Corporation Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") is a leading integrated service provider to the telecommunications industry in the People's Republic of China (the "PRC"). Its principal activities comprise provision of a full range of telecommunications support services to the telecommunications operators in the PRC, including (i) telecommunications infrastructure design, construction and supervision and management; (ii) business process outsourcing (including network maintenance, facilities management, distribution of telecommunications service and products); and (iii) a variety of other services including applications, content and others.

(b) Organisation

The Company was established in the PRC on 30 August 2006 as a joint stock limited company under the Company Law of the PRC as part of the Restructuring (as defined below) of China Telecommunications Corporation ("CTC"), a state-owned enterprise under the direct supervision of the State Council of the PRC. Pursuant to the Restructuring (as defined below), the Group assumed the telecommunications support services previously carried on by various subsidiaries wholly-owned or controlled by CTC in six provinces and municipality in the PRC, namely, Guangdong Province, Zhejiang Province, Shanghai Municipality, Fujian Province, Hubei Province and Hainan Province (collectively, the "Predecessor Operations") from CTC. The Company was founded by CTC, Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation by ways of the injection of those subsidiaries carrying on the Predecessor Operations and cash contributions.

In connection with the Restructuring (as defined below), the Predecessor Operations together with the related assets and liabilities that were to be transferred to the Group were segregated from CTC effective on 31 March 2006 (the "Restructuring"). The Restructuring comprised the following:

(i) CTC has undergone a restructuring programme in connection with its full range of telecommunications related services, namely (1) telecommunications infrastructure design, construction and supervision and management; (2) business process outsourcing (including network maintenance, facilities management and distribution of telecommunications services and products); and (3) a variety of other services including applications, content and others.

(ii) The net assets have been injected into the Company by ways of asset injection of those subsidiaries carrying on the Predecessor Operations in consideration of approximately 3,623.4 million ordinary shares with a par value of RMB1 each (the "Asset Injection").

(iii) The Group, immediately after the Restructuring, contains substantially all of the operating assets and liabilities relating to the Predecessor Operations, comprising (1) telecommunications infrastructure design, construction and supervision and management; (2) business process outsourcing (including network maintenance, facilities management, distribution of telecommunications services and products); and (3) a variety of other services including applications, content and others.

(iv) In connection with the Restructuring, certain assets and liabilities historically associated with the Predecessor Operations were not transferred to the Company and were retained by CTC.

The above Restructuring procedures primarily resulted in an effect of the transfer from CTC to the Company of the operating assets and liabilities relating to the telecommunications related services carried on by the Predecessor Operations, which were previously owned or controlled by CTC prior to the Restructuring.

In December 2006, the Company issued 1,291,293,000 H shares with a par value of RMB1.00 each, at a price of HK$2.20 per H share by way of an initial public offering (the "IPO") to Hong Kong and overseas investors. In connection with the IPO, 129,129,300 domestic state-owned shares of RMB1.00 each owned by CTC and its subsidiaries were converted into H shares and transferred to the National Council for Social Security Fund of the

PRC ("SSF"). In December 2006, the Company also issued 193,693,000 H shares with a par value of RMB1.00 each, at a price of HK$2.20 per H share upon the exercise of the over-allotment option. In connection with the exercise of the over-allotment option, 19,369,300 domestic state-owned shares of RMB1.00 each owned by CTC and its subsidiaries were converted into H shares and transferred to SSF. A total of 1,633,484,600 H shares were listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The financial statements of the Company and the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB"). IFRSs includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and related interpretations. The 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.

A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2006 comprise the Group and its interests in associates.

The financial statements are prepared on the historical cost basis, except that property, plant and equipment (see note 16) is stated at its revalued amount, (see note 2(g)). The accounting policies have been consistently applied by the Group and are consistent with those used in the previous year.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 38.

The IASB has issued certain new and revised IFRSs which are effective for accounting periods on or after 1 January 2006. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies applied in these financial statements for the years presented.

The Group has not applied any new standards or interpretations that is not yet effective for the current accounting period (see note 43).

(c) Basis of consolidation

(i) *Subsidiaries and minority interests*

Subsidiaries are those companies controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transaction and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Group, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders/ owner of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders/ owner of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 2(p) or (q) depending on the nature of the liability.

In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment losses (see note 2(l)).

(ii) *Associates*

Associates are those entities in which the Group has significant influence, but not control, over its management, including participation in the finance and operating decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment associates recognised for the year (see notes 2(d) and 2(l)).

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

(d) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2(l)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in the consolidated income statement.

On disposal of a cash generating unit or an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(e) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in debt and equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Dated debt securities that the Group have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the consolidated balance sheet at amortised cost less impairment losses (see note 2(l)).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the consolidated balance sheet at cost less impairment losses (see note 2(l)).

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(f) Investment properties

Investment properties are land or/and buildings which are owned to earn rental income and/or for capital appreciation.

Investment properties are stated in the consolidated balance sheet at cost less accumulated depreciation and impairment losses (see note 2(l)). Depreciation is calculated to write off the cost less estimated residual value if applicable and is charged to the consolidated income statement on a straight-line basis over the estimated useful lives ranging from 20 years to 30 years.

Rental income from investment properties is accounted for as described in note 2(v)(iv).

When an item of property, plant and equipment is transferred to investment property following a change in its use or when an investment property becomes owner-occupied and reclassified as property, plant and equipment, its carrying amount at the date of reclassification becomes its initial cost for accounting purposes.

(g) Other property, plant and equipment

The following items of property, plant and equipment are initially recognised in the consolidated balance sheet at cost less accumulated depreciation and impairment losses (see note 2(l)):

— buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 2(k)); and

— other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(y)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the consolidated income statement on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings	20–30 years
Buildings improvements	5 years
Motor vehicles	5–10 years
Furniture, fixtures and other equipment	5–10 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

Subsequent to the revaluation which was required by PRC rules and regulations in connection with the Restructuring and which was based on depreciated replacement costs (see note 16), property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation, less subsequent accumulated depreciation and impairment losses and any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. When an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs is revalued simultaneously. When an asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to equity as a component of revaluation reserve. However, a revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised as an expense in the consolidated income statement. However, a revaluation decrease is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation reserve in respect of that same asset. Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date.

(h) Construction in progress

Construction in progress is stated at cost less impairment losses (see note 2(l)). Cost comprises direct costs of construction and borrowing costs on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the period of construction.

Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment and investment properties when substantially all the activities necessary to prepare the asset for its intended use are completed. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

(i) Lease prepayments

Lease prepayments represent land use rights paid to the PRC's governmental authorities. Land use rights are carried at cost and are charged to the consolidated income statement on a straight-line basis over the respective periods of the rights.

(j) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated in the consolidated balance sheet at cost less accumulated amortisation and impairment losses (see note 2(l)) (where the estimated useful life is finite).

Amortisation of intangible assets with finite useful lives is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Intangible assets are amortised over 5 years to 10 years from the date they are available for use.

(k) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Assets that are held by Group under leases which do not transfer to the Group substantially all the risks and rewards of ownership are classified as being held under operating leases.

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the consolidated income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the consolidated income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated income statement in the accounting period in which they are incurred.

(l) Impairment of assets

(i) *Impairment of investments in debt and equity securities and other receivables*

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

— For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

— For trade and other current receivables and other financial assets carried at cost or amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the consolidated income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

— For available-for-sale securities, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in the consolidated income statement. The amount of the cumulative loss that is recognised in the consolidated income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the consolidated income statement.

Impairment losses recognised in the consolidated income statement in respect of available-for-sale equity securities are not reversed through the consolidated income statement. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in the consolidated income statement.

(ii) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— investment properties;

— construction in progress;

— lease prepayments;

— intangible assets;

— investments in subsidiaries and associates; and

— goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in the consolidated income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated income statement in the relevant period in which the reversals are recognised.

(m) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversals occurs.

(n) Construction contracts

The accounting policy for contract revenue is set out in note 2(v)(i). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the consolidated balance sheet as the "Unbilled revenue for contract work" (as an asset) or the "Receipts in advance for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included in the consolidated balance sheet under "Accounts and bills receivable". Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as "Receipts in advance for contract work".

(o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(l)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(l)).

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the consolidated income statement over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(q) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(s) Employee benefits

(i) *Short-term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) *Termination benefits*

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(t) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the consolidated income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination).

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(u) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(v) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated income statement as follows:

(i) *Contract revenue*

When the outcome of a construction contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(ii) *Services rendered*

Revenue from design services rendered is recognised in the consolidated income statement in proportion to the stage of completion of the transaction at the balance sheet date.

Revenue from other services rendered is recognised upon the delivery or performance of the services.

(iii) *Sales of goods*

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(iv) *Rental income from operating leases*

Rental income receivable under operating leases is recognised in the consolidated income statement in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in the consolidated income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(v) *Dividends*

— Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

— Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(vi) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

(w) Government grants

Government grants are recognised in the consolidated balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in the consolidated income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted in arriving at the carrying amount of the asset and consequently are recognised in the consolidated income statement over the useful life of the asset.

(x) Translation of foreign currencies

The functional and presentation currency of the Group is Renminbi ("RMB"). Foreign currency transactions during the year are translated into RMB at the applicable rates of exchange quoted by the People's Bank of China ("PBOC") prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into RMB at the applicable rates ruling at the balance sheet date. Foreign currency differences, other than those capitalised as construction in progress (see note 2(h)), are recognised as income or expense in the consolidated income statement.

(y) Borrowing costs

Borrowing costs are expensed in the consolidated income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(z) Research and development costs

Research and development costs are recognised as expenses in the period in which they are incurred.

(aa) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(bb) Dividends or profit distributions

Dividends or profit distributions are recognised as a liability in the period in which they are declared.

(cc) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit or employees of the Group or of any entity that is a related party of the Group.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

3. 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:

	2006	**2005**
	RMB'000	*RMB'000*
Revenue from telecommunications infrastructure services	7,472,427	7,199,590
Revenue from business process outsourcing services	5,153,540	4,363,152
Revenue from applications, content and others	1,556,833	1,669,549
	14,182,800	13,232,291

4. COST OF REVENUES

	2006	2005
	RMB'000	*RMB'000*
Depreciation and amortisation	249,691	239,300
Direct personnel costs	2,604,229	2,521,904
Operating lease charges	199,236	138,022
Purchase of materials and telecommunications products	4,333,050	4,337,923
Subcontracting charges	2,760,555	2,029,152
Others	1,276,835	1,278,079
	11,423,596	10,544,380

5. OTHER OPERATING INCOME

	2006	2005
	RMB'000	*RMB'000*
Dividend income from unlisted securities	22,473	30,198
Government grants	37,119	27,444
Net gain on disposal of investments	28,948	4,327
Net gain on disposal of property, plant and equipment	6,163	3,576
Penalty income	1,801	1,458
Management fee income	45,104	—
Write-off of non-payable liabilities	268	18,783
Others	17,538	29,886
	159,414	115,672

6. OTHER OPERATING EXPENSES

	2006	2005
	RMB'000	*RMB'000*
Impairment losses on other investments	—	2,177
Impairment losses on property, plant and equipment	—	2,079
Donation	1,800	2,998
Penalty charge	3,297	5,917
Others	7,201	7,895
	12,298	21,066

7. NET FINANCING INCOME

	2006	2005
	RMB'000	*RMB'000*
Interest income	111,451	59,982
Net foreign exchange (loss)/gain	(7,909)	502
Interest on bank advances and other borrowings wholly repayable within five years	(17,898)	(22,081)
	85,644	38,403

For the years ended 31 December 2005 and 2006, no borrowing costs were capitalised in relation to construction in progress.

8. NEGATIVE GOODWILL

	2006	2005
	RMB'000	*RMB'000*
Negative goodwill arising from acquisition of subsidiaries *(note 35(a))*	—	158,813
Negative goodwill arising from acquisition from minority interests	4,039	686
	4,039	159,499

Negative goodwill has arisen on the acquisition as a result of gains from bargain purchases.

9. PROFIT BEFORE TAX

	2006	2005
	RMB'000	*RMB'000*
(a) Staff costs:		
Salaries, wages and other benefits	3,394,249	3,270,807
Contributions to defined contribution retirement schemes	355,425	302,863
	3,749,674	3,573,670
(b) Other items:		
Depreciation and amortisation	400,221	401,579
Auditors' remuneration	10,800	7,912
Cost of inventories	4,333,050	4,337,923
Impairment losses on trade and other receivables	3,742	38,400
Operating lease charges	257,425	190,478
Research and development costs	15,872	53,353
Share of associates' taxation	—	4,428

10. INCOME TAX

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

	2006	2005
	RMB'000	*RMB'000*
Current tax		
PRC enterprise income tax	293,623	264,541
Deferred tax		
Origination and reversal of temporary differences *(note 24)*	(12,911)	(4,059)
Total income tax	280,712	260,482

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

	2006	2005
	RMB'000	*RMB'000*
Profit before tax	999,972	1,040,984
Expected PRC income tax expense at a statutory tax rate of 33% *(note (i))*	329,991	343,525
Differential tax rates on subsidiaries' income *(note (i))*	(98,732)	(147,088)
Non-deductible expenses *(note (ii))*	84,858	84,606
Non-taxable income *(note (iii))*	(46,435)	(46,666)
Tax losses not recognised *(note (iv))*	11,030	26,105
Income tax	280,712	260,482

Notes:

(i) The provision of PRC income tax of the Group is calculated based on a statutory rate of 33% 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 2005 and 2006, except for certain subsidiaries of the Group, which are taxed at preferential rate of 15%.

(ii) The amounts include personnel and other miscellaneous expenses in excess of statutory deductible limits for tax purpose. The amounts for the year ended 31 December 2006 also include the deficit on revaluation of property, plant and equipment.

(iii) Non-taxable income mainly represents dividend income and negative goodwill.

(iv) The amount includes deferred tax assets not recognised amounting to RMB4.8 million (2005: RMB26.1 million) in respect of the tax losses of the entities distributed to the then owner pursuant to the Restructuring.

11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The names of the directors and the supervisors of the Company and their remuneration for the year ended 31 December 2006 are as follows:

	Fees	Salaries, allowances and other benefits in kind	Discretionary bonus	Pension scheme contributions	2006 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Name of directors and supervisors					
Wang Xiaochu	—	—	—	—	—
Li Ping	—	—	—	—	—
Liu Aili	—	—	—	—	—
Zhang Junan	—	—	—	—	—
Wang Jun	53	—	—	—	53
Chan Mo Po, Paul	63	—	—	—	63
Zhao Chunjun	40	—	—	—	40
Wu Shangzhi	40	—	—	—	40
Hao Weimin	27	—	—	—	27
Xia Jianghua	—	—	—	—	—
Yan Dong	—	98	192	34	324
Hai Liancheng	31	—	—	—	31
	254	98	192	34	578

The names of the directors and the supervisors of the Company and their remuneration for the year ended 31 December 2005 are as follows:

	Fees	Salaries, allowances and other benefits in kind	Discretionary bonus	Pension scheme contributions	2005 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Name of directors and supervisors					
Wang Xiaochu	—	—	—	—	—
Li Ping	—	—	—	—	—
Liu Aili	—	—	—	—	—
Zhang Junan	—	—	—	—	—
Wang Jun	—	—	—	—	—
Chan Mo Po, Paul	—	—	—	—	—
Zhao Chunjun	—	—	—	—	—
Wu Shangzhi	—	—	—	—	—
Hao Weimin	—	—	—	—	—
Xia Jianghua	—	—	—	—	—
Yan Dong	—	—	—	—	—
Hai Liancheng	—	—	—	—	—
	—	—	—	—	—

The number of directors and supervisors whose remuneration fell within the following band is as follows:

	2006	2005
HK$ equivalent		
Nil to 1,000,000	12	12

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid employees of the Group are as follows:

	2006	2005
Directors and supervisors	—	—
Non-director and non-supervisor employees	5	5
	5	5

The remuneration paid to the above non-director, non-supervisor, highest paid employees are as follows:

	2006	2005
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	782	705
Bonuses	1,921	1,886
Pension scheme contributions	418	484
	3,121	3,075

The number of these non-director, non-supervisor, highest paid employees whose remuneration fell within the following band is as follows:

	2006	2005
HK$ equivalent		
Nil to 1,000,000	5	5

13. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB55,375,000 which has been dealt with in the financial statements of the Company.

14. DIVIDENDS

(a) Special dividend

As disclosed in the Prospectus of the Company dated 27 November 2006, in accordance with the "Provisional Regulation relating to Corporate Restructuring of Enterprises and Related Management of State-owned Capital and Financial Treatment" which was issued by the PRC Ministry of Finance and a resolution passed on 1 November 2006, the directors proposed and the shareholders approved the distribution of profit of the Group for the period from 1 April 2006 to 29 August 2006, being the calendar day immediately preceding to the date of incorporation of the Company. In the same resolution, the directors proposed and the shareholders approved the distribution of profit of the Group for the period from 30 August 2006 to the calendar day immediately preceding the date of its listing on the Stock Exchange (i.e. 7 December 2006) (together, the "2006 Special Dividend").

Pursuant to a resolution passed at directors' meeting on 17 April 2007, the directors resolved to pay the 2006 Special Dividend to CTC and its subsidiaries amounting to RMB535 million in total (being the distributable profit of the Group for the period from 1 April 2006 to 7 December 2006). The Company will pay the 2006 Special Dividend to CTC and its subsidiaries in a series of payments commencing in July 2007.

(b) Final dividend

The directors do not recommend the payment of final dividend for 2006.

15. 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 2006 of RMB696,078,000 (2005: RMB597,556,000) and the weighted average number of shares in issue during the year ended 31 December 2006 of 4,057,643,000 (2005: 3,960,000,000). The weighted average number of shares in issue during the year ended 31 December 2005 represents the number of shares issued and outstanding upon the legal formation of the Company on 30 August 2006 as if such shares have been outstanding for the above entire year. The weighted average number of shares for the year ended 31 December 2006 also reflects the issuance of 1,484,986,000 shares in 2006 in connection with the Company's initial public offering (see note 33). The weighted average number of shares in issue is set out below:

	2006 *Thousands shares*	2005 *Thousands shares*
Shares issued to CTC upon formation of the Company in 2006 as if such shares have been outstanding for the entire year in 2006 and 2005 *(see note 33)*	3,960,000	3,960,000
Effect of shares issued in December 2006	97,643	—
	4,057,643	3,960,000

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

16. PROPERTY, PLANT AND EQUIPMENT, NET

The Group

	Buildings	Buildings improvements	Motor vehicles	Furniture, fixtures and other equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:					
As at 1 January 2005	2,020,000	158,598	643,025	998,421	3,820,044
Through acquisition of subsidiaries	16,572	—	15,582	27,338	59,492
Transferred from construction in progress	123,778	21,519	5,515	57,426	208,238
Additions	63,263	17,274	61,099	126,551	268,187
Disposals	(35,823)	(14,228)	(33,178)	(118,395)	(201,624)
Distributions	(143,127)	(2,479)	(886)	(74)	(146,566)
As at 31 December 2005	2,044,663	180,684	691,157	1,091,267	4,007,771
Accumulated depreciation and impairment losses:					
As at 1 January 2005	348,096	82,620	351,354	420,658	1,202,728
Through acquisition of subsidiaries	3,291	—	6,935	15,021	25,247
Depreciation charge	76,947	26,792	81,975	166,417	352,131
Written back on disposal	(9,309)	(9,907)	(20,124)	(54,896)	(94,236)
Impairment losses	2,024	—	—	55	2,079
Distributions	(44,859)	(1,890)	(694)	(71)	(47,514)
As at 31 December2005	376,190	97,615	419,446	547,184	1,440,435
Net carrying value:					
As at 31 December 2005	1,668,473	83,069	271,711	544,083	2,567,336

	Buildings	Buildings improvements	Motor vehicles	Furniture, fixtures and other equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost or valuation:					
As at 1 January 2006	2,044,663	180,684	691,157	1,091,267	4,007,771
Through acquisition of subsidiaries	35,536	2,160	8,111	22,214	68,021
Transferred from construction in progress	158,093	32,102	3,425	51,154	244,774
Additions	275,522	4,598	115,697	228,219	624,036
Disposals	(221,797)	(27,287)	(114,385)	(136,925)	(500,394)
Distributions	(839,671)	(11,423)	(178,800)	(178,731)	(1,208,625)
Revaluation	(42,490)	(11,341)	(108,655)	(259,486)	(421,972)
As at 31 December 2006	1,409,856	169,493	416,550	817,712	2,813,611
Representing:					
Cost	282,636	31,766	99,668	215,675	629,745
Valuation (on a depreciated replacement cost basis as at 31 March 2006)	1,127,220	137,727	316,882	602,037	2,183,866
	1,409,856	169,493	416,550	817,712	2,813,611
Accumulated depreciation and impairment losses:					
As at 1 January 2006	376,190	97,615	419,446	547,184	1,440,435
Through acquisition of subsidiaries	6,522	1,284	4,563	13,704	26,073
Depreciation charge	61,071	25,922	108,937	174,830	370,760
Written back on disposal	(74,171)	(18,071)	(86,553)	(106,156)	(284,951)
Distributions	(162,069)	(8,808)	(108,500)	(79,931)	(359,308)
Revaluation	(149,757)	(17,003)	(191,501)	(253,985)	(612,246)
As at 31 December 2006	57,786	80,939	146,392	295,646	580,763
Net carrying value:					
As at 31 December 2006	1,352,070	88,554	270,158	522,066	2,232,848

The Company

	Furniture, fixtures and other equipment *RMB'000*
Cost :	
Additions	9
As at 31 December 2006	9
Accumulated depreciation:	
As at 31 December 2006	—
Net carrying value:	
As at 31 December 2006	9

(a) All the Group's buildings are located in the PRC.

(b) Valuation pursuant to the Restructuring

As required by the relevant PRC rules and regulations with respect to the Restructuring, all the property, plant and equipment of the Group were valued by China United Assets Appraisal Co., Ltd (the "PRC valuers"), independent valuers registered in the PRC, on a depreciated replacement cost basis.

The surplus arising from the valuation of these assets has been credited to owner's equity and minority interests as at 31 March 2006 amounting to RMB294 million and RMB1 million respectively. The deficit arising from the valuation of these assets amounting to RMB105 million, has been recognised as an expense in 2006.

The above buildings were also valued separately by Savills Valuation and Professional Services Limited, independent qualified valuers in Hong Kong, as at 30 September 2006. The value arrived at by them was approximately the same as that arrived at by the PRC valuers as adjusted for the depreciation for the period from 1 April 2006 to 30 September 2006.

(c) Certain of the Group's bank loans were secured by certain of the Group's property, plant and equipment as described in note 30.

(d) Up to the date of issue of these financial statements, the Group was in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB161 million as at 31 December 2006. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

(e) Had property, plant and equipment been carried at cost less accumulated depreciation, the historical carrying amounts as at 31 December 2006 would have been as follows:

	RMB'000
Buildings	1,246,187
Buildings improvements	83,244
Motor vehicles	191,798
Furniture, fixtures and other equipment	527,136
	2,048,365

17. INVESTMENT PROPERTIES

	The Group	
	2006	**2005**
	RMB'000	*RMB'000*
Cost:		
As at 1 January	835,588	766,517
Through acquisition of subsidiaries	10,323	18,770
Transferred from construction in progress	2,109	4,266
Additions	188,031	46,035
Disposals	(100,700)	—
Distributions	(616,363)	—
As at 31 December	318,988	835,588
Accumulated depreciation:		
As at 1 January	159,725	118,342
Through acquisition of subsidiaries	—	2,933
Depreciation charge	16,927	38,450
Written back on disposal	(32,435)	—
Distributions	(112,121)	—
As at 31 December	32,096	159,725
Net carrying value:		
As at 31 December	286,892	675,863
Fair value	292,172	798,853

All the Group's investment properties are located in the PRC and are with medium-term leases.

The Group leases out its properties under operating leases. The leases typically run for period of one year to ten years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals. At the balance sheet date, the Group's total future minimum lease payments under non-cancellable operating leases were receivables as follows:

	The Group	
	2006	**2005**
	RMB'000	*RMB'000*
Within 1 year	7,014	31,371
After 1 year but within 5 years	20,286	28,769
After 5 years	11,731	4,876
	39,031	65,016

During the year ended 31 December 2006, RMB41 million (2005: RMB59 million) was recognised as rental income in the consolidated income statement and RMB5 million (2005: RMB9 million) in respect of direct operating expenses relating to investment properties was recognised as expenses in the consolidated income statement.

Up to the date of these financial statements, the Group was in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB3.4 million as at 31 December 2006. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

18. CONSTRUCTION IN PROGRESS

	The Group	
	2006	**2005**
	RMB'000	*RMB'000*
Cost:		
As at 1 January	396,124	185,546
Through acquisition of subsidiaries	—	26,004
Additions	223,382	417,190
Transferred to property, plant and equipment	(244,774)	(208,238)
Transferred to investment properties	(2,109)	(4,266)
Distributions	(106,819)	(20,112)
As at 31 December	265,804	396,124

19. LEASE PREPAYMENTS

	The Group	
	2006	**2005**
	RMB'000	*RMB'000*
Cost:		
As at 1 January	155,522	151,781
Through acquisition of subsidiaries	10,192	6,681
Additions	49,819	5,619
Disposals	(23,532)	(8,559)
Distributions	(81,865)	—
As at 31 December	110,136	155,522
Accumulated depreciation:		
As at 1 January	10,472	8,807
Through acquisition of subsidiaries	1,501	—
Amortisation charge	3,612	2,363
Written back on disposal	(1,919)	(698)
Distributions	(6,720)	—
As at 31 December	6,946	10,472
Net carrying value:		
As at 31 December	103,190	145,050

Lease prepayments represent payments for land use rights paid to the PRC authorities. The Group's lease prepayments are located in the PRC and are with medium-term leases.

20. INTANGIBLE ASSETS

	The Group	
	2006	2005
	RMB'000	*RMB'000*
Cost:		
As at 1 January	45,171	33,893
Through acquisition of subsidiaries	2,609	216
Additions	20,337	13,921
Disposals	(2,527)	(2,859)
Distributions	(9,926)	—
As at 31 December	55,664	45,171
Accumulated amortisation:		
As at 1 January	19,575	11,103
Through acquisition of subsidiaries	1,382	139
Amortisation charge	8,922	8,635
Written back on disposal	(829)	(302)
Distributions	(6,354)	—
As at 31 December	22,696	19,575
Net carrying value:		
As at 31 December	32,968	25,596

Intangible assets mainly represent computer software used in telecommunications infrastructure projects.

21. INVESTMENT IN SUBSIDIARIES

	The Company
	2006
	RMB'000
Unlisted investments, at cost	5,373,776

The following list contains only the particulars of subsidiaries at 31 December 2006 which principally affected the results, assets or liabilities of the Group.

Name of Company	Type of legal entity	Place of incorporation/ establishment	Held by the Company Directly	Held by the Company Indirectly	Issued and fully paid up/registered capital	Principal Activities
Guangdong Communications Services Company Limited	Limited Liability Company	The PRC	100	—	RMB857 million	Provision of integrated telecommunications support services through its subsidiaries in Guangdong Province
Zhejiang Communications Services Company Limited	Limited Liability Company	The PRC	100	—	RMB1,098 million	Provision of Integrated telecommunications support services through its subsidiaries in Zhejiang Province
Shanghai Communications Services Company Limited	Limited Liability Company	The PRC	100	—	RMB976 million	Provision of integrated telecommunications support services through its subsidiaries in Shanghai Municipality
Fujian Communications Services Company Limited	Limited Liability Company	The PRC	100	—	RMB311 million	Provision of integrated telecommunications support services through its subsidiaries in Fujian Province
Hubei Communications Services Company Limited	Limited Liability Company	The PRC	100	—	RMB317 million	Provision of integrated telecommunications support services through its subsidiaries in Hubei Province
Hainan Communications Services Company Limited	Limited Liability Company	The PRC	100	—	RMB79 million	Provision of integrated telecommunications support services through its subsidiaries in Hainan Province

22. INTERESTS IN ASSOCIATES

	The Group	
	2006	**2005**
	RMB'000	*RMB'000*
Share of net assets	7,927	180,749

As at 31 December 2006, the Group's associates are unlisted, established and operated in the PRC. The Group's interests in associates are individually and in aggregate not material to the Group's financial condition or results of operations for the year.

23. OTHER INVESTMENTS

	The Group	
	2006	**2005**
	RMB'000	*RMB'000*
At cost:		
Unlisted equity securities	101,697	208,069
Held-to-maturity unlisted debt securities	36,778	536
	138,475	208,605

The above investments are individually and in the aggregate not material to the Group's financial condition or results of operations.

24. DEFERRED TAX ASSETS

Deferred tax assets attributable to the following:

	The Group	
	2006	**2005**
	RMB'000	*RMB'000*
Impairment losses, primarily for receivables and inventories	5,216	8,016
Pre-operating expenses	1,562	2,231
Revaluation of lease prepayments	41,334	—
Unused tax losses *(note (i))*	26,109	8,556
Deferred tax assets	74,221	18,803

Movements in temporary differences for the year ended 31 December 2005 and 2006 are as follows:

The Group

	As at 1 January 2006	**Recognised in consolidated income statement**	**Recognised in owner's equity**	**As at 31 December 2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Impairment losses, primarily for receivables and inventories	8,016	(2,800)	—	5,216
Pre-operating expenses	2,231	(669)	—	1,562
Revaluation of lease prepayments	—	(1,173)	42,507	41,334
Unused tax losses	8,556	17,553	—	26,109
Deferred tax assets	18,803	12,911	42,507	74,221
		(note 10 (a))		

	As at 1 January 2005	Recognised in consolidated income statement	As at 31 December 2005
	RMB'000	*RMB'000*	*RMB'000*
Impairment losses, primarily for receivables and inventories	4,972	3,044	8,016
Pre-operating expenses	2,900	(669)	2,231
Unused tax losses	6,872	1,684	8,556
Deferred tax assets	14,744	4,059	18,803
		(note 10 (a))	

Notes:

(i) Expiry of recognised tax losses

	2006
	RMB'000
Year of expiry	
2008	130
2009	8,968
2010	16,978
2011	53,042
	79,118

(ii) In connection with the Restructuring, the Group's land use rights were revalued as required by the relevant PRC rules and regulations as at 31 March 2006. The revalued amount will serve as the tax base for future years. The land use rights were not revalued for financial reporting purposes and accordingly, deferred tax assets of RMB42.5 million is created with a corresponding increase in equity. Based upon the level of historical taxable income and projections for future taxable income, management believes it is probable that the Group will realise the benefits of the deferred tax assets.

(iii) As at 31 December 2006, the Group has not recognised deferred tax assets in respect of tax losses of RMB20.6 million (2005: RMB156.9 million) as it is not probable that future taxable profits against which the losses can be utilised will be available. The tax losses will be expired in 2011.

25. INVENTORIES

	The Group 2006	The Group 2005
	RMB'000	*RMB'000*
Construction materials	337,247	127,539
Finished goods	435,373	346,566
Spare parts and consumables	55,504	49,991
	828,124	524,096

The analysis of the amount of inventories recognised as an expense is as follows:

	The Group 2006 *RMB'000*	2005 *RMB'000*
Carrying amount of inventories consumed and sold	4,333,050	4,337,923
Write down of inventories	1,011	2,304
	4,334,061	4,340,227

26. ACCOUNTS AND BILLS RECEIVABLE, NET

	The Group 2006 *RMB'000*	2005 *RMB'000*
Bills receivable	58,675	10,071
Unbilled revenue for contract work *(note 27)*	376,409	242,930
Trade receivables	2,916,178	2,742,506
	3,351,262	2,995,507

(a) Included in accounts and bills receivable are amounts due from fellow subsidiaries of RMB1,740 million (2005: RMB1,728 million) as at 31 December 2006. 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 2006 *RMB'000*	2005 *RMB'000*
Within 1 year	3,171,309	2,782,245
After 1 year but less than 2 years	157,771	155,258
After 2 years but less than 3 years	16,583	47,570
After 3 years	5,599	10,434
	3,351,262	2,995,507

27. CONSTRUCTION CONTRACTS

The aggregate amounts of costs incurred plus recognised profit less recognised losses to date, included in the gross amount due from/to customers for contract work at 31 December 2006 are RMB1,236 million (2005: RMB1,276 million).

In respect of construction contacts in progress at the balance sheet date, the amounts of retentions receivable from customers, recorded within "Accounts and bills receivable" at 31 December 2006 are RMB10 million (2005: RMB19 million).

28. PREPAYMENTS AND OTHER CURRENT ASSETS

	The Group		The Company
	2006	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Advances to staff	88,462	64,848	—
Amounts due from fellow subsidiaries	252,729	1,320,403	—
Prepayments in connection with construction work and equipment purchases	275,054	285,081	—
Prepaid expenses and deposits	199,638	152,608	—
Others	122,757	263,513	2,360
	938,640	2,086,453	2,360

The amounts due from fellow subsidiaries are unsecured, interest free and are expected to be recovered within one year.

29. CASH AND CASH EQUIVALENTS

	The Group		The Company
	2006	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Cash at bank and in hand	6,934,427	3,024,172	3,150,555
Deposits with banks and other financial institutions	136,602	661,744	—
Cash and cash equivalents	7,071,029	3,685,916	3,150,555

Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

Included in cash and cash equivalents are the following amounts denominated in a currency other than the functional currency of the Group:

	The Group		The Company
	2006	**2005**	**2006**
	HKD'000	*HKD'000*	*HKD'000*
Hong Kong dollars	3,139,190	183	3,134,926

The cash and cash equivalents denominated in Renminbi and Hong Kong dollars bear interest at 0.72% to 2.25% (2005: 0.72% to 2.25%) and 2.75% to 4.30% (2005: 3.00%) per annum for the year ended 31 December 2006 respectively.

30. INTEREST-BEARING BORROWINGS

The Group's short-term borrowings are denominated in Renminbi and comprise:

	The Group	
	2006	**2005**
	RMB'000	*RMB'000*
Borrowings from banks		
— secured	50,000	—
— unsecured	45,500	151,500
Loans from fellow subsidiaries		
— unsecured	—	58,045
	95,500	209,545

The Group's interest rate per annum on short-term borrowings is:

	The Group	
	2006	**2005**
Borrowings from banks	4.65%–5.86%	4.96%–6.42%
Loans from fellow subsidiaries	—	4.25%–5.58%

As at 31 December 2006, bank loans amounting to RMB50 million (2005: Nil) were secured by certain of the Group's property, plant and equipment with net book value of RMB21 million.

31. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	The Group	
	2006	**2005**
	RMB'000	*RMB'000*
Trade payable	2,697,409	1,908,436
Bills payable	162,656	39,030
	2,860,065	1,947,466

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

	The Group	
	2006	**2005**
	RMB'000	*RMB'000*
Within 1 year	2,784,827	1,929,576
After 1 year but less than 2 years	69,504	13,790
After 2 years but less than 3 years	3,368	3,139
After 3 years	2,366	961
	2,860,065	1,947,466

Included in accounts and bills payable are amounts due to fellow subsidiaries of RMB110 million (2005: RMB121 million) as at 31 December 2006. The amounts due to fellow subsidiaries are unsecured, interest free and are expected to be settled within one year.

32. ACCRUED EXPENSES AND OTHER PAYABLES

	The Group		The Company
	2006	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Wages and welfare payables	472,499	783,407	—
Amounts due to fellow subsidiaries	302,844	715,328	1,150
Advances received	95,785	98,623	—
Other taxes payable	123,425	188,814	3,335
Dividends payable	202,851	82,142	—
Payables for construction and purchase of fixed assets	179,784	236,463	—
Others	692,517	703,350	50,295
	2,069,705	2,808,127	54,780

The amounts due to fellow subsidiaries are unsecured, interest free and are expected to be settled within one year.

Dividends payable represent dividends declared by certain of the subsidiaries now comprising the Group and payable to the then owners.

33. SHARE CAPITAL

	The Group and the Company	
	2006	**2005**
	RMB'000	*RMB'000*
Registered, issued and fully paid:		
3,811,501,400 (2005: Nil) domestic state-owned ordinary shares of RMB1.00 each	3,811,501	—
1,633,484,600 (2005: Nil) H shares of RMB1.00 each	1,633,485	—
	5,444,986	—

	The Group and the Company	
	2006	**2005**
	Thousands shares	*Thousands shares*
At 1 January	—	—
Issuance of domestic state-owned ordinary shares	3,960,000	—
Conversion of domestic state-owned ordinary shares into H shares	(148,499)	—
Issuance of H shares	1,633,485	—
At 31 December	5,444,986	—

The Company was incorporated on 30 August 2006 with a registered share capital of 3,960,000,000 domestic state-owned ordinary shares with a par value of RMB1.00 each. Such shares were issued to CTC, Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation, as a consideration for the transferring of the Predecessor Operations and injection of cash to the Company (see note 1). In December 2006, the Company issued 1,484,986,000 H shares with a par value of RMB1.00, at a price of HK$2.20 per H share and 148,498,600 domestic state-owned shares of RMB1.00 each owned by CTC were converted into H shares in connection with the initial public offering. For more details, please refer to note 1(b).

All shareholders are entitled to receive dividends as declared from time to time except for the special dividends described in note 14 and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

34. RETIREMENT BENEFIT OBLIGATIONS

In accordance with the labour regulations of the PRC, the Group participates in various defined contribution retirement schemes organised by the municipal and provincial governments for its employees. The Group is required to make contributions to the retirement schemes at rates ranging from 16.5% to 20% of the salaries, bonuses and certain allowances of the employees. A member of the scheme is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date.

The Group has no other material obligation for the payment of pension benefits associated with these schemes beyond the annual contributions described above.

35. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

During the year ended 31 December 2006, the Group acquired several subsidiaries as follows:

	2006	**2005**
	RMB'000	*RMB'000*
Property, plant and equipment, net	41,948	34,245
Investment properties	10,323	15,837
Construction in progress	—	26,004
Lease prepayments	8,691	6,681
Intangible assets	1,227	77
Inventories	14,068	393
Accounts and bills receivable, net	46,623	202,941
Prepayments and other current assets	31,133	116,220
Cash and cash equivalents	16,139	64,913
Accounts and bills payable	(39,104)	(4,970)
Accrued expenses and other payables	(25,598)	(94,015)
Income tax payable	(26)	(68,921)
Net identifiable assets and liabilities	105,424	299,405
Contributed by owner *(note)*	(105,424)	(89,528)
Negative goodwill arising on consolidation	—	(158,813)
Total purchase price paid, satisfied in cash	—	51,064
Less: cash of the subsidiaries acquired	(16,139)	(64,913)
Net cash inflow in respect of the purchase of subsidiaries	(16,139)	(13,849)

Note: These represent the acquisition of subsidiaries made by owner, being transferred to the Group by way of capital contribution.

(b) Major non-cash transactions

	2006	**2005**
	RMB'000	*RMB'000*
Contributions in forms of property, plant and equipment, lease prepayments and other assets	203,128	467,862
Distributions in forms of property, plant and equipment, lease prepayments and other assets	222,806	367,095
Distribution of net assets to owner pursuant to the Restructuring	1,430,962	—

36. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

As at 31 December 2006, the Group has capital commitment for acquisition and construction of property, plant and equipment as follows:

	The Group	
	2006	**2005**
	RMB'000	*RMB'000*
Authorised and contracted for	75,184	129,649
Authorised but not contracted for	36,969	62,020

(b) Operating lease commitments

As at 31 December 2006, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group	
	2006	**2005**
	RMB'000	*RMB'000*
Within 1 year	58,832	46,783
After 1 year but within 5 years	104,802	129,844
After 5 years	7,615	11
	171,249	176,638

The Group leases a number of properties under operating leases. The leases typically run for period of one year to six years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

(c) Contingent liabilities

The Group had no material contingent liabilities and no financial guarantees issued.

37. FINANCIAL INSTRUMENTS

Exposure to credit, interest and liquidity risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

Management has a credit policy in place and the exposure to credit risks is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. Normally, the Group does not obtain collateral from customers.

The Group's major customers are CTC and its subsidiaries (collectively referred to as "CTC Group"), and China Mobile Limited. The Group has a certain concentration of credit risk as the Group's largest customer accounted for 52% of the total accounts and bills receivable as at 31 December 2006 (2005: 58%). The Group has no significant credit risk with any of these customers since the Group maintains long-term and stable business relationships with these large customers in the telecommunications industry.

(b) Interest rate risk

The interest rates and terms of repayment of outstanding loans and deposits of the Group at balance sheet date are disclosed in notes 30 and 29 respectively.

(c) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the board of the entities when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

(d) Fair value

The fair values of cash and cash equivalents, accounts and bills receivable, prepayments and other current assets, accounts and bills payable and accrued expenses and other payables are not materially different from their carrying amounts.

The fair values of the Group's interest-bearing borrowings are estimated to approximate to their fair value based on the nature or short-term maturity.

The fair values of Group's other investments could not be reasonably estimated without incurring excessive costs, since there are no listed market prices for such interest in the PRC.

(e) Foreign currency risk

Substantially all the revenue-generating operations of the Group are transacted in Renminbi, which is not freely convertible into foreign currencies. On 1 January 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange quoted by the PBOC. However, the unification of the exchange rate does not imply convertibility of Renminbi into other foreign currencies. All foreign exchange transactions continue to take place either through the PBOC or other institutions authorised to buy and sell foreign currencies. Approval of foreign currency payments, including remittances of dividends, by the PBOC or other institutions requires submitting a payment application form together with relevant supporting documents.

38. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies.

(a) Construction contracts

As explained in notes 2(n) and 2(v)(i) revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. As a result, until this point is reached the amounts due from customers for contract work as disclosed in note 27 will not include profit which the Group may eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the balance sheet date, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

(b) Impairment for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the aging of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

(c) Impairment of long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of long-lived assets as described in note 2(l). The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

39. RELATED PARTIES

The Group is part of a large group of companies under CTC and has significant transactions and relationships with members of CTC. Apart from the transactions and balances disclosed in the financial statements set out above, there are the following related party transactions:

(a) Transactions with CTC Group

Because of the relationships between the Group, CTC and members of the CTC, it is possible that the terms of those transactions are not the same as those that would result from transactions among unrelated parties.

The principal transactions with CTC Group which were carried out in the ordinary course of business are as follows:

	2006	**2005**
	RMB'000	*RMB'000*
Income from related parties:		
Engineering related services *(note (i))*	4,126,272	3,326,337
IT application services *(note (ii))*	147,058	106,422
Provision of ancillary telecommunications services *(note (iii))*	2,197,976	1,496,072
Provision of operation support services *(note (iv))*	1,017,242	1,015,466
Property leasing *(note (v))*	45,375	38,783
Management fee income *(note(vi))*	45,104	—
Expenses paid to related parties:		
Property leasing charges *(note (vii))*	45,325	35,962
IT application service charges *(note (viii))*	170,925	176,796
Operation support service charges *(note (ix))*	104,247	101,722
Interest paid *(note (x))*	2,160	2,954

Notes:

(i) The amount represents the engineering related services, such as design, construction and project management for telecommunications infrastructure project provided to CTC Group.

(ii) The amount represents the telecommunications network support services, software and hardware development and other IT related services provided to CTC Group.

(iii) The amount represents ancillary telecommunications services such as maintenance of network facilities including optical ducts and cables, exchange buildings and base stations; operation of distribution channels, fixed line and wireless value-added service, internet contents and information services provided to CTC Group.

(iv) The amount represents the facilities management, advertising, conferencing services and certain repair and leasing of equipments services provided to CTC Group.

(v) The amount represents rental income in respect of premises leased to CTC Group.

(vi) The amounts represent management fee income in respect of centralised services provided to CTC Group.

(vii) The amount represents operating leases in respect of business premises paid and payable to CTC Group.

(viii) The amount represents basic telecommunications service, value-added service and information application service charged by CTC Group.

(ix) The amount represents the charge paid and payable to CTC Group for logistics, labour resources, cultural, educational, hygiene and other supporting services.

(x) Interest paid/payable represents the interest paid or payable to CTC Group in respect of the loans from fellow subsidiaries.

Amounts due from/to CTC Group included in respective balances are summarised as follows:

	2006	**2005**
	RMB'000	*RMB'000*
Accounts and bills receivable, net	1,740,358	1,728,006
Prepayments and other current assets	252,729	1,320,403
Total amounts due form CTC Group	1,993,087	3,048,409
Interest-bearing borrowings	—	58,045
Accounts and bills payable	110,036	121,293
Receipts in advance for contact work	82,105	429,144
Accrued expenses and other payables	465,788	773,610
Total amounts due to CTC Group	657,929	1,382,092

As at 31 December 2005 and 2006, no impairment losses for bad and doubtful debts were recorded in respect of amounts due from CTC Group.

The directors are of the opinion that the above transactions with related parties were conducted on normal commercial terms in the ordinary course of business and the terms are fair and reasonable so far as the shareholders of the Company are concerned.

In connection with the Restructuring, the Company and CTC entered into a number of agreements effective as at 16 November 2006 to take up the existing agreements signed between the Predecessor Operations and CTC as set out in items (1), (2) and (3) below, together with a new agreement governing the provision of headquarter management function by the Company as set out in item (4). The terms of the principal agreements impacting the results of operations of the Group are summarised as follows:

(1) The Group has entered into agreements with CTC pursuant to which the Group provides CTC Group with construction, design and project supervision and management for telecommunications infrastructure projects. In addition, the Group has entered into information technology service agreements with CTC pursuant to which the Group provides CTC Group with telecommunications network support service, software and hardware development and other IT related services. The amounts charged for these services are determined by reference to market rates as reflected in prices obtained through a tender.

(2) The Group has entered into facilities leasing agreements with CTC pursuant to which the Group leases certain premises and other facilities to CTC Group, and vice versa. The rental charges are based on market rate, with reference to amounts stipulated by local price bureau.

(3) The Group has entered into operation support services agreements for facilities management, advertising, conferencing, logistics, cultural, educational, hygiene and other community services with CTC. In addition, the Group has entered into ancillary services agreements with CTC. The ancillary services provided to CTC Group include repairs and maintenance of telecommunications equipment and facilities and certain customer services. Pursuant to these agreements, the Group charges CTC Group, and vice versa, for these services in accordance with the following terms:

— government prescribed price;

— where there is no government prescribed prices but where there is a government guided price, the government guided price will apply;

— where there is neither a government prescribed price nor a government guided price, the market price will apply;

— where none of the above is available, the price is to be agreed between the relevant parties, which shall be based on the cost incurred in providing the services plus a reasonable profit margin.

(4) The Group has entered into agreement with CTC pursuant to which the Group takes up the role as headquarter management function to manage assets of the telecommunications support business of provinces, municipalities and autonomous regions including Jiangsu, Anhui, Jiangxi, Sichuan, Chongqing, Hunan, Guizhou, Yunan, Guangxi, Shaanxi, Ningxia, Gansu, Qinghai, Xingjiang, Tibet and any assets retained by CTC after the Restructuring. The aggregate administrative costs incurred by the Group for the provision of the centralised services are apportioned pro rata between the Group and CTC Group according to the net asset ratio of each of the relevant party.

(5) The Group acquired certain property, plant and equipment from CTC Group for a total consideration of RMB295 million in 2006 subsequent to the incorporation of the Company.

(b) Transactions with other state-controlled entities in the PRC

The Group is a state-controlled entity and operates in an economic regime currently predominated by entities directly or indirectly owned or controlled by the PRC government and numerous government authorities and agencies (collectively referred to as "state-controlled entities"). Apart from transactions mentioned in the above, the Group conducts a majority of its business activities with state-controlled entities in the ordinary course of business. These transactions are carried out at terms similar to those that would be entered into with non-state-controlled entities. Transactions with other state-controlled entities in the PRC include but not limited to the following:

— sales and purchase of goods, properties and other assets;

— rendering and receiving services;

— depositing and borrowing money; and

— use of public utilities.

The Group prices its services and products based on guideline ceiling rates prescribed by relevant government agencies, where applicable, or based on the commercial negotiations. The Group has also established its procurement policies and approval processes for purchase of products and services, which do not depend on whether the counter parties are state-controlled entities or not.

Having considered the transactions potentially affected by related party relationships, the entity's pricing strategy, procurement policies and approval processes, and the information that would be necessary for an understanding or the potential effect of the related party relationships on the consolidated financial statements, the directors are of the opinion that the following amounts due from/to state controlled entities in the PRC require disclosure.

Cash deposited with the state-controlled banks in the PRC and the interest income are as follows:

	2006	**2005**
	RMB'000	*RMB'000*
Cash and cash equivalents	3,913,664	3,682,502

	2006	**2005**
	RMB'000	*RMB'000*
Interest income	42,572	59,982

(c) Transactions with key management personnel

Remuneration for key management personnel, including amounts paid to the Company's directors and supervisors as disclosed in note 11 and certain of the highest paid employees as disclosed in note 12, is as follows:

	2006	**2005**
	RMB'000	*RMB'000*
Salaries and other emoluments	872	820
Retirement benefits	490	556
Bonuses	2,224	2,183
	3,586	3,559

Total remuneration is included in "Staff costs" in note 9.

(d) Contributions to defined contribution retirement plans

The Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff. The details of the Group's employee benefits plan are disclosed in note 34. As at 31 December 2005 and 2006, there was no material outstanding contribution to post-employment benefit plans.

(e) Transactions with ten largest state-controlled customers and suppliers

The directors consider that the transactions with state-controlled entities which require disclosure in the financial statements have been set out above. The following are the additional disclosure in respect of transactions entered into by the Group with its ten largest state-controlled customers and suppliers:

Transactions with the Group's ten largest customers, which are state-controlled entities, amounting to approximately RMB10,023 million for the year ended 31 December 2006 (2005: RMB8,756 million).

Transactions with the Group's ten largest suppliers, which are state-controlled entities, amounting to RMB539 million for the year ended 31 December 2006 (2005: RMB289 million).

40. SEGMENTAL REPORTING

For the years ended 31 December 2005 and 2006, the Group principally has one business segment, the provision of integrated telecommunications service to the telecommunications industry in the PRC. The Group mainly operates in the PRC. Accordingly, no business and geographical segment information are presented.

41. DISTRIBUTABLE RESERVES

The movement of shareholders' equity of the Company for 2006 is as follows:

	Share capital	Share premium	Capital reserves	Statutory surplus reserves	Retained earnings/ (loss)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 33)					
Capitalisation upon legal establishment of the Company *(Note 1)*	3,960,000	—	1,413,776	—	—	5,373,776
Issuance of shares upon public listing	1,484,986	1,807,727	—	—	—	3,292,713
Shares issue expenses	—	(249,944)	—	—	—	(249,944)
Profit for the period	—	—	—	—	55,375	55,375
Appropriation	—	—	—	69,969	(69,969)	—
At 31 December 2006	5,444,986	1,557,783	1,413,776	69,969	(14,594)	8,471,920

According to the Company's Articles of Association, the amount of retained profits available for distribution to equity shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with IFRSs after the appropriation to statutory surplus reserve as detailed in Note (e) to the consolidated statement of changes in equity.

At 31 December 2006, there were no distributable reserves attributable to the equity shareholders of the Company.

42. COMPARATIVE FIGURES

Subcontracting charges of RMB499 million in 2005 have been reclassified to direct personnel costs to conform with the current year's presentation.

43. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2006

Up to the date of issue of these financial statements, the IASB has issued amendments, new standards and interpretations which are not yet effective for the accounting year ended 31 December 2006 and which have not been adopted in these financial statements. Of these developments, the following relate to matters they may be relevant to the Group's operations and financial statements:

		Effective for accounting periods beginning on or after
IFRS 7	Financial instruments: Disclosures	1 January 2007
IFRS 8	Operating segments	1 January 2007
Amendment to IAS 1 (August 2005)	Presentation of financial statements: capital disclosures	1 January 2009
IFRIC 10	Interim financial reporting and impairment	1 November 2006

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that while the adoption of them may result in new or amended disclosures, it is unlikely to have a significant impact on the Group's results of operations and financial position.

44. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2006, the directors consider the immediate and ultimate controlling party of the Group to be CTC, a stated-owned enterprise established in the PRC. CTC does not produce financial statements available for public use.

45. NON-ADJUSTING POST BALANCE SHEET EVENT

The Corporate Income Tax Law of the People's Republic of China ("new tax law") has been passed by the Fifth Plenary Session of the Tenth National People's Congress on 16 March 2007 and will take effect on 1 January 2008. According to the new tax law, except for certain subsidiaries of the Company which are taxed at preferential rates, the income tax rate applicable to the Group will be reduced from 33% to 25% from 1 January 2008. From 1 January 2008, certain subsidiaries that are currently taxed at preferential rates will be subject to a five-year transition period during which the tax rates will gradually be increased to the unified rate of 25% and certain high-tech enterprises will continue to be entitled to a reduced tax rate of 15%. However, the new tax law has not set out the details as to how the existing preferential tax rate will gradually increase to the standard rate of 25% and the detailed implementation rules regarding the preferential tax policies (e.g. the details of how a taxpayer can be qualified as a high-tech enterprise to enjoy the preferential rate of 15%) have yet to be made public. Consequently, management is not in a position to estimate the impact of the new tax law on the deferred tax assets and liabilities of certain subsidiaries which are being taxed at preferential rates. The financial effect of the new tax law, if any, will be reflected in the Group's 2007 financial statements. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable.

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE COMBINED GROUP

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong. As described in the section headed "Documents Available for Inspection" in Appendix VI, a copy of this report is available for inspection.

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

20 June 2007

The Directors
China Communications Services Corporation Limited

Dear Sirs,

We report on the unaudited pro forma financial information of the Combined Group (as defined below) as set out in Section A of Appendix IV to the shareholders' circular issued by China Communications Services Corporation Limited (the "Company") dated 20 June 2007 (the "Unaudited Pro Forma Financial Information"), which has been prepared by the directors of the Company solely for illustrative purposes to provide information about how the proposed acquisition of the Target Business and the Target Assets (as defined in the accompanying introduction thereto) to be accounted for under as-if-pooling-of-interests method and the restructuring of the Target Business, as described in the accompanying introduction and notes to the Unaudited Pro Forma Financial Information, might have affected the historical financial information of the Company and its subsidiaries (collectively, the "Listed Group") presented therein. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in the accompanying introduction thereto.

Responsibilities

It is the responsibility solely of the directors of the Company to Prepare the Unaudited Pro Forma Financial Information in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by Paragraph 4.29 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements ("HKSIR") 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Listed Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Listed Group and the Target Business (collectively, the "Combined Group") had the acquisition of the Target Business and the Target Assets and the restructuring of the Target Business actually completed on 31 December 2006 or any future date; or

- the results of operations of the Combined Group for the year ended 31 December 2006 had the acquisition of the Target Business and the Target Assets and the restructuring of the Target Business actually taken effect on 1 January 2006 or any future periods.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Listed Group, and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong, China

INTRODUCTION TO UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE COMBINED GROUP

The accompanying unaudited pro forma financial information of the Combined Group (as defined below) has been prepared to illustrate the effect of the proposed acquisition by China Communications Services Corporation Limited (the "Company") and its subsidiaries (hereinafter referred to as the "Listed Group") in respect of the telecommunications infrastructure services, business process outsourcing services and applications, content and other services located in Jiangsu Province, Anhui Province, Jiangxi Province, Hunan Province, Guangxi Zhuang Autonomous Region, Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province and Xinjiang Uygur Autonomous Region, together with the equity interests in Guangdong Nanfang Communications GSM Intelligent Card System Co., Ltd. and NingBo Public Information Industry Co., Ltd. (collectively, the "Target Business") from China Telecommunications Corporation ("CTC"). In addition, pursuant to the same proposed acquisition, the Company will also acquire certain assets from CTC, namely office buildings, equipment, leases and certain equity interests in companies of which the majority interests have been owned by the Listed Group (collectively, the "Target Assets"). The Target Business and the Target Assets are referred to as the "Total Acquisition Assets" and the proposed acquisition of the Total Acquisition Assets is referred to as the "Acquisition".

The total purchase price for the Total Acquisition assets payable by the Company is RMB4,630 million which will be satisfied by cash payment within 60 days from the completion date of the Acquisition, comprising net proceeds of the Company's initial public offering of RMB1,200 million, its working capital of RMB1,430 million and debt financing on normal commercial terms of RMB2,000 million.

As both the Target Business and the Listed Group are under common control prior to the Acquisition, the Acquisition will be treated for accounting purposes as a "combination of entities under common control". Under a combination of entities under common control, the assets and liabilities of the Target Business to be acquired by the Company will be accounted for at historical amounts in a manner similar to a pooling-of-interests ("as-if pooling-of-interests accounting"). In as-if-pooling-of-interests accounting, the consolidated financial statements of the Listed Group for periods prior to the combination will be restated to include the assets and liabilities and results of operations of the Target Business for those periods on a combined basis (the Listed Group and the Target Business are hereinafter referred to as the "Combined Group"). The purchase price for the Acquisition will be treated as an equity transaction at the completion date of the Acquisition.

The accompanying unaudited pro forma balance sheet of the Combined Group as at 31 December 2006 gives effect to the Acquisition as if the Acquisition had been completed on 31 December 2006. The accompanying unaudited pro forma income statement of the Combined Group for the year ended 31 December 2006 gives effect to the Acquisition as if the Acquisition had been completed on 1 January 2006. The unaudited pro forma financial information of the Combined Group for the year ended 31 December 2006 has been further adjusted to give effect to certain events relating to the Restructuring (as defined below) as if the Restructuring had taken place on 1 January 2006.

The Target Business is the leading integrated service provider to the telecommunications industry in the 13 provinces, municipalities and autonomous regions in the People's Republic of China (the "PRC"), namely, Jiangsu Province, Anhui Province, Jiangxi Province, Hunan Province, Guangxi

Zhuang Autonomous Region, Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province and Xinjiang Uygur Autonomous Region (collectively, the "Target Service Areas"), together with the equity interests in Guangdong Nanfang Communications GSM Intelligent Card System Co., Ltd. and NingBo Public Information Industry Co., Ltd.. Its principal activities comprise the provision of a full range of telecommunications support services to the telecommunication operators, including (i) telecommunications infrastructure services (including design, construction and supervision and management); (ii) business process outsourcing services (including network maintenance, facilities management, distribution of telecommunications service and products); and (iii) applications, content and others in the Target Service Areas. From 2006, CTC undergone a restructuring programme in connection with its telecommunications infrastructure services, business process outsourcing services and applications, content and other services located in the Target Service Areas (the "Restructuring"), forming the Target Business to be acquired by the Company pursuant to an acquisition agreement dated 15 June 2007 entered into between the Company and CTC.

The accompanying unaudited pro forma financial information of the Combined Group is based upon the historical combined financial information of the Target Business and the historical consolidated financial statements of the Listed Group as at 31 December 2006 and for the year then ended after giving effect to the pro forma adjustments described in the accompanying notes. A narrative description of the pro forma adjustments of the Acquisition and the Restructuring that are (i) directly attributable to the transactions; (ii) expected to have a continuing impact on the Combined Group; and (iii) factually supportable, are summarised in the accompanying notes.

The accompanying unaudited pro forma financial information of the Combined Group is based on a number of assumptions, estimates, uncertainties and currently available information. As a result of these assumptions, estimates and uncertainties, the accompanying unaudited pro forma financial information of the Combined Group does not purport to describe the actual financial position or results of the Combined Group's operations that would have been attained had the Acquisition been completed, and the Restructuring taken effect at the dates indicated herein. Further, the accompanying unaudited pro forma financial information of the Combined Group does not purport to predict the Combined Group's future financial position or results of operations.

The unaudited pro forma financial information of the Combined Group should be read in conjunction with the audited financial information of the Target Business as set out in Appendix I to this circular, the audited financial information of the Listed Group as set out in Appendix III and other financial information included elsewhere in this circular.

UNAUDITED PRO FORMA BALANCE SHEET OF THE COMBINED GROUP

As at 31 December 2006

	Listed Group Historical	Target Business Historical	Pro Forma Combined	Pro Forma Adjustments	Pro Forma Combined Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment, net	2,232,848	764,739	2,997,587	513,000(2)	3,510,587
Investment properties	286,892	158,626	445,518		445,518
Construction in progress	265,804	26,239	292,043	47,000	339,043
Lease prepayments	103,190	52,221	155,411	340,000(2)	495,411
Intangible assets	32,968	12,344	45,312		45,312
Interests in associates	7,927	16,240	24,167		24,167
Other investments	138,475	35,078	173,553	(34,000)(1)	139,553
Deferred tax assets	74,221	32,959	107,180		107,180
Total non-current assets	3,142,325	1,098,446	4,240,771		5,106,771
Current assets					
Inventories	828,124	152,106	980,230		980,230
Accounts and bills receivable, net	3,351,262	2,453,507	5,804,769		5,804,769
Prepayments and other current assets	938,640	1,178,296	2,116,936	74,000(2)	2,190,936
Cash and cash equivalents	7,071,029	1,092,726	8,163,755	470,000(1)	6,003,755
				(2,630,000)(2)	
Total current assets	12,189,055	4,876,635	17,065,690		14,979,690
Total assets	15,331,380	5,975,081	21,306,461		20,086,461

	Listed Group Historical *RMB'000*	Target Business Historical *RMB'000*	Pro Forma Combined *RMB'000*	Pro Forma Adjustments *RMB'000*	Pro Forma Combined Group *RMB'000*
Current liabilities					
Short term borrowings and current portion of long term borrowings	95,500	62,200	157,700	2,000,000(2)	2,157,700
Accounts and bills payable	2,860,065	1,322,040	4,182,105		4,182,105
Receipts in advance for contract work	612,818	67,230	680,048		680,048
Accrued expenses and other payables	2,069,705	1,582,642	3,652,347		3,652,347
Income tax payable	110,202	113,964	224,166		224,166
Total current liabilities	5,748,290	3,148,076	8,896,366		10,896,366
Net current assets	6,440,765	1,728,559	8,169,324		4,083,324
Total assets less current liabilities	9,583,090	2,827,005	12,410,095		9,190,095
Non-current liabilities					
Long term borrowings, less current portion	—	13,000	13,000		13,000
Deferred tax liabilities	—	18,473	18,473		18,473
Total non-current liabilities	—	31,473	31,473		31,473
Total liabilities	5,748,290	3,179,549	8,927,839		10,927,839
Equity					
Share capital	5,444,986	—	5,444,986		5,444,986
Reserves	4,036,323	2,735,804	6,772,127	436,000(1) (3,646,000)(2)	3,562,127
Equity attributable to equity shareholders of the Company	9,481,309	2,735,804	12,217,113		9,007,113
Minority interests	101,781	59,728	161,509	(10,000)(2)	151,509
Total equity	9,583,090	2,795,532	12,378,622		9,158,622
Total liabilities and equity	15,331,380	5,975,081	21,306,461		20,086,461

UNAUDITED PRO FORMA INCOME STATEMENT OF THE COMBINED GROUP

For the year ended 31 December 2006

	Listed Group Historical	Target Business Historical	Pro Forma Combined	Pro Forma Adjustments	Pro Forma Combined Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenues	14,182,800	5,129,932	19,312,732		19,312,732
Cost of revenues	(11,423,596)	(4,024,385)	(15,447,981)	(11,000)(5)	(15,458,981)
Gross profit	2,759,204	1,105,547	3,864,751		3,853,751
Other operating income	159,414	37,267	196,681		196,681
Selling, general and administrative expenses	(1,890,702)	(883,995)	(2,774,697)		(2,774,697)
Other operating expenses	(12,298)	(16,052)	(28,350)		(28,350)
Deficit on revaluation of property, plant and equipment	(105,299)	(30,330)	(135,629)		(135,629)
Net financing income/(expenses)	85,644	1,671	87,315	(16,000)(3) (110,000)(4)	(38,685)
Share of profits less (losses) of associates	(30)	2,005	1,975		1,975
Negative goodwill	4,039	—	4,039		4,039
Profit before tax	999,972	216,113	1,216,085		1,079,085
Income tax	(280,712)	(93,902)	(374,614)	45,210(6)	(329,404)
Profit for the year	719,260	122,211	841,471		749,681
Attributable to:					
Equity shareholders	696,078	120,676	816,754	(16,000)(3) (110,000)(4) (11,000)(5) 45,210(6)	724,964
Minority interests	23,182	1,535	24,717		24,717
	719,260	122,211	841,471		749,681
Basic and diluted earnings per share (in RMB)	0.172				0.179
Weighted average number of shares (in '000)	4,057,643				4,057,643

NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE COMBINED GROUP

(1) Subsequent to 31 December 2006, CTC finalised the Restructuring of the Target Business in each of the Target Service Areas by rationalising the capital structure of certain entities included in the Target Business in order to facilitate the proposed acquisition of the Target Business. As a result, a net contribution of RMB436 million, representing cash contributions of RMB470 million and net non-cash distributions of RMB34 million, have been made by CTC during 2007. The pro forma balance sheet adjustment reflects the completion of the Restructuring of the Target Business by CTC as if the net contribution had been made on 31 December 2006.

(2) In addition to acquiring the Target Business, the Company will acquire the Target Assets from CTC of approximately RMB984 million, including mainly office buildings, equipment, leases and certain equity interests in companies of which the majority interests have been owned by the Listed Group. The purchase price payable for the Acquisition is a cash consideration of RMB4,630 million which will be paid by the Company to CTC within 60 days from the completion date of the Acquisition, and financed by net proceeds of the Company's initial public offering and working capital totalling RMB2,630 million and debt financing on normal commercial terms of RMB2,000 million.

The pro forma balance sheet adjustment reflects the proposed acquisition of and the RMB4,630 million payments for the Total Acquisition Assets, including the Target Business and the Target Assets as if the Acquisition had been completed on 31 December 2006. As both the Target Business and the Listed Group are under common control prior to the Acquisition, the Acquisition will be treated for accounting purposes as a "combination of entities under common control". The purchase price for the proposed acquisition of the Target Business will be treated as an equity transaction at the completion date of the Acquisition which is reflected as a decrease in the Combined Group's equity amounting to RMB3,646 million in the pro forma balance sheet adjustment. It has been assumed that the purchase price had been fully paid on 31 December 2006 and the debt financing had been treated as a short-term borrowing as the detailed terms of the debt financing have not yet been finalised.

The net decrease in equity of the pro forma Combined Group as compared to the Listed Group in the amount of RMB474 million represents the difference between the purchase price of RMB4,630 million and the net assets of the Target Business of RMB3,172 million (after adjusting the net contribution of RMB436 million (see item 1 above)) and the Target Assets of RMB984 million (see item 2 above).

(3) The pro forma income statement adjustment reflects the reduction in interest income of RMB16 million after taking into account of the net reduction in cash and cash equivalents of RMB2,160 million, comprising the cash payments for the Acquisition amounting to RMB2,630 million out of the Company's cash resources (see item 2 above) and cash contributions of RMB470 million (see item 1 above), calculated at a savings rate of 0.72% per annum as if the net contribution had been made and the Acquisition had been completed on 1 January 2006.

(4) The pro forma income statement adjustment reflects the additional interest expense in respect of the debt financing of RMB2,000 million (see item 2 above) at 5.5% per annum, resulting in an additional financing expenses of RMB110 million, as if the Acquisition had been completed on 1 January 2006.

(5) As mentioned in item 2 above, the Company will acquire the Target Assets amounting to RMB984 million from CTC pursuant to the Acquisition. Certain portion of the Target Assets are office buildings and leases which are located in the Target Service Areas and the related depreciation and amortisation charges have been reflected in the historical financial information of the Target Business via corporate administrative expenses recharged by CTC. The pro forma income statement adjustment reflects the depreciation charges in respect of the remaining portion of the Target Assets other than those mentioned above, resulting in an additional depreciation charge of RMB11 million, as if the Acquisition had been completed on 1 January 2006.

(6) The pro forma adjustment reflects the tax effect of the above pro forma income statement adjustments using the statutory tax rate of 33%.

(B) INDEBTEDNESS

At the close of business on 30 April 2007, being the latest practicable date for the purpose of this indebtedness statement, the Combined Group had the following outstanding borrowings:

Short term borrowings

	RMB'000
Borrowings from banks	
— guaranteed	13,000
— collateralised	42,600
Loans from fellow subsidiaries	
— unsecured	103,500
Current portion of long term borrowings	
— collateralised	2,000
	161,100

Long term borrowings

	RMB'000
Borrowings from banks	
— collateralised	4,333
Loans from fellow subsidiaries	
— unsecured	10,000
	14,333
Less: current portion of long term borrowings	(2,000)
	12,333

Save as aforesaid or as otherwise disclosed herein and apart from intra-group liabilities, the Combined Group did not have, at the close of business on 30 April 2007, outstanding liabilities or any mortgages, charges, debentures, loan capital, bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase or finance lease obligations or any guarantees or other material contingent liabilities.

(C) WORKING CAPITAL

The Directors of the Company are of the opinion that after taking into account the debt financing of RMB2,000 million and other sources of financing available to the Combined Group, the Combined Group will, following the completion of the Acquisition have sufficient working capital for its present requirements in the absence of unforeseen material circumstances.

Our forecast net profit attributable to the owner of the Target Business of the year ending 31 December 2007 is set forth in the section headed "Prospective Financial Information".

(A) BASES AND ASSUMPTIONS

Our Directors and management of the Target Business have prepared the forecast net profit attributable to the owner of the Target Business for the year ending 31 December 2007 on the basis of the unaudited results of the Target Business for the four months ended 30 April 2007 and its forecast results for the remaining eight months ending 31 December 2007. Such forecast has been based on the following principal assumptions:

(1) there will be no material changes in existing political, legal, regulatory, fiscal or economic conditions in the PRC, Hong Kong, or any other territory in which the Target Business operates or which are otherwise material to the revenues of the Target Business;

(2) there will be no material changes in legislation or regulations governing the telecommunications industry in the PRC, Hong Kong or any other country or territory in which the Target Business operates or which the Target Business has arrangements or agreements with, which would materially affect the business or operations of the Target Business;

(3) inflation, interest rates or foreign currency exchange rates will not differ materially from those prevailing as of the date of this circular;

(4) there will be no material changes in the bases or rates of taxation applicable to the Target Business, except as otherwise disclosed in this circular. In addition, the enactment of the Corporate Income Tax Law of the PRC passed by the Fifth Plenary Session of the Tenth's National People's Congress on 16 March 2007 to be effective on 1 January 2008 is not expected to have any significant financial effect on the Target Business for the year ending 31 December 2007; and

(5) based on information currently available, there will be no tariff reduction that will have a material adverse effect on the business of the Target Business.

The accounting policies adopted in the profit forecast are based on the International Financial Reporting Standards which are effective prior to the accounting periods beginning on or after 1 January 2008.

(B) LETTER FROM THE REPORTING ACCOUNTANTS

The following is the text of the letter received from the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in connection with the forecast of the net profit attributable to the owner of the Target Business for the year ending 31 December 2007 and prepared for the sole purpose of inclusion in this circular. As described in the section headed "Documents Available for Inspection" in Appendix VI, a copy of this report is available for inspection.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

20 June 2007

The Directors
China Communications Services Corporation Limited
China International Capital Corporation (Hong Kong) Limited
Goldman Sachs (Asia) L.L.C.

Dear Sirs,

We have reviewed the accounting policies and calculations adopted in arriving at the forecast net profit attributable to the owner of the Target Business (as defined in the Circular (see below)) for the year ending 31 December 2007 (the "Forecast"), for which the Directors of China Communications Services Corporation Limited (the "Company") and the management of the Target Business are solely responsible, as set out in the shareholders' circular dated 20 June 2007 issued by the Company (the "Circular").

The Forecast has been prepared by the Directors of the Company and management of the Target Business based on the unaudited results of the Target Business for the four months ended 30 April 2007 and its forecast results for the remaining eight months ending 31 December 2007.

In our opinion, so far as the accounting policies and calculations are concerned, the Forecast has been properly compiled on the bases and assumptions made by the Directors of the Company and management of the Target Business as set out in Part A of Appendix V to the Circular, and is presented on a basis consistent in all material respects with the accounting policies currently adopted by the Target Business as set out in the Accountants' Report on Financial Information of the Target Business dated 20 June 2007, the text of which is set out in Appendix I to the Circular.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong, China

(C) LETTER FROM THE FINANCIAL ADVISERS

Set out below is the texts of a letter received from the Financial Advisers for the purpose of incorporation in this circular in connection with the profit forecast of the Target Business for the year ending 31 December 2007.

China International Capital Corporation (Hong Kong) Limited
Suite 2307, 23rd Floor
One International Finance Centre
1 Harbour View Street, Central
Hong Kong

Goldman Sachs (Asia) L.L.C.
68th Floor
Cheung Kong Center
2 Queen's Road Central
Hong Kong

20 June 2007

The Directors
China Communications Services Corporation Limited

Dear Sirs,

We refer to the forecast net profit attributable to the owner of The Target Business (as defined in the Circular (see below)) for the year ending 31 December 2007 (the "Forecast") as set out in the section "Letter from the Board" in the Circular of the Company dated 20 June 2007 (the "Circular").

We have discussed with you and the management of the Target Business the bases and assumptions made by the Directors of the Company and the management of the Target Business as set out in part A of Appendix V to the Circular upon which the Forecast has been made. We have also considered the letter dated 20 June 2007 addressed to yourselves and ourselves from KPMG regarding the accounting policies and calculations upon which the Forecast has been made.

On the basis of the information comprising the Forecast, the assumptions made by the Directors of the Company and the management of the Target Business and on the basis of the accounting policies and calculations adopted by you and reviewed by KPMG, we are of the opinion that the Forecast, for which you as Directors of the Company and the management of the Target Business are solely responsible, has been made after due and careful enquiry.

Yours faithfully,

For and on behalf of
China International Capital Corporation (Hong Kong) Limited
Jiang Yong
Managing Director

For and on behalf of
Goldman Sachs (Asia) L.L.C.
Carman Wong
Executive Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. All the Directors jointly and severally accept full responsibility for the accuracy of information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. DIRECTORS' AND SUPERVISORS' INTERESTS

As at the Latest Practicable Date, none of the Directors, supervisors and chief executive of the Company had any interest or short position in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

No contract, commitment or agreement of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party and in which any of the Directors had a material interest, either directly or indirectly, subsisted as at the Latest Practicable Date.

As at the Latest Practicable Date, none of the Directors or Supervisors had any interest, direct or indirect, in any asset which since 31 December 2006, the date to which the latest published audited financial statements of the Listed Group were made up, have been acquired or disposed of by or leased to any member of the Listed Group or are proposed to be acquired or disposed of by or leased to any member of the Listed Group.

As at the Latest Practicable Date, there was no benefit given or agreed to be given to any Director as compensation for loss of office or otherwise in connection with the Acquisition.

Save as the positions held by Mr. Wang Xiaochu and Mr. Li Ping at China Telecommunications Corporation and the position held by Mr. Liu Aili at China Mobile, as at the Latest Practicable Date, none of the Directors were a director or an employee of any shareholders of the Company or a company which has an interest or short position in shares or underlying shares of the Company which would fall to be disclosed to the Company under the Provision of Division 2 and 3 of Part XV of the SFO.

As at the Latest Practicable Date, there was no agreement, arrangement or understanding between any Director and any other person which is conditional on/or dependent upon the outcome of the Acquisition or otherwise connected with the Acquisition.

As at the Latest Practicable Date, none of the Directors or Supervisors was materially interested in any contract or arrangement to which any member of the Listed Group was a party and which was significant to the business of the Listed Group.

China Telecommunications Corporation and its Associates being connected persons to the Acquisition, will abstain from voting on the ordinary resolutions to approve the terms of the Acquisition and the terms of certain Prospective Connected Transactions. Save for such regulatory requirements, none of the Shareholders had, prior to the Latest Practicable Date, in any form irrevocably committed itself to vote in favour of or against the relevant resolutions in relation to the Acquisition, any of the Prospective Connected Transactions and the proposed amendment to the Strategic Cooperation Agreement.

3. SUBSTANTIAL SHAREHOLDERS

The Company was incorporated on 30 August 2006, and the registered capital was 3,960,000,000 ordinary domestic shares with a par value of RMB1.00 each. China Telecommunications Corporation holds 3,623,400,000 ordinary shares, accounting for 91.50% of our total issued shares; Guangdong Telecom Industry Group Corporation (a wholly owned subsidiary of China Telecommunications Corporation) holds 245,520,000 ordinary shares, accounting for 6.20% of the aggregate shares and Zhejiang Telecom Industry Corporation (a wholly owned subsidiary of China Telecommunications Corporation) holds 91,080,000 ordinary shares, accounting for 2.30% of the aggregate shares.

In December 2006, the Company issued 1,484,986,000 H shares with a par value of RMB1.00 each, at a price of HK$2.20 per H share by way of an initial public offering to Hong Kong and overseas investors. In connection with the initial public offering, the promoters of the Company converted 148,498,600 domestic state-owned shares of RMB1.00 each into H shares on a one domestic share to one H-share basis and transferred them to the National Council for Social Security Fund of the PRC. A total of 1,633,484,600 H shares were listed on the Stock Exchange:

Shares	Number of Shares	Approximate % of issued share capital
Domestic shares (Total)	3,811,501,400	70%
Domestic shares held by:		
China Telecommunications Corporation[1]	3,487,523,782	64.05%
Guangdong Telecom Industry Group Corporation	236,313,086	4.34%
Zhejiang Telecom Industry Corporation	87,664,532	1.61%
H shares (Total)	1,633,484,600	30%
Total	5,444,986,000	100%

(1) Pursuant to the equity transfer arrangement entered into between China Telecommunications Corporation, China Mobile and China Unicom, China Telecommunications Corporation agreed to transfer 506,880,000 domestic shares and no more than 4.5% of the issued share capital of the Company immediately after the global offering of the Company in 2006 (assuming no over-allotment option is exercised) to China Mobile and China Unicom respectively. China Telecommunications Corporation will hold the said portion of shares until the date on which the conditions precedent to the equity transfer are met. The equity transfer is conditional upon the equity transfer agreement having been executed, the lapse of at least one year from the listing date and the transfer having been

approved by the State-Owned Assets Supervision and Administration Commission of the PRC and the name of the transferee being registered in the Company's share register. Details of the equity transfer agreement are disclosed in the Company's prospectus dated 27 November 2006.

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

As at the Latest Practicable Date, so far as is known to, or can be ascertained after reasonable enquiry by, the Directors, the persons (not being a Director or chief executive of the Company) who had an interest or short position in the Shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Name of shareholder	Number of shares held	Type of shares	Percentage of the respective type of shares (%)	Percentage of the total number of shares in issue (%)	Capacity
China Telecommunications Corporation(1)	3,811,501,400	Domestic shares	100.00	70.00	Beneficial Owner
China Mobile Communications Corporation(2)	506,880,000	Domestic shares	13.30	9.31	Beneficial Owner
Guangdong Telecom Industry Group Corporation(1)	236,313,086	Domestic shares	6.20	4.34	Beneficial Owner
Cisco Systems International B.V.	176,676,000 (L)	H shares	10.82	3.24	Beneficial Owner
JPMorgan Chase & Co.	129,305,000 (L)	H shares	7.92	2.37	Investment Manager, Custodian — Licensed Corporation/ Approved Leading Agent
	92,134,000 (P)	H shares	5.64	1.69	
INVESCO Hong Kong Limited (previously known as INVESCO Asia Limited)	117,355,000 (L)	H shares	7.18	2.16	Investment Manager

Remarks: (L): Long Position; (P): Lending Pool

(1) Since China Telecommunications Corporation indirectly holds 100% of the shares in Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation, the 323,977,618 domestic shares held in total by Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation are considered and aggregated as the equity interest of China Telecom.

(2) Please refer to the remarks in the paragraph of this appendix entitled "Substantial Shareholders" for details of the equity transfer agreement entered into between China Telecommunications Corporation and China Mobile and the conditions to be met before the equity transfer becomes effective.

Save for the aforesaid Shareholders, as at the Latest Practicable Date, the Company is not aware of any interests required to be recorded pursuant to section 336 of the SFO (Chapter 571 of the Laws of Hong Kong).

5. SUBSTANTIAL SHAREHOLDER IN SUBSIDIARIES

So far as is known to the Directors, as at the Latest Practicable Date (i.e. before completion of the Acquisition), the following entities were the owners of 10% or more of the registered capital of the subsidiaries of the Company:

Name of subsidiary	Name of shareholder	Total amount of registered capital of subsidiary (thousand yuan)	Percentage of shareholder's interest in registered capital
Guangzhou Regaltec Communications Technology Co., Ltd. 廣州瑞達通信技術有限公司	Lintech Telecom Limited 科聯電信有限公司	2,100 (US$)	60%
Guangdong Electronic Certification Authority Co., Ltd. 廣東省電子商務認證有限公司	Guangdong Telecom Industry Group Corporation 廣東省電信實業集團公司	30,000	10%
Shenzhen Telecom Engineering Co., Ltd. 深圳市電信工程有限公司	Shenzhen Shenda Telephone Co., Ltd. 深圳市深大電話有限公司	16,000	40%
Hangzhou Bell Telecommunication System Co., Ltd. 杭州貝爾通訊系統有限公司	Alcatel Shanghai Bell Co., Ltd. 上海貝爾阿爾卡特股份有限公司	8,000	40%
Alcatel Hangzhou Communication Systems Co., Ltd. 杭州阿爾卡特通訊系統有限公司	Alcatel Shanghai Bell Co., Ltd. 上海貝爾阿爾卡特股份有限公司	36,180	40%
Zhejiang Feilan Communication Engineering Inspection Co., Ltd. 浙江沸藍通信科技有限公司	Jiaxing Information Technology Park Construction Co., Ltd. 嘉興信息科技園建設有限公司	12,500	20%

Name of subsidiary	Name of shareholder	Total amount of registered capital of subsidiary (thousand yuan)	Percentage of shareholder's interest in registered capital
Shanghai Tele-Communication Engineering Construction & Supervision Co., Ltd. 上海電話通信工程建設監理有限公司	Shanghai Post and Telecommunications Engineering Business Division 上海郵電電信工程業務部	5,000	10%
Shanghai Telephone Property Co., Ltd. 上海德律風物業有限公司	Shanghai Telecom Industry (Group) Co., Ltd. 上海電信實業（集團）有限公司	20,000	10%

6. SHAREHOLDING OF AND DEALING IN THE SECURITIES OF THE COMPANY AND CHINA TELECOMMUNICATIONS CORPORATION

(a) None of China Telecommunications Corporations and parties acting in concert with it (including the directors of it) and the Directors and their respective associates, who owned or controlled any shares, convertible securities, warrants, options or derivatives in respect of the Shares as at the Latest Practicable Date, has dealt for value in any such securities of the Company during the period between 31 December 2006, being the date of the latest published audited financial statements of Group, and the Latest Practicable Date.

(b) No arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed (i) between any person and the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of an associate under the Takeovers Code or (ii) between any person and China Telecommunications Corporation or any person who is acting in concert with it during the period between 31 December 2006, being the date of the latest published audited financial statements of Group, and the Latest Practicable Date.

(c) None of the subsidiaries of the Company and none of the pension funds of the Company and/or its subsidiaries, nor any fund managed on a discretionary basis by any fund manager connected with the Company owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares as at the Latest Practicable Date or had dealt in any securities of the Company during the period between 31 December 2006, being the date of the latest published audited financial statements of Group, and the Latest Practicable Date.

(d) None of the Directors and the Company owned or controlled any shares, convertible securities, warrants, options or derivatives of China Telecommunications Corporation as at the Latest Practicable Date, and none of them has dealt for value in any such securities of

China Telecommunications Corporation during the period between 31 December 2006, being the date of the latest published audited financial statements of Group, and the Latest Practicable Date.

7. SERVICE AGREEMENTS

As at the Latest Practicable Date, none of the Directors and supervisors has entered or proposed to enter into a service contract with any member of the Combined Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

As at the Latest Practicable Date, there was no service contract entered into, commenced, or amended within six months before the date of the Announcement and up to the date of this circular.

8. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors and supervisors was interested in any business, apart from the business of the Listed Group, which competes or is likely to compete, either directly or indirectly, with that of the Listed Group.

9. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006, being the date of the latest published audited financial statements of the Company.

10. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any material litigation or arbitration of material importance and there was no material litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Listed Group.

11. QUALIFICATION OF EXPERTS

The following are the qualifications of the Experts who have given their advice, letters or reports for the inclusion in this circular:

Name	Qualification
ING Bank N.V.	Registered for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) of the regulated activities as defined under the SFO
China International Capital Corporation (Hong Kong) Limited	Licensed under the SFO for type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) as defined under the SFO

Name	Qualification
Goldman Sachs (Asia) L.L.C.	Licensed under the SFO for type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance) and type 9 (asset management) as defined under the SFO
KPMG	Certified public accountants
Savills Valuation and Professional	Professional surveyors and valuers

12. CONSENT

(a) The Experts have given and have not withdrawn their respective written consents to the issue of this circular with the inclusion of their advice, letters, reports and references to their names and logos in the form and context in which they appear.

(b) Save as disclosed in (d) of this paragraph, none of the Experts has any shareholding in the Company or any other member of the Listed Group or the right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in the Company or any other member of the Listed Group as at the Latest Practicable Date.

(c) As at the Latest Practicable Date, none of the Experts has any direct or indirect interests in any assets which had been acquired or disposed of by or leased to any member of the Listed Group since 31 December 2006 (the date to which the latest published audited consolidated financial statements of the Listed Group were made up) or proposed to be so acquired, disposed of or leased.

(d) As at the Latest Practicable Date, Goldman, Sachs & Co., Goldman Sachs International and Goldman Sachs (Asia) Finance, all being affiliates of Goldman Sachs (Asia) L.L.C., beneficially held 5,240,400 H Shares in total of the Company.

13. GENERAL

(a) Mr. Chung Wai Cheung, Terence is Company Secretary and Qualified Accountant of the Company.

(b) The Company's registered office is at Level 5, No. 2 and B, Fuxingmen South Avenue, Xicheng District, Beijing, PRC and its principal place of business in Hong Kong is at Room 3203–3205, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong.

(c) The Company's share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Room 1806–1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

14. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to the articles of association of the Company, a general voting shall be made at a Shareholders meeting by a show of hands. However, (i) chairman of the meeting, (ii) at least two Shareholders or proxies of such Shareholders with voting rights, and (iii) one or more Shareholders including proxy or proxies of such Shareholders accounting individually or jointly for 10% or more of the Company's shares with voting right(s), shall have the right to request for a voting by poll before or after a voting by a show of hands.

A poll demanded on the election of the chairman of the meeting or on a question of adjournment of the meeting, shall be taken forthwith. Other issues shall be voted by poll at the time to be decided by the chairman, and the meeting can go on with discussion of other matters. The result of such voting shall also be regarded as the resolution adopted at the meeting. A person who has made a request for voting by poll can withdraw such a request.

15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Freshfields Bruckhaus Deringer in Hong Kong at 11th floor, Two Exchange Square, Central, Hong Kong during normal business hours from the date of this circular up to and including the date of the EGM and at the EGM:

(a) the articles of association of the Company;

(b) the Acquisition Agreement;

(c) the Engineering Framework Agreement, Ancillary Telecommunications Services Framework Agreement, Operation Support Services Framework Agreement, IT Application Services Framework Agreement, Centralized Services Agreement, Property Leasing Framework Agreement and the Supplemental Agreement;

(d) the Strategic Cooperation Agreement and the Supplemental Strategic Agreement;

(e) the Accountants' Report dated 20 June 2007 from KPMG, the text of which is set out in Appendix I to this circular;

(f) the report from KPMG dated 20 June 2007 on the unaudited pro forma financial information of the Combined Group, the text of which is set out in Appendix IV to this circular;

(g) the letter relating to the profit forecast of the Target Business from KPMG, the text of which is set out in Appendix V to this circular;

(h) the letter relating to the profit forecasts prepared by the Financial Adviser, the text of which is set out in Appendix V to this circular;

(i) the property valuation report dated 20 June 2007 prepared by Savills, a summary of which is set out in Appendix II to this circular;

(j) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders the text of which is set out in the section headed "Letter from the Independent Financial Adviser" of this circular;

(k) the letter from the Independent Board Committee, the text of which is set out in the section headed "Letter from the Independent Board Committee" of this circular; and

(l) the written consents referred to in the section headed "Consents" in this Appendix.

16. MISCELLANEOUS

Unless otherwise stated and save as the names of the companies established in the PRC and mentioned in this circular, the English text of this circular shall prevail over its Chinese text.

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: 0552)

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of China Communications Services Corporation Limited (the "Company") will be held at 3: 00 p.m. on 7 August 2007 at Beijing Nan Yue Yuan Hotel, 186 Zheng Wang Fen, Feng Tai District, Beijing, PRC to consider and, if thought fit, pass the following businesses:

ORDINARY RESOLUTIONS

1. **THAT** the Acquisition contemplated under the Acquisition Agreement entered into between the Company and China Telecommunications Corporation as described in the circular of the Company dated 20 June 2007 (the "Circular"), be and are hereby generally and unconditionally approved, ratified and confirmed and that any Director of the Company be and is hereby authorised to do all such further acts and things and execute such further documents and take all such steps which in their opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of the agreement.

2. **THAT** the proposed revised annual caps for each of the Engineering Framework Agreement, Ancillary Telecommunications Services Framework Agreement, Operation Support Services Framework Agreement, IT Application Services Framework Agreement, and Centralized Services Agreement with China Telecommunications Corporation for the three years ended 31 December 2007, 31 December 2008 and 31 December 2009, as described in the Circular, be and are hereby approved, ratified and confirmed.

3. **THAT** the Supplemental Agreement with China Telecommunications Corporation as described in the Circular and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed and that any Director of the Company be and is hereby authorised to do all such further acts and things and execute such further documents and take all such steps which in their opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of such agreement.

4. **THAT** the Supplemental Strategic Agreement with China Telecom Corporation Limited as described in the Circular and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed and that any Director of the Company be and is hereby

authorised to do all such further acts and things and execute such further documents and take all such steps which in their opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of such agreement.

By Order of the Board
Chung Wai Cheung, Terence
Company Secretary

Beijing, PRC
20 June 2007

Notes:

(1) Buyers who submit the share transfer application forms to the Company's share registrar before 4:30 p.m. on Friday, 6 July 2007 and then register as shareholders on the register of members of the Company are entitled to attend the extraordinary general meeting.

(2) Each shareholder entitled to attend and vote at the extraordinary general meeting may appoint one or more proxies to attend and vote on his behalf at the extraordinary general meeting. A proxy need not be a shareholder. Each shareholder who wishes to appoint one or more proxies should first review the shareholders circular of the Company, which is expected to be dispatched to shareholders around 20 June 2007.

To be valid, the form of proxy together with the power of attorney or other authorisation document (if any) signed by the authorised person or notarially certified power of attorney must be delivered to the Office of the Board of the Company for holders of domestic shares or to the Computershare Hong Kong Investor Services Limited for holders of H shares not less than 24 hours before the designated time for the holding of the extraordinary general meeting. Completion and return of a form of proxy will not preclude a shareholder from attending in person and voting at the extraordinary general meeting if he so wishes.

The address of the share registrar for the Company's H shares is as follows:

Computershare Hong Kong Investor Services Limited
1806–1807, 18/F, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

(3) China Telecommunications Corporation and its Associates being connected persons to the Acquisition Agreement, will abstain from voting on the ordinary resolutions to approve the Acquisition Agreement and the terms of certain Prospective Connected Transactions as described in the Circular and in this notice. Any vote of the Independent Shareholders at the EGM shall be taken by poll as required under Hong Kong Listing Rules.

(4) The registration procedure for attending the extraordinary general meeting:

(a) shareholders attending the extraordinary general meeting in person or by proxy shall present their identity certification. If the attending shareholder is a corporation, its legal representative or person authorised by the board or other decision making authority shall present a copy of the relevant resolution of the board or other decision making authority in order to attend the extraordinary general meeting.

(b) shareholders intending to attend the extraordinary general meeting shall return the attendance slip via hand delivery, mail or fax to the Office of the Board of the Company on or before Wednesday, 18 July 2007.

(5) Closure of the register of members:

The register of members of the Company will be closed from Sunday, 8 July 2007 to Tuesday, 7 August 2007 (both days inclusive).

(6) The extraordinary general meeting is expected to last for half a day and shareholders (in person or by proxy) attending the extraordinary general meeting shall be responsible for their own transport and accommodation expenses.

(7) The address of the Office of the Board is as follows:

31 Jinrong Street
Xicheng District, Beijing 100032, PRC
Contact person: Chung Wai Cheung, Terence
Telephone: (8610) 5850 2290
Facsimile: (8610) 5850 1534

(8) All proposed resolutions in this notice shall be voted as a single resolution only.

(9) As at the date of this announcement, our Chairman and non-executive director is Wang Xiaochu, our Vice Chairman, Chief Executive Officer and executive director is Li Ping, our non-executive directors are Liu Aili and Zhang Junan, and our independent non-executive directors are Wang Jun, Chan Mo Po, Paul, Zhao Chunjun, Wu Shangzhi and Hao Weimin.