THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

A copy of each of the Prospectus Documents (as defined herein), having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies" in Appendix III to this prospectus, have been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance. The Registrar of Companies in Hong Kong and the Securities and Futures Commission take no responsibility for the contents of any of these documents.

Dealings in the H Shares (as defined herein) and the H Rights Shares (as defined herein) and the Nil Paid H Rights (as defined herein) may be settled through CCASS (as defined herein) operated by HKSCC (as defined herein) and you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser for details of those settlement arrangements and how such arrangements may affect your rights and interests.

If you have sold or transferred all or part of your H Shares, you should at once hand the Prospectus Documents to the purchaser or the bank, the stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser.

Subject to the granting of the listing of, and permission to deal in, the H Rights Shares and the Nil Paid H Rights on the Hong Kong Stock Exchange (as defined herein) as well as compliance with the stock admission requirements of HKSCC, the H Rights Shares and the Nil Paid H Rights will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the H Rights Shares and the Nil Paid H Rights or such other dates as determined by HKSCC. Settlement of transactions between participants of the Hong Kong Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Hong Kong Exchanges and Clearing Limited, the Hong Kong Stock Exchange and HKSCC take no responsibility for the contents of the Prospectus Documents, make no representation as to their accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of these documents.

中国通信服务
CHINA COMSERVICE

中國通信服務股份有限公司
China Communications Services Corporation Limited

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

(Stock Code: 552)

PROPOSED H SHARE RIGHTS ISSUE OF 398,570,040 H SHARES ON THE BASIS OF 2 H RIGHTS SHARES FOR EVERY 10 EXISTING H SHARES AT HK$3.19 PER H RIGHTS SHARE PAYABLE IN FULL ON ACCEPTANCE

Sole Global Coordinator, Sole Bookrunner and Sole Lead Underwriter

CITIC 中信証券國際
CITIC Securities International

The latest time for acceptance of and payment for the H Rights Shares is 4:00 p.m. on Wednesday, 1 February 2012. The procedure for acceptance and payment or transfer of the H Rights Shares is set out on pages 34 and 35 of this prospectus.

The H Share Rights Issue is conditional upon the fulfilment of the conditions set out in the paragraphs headed "Conditions of the H Share Rights Issue" on page 38 of this prospectus. **If the conditions of the H Share Rights Issue are not fulfilled, the H Share Rights Issue will not proceed.** The H Share Rights Issue will proceed on a fully underwritten basis. The Underwriting Agreement (as defined herein) contains provisions entitling the Sole Bookrunner (as defined herein) by giving notice to the Company to terminate the obligations of the Underwriter thereunder at any time at or prior to the Latest Time for Termination on the occurrence of certain events including force majeure events. These events are set out in the paragraphs headed "Termination of the Underwriting Agreement" on pages 41 to 43 of this prospectus. **If the Underwriting Agreement does not become unconditional or if it is terminated in accordance with the terms thereof, the H Share Rights Issue may not proceed.**

Existing H Shares have been dealt in on an ex-rights basis from Friday, 6 January 2012 and the Nil Paid H Rights are expected to be dealt from Tuesday, 17 January 2012 to Friday, 27 January 2012 (both days inclusive). Any dealings in the H Shares up to the date on which all conditions to which the H Share Rights Issue is subject are required to be fulfilled, or any dealings in the Nil Paid H Rights from 17 January 2012 to 27 January 2012 (both days inclusive), are accordingly subject to the risk that the H Share Rights Issue may not become unconditional or may not proceed. H Shareholders (as defined herein) and potential investors in the Company should therefore exercise caution when dealing in the H Shares or the Nil Paid H Rights and Shareholders' and potential investors' attention is drawn to the paragraph headed "Warning of the Risks of Dealing in the H Shares and the Nil Paid H Rights". If in any doubt, Shareholders and potential investors should consult their professional advisers.

13 January 2012

The H Share Rights Issue is conditional upon the fulfillment of the conditions set out under the paragraph headed "Conditions of the H Share Rights Issue" in this prospectus. If any of the conditions of the H Share Rights Issue is not fulfilled, the H Share Rights Issue will not proceed. Furthermore, in the event that the Underwriting Agreement does not become unconditional or if it is terminated in accordance with the terms thereof, the H Share Rights Issue may not proceed, in which case, a further announcement will be made by the Company at the relevant time. It should also be noted that the H Shares have been dealt with on an ex-rights basis from 6 January 2012 and that dealings in the Nil Paid H Rights will take place from 17 January 2012 to 27 January 2012 (both days inclusive). Such dealings will take place when the conditions of the H Share Rights Issue remain unfulfilled. Any person dealing in the securities of the Company up to the date on which such conditions are fulfilled or waived and any person dealing in the Nil Paid H Rights from 17 January 2012 to 27 January 2012 (being the first and last day of dealings in the Nil Paid H Rights respectively) will accordingly bear the risk that the H Share Rights Issue may not become unconditional and may not proceed. Any person dealing or contemplating any dealing in the securities of the Company, the Nil Paid H Rights and/or the H Shares during this period who is in any doubt about his or her position is recommended to consult his or her own professional adviser.

EXCEPT AS OTHERWISE SET OUT HEREIN, THE H SHARE RIGHTS ISSUE DESCRIBED IN THIS PROSPECTUS IS NOT BEING MADE TO H SHAREHOLDERS, BENEFICIAL H SHAREHOLDERS OR INVESTORS WHO ARE LOCATED OR RESIDENT IN, OR WHO ARE CITIZENS OF, OR WHO HAVE REGISTERED ADDRESS IN THE SPECIFIED TERRITORIES. This prospectus does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to acquire, the Nil Paid H Rights or the H Rights Shares or to take up any entitlements to the Nil Paid H Rights or the H Rights Shares in any jurisdiction in which such an offer or solicitation is unlawful. None of the Nil Paid H Rights, the H Rights Shares, this prospectus, the Provisional Allotment Letter and the Excess Application Form will be registered under the securities laws of any jurisdiction other than Hong Kong and none of the Nil Paid H Rights, the H Rights Shares, this prospectus, the Provisional Allotment Letter and the Excess Application Form will qualify for distribution under any of the relevant securities laws of any of the Specified Territories. Accordingly, the Nil Paid H Rights and the H Rights Shares may not be offered, sold, pledged, taken up, resold, renounced, transferred or delivered, directly or indirectly, into or within any of the Specified Territories absent registration or qualification under the respective securities laws of such jurisdictions, or exemption from the registration or qualification requirement under applicable rules of such Specified Territories.

Each person acquiring the Nil Paid H Rights and/or H Rights Shares under the H Share Rights Issue will be required to confirm, or be deemed by his acquisition of the Nil Paid H Rights and/or H Rights Shares to confirm, that he is aware of the restrictions on offers and sales of the Nil Paid H Rights and/or H Rights Shares described in this prospectus.

H Shareholders with registered addresses in any of the Specified Territories and Beneficial H Shareholders who are residents of the Specified Territories are referred to the paragraphs of this prospectus headed "Excluded Shareholders" under the section headed "Letter from the Board".

For a description of certain restrictions regarding the take-up of the Nil Paid H Rights for, and the offering and sale of, the H Rights Shares, see the notices below.

NOTICE TO CANADIAN INVESTORS

Our Nil Paid H Rights and/or H Rights Shares in Canada must be made under applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory registration and prospectus exemptions, under a discretionary exemption granted by the applicable Canadian securities regulatory authority or in a transaction not subject to securities legislation in Canada. Purchasers are advised to seek legal advice prior to any resale of our Nil Paid H Rights and/or H Rights Shares.

NOTICE TO JAPANESE INVESTORS

Our Nil Paid H Rights and/or H Rights Shares have not been and will not be registered under the Financial Instruments and Exchange Law of Japan ("FIEL"). Accordingly, our Nil Paid H Rights and/or the H Rights Shares may not be offered or sold, directly or indirectly, in Japan or to or for the benefit of any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the FIEL and other applicable laws and regulations in Japan. As used in this paragraph, a "resident of Japan" includes any person residing in Japan, any corporation or other entity organised under the laws of Japan.

NOTICE TO INVESTORS IN MACAU

Our Nil Paid H Rights and/or H Rights Shares may not be promoted, distributed, sold, delivered or offered in Macau to Macau residents or entities except under the terms of and in compliance with the Macau Financial System Act and any other laws, rules and regulations in Macau that may be applicable to the promotion, distribution, sale, delivery or offer of our Nil Paid H Rights and/or H Rights Shares in Macau. Our Nil Paid H Rights and/or H Rights Shares are not registered or otherwise authorised for public offer under the Macau Financial System Act and any other laws, rules and regulations in Macau, and may not be promoted, distributed, sold, delivered or offered in Macau to Macau residents or entities, unless such actions are made by credit or other financial institutions duly licensed in Macau and upon their communication to the Macau Monetary Authority.

NOTICE TO PHILIPPINES INVESTORS

Our Nil Paid H Rights and/or H Rights Shares have not been and will not be registered with the Securities and Exchange Commission under the Securities Regulation Code (the "Code"). Accordingly, our Nil Paid H Rights and/or H Rights Shares may not be offered or sold, directly or indirectly, in the Philippines or to or for the benefit of any resident of the Philippines, except where such offer or sale qualifies as an exempt transaction or is otherwise in compliance with the applicable registration requirements under the Code. As used in this paragraph, a "resident of the Philippines" includes any person residing in the Philippines, any corporation or other entity organised under the laws of the Philippines.

NOTICE TO PRC INVESTORS

This prospectus does not constitute a public offer of the Nil Paid H Rights and/or H Rights Shares, whether by way of sale or subscription, in the PRC. According to relevant PRC laws and regulations, the Nil Paid H Rights and/or the H Rights Shares are not being offered and may not be offered or sold directly or indirectly in the PRC to, or for the benefit of, legal or natural persons of the PRC other than the National Council for Social Security Fund of the PRC, QDII and other qualified PRC investors.

NOTICE TO U.S. INVESTORS

The Provisional Allotment Letter, the Excess Application Form, the Nil Paid H Rights and the H Rights Shares have not been and will not be registered under the U.S. Securities Act or securities laws of any state or territory of the United States and may not be offered, sold, taken up, resold, renounced, transferred , delivered, directly or indirectly, in or into the United States, except pursuant applicable exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in compliance with any applicable securities laws of the states or other jurisdictions of the United States.

The Provisional Allotment Letter, the Excess Application Form, the Nil Paid H Rights and the H Rights Shares have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the United States or any U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering, the Provisional Allotment Letter, the Excess Application Form, the Nil Paid H Rights and the H Rights Shares or the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

None of this prospectus, the Provisional Allotment Letter and the Excess Application Form constitutes, will constitute, or forms or will form, part of any offer or invitation to issue, purchase or acquire the Nil Paid H Right and/or the H Rights Shares to any person with a registered address, or who is located, in the United States. The Nil Paid H Rights and the H Rights Shares are being offered outside the United States in reliance on Regulation S under the U.S. Securities Act.

In addition, until 40 days after the commencement of the H Share Rights Issue, or the procurement of purchasers by the Underwriter of the H Rights Shares not initially taken up, any offer, sale or transfer of the Nil Paid H Rights or the H Rights Shares in or into the United States by a dealer (whether or not participating in the H Share Rights Issue) may violate the registration requirements of the U.S. Securities Act.

The Underwriter may arrange for the offer of the H Rights Shares not taken up in the H Share Rights Issue only outside the United States in reliance on Regulation S under the U.S. Securities Act. Each purchaser or subscriber of H Rights Shares being offered and sold outside the United States will be deemed to have represented and agreed, among other things, that the purchaser or subscriber is acquiring the H Rights Shares in an offshore transaction meeting the requirements of Regulation S under the U.S. Securities Act and the purchaser or subscriber has not been offered the H Rights Shares by means of any directed selling efforts as defined in Regulation S under the U.S. Securities Act.

Any person purchasing or taking up the Nil Paid H Rights or subscribing for or accepting H Rights Shares will be required to represent, among others, that such person:

(i) is not within the United States;

(ii) is not in any jurisdiction in which it is unlawful to make or accept an offer to acquire the Nil Paid H Rights or the H Rights Shares;

(iii) is not doing so for the account of any person who is located in the United States, unless:

  (a) the instruction to take up was received from a person outside the United States; and

  (b) the person giving such instruction has confirmed that (x) it has the authority to give such instruction, and (y) either (A) has investment discretion over such account or (B) is an investment manager or investment company that it is acquiring the Nil Paid H Rights or the H Rights Shares in an "offshore transaction" within the meaning of Regulation S; and

(iv) is not acquiring the Nil Paid H Rights or the H Rights Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such Nil Paid H Rights or H Rights Shares into the United States or any other jurisdiction referred to in (ii) above.

FORWARD-LOOKING STATEMENTS

All statements in this prospectus other than statements of historical fact are forward-looking statements. In some cases, forward-looking statements may be identified by the use of words such as "might", "may", "could", "would", "will", "expect", "intend", "estimate", "anticipate", "believe", "plan", "seek", "continue", "illustration", "projection" or similar expressions and the negative thereof. Forward-looking statements in this prospectus include, without limitation, statements in respect of the Group's business strategies, service offerings, market position, competition, financial prospects, performance, liquidity and capital resources, as well as statements regarding trends in the relevant industries and markets in which the Group operates, technological advances, financial and economic developments, legal and regulatory changes and their interpretation and enforcement.

The forward-looking statements in this prospectus are based on management's present expectations about future events. Management's present expectations reflect numerous assumptions regarding the Group's strategy, operations, industry, developments in the credit and other financial markets and trading environment. By their nature, they are subject to known and unknown risks and uncertainties, which could cause actual results and future events to differ materially from those implied or expressed by forward-looking statements. Should one or more of these risks or uncertainties materialise, or should any assumptions underlying forward-looking statements prove to be incorrect, the Group's actual results could differ materially from those expressed or implied by forward-looking statements. Additional risks not known to the Group or that the Group does not currently consider material could also cause the events and trends discussed in this prospectus not to occur, and the estimates, illustrations and projections of financial performance not to be realised. Prospective investors are cautioned that forward-looking statements speak only as at the date of publication of this prospectus. Except as required by applicable law, the Group does not undertake, and expressly disclaims, any duty to revise any forward-looking statement in this prospectus, be it as a result of new information, future events or otherwise.

ARBITRATION OF DISPUTES

If you have a claim against or dispute with us, a director, supervisor, or officer of ours, a holder of our H Shares, Nil Paid H Rights or H Rights Shares, or a holder of our Domestic Shares or rights to subscribe to our Domestic Shares relating to any rights or obligations conferred or imposed by our Articles of Association (as defined herein) or by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs or with respect to the transfer of our Shares, our Articles of Association require you to submit the dispute or claim to either the China International Economic and Trade Arbitration Commission, or Hong Kong International Arbitration Centre, for arbitration. Our Articles of Association further provide that the arbitral award will be final and conclusive and binding on all parties.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

Each acquirer of the H Rights Shares agrees with the Company and each of the Shareholders, and the Company agrees with each of the Shareholders, to observe and comply with the PRC Company Law, the Special Regulations on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies and the Articles of Association.

Each acquirer of the H Rights Shares agrees with the Company, each of the Shareholders, Directors, Supervisors, managers and officers, and the Company, acting for itself and for each of its Directors, Supervisors, managers and officers, agrees with each of the Shareholders, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning its affairs to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearing in open session and to publish its award. Such arbitration shall be final and conclusive.

Each acquirer of the H Rights Shares agrees with the Company and each of the Shareholders that the H Rights Shares are freely transferable by the holders thereof.

Each acquirer of the H Rights Shares authorises the Company to enter into a contract on his behalf with each of the Directors and officers whereby such Directors and officers undertake to observe and comply with their obligations to the Shareholders as stipulated in the Articles of Association.

CONTENTS

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

"ACO"	applications, content and other services
"Announcement"	the announcement published by the Company on 30 December 2011 relating to the H Share Rights Issue and Domestic Share Rights Issue
"Articles of Association"	the articles of association of the Company (as amended from time to time)
"Beneficial H Shareholder(s)"	any beneficial owner(s) of H Shares whose H Shares are registered as shown in the H Share Register in the name of a registered H Shareholder
"Board"	the board of Directors of the Company
"BPO"	business process outsourcing services
"Business Day"	any day other than Saturday or Sunday on which commercial banks and financial institutions in Hong Kong are open for business
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"China Mobile"	China Mobile Communications Corporation (中國移動通信集團公司), a state-owned enterprise established under the laws of the PRC
"China Telecom"	China Telecommunications Corporation (中國電信集團公司), a state-owned enterprise established under the laws of the PRC and our controlling Shareholder
"China Unicom"	China United Network Communications Group Company Limited (中國聯合網絡通信集團有限公司), a state-owned enterprise established under the laws of the PRC
"Company"	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, whose H Shares are listed on the Hong Kong Stock Exchange (Stock Code: 552)
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"Dealing Day"	a day on which dealing in the H Shares takes place on the Hong Kong Stock Exchange

"Director(s)"	the director(s) of the Company
"Domestic Rights Share(s)"	the new Domestic Share(s) proposed to be allotted and issued to the Qualified Domestic Shareholders pursuant to the Domestic Share Rights Issue
"Domestic Share(s)"	domestic ordinary share(s) with a par value of RMB1.00 each in the share capital of the Company
"Domestic Share Record Date"	12 January 2012, by reference to which entitlement to the Domestic Share Rights Issue was determined
"Domestic Share Rights Issue"	the proposed issue of 755,766,360 Domestic Rights Shares at the Subscription Price on the basis of 2 Domestic Rights Shares for every 10 existing Domestic Shares held on the Domestic Share Record Date
"Domestic Shareholder(s)"	holder(s) of the Domestic Shares
"Domestic Shareholders Class Meeting"	the class meeting of the Domestic Shareholders convened on 28 June 2011 at which, among other matters, the Rights Issue was considered and approved
"EGM"	the extraordinary general meeting of the Shareholders convened on 28 June 2011 at which, among other matters, the Rights Issue was considered and approved
"Excess Application Form(s)"	application form(s) for excess H Rights Shares
"Excluded Shareholder(s)"	H Shareholder(s) whose name(s) appeared in the H Share Register of the Company at the close of business on the H Share Record Date and whose address(es) as shown in such register is/are in any of the Specified Territories; and any H Shareholders or Beneficial H Shareholders at that time who are otherwise known by the Company to be resident in any of the Specified Territories
"Group"	the Company and its subsidiaries
"H Rights Share(s)"	the new H Share(s) proposed to be allotted and issued to the Qualified H Shareholders pursuant to the H Share Rights Issue
"H Share(s)"	overseas listed foreign share(s) with a par value of RMB1.00 each in the share capital of the Company, listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars

"H Share Record Date"	12 January 2012, by reference to which entitlement to the H Share Rights Issue was determined
"H Share Register"	the H Shareholders' register of the Company
"H Share Registrar"	Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, being the Company's registrar of the H Shares
"H Share Rights Issue"	the proposed issue of 398,570,040 H Rights Shares at the Subscription Price on the basis of 2 H Rights Shares for every 10 existing H Shares held on the H Share Record Date
"H Shareholder(s)"	holder(s) of the H Shares
"H Shareholders Class Meeting"	the class meeting of the H Shareholders convened on 28 June 2011 at which, among other matters, the Rights Issue was considered and approved
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hong Kong Takeovers Codes"	the Codes on Takeovers and Mergers and Share Repurchases
"IFRSs"	the International Financial Reporting Standards, which include standards and interpretations promulgated by the International Accounting Standards Board
"Last Acceptance Date"	1 February 2012, being the last date for acceptance and payment in respect of provisional allotments and excess applications under the H Share Rights Issue, subject to adjustment according to the section headed "Expected Timetable – Effect of Bad Weather on the Latest Time for Acceptance of and Payment for H Rights Shares and Application for Excess H Rights Shares" in this prospectus

"Latest Practicable Date"	10 January 2012, being the last practicable date to determine certain information as set forth herein prior to the printing of this prospectus
"Latest Time for Termination"	5:00 p.m. on 6 February 2012
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Nil Paid H Rights"	rights to subscribe for H Rights Shares (in the form of H Rights Shares in nil-paid form) before the Subscription Price is paid
"PBOC"	the People's Bank of China (中國人民銀行), the central bank of the PRC
"PRC" or "China"	the People's Republic of China but excluding, for the purposes of this prospectus, Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
"PRC GAAP"	the Accounting Standards and Accounting Regulations For Business Enterprises and its supplementary regulations of the PRC
"Price Determination Date"	29 December 2011, the date on which the Subscription Price was fixed for the purpose of the Rights Issue, being the last trading day of H Shares immediately before the date of the Announcement
"Prospectus Documents"	this prospectus, the Provisional Allotment Letter and the Excess Application Form
"Provisional Allotment Letter(s)"	provisional allotment letter(s) for the H Rights Shares
"QDII"	qualified domestic institutional investor in China
"Qualified Domestic Shareholder(s)"	Domestic Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Domestic Share Record Date
"Qualified H Shareholder(s)"	H Shareholder(s) whose name(s) appear(s) on the H Share Register at the close of business on the H Share Record Date and who are not Excluded Shareholders
"Rights Issue"	the Domestic Share Rights Issue and the H Share Rights Issue
"Rights Share(s)"	the H Rights Share(s) and the Domestic Rights Share(s)

"RMB"	Renminbi, the lawful currency of the PRC
"SASAC"	the State-owned Assets Supervision and Administration Committee of the State Council
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	Domestic Share(s) and/or H Share(s)
"Shareholder(s)"	holder(s) of the Shares of the Company
"Sole Global Coordinator", "Sole Bookrunner" or "Sole Lead Underwriter"	CITIC Securities Corporate Finance (HK) Limited
"Specified Territories"	Canada, Japan, the Philippines, the PRC and the U.S.
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"Subscription Price"	RMB2.59 for each Domestic Rights Share and HK$3.19 for each H Rights Share
"Supervisor(s)"	the supervisor(s) of the Company
"TIS"	telecommunications infrastructure services
"Underwriter"	CITIC Securities Corporate Finance (HK) Limited
"Underwriting Agreement"	the underwriting agreement dated 30 December 2011 entered into between the Company and the Underwriter in relation to the H Share Rights Issue
"U.S." or "United States"	the United States of America
"we" or "us"	the Company, and, except where the context indicates otherwise, all of its subsidiaries
"%"	percent

Unless otherwise specified in this prospectus, translations of RMB into and from HK$ are made in this prospectus for illustration only, at the rate of HK$1.00 to RMB0.81190. No representation is made that any amounts in RMB or HK$ could have been or could be converted at that rate or at any other rates or at all.

Any discrepancies between totals and sums of the amounts listed in this prospectus are due to rounding.

The expected timetable for the H Share Rights Issue set out below and in other parts of this prospectus is for indicative purposes only and has been prepared on the assumption that all the conditions of the H Share Rights Issue will be fulfilled. The expected timetable is subject to change, and any changes will be announced in a separate announcement by the Company as and when appropriate.

Last day of dealings in H Shares on a cum-rights basis	5 January 2012
First day of dealings in H Shares on an ex-rights basis	6 January 2012
Latest time for lodging transfer of H Shares in order to qualify for the H Share Rights Issue	4:30 p.m. on 9 January 2012
H Share Register closed (both days inclusive)	10 January 2012 to 12 January 2012
H Share Record Date	12 January 2012
H Share Register re-opens	13 January 2012
Despatch of the Prospectus Documents	13 January 2012
First day for acceptance of, and payment for, the H Rights Shares and for application and payment for the excess H Rights Shares	13 January 2012
First day of dealings in Nil Paid H Rights	17 January 2012
Latest time for splitting of Nil Paid H Rights	4:30 p.m. on 19 January 2012
Last day of dealings in Nil Paid H Rights	27 January 2012
Latest time for acceptance of, and payment for, the H Rights Shares and for application and payment for the excess H Rights Shares	4:00 p.m. on 1 February 2012
Latest time for the termination of the Underwriting Agreement and for the H Share Rights Issue to become unconditional	5:00 p.m. on 6 February 2012
Announcement of results of acceptance of and excess applications for the H Share Rights	6 February 2012
Despatch of certificates for fully-paid H Rights Shares	8 February 2012

Despatch of refund cheques in respect of wholly or partially unsuccessful applications for the excess of H Right Shares . . . . .8 February 2012

Commencement of dealings in fully-paid H Rights Shares . . . . .9:00 a.m. on 10 February 2012

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR H RIGHTS SHARES AND APPLICATION FOR EXCESS H RIGHTS SHARES

The latest time for acceptance of and payment for H Rights Shares and application for excess H Rights Shares will not take place if there is:

- a tropical cyclone warning signal number 8 or above, or
- a “black” rainstorm warning

(i) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the Last Acceptance Date. Instead the latest time of acceptance of and payment for the H Rights Shares and application for excess H Rights Shares will be extended to 5:00 p.m. on the same Business Day;

(ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the Last Acceptance Date. Instead the latest time for acceptance of and payment for the H Rights Shares and application for excess H Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the latest time for acceptance of and payment for the H Rights Shares and application for excess H Rights Shares does not take place on the Last Acceptance Date, the dates mentioned in the section headed “Expected Timetable” in this prospectus may be affected. An announcement will be made by the Company in such event.

The following information is derived from, and should be read in conjunction with, the full text of this prospectus.

H Share Rights Issue Statistics

Basis of H Share Rights Issue:	2 H Rights Shares for every 10 existing H Shares held on the H Share Record Date
Number of H Shares in issue:	1,992,850,200 H Shares as at the Latest Practicable Date
Number of H Rights Shares proposed to be issued:	398,570,040 H Shares
Subscription Price:	HK$3.19 per H Rights Share

Domestic Share Rights Issue Statistics

Basis of Domestic Share Rights Issue:	2 Domestic Rights Shares for every 10 existing Domestic Shares held on the Domestic Share Record Date
Number of Domestic Shares in issue:	3,778,831,800 Domestic Shares as at the Latest Practicable Date
Number of Domestic Rights Shares proposed to be issued:	755,766,360 Domestic Shares
Subscription Price:	RMB2.59 per Domestic Rights Share

You should carefully consider, in addition to the other information contained in this prospectus, the risks described below before making an investment decision. The occurrence of any of the following events could harm us. If these events occur, the trading prices of our H Shares and the Nil Paid H Rights could decline, and you may lose all or part of your investment. Additional risks not currently known to us or that we now deem immaterial may also harm us and affect your investment.

RISKS RELATING TO OUR BUSINESS

Our business is highly reliant on the level of activities and trends in the telecommunications industry in the PRC, and in particular, we rely substantially on a few key customers, deriving a majority of our revenue from them.

Demand for our services depends on the level of activities in the telecommunications industry in the PRC. We derive a majority of our revenue from telecommunications companies in the PRC. In the three years ended 31 December 2008, 2009 and 2010 and the six months ended 30 June 2011, we derived a total 65.9%[1], 69.6%, 64.9% and 63.3% respectively of our revenues from China Telecom, China Mobile and China Unicom, our three largest telecommunications operator customers in the PRC. We anticipate that we will continue to derive a majority of our revenue from our three key customers identified above. Any slowdown in the growth of, or decline in, demand for telecommunications services provided by the telecommunications companies in the PRC may result in a reduction in demand for our services. In particular, our three key customers rank among the largest players in the telecommunications industry in the PRC, and we believe that there are no alternative customers in the PRC which could provide the same level of demand for our services as these customers. Our continued reliance on these key customers means that factors which could affect the demand by these customers for our services could adversely affect our business, results of operations and financial condition. These factors could include for example, the ability and willingness of each of these customers to fund capital expenditure and any move to develop in-house capabilities to undertake services which we currently provide to them.

Demand for our services is particularly sensitive to the level of capital expenditure on fixed line, broadband and mobile telecommunications infrastructure by telecommunications companies in the PRC. A decline in such capital expenditure may have an adverse effect on our revenues and profits.

Demand for our services is also sensitive to the extent to which telecommunications companies in the PRC decide to outsource their internal operational processes and engage directly in the services which they currently outsource and which we provide. To the extent that

Note 1: On 26 May 2009, the Group acquired 95.945% and 51% equity interests in Shanghai Tongmao Import & Export Co., Ltd and Guoxin Lucent Technologies Co., Ltd (collectively, the "Target Interests") from China Telecom. Since the Group and the Target Interests are under common control of China Telecom, the Target Interests have been accounted for as a combination of entities under common control in a manner similar to pooling-of-interests. Accordingly, our financial figures of 2008 in this prospectus have been restated to include the results and financial condition of the Target Interests in the relevant period.

the current trend favoring the outsourcing of such services is reduced or reversed, our business, financial condition and results of operations may be materially adversely affected.

Any trend towards an increase in competition in the telecommunications industry in the PRC, particularly amongst the telecommunications companies who are our customers, may put downward pressure on prices for their products and services, and consequently on their revenues. Should this happen, there is no assurance that these telecommunications companies will not attempt to maintain their profit margins by reducing their costs, including reducing the amounts they are prepared to pay us for our services to them.

Our controlling Shareholder, China Telecom, will continue to have substantial influence over our Company.

China Telecom holds 2,926,752,080 Domestic Shares, representing approximately 50.71% of our total issued Shares as at the Latest Practicable Date. After participating in the Rights Issue, China Telecom will continue to be our largest Shareholder. Consequently, China Telecom will, subject to our Articles of Association and applicable laws and regulations, continue to be in a position to influence our policies and affairs, and to influence the outcome of corporate actions requiring shareholder's approval. In addition, it will be able to influence the election of our Directors and in turn, the selection of our senior management. The business interests of China Telecom, our largest customer, could conflict with our business interests. Hence, the interests of China Telecom as our controlling Shareholder may not be consistent with the interests of our other Shareholders. Differences in opinion may arise between China Telecom and any of our remaining Shareholders. We can not guarantee that China Telecom will influence the Company to pursue actions in the best interests of our remaining Shareholders.

Subject to the PRC Company Law, our Articles of Association and the Listing Rules, China Telecom may be able to influence on our dividend policies. Such policies may or may not be in line with the interests of our other Shareholders.

We face increasing competition in the business areas in which we operate. Our competitors may develop the expertise, experience and resources to provide similar or better services at more competitive prices.

Our three main business areas have witnessed increasing competition in recent years. We expect this trend to continue and to accelerate. For example, our key customers may have affiliated entities providing telecommunications network design and construction services. Such entities may benefit from their existing relationships with our key customers. Should our key customers choose to substantially develop their affiliated entities, this could adversely affect their demand for our services.

We cannot provide any assurance that our competitors will not develop the expertise, experience and resources to provide services that offer greater competitiveness in both price and quality as compared to the services offered by us, or that we will be able to maintain and enhance our competitive edge. Our ability to continue our successes will depend on many factors, including pricing, quality of services, product and equipment suitability and technology.

We face risks inherent in our growth strategy.

We currently conduct our operations mainly in 19 provinces (municipalities and autonomous regions) in the PRC, being our primary service areas, and we also provide our services in other regions of the PRC. We plan to expand our domestic business operations in the PRC through organic growth, cooperation with business partners and potential acquisitions. There is no guarantee that we will be able to successfully integrate these new business operations and their management teams, or retain the management teams of the acquired businesses, or operate the acquired businesses efficiently and profitably. Consequently, any such acquisition may present a significant challenge for our management and our financial, operational and administrative systems and resources. If we fail to integrate these businesses or maintain systems and resources sufficient to keep pace with our expansion strategy successfully, we may experience difficulties in managing our growth and may not be able to execute our business plan successfully and take advantage of market opportunities.

We also plan to further expand into overseas markets by selectively pursuing international business opportunities. However, we may be a relatively late entrant into the international markets in which we choose to pursue opportunities and may be required to commit substantial capital resources to gain entry and market share. Furthermore, our competitors in these international markets may possess greater resources and experience operating in these regions. Such plans and our assets located overseas may also be subject to the risk of uncertain economic, political and legal environments, including the movement of exchange rate resulted from such uncertain environments. Our international expansion into multiple jurisdictions exposes us to a variety of new business challenges and risks and has increased the complexity of our risks in a number of areas, and in particular, in the first half of 2011, our revenues from overseas were impacted by the turbulent political situation in certain areas in the Middle East and Africa. If we are unable to manage the risks resulting from our international expansion, our overseas business and expansion plans may be adversely affected. There can be no assurance that our domestic and overseas expansion plans will be successful.

We also intend to continue to expand our business, both in terms of our business scope and our scale of operations. Such expansion may expose us to a number of risks, including the following:

- we may have limited or no experience in certain new business activities and may not compete effectively in these areas;
- there is no guarantee that our new business activities will meet our expectations for their profitability;
- our ability to find, hire or retain personnel who are able to conduct new business activities may be limited; and
- there may be challenges in integrating our new business activities with our existing businesses and upgrading our information technology systems to support our business expansion.

If we are not able to achieve the intended results in these new business areas, this may have a material adverse effect on our business, results of operations and financial condition. In addition, if we fail to promptly identify and expand into new areas of business to meet the increasing demand for certain products and services, we may fail to maintain our market share or lose part or all of our business with some existing customers to our competitors.

We are subject to legal and business risks if we fail to obtain or renew the qualifications and licences which enable us to conduct our business.

In order to conduct our business, we have obtained certain key qualifications and licences for our services, such as telecommunications infrastructure services, IT application and value added telecommunications services. If we are unable to continue to renew these qualifications or licences or to do so in a timely manner, we may not be permitted to continue to provide such services, and this may materially and adversely affect our business and financial position.

Our business requires significant working capital in order to provide our services to our customers.

It is necessary for us, in the course of our business operations, to make a variety of significant working capital expenditures for the purchase of goods and services required for us to provide our services to our customers and complete our projects for them. For example, we are typically required to make up-front cash payments for auxiliary construction materials and technical components to carry out the infrastructure construction projects we undertake. In some cases, we also have to make prepayments to our contractors. We have in the past funded our working capital requirements primarily by cash generated from our operations and cash at hand. We cannot assure you that the cash generated from our operations will be sufficient for such working capital requirements in the future. Insufficiency of working capital could materially and adversely affect our business, financial condition, results of operations and client relationship.

We or our customers may engage in certain transactions in or with countries or persons that are the subject of U.S. and other sanctions.

The United States administers economic sanctions with respect to certain countries or governments (such as Iran, Cuba, Burma/Myanmar, Libya, North Korea, Sudan and Syria) and, in some cases, with entities and individuals ("persons") organized, located or resident in such countries, as well as against persons that have been designated by the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC") or other U.S. government agencies. Other governments and international or regional organizations also administer similar economic sanctions.

We currently have a subsidiary in each of Sudan, Democratic Republic of Congo and the Ivory Coast and a branch in Libya, the registration of which has not been completed. We have commercial transactions in Burma/Myanmar, Sudan and Libya and also provide services to customers doing business with, or located in, countries in which numerous persons targeted by

OFAC-administered and other sanctions may be organized, located or resident, such as Democratic Republic of Congo, the Ivory Coast and Zimbabwe etc. Our business activities in the aforesaid countries mainly relate to the provision of design, construction and supervision services associated with construction of telecommunications networks. While we do not believe that we are in violation of any applicable sanctions, if it were determined that transactions in which we participate violate U.S. or other sanctions, we could become subject to U.S. or other jurisdictions enforcement actions or penalties, and our reputation and future business prospects in the U.S. or with U.S. persons or in other jurisdictions, could be adversely affected. Although our operations in or with countries or persons that are targets of U.S. sanctions represent only a small percentage of our consolidated assets, revenues and net income, such activities may have an adverse effect on your investment in the Rights Issue.

RISKS RELATING TO THE PRC TELECOMMUNICATIONS INDUSTRY

The PRC telecommunications industry is subject to rapid changes in technology, and existing technologies face potential rapid displacement by more advanced and/or alternative technologies, which we may not be able to provide on a timely and competitive basis.

The PRC telecommunications industry is subject to rapid changes in technology. There can be no assurance that we will be able to offer the latest technologies in our services, nor develop the expertise, experience and resources to offer the new technologies required by customers on a timely and competitive basis. We may also incur significant expense in developing products, services and expertise in these new technologies.

If we are not able to keep abreast of technological developments in the telecommunications industry and to provide the latest technological services which our customers require, the demand for our services, and our results of operations and financial condition may be adversely affected.

Changes in the regulatory environment in the telecommunications industry may have adverse effect on our financial condition and results of operations.

Further deregulation of the telecommunications industry in the PRC may result in new domestic and foreign competitors operating in the PRC, increasing competition for our businesses. Other changes in the regulatory environment within the telecommunications industry may not affect us directly, but the effects of such regulation on our customers may, in turn, adversely impact our business and results of operations. Our future success, financial condition and results of operations will depend to a significant degree upon purchasing decisions by existing and new telecommunications providers and other prospective customers within the telecommunications industry. Such decisions may be affected by changes in the regulatory environment.

RISKS RELATING TO THE PRC

Changes in the economic, political and social conditions, in particular those in the PRC, may have a material adverse effect on our results of operations and financial condition.

Substantially all of our business, assets and operations are located in China. Accordingly, our results of operations, financial condition and business prospects are significantly affected by the economic, political and social conditions in China and, to a lesser extent, those of regions and countries where we operate.

The Chinese economy differs from that of most developed countries in many respects, including in the degree of government involvement and control of capital investment. The PRC Government is committed to the continued reform of the PRC economic system as well as the structure of the government. The PRC Government's reform policies have emphasized the independence of enterprises and the use of market mechanisms. Since the introduction of these reforms, significant progress has been achieved in economic development, and enterprises have enjoyed an improved environment for their development. Although the government has implemented economic reform measures to introduce market forces and establish sound corporate governance in business enterprises, such economic reform measures may be adjusted, modified or applied inconsistently from industry to industry, or across different regions of the country. Furthermore, unfavourable global macroeconomic environment may adversely affect market conditions in China. Any such changes in the PRC's political, economic and social conditions, including inflation and slowdown of economic growth in China, may have a material and adverse effect on our present and future business operations, results of operations and financial condition.

The legal protections available to you are subject to interpretation and enforcement under PRC laws and regulations.

We are organised under the laws of the PRC. The PRC legal system is based on written statutes. Prior court decisions may be quoted for reference but have limited precedential value. Since 1979, the PRC government has promulgated laws and regulations dealing with economic matters, such as foreign investment, corporate organisation and governance, commerce, taxation and trade, with a view towards developing a comprehensive system of commercial law. However, as these laws and regulations are relatively new, and because of the limited volume of published cases and their nonbinding nature, interpretation and enforcement of these laws and regulations involve uncertainties.

Our Articles of Association provide that disputes between holders of H Shares and us, our Directors, Supervisors or senior officers or holders of Domestic Shares, arising out of our Articles of Association or any rights or obligations conferred or imposed upon by the PRC Company Law and related rules and regulations concerning our affairs, including the transfer of our Shares, are to be resolved through arbitration rather than by a court of law. A claimant may elect to submit a dispute to arbitration organisations in Hong Kong or the PRC. Awards that are made by the PRC arbitral authorities recognised under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong. Hong Kong arbitration awards may be recognised and enforced by PRC courts, subject to the satisfaction of certain PRC legal requirements. However, to our knowledge, no action has been brought in the PRC by any holder of H Shares to enforce an arbitral award, and we cannot assure you as to the outcome of any action brought in the PRC by any holder of H Shares to enforce a Hong Kong arbitral award made in favour of holders of H Shares. Moreover, to our knowledge, there has not been any published report of judicial enforcement in the PRC by holders of H shares of their rights under the articles of association of their respective investee companies or the PRC Company Law.

In addition, according to the applicable PRC laws, under some conditions required by laws, shareholders have the right to sue directors, supervisors, senior officers, or other persons in the interest of the company to enforce a claim against such party or parties that the company failed to enforce itself. However, so far, to our best knowledge, there is no relevant precedent in this regard. Our Shareholders may be required to rely on other means to enforce their rights.

You may experience difficulties in effecting service of legal process and enforcing judgments against us and our Directors and officers.

We are a company incorporated under the laws of the PRC, and substantially all of our assets and our subsidiaries are located in the PRC. In addition, most of our Directors and officers reside within the PRC, and the assets of our Directors and officers may be located within the PRC. As a result, it may not be possible to effect service of process within the United States or elsewhere outside of the PRC upon most of our Directors and officers, including with respect to matters arising under the U.S. Federal securities laws or applicable state securities laws. Moreover, a judgement of a court of another jurisdiction may be reciprocally recognised or enforced if the jurisdiction has a treaty with the PRC or if judgments of PRC courts have been recognised before in that jurisdiction, subject to the satisfaction of other requirements. China does not have treaties providing for the reciprocal enforcement of judgments of courts with the United States, the United Kingdom, Japan or many other countries. In addition, Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States. As a result, recognition and enforcement in the PRC or Hong Kong of judgments of a court in the United States and any of the other jurisdictions mentioned above in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

In addition, although we are subject to the Listing Rules and the Hong Kong Takeovers Codes, the holders of H Shares will not be able to bring actions on the basis of violations of the Listing Rules and must rely on the Hong Kong Stock Exchange to enforce its rules. Furthermore, the Hong Kong Takeovers Codes do not have the force of law and provide only standards of commercial conduct considered acceptable for takeover and merger transactions and share repurchases in Hong Kong.

Holders of H Shares may be subject to PRC taxation.

The current PRC tax laws, regulations and rulings provide different treatments to non-PRC resident enterprise holders and non-PRC resident individual holders of our H Shares.

Under the applicable PRC tax laws, dividends paid to, and gains realized through the sale or transfer by other means of H shares by, non-PRC resident individual holders of H shares are both subject to PRC individual income tax at a rate of 20%. Under the applicable PRC tax laws, dividends paid to, and gains realized through the sale or transfer by other means of H shares by, non-PRC resident enterprise holders of H shares are both subject to PRC enterprise income tax at a rate of 10%.

As for non-PRC resident individual holders of our H Shares, such taxes were historically exempted under the Circular of the State Administration of Taxation (the "SAT") on Issues Concerning the Taxation of Profits from the Transfer of Stocks (Stock Rights) and Dividend Income of Foreign-invested Enterprises, Foreign Enterprises and Foreign Individuals(Guo Shui Fa [1993] No. 045, the "1993 SAT Circular") as promulgated by the SAT on 21 July 1993. But the 1993 SAT Circular was repealed by the Announcement on the List of Fully or Partially Invalid and Repealed Tax Regulatory Documents (SAT Public Notice No.2 of 2011) issued by the SAT on 4 January 2011.

Pursuant to some recent changes to PRC tax laws, regulations and rules, dividends paid by us to a non-PRC resident individual holder of our H Shares are now subject to individual income tax at a rate (usually 5%-20%, as the case may be) which is determined in accordance with the applicable tax treaty or arrangement between the PRC and the jurisdiction in which the Shareholder resides. Furthermore, dividends paid by us to a non-PRC resident individual holder of our H Shares who resides in the jurisdiction which has not signed a tax treaty with the PRC will be subject to a 20% individual income tax. Such arrangements have also been addressed in a letter dated 28 June 2011 issued by the SAT to the Hong Kong Inland Revenue Department. The letter explicitly provides that Hong Kong resident individuals shall be subject to a tax rate of 10% on the dividend income they receive from H share issuers. In view of this, we will withhold 10% of any dividend to be distributed to non-PRC resident individual holders of our H Shares as individual income tax unless otherwise specified by the relevant requirements and procedures of PRC tax authorities.

Despite the abovementioned arrangements, there are significant uncertainties as to the interpretation and application of applicable PRC tax laws and rules due to several factors, including the relatively short history of such laws and rules, and whether the relevant preferential tax treatment will be revoked in the future such that all non-PRC resident individual holders of H shares will be subject to PRC individual income tax at a flat rate of 20%. In addition, it is also unclear whether and how the PRC individual income tax and enterprise income tax on gains realized by non-PRC resident holders of H shares through the sale, or transfer by other means, of H shares will be collected by the PRC tax authorities in the future, and such tax has not been collected by the PRC tax authorities in practice. Considering these uncertainties, non-PRC resident holders of our H Shares should be aware that they may be obligated to pay PRC income tax on dividends paid by us and gains realized through the sale, or transfer by other means of our H Shares.

Payment of dividends is subject to restrictions under PRC laws.

Under PRC law, dividends may be paid only out of distributable profits. Distributable profit is deemed to be the lesser of the distributable profit determined in accordance with PRC GAAP and the distributable profit determined in accordance with IFRSs, and can only be distributed as dividends after recovering of accumulated losses, allocating to the statutory surplus reserve (unless it reaches 50% of the registered capital or above) and discretionary revenue reserve under PRC laws and regulations. As a result, we may not have sufficient distributable profits to make dividend distributions to Shareholders even in those years when we record a profit. Furthermore, we may not be able to pay any dividends in a given year if (1) we do not have distributable profit as determined under PRC GAAP, even if we have profit for that year as determined under IFRSs, or (2) we do not have distributable profit under IFRSs, even if we have profit for that year as determined under PRC GAAP.

We are subject to PRC government controls on currency conversion and future movements in exchange rates.

Substantially all of our revenues and costs and expenses are denominated in RMB, which currently is not a freely convertible currency. A portion of these revenues may have to be converted into other currencies to meet our foreign currency obligations, for example our payments of declared dividends, if any, to our H Shareholders.

Under China's existing foreign exchange regulations, by complying with certain procedural requirements, we will be able to pay dividends in foreign currencies without prior approval from the State Administration of Foreign Exchange of the PRC. However, in the future, the PRC government may, at its discretion, take measures to restrict access to foreign currencies for current account transactions under certain circumstances. In this case, we may not be able to pay dividends in foreign currencies to H Shareholders.

The value of the RMB against the U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in PRC and international political and economic conditions. Since 1994, the conversion of RMB into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous business day's interbank foreign exchange market rates and the prevailing exchange rate of the international financial markets. From 1994 to 20 July 2005, the official exchange rate for the conversion of RMB to U.S. dollars was generally stable. On 21 July 2005, the PRC government adopted a more flexible managed floating exchange rate system to allow the value of the RMB to fluctuate within a regulated band that is based on market supply and demand and reference to a basket of currencies. On the same day, the value of the RMB appreciated by approximately 2% against the U.S. dollar. In July 2008, China announced a further change in its exchange regime to a managed floating exchange rate regime based on market supply and demand. In view of further economic and political developments, the PBOC further reformed the RMB exchange rate regime on 19 June 2010 by increasing its flexibility.

Any devaluation of the RMB may adversely affect the value of, and any dividends payable on, our H Shares in foreign currency, and therefore the price of H Shares.

Any force majeure events, including future occurrence of natural disasters or outbreaks of contagious diseases in China, may have a material adverse effect on our business operations, financial condition and results of operations.

Any future occurrence of natural disasters or outbreaks of health epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, or SARS, and swine flu caused by H1N1 virus, or H1N1 flu, may materially and adversely affect our business and results of operations. China has experienced natural disasters like earthquakes, floods and drought in the past few years. Any future occurrence of severe natural disasters in China may adversely affect its economy and in turn our business. Moreover, an outbreak of a health epidemic or contagious disease could result in a widespread health crisis and restrict the level of business activity in affected areas, which may in turn adversely affect our business. There is no guarantee that any future occurrence of natural disasters or outbreak of avian influenza, SARS, H1N1 flu or other epidemics, or the measures taken by the PRC government or other countries in response to a future outbreak of avian influenza, SARS, H1N1 flu or other epidemics, will not seriously interrupt our operations or those of our customers, which may have a material adverse effect on our results of operations.

RISKS RELATING TO THE RIGHTS ISSUE

Unless you exercise all of the Nil Paid H Rights initially allotted to you, this offering will dilute your investment and proportionate ownership interest in us.

If you choose not to fully exercise your allotted Nil Paid H Rights, your proportionate ownership and voting interest in us will be diluted. Even if you elect to sell your Nil Paid H Rights prior to the expiration of the applicable trading period, or such Nil Paid H Rights are sold on your behalf, the consideration you receive therefore may not be sufficient to fully compensate you for such dilution of your proportionate ownership and voting interest in us.

The market prices of H Shares may fluctuate and may fall below the Subscription Price prior to the expiration of the subscription period.

Once you exercise your Nil Paid H Rights pursuant to the H Share Rights Issue, you may not revoke the exercise. Although the Subscription Price of HK$3.19 for the H Rights Shares represented a discount to the closing price of HK$3.50 on the Price Determination Date, the market prices may fall below the Subscription Price prior to the expiration of the subscription period as a result of, among other things, global or China's economic or political conditions, market's perception of the likelihood of completion of this offering, regulatory changes affecting our operations and variations in our financial results. Many of these factors are beyond our control. If you take up your Nil Paid H Rights and the market price of our H Shares trades below the Subscription Price on the date the H Rights Shares are issued to you in respect of such Nil Paid H Rights, then you will have purchased those Shares at prices higher than the market price. Any decrease in market prices may continue after the completion of this offering and as a result, you may not be able to sell such H Rights Shares at a price equal to or greater than the Subscription Price.

An active trading market for the Nil Paid H Rights may not develop on the Hong Kong Stock Exchange or any over-the-counter trading market and, even if a market does develop, the trading price of the Nil Paid H Shares may fluctuate.

A trading period has been set for the Nil Paid H Rights from 17 January 2012 to 27 January 2012. We cannot assure you that an active trading market in the Nil Paid H Rights on the Hong Kong Stock Exchange will develop during the applicable trading period for Nil Paid

H Shares or that any over-the-counter trading market in the Nil Paid H Shares will develop. Even if active markets develop, the trading prices of the Nil Paid H Rights may be volatile and subject to the same factors affecting the price of our H Shares.

The Subscription Price is not an indication of our underlying value.

The Subscription Price was determined on the Price Determination Date by reference to the closing price of H Share on that date, which was the last trading day before the date of the Announcement. Consistent with the customary practice for a rights issue, the Subscription Price was set at a discount to the market price of our H Shares on that date. The Subscription Price does not have a direct relationship to past operations, cash flow, earnings, financial condition or any other established criteria for value and you should not consider the Subscription Price to be any indication of our underlying value.

Future sales or perceived sales of substantial amounts of our H Shares in the public market could have a material adverse effect on the prevailing market price of our H Shares and our ability to raise capital in the future.

The market price of our H Shares could decline as a result of future sales of substantial amounts of our H Shares or other securities relating to our H Shares in the public market, or the issuance of new H Shares, or the perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial amounts of our H Shares could also materially and adversely affect our ability to raise capital in the future at a time and at a price favourable to us, and our Shareholders would experience dilution in their holdings upon issuance or sale of additional securities in the future.

Potential conversion of Domestic Shares into H Shares may result in an increase of the number of H shares available in the market and may adversely affect the market price of our H Shares.

Subject to the approval by the securities supervisory and administrative authorities of the State Council, the holders of Domestic Shares may transfer their shares to overseas investors and such shares may be listed or traded on an overseas securities exchange. Any listing or trading of the transferred shares on an overseas securities exchange shall comply with the regulatory procedures, rules and requirements of such overseas securities exchange.

Unless otherwise required by an overseas securities exchange, the listing and trading of the transferred shares shall not be required to be resolved in a class meeting of the Company. Potential conversion of a substantial amount of Domestic Shares into H Shares could further increase the supply of our H Shares in the market and could negatively impact the market price of our H Shares.

Dividends distributed in the past may not be indicative of our dividend policy in the future.

The cash dividend we distributed with respect to the year ended 31 December 2010 was RMB0.1260 per Share. Any future declaration of dividends will be proposed by our Board and the amount of any dividends will depend on various factors, including our results of operations, financial condition, future business prospects and other factors that our board may determine to be important. We cannot guarantee if and when we will pay dividends in the future.

You may not be able to participate in future rights issues and may experience dilution of your holdings.

We may, from time to time, continue to distribute rights to our Shareholders, including rights to acquire securities. We will not distribute the securities to which these rights relate to U.S. holders of our H Shares unless such securities are either exempt from registration under the U.S. Securities Act or are registered under the U.S. Securities Act. There can be no assurance that we will be able to establish an exemption from registration under the U.S. Securities Act, and we are under no obligation to file a registration statement with respect to these securities or to endeavour to have a registration statement declared effective under the U.S. Securities Act. Accordingly, U.S. holders of our H Shares may be unable to participate in rights offerings and may experience dilution of their holdings as a result. Non-U.S. holders of our H Shares (except for those in Hong Kong), may also be unable to participate in future rights offerings depending on the securities laws of the local jurisdictions, and as a result may also experience dilution. In addition, if we are unable to sell rights that are not exercised or not distributed or if the sale is not lawful or reasonably practicable, we will allow the rights to lapse, in which case holders of our H Shares (including those that cannot participate in the rights offering) will receive no value for these rights.

The Group is a leading service provider in the PRC that provides integrated support services in the informatization sector including telecommunications, media and technology. The Group provides integrated solutions, including telecommunications infrastructure services ("TIS"), business process outsourcing services ("BPO") as well as applications, content and other services ("ACO") to telecommunications and media operators, telecommunications equipment manufacturers as well as government agencies, corporate and industrial customers.

The Group's business covers China and over 50 countries and regions in the world. The Group's overseas expansion is mainly focused on markets such as Africa, the Middle East, Latin America and Asia Pacific.

In the year 2008, 2009 and 2010 and the first half of 2011, the total revenues of the Group amounted to RMB33,005 million, RMB39,499 million, RMB45,417 million and RMB25,189 million, respectively, and the profit attributable to equity shareholders of the Company amounted to RMB1,327 million, RMB1,599 million, RMB1,818 million and RMB1,053 million, respectively.

As at 31 December of the year 2008, 2009, 2010 and 30 June 2011, the total assets of the Group amounted to RMB27,837 million, RMB30,162 million, RMB33,868 million and RMB35,586 million, respectively and the equity attributable to equity shareholders of the Company amounted to RMB12,087 million, RMB13,069 million, RMB14,221 million and RMB14,544 million, respectively.

The Group plans to firmly capture the following six major development opportunities: (1) various demands resulting from the full-service operation adopted by the domestic telecommunications operators and continuously growing demands of recurring businesses including network optimization and maintenance; (2) large scale investments in the two-way upgrading of broadcast and television networks in the future; (3) significant annual informatization investments from several industries; (4) the continuous and vigorous demand of the telecommunications network construction in overseas emerging markets such as Africa, the Middle East, Latin America and the Asian Pacific region; (5) new opportunities stimulated by new markets and new businesses as a result of the change in industrial landscape and models, including the Three Networks Convergence, the joint construction and sharing of telecommunications infrastructure, energy saving and emission reduction; and (6) greater potentials in respect of the Group's external growth.

CUSTOMER SERVICES AND MARKET EXPANSION

The Group strengthened its leading market position in the domestic telecommunications operator market and endeavoured to expand in the domestic non-operator market and the overseas markets, thus leading to further optimized customer and business mix, enhanced core competence, continuingly improved innovation, and achieved a stable and relatively rapid growth of total revenues. In year 2010, the total revenues of the Group amounted to RMB45,417 million, representing a year-on-year growth of 15.0%. In the first half of 2011, the total revenues of the Group amounted to RMB25,189 million, representing an increase of 16.0% over the same period of 2010.

The Group further optimized its customer mix. In 2010, revenues from domestic telecommunications operator customers increased by 7.2% to RMB29,464 million, accounting for 64.9% of total revenues, of which, revenues from China Telecom decreased by 1.6%, accounting for 43.9% of total revenues; and revenues from China Mobile and China Unicom increased by 32.0%, accounting for 21.0% of total revenues. Revenues from domestic non-operator customers increased by 27.8% to RMB13,728 million, accounting for 30.2% of total revenues and revenues from overseas markets increased by 73.0% to RMB2,225 million, accounting for 4.9% of total revenues. In the first half of 2011, revenues from domestic telecommunications operators amounted to RMB15,931 million, representing an increase of 19.1% over the same period last year and accounting for 63.3% of total revenues, of which, revenues from China Telecom increased by 16.6% over the same period of 2010, accounting for 40.3% of total revenues; and revenues from China Mobile and China Unicom increased by 23.8% over the same period of 2010, and the proportion of such revenues increased to 23.0%. Revenues from domestic non-operator customers amounted to RMB7,968 million, representing an increase of 9.9% over the same period last year and accounting for 31.6% of our total revenues, and revenues from overseas market amounted to RMB1,290 million, representing an increase of 17.5% over the same period of 2010 and accounting for 5.1% of our total revenues.

According to the Ministry of Industry and Information Technology of the PRC, in 2010, the capital expenditure in the domestic telecommunications industry amounted to approximately RMB319.7 billion, representing a decrease of 14.2% from 2009. In response to this, the Group actively adopted measures to take further advantage of its strengths in telecommunications infrastructure services and vigorously expanded its services in network maintenance, IT applications and Internet services, which led to stable revenue level from operators and enhanced leadership in the industry. The Group made great efforts to expand its revenue share from China Mobile and China Unicom by improving service quality and customers' experience, and consequently achieved rapid growth of revenue from both China Mobile and China Unicom. Meanwhile, the Group continuously implemented explorations and trials with domestic telecommunications operators in respect of joint construction and sharing of telecommunications facilities, collaborative logistics services, energy saving and emission reduction, and kept innovating its business and service models in response to new business opportunities.

Based on our experiences in serving customers over the past years, we believe that the capital expenditure by the three operators in China will remain relatively stable in the coming years given the continuing growth of their customer bases and network scale as well as the continued introduction of new services and new technologies. Therefore, we believe that the Group's revenues from domestic telecommunications operators will also maintain steady growth.

The Group's domestic non-operator customers include government agencies, media enterprises, infrastructure enterprises, energy sector related enterprises, telecommunications equipment manufacturers, public service unit such as educational and medical institutions and small to medium-sized enterprises. The Group is able to smoothly apply its experiences in serving domestic telecommunications operators and relevant technical expertise to the ancillary communications engineering services required by domestic non-operator customers in China. In 2010, facing the market opportunities in ancillary communications engineering services brought about by huge construction investments of domestic non-operator customers in infrastructure and public facilities, such as the Three Networks Convergence, energy saving and emission reduction, expressways, high-speed railways, subways, airports, ports and stadiums, the Group endeavored to capture these opportunities by improving its service and product systems targeted at domestic non-operator customers and enhancing the synergies in its marketing across different businesses, so as to promote brand awareness and marketing capability and achieve rapid revenue growth from the domestic non-operator customers. In the first half of 2011, the slowdown of revenue growth in the domestic non-operator market was mainly due to the Group's proactive control over the development pace of businesses with low profit margin so as to optimize the revenue structure. However, the huge domestic non-operator market potential will continue to be one of the Group's key growth drivers in the future.

The Group firmly implemented its overseas expansion strategy, and applied its technical advantages in serving the world's largest communications networks into capabilities in obtaining communications construction projects in developing countries. The Group focused on its expansion in Africa, the Middle East, Southeast Asia, Latin America and other regions, while actively expanding into Australia, New Zealand, Eastern European countries and other countries. We provided services such as infrastructure communications construction, business network construction, network maintenance and weak current system construction and maintenance for local telecommunications operators, government agencies and corporate customers. In addition, the world's well-known telecommunications equipment manufacturers are also important overseas customers of the Group. The Group has entered into strategic cooperation agreements with them to further explore their large-scale construction services market. The Group continued to reinforce its strategic cooperation with companies such as telecommunications equipment manufacturers, financial institutions and large state-owned enterprises by leveraging on the advantages of each other to jointly expand the communications EPC (Engineering, Procurement and Construction) business in overseas markets and to achieve breakthroughs in winning EPC projects. In the first half of 2011, though revenues from overseas were impacted by the turbulent political situation in certain areas in the Middle East and Africa, the Group managed to ensure its staff's personal safety, planned prudently and avoided foreseeable risks proactively, while continuing its strategy of penetrating overseas markets and fully executing various key projects. Moreover, the Group enhanced its cooperation with major equipment manufacturers, financial institutions and state-owned enterprises to realize overseas expansion synergies. The overseas business will continue to be one of the Group's key growth drivers in the future.

TELECOMMUNICATIONS INFRASTRUCTURE SERVICES

As the largest telecommunications infrastructure service provider in China, the Group is in possession of the highest-grade qualifications in the communications construction industry in China and our TIS services achieved sustained, rapid and healthy growth. In 2010, the Group's revenues from TIS services amounted to RMB21,637 million, representing a year-on-year growth of 12.2%. In the first half of 2011, revenues from TIS services amounted to RMB12,186 million, representing an increase of 17.7% over the same period of 2010 and its percentage of total revenues further increased to 48.4%.

The Group provides a full range of TIS services to telecommunications operators. These services include design, construction and project supervision for wireline, wireless, broadband networks and support systems. The Group's revenue from the provision of TIS services to telecommunications operators is mainly driven by the capital expenditure of telecommunications operators. In 2010, we enhanced our efforts in market expansion. Although capital expenditure of the domestic telecommunications operators dropped by 14.2% over the same period of 2010, the Group's revenues of TIS services from the domestic telecommunications operators amounted to RMB16,409 million, representing a year-on-year growth of 3.7%. In the first half of 2011, we proactively expanded our high-value businesses, among which our design and supervision businesses grew rapidly and increased by 18.4% and 29.5% as compared to the same period of 2010 respectively. Furthermore, the Group fully supported domestic telecommunications operators in meeting their business demands for the upgrade of optical-fiber networks as well as the expansion of mobile, fixed-line and data networks. Revenues of TIS services from domestic telecommunications operators increased by 22.5% over the same period of 2010, and our leading position in the market was further strengthened.

In addition, the Group also provides integrated solutions for ancillary communications networks, including ancillary communications engineering services and operating support services, to domestic non-operator customers such as government agencies, telecommunications equipment manufacturers and broadcasting and television enterprises, as well as overseas customers. Benefiting from the increasing investment in and demand for domestic infrastructure construction and the Group's further expansion into overseas markets, the Group's revenues of TIS services from domestic non-operator customers and our overseas markets amounted to RMB5,228 million in 2010, representing a year-on-year growth of 50.9%.

With domestic telecommunications operators' progressive construction and upgrade of broadband networks, the expansion of mobile, fixed-line and data networks and increasing investment in Internet of Things and cloud computing, capital expenditure of the telecommunications industry will remain relatively stable and the market size of domestic TIS services will be maintained at a comparatively stable level. Fuelled by accelerated urbanization and informatization progress, domestic non-operator customers have made significant investments in the infrastructure sector and the informatization sector, creating a huge market for ancillary communications engineering services. As for the overseas market, many countries in the world have strong construction demands and large market potential for optic cable networks, optical fiber access networks and mobile networks. Therefore, we believe that the development of TIS services is promising.

BUSINESS PROCESS OUTSOURCING SERVICES

The Group is a leading provider of BPO services for the communications industry in China. The BPO services of the Group mainly include network equipment maintenance, distribution of telecommunications and products ("Distribution"), and facilities management services. In addition to domestic telecommunications operators, the Group also serves a number of government agencies and enterprise customers. In 2010, revenues from BPO services amounted to RMB18,508 million, representing a year-on-year growth of 16.1%, among which revenues from network maintenance, distribution of telecommunications services and products and facilities management services were up by 22.6%, 15.1% and 10.3% respectively. In the first half of 2011, BPO services achieved a more favourable business structure by our effective control on low-end businesses. Revenues from BPO services amounted to RMB10,483 million, representing an increase of 13.2% over the same period of 2010 and accounting for 41.6% of our total revenues.

With continuous expansion in the scales of the telecommunications operators' networks and customer bases, the scale and scope of the telecommunications operators' non-core business service outsourcing will continue to grow and expand. Meanwhile, the market space for the Group to provide maintenance services in relation to base stations, fiber optic cables, electric cables, user access lines, user terminals and network equipment for telecommunications operators also continued to expand. Driven by these positive factors, revenues from our maintenance services has maintained a rapid growth. In 2010, the revenues of our maintenance business amounted to RMB4,270 million, representing an increase of 22.6% over the previous year. In the first half of 2011, the Group proactively captured business opportunities brought by the full-service operations of the domestic telecommunications operators; as a result, our maintenance business achieved favorable development and its revenues increased rapidly by 22.1% as compared to the same period of 2010.

The Distribution services of the Group mainly include the supply of communications machineries and handsets, logistics and procurement agency services and telecommunications agency services. Our major customers are telecommunications operators, telecommunications equipment manufacturers, government agencies and medium to large-sized enterprises. In 2010, the revenues of the Distribution business of the Group amounted to RMB11,957 million, representing an increase of 15.1% over the previous year. At the same time as maintaining the stable growth of the Distribution business, the Group also attached importance to the improvement of the quality of revenue from the Distribution business. In 2010, the Group focused on high-end logistics businesses, integrated existing resources and sought business partners to lay a solid foundation for improving the overall services capabilities of the Distribution business. In the first half of 2011, revenues from our distribution business increased by 10.7% as compared to the same period of 2010.

Attributable to its unique position in the PRC telecommunications industry, the Group provides facilities management services for the machinery buildings of three telecommunications operators and the high-end office buildings of its non-operator customers, revenues from the facilities management services of the Group recorded RMB2,282 million in 2010, representing an increase of 10.3%. In the first half of 2011, revenues from facilities management business increased by 11.8% as compared in the same period of 2010.

APPLICATIONS, CONTENT AND OTHER SERVICES

The Group provides system integration services (including the development and construction of the supporting systems OSS, BSS and MSS), Internet services and voice value-added services for telecommunications operators, which can also be widely used by industrial customers other than telecommunications operators. In 2010, revenues from ACO services amounted to RMB5,272 million, representing a year-on-year growth of 23.6%. Among which, revenues from IT applications services and Internet services increased by 26.5% and 68.8% respectively. In the first half of 2011, our ACO services sustained rapid growth and its revenues amounted to RMB2,520 million, representing an increase of 19.6% over the same period of 2010 and accounting for 10.0% of total revenues. We proactively explored new businesses, seized the most attractive development opportunities brought by the informatization construction of domestic non-operator customers and the mobile Internet growth of telecommunications operators. We also put more efforts into the cultivation and marketing of application products for different industries. As a result, revenues from IT applications and Internet services recorded rapid increases of 35.4% and 30.4% over the same period of 2010 respectively.

Looking forward, with the ever advancing information communications technologies, the rapid development of 3G applications, optical-fiber broadband networks, mobile Internet and 4G/LTE has pushed the information industry into a new era of strategic opportunities, and domestic telecommunications operators will continue to invest in information network infrastructures. Accelerated informatization process in government and industry sectors, the ongoing developments in Three Networks Convergence, and the strong demand for telecommunications services from overseas emerging markets, will enable the Group to expand into broader markets beyond the domestic telecommunications operator market. In addition, there are industrial opportunities underlying the rapid development of new technologies, such as cloud computing and Internet of Things, which will be further explored by us. Based on our strategic position as a leader of producer services in the informatization sector, the Group will endeavor to support the full-service operations of domestic telecommunications operators, put more efforts into the expansion of domestic non-operator customers, and drive our scalable development in overseas markets so as to build an enterprise with excellent performance which has strong capabilities in capturing market opportunities, outstanding core competencies, integrated efficient operation and steady value growth.

中国通信服务
CHINA COMSERVICE

中國通信服務股份有限公司
China Communications Services Corporation Limited

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 552)

Executive Directors
Li Ping
Zheng Qibao
Yuan Jianxing
Hou Rui

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

13 January 2012

To the Qualified H Shareholders and, for information purpose only, the Excluded Shareholders, other than U.S. persons

Dear Sir or Madam,

PROPOSED H SHARE RIGHTS ISSUE OF 398,570,040 H SHARES ON THE BASIS OF 2 H RIGHTS SHARES FOR EVERY 10 EXISTING H SHARES AT HK$3.19 PER H RIGHTS SHARE PAYABLE IN FULL ON ACCEPTANCE

A. INTRODUCTION

The Company announced on 9 May 2011 and delivered a circular to the Shareholders on 12 May 2011 in relation to the Rights Issue. As described in the poll results announcement published by the Company on 28 June 2011, the resolutions to approve the proposed Rights Issue were duly passed at the EGM, the Domestic Shareholders Class Meeting and the H Shareholders Class Meeting. The Company announced on 19 May 2011 that the SASAC granted its written approval in respect of the Rights Issue. On 6 December 2011, the Company announced that it had received the CSRC's written approval in respect of the Rights Issue.

Pursuant to the authorization granted to the Board at the EGM, the Domestic Shareholders Class Meeting and the H Shareholders Class Meeting, the authorized persons of the Board have finalized the terms of the Rights Issue. A summary of the major terms of the H Share Rights Issue and the expected timetable of the H Share Rights Issue are set out in this prospectus. The H Share Register was closed from 10 January 2012 to 12 January 2012 (both days inclusive). The last day of dealings in the H Shares on a cum-right basis was 5 January 2012 and the H Shares were dealt with on an ex-rights basis from 6 January 2012. To qualify for the H Share Rights Issue, an H Shareholder must be registered as a member of the Company by 4:30 p.m. on 9 January 2012 and must not be an Excluded Shareholder.

The H Share Rights Issue will be fully underwritten by the Underwriter on the terms and conditions set out in the Underwriting Agreement.

The H Share Rights Issue is conditional upon the fulfillment of the conditions set out under the paragraph headed "Conditions of the H Share Rights Issue" in this prospectus. **If the conditions of the H Share Rights Issue are not fulfilled, the H Share Rights Issue will not proceed. Furthermore, in the event that the Underwriting Agreement does not become unconditional or if it is terminated in accordance with the terms thereof, the H Share Rights Issue may not proceed. Shareholders' and potential investors' attention is drawn to the paragraph headed "Warning of the Risks of Dealing in the H Shares and the Nil Paid H Rights" in this prospectus. If in any doubt, Shareholders and potential investors are recommended to consult their professional advisers.**

The purpose of this prospectus is to provide you with details of the Rights Issue as well as certain financial and other information in respect of the Group.

B. RIGHTS ISSUE

The Rights Issue is conducted on the basis of 2 Rights Shares for every 10 existing Shares held by the Shareholders on the Domestic Share Record Date and H Share Record Date.

The Subscription Price of RMB2.59 (equivalent to approximately HK$3.19) per Domestic Rights Share and HK$3.19 per H Rights Share were determined by the authorized persons of the Board in consultation with the Underwriter for the H Share Rights Issue on the Price Determination Date, based on a discount to market trading prices having regard to the current prevailing market conditions. The Subscription Prices of Domestic Rights Shares and H Rights Shares shall be the same after exchange rate adjustment.

The Rights Issue, consisting of the Domestic Share Rights Issue and the H Share Rights Issue, will raise (i) gross proceeds in an aggregate amount of approximately RMB2,989.73 million (equivalent to approximately HK$3,682.33 million and assuming full subscription for the Domestic Rights Shares); and (ii) net proceeds (after deducting all the costs and expenses incidental to the Rights Issue) in an aggregate amount of approximately RMB2,900.04 million (equivalent to approximately HK$3,571.86 million and assuming full subscription for the Domestic Rights Shares), on the basis of the Subscription Price of RMB2.59 (equivalent to approximately HK$3.19) per Domestic Rights Share and HK$3.19 per H Rights Share.

C. TERMS OF THE H SHARE RIGHTS ISSUE

The H Share Rights Issue is subject to the fulfilment of the conditions set out under the paragraph headed "Conditions of the H Share Rights Issue" of this prospectus. Details of the H Share Rights Issue are as follows:

H Share Rights Issue Statistics

Basis of the H Share Rights Issue	2 H Rights Shares for every 10 existing H Shares held on the H Share Record Date
Subscription Price	HK$3.19 per H Rights Share
Number of H Shares in issue	1,992,850,200 H Shares as at the Latest Practicable Date
Number of H Rights Shares proposed to be issued	398,570,040 H Rights Shares
Underwriter	CITIC Securities Corporate Finance (HK) Limited

As at the Latest Practicable Date, the Company had no outstanding convertible securities, options or warrants which would confer any right to subscribe for, convert or exchange into the Shares.

Basis of Entitlements

Subject to fulfillment of the conditions set out below in the paragraph headed "Conditions of the H Share Rights Issue", Qualified H Shareholders will be provisionally allotted 2 H Rights Shares for every 10 existing H Shares held on the H Share Record Date at the Subscription Price, being HK$3.19, for each H Rights Share payable in full on acceptance, constituting a total of 398,570,040 H Shares, representing approximately 20% of the Company's existing issued H Shares capital as at the Latest Practicable Date and approximately 16.7% of the enlarged issued H Share capital of the Company immediately after the H Share Rights Issue.

Qualified H Shareholders

To qualify for the H Share Rights Issue, an H Shareholder must be registered as a member of the Company at the close of business on the H Share Record Date and not be an Excluded Shareholder.

Please see the paragraph headed "Excluded Shareholders" for details.

Distribution of This Prospectus and the Other Prospectus Documents

The Company will only send this prospectus accompanied by the other Prospectus Documents to the Qualified H Shareholders. However, to the extent legally permitted, the Company will send this prospectus, for information purposes only, to the Excluded Shareholders, provided that this prospectus shall not be sent to the Excluded Shareholders who are known by the Company to be resident in the United States and Canada. The Company will not send any Provisional Allotment Letter or Excess Application Form to the Excluded Shareholders.

Distribution of this prospectus and the other Prospectus Documents into jurisdictions other than Hong Kong may be restricted by law. Persons who come into possession of the Prospectus Documents (including, without limitation, agents, custodians, nominees and trustees) should inform themselves of and observe any such restriction. Any failure to comply with such restriction may constitute a violation of the securities laws of any such jurisdiction. Any H Shareholder or Beneficial H Shareholder who is in any doubt as of his/her/its position should consult an appropriate professional adviser without delay. In particular, subject to certain exceptions as determined by the Company, this prospectus should not be distributed, forwarded to or transmitted in, into or from any of the Specified Territories with or without the Provisional Allotment Letter or the Excess Application Form.

It is the responsibility of any person (including but not limited to agent, custodian, nominee and trustee) outside Hong Kong wishing to make an application for the H Rights Shares to satisfy himself/herself/itself as to the full observance of the laws and regulations of the relevant territory or jurisdiction, including the obtaining of any governmental or other consents and to pay any taxes, duties and other amounts required to be paid in such territory or jurisdiction in connection therewith. Any acceptance of the offer of the Rights Shares by any person will be deemed to constitute a representation and warranty from such person to the Company that these local laws and requirements have been fully complied with. Shareholders should consult their professional advisers if in doubt.

The Prospectus Documents will not be registered under the applicable securities legislation of any jurisdiction other than Hong Kong.

H Shareholders and the Beneficial H Shareholders who are located or resident in, or who are citizens of, or who have registered address in Specified Territories are referred to the important information set out in the paragraphs below headed "Excluded Shareholders".

Excluded Shareholders

Excluded Shareholders are those H Shareholders or Beneficial H Shareholders with registered addresses in, or who are otherwise known by the Company to be residents of, places outside Hong Kong and in respect of whom the Directors, based on enquiries made by the Directors, consider it necessary or expedient not to offer the H Rights Shares on account either of the legal restrictions under the laws of the relevant places in which the H Shareholder or Beneficial H Shareholder is located or the requirements of the relevant regulatory body or stock exchange in that place.

Pursuant to Rule 13.36(2) of the Listing Rules, the Board has made enquiries regarding the legal restrictions under the applicable securities legislation of the Specified Territories and the requirements of the relevant regulatory bodies or stock exchanges with respect to the offer of the H Rights Shares to the H Shareholders or Beneficial H Shareholders in those territories. Having considered the circumstances, the Directors have formed the view that it is necessary or expedient to restrict the ability of H Shareholders or Beneficial H Shareholders in the Specified Territories to take up their rights under the H Share Rights Issue due to the time and costs involved in the registration or filing of this prospectus and/or approval required by the relevant authorities in those territories and/or additional steps the Company and H Shareholders or Beneficial H Shareholders need to take to comply with the local legal requirements and/or other requirements to be satisfied in order to comply with relevant local legal or regulatory requirements in those territories and/or legal or regulatory restrictions imposed in those territories.

Accordingly, for the purposes of the H Share Rights Issue, the Excluded Shareholders are:

(a) H Shareholders whose names appeared in the H Share Register at the close of business on the H Share Record Date and whose addresses as shown in such register is/are in any of the Specified Territories; and

(b) any H Shareholders or Beneficial H Shareholders at that time who are otherwise known by the Company to be resident in any of the Specified Territories.

Notwithstanding any other provision in this prospectus, the Provisional Allotment Letter and the Excess Application Form, the Company reserves the right to permit any H Shareholder or Beneficial H Shareholder to take up his/her/its rights, if the Company and the Sole Bookrunner are satisfied that the transaction in question is exempt from or not subject to the legislation or regulations giving rise to the restrictions in question.

Receipt of this prospectus and/or a Provisional Allotment Letter and/or an Excess Application Form or the crediting of Nil Paid H Rights to a stock account in CCASS does not and will not constitute an offer in those jurisdictions in which it would be illegal to make an offer and, in those circumstances, this prospectus and/or a Provisional Allotment

Letter and/or an Excess Application Form must be treated as sent for information only and should not be copied or redistributed. Persons (including, without limitation, agents, custodians, nominees and trustees) who receive a copy of this prospectus and/or a Provisional Allotment Letter and/or an Excess Application Form or whose stock account in CCASS is credited with Nil Paid H Rights should not, in connection with the H Shares Rights Issue, distribute or send the same in, into or from, or transfer Nil Paid H Rights to any person in, into or from, any of the Specified Territories. If a Provisional Allotment Letter or an Excess Application Form or a credit of Nil Paid H Rights in CCASS is received by any person in any such territory, or by his/her/its agent or nominee, he/she/it should not seek to take up the rights referred to in the Provisional Allotment Letter or transfer the Provisional Allotment Letter (or apply for any excess H Rights Shares under the Excess Application Form) or transfer the Nil Paid H Rights in CCASS unless the Company determines that such actions would not violate applicable legal or regulatory requirements. Any person (including, without limitation, agents, custodians, nominees and trustees) who does forward this prospectus or a Provisional Allotment Letter or an Excess Application Form in, into or from any Specified Territory (whether under a contractual or legal obligation or otherwise) should draw the recipient's attention to the contents of this section.

Arrangements will be made for the Nil Paid H Rights of Excluded Shareholders who hold their existing H Shares in certificated form to be provisionally allotted to a nominee appointed by the Company for the benefit of the Excluded Shareholders and, if a premium (net of expenses) can be obtained, to be sold by the nominee on such Excluded Shareholders' behalf on the Hong Kong Stock Exchange as soon as practicable after the commencement of the dealings in the Nil Paid H Rights. The proceeds of such sale, less expenses, will be divided on a pro rata basis and paid to the Excluded Shareholders, provided that individual amounts of HK$100 or less will be paid to the Company for its own benefit. With respect to Excluded Shareholders who hold interests in H Shares through CCASS, their nominees, custodians or other intermediaries may sell, on such Excluded Shareholders' behalf, their entitlements to the Nil Paid H Rights in compliance with applicable securities laws and distribute the proceeds thereof as appropriate. Any H Rights Shares in respect of unsold fractional entitlements, unsold entitlements of Excluded Shareholders, together with any H Rights Shares in respect of Nil Paid H Rights not taken up by the Qualified H Shareholders or otherwise not subscribed for by transferees of Nil Paid H Rights, will be made available for excess application on Excess Application Forms by Qualified H Shareholders.

Status of the H Rights Shares

When allotted and fully paid, the H Rights Shares will rank *pari passu* with the then existing H Shares in issue in all respects. Holders of such H Rights Shares will receive all future dividends and distributions which may be declared, made or paid after the date of allotment and issue of the H Rights Shares.

Subscription Price

The Subscription Price of HK$3.19 per H Rights Share is payable in full when a Qualified H Shareholder accepts the relevant provisional allotments under the H Share Rights Issue or applies for excess Rights Shares or when a transferee of Nil Paid H Rights Shares subscribes for the H Rights Shares.

The Subscription Price of HK$3.19 per H Rights Share represents:

– a discount of approximately 8.9% to the closing price of HK$3.50 per H Share as quoted on the Hong Kong Stock Exchange on the Price Determination Date;

– a discount of approximately 7.5% to the average closing price of HK$3.45 per H Share as quoted on the Hong Kong Stock Exchange for the five consecutive trading days up to and including the Price Determination Date;

– a discount of approximately 7.8% to the average closing price of HK$3.46 per H Share as quoted on the Hong Kong Stock Exchange for the ten consecutive trading days up to and including the Price Determination Date;

– a discount of approximately 11.1% to the average closing price of HK$3.59 per H Share as quoted on the Hong Kong Stock Exchange for the twenty consecutive trading days up to and including the Price Determination Date; and

– a discount of approximately 7.5% to the theoretical ex-rights price of HK$3.45 per H Share based on the closing price of HK$3.50 per H Share as quoted on the Hong Kong Stock Exchange on the Price Determination Date.

Fractional Entitlements

Fractional entitlements to H Rights Shares will not be provisionally allotted and Qualified H Shareholders' entitlements will be rounded down to the nearest whole number. The Nil Paid H Rights representing the aggregate of fractions of H Rights Shares (rounded down to the nearest whole number) will be provisionally allotted to a nominee appointed by the Company and, if a premium (net of expenses) can be obtained, will be sold by the Company or its appointed nominee in the market after dealing in the Nil Paid H Rights commences and the net proceeds of sale will be retained by the Company for its own benefit. Any unsold fractions of H Rights Shares will be available for excess application by Qualified H Shareholders.

Procedure for Acceptance and Payment or Transfer of H Rights Shares by Qualified H Shareholders

For each Qualified H Shareholder, a Provisional Allotment Letter is enclosed with this prospectus which entitles the Qualified H Shareholder to subscribe for the number of H Rights Shares shown therein. If you are a Qualified H Shareholder and wish to exercise your right to take up the H Rights Shares specified in the enclosed Provisional Allotment Letter, you must lodge the Provisional Allotment Letter in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance, at the H Share Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or 3rd Floor, Futura Plaza, 111-113 How Ming Street, Kwun Tong, Kowloon, Hong Kong by no later than 4:00 p.m. on 1 February 2012. Unless otherwise agreed by the Company, all remittances must be made in Hong Kong dollars. Cheques must be drawn on an account with, and cashier's orders must be issued by, a licensed bank in Hong Kong and made payable to "Bank of Communications (Nominee) Co. Ltd. – CHINA COMSERVICE – PAL" and must be crossed.

A Provisional Allotment Letter can be lodged from 13 January 2012 to 1 February 2012 (both days inclusive) at these times:

Monday to Friday (excluding public holidays):	9:00 a.m. to 4:30 p.m.; and
Last Acceptance Date (1 February 2012):	9:00 a.m. to 4:00 p.m..

It should be noted that unless the Provisional Allotment Letter, together with the appropriate remittance, has been lodged with the H Share Registrar by 4:00 p.m. on the Last Acceptance Date whether by the original allottee or any person to whom the rights have been validly transferred, the relevant provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled. The Company may, at its discretion, treat a Provisional Allotment Letter as valid and binding on the person(s) by whom or on whose behalf it is lodged even if not completed in accordance with the relevant instructions.

If you wish to transfer all of your rights to subscribe for the H Rights Shares provisionally allotted to you, you must complete and sign the form of transfer and nomination in the Provisional Allotment Letter, and hand the Provisional Allotment Letter to the transferee(s) or through whom you are transferring such rights of yours to subscribe for the H Rights Shares. The transferee(s) must then complete and sign the registration application form in the Provisional Allotment Letter, and lodge the Provisional Allotment Letter intact together with a remittance for the full amount payable on acceptance the H Share Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or 3rd Floor, Futura Plaza, 111-113 How Ming Street, Kwun Tong, Kowloon, Hong Kong not later than 4:00 p.m. on the Last Acceptance Date. If you wish to accept only part of your provisional allotment or if you wish to transfer all or part of your provisional allotment to more than one person, the Provisional Allotment Letter must be surrendered by not later than 4:30 p.m. on 19 January 2012 to the H Share Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong which will cancel the original Provisional Allotment Letter and issue new Provisional Allotment Letters in the denominations required. It should be noted that Hong Kong stamp duty is payable in connection with the transfer of your Nil Paid H Rights to the transferee(s) and the acceptance by the transferee(s) of such rights. All enquiries in connection with the Provisional Allotment Letter should be addressed to the H Share Registrar at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

The Company reserves the right to refuse to register any transfer in favour of any person in respect of which the Company believes such transfer may violate applicable legal or regulatory requirements.

All cheques and cashier's orders will be presented for payment immediately following receipt and all interest earned on such monies will be retained for the benefit of the Company. Any Provisional Allotment Letter in respect of which the accompanying cheque or cashier's order is not honored on first presentation is liable to be rejected, and in that event the relevant provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

You must pay the exact amount payable upon application for the H Rights Shares by cheque or cashier order or any method agreed by the Company; underpaid application will be rejected. In the event of overpaid application, a refund cheque will be made out to you only if the overpaid amount is HK$100 or above.

Application for Excess Rights Shares

Qualified H Shareholders may apply, by way of excess application, for any unsold entitlements of the Excluded Shareholders and for any H Rights Shares provisionally allotted to the Qualified H Shareholders but not accepted by the Qualified H Shareholders or otherwise subscribed for by transferees of Nil Paid H Rights.

Application for excess H Rights Shares may be made by completing the Excess Application Form and lodging the same with a separate remittance for such excess H Rights Shares with the H Share Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or 3rd Floor, Futura Plaza, 111-113 How Ming Street, Kwun Tong, Kowloon, Hong Kong by no later than 4:00 p.m. on the Last Acceptance Date. Unless otherwise agreed by the Company, all remittances must be made in Hong Kong dollars. Cheques must be drawn on an account with, and cashier's orders must be issued by, a licensed bank in Hong Kong and made payable to "Bank of Communications (Nominee) Co. Ltd. – CHINA COMSERVICE – EAF" and must be crossed.

An Excess Application Form can be lodged from 13 January 2012 to 1 February 2012 (both days inclusive) at these times:

Monday to Friday (excluding public holidays):	9:00 a.m. to 4:30 p.m.; and
Last Acceptance Date (1 February 2012):	9:00 a.m. to 4:00 p.m..

All cheques and cashier's orders will be presented for payment immediately following receipt and all interest earned on such monies will be retained for the benefit of the Company. Completion and lodgement of an Excess Application Form together with a cheque or cashier's order in payment for the excess H Rights Shares applied for will constitute a warranty by the applicant that the cheque or cashier's order will be honoured on first presentation. Any Excess Application Form in respect of which the accompanying cheque or cashier's order is dishonoured on first presentation is liable to be rejected.

You must pay the exact amount payable upon application for the excess H Rights Shares by cheque or cashier order or any method agreed by the Company; underpaid application will be rejected. In the event of overpaid application, a refund cheque will be made out to you only if the overpaid amount is HK$100 or above.

If no excess H Rights Shares are allotted to you, the amount tendered on application by you is expected to be refunded in full without interest by means of cheque(s) despatched by ordinary post at your own risk on or about 8 February 2012. If the number of excess H Rights Shares allotted to you is less than the number applied for, the surplus application monies are also expected to be returned to you without interest by means of cheque(s) despatched by ordinary post at your own risk on or about 8 February 2012. The Excess Application Form is for use only by the person(s) to whom it is addressed and is not transferable. All enquiries in connection with the Excess Application Form should be addressed to the H Share Registrar at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

If the Underwriter exercises the rights to terminate its obligations or if the conditions precedent under the Underwriting Agreement are not fulfilled before the Latest Time Termination, the monies received in respect of relevant applications for excess H Rights Shares will be returned to the relevant applicants without interest, by means of cheque(s) to be despatched by ordinary post at the risk of such applicants on or about 8 February 2012.

The Board will allocate the excess H Rights Shares at its discretion on a fair and equitable basis but will give preference to topping-up odd lots to whole board lots, unless the total number of excess H Rights Shares are not sufficient to top up all odd lots in to whole board lots or the Board is satisfied that such applications are made with the intent to abuse this mechanism; and after applying the preference principle above, the remaining excess H Rights Shares (if preference will be given) or all excess H Rights Shares (if no preference will be given) will be allocated to Qualified H Shareholders who have applied for excess H Rights Shares on a pro rata basis with reference to their number of excess H Rights Shares applied for. In applying the preference principle above, reference will only be made to the number of excess H Rights Shares being applied for. No reference will be made to H Rights Shares comprised in applications by Provisional Allotment Letter or the existing number of H Shares held by Qualified H Shareholders.

Beneficial H Shareholders with their H Shares held by a registered H Shareholder, or which are held in CCASS, should note that the registered H Shareholder (including HKSCC Nominees Limited) is regarded as a single H Shareholder according to the H Share Register. Accordingly, beneficial H Shareholders whose H Shares are registered in the name of a registered H Shareholder, or which are held in CCASS, should note that the foresaid top up arrangement in relation to the allocation of the excess H Rights Shares will not be extended to beneficial owners individually. Shareholders with their H Shares held by registered H Shareholders as nominee are advised to consider whether they would like to arrange registration of the relevant H Shares in the name of the beneficial owner(s) prior to the H Share Record Date.

Application for Listing

An application has been made to the Listing Committee of the Hong Kong Stock Exchange for the listing of and permission to deal in the H Rights Shares and the Nil Paid H Rights on the Hong Kong Stock Exchange. The H Rights Shares do not constitute a new class of securities to be listed on the Hong Kong Stock Exchange. No part of the share capital of the Company is listed or dealt in on any other stock exchange, nor is listing of or permission to deal in the share capital or any part of the share capital of the Company being or proposed to be sought on any other stock exchange.

Subject to the granting of listing of, and permission to deal in, the H Rights Shares and the Nil Paid H Rights on the Hong Kong Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the H Rights Shares and the Nil Paid H Rights will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the H Rights Shares and the Nil Paid H Rights or such other dates as determined by HKSCC.

Settlement of transactions between participants of the Hong Kong Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Shareholders should seek advice from their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests. All necessary arrangements will be made to enable the H Rights Shares and the Nil Paid H Rights to be admitted into CCASS.

Nil Paid H Rights are expected to be traded in board lots of 2,000 (as the H Shares are currently traded on the Hong Kong Stock Exchange in board lots of 2,000).

Dealings in the H Rights Shares and the Nil Paid H Rights will be subject to the payment of stamp duty, Hong Kong Stock Exchange trading fee, Securities and Futures Commission transaction levy or any other applicable fees and charges in Hong Kong.

Conditions of the H Share Rights Issue

The H Share Rights Issue is conditional upon fulfillment of the following matters:

(i) the approval of the Rights Issue by the Shareholders at the EGM;

(ii) the approval of both the H Share Rights Issue and the Domestic Share Rights Issue at the H Shareholders Class Meeting and the Domestic Shareholders Class Meeting, respectively;

(iii) the approval of the SASAC for the Rights Issue;

(iv) the approval of the CSRC for the Rights Issue;

(v) the Listing Committee of the Hong Kong Stock Exchange agreeing to grant the listing of, and permission to deal in, the H Rights Shares and the Nil Paid H Rights, either unconditionally or subject to such conditions which the Company accepts and the satisfaction of such conditions (if any) by no later than the date of posting of this prospectus;

(vi) the delivery to the Hong Kong Stock Exchange and filing and registration of all documents in relation to the H Share Rights Issue as required by law to be filed by and registered with the Registrar of Companies in Hong Kong; and

(vii) the Domestic Share Rights Issue has become unconditional.

None of the above conditions for completion of the H Share Rights Issue may be waived by the Company. As at the Latest Practicable Date, conditions (i) to (iv) and (vii) have been satisfied. **If any of the conditions is not fulfilled, the H Share Rights Issue will not proceed.**

Furthermore, it should be noted that the H Share Rights Issue will proceed on a fully underwritten basis in accordance with Rule 7.19 of the Listing Rules. Please refer to the paragraphs headed "H Share Rights Issue Underwriting Arrangement" below for details. **In the event that the Underwriting Agreement does not become unconditional or if it is terminated in accordance with the terms thereof, the H Share Rights Issue may not proceed.**

H Share Rights Issue Underwriting Arrangement

Date:	30 December 2011
Underwriter:	CITIC Securities Corporate Finance (HK) Limited
Number of the Underwritten H Rights Shares:	Pursuant to the Underwriting Agreement, the Underwriter has agreed to fully underwrite up to 398,570,040 H Rights Shares not taken up and for which purchasers are not otherwise procured

Conditions of the Underwriting Agreement

The obligations of the Underwriter under the Underwriting Agreement are conditional upon, among other things:

(i) the H Rights Shares being duly issued and provisionally allotted by the Company on the terms set out in the Prospectus Documents to the Qualified H Shareholders;

(ii) the Company having delivered to the Sole Bookrunner (in the form and substance satisfactory to it) the documents listed therein by the times and dates specified therein;

(iii) the approval of the H Share Rights Issue granted by SASAC being valid and not having been withdrawn, amended or revoked;

(iv) the approval of the H Share Rights Issue granted by CSRC being valid and not having been withdrawn, amended or revoked;

(v) the delivery of the Prospectus Documents and all the documents required by the provisions of section 342C of the Companies Ordinance to be delivered to the Companies Registry and to the Hong Kong Stock Exchange and the issue by the Hong Kong Stock Exchange of a certificate of authorisation of registration before 3:00 p.m. or such later time as agreed by the Hong Kong Stock Exchange on the Dealing Day before the Prospectus Date;

(vi) the Companies Registry registering the Prospectus Documents and all the documents required by the provisions of section 342C of the Companies Ordinance on or before the despatch of the Prospectus;

(vii) the grant of listing of and permission to deal in the Nil Paid Rights and the H Rights Shares (either unconditional or subject only to allotment and despatch of the share certificates in respect thereof) by the Hong Kong Stock Exchange and dealings in the Nil Paid Rights and the H Rights Shares being allowed by the Hong Kong Stock Exchange (and such listing and permission not subsequently being withdrawn or revoked);

(viii) posting of the Prospectus Documents to the Qualified H Shareholders on or before the despatch date of the Prospectus Documents (or such later date to be agreed with the Sole Bookrunner); and the posting, to the extent reasonably practicable and legally permitted, of the Prospectus for information purposes only to the Excluded Shareholders, provided that the Prospectus shall not be posted to Excluded Shareholders who are known by the Company to be resident in the United States or Canada;

(ix) the Domestic Share Rights Issue having become unconditional; and

(x) no matter having arisen prior to 5:00 p.m. on the date that is three Dealing Days after the Last Acceptance Date which might reasonably be expected to give rise to a claim under certain clause of the Underwriting Agreement and which, in any such case, the Sole Bookrunner, might in its absolute discretion consider to be material in the context of the H Share Rights Issue or the underwriting of the H Share Rights Issue.

If the conditions of the Underwriting Agreement are not duly satisfied, when and as required by the Underwriting Agreement to be satisfied (unless otherwise waived or modified by the Sole Bookrunner), or if the Underwriting Agreement shall be terminated as set out in the section headed "Termination of the Underwriting Agreement" in this prospectus, save in respect of certain rights and obligations under the Underwriting Agreement, all liabilities of the parties under the Underwriting Agreement will cease.

Any of the conditions set out above (except conditions (i), (iii), (iv), (v), (vi) and (vii)) may be waived at any time by the Sole Bookrunner, in its absolute discretion, subject to such terms and conditions as are determined by the Sole Bookrunner.

If the Underwriting Agreement does not become unconditional or is terminated, the H Share Rights Issue may not proceed.

Termination of the Underwriting Agreement

The Underwriting Agreement contains provisions granting the Underwriter the right to terminate the Underwriter's obligations thereunder on the occurrence of certain events. The Sole Bookrunner may, in its absolute discretion, terminate the Underwriting Agreement at any time prior to 5:00 p.m. on 6 February 2012 if:

(i) there shall have developed, occurred, happened or come into effect any change (whether permanent or not) or development involving a prospective change or any event or circumstance likely to result in a change or a development involving a prospective change in or affecting the assets, liabilities, conditions(financial or otherwise), business, general affairs, management, prospects, profits, losses or financial or trading position or performance of the Group taken as a whole, the effect of which is, individually or in the aggregate, in the sole and absolute judgment of the Sole Bookrunner, so material and adverse as to make it or likely to make it impracticable or inadvisable to proceed with the H Share Rights Issue or the delivery of the H Rights Shares on the terms and in the manner contemplated in the Prospectus or is likely to have a material adverse effect on the success of the H Share Rights Issue or the level of the H Rights Shares taken up;

(ii) there has been any breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement, or there has been a breach on the part of the Company of any other provision of the Underwriting Agreement, in either case which is material in the context of the H Share Rights Issue; or

(iii) there shall have developed, occurred, happened or come into effect any of the following:

(A) a suspension or limitation (including, without limitation, any minimum or maximum price limit or range) in or on trading in securities generally on any of the Hong Kong Stock Exchange, the New York Stock Exchange, NASDAQ, the London Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange;

(B) a suspension or limitation (including, without limitation, any minimum or maximum price limit or range) in or on trading in any securities of the Company listed or quoted on a stock exchange;

(C) a general moratorium on commercial banking activities declared by relevant authorities in any of Hong Kong, the PRC, the United States, the United Kingdom or the European Union (or any member state thereof), or a disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in Hong Kong, the PRC, the United States, the United Kingdom or the European Union (or any member state thereof);

(D) a change or development in taxation or exchange control, currency exchange rates or foreign investment regulations (or the implementation of any exchange control) in any of Hong Kong, the PRC, the United States, the United Kingdom or the European Union (or any member state thereof) which will have a material adverse effect on the investment in the H Rights Shares;

(E) any Authority (as defined in the Underwriting Agreement) or a political body or organization in any of Hong Kong, the PRC, the United States, the United Kingdom, or the European Union (or any member state thereof) commencing any investigation or other action, or announcing an intention to investigate or take other action, against any member of the Group;

(F) any event or any event or circumstance in the nature of force majeure (including, without limitation, any act of government, economic sanctions, riot, fire, explosion, flooding, earthquake, civil commotion, act or declaration of war, outbreak or escalation of hostilities (whether or not war is or has been declared), act of terrorism (whether or not responsibility has been claimed), act of God, pandemic, epidemic, outbreak of infectious disease, declaration of a state of emergency or calamity or crisis, in each case, involving or affecting any of Hong Kong or the PRC;

(G) there shall have occurred any outbreak or escalation of hostilities, or any change in any financial, political, economic, legal, military, industrial, fiscal, regulatory, currency or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, interbank markets and credit markets) in or affecting any of Hong Kong, the PRC, the United States, the United Kingdom or the European Union (or any member state thereof) or the international financial markets; or

(H) any new law or any change or development involving a prospective change or any event or circumstance likely to result in a change or a development involving a prospective change in existing laws or in the interpretation or application thereof by any court or other competent Authority in or affecting any of Hong Kong, the PRC, the United States, the United Kingdom or the European Union (or any member state thereof),

if the effect of any such event or circumstance specified above, individually or in the aggregate, in the sole and absolute judgment of the Sole Bookrunner is so material and adverse as to make it or is likely to make it impracticable or inadvisable to proceed with the H Share Rights Issue or the delivery of the H Rights Shares on the terms and in the manner contemplated in the Prospectus, or has or is likely to have a material adverse effect on the success of the H Share Rights Issue or the level of the H Rights Shares taken up.

If the Sole Bookrunner elects to terminate the Underwriting Agreement thereof, the Company shall be notified promptly in writing. In such event, a further announcement will be made by the Company at the relevant time.

Lock-up Undertaking

Pursuant to the Underwriting Agreement, the Company has undertaken to the Underwriter that: (i) except for the H Rights Shares and Domestic Rights Shares to be allotted and issued pursuant to the H Share Rights Issue and the Domestic Rights Issue respectively, or (ii) with the prior written consent of the Sole Bookrunner, from the date of the Underwriting Agreement up to 90 days after the first day of trading of the H Rights Shares on the Hong Kong Stock Exchange, the Company will not (a) allot or issue or sell, or offer to allot or issue or sell, accept subscription for, pledge, lend, mortgage, assign, charge, purchase any option or contract to sell, or grant any option, right or warrant to subscribe for or purchase or lend or otherwise dispose of (either conditionally or unconditionally, or directly or indirectly, or otherwise) any Shares or other equity securities of the Company or any interests therein (including but not limited to any securities convertible into or exercisable or exchangeable for any Shares or which carry rights to subscribe for or purchase or receive Shares), or deposit Shares with a depositary in connection with the issue of depositary receipts, or (b) enter into a transaction (including, without limitation, a swap or other derivative transaction) that transfers, in whole or in part, any of the economic consequences of ownership of any Shares or such securities of the Company or any interest therein or has an effect on the market in the Shares similar to that of a sale of interest in Shares or repurchase any Shares, or (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above, or (d) offer or agree or contract or announce any intention to enter into or effect any such transaction described in (a), (b) or (c) above whether any of the foregoing transactions described in (a), (b) or (c) above is to be settled by delivery of Shares or such other securities, in cash or otherwise, and whether or not the issue or sales of such Shares or other securities will be completed within the lock-up period; provided, however, that the foregoing restrictions shall not apply to (i) any issuance of stock dividends, (ii) the application of any capital reserve to issue Shares, or (iii) the grant of share appreciation rights under or the exercise of share appreciation rights by any holders thereof under the existing share appreciation rights scheme of the Company.

Sub-underwriting by Guang Hua Properties Limited

To support the long-term business development of the Company and the Rights Issue plan, China Telecom designated its subsidiary, Guang Hua Properties Limited, to enter into a sub-underwriting agreement with the Underwriter on 30 December 2011, pursuant to which, Guang Hua Properties Limited agreed to sub-underwrite up to such number of H Rights Shares not exceeding a total subscription amount of HK$600,000,000 based on the Subscription Price.

Guang Hua Properties Limited, a company incorporated under the laws of the British Virgin Islands with limited liability, is a subsidiary of China Telecom and therefore a connected person of the Company under the Listing Rules. As such, the sub-underwriting of H Rights Shares by Guang Hua Properties Limited constitutes a connected transaction for the Company. However, such connected transaction is exempt from all the reporting, announcement and independent Shareholders' approval requirements pursuant to Rule 14A.31(3) of the Listing Rules.

Warning of the Risks of Dealing in the H Rights Shares and the Nil Paid H Rights

Existing H Shares have been dealt on an ex-rights basis from 6 January 2012. Dealings in the Nil Paid H Rights are expected to take place from 17 January 2012 to 27 January 2012 (both days inclusive). **If the conditions of the H Share Rights Issue (please refer to the paragraphs headed "Conditions of the H Share Rights Issue" above) are not fulfilled, the H Share Rights Issue will not proceed.**

The Underwriting Agreement contains provisions entitling the Underwriter by notice in writing to terminate the Underwriting Agreement upon occurrence of certain events described above. In the event that the Underwriting Agreement does not become unconditional or if it is terminated in accordance with the terms thereof, the H Share Rights Issue may not proceed.

Any dealing in the H Rights Shares or the Nil Paid H Rights is at the investor's own risk. If in any doubt, Shareholders and investors are recommended to consult their professional advisers.

Despatch of H Share Certificates and the Refund Cheques for the H Rights Shares

Subject to the fulfillment of the conditions of the H Share Rights Issue, it is expected that the certificates for the H Rights Shares and the refund cheque(s) in respect of wholly or partly unsuccessful applications for excess H Rights Shares (if any) will be dispatched by ordinary post to the allottees and those entitled thereto, at their own risk, to their registered addresses by the H Share Registrar on or about 8 February 2012.

Taxation

Qualified H Shareholders are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding, disposing of or dealing in the H Rights Shares and/or the Nil Paid H Rights and, as regards the Excluded Shareholders, their receipt of the net proceeds of the Nil Paid H Rights otherwise falling to be issued to them under the H Share Rights Issue. It is emphasized that none of the Company, the Directors or any other parties involved in the H Share Rights Issue accepts responsibility for any tax effects or liabilities of holders of the H Shares resulting from the receipt, purchasing, holding, exercising, disposing of, or dealing the Nil Paid H Rights and/or the H Rights Shares.

D. TERMS OF DOMESTIC RIGHTS ISSUE

Basis of the Domestic Rights Issue	2 Domestic Rights Shares for every 10 existing Domestic Shares held on the Domestic Share Record Date
Subscription Price	RMB2.59 per Domestic Rights Share
Number of Domestic Shares in issue	3,778,831,800 Domestic Shares as at the Latest Practicable Date
Number of Domestic Rights Shares proposed to be issued	755,766,360 Domestic Rights Shares

Basis of Entitlement

Subject to fulfillment of the conditions set out below in the paragraphs headed "Conditions of the Domestic Share Rights Issue", Qualified Domestic Shareholders will be allotted 2 Domestic Rights Shares for every 10 existing Domestic Shares held on the Domestic Share Record Date at the Subscription Price, being RMB2.59, for each Domestic Rights Share payable in full on acceptance.

Qualified Domestic Shareholders

To qualify for the Domestic Share Rights Issue, a Domestic Shareholder must be registered as a Shareholder of the Company on the Domestic Share Record Date.

Expected Timetable of Domestic Rights Issue

Domestic Share Record Date . . . . 12 January 2012

Commencement of the Domestic Share Rights Issue

First day of acceptance of and payment for the Domestic Rights Shares . . . . 13 January 2012

Close of the Domestic Share Rights Issue

Last day of acceptance of and payment for the Domestic Rights Shares . . . . 1 February 2012

Verification of payment for subscription for the Domestic Rights Shares. . . . . 5 February 2012

Announcement of results of the Domestic Share Rights Issue . . . . 6 February 2012

Shareholders should note that the dates specified in the expected timetable of the Domestic Share Rights Issue as set out above are indicative only and may be changed by the Board. Any such change to the expected timetable will be announced and notified to the Shareholders as and when appropriate.

Conditions of the Domestic Share Rights Issue

It is expected that the Domestic Share Rights Issue will be conditional upon the fulfillment of the following matters:

(i) the approval of the Rights Issue by the Shareholders at the EGM;

(ii) the approval of both of the Domestic Share Rights Issue and the H Share Rights Issue at the Domestic Shareholders Class Meeting and the H Shareholders Class Meeting, respectively;

(iii) the approval of the SASAC for the Rights Issue; and

(iv) the approval of the CSRC for the Rights Issue.

None of the above conditions for the completion of the Domestic Share Rights Issue may be waived by the Company. As at the Latest Practicable Date, conditions (i) to (iv) have been satisfied.

Shareholder Undertaking

China Telecom, our largest Shareholder, holds 2,926,752,080 Domestic Shares, representing approximately 77.5% of the total Domestic Shares in issue and approximately 50.7% of the Company's issued Shares as at the Latest Practicable Date. On 28 December 2011, the Company received from China Telecom an undertaking that it will subscribe for all the Domestic Rights Shares to be allotted to it according to the rights issue plan approved by the Board and make the payment as soon as practicable.

Application for the Excess Domestic Rights Shares

Under PRC laws, there is no requirement that the Domestic Share Rights Issue be fully underwritten. Qualified Domestic Shareholders may subscribe any Domestic Rights Shares provisionally allotted to the other Qualified Domestic Shareholders but not accepted by such Qualified Domestic Shareholders. The Board or any other person authorized by the Board will allocate the excess Domestic Rights Shares on a pro rata basis with reference to the number of excess Domestic Rights Shares being applied for if such applications exceed the total number of the Domestic Rights Shares proposed to be issued but not accepted.

Status of the Domestic Rights Shares

The Domestic Rights Shares, when allotted and fully paid, will rank *pari passu* in all respects with the Domestic Shares then in issue. Holders of fully-paid Domestic Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment and issue of the Domestic Rights Shares. The Domestic Shares are not, and the Domestic Rights Shares will not be, listed on any stock exchanges unless the Domestic Shares and the Domestic Rights Shares are approved by the authorized securities approval authorities of the State Council for listing.

E. REASONS FOR AND BENEFITS OF THE RIGHTS ISSUE AND USE OF PROCEEDS

All the proceeds raised from the Rights Issue, after deduction of all the relevant expenses, shall be mainly used for the following purposes. The Company will use internal funds and debt financing channel to satisfy insufficient portion of funding requirements.

(i) up to RMB2 billion to be used in the Group's overseas expansion as well as the continuing development of non-telecommunications operator businesses in our domestic markets, including the initial deployment of capital and ongoing financial resources required for our projects, such as the purchase of equipment;

(ii) up to RMB1.5 billion for potential acquisition of strategic assets and joint venture opportunities; and

(iii) up to RMB1.5 billion for the Group's operations center and investment in research and development and related infrastructure.

The Directors are of the view that the Rights Issue is in the interests of the Company and the Shareholders as a whole and the Rights Issue is an appropriate means of raising capital to support the Company's continuing development and business growth.

F. CHANGES OF THE SHAREHOLDING STRUCTURE OF THE COMPANY AS A RESULT OF THE RIGHTS ISSUE

The following table sets out the Company's current shareholding structure and its shareholding structure upon completion of the Rights Issue (assuming the Rights Issue is conducted on the basis of 2 Rights Shares for every 10 existing Shares with full subscription for the Rights Shares and assuming no change in the issued share capital of the Company between the Latest Practicable Date and the H Share Record Date):

Share Class	Total number of issued Shares before the Rights Issue as at the Latest Practicable Date	Percentage of the total number of issued Shares	Number of Share to be issued under the Rights Issue	Total number of issued Shares immediately after the Rights Issue	Percentage of the total number of issued Shares immediately after the Rights Issue
H Shares	1,992,850,200	34.53%	398,570,040	2,391,420,240	34.53%
Domestic Shares	3,778,831,800	65.47%	755,766,360	4,534,598,160	65.47%
Total	5,771,682,000	100%	1,154,336,400	6,926,018,400	100%

The Company did not issue any equity securities in the 12 months immediately preceding the date of this prospectus.

G. FURTHER INFORMATION

Your attention is drawn to the further information set out in the appendices to this prospectus, in the 2010 annual report and the 2011 interim report of the Company.

By order of the Board
China Communications Services Corporation Limited
Li Ping
Chairman

(1) SUMMARY OF FINANCIAL INFORMATION

An unqualified opinion in respect of the consolidated financial statements of the Group has been issued for each of the three years ended 31 December 2008, 2009 and 2010. A summary of the results, assets and liabilities of the Group prepared under IFRSs as extracted from the annual reports of the Group for the years ended 31 December 2008, 2009 and 2010 and as extracted from the interim reports for the six months ended 30 June 2010 and 2011 are set out below:

Results

	For the year ended 31 December			Six months ended 30 June	
	2008	**2009**	**2010**	**2010**	**2011**
	RMB thousand (restated)	*RMB thousand*	*RMB thousand*	*RMB thousand*	*RMB thousand*
Revenues	33,005,372	39,499,450	45,417,232	21,719,925	25,189,276
Profit before tax	1,747,319	2,037,594	2,276,102	1,140,553	1,317,789
Income tax	(403,675)	(427,356)	(459,711)	(230,882)	(270,530)
Profit for the year/period attributable to equity shareholders of the Company	1,326,770	1,598,589	1,817,805	905,684	1,053,281
Dividends per share *(RMB)*	0.0913	0.1108	0.1260	–	–
Earnings per share *(RMB)*					
– Basic	0.233	0.277	0.315	0.157	0.182
– Diluted	0.233	0.277	0.315	0.157	0.182

Assets and liabilities

	As at 31 December			As at 30 June
	2008	**2009**	**2010**	**2011**
	RMB thousand (restated)	*RMB thousand*	*RMB thousand*	*RMB thousand*
Total assets	27,836,802	30,162,106	33,867,582	35,586,201
Total liabilities	(15,593,212)	(16,984,874)	(19,513,738)	(20,919,901)
Total equity attributable to equity shareholders of the Company	12,086,861	13,068,686	14,221,042	14,543,933

(2) AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Set out below are the audited consolidated financial statements of the Group together with accompanying notes extracted from the annual report of the Company for the year ended 31 December 2010:

Consolidated Income Statement

For the year ended 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Revenues	4	45,417,232	39,499,450
Cost of revenues	5	(38,018,246)	(33,127,513)
Gross profit		7,398,986	6,371,937
Other operating income	6	629,685	520,810
Selling, general and administrative expenses		(5,627,043)	(4,691,507)
Other operating expenses	7	(70,920)	(76,782)
Finance costs	8	(57,732)	(88,435)
Share of profits of associates		3,126	1,571
Profit before tax	9	2,276,102	2,037,594
Income tax	10	(459,711)	(427,356)
Profit for the year		1,816,391	1,610,238
Attributable to:			
Equity shareholders of the Company		1,817,805	1,598,589
Non-controlling interests		(1,414)	11,649
Profit for the year		1,816,391	1,610,238
Basic and diluted earnings per share (RMB)	16	0.315	0.277

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Profit for the year		1,816,391	1,610,238
Other comprehensive income for the year (after tax)			
Exchange differences on translation of financial statements of subsidiaries outside Mainland China		608	(1,324)
Effect on opening deferred tax balances resulting from a change in tax rate		148	(1,145)
Available-for-sale securities: net movement in the fair value reserve	*11*	(17,034)	35,612
		(16,278)	33,143
Total comprehensive income for the year		1,800,113	1,643,381
Attributable to:			
Equity shareholders of the Company		1,801,527	1,631,732
Non-controlling interests		(1,414)	11,649
Total comprehensive income for the year		1,800,113	1,643,381

Consolidated Balance Sheet

At 31 December 2010

(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment, net	17	4,025,579	3,912,721
Investment properties	18	696,016	685,959
Construction in progress	19	154,234	73,334
Lease prepayments	20	470,135	481,687
Goodwill	21	103,005	103,005
Other intangible assets	22	151,990	148,453
Interest in associates	24	61,433	12,960
Other investments	25	571,401	304,773
Deferred tax assets	26	205,822	140,552
Total non-current assets		6,439,615	5,863,444
Current assets			
Inventories	27	1,833,186	1,659,626
Accounts and bills receivable, net	28	12,887,557	10,467,689
Prepayments and other current assets	30	3,967,876	3,140,398
Restricted deposits	31	269,099	160,525
Cash and cash equivalents	32	8,470,249	8,870,424
Total current assets		27,427,967	24,298,662
Total assets		33,867,582	30,162,106
Current liabilities			
Interest-bearing borrowings	33	1,780,523	1,268,280
Accounts and bills payable	34	9,768,792	8,844,718
Receipts in advance for contract work		1,083,587	1,088,327
Accrued expenses and other payables	35	6,564,306	5,553,079
Income tax payable		284,941	194,701
Total current liabilities		19,482,149	16,949,105
Net current assets		7,945,818	7,349,557
Total assets less current liabilities		14,385,433	13,213,001

	Note	2010 *RMB'000*	2009 *RMB'000*
Non-current liabilities			
Deferred tax liabilities	*26*	31,589	35,769
Total non-current liabilities		31,589	35,769
Total liabilities		19,513,738	16,984,874
Equity			
Share capital	*36*	5,771,682	5,771,682
Reserves		8,449,360	7,297,004
Equity attributable to equity shareholders of the Company		14,221,042	13,068,686
Non-controlling interests		132,802	108,546
Total equity		14,353,844	13,177,232
Total liabilities and equity		33,867,582	30,162,106

Balance Sheet
At 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment, net	*17*	4,190	4,809
Construction in progress	*19*	11,759	1,580
Other intangible assets	*22*	2,633	3,527
Investments in subsidiaries	*23*	10,470,145	10,226,636
Total non-current assets		10,488,727	10,236,552
Current assets			
Prepayments and other current assets	*30*	1,233,753	1,577,116
Cash and cash equivalents	*32*	681,258	422,232
Total current assets		1,915,011	1,999,348
Total assets		12,403,738	12,235,900
Current liabilities			
Interest-bearing borrowings	*33*	1,500,000	1,000,000
Accrued expenses and other payables	*35*	83,385	645,460
Total current liabilities		1,583,385	1,645,460
Net current assets		331,626	353,888
Total assets less current liabilities		10,820,353	10,590,440
Total liabilities		1,583,385	1,645,460
Equity			
Share capital	*36*	5,771,682	5,771,682
Reserves	*45*	5,048,671	4,818,758
Total equity		10,820,353	10,590,440
Total liabilities and equity		12,403,738	12,235,900

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

(Expressed in Renminbi)

		Equity attributable to equity shareholders of the Company											
	Note	Share capital	Share premium (note a)	Capital reserve (note b)	Revaluation reserve	Statutory surplus reserve (note c)	Fair value reserve (note d)	Exchange reserve (note e)	Other reserve	Retained earnings	Total	Non-controlling interests	Total equity
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance as at 1 January 2010		5,771,682	2,727,647	932,621	415,557	239,377	57,993	(6,772)	67,330	2,863,251	13,068,686	108,546	13,177,232
Changes in equity for the year ended 31 December 2010													
Profit for the year		–	–	–	–	–	–	–	–	1,817,805	1,817,805	(1,414)	1,816,391
Other comprehensive income		–	–	–	–	–	(17,034)	608	148	–	(16,278)	–	(16,278)
Total comprehensive income		–	–	–	–	–	(17,034)	608	148	1,817,805	1,801,527	(1,414)	1,800,113
Capital injection by a non-controlling owner to a subsidiary		–	–	–	–	–	–	–	–	–	–	69,276	69,276
Acquisition of non-controlling interests		–	–	–	–	–	–	–	(9,669)	–	(9,669)	(31,427)	(41,096)
Dividend declared	*15(b)*	–	–	–	–	–	–	–	–	(639,502)	(639,502)	–	(639,502)
Distribution to non-controlling owners		–	–	–	–	–	–	–	–	–	–	(12,179)	(12,179)
Appropriation		–	–	–	–	86,941	–	–	–	(86,941)	–	–	–
Balance as at 31 December 2010		5,771,682	2,727,647	932,621	415,557	326,318	40,959	(6,164)	57,809	3,954,613	14,221,042	132,802	14,353,844
Balance as at 1 January 2009		5,771,682	2,727,647	917,666	415,557	162,158	22,381	(5,448)	206,382	1,868,836	12,086,861	156,729	12,243,590
Changes in equity for the year ended 31 December 2009													
Profit for the year		–	–	–	–	–	–	–	–	1,598,589	1,598,589	11,649	1,610,238
Other comprehensive income		–	–	–	–	–	35,612	(1,324)	(1,145)	–	33,143	–	33,143
Total comprehensive income		–	–	–	–	–	35,612	(1,324)	(1,145)	1,598,589	1,631,732	11,649	1,643,381
Consideration for the acquisition of the Target Interests (as defined in note 1 (c))		–	–	–	–	–	–	–	(98,055)	–	(98,055)	–	(98,055)
Adjustment of tax effect arising from Restructuring (as defined in note 1(b))		–	–	14,955	–	–	–	–	–	–	14,955	–	14,955
Acquisition of non-controlling interests		–	–	–	–	–	–	–	(39,852)	–	(39,852)	(30,781)	(70,633)
Dividend declared	*15(b)*	–	–	–	–	–	–	–	–	(526,955)	(526,955)	–	(526,955)
Distribution to non-controlling owners		–	–	–	–	–	–	–	–	–	–	(29,051)	(29,051)
Appropriation		–	–	–	–	77,219	–	–	–	(77,219)	–	–	–
Balance as at 31 December 2009		5,771,682	2,727,647	932,621	415,557	239,377	57,993	(6,772)	67,330	2,863,251	13,068,686	108,546	13,177,232

Notes:

(a) 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 in 2006 and subsequent share issuance in 2008.

(b) 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 China Telecommunication Corporation ("CTC"), Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation upon the formation of the Company. Then, the capital reserve was net off by the difference between the consideration for the acquisition of Target Business and the net assets value of the Target Business in 2007 and subsequent common control acquisitions net balances.

(c) 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 the year ended 31 December 2010, the Company transferred RMB86,941,000 being 10% of the current year's net profit as determined in accordance with the PRC Accounting Rules and Regulations, to this reserve.

(d) Fair value reserve

The fair value reserve represents the net change in the fair value of available-for-sale securities in other investments held at the balance sheet date.

(e) Exchange reserve

The exchange reserve represents all foreign exchange differences arising from the translation of the financial statements of subsidiaries located outside of Mainland China.

Consolidated Cash Flow Statement

For the year ended 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Operating activities			
Profit before tax		2,276,102	2,037,594
Adjustments for:			
– Depreciation and amortisation		622,514	609,607
– Impairment losses on accounts and other receivable		115,807	61,919
– Impairment losses on property, plant and equipment and other intangible assets		9,614	3,847
– Impairment losses on inventories		4,587	23,409
– Interest income		(77,734)	(72,726)
– Finance costs		57,732	88,435
– Share of profits of associates		(3,126)	(1,571)
– Dividend income		(28,816)	(31,594)
– Gain on disposal of investments		(54,841)	(6,845)
– (Gain)/loss on disposal of property, plant and equipment		(2,373)	22,217
– Impairment loss on other investments		4,926	8,211
– Exchange differences		9,788	9,051
– Write back of non-payable liabilities		(11,799)	(25,135)
Operating profit before changes in working capital		2,922,381	2,726,419
Increase in inventories		(171,210)	(500,656)
Increase in accounts and bills receivable		(2,500,741)	(1,173,726)
Increase in prepayments and other current assets		(1,049,038)	(207,093)
Increase in accounts and bills payable		917,807	1,091,363
(Decrease)/increase in receipts in advance for contract work		(4,740)	280,129
Increase in accrued expenses and other payables		1,830,346	292,961
Net cash inflow from operations		1,944,805	2,509,397
Interest paid		(56,824)	(73,588)
Interest received		75,678	72,936
Income tax paid		(437,247)	(446,518)
Cash generated from operating activities		1,526,412	2,062,227

	Note	2010 RMB'000	2009 RMB'000
Investing activities			
Payments for purchase of property, plant and equipment and other assets		(819,923)	(724,820)
Proceeds from disposal of property, plant and equipment and other assets		26,913	47,173
Net cash inflow arising from acquisition of subsidiaries	*39(i)*	2,532	3,529
Payments for acquisition of investments		(298,464)	–
Payments for acquisition of non-controlling interests		(41,096)	(71,807)
Payments for an associate		(45,347)	–
Payments for acquisition of Target Interests (as defined in note (1c))		–	(98,081)
Proceeds from disposal of investments		63,325	7,194
Dividends received		56,696	22,697
Net cash used in investing activities		(1,055,364)	(814,115)
Financing activities			
Proceeds from bank and other loans		1,723,994	1,450,905
Repayments of bank and other loans		(1,356,505)	(2,135,142)
Dividends paid		(1,297,868)	(309,177)
Contribution from non-controlling owners to subsidiaries		69,276	–
Decrease in restricted deposits for bank loans		–	81,977
Net cash used in financing activities		(861,103)	(911,437)
Net (decrease)/increase in cash and cash equivalents		(390,055)	336,675
Cash and cash equivalents at the beginning of year		8,870,424	8,538,142
Effect of foreign exchange rate changes		(10,120)	(4,393)
Cash and cash equivalents at the end of year	*32*	8,470,249	8,870,424

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

1 PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PRESENTATION

(a) Principal activities

China Communications Services Corporation Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") is a leading service provider in the informatization sector including telecommunications, media and information technology industries in the People's Republic of China (the "PRC"). Its principal activities comprise provision of a full range of telecommunications support services in the PRC and overseas, 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 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 underwent 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 were 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.

(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. In April 2008, the Company completed the placing of 326,696,000 H shares with a par value of RMB1.00 each at a price of RMB5.25 (the "Placing"). In connection with the Placing, 32,669,600 domestic legal person shares of RMB1.00 each owned by National Council for the Social Security Fund was converted into H shares. A total of 1,992,850,200 H shares have been listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Pursuant to the acquisition agreement dated 15 June 2007, the Company acquired 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 Communication GSM Intelligent Card System Co., Ltd and Ningbo Public Information Industry Co., Ltd (the "Target Business") from CTC. Such acquisition was completed on 31 August 2007.

(c) Basis of presentation

Pursuant to the Equity Transfer Agreements entered into by the Company and China Telecommunications Corporation and its subsidiaries ("CTC Group") on 26 May 2009, the Company acquired a 95.945% equity interest in Shanghai Tongmao Import & Export Co. Ltd ("Tongmao") and a 51% equity interest in Guoxin Lucent Technologies Network Technologies Co., Ltd ("Guoxin Lucent", now renamed as "Guoxun Innovation Software Technology Co., Ltd") (collectively the "Target Interests") for a total purchase price of RMB98.05 million.

Since the Group and the Target Interests are under common control of CTC, the Target Interests were accounted for as a combination of entities under common control in a manner similar to pooling-of-interests in the Company's 2009 consolidated financial statements. Accordingly, the assets and liabilities of the Target Interests were accounted for at historical costs and the consolidated financial statements of the Company prior to the acquisitions of the Target Interests were included the results of operations and assets and liabilities of the Target Interests on a combined basis. The considerations paid by the Group for the acquisitions of the Target Interests were accounted for as an equity transaction in the consolidated statement of changes in equity.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These 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 include 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 of Hong Kong Limited.

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 2010 comprise the Group and its interests in associates.

The financial statements have been prepared on the historical cost basis, except for the following material items in the balance sheet:

– Property, plant and equipment is stated at its revalued amount (see note 2(g)).

– Other investments listed in active market are measured at fair value.

– Liabilities for cash-settled share-based payment arrangements are measured at fair value.

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 accounting 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 major sources of estimation uncertainty are discussed in note 42.

(c) Basis of consolidation

(i) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power 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 are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements 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 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.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the company, 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. For each business combination, the group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.

In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment losses (see note 2(l)).

(ii) Associates

Associates are entities in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating decisions.

Investments in associates are accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investments are initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investees' identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(d) and 2(l)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

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 investee. For this purpose, the Group's interest 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 investee, 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

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in income statement as a gain on a bargain purchase.

Goodwill is state at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(l)).

On disposal of a cash-generating unit 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 associate, are as follows:

Investments in debt and equity securities are initially stated at fair value, 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 consolidated balance sheet at cost less impairment losses (see note 2(l)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is re-measured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 2(w)(v) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 2(w)(vi).

When these investments are derecognised or impaired (see note 2(l)), the cumulative gain or loss is reclassified from equity to profit or loss.

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(w)(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 costs at the date of reclassification becomes its cost for accounting purposes.

(g) Property, plant and equipment

Property, plant and equipment are initially recorded at cost, less subsequent accumulated depreciation and impairment losses (see note 2(l)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to working condition and location for its intended use and the cost of borrowed funds used during the periods of construction. Expenditure incurred after the asset has been put into operation, including cost of replacing part of such an item, is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment and the cost can be measured reliably. All other expenditure is expensed as it is incurred.

Subsequent to the revaluation which was required by the PRC rules and regulations in connection with the Restructuring and which was based on depreciated replacement costs, 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 in other comprehensive income and are accumulated separately in equity in the 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.

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 estimates residual value, if any, using the straight-line method over their estimates 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.

(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)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads and borrowing costs, where applicable (see Note 2(z)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see Note 2(l)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(l)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss from the date they are available for use on a straight-line basis over the assets' estimated useful lives.

Both the period and method of amortisation are reviewed annually.

(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 (other than investments in subsidiaries: see note 2(l)(ii)) 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. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events

– Significant financial difficulty of the debtor;

– A breach of contract, such as default or delinquency in interest or principal payments;

– It becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investment in associate recognised using the equity method (see note 2(c)(ii)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carry amount in accordance with note 2(l)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(l)(ii).

– 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. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  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 in the fair value reserve is reclassified to consolidate 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 in other comprehensive income.

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;

– goodwill;

– other intangible assets;

– investments in subsidiaries; and

– other investments stated at cost.

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 fair value less costs to sell 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 if 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 year 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

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural element of the design.

The accounting policy for contract revenue is set out in note 2(w)(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 allowance for impairment of 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 allowance for impairment of 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) Derivative financial instruments

Derivative financial instruments are initially recognised at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to the consolidated income statement, except where the derivative qualify for cash flow hedge accounting or hedge the net investment in a foreign operation.

(t) Employee benefits

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

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement 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) Share appreciation rights schemes

Compensation expense under the Group's share appreciation rights schemes are measured as the amount by which the quoted market price of the Company's H shares exceeds the exercise price. Compensation expense in respect of the share appreciation rights granted is accrued as a charge to the consolidated income statement over the applicable vesting period based on the fair value of the stock appreciation rights. The liability of the accrued compensation expense is remeasured to fair value at each balance sheet date with the effect of changes in the fair value of the liability is charged or credited to the consolidated income statement. Further details of the Group's share appreciation rights scheme are set out in note 38.

(iii) 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.

(u) 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 in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

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 back or 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.

(v) 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.

(w) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. 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 the 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.

(x) 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 from the carrying amount of the asset and consequently are recognised in the consolidated income statement over the useful life of the asset by way of reduced depreciation expenses.

(y) Translation of foreign currencies

The functional and presentation currency of the Group's 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.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into RMB at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassify from equity to profit or loss when the profit or loss on disposal is recognised.

(z) Borrowing costs

Borrowing costs that 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 are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

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.

(aa) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provide regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The Group principally has one business segment and hence no additional segment information is provided (see note 44).

(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 CHANGES IN ACCOUNTING POLICIES

The IASB has issued two revised IFRSs, a number of amendments to IFRSs and two new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 3 (revised 2008), *Business combinations*
- Amendments to IAS 27, *Consolidated and separate financial statements*
- Amendments to IFRS 5, *Non-current assets held for sale and discontinued operations – plan to sell the controlling interest in a subsidiary*
- Amendment to IAS 39, *Financial instruments: Recognition and measurement – eligible hedged items*
- Improvements to IFRSs (2009)
- IFRIC 17, *Distributions of non-cash assets to owners*
- Amendments to IAS 17, *Leases*

The amendment to IAS 39 has had no material impact on the Group's financial statements as the amendment and the Interpretation's conclusions were consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons.

- The impact of the majority of the revisions to IFRS 3, IAS 27, IFRS 5 and IFRIC 17 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

- The impact of the amendments to IFRS 3 (in respect of recognition of acquiree's deferred tax assets) and IAS 27 (in respect of allocation of losses to non-controlling interests (previously known as "non-controlling interests") in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current year.

Further details of these changes in accounting policy are as follows.

- As a result of the adoption of IFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in IFRS 3 (revised 2008). These include the following changes in accounting policies:

  – Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

  – In addition to the Group's existing policy of measuring the non-controlling interests (previously known as the "non-controlling interests") in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

- As a result of the adoption of IAS 27 (amended 2008), it requires that if the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. The Group adopted such accounting treatment in previous year and no change in policies in this regard.

- IFRIC 17 requires distributions of non-cash assets to owners to be measured at the fair value of the assets distributed. This will result in a gain or loss being recognised in profit or loss to the extent that the fair value of the assets is different from their carrying value. In accordance with the transitional provisions in IFRIC 17, this new accounting policy will be applied prospectively to distributions in current or future periods and therefore previous periods have not been restated.

- As a result of the amendment to IAS 17, Leases, arising from the "Improvements to IFRSs (2009)" omnibus standard, the group has re-evaluated the classification of its interests in leasehold land as to whether, in the group's judgement, the lease transfers substantially all the risks and rewards of ownership of the land such that the group is in a position economically similar to that of a purchaser. The group has concluded that the classification of such leases as operating leases continues to be appropriate.

4 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:

	2010	**2009**
	RMB'000	*RMB'000*
Revenues from telecommunications infrastructure services	21,636,545	19,289,579
Revenues from business process outsourcing services	18,508,424	15,943,326
Revenues from applications, content and other services	5,272,263	4,266,545
	45,417,232	39,499,450

The Group's major customers are telecommunications operators which include CTC and its subsidiaries ("CTC Group") and China Mobile Communications Corporation and its subsidiaries ("CM Group"), each contributing a revenue exceeding 10% of the Group's total revenues. Revenues from the provision of integrated telecommunications support services to CTC Group and CM Group for the year ended 31 December 2010 amount to RMB19,925 million and RMB7,495 million respectively (2009: RMB20,243 million and RMB5,642 million respectively), being 43.9% and 16.5% of the Group's total revenues respectively (2009: 51.2% and 14.3% respectively). In addition, the revenues derived from areas outside Mainland China for the year ended 31 December 2010 amounts to RMB2,225 million (2009: RMB1,287 million).

5 COST OF REVENUES

	2010 *RMB'000*	2009 *RMB'000*
Depreciation and amortisation	359,100	351,402
Direct personnel costs	7,459,665	7,073,351
Operating lease charges	728,764	608,086
Purchase of materials and telecommunications products	13,506,740	12,364,499
Subcontracting charges	11,883,574	9,064,577
Others	4,080,403	3,665,598
	38,018,246	33,127,513

6 OTHER OPERATING INCOME

	2010 *RMB'000*	2009 *RMB'000*
Interest income	77,734	72,726
Dividend income from unlisted securities	28,816	31,594
Government grants	121,008	97,461
Gain on disposal of investments	54,841	6,845
Gain on disposal of property, plant and equipment	8,315	9,629
Penalty income	6,547	6,888
Management fee income	285,915	259,849
Write-back of non-payable liabilities	11,799	25,135
Others	34,710	10,683
	629,685	520,810

7 OTHER OPERATING EXPENSES

	2010 *RMB'000*	2009 *RMB'000*
Impairment losses on property, plant and equipment	34	3,847
Impairment loss on other intangible assets	9,580	–
Impairment loss on other investments	4,926	8,211
Loss on disposal of property, plant and equipment	5,942	31,846
Donations	1,332	452
Penalty charge	5,550	12,584
Net foreign exchange loss	9,788	9,051
Others	33,768	10,791
	70,920	76,782

8 FINANCE COSTS

	2010 *RMB'000*	2009 *RMB'000*
Interest on bank advances and other borrowings wholly repayable within five years	57,732	88,435

For the years ended 31 December 2010 and 2009, no borrowing costs were capitalised in relation to construction in progress.

9 PROFIT BEFORE TAX

	2010	2009
	RMB'000	*RMB'000*
(a) Staff costs:		
Salaries, wages and other benefits	10,003,237	8,853,012
Contributions to defined contribution retirement schemes	807,293	883,961
	10,810,530	9,736,973

	2010	2009
	RMB'000	*RMB'000*
(b) Other items:		
Depreciation		
– Property, plant and equipment *(note 17)*	537,613	530,513
– Investment properties *(note 18)*	31,304	31,995
Amortisation		
– Lease prepayments *(note 20)*	11,276	9,590
– Other intangible assets *(note 22)*	42,321	37,509
Auditors' remuneration	38,000	38,000
Cost of inventories	13,496,980	12,364,499
Impairment losses on accounts and other receivable	141,686	74,521
Reversal of impairment losses on accounts and other receivable	(25,879)	(12,602)
Operating lease charges	891,699	748,195
Research and development costs	514,413	257,073
Share of associates' taxation	552	277

Research and development costs include RMB418,424 thousand (2009: RMB209,154 thousand) relating to staff costs, which amount is also included in the staff cost disclosed in note 9(a).

10 INCOME TAX

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

	2010	2009
	RMB'000	*RMB'000*
Current tax		
PRC enterprise income tax	523,563	454,675
Overseas enterprise income tax	4,058	–
Deferred tax		
Origination and reversal of temporary differences *(note 26)*	(67,910)	(27,319)
Total income tax	459,711	427,356

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

	2010	**2009**
	RMB'000	*RMB'000*
Profit before tax	2,276,102	2,037,594
Expected income tax expense at a statutory tax rate of 25% (2009: 25%) *(note (i))*	569,025	509,398
Differential tax rates on subsidiaries' income *(note (i))*	(165,345)	(146,787)
Non-deductible expenses *(note (ii))*	49,399	39,259
Non-taxable income	(13,154)	(10,374)
Tax losses not recognised	28,292	31,118
Utilisation of previously unrecognised tax losses	(9,705)	(3,626)
Effect on opening deferred tax resulting from a reduction in PRC statutory tax rate *(note (iii))*	1,199	8,368
Income tax	459,711	427,356

Notes:

(i) The provision of income tax of the Group is calculated based on a statutory rate of 25% of the assessable profit of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the year ended 31 December 2010 and for the year ended 31 December 2009, except for certain subsidiaries of the Group, which are taxed at preferential rates of 15% or 22%.

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

(iii) The amounts in the years ended 31 December 2010 and 2009 represent the tax effect on opening balances of deferred tax assets arising from the change in the enterprise income tax rate applicable to certain subsidiaries due to changes in preferential tax qualification during the years concerned. The deferred tax assets were remeasured for the change in applicable tax rates.

11 OTHER COMPREHENSIVE (LOSS)/INCOME

Available-for-sale securities

	2010	**2009**
	RMB'000	*RMB'000*
Changes in fair value recognised during the period	(18,426)	43,197
Net deferred tax credited/(charged) to other comprehensive income	1,392	(7,585)
Net movement in the fair value reserve during the period recognised in other comprehensive (loss)/income	(17,034)	35,612

12 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The names of the directors and the supervisors of the Company and their remuneration for the year ended 31 December 2010 are as follows:

	Fees	Salaries, allowances and other benefits in kind	Discretionary bonus	Pension scheme contribution	2010 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Name of directors and supervisors					
Li Ping	–	–	–	–	–
Zheng Qibao	–	75	112	31	218
Zhang Zhiyong	–	87	356	34	477
Yuan Jianxing	–	122	361	55	538
Hou Rui	–	16	31	8	55
Liu Aili	–	–	–	–	–
Zhang Junan	–	–	–	–	–
Wang Jun	207	–	–	–	207
Chan Mo Po, Paul	218	–	–	–	218
Zhao Chunjun	153	–	–	–	153
Wu Shangzhi	153	–	–	–	153
Hao Weimin	153	–	–	–	153
Xia Jianghua	–	–	–	–	–
Yan Dong	–	75	277	46	398
Hai Liancheng	76	–	–	–	76
	960	375	1,137	174	2,646

The above remuneration does not include share appreciation rights as it has not been granted to above directors and supervisors (see note 38).

The names of the directors and the supervisors of the Company and their remuneration for the year ended 31 December 2009 are as follows:

	Fees	Salaries, allowances and other benefits in kind	Discretionary bonus	Pension scheme contribution	2009 Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Name of directors and supervisors					
Li Ping	–	–	–	–	–
Zhang Zhiyong	–	140	387	57	584
Yuan Jianxing	–	113	323	53	489
Liu Aili	–	–	–	–	–
Zhang Junan	–	–	–	–	–
Wang Jun	200	–	–	–	200
Chan Mo Po, Paul	211	–	–	–	211
Zhao Chunjun	150	–	–	–	150
Wu Shangzhi	150	–	–	–	150
Hao Weimin	150	–	–	–	150
Xia Jianghua	–	–	–	–	–
Yan Dong	–	69	258	42	369
Hai Liancheng	75	–	–	–	75
	936	322	968	152	2,378

The number of directors and supervisors whose remuneration fell within the following band:

	2010	2009
HK$ equivalent		
Nil to 1,000,000	15	13

13 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid employees of the Group are as follows:

	2010	2009
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:

	2010	**2009**
	RMB'000	*RMB'000*
Salaries, allowances and other benefits in kind	843	874
Bonuses	2,859	2,730
Pension scheme contributions	378	349
	4,080	3,953

The number of these non-directors, non-supervisor, highest paid employees whose remuneration fell within the following band:

	2010	**2009**
HK$ equivalent		
Nil to 1,000,000	5	5

14 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB869,415 thousand (2009: RMB772,186 thousand) which has been dealt with in the financial statements of the Company.

15 DIVIDENDS

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

	2010	**2009**
	RMB'000	*RMB'000*
Final dividend proposed after the balance sheet date RMB0.1260 per share (2009: RMB0.1108 per share)	727,232	639,502

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

	2010	**2009**
	RMB'000	*RMB'000*
Final dividend in respect of the financial year ended 31 December 2009, approved during the year, of RMB0.1108 per share (2008: RMB0.0913 per share)	639,502	526,955

16 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 2010 of RMB1,817,805 thousand (2009: RMB1,598,589 thousand) and the number of shares in issue during the year ended 31 December 2010 of 5,771,682 thousand shares (2009: 5,771,682 thousand shares).

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

17 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 or valuation:					
As at 1 January 2009	2,549,436	211,737	858,654	1,643,808	5,263,635
Transfer to investment properties *(note 18)*	(53,328)	–	–	–	(53,328)
Transfer from investment properties *(note 18)*	43,751	–	–	–	43,751
Transfer from construction in progress *(note 19)*	239,981	15,845	585	31,659	288,070
Additions	69,807	35,281	176,844	314,110	596,042
Disposals	(26,955)	(18,531)	(36,697)	(133,033)	(215,216)
Through acquisition of subsidiary *(note 39(i))*	–	–	–	458	458
As at 31 December 2009	2,822,692	244,332	999,386	1,857,002	5,923,412
Representing:					
Cost	1,359,925	130,426	572,814	1,157,744	3,220,909
Valuation – 2006 *(note b)*	1,462,767	113,906	426,572	699,258	2,702,503
	2,822,692	244,332	999,386	1,857,002	5,923,412
Accumulated depreciation and impairment losses:					
As at 1 January 2009	222,598	151,209	419,000	828,093	1,620,900
Transfer to investment properties *(note 18)*	(12,895)	–	–	–	(12,895)
Transfer from investment properties (note 18)	14,057	–	–	–	14,057
Depreciation charge	120,177	35,015	116,169	259,152	530,513
Written back on disposal	(3,718)	(3,419)	(28,914)	(109,824)	(145,875)
Through acquisition of subsidiary *(note 39(i))*	–	–	–	144	144
Impairment loss	–	–	138	3,709	3,847
As at 31 December 2009	340,219	182,805	506,393	981,274	2,010,691
Net carrying value:					
As at 31 December 2009	2,482,473	61,527	492,993	875,728	3,912,721

	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 2010	2,822,692	244,332	999,386	1,857,002	5,923,412
Transfer to investment properties *(note 18)*	(77,876)	–	–	–	(77,876)
Transfer from investment properties *(note 18)*	30,251	–	–	–	30,251
Transfer from construction in progress *(note 19)*	105,391	27,981	–	17,944	151,316
Additions	30,029	29,302	191,748	310,044	561,123
Disposals	(2,274)	(6,945)	(42,993)	(119,968)	(172,180)
As at 31 December 2010	2,908,213	294,670	1,148,141	2,065,022	6,416,046
Representing:					
Cost	1,446,626	183,088	739,905	1,411,116	3,780,735
Valuation – 2006 *(note b)*	1,461,587	111,582	408,236	653,906	2,635,311
	2,908,213	294,670	1,148,141	2,065,022	6,416,046
Accumulated depreciation and impairment losses:					
As at 1 January 2010	340,219	182,805	506,393	981,274	2,010,691
Transfer to investment properties *(note 18)*	(11,014)	–	–	–	(11,014)
Transfer from investment properties *(note 18)*	10,566	–	–	–	10,566
Depreciation charge	116,383	24,928	116,108	280,194	537,613
Written back on disposal	(223)	(5,945)	(39,183)	(112,072)	(157,423)
Impairment loss	-	–	–	34	34
As at 31 December 2010	455,931	201,788	583,318	1,149,430	2,390,467
Net carrying value:					
As at 31 December 2010	2,452,282	92,882	564,823	915,592	4,025,579

The Company

	Furniture, fixtures and other equipment *RMB'000*
Cost:	
As at 1 January 2009	458
Additions	190
Transfer from construction in progress (note 19)	4,322
As at 31 December 2009	4,970
Accumulated depreciation:	
As at 1 January 2009	69
Charge for the year	92
As at 31 December 2009	161
Net carrying value:	
As at 31 December 2009	4,809
Cost:	
As at 1 January 2010	4,970
Additions	196
Transfer from construction in progress (note 19)	142
As at 31 December 2010	5,308
Accumulated depreciation:	
As at 1 January 2010	161
Charge for the year	957
As at 31 December 2010	1,118
Net carrying value:	
As at 31 December 2010	4,190

(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 was credited to owner's equity and non-controlling 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, was 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.

In connection with the acquisition of the Target Business, all the property, plant and equipment of the Target Business as at 31 December 2006 were valued by management of the Target Business, on a depreciated replacement cost basis, with reference to the revaluation reports issued by PRC valuers.

The surplus arising from the valuation of these assets was 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, was recognised as an expense for the year ended 31 December 2006.

Buildings in connection with the acquisition of Target Business were also valued separately by Savills Valuations 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 PRC valuers as adjusted for the depreciation of the period from 1 January 2007 to 31 March 2007.

(c) As at 31 December 2010, certain banking facilities of the Group were secured by property, plant and equipment with carrying amount of RMB7 million (2009: RMB7 million).

(d) Up to the date of issue of these financial statements, the Group is still 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 RMB270 million as at 31 December 2010 (2009: RMB290 million). 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 all property, plant and equipment been carried at cost less accumulated depreciation under the cost model, the carrying amounts of each class of property, plant and equipment as at 31 December 2010 would have been as follows:

	2010	**2009**
	RMB'000	*RMB'000*
Buildings	2,319,193	2,338,597
Buildings improvements	93,099	60,844
Motor vehicles	514,521	439,393
Furniture, fixtures and other equipment	925,927	878,997
	3,852,740	3,717,831

18 INVESTMENT PROPERTIES

	The Group	
	2010	**2009**
	RMB'000	*RMB'000*
Cost:		
As at 1 January	832,547	822,970
Transfer from property, plant and equipment *(note 17)*	77,876	53,328
Transfer to property, plant and equipment *(note 17)*	(30,251)	(43,751)
Transfer to lease prepayments *(note 20)*	(690)	–
Additions	1,079	–
Disposals	(6,961)	–
As at 31 December	873,600	832,547
Accumulated depreciation:		
As at 1 January	146,588	115,755
Transfer from property, plant and equipment *(note 17)*	11,014	12,895
Transfer to property, plant and equipment *(note 17)*	(10,566)	(14,057)
Transfer to lease prepayments *(note 20)*	(55)	–
Depreciation charge	31,304	31,995
Disposals	(701)	–
As at 31 December	177,584	146,588
Net carrying value:		
As at 31 December	696,016	685,959
Fair value	878,684	813,237

All the Group's investment properties are located in the PRC with medium-term leases.

The Group leases out its properties under operating leases. The leases typically run for period of one year to five 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 receivable as follows:

	The Group	
	2010	**2009**
	RMB'000	*RMB'000*
Within 1 year	51,106	50,381
After 1 year but within 5 years	88,605	74,408
After 5 years	22,637	11,597
	162,348	136,386

During the year ended 31 December 2010, RMB69 million (2009: RMB70 million) has been recognised as rental income in the consolidated income statement and RMB22 million (2009: RMB21 million) in respect of direct operating expenses relating to investment properties has been recognised as expenses in the consolidated income statement.

Up to the date of these financial statements, the Group is still 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 RMB66 million as at 31 December 2010 (2009: RMB103 million). 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.

19 CONSTRUCTION IN PROGRESS

	The Group		The Company	
	2010	**2009**	**2010**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
As at 1 January	73,334	231,008	1,580	3,361
Additions	232,216	130,396	10,321	2,541
Transfer to property, plant and equipment *(note 17)*	(151,316)	(288,070)	(142)	(4,322)
As at 31 December	154,234	73,334	11,759	1,580

20 LEASE PREPAYMENTS

	The Group	
	2010	**2009**
	RMB'000	*RMB'000*
Cost:		
As at 1 January	514,226	454,562
Additions	–	64,248
Disposals	(1,001)	(4,584)
Transfer from investment properties *(note 18)*	690	–
As at 31 December	513,915	514,226
Accumulated depreciation:		
As at 1 January	32,539	23,271
Amortisation charge	11,276	9,590
Written back on disposal	(90)	(322)
Transfer from investment properties *(note 18)*	55	–
As at 31 December	43,780	32,539
Net carrying value:		
As at 31 December	470,135	481,687

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 remaining terms ranging from 28 to 70 years as at 31 December 2010.

21 GOODWILL

	2010	**2009**
	RMB'000	*RMB'000*
Cost and carrying amount	103,005	103,005

	2010	2009
	RMB'000	*RMB'000*
Impairment tests for cash-generating units containing goodwill		
China International Telecommunications Construction Corporation ("CITCC")	103,005	103,005

The recoverable amounts of goodwill arising from the acquisition of CITCC are determined based on value in use calculation. The calculation use cash flow projection based on financial budget approved by management covering a one-year period and pre-tax discount rates is 10.7%.

Cash flows beyond the one-year period are maintained constant. Management believes any reasonably possible change in the key assumptions on which these entities' recoverable amount are based would not cause these entities' carrying amounts to exceed their recoverable amounts.

Key assumptions used for the value in use calculations for these entities are the gross margin and revenue. Management determined the budgeted gross margin based on the gross margin achieved in the period immediately before the budget period and its expectation of the trend of major telecommunication operators' capital expenditure. Revenue was based on the revenue in the period immediately before the budget period.

22 OTHER INTANGIBLE ASSETS

	The Group		The Company	
	2010	2009	2010	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cost:				
As at 1 January	257,945	196,533	5,977	4,500
Additions	57,637	71,200	917	1,477
Disposals	(10,493)	(9,788)	–	–
As at 31 December	305,089	257,945	6,894	5,977
Accumulated amortisation:				
As at 1 January	109,492	80,952	2,450	875
Amortisation charge	42,321	37,509	1,811	1,575
Written back on disposal	(8,294)	(8,969)	–	–
Impairment loss	9,580	–	–	–
As at 31 December	153,099	109,492	4,261	2,450
Net carrying value:				
As at 31 December	151,990	148,453	2,633	3,527

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

23 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2010	2009
	RMB'000	*RMB'000*
Unlisted investments, at cost	10,470,145	10,226,636

The following list contains only the particulars of subsidiaries at 31 December 2010 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		Issued and fully paid up/ registered capital	Principal activities
			Directly %	*Indirectly* %		
Guangdong Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB2,881 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
Jiangsu Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB678 million	Provision of integrated telecommunications support services through its subsidiaries in Jiangsu Province
Anhui Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB420 million	Provision of integrated telecommunications support services through its subsidiaries in Anhui Province

Name of company	Type of legal entity	Place of incorporation/ establishment	Held by the Company		Issued and fully paid up/ registered capital	Principal activities
			Directly %	*Indirectly* %		
Jiangxi Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB200 million	Provision of integrated telecommunications support services through its subsidiaries in Jiangxi Province
Hunan Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB896 million	Provision of integrated telecommunications support services through its subsidiaries in Hunan Province
Guangxi Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB192 million	Provision of integrated telecommunications support services through its subsidiaries in Guangxi Zhuang Autonomous Region
Chongqing Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB209 million	Provision of integrated telecommunications support services through its subsidiaries in Chongqing Municipality
Sichuan Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB798 million	Provision of integrated telecommunications support services through its subsidiaries in Sichuan Province
Guizhou Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB139 million	Provision of integrated telecommunications support services through its subsidiaries in Guizhou Province
Yunnan Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB238 million	Provision of integrated telecommunications support services through its subsidiaries in Yunnan Province
Shaanxi Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB145 million	Provision of Integrated telecommunications support services through its subsidiaries in Shaanxi Province

Name of company	Type of legal entity	Place of incorporation/ establishment	Held by the Company		Issued and fully paid up/ registered capital	Principal activities
			Directly %	*Indirectly* %		
Gansu Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB129 million	Provision of integrated telecommunications support services through its subsidiaries in Gansu Province
Qinghai Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB68 million	Provision of integrated telecommunications support services through its subsidiaries in Qinghai Province
Xinjiang Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB179 million	Provision of integrated telecommunications support services through its subsidiaries in Xinjiang Uygur Autonomous Region
China International Telecommunications Construction Corporation	Limited Liability Company	The PRC	100	–	RMB417 million	Provision of integrated telecommunications support services through its subsidiaries in Northern China Provinces
China Communications Services (Hong Kong) International Limited	Limited Liability Company	Hong Kong	100	–	HKD227 million	Provision of integrated telecommunications support services through its subsidiaries in Hong Kong
Guoxun Innovation Software Technologies Co., Ltd.	Limited Liability Company	The PRC	100	–	USD12 million	Provision of integrated telecommunications support services
Freeland Information Technology Co., Ltd.	Limited Liability Company	The PRC	100	–	RMB10 million	Provision of integrated telecommunications support services
China Comservice Software Tech. Co., Ltd	Limited Liability Company	The PRC	60	–	USD25 million	Provision of integrated telecommunications support services

24 INTEREST IN ASSOCIATES

	The Group	
	2010	2009
	RMB'000	*RMB'000*
Share of net assets	61,433	12,960

As at 31 December 2010, the Group's associates are unlisted, established and operated in the PRC. The Group's interest in associates are individually and in aggregate not material to the Group's financial condition or results of operation for the year.

25 OTHER INVESTMENTS

	The Group	
	2010	2009
	RMB'000	*RMB'000*
At cost/fair value:		
Unlisted equity securities, at cost	520,314	226,775
Listed equity securities, at quoted market price	51,087	77,998
	571,401	304,773

26 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities attributable to the following:

	Assets		Liabilities		Net balance	
	2010	2009	2010	2009	2010	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Impairment losses, primarily for receivables and inventories	54,491	37,208	–	–	54,491	37,208
Revaluation of other investments	–	–	(1,188)	(2,420)	(1,188)	(2,420)
Revaluation of property, plant and equipment	–	–	(18,160)	(19,716)	(18,160)	(19,716)
Unused tax losses *(note (i))*	11,497	4,651	–	–	11,497	4,651
Change in fair value *(note (ii))*	–	–	(12,241)	(13,633)	(12,241)	(13,633)
Revaluation of lease prepayments *(note (iii))*	55,979	57,304	–	–	55,979	57,304
Unpaid expenses	83,855	41,389	–	–	83,855	41,389
Deferred tax assets and (liabilities)	205,822	140,552	(31,589)	(35,769)	174,233	104,783

Movements in temporary differences for the year ended 31 December 2010 and 2009 are as follows:

The Group

	As at 1 January 2010	Recognised in the consolidated income statement	Recognised in shareholders' equity	As at 31 December 2010
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Impairment losses, primarily for receivables and inventories	37,208	17,283	–	54,491
Revaluation of other investments	(2,420)	1,232	–	(1,188)
Revaluation of property, plant and equipment	(19,716)	1,556	–	(18,160)
Unused tax losses *(note (i))*	4,651	6,846	–	11,497
Change in fair value *(note (ii))*	(13,633)	–	1,392	(12,241)
Revaluation of lease prepayments *(note (iii))*	57,304	(1,473)	148	55,979
Unpaid expenses	41,389	42,466	–	83,855
Deferred tax assets and (liabilities)	104,783	67,910	1,540	174,233
		(note 10(a))		

	As at 1 January 2009	Acquisition of subsidiary	Recognised in the consolidated income statement	Recognised in shareholders' equity	As at 31 December 2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Impairment losses, primarily for receivables and inventories	22,523	–	14,685	–	37,208
Revaluation of other investments	(4,282)	–	1,862	–	(2,420)
Revaluation of property, plant and equipment	(21,123)	–	1,407	–	(19,716)
Unused tax losses *(note (i))*	4,247	–	404	–	4,651
Change in fair value *(note (ii))*	(6,048)	–	–	(7,585)	(13,633)
Revaluation of lease prepayments *(note (iii))*	60,000	–	(1,551)	(1,145)	57,304
Unpaid expenses	30,846	31	10,512	–	41,389
Deferred tax assets and (liabilities)	86,163	31	27,319	(8,730)	104,783
			(note 10(a))		

Notes:

(i) Expiry of recognised tax losses

	2010	2009
	RMB'000	*RMB'000*
Year of expiry		
2013	16,768	16,988
2014	1,612	1,612
2015	27,608	–
	45,988	18,600

(ii) As at 31 December 2010, the Group's available-for-sale investments were recognised at fair value as in accordance with the accounting policy of the Group. The tax bases of these assets were not adjusted to fair value and accordingly, a deferred tax liability of RMB12.2 million (2009: RMB13.6 million) related to the change in fair value of available-for-sale investments was recognised in shareholders' equity.

(iii) In connection with the Restructuring and the Acquisition of the Target Business, land use rights were revalued. 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 were created with a corresponding increase in equity. The amount recognised in equity during 2010 represents the change in taxable land use right revalued amount for certain subsidiaries. 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.

(iv) As at 31 December 2010, the Group has not recognised deferred tax assets in respect of tax losses of RMB413.6 million (2009: RMB511.6 million) as it is not probable that future taxable profits against which the losses can be utilised will be available. The tax losses can be carried forward for five years from the year incurred and hence will be expired from 2011 to 2015.

27 INVENTORIES

	The Group	
	2010	2009
	RMB'000	*RMB'000*
Construction materials	287,312	405,439
Finished goods	1,520,197	1,190,318
Spare parts and consumables	25,677	63,869
	1,833,186	1,659,626

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

	The Group	
	2010	2009
	RMB'000	*RMB'000*
Carrying amount of inventories consumed and sold	13,496,980	12,364,499
Reversal of write-down of inventories	(9,488)	(1,286)
Write-down of inventories	14,075	24,695
	13,501,567	12,387,908

28 ACCOUNTS AND BILLS RECEIVABLE, NET

	The Group 2010 *RMB'000*	2009 *RMB'000*
Bills receivable	95,208	101,718
Unbilled revenues for contract work	2,956,264	2,970,511
Trade receivables	10,231,195	7,727,589
	13,282,667	10,799,818
Less: impairment losses	(395,110)	(332,129)
	12,887,557	10,467,689

(a) Included in accounts and bills receivable are amounts due from fellow subsidiaries of RMB6,950 million (2009: RMB6,772 million) as at 31 December 2010. 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 2010 *RMB'000*	2009 *RMB'000*
Current	4,890,354	5,313,774
Within 1 year	6,566,525	4,320,911
After 1 year but less than 2 years	1,108,228	618,309
After 2 years but less than 3 years	245,878	130,957
After 3 years	76,572	83,738
Amount past due	7,997,203	5,153,915
	12,887,557	10,467,689

(d) Impairment of accounts and bills receivable

Impairment losses in respect of accounts and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against accounts and bills receivable directly (see note 2(l)(i)).

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

	The Group	
	2010	**2009**
	RMB'000	*RMB'000*
At 1 January	332,129	301,104
Impairment loss recognised	96,354	46,077
Reversal of impairment loss previously recognised	(23,467)	(9,260)
Uncollectible amounts written off	(9,906)	(5,792)
At 31 December	395,110	332,129

At 31 December 2010, the Group's accounts and bills receivable of RMB355.7 million (2009: RMB290.3 million) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific impairment losses of RMB282 million (2009: RMB234.4 million) were recognised. The Group does not hold any collateral over these balances.

(e) Accounts and bills receivable that is not impaired

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

	The Group	
	2010	**2009**
	RMB'000	*RMB'000*
Neither past due nor impaired	4,890,354	5,313,774
Within 1 year	6,566,525	4,320,911
After 1 year but less than 2 years	991,590	335,743
After 2 years but less than 3 years	78,040	64,262
After 3 years	36,198	22,005
At 31 December	12,562,707	10,056,695

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

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

29 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 2010 are RMB6,108 million (2009: RMB5,600 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 2010 are RMB19 million (2009: RMB26 million).

30 PREPAYMENTS AND OTHER CURRENT ASSETS

	The Group		The Company	
	2010	**2009**	**2010**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Advances to staff	179,462	221,450	166	–
Amounts due from fellow subsidiaries	1,364,133	392,209	30,852	35,330
Amounts due from subsidiaries	–	–	246,086	170,005
Prepayments in connection with construction work and equipment purchases	1,691,226	1,779,566	–	–
Prepaid expenses and deposits	159,890	207,347	714	729
Dividends receivable	4,063	38,903	955,890	1,371,008
Others	569,102	500,923	45	44
	3,967,876	3,140,398	1,233,753	1,577,116

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

31 RESTRICTED DEPOSITS

Restricted deposits represent cash pledged as deposits for bills payable and cash held in dedicated bank accounts for certain construction projects.

32 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2010	**2009**	**2010**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank and in hand	7,612,626	7,420,776	481,258	24,232
Highly liquid investments	–	163,000	–	163,000
Deposits with banks and other financial institutions	857,623	1,286,648	200,000	235,000
Cash and cash equivalents	8,470,249	8,870,424	681,258	422,232

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.

33 INTEREST-BEARING BORROWINGS

The Group's short-term borrowings comprise:

	The Group		The Company	
	2010	2009	2010	2009
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
RMB denominated				
Borrowings from banks				
– unsecured	750,000	850,000	700,000	700,000
Loans from ultimate holding company				
– unsecured	800,000	300,000	800,000	300,000
Loans from fellow subsidiaries				
– unsecured	228,509	118,280	–	–
Central African CFA Franc denominated				
Borrowings from banks				
– unsecured	2,014	–	–	–
	1,780,523	1,268,280	1,500,000	1,000,000

The Group's short-term borrowings bearing fixed interest rate per annum are as follows:

	The Group		The Company	
	2010	2009	2010	2009
RMB denominated				
Borrowings from banks				
– unsecured	3.51%-4.01%	3.51%	3.76%	3.51%
Loans from ultimate holding company				
– unsecured	4.08%	3.89%	3.89%-4.08%	3.89%
Loans from fellow subsidiaries				
– unsecured	2.39%-5.51%	2.39%-5.31%	–	–
Central African CFA Franc denominated				
Borrowings from banks				
– unsecured	6.00%	–	–	–

As at 31 December 2010, no borrowings from bank were subject to financial covenants.

The loan from ultimate holding company in as at 31 December 2010 is unsecured and repayable on 10 June 2011.

34 ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	The Group	
	2010	**2009**
	RMB'000	*RMB'000*
Accounts payable	7,973,422	7,054,217
Bills payable	1,795,370	1,790,501
	9,768,792	8,844,718

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

	The Group	
	2010	**2009**
	RMB'000	*RMB'000*
Within 1 year	9,093,470	8,302,532
After 1 year but less than 2 years	494,547	407,273
After 2 years but less than 3 years	112,808	79,705
After 3 years	67,967	55,208
	9,768,792	8,844,718

Included in accounts and bills payable are amounts due to fellow subsidiaries of RMB231 million (2009: RMB283 million) as at 31 December 2010. The amounts due to fellow subsidiaries are unsecured, interest-free and are expected to be settled within one year.

35 ACCRUED EXPENSES AND OTHER PAYABLES

	The Group		The Company	
	2010	**2009**	**2010**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Wages and welfare payables	1,185,048	833,792	13,027	4,947
Amounts due to fellow subsidiaries *(note i)*	826,436	840,302	21,630	19,594
Advances received	761,531	445,725	–	–
Other taxes payable	444,171	332,808	2,653	3,616
Special dividend and profit distribution relating to Target Business payable to CTC *(note ii)*	166,655	294,628	–	–
Dividend payable	59,586	612,064	–	568,154
Payables for construction and purchase of fixed assets	148,305	146,704	–	500
Others	2,972,574	2,047,056	46,075	48,649
	6,564,306	5,553,079	83,385	645,460

Notes:

(i) The amounts due to fellow subsidiaries are unsecured, interest-free and are expected to be settled within one year.

(ii) Special dividend and profit distribution by Target Business

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, out of which RMB117 million was directly distributed at the subsidiary level. The Group has paid RMB453 million special dividend to CTC and its subsidiaries by 31 December 2010.

As disclosed in the Circular of the Company dated 20 June 2007, 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 Reconstruction of State-owned Enterprise" issued by the General Office of the State Council of the PRC, the changes in net assets between the period from 1 February 2007 to 31 August 2007 of the Target Business should be distributed in form of cash to CTC and its subsidiaries amounting to RMB197 million in total, of which RMB112 million has been paid to CTC and its subsidiaries by 31 December 2010.

36 SHARE CAPITAL

	2010	**2009**
	RMB'000	*RMB'000*
Registered, issued and fully paid:		
3,778,831,800 (2009: 3,778,831,800) domestic state-owned ordinary shares of RMB1.00 each	3,778,832	3,778,832
1,992,850,200 (2009: 1,992,850,200) H shares of RMB1.00 each	1,992,850	1,992,850
	5,771,682	5,771,682

	2010	**2009**
	Thousand shares	*Thousand shares*
At 1 January and at 31 December	5,771,682	5,771,682

Except for the 2006 special dividend stated in note 35(ii), all shareholders are entitled to receive dividends as declared from time to time 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.

(a) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by strengthening their leading position as integrated service provider to the telecommunications industry and achieving economies of scale in the market.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitor its capital using a gearing ratio which is total debts divided by the sum of total debts and total equity. For this purpose, the Group defines total debt as the sum of short-term interest bearing borrowings and long-term interest bearing borrowings. The Group aims to maintain the gearing ratio at a reasonable level. The Group's ratio as at 31 December 2010 was 11.1% (2009: 8.8%). In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

37 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 18% to 22% (2009: 18% to 22%) 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.

38 SHARE APPRECIATION RIGHTS SCHEMES

The Group implemented a share appreciation rights scheme for members of its management to provide incentives to them. Under this plan, share appreciation rights are granted in units with each unit representing one H share. No shares will be issued under the share appreciation rights scheme. Upon exercise of the share appreciation rights, a recipient will receive, subject to any applicable withholding tax, a cash payment in RMB, translated from the Hong Kong dollars amount equal to the product of the number of share appreciation rights exercised and the difference between the exercise price and market price of the Company's H shares at the date of exercise based on the applicable exchange rate between RMB and Hong Kong dollars at the date of the exercise. The Company recognises compensation expense of the share appreciation rights over the applicable vesting period.

In April 2007, the Company's remuneration committee approved the granting of 38.3 million share appreciation right units to eligible employees (first batch of share appreciation rights). Under the terms of this grant, all share appreciation rights had a contractual life of seven years from date of grant and an exercise price of HK$5.25 per unit. A recipient of share appreciation rights may not exercise the rights in the first 24 months after the date of grant. As at each of the third, fourth and fifth anniversary of the date of grant, the total number of share appreciation rights exercisable may not in aggregate exceed one-third, two-third and 100%, respectively, of the total share appreciation rights granted to such person.

In April 2009, the Company's remuneration committee approved the granting of 49.8 million share appreciation right units to eligible employees (second batch of share appreciation rights). Under the terms of this grant, all share appreciation rights had a contractual life of five years from date of grant and an exercise price of HK$4.76 per unit. A recipient of share appreciation rights may not exercise the rights in the first 24 months after the date of grant. As at each of the third, fourth and fifth anniversary of the date of grant, the total number of share appreciation rights exercisable may not in aggregate exceed one-third, two-third and 100%, respectively, of the total share appreciation rights granted to such person.

The Group recognised a compensation expense over the applicable vesting period amounted to RMB63 million for the year ended 31 December 2010 (2009: RMB8.4 million). The first and second batches of share appreciation rights have not been fully granted to each eligible employee. As such, compensation expense of the share appreciation rights over the applicable vesting period recognised has not been fully allocated to each eligible employees.

39 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(i) Acquisition of subsidiary

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	On acquisition date 2010 RMB'000	2009 RMB'000
Property, plant and equipment, net	–	314
Deferred tax assets	–	31
Accounts and bills receivable, net	375	4
Prepayments and other current assets	15,978	286
Cash and cash equivalents	3,434	3,529
Accounts and bills payable	(10,342)	(80)
Accrued expenses and other payables	(8,543)	(3,242)
Income tax payable	–	(22)
Net identifiable assets and liabilities	902	820
Goodwill on acquisition	–	–
Total purchase consideration	902	820
Less: non-cash consideration	–	820
Consideration paid in cash	902	–
Less: cash and cash equivalent balance acquired	3,434	3,529
Net cash inflow	2,532	3,529

On 1 January 2010, the Group acquired all of the shares in G-Apex International Limited ("G-Apex") from Messr Huang Dunfeng, Zhang Changzheng and Chen Aihua in Uganda for a consideration of USD0.10 million.

For the period from the date of acquisition to 31 December 2010, G-Apex contributed a profit of RMB1.36 million to the Group.

On 1 January 2010, the Group acquired all of the shares in Anhui Telecommunications Engineering Company (Ghana) Limited ("Anhui Telecom (Ghana)") from Messr Huang Dunfeng, Zhang Changzheng and Chen Aihua in Ghana for a consideration of USD0.03 million.

For the period from the date of acquisition to 31 December 2010, Anhui Telecom(Ghana) contributed a profit of RMB2.4 million to the Group.

On 1 February 2010, the Group acquired all of the shares in Huaxin Consulting De Venezuela C.A ("Huaxin Consulting") from Mr Wang Jianbin in Venezuela for a consideration of USD1.00.

For the period from the date of acquisition to 31 December 2010, Huaxin Consulting contributed no profit to the Group yet.

At the acquisition date, pre-acquisition carrying amounts of the acquiree's assets and liabilities had been determined based on applicable IFRSs, with no difference from the amounts recognised.

40 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

As at 31 December 2010, the Group has capital commitment for acquisition and construction of property, plant and equipment as follows:

	The Group		The Company	
	2010	**2009**	**2010**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Authorised and contracted for	216,365	100,064	6,069	6,419
Authorised but not contracted for	57,085	117,019	490	41,895

(b) Operating lease commitments

As at 31 December 2010, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group		The Company	
	2010	**2009**	**2010**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	180,699	114,187	219	205
After 1 year but within 5 years	221,322	120,369	–	23
After 5 years	63,893	6,608	–	–
	465,914	241,164	219	228

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

As at 31 December 2010, the Group had no material contingent liabilities and no material financial guarantees issued.

41 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, interest rate, liquidity and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

The Group's exposure to these risks and the financial risk management policies and practices used by the group to manage these risks are 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 Group and CM Group. The Group has a certain concentration of credit risk as these two largest customers accounted for 70% of the total accounts and bills receivable as at 31 December 2010 (2009: 65%). 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.

The credit risk on cash at banks and restricted bank deposits is limited because the counterparties are banks with high credit rankings, mainly the four large state-owned banks.

The credit risk on available-for-sale investments arises from loss in value through corporate failure. The Group mitigate the credit risk on available-for-sale investments by closely monitor its portfolio and minimise investments on these assets. The Group's available-for-sale investments are less than 2% of its total assets for both 2010 and 2009.

The amounts of cash and cash equivalents, time deposits, accounts and bills receivable, other receivables and available-for-sale investments in the balance sheet after deducting impairment allowance represent the Group's and the Company's maximum exposure to the credit risk in relation to financial assets.

(b) Interest rate risk

The Group's interest rate risk exposure primarily from its short-term debts carrying interests at fixed rates exposed the Group to fair value interest rate risk. The Group manages its exposure to interest rate risk by maintaining high proportion of fixed rate debts with maturity within one year. Details of the interest rates are disclosed in note 33.

(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 Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table show the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

The Group

	2010		2009	
	Contractual undiscounted cash outflow within 1 year or on demand	Balance sheet carrying amount	Contractual undiscounted cash outflow within 1 year or on demand	Balance sheet carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing borrowings	1,817,388	1,780,523	1,283,783	1,268,280
Account and bills payable	9,768,792	9,768,792	8,844,718	8,844,718
Receipt in advance	1,083,587	1,083,587	1,088,327	1,088,327
Accrued expenses and other payable	6,564,306	6,564,306	5,553,079	5,553,079
	19,234,073	19,197,208	16,769,907	16,754,404

The Company

	2010		2009	
	Contractual undiscounted cash outflow within 1 year or on demand	Balance sheet carrying amount	Contractual undiscounted cash outflow within 1 year or on demand	Balance sheet carrying Amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Interest-bearing borrowings	1,536,338	1,500,000	1,011,294	1,000,000
Accrued expenses and other payable	83,385	83,385	645,460	645,460
	1,619,723	1,583,385	1,656,754	1,645,460

(d) Currency risk

Foreign currency exchange rate risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured. The Group's foreign currency risk exposure relates to the bank deposits and borrowings denominated primarily in United States dollars, Hong Kong dollars and Nigerian Naria (see note 32).

The Group does not expect the appreciation or depreciation of the Renminbi against foreign currencies will materially affect the Group's financial position and result of operations because 96.0% (2009: 97.0%) of the Group's cash and cash equivalents and 99.9% (2009: 100%) of the Group's short-term debt as at 31 December 2010 are denominated in Renminbi.

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they related. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year-end date.

Exposure to currency risk

The Group

	Exposure to foreign currencies (expressed in RMB) 2010					
	United States dollars	Hong Kong dollars	Nigerian Naira	Saudi Arabian Riyal	United Arab Emirates Dirham	Others
	'000	*'000*	*'000*	*'000*	*'000*	*'000*
Cash and cash equivalents	204,864	98,273	40,759	6,896	591	9,631
Accounts receivable	71,662	32,487	2,437	2,156	11,026	4,789
Accounts payable	(83,648)	(20,908)	–	–	(6,805)	(10,934)
Overall net exposure	192,878	109,852	43,196	9,052	4,812	3,486

	Exposure to foreign currencies (expressed in RMB) 2009					
	United States dollars	Hong Kong dollars	Nigerian Naira	Saudi Arabian Riyal	United Arab Emirates Dirham	Others
	'000	*'000*	*'000*	*'000*	*'000*	*'000*
Cash and cash equivalents	126,963	92,430	46,430	–	–	–
Accounts receivable	93,578	–	–	–	–	–
Accounts payable	(11,611)	–	–	–	–	–
Interest-bearing loans	(9,644)	–	–	–	–	–
Overall net exposure	199,286	92,430	46,430	–	–	–

The Company

	Exposure to foreign currencies (expressed in RMB)			
	2010		2009	
	United States dollars	Hong Kong dollars	United States dollars	Hong Kong dollars
	'000	*'000*	*'000*	*'000*
Cash and cash equivalents	50	1,316	–	2,504

The following significant exchange rates applied during the year:

The Group

	Average rate 2010	2009	Spot rate 2010	2009
United States dollars	6.73	6.83	6.62	6.83
Hong Kong dollars	0.86	0.88	0.85	0.88
Nigerian Naira	0.04	0.05	0.04	0.05
Saudi Arabian Riyal	1.80	1.82	1.77	1.82
United Arab Emirates Dirham	1.83	1.86	1.80	1.86

Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant.

The Group

	2010			2009		
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits *'000*	Effect on other components of equity *'000*	Increase/ (decrease) In foreign exchange rates	Effect on profit after tax and retained profits *'000*	Effect on other components of equity *'000*
United States dollars	5%	9,644	–	5%	9,964	–
	(5)%	(9,644)	–	(5)%	(9,964)	–
Hong Kong dollars	5%	5,493	–	5%	4,622	–
	(5)%	(5,493)	–	(5)%	(4,622)	–
Nigerian Naira	5%	2,160	–	5%	2,322	–
	(5)%	(2,160)	–	(5)%	(2,322)	–
Saudi Arabian Riyal	5%	453	–	5%	–	–
	(5)%	(453)	–	(5)%	–	–
United Arab Emirates	5%	241	–	5%	–	–
Dirham	(5)%	(241)	–	(5)%	–	–

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group's entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the balance sheet date for presentation purpose.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, include inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender of the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the group's presentation currency. The analysis is performed on the same basis for 2009.

(e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale securities (see note 25). Other than unquoted securities held for strategic purpose, all of these investments are listed.

The Group's listed investments are listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange. Listed investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

The Group is also exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of other financial liabilities of the Group. As at the balance sheet date the Group is exposed to this risk through the share appreciation rights scheme issued by the Company as disclosed in note 38.

At 31 December 2010, it is estimated that an increase/(decrease) of 5% (2009: 5%) in the relevant share price (for listed investments) or the Company's own share price (for the share appreciation rights scheme) as applicable, with all other variables held constant, would have increased/(decreased) the Group's profit after tax (and retained profits) and other components of consolidated equity as follows:

The Group

	2010			2009		
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits *'000*	Effect on other components of equity *'000*	Increase/ (decrease) In foreign exchange rates	Effect on profit after tax and retained profits *'000*	Effect on other components of equity *'000*
Changes in the relevant equity price risk variable:						
Increase	5%	(5,016)	1,916	5%	(3,684)	3,899
Decrease	(5)%	5,016	(1,916)	(5)%	3,684	(3,899)

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the changes in the share price or other relevant risk variables had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the balance sheet date. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant risk variables, that none of the Group's available-for-sale investments would be considered impaired as a result of the decrease in the share price or other relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2009.

(f) Fair value

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy defined in IFRS 7, Financial Instruments: Disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

	The Group			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Available-for-sale securities				
Listed equity securities	51,087	–	–	51,087
Liabilities				
Share appreciation rights	–	93,641	–	93,641

	The Company			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Assets				
Available-for-sale securities				
Listed equity securities	–	–	–	–
Liabilities				
Share appreciation rights	–	9,767	–	9,767

(ii) Fair values of financial instruments carried at other than 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 Group's unquoted other investments could not be reasonably estimated without incurring excessive costs, since there are no listed market prices for such interest in the PRC.

(g) Estimation of fair values

The following summaries the major methods and assumptions used in estimating the fair values of financial instruments.

(i) Other investments

The fair value of other investments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

(ii) Interest-bearing borrowings

The fair values of the Group's interest-bearing borrowings are estimated to approximate to their carrying amount based on short-term maturity.

(iii) Share appreciation rights

The fair value of share appreciation rights is measured using the Black-Scholes formula. Measurement inputs include stock price on measurement date, exercise price of the investment, expected volatility, weight average expected life of the instruments, expected dividends and risk-free interest rate. Service and non-market performance conditions attached to the transactions are not taken into account in determine the fair value.

42 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. In addition to those disclosed in note 21, other significant accounting estimates and judgements were summarised as follows:

(a) Construction contracts

As explained in notes 2(n) and 2(w)(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 28 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 that 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 trade and other receivables

The Group estimates impairment losses for trade and other receivables resulting from the inability of the customers to make the required payments. The Group bases the estimates on the ageing 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.

(d) Depreciation and amortisation

Property, plant and equipment and intangible assets are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account their estimated residual value. The Group reviews the estimated useful lives and residual values of the assets annually in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

(e) Deferred tax assets

The recognition of deferred tax assets requires assessment of the temporary differences which arise as a consequence of different accounting and tax treatments. These temporary differences result in deferred tax assets are included within the balance sheet. Deferred tax assets are measured using substantially enacted tax rates expected to apply when the temporary differences reverse. Deferred tax assets are not recognised where it is more likely than not that the asset will not be realised in the future. This evaluation requires judgements to be made including the forecast of future taxable income. Recognition therefore, involves management's judgement regarding the future financial performance of the particular legal entity in which the deferred tax asset has been recognised and interpretation of country specific tax law and the likelihood of settlement. However the actual tax assets could differ from the provision and in such event the group would be required to make an adjustment in a subsequent period which could have a material impact on the group's profit and loss.

43 RELATED PARTIES

The Group is part of a larger 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:

	2010	**2009**
	RMB'000	*RMB'000*
Income from related parties:		
Engineering related services *(note (i))*	9,901,200	10,996,437
IT application services *(note (ii))*	1,155,592	1,092,998
Provision of ancillary telecommunications services *(note (iii))*	4,519,671	4,468,905
Provision of operation support services *(note (iv))*	1,753,276	1,694,087
Supplies procurement service *(note (v))*	2,570,424	1,949,401
Property leasing *(note (vi))*	24,532	41,355
Management fee income *(note (vii))*	285,915	259,849
Expenses paid to related parties:		
Property leasing charges *(note (viii))*	117,373	119,048
IT application service charges *(note (ix))*	178,137	186,098
Operation support service charges *(note (x))*	278,662	215,256
Supplies procurement service charges *(note (xi))*	447,754	634,604
Interest paid *(note (xii))*	31,728	28,192

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 supplies procurement service such as supplies procurement service, management of biddings warehousing, transportation and installation services.

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

(vii) The amounts represent management fee income in respect of Centralised Services provided to CTC Group.

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

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

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

(xi) The amount represents the charge paid and payable to CTC Group for supplies procurement services, warehouse, transportation and installation services.

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

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

	2010	**2009**
	RMB'000	*RMB'000*
Accounts and bills receivable, net	6,950,121	6,771,830
Prepayments and other current assets	1,364,133	392,209
Total amounts due from CTC Group	8,314,254	7,164,039
Interest-bearing borrowings	1,028,509	418,280
Accounts and bills payable	231,136	282,570
Receipts in advance for contract work	50,154	56,569
Accrued expenses and other payables	993,963	1,605,436
Total amounts due to CTC Group	2,303,762	2,362,855

As at 31 December 2010, the Group has recognised impairment losses of RMB3,295 thousand (2009: RMB2,568 thousand) for bad and doubtful debts 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 November 16, 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). After the Company acquired the Target Business in 2007, these agreements were amended by way of the 2008 Supplemental Agreement, pursuant to which the terms of the Agreements were renewed to 31 December 2010. On 29 October 2009, the Company entered into the Supplies Procurement Services Framework Agreement as set out in item (5) below. On 9 November 2010, these agreements were amended by way of 2010 Supplement Agreement, pursuant to which the terms of the Agreements were renewed to 31 December 2012. 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; and

- where none of the above is available, the pre 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 ("Centralised Services") including Ningxia, Tibet and any assets retained by CTC after the Restructuring and acquisition of Target Business. 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 has entered into Supplies Procurement Services Framework agreement for procurement of telecommunication and non – telecommunication supplies, agency services of supplies procurement, sales of telecommunication supplies and management of biddings, verification of technical specifications, warehousing transportation and installation service. Pursuant to the agreement, the Group charges CTC Group for these services in accordance with the following terms:

- maximum 1% of the contract value for procurement services on imported telecommunication supplies;

- maximum 3% of the contract value for procurement services on domestic telecommunication and non-telecommunication supplies and materials;

- 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; and
- where none of the above is available, the pre 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.

(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 is as follows:

	2010	**2009**
	RMB'000	*RMB'000*
Cash and cash equivalents	7,691,859	7,591,353

	2010	**2009**
	RMB'000	*RMB'000*
Interest income	64,901	62,239

(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 12 and certain of the highest paid employees as disclosed in note 13, is as follows:

	2010	**2009**
	RMB'000	*RMB'000*
Salaries and other emoluments	4,053	3,874
Retirement benefits	1,447	1,243
Bonuses	8,269	7,672
	13,769	12,789

Total remuneration is included in "Staff costs" in note 9 (a).

(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 37. As at 31 December 2010 and 2009, 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 RMB29,737 million for the year ended 31 December 2010 (2009: RMB27,805 million).

Transactions with Group's ten largest suppliers, which are state-controlled entities, amounting to RMB1,213 million for the year ended 31 December 2010 (2009: RMB1,373 million).

44 SEGMENT REPORTING

The Group principally has one reportable segment, which is the provision of integrated telecommunications support services in the informatization sector. Therefore, no additional reportable segment has been presented. Additional information about major customers and geographical areas of the Group has been disclosed in note 4.

45 DISTRIBUTABLE RESERVES

The movements of shareholders' equity of the Company for 2009 and 2010 are as follows:

	Share capital	Share premium	Capital reserves	Statutory surplus reserves	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(note 36)	*(note i)*	*(note ii)*	*(note iii)*		
At 1 January 2009	5,771,682	2,727,647	993,576	162,158	692,533	10,347,596
Profit for the year	–	–	–	–	772,186	772,186
Acquisition of Target interests *(see note 1(c))*	–	–	(2,387)	–	–	(2,387)
Distribution of dividend *(see note 15(b))*	–	–	–	–	(526,955)	(526,955)
Appropriation	–	–	–	77,219	(77,219)	–
At 31 December 2009	5,771,682	2,727,647	991,189	239,377	860,545	10,590,440
At 1 January 2010	5,771,682	2,727,647	991,189	239,377	860,545	10,590,440
Profit for the year	–	–	–	–	869,415	869,415
Distribution of dividend *(see note 15(b))*	–	–	–	–	(639,502)	(639,502)
Appropriation	–	–	–	86,941	(86,941)	–
At 31 December 2010	5,771,682	2,727,647	991,189	326,318	1,003,517	10,820,353

According to the Company's Articles of Association, the amount of retained earnings 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 notes to the consolidated statement of changes in equity.

The aggregate amount of retained profits available for distribution to equity shareholders of the Company after taking into account the current year's proposed final dividend (see note 15(a)) was:

	2010	2009
	RMB'000	*RMB'000*
At 31 December	231,091	175,850

The above amount was determined in accordance with the PRC Accounting Rules and Regulations.

Note:

(i) 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 in 2006 and subsequent share issuance in 2008.

(ii) 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. Then, the capital reserve was net off by the difference between the consideration for the acquisition of Target Business and net assets value of the Target Business in 2007.

(iii) 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 or by increasing the par value of the share currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

46 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2010

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and Interpretations and one new standard which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these financial statements. These include the following which may be relevant to the group:

		Effective for accounting periods beginning on or after
Amendment to IAS 32	Financial instruments: Presentation – Classification of rights issues	1 February 2010
IFRIC 19	Extinguishing financial liabilities with equity instruments	1 July 2010
Amendments to IFRS 1	First-time adoption of International Financial Reporting Standards – Limited exemption from comparative IFRS 7 disclosure for first-time adopters	1 July 2010
Improvements to IFRSs 2010		1 July 2010 or 1 January 2011
Revised IAS 24	Related party disclosures	1 January 2011
Amendments to IFRIC 14	IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction – Prepayments of a minimum funding requirement	1 January 2011
Amendment to IFRS 1	First-time adoption of International Financial Reporting Standards – Severe hyperinflation and removal of fixed dates for first-time adopters	1 July 2010
Amendments to IFRS 7	Financial instruments: Disclosures – Transfers of financial assets	1 July 2011
Amendments to IAS 12	Income taxes – Deferred tax: Recovery of underlying assets	1 January 2012
IFRS 9	Financial Instruments	1 January 2013

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.

47 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2010, 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.

(3) INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

Set out below are the unaudited consolidated financial statements of the Group together with the accompanying notes extracted from the interim report of the Company for the six months ended 30 June 2011:

Consolidated Income Statement – Unaudited

For the six months ended 30 June 2011

(Expressed in Renminbi)

		Six months ended 30 June	
		2011	**2010**
	Note	*RMB'000*	*RMB'000*
Revenues	*5*	25,189,276	21,719,925
Cost of revenues	*6*	(21,240,876)	(18,354,716)
Gross profit		3,948,400	3,365,209
Other operating income	*7*	263,335	208,443
Selling, general and administrative expenses		(2,830,530)	(2,384,182)
Other operating expenses		(30,986)	(24,179)
Finance costs	*8*	(31,887)	(25,575)
Share of (losses)/profits of associates		(543)	837
Profit before tax	*9*	1,317,789	1,140,553
Income tax	*10(a)*	(270,530)	(230,882)
Profit for the period		1,047,259	909,671
Attributable to:			
Equity shareholders of the Company		1,053,281	905,684
Non-controlling interests		(6,022)	3,987
Profit for the period		1,047,259	909,671
Basic and diluted earnings per share (RMB)	*13*	0.182	0.157

Consolidated Statement of Comprehensive Income – Unaudited

For the six months ended 30 June 2011

(Expressed in Renminbi)

		Six months ended 30 June	
		2011	**2010**
	Note	*RMB'000*	*RMB'000*
Profit for the period		1,047,259	909,671
Other comprehensive income for the period (after tax)			
Exchange differences on translation of financial statements of subsidiaries outside Mainland China		6,676	280
Available-for-sale securities: net movement in the fair value reserve	*11*	(9,075)	2,116
		(2,399)	2,396
Total comprehensive income for the period		1,044,860	912,067
Attributable to:			
Equity shareholders of the Company		1,050,882	908,080
Non-controlling interests		(6,022)	3,987
Total comprehensive income for the period		1,044,860	912,067

Consolidated Balance Sheet – Unaudited
At 30 June 2011
(Expressed in Renminbi)

	Note	30 June 2011 RMB'000	31 December 2010 RMB'000
Non-current assets			
Property, plant and equipment, net	14	3,913,403	4,025,579
Investment properties		682,122	696,016
Construction in progress		151,348	154,234
Lease prepayments		490,896	470,135
Goodwill		103,005	103,005
Other intangible assets		156,419	151,990
Interests in associates		59,791	61,433
Other investments		557,201	571,401
Deferred tax assets		200,751	205,822
Total non-current assets		6,314,936	6,439,615
Current assets			
Inventories		1,936,471	1,833,186
Accounts and bills receivable, net	15	16,966,868	12,887,557
Prepayments and other current assets		3,465,617	3,967,876
Restricted deposits		157,447	269,099
Cash and cash equivalents	16	6,744,862	8,470,249
Total current assets		29,271,265	27,427,967
Total assets		35,586,201	33,867,582
Current liabilities			
Interest-bearing borrowings	17	1,312,282	1,780,523
Accounts and bills payable	18	11,370,632	9,768,792
Receipts in advance for contract work		1,026,598	1,083,587
Accrued expenses and other payables		6,989,527	6,564,306
Income tax payable		209,599	284,941
Total current liabilities		20,908,638	19,482,149
Net current assets		8,362,627	7,945,818
Total assets less current liabilities		14,677,563	14,385,433

	Note	30 June 2011 RMB'000	31 December 2010 RMB'000
Non-current liabilities			
Deferred tax liabilities		11,263	31,589
Total non-current liabilities		11,263	31,589
Total liabilities		20,919,901	19,513,738
Equity			
Share capital	*19*	5,771,682	5,771,682
Reserves		8,772,251	8,449,360
Equity attributable to equity shareholders of the Company		14,543,933	14,221,042
Non-controlling interests		122,367	132,802
Total equity		14,666,300	14,353,844
Total liabilities and equity		35,586,201	33,867,582

Consolidated Statement of Changes in Equity – Unaudited

For the six months ended 30 June 2011

(Expressed in Renminbi)

		Equity attributable to equity shareholders of the Company											
	Note	Share Capital RMB'000	Share premium (note a) RMB'000	Capital reserve (note c) RMB'000	Revaluation reserve RMB'000	Statutory surplus reserve (note b) RMB'000	Fair value reserve (note d) RMB'000	Exchange reserve (note e) RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance as at 1 January 2011		5,771,682	2,727,647	932,621	415,557	326,318	40,959	(6,164)	57,809	3,954,613	14,221,042	132,802	14,353,844
Changes in equity for the six months ended 30 June 2011													
Acquisition of non-controlling interests		–	–	–	–	–	–	–	(759)	–	(759)	(2,891)	(3,650)
Dividend declared	*12(b)*	–	–	–	–	–	–	–	–	(727,232)	(727,232)	–	(727,232)
Distribution to non-controlling interests		–	–	–	–	–	–	–	–	–	–	(1,522)	(1,522)
Profit for the period		–	–	–	–	–	–	–	–	1,053,281	1,053,281	(6,022)	1,047,259
Other comprehensive income	*11*	–	–	–	–	–	(9,075)	6,676	–	–	(2,399)	–	(2,399)
Total comprehensive income for the period		–	–	–	–	–	(9,075)	6,676	–	1,053,281	1,050,882	(6,022)	1,044,860
Balance as at 30 June 2011		5,771,682	2,727,647	932,621	415,557	326,318	31,884	512	57,050	4,280,662	14,543,933	122,367	14,666,300

		Equity attributable to equity shareholders of the Company											
	Note	Share Capital RMB'000	Share premium (note a) RMB'000	Capital reserve (note c) RMB'000	Revaluation reserve RMB'000	Statutory surplus reserve (note b) RMB'000	Fair value reserve (note d) RMB'000	Exchange reserve (note e) RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance as at 1 January 2010		5,771,682	2,727,647	932,621	415,557	239,377	57,993	(6,772)	67,330	2,863,251	13,068,686	108,546	13,177,232
Changes in equity for the six months ended 30 June 2010													
Capital injection by non-controlling owner to subsidiary		–	–	–	–	–	–	–	–	–	–	68,276	68,276
Acquisition of non-controlling interests		–	–	–	–	–	–	–	(9,669)	–	(9,669)	(31,427)	(41,096)
Dividend declared	12(b)	–	–	–	–	–	–	–	–	(639,502)	(639,502)	–	(639,502)
Profit for the period		–	–	–	–	–	–	–	–	905,684	905,684	3,987	909,671
Other comprehensive income	11	–	–	–	–	–	2,116	280	–	–	2,396	–	2,396
Total comprehensive income for the period		–	–	–	–	–	2,116	280	–	905,684	908,080	3,987	912,067
Balance as at 30 June 2010		5,771,682	2,727,647	932,621	415,557	239,377	60,109	(6,492)	57,661	3,129,433	13,327,595	149,382	13,476,977

	Note	Equity attributable to equity shareholders of the Company											
		Share Capital	**Share premium** (*note a*)	**Capital reserve** (*note c*)	**Revaluation reserve**	**Statutory surplus reserve** (*note b*)	**Fair value reserve** (*note d*)	**Exchange reserve** (*note e*)	**Other reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Changes in equity for the six months ended 31 December 2010													
Capital injection by non-controlling owner to subsidiary		–	–	–	–	–	–	–	–	–	–	1,000	1,000
Distribution to non-controlling interests		–	–	–	–	–	–	–	–	–	–	(12,179)	(12,179)
Profit for the period		–	–	–	–	–	–	–	–	912,121	912,121	(5,401)	906,720
Other comprehensive income		–	–	–	–	–	(19,150)	328	148	–	(18,674)	–	(18,674)
Total comprehensive income for the period		–	–	–	–	–	(19,150)	328	148	912,121	893,447	(5,401)	888,046
Appropriation		–	–	–	–	86,941	–	–	–	(86,941)	–	–	–
Balance as at 31 December 2010		5,771,682	2,727,647	932,621	415,557	326,318	40,959	(6,164)	57,809	3,954,613	14,221,042	132,802	14,353,844

Notes:

(a) 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 and subsequent share issuance.

(b) Statutory surplus reserve

According to the Company's Articles 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.

(c) 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. Then, the capital reserve was netted off by the difference between the consideration for the acquisition 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 equity interests in Guangdong Nanfang Communication GSM Intelligent Card System Co., Ltd and Ningbo Public Information Industry Co., Ltd (the "Target Business") and the net assets value of the Target Business in 2007 and subsequent common control acquisition net balances.

(d) Fair value reserve

The fair value reserve represents the net change in the fair value of available-for-sale securities in other investments at the balance sheet date.

(e) Exchange reserve

The exchange reserve represents all foreign exchange differences arising from the translation of the financial statements of subsidiaries located in Hong Kong and overseas.

Condensed Consolidated Cash Flow Statement– Unaudited
For the six months ended 30 June 2011
(Expressed in Renminbi)

		Six months ended 30 June	
		2011	**2010**
	Note	*RMB'000*	*RMB'000*
Net cash used in operating activities		(1,049,940)	(762,694)
Net cash used in investing activities		(197,626)	(313,574)
Net cash (used in)/generated from financing activities		(472,408)	153
Net decrease in cash and cash equivalents		(1,719,974)	(1,076,115)
Cash and cash equivalents at the beginning of period		8,470,249	8,870,424
Effect of foreign exchange rate changes		(5,413)	312
Cash and cash equivalents at the end of period	*16*	6,744,862	7,794,621

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

1 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 in the PRC and overseas, 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.

2 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, *Interim financial reporting*, issued by the International Accounting Standards Board ("IASB"). It was authorised for issuance on 30 August 2011.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2010 annual financial statements, except for the accounting policies changes that are expected to be reflected in the 2011 annual financial statements. Details of these changes in accounting policies are set out in note 3.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2010 annual financial statements. The condensed consolidated interim financial statements and notes thereto do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs"). IFRSs include all applicable IFRSs, IASs and related interpretations.

The interim financial report is unaudited, but has been reviewed by the Audit Committee of the Company. The interim financial report has also been reviewed by the Company's international auditors, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants.

The financial information relating to the financial year ended 31 December 2010 that is included in the interim financial report as being previously reported information does not constitute the Group's annual financial statements prepared under IFRSs for that financial year but is derived from those financial statements. Annual financial statements for the year ended 31 December 2010 are available from the Company's registered office. The Company's international auditors have expressed an unqualified opinion on those financial statements in their report dated 30 March 2011.

3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- IAS 24 (revised), *Related party disclosure*
- Improvements to IFRSs (2010)

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

As a result of the adoption of revised IAS 24, additional disclosures on commitments with related parties have been included in this interim financial report. In addition, this revised standard introduces a partial exemption for transactions with government-related enterprises. Those disclosures are replaced with requirements to disclose the name of related government and the nature of its relationship with the Group, the natures and amounts of any individually significant transactions, and qualitative or quantitative disclosures for collectively significant transactions. Consequently, related disclosures have been revised in this interim financial report.

Improvements to IFRSs have had no material impact on the contents of this interim financial report.

4 SEGMENT REPORTING

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

5 REVENUES

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

	Six months ended 30 June	
	2011	**2010**
	RMB'000	*RMB'000*
Revenue from telecommunications infrastructure services	12,186,104	10,351,840
Revenue from business process outsourcing services	10,482,981	9,260,938
Revenue from applications, content and others	2,520,191	2,107,147
	25,189,276	21,719,925

The Group's major customers are telecommunications operators which include China Telecommunications Corporation and its subsidiaries ("CTC Group") and China Mobile Communications Corporation and its subsidiaries ("CM Group"), both with revenue exceeding 10% of the Group's total revenues. Revenues from the provision of integrated telecommunications support services to CTC Group and CM Group for the six months ended 30 June 2011 amounted to RMB10,145 million and RMB4,643 million respectively (six months ended 30 June 2010: RMB8,702 million and RMB3,512 million respectively), being 40.3% and 18.4% of the Group's total revenues respectively (six months ended 30 June 2010: 40.1% and 16.2% respectively). In addition, the revenue derived from areas outside Mainland China for the six months ended 30 June 2011 amounted to RMB1,290 million (six months ended 30 June 2010: RMB1,098 million).

6 COST OF REVENUES

	Six months ended 30 June	
	2011	**2010**
	RMB'000	*RMB'000*
Depreciation and amortisation	181,443	174,440
Direct personnel costs	3,778,825	3,439,409
Operating lease charges	408,007	299,566
Purchase of materials and telecommunications products	7,595,550	7,010,617
Subcontracting charges	7,318,316	5,667,420
Others	1,958,735	1,763,264
	21,240,876	18,354,716

7 OTHER OPERATING INCOME

	Six months ended 30 June 2011 RMB'000	2010 RMB'000
Interest income	39,276	34,908
Dividend income from unlisted securities	37,637	–
Government grants	50,987	46,272
Gain on disposal of property, plant and equipment	1,965	1,515
Penalty income	1,152	2,747
Management fee income	116,710	102,930
Write-off of non-payable liabilities	971	2,005
Others	14,637	18,066
	263,335	208,443

8 FINANCE COSTS

	Six months ended 30 June 2011 RMB'000	2010 RMB'000
Interest on bank advances and other borrowings wholly repayable within five years	31,887	25,575

For the periods ended 30 June 2011 and 2010, no borrowing costs were capitalised in relation to construction in progress.

9 PROFIT BEFORE TAX

	Six months ended 30 June 2011 RMB'000	2010 RMB'000
(a) Staff costs:		
Salaries, wages and other benefits	5,083,284	4,483,978
Contributions to defined contribution retirement schemes	408,802	398,061
	5,492,086	4,882,039
(b) Other items:		
Amortisation	30,021	25,550
Cost of inventories	7,595,550	7,010,617
Depreciation	296,327	282,237
Inventory write-down and losses, net of reversals	1,027	(3,765)
Impairment losses on accounts and other receivables	53,679	8,635
Reversal of impairment losses on accounts and other receivables	(1,486)	(7,507)
Operating lease charges	497,059	376,620
Research and development costs	238,879	155,467
Share of an associate's taxation	158	148

Research and development costs include RMB212 million (six months ended 30 June 2010: RMB121 million) relating to staff costs, which amount is also included in the staff cost disclosed in note 9(a).

10 INCOME TAX

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

	Six months ended 30 June	
	2011	**2010**
	RMB'000	*RMB'000*
Current tax		
Income tax	258,300	228,682
Deferred tax		
Origination and reversal of temporary differences	12,230	2,200
Total income tax	270,530	230,882

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

	Six months ended 30 June	
	2011	**2010**
	RMB'000	*RMB'000*
Profit before tax	1,317,789	1,140,553
Expected income tax expense at PRC income tax statutory tax rate of 25%	329,447	285,138
Differential tax rates on subsidiaries' profits *(note (i))*	(78,540)	(75,634)
Non-deductible expenses *(note (ii))*	10,325	11,620
Non-taxable income	(10,154)	(9,389)
Tax losses not recognised	28,306	22,845
Utilisation of previously unrecognised tax losses	(3,151)	(3,698)
Effect on opening deferred tax resulting from a change in preferential tax qualification	(5,703)	–
Income tax	270,530	230,882

Notes:

(i) The provision for income tax of the Group is calculated based on a statutory rate of 25% of the assessable profit of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the six months ended 30 June 2011 and the six months ended 30 June 2010, except for certain subsidiaries of the Group, which are taxed at preferential rates of 15% to 24%.

(ii) The amounts represent staff cost and miscellaneous expenses in excess of statutory deductible limits for tax purpose.

11 OTHER COMPREHENSIVE INCOME

Available-for-sale securities

	Six months ended 30 June 2011 *RMB'000*	2010 *RMB'000*
Changes in fair value recognised during the period	(12,100)	3,186
Net deferred tax charged to other comprehensive income	3,025	(1,070)
Net movement in the fair value reserve during the period recognised in other comprehensive income	(9,075)	2,116

12 DIVIDENDS

(a) Interim dividend

The directors do not propose the payment of an interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: RMB nil).

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

	Six months ended 30 June 2011 *RMB'000*	2010 *RMB'000*
Final dividend in respect of the financial year ended 31 December 2010, declared during the interim period of RMB0.1260 per share (six months ended 30 June 2010: RMB0.1108 per share)	727,232	639,502

No final dividend was paid during the six months ended 30 June 2011 and six months ended 30 June 2010.

13 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the six months ended 30 June 2011 of RMB1,053 million (six months ended 30 June 2010: RMB906 million) and the weighted average number of shares in issue during the six months ended 30 June 2011 of 5,771,682 thousand shares (six months ended 30 June 2010: 5,771,682 thousand shares).

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

14 PROPERTY, PLANT AND EQUIPMENT, NET

During the six months ended 30 June 2011, additions of property, plant and equipment (including direct purchase, transfer from construction in progress and investment properties) of the Group amounted to RMB229 million (six months ended 30 June 2010: RMB184 million). Due to the disposal of a subsidiary, items of property, plant and equipment with net book value totalling RMB51 million were disposed of during the six months ended 30 June 2011 (six months ended 30 June 2010: RMB nil). In addition, further items of property, plant and equipment with net book value totalling RMB7 million were disposed of during the six months ended 30 June 2011 (six months ended 30 June 2010: RMB13 million) .

15 ACCOUNTS AND BILLS RECEIVABLE, NET

	At 30 June 2011 *RMB'000*	At 31 December 2010 *RMB'000*
Bills receivable	167,018	95,208
Unbilled revenue for contract work	4,338,565	2,956,264
Trade receivables	12,875,711	10,231,195
	17,381,294	13,282,667
Less: impairment losses	(414,426)	(395,110)
	16,966,868	12,887,557

(a) Included in accounts and bills receivable are amounts due from fellow subsidiaries of RMB7,760 million as at 30 June 2011 (31 December 2010: RMB6,950 million). 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:**

	At 30 June 2011 *RMB'000*	At 31 December 2010 *RMB'000*
Current	7,998,789	4,890,354
Within 1 year	7,579,275	6,566,525
After 1 year but less than 2 years	1,016,205	1,108,228
After 2 years but less than 3 years	273,633	245,878
After 3 years	98,966	76,572
Amount past due	8,968,079	7,997,203
	16,966,868	12,887,557

(d) **Impairment of accounts and bills receivable**

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

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

	At 30 June 2011 *RMB'000*	At 31 December 2010 *RMB'000*
At 1 January	395,110	332,129
Impairment loss recognised	21,751	96,354
Reversal of impairment loss previously recognised	(1,145)	(23,467)
Uncollectible amounts written off	(1,290)	(9,906)
At 30 June/31 December	414,426	395,110

At 30 June 2011, the Group's accounts and bills receivable of RMB365.6 million were individually determined to be impaired (31 December 2010: RMB355.7 million). The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific impairment losses of RMB266.2 million were recognised (31 December 2010: RMB282 million). The Group does not hold any collateral over these balances.

(e) Accounts and bills receivable that are not impaired

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

	At 30 June 2011 *RMB'000*	At 31 December 2010 *RMB'000*
Neither past due nor impaired	7,998,789	4,890,354
Within 1 year	7,579,210	6,566,525
After 1 year but less than 2 years	805,166	991,590
After 2 years but less than 3 years	98,555	78,040
After 3 years	28,074	36,198
At 30 June/31 December	16,509,794	12,562,707

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

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

16 CASH AND CASH EQUIVALENTS

	At 30 June 2011 *RMB'000*	At 31 December 2010 *RMB'000*
Cash at bank and in hand	6,012,836	7,612,626
Deposits with banks and other financial institutions	732,026	857,623
Cash and cash equivalents	6,744,862	8,470,249

17 INTEREST-BEARING BORROWINGS

The Group's short-term borrowings comprise the following:

	At 30 June 2011 *RMB'000*	At 31 December 2010 *RMB'000*
RMB denominated		
Borrowings from banks		
– unsecured	8,000	750,000
Loans from ultimate holding company		
– unsecured	800,000	800,000
Loans from fellow subsidiaries		
– unsecured	452,509	228,509
Central African CFA Franc denominated		
Borrowings from banks		
– unsecured	–	2,014
US Dollar denominated		
Borrowings from banks		
– unsecured	51,773	–
	1,312,282	1,780,523

The Group's short-term borrowings bearing fixed interest rate per annum are as follows:

	At 30 June 2011	At 31 December 2010
RMB denominated		
Borrowings from banks		
– unsecured	6.31%	3.51%-4.01%
Loans from ultimate holding company		
– unsecured	4.68%	4.08%
Loans from fellow subsidiaries		
– unsecured	2.39%, 4.24%-5.85%	2.39%-5.51%
Central African CFA Franc denominated		
Borrowings from banks		
– unsecured	–	6.00%

	At 30 June 2011	At 31 December 2010
US Dollar denominated		
Borrowings from banks		
– unsecured	1.79%-2.49%	–

As at 30 June 2011, no borrowings from banks were subject to financial covenants.

18 ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	At 30 June 2011 *RMB'000*	At 31 December 2010 *RMB'000*
Accounts payable	9,909,116	7,973,422
Bills payable	1,461,516	1,795,370
	11,370,632	9,768,792

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

	At 30 June 2011 *RMB'000*	At 31 December 2010 *RMB'000*
Within 1 year	10,448,701	9,093,470
After 1 year but less than 2 years	686,366	494,547
After 2 years but less than 3 years	163,029	112,808
After 3 years	72,536	67,967
	11,370,632	9,768,792

Included in accounts and bills payable are amounts due to fellow subsidiaries of RMB495 million as at 30 June 2011 (31 December 2010: RMB231 million). The amounts due to fellow subsidiaries are unsecured, interest free and are expected to be settled within one year.

19 SHARE CAPITAL

	At 30 June 2011 *RMB'000*	At 31 December 2010 *RMB'000*
Registered, issued and fully paid:		
3,778,831,800 domestic state-owned ordinary shares of RMB1.00 each	3,778,832	3,778,832
1,992,850,200 H shares of RMB1.00 each	1,992,850	1,992,850
	5,771,682	5,771,682

20 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

As at 30 June 2011, the Group had capital commitments for acquisition and construction of property, plant and equipment and other assets as follows:

	At 30 June 2011 *RMB'000*	At 31 December 2010 *RMB'000*
Authorised and contracted for	161,508	216,365
Authorised but not contracted for	630	57,085

(b) Operating lease commitments

As at 30 June 2011, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	At 30 June 2011 *RMB'000*	At 31 December 2010 *RMB'000*
Within 1 year	216,616	180,699
After 1 year but within 5 years	231,020	221,322
After 5 years	102,590	63,893
	550,226	465,914

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

(c) Contingent liabilities

As at 30 June 2011, the Group had no material contingent liabilities and no material financial guarantees issued.

21 RELATED PARTIES

The Group is part of a larger group of companies under CTC Group and has significant transactions and relationships with members of CTC Group. Apart from the transactions and balances disclosed in the interim financial report 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 Group, 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:

	For the six months ended 30 June	
	2011	**2010**
	RMB'000	*RMB'000*
Income from related parties:		
Engineering related services *(note (i))*	4,891,658	4,260,828
IT application services *(note (ii))*	477,042	402,206
Provision of ancillary telecommunications services *(note (iii))*	2,458,096	2,151,386
Provision of operation support services *(note (iv))*	827,084	739,650
Supplies procurement service *(note (v))*	1,465,914	1,131,940
Property leasing *(note (vi))*	25,320	16,198
Management fee income *(note(vii))*	116,710	102,930
Disposal of a subsidiary *(note(viii))*	194,112	–
Expenses paid/payable to related parties:		
Property leasing charges *(note (ix))*	55,808	51,828
IT application service charges *(note (x))*	126,164	80,176
Operation support service charges *(note (xi))*	118,938	124,712
Supplies procurement service charges *(note (xii))*	523,420	142,114
Interest paid/payable *(note (xiii))*	21,666	11,764

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 equipment services provided to CTC Group.

(v) The amount represents supplies procurement service such as supplies procurement service, management of biddings warehousing, transportation and installation services.

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

(vii) The amount represents management fee income in respect of centralised services provided to CTC Group.

(viii) The amount represents the sales proceeds arising from disposing a subsidiary, Nantian Postal and Telecommunications Technology Co., Ltd., to Difo Telecom Co., Ltd, a subsidiary of CTC Group.

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

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

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

(xii) The amount represents the charge paid and payable to CTC Group for supplies procurement services, warehouse, transportation and installation services.

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

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

	At 30 June 2011	**At 31 December 2010**
	RMB'000	*RMB'000*
Accounts and bills receivable, net	7,759,519	6,950,121
Prepayments and other current assets	659,614	1,364,133
Total amounts due from CTC Group	8,419,133	8,314,254
Interest-bearing borrowings	1,252,509	1,028,509
Accounts and bills payable	494,655	231,136
Receipts in advance for contract work	73,558	50,154
Accrued expenses and other payables	1,454,431	993,963
Total amounts due to CTC Group	3,275,153	2,303,762

As at 30 June 2011, impairment losses for bad and doubtful debts of RMB3.1 million (31 December 2010: RMB3.3 million) were recorded in respect of amounts due from CTC Group.

As at 30 June 2011, the Group has capital commitments to CTC Group for acquisition and construction of property, plant and equipment and other assets as follows:

	At 30 June 2011	**At 31 December 2010**
	RMB'000	*RMB'000*
Authorised and contracted for	2,979	3,043

As at 30 June 2011, the Group's total future minimum lease payments to CTC Group under non-cancellable operating leases were payable as follows:

	At 30 June 2011	**At 31 December 2010**
	RMB'000	*RMB'000*
Within 1 year	52,169	43,065
After 1 year but within 5 years	52,062	41,605
After 5 years	32,972	34,695
	137,203	119,365

(b) Transactions with key management personnel

Remuneration for key management personnel is as follows:

	Six months ended 30 June	
	2011	**2010**
	RMB'000	*RMB'000*
Salaries and other emoluments	2,094	1,898
Retirement benefits	778	616
Bonus	3,987	3,316
	6,859	5,830

Total remuneration is included in "Staff costs" in note 9.

(c) Contributions to defined contribution retirement plans

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 18% to 22% 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.

As at 30 June 2011 and 31 December 2010, there was no material outstanding contribution to post-employment benefit plans.

(d) Transactions with other government-related entities in the PRC

The Group is a state-controlled enterprise and operates in an economic regime currently dominated by entities directly or indirectly controlled by the People's Republic of China through government authorities, agencies, affiliations and other organisations (collectively referred to as "government-related entities").

Apart from transactions with parent company and its affiliates (note 21(a)) ,the Group has collectively, but not individually significant transactions with other government-related entities, which include but are not limited to the following:

- Rendering and receiving services, including but not limited to telecommunications services
- Sales and purchases of goods, properties and other assets
- Lease of assets
- Depositing and borrowing money
- Use of public utilities

These transactions are conducted in the ordinary course of the Group's business on terms comparable to the terms of transactions with other entities that are not government-related. The Group prices its telecommunications services and products based on government-regulated tariff rates, where applicable, or based on commercial negotiations. The Group has also established its procurement policies and approval processes for purchases of products and services, which do not depend on whether the counterparties are government-related entities or not.

The directors believe the above information provides meaningful disclosure of related party transactions.

(4) WORKING CAPITAL SUFFICIENCY

The directors, after due and careful consideration, are of the opinion that in the absence of unforeseen circumstances and based on the expected cash flows, expected proceeds from the Rights Issue, available and unutilised banking facilities and internal resources of the Group, the Group will have sufficient working capital for its present requirements for at least the next twelve months following the date of this Prospectus.

(5) INDEBTEDNESS STATEMENT

Borrowings

At the close of business on 30 November 2011, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Prospectus, the Group had total borrowings of RMB1,148 million. Details of the total borrowing are summarised below:

	30 November 2011 *RMB thousand*
The Group	
Secured	
Bank loans	–
Unsecured	
Bank loans	963,531
Amounts due to fellow subsidiaries	184,770
Total borrowings	1,148,301
Analysis of total borrowings	
Repayable within 1 year	1,148,301
Total borrowings	1,148,301

Save as aforesaid and apart from intra-group liabilities and normal trade payables, the Group did not have any loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, and authorised or otherwise created but unissued and term loans or other borrowings, indebtedness in the nature of borrowings, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, which are either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities outstanding at the close of business on 30 November 2011.

Save as aforementioned in this indebtedness statement, the Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 30 November 2011, up to and including the Latest Practicable Date.

A. REPORT FROM THE REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

The following is the text of a report from KPMG, Certified Public Accountants, in respect of the unaudited pro forma financial information of the Group for the sole purpose of inclusion in the Prospectus.

The Directors
China Communications Services Corporation Limited

13 January 2012

Dear Sirs,

We report on the unaudited pro forma financial information ("the Pro Forma Financial Information") of the Company and its subsidiaries ("the Group") set out on page 142 of the Prospectus dated 13 January 2012 ("the Prospectus"), which has been prepared by the directors of the Company solely for illustrative purposes to provide information about how the proposed rights issue might have affected the financial information presented. The basis of preparation of the unaudited Pro Forma Financial Information is set out on pages 142 to 143 of the Prospectus.

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 (the "HKICPA").

It is our responsibility to form an opinion, as required by Paragraph 4.29(7) 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 performed 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 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 Group as at 30 June 2011 or any future date.

We make no comments regarding the reasonableness of the amount of net proceeds from the rights issue, the application of those net proceeds, or whether such use will actually take place as described under "Reasons for and benefits of the rights issue and use of proceeds" set out on page 47 of the Prospectus.

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 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

The unaudited pro forma financial information should be read in conjunction with Appendix I headed "Financial Information of the Group" in this Prospectus, the annual report of the Company for the year ended 31 December 2010, and the interim report of the Company for the six months ended 30 June 2011.

B. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of our adjusted consolidated net tangible assets has been prepared by the directors of the Company in accordance with Rule 4.29 of the Listing Rules to illustrate the effect of the Rights Issue on our consolidated net tangible assets as of 30 June 2011 as if it had taken place on 30 June 2011.

The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets as of 30 June 2011 or any future date following the Rights Issue. The unaudited pro forma statement of adjusted consolidated net tangible assets is prepared based on our unaudited consolidated net assets as of 30 June 2011 as derived from our unaudited consolidated financial statements of the Group for the six months ended 30 June 2011 as set forth in Appendix I, with the pro forma adjustments as described below.

	Unaudited adjusted consolidated net tangible assets attributable to equity shareholders of the Company as at 30 June 2011(1)	Add: Estimated net proceeds from the Rights Issue(2)	Unaudited pro forma adjusted consolidated net tangible assets	Unaudited pro forma adjusted consolidated net tangible assets per Share(3)
	RMB in millions	*RMB in millions*	*RMB in millions*	*RMB*
Based on Rights Shares (H Shares: 398,570,040 Shares and Domestic Shares: 755,766,360 Shares) to be issued at subscription price of HK$3.19 and RMB2.59 per Rights Share for H Share and Domestic Share, respectively	14,286	2,900	17,186	2.48

Notes:

(1) The unaudited adjusted consolidated net tangible assets attributable to equity holder of the Company as of 30 June 2011 is derived from the unaudited consolidated financial statements of the Group for the six months ended 30 June 2011, which is based on the unaudited consolidated net assets attributable to equity Shareholders of the Company as of 30 June 2011 of RMB14,544 million after deducting goodwill of RMB103 million and other intangible assets of RMB156 million and adjusting the share of intangible assets attributable to non-controlling interests of RMB1 million. Other intangible assets of the Group mainly represented computer software used in telecommunications infrastructure projects, amounting to RMB117 million as of 30 June 2011.

(2) The estimated net proceeds from the Rights Issue are based on 398,570,040 H Share Rights Shares and 755,766,360 Domestic Share Rights Shares to be issued (in the proportion of 2 Rights Shares for every 10 Shares held on the Record Date) at the subscription price of HK$3.19 per Rights Share for H Share

and RMB2.59 per Rights Share for Domestic Share, after deduction of the related estimated expenses of approximately RMB90 million. For the purpose of the estimated net proceeds from the Rights Issue, the translation of Hong Kong dollars into RMB was made at the rate of RMB0.8119 to HK$1.

(3) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after aggregating the unaudited consolidated net tangible assets of the Group of RMB14,286 million as at 30 June 2011 (Note 1) and the estimated net proceeds of RMB2,900 million from the Rights Issue (Note 2) and on the basis that 5,771,682,000 Shares were in issue as at 30 June 2011 and 398,570,040 H Share Rights Shares and 755,766,360 Domestic Share Rights Shares were issued under the Rights Issue assuming the Rights Issue had been completed on 30 June 2011.

(4) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group to reflect any operating results or other transactions of the Group entered into subsequent to 30 June 2011.

1. RESPONSIBILITY STATEMENT

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

2. PARTICULARS OF DIRECTORS, SUPERVISORS AND MEMBERS OF SENIOR MANAGEMENT

Executive Directors

Mr. LI Ping, age 58, is the Chairman of our Board of Directors and an Executive Director of our Company in charge of our overall management. Mr. Li is also a Vice President of China Telecommunications Corporation and Executive Vice President of China Telecom Corporation Limited. Prior to joining China Telecommunications Corporation in August 2000, Mr. Li served as the Chairman and Chief Executive Officer of China Telecom (Hong Kong) International Limited, Vice Chairman and Chief Operating Officer of China Mobile Limited and Deputy Director General of the Directorate General of Telecommunications (the "DGT") of the former Ministry of Posts and Telecommunications (the "MPT") of the PRC. Mr. Li graduated from the Beijing Institute of Posts and Telecommunications in 1976 with a major in Radio Telecommunications. He also received an MBA degree from the State University of New York at Buffalo, U.S.A. in 1989. Mr. Li has extensive administrative experience in the management of listed companies and has 36 years of operational and managerial experience in the telecommunications industry in China. The office address of Mr. Li is No.19 Chaoyangmen Beidajie, Dongcheng District, Beijing, China.

Mr. ZHENG Qibao, age 54, is the President and an Executive Director of our Company, responsible for our daily operations and management. Mr Zheng is also a Managing Director of the Sideline Industrial Management Department of China Telecommunications Corporation. Mr. Zheng graduated from Shanghai Second Polytechnic University in 1986 and received a bachelor degree in mechanical engineering, received an EMBA degree from China Europe International Business School in 1998, and a doctoral degree in Political Economics from Fudan University in 2003. Mr. Zheng previously served as a Managing Director of Shanghai Telecom Corporation Limited and Dean of China Telecom Corporation Limited Shanghai Research Institute, Executive Vice Dean of China Telecom Corporation Limited Beijing Research Institute and the Managing Director of the Corporate Strategy Department of China Telecommunications Corporation. Prior to that, Mr. Zheng served as Deputy General Engineer of Shanghai Posts and Telecommunications Bureau, Dean of Shanghai Telecom Technology Research Institute and General Manager of Shanghai Telecom Long Distance

Communication Division. Mr. Zheng has 34 years of operational and managerial experience in the telecommunications industry in China. The office address of Mr. Zheng is No.19 Chaoyangmen Beidajie, Dongcheng District, Beijing, China.

Mr. YUAN Jianxing, age 57, is an Executive Vice President and Executive Director of our Company. Mr. Yuan is also the Deputy Managing Director of the Sideline Industrial Management Department of China Telecommunications Corporation and the Chairman of China Satcom Guomai Communications Co., Ltd. Until 30 December 2010, Mr. Yuan was the Chief Financial Officer of our Company. Prior to that, he served as the Deputy Director of Finance Department of Shanxi Provincial Post and Telecommunications Bureau, the General Manager of Shanxi Provincial Posts and Telecommunications Industrial Company, Director of Xinzhou Posts and Telecommunications Bureau in Shanxi Province, the General Manager of Taiyuan Branch of Shanxi Telecom Company Limited, Deputy General Manager of Shanxi Telecom Company Limited, Deputy Managing Director of the Sideline Industrial Management Department of China Telecommunications Corporation and Vice President and Chief Accountant of Hunan Telecom Company Limited. Mr. Yuan received an MBA degree from the Ukrainian-American Humanitarian Institute "Wisconsin International University (USA) Ukraine" in 2002. Mr. Yuan has over 34 years experience in the telecommunications industry. The office address of Mr. Yuan is No.19 Chaoyangmen Beidajie, Dongcheng District, Beijing, China.

Ms. HOU Rui, age 42, is an Executive Director, Executive Vice President and Chief Financial Officer of our Company. Ms. Hou received a master degree in Management Engineering from Beijing University of Posts and Telecommunications in 1995 and a master degree in International Commercial Accounting from The University of New South Wales in 2002. Prior to joining the Company, Ms. Hou was Deputy Managing Director of the Finance Department in China Telecommunications Corporation. Prior to that, Ms. Hou served as Divisional Director of General Finance Division and Budgeting Division of China Telecommunications Corporation's Finance Department and the director and the Chief Accountant of Guangxi Telecom Company. Ms. Hou has over 17 years experience in telecommunications industry and financial management. The office address of Ms. Hou is No.19 Chaoyangmen Beidajie, Dongcheng District, Beijing, China.

Non-Executive Directors

Mr. LIU Aili, age 48, is a Non-Executive Director of our Company. Mr. Liu is an Executive Director and a Vice President of China Mobile Limited. He is also a Vice President of China Mobile Communications Corporation. Mr. Liu received a master of management degree and a doctoral degree in Business Administration. Mr. Liu previously served as Deputy Director General of Shandong Mobile Telecommunications Administration, Director General of Shandong Mobile Telecommunications Administration and General Manager of Shandong Mobile Communications Enterprises, Vice President of Shandong Mobile Communications Company, Director-General of the Network Department of China Mobile Communications Corporation, Chairman and

President of Shandong Mobile and Zhejiang Mobile. He is a professor-level senior engineer with over 29 years of management experience in the telecommunications industry. The office address of Mr. Liu is 29 Finance Street, Xicheng District, Beijing, China.

Mr. ZHANG Junan, age 55, is a Non-Executive Director of our Company. Mr. Zhang is a member of Party Leadership Group, Vice President of China United Network Communications Group Company Limited, a Senior Vice President of China Unicom (Hong Kong) Limited. Mr. Zhang graduated from the Nanjing University of Posts and Telecommunications majoring in carrier communication in 1982, received a master degree in Business Administration from the National Australian University in 2002 and received a Doctor of Business Administration from Hong Kong Polytechnic University in October 2008. Prior to joining China Unicom in December 2005, Mr. Zhang served as Deputy General Manager and General Manager of the Anhui Provincial Telecommunication Company, and Chairman and General Manager of Anhui Provincial Telecommunication Co., Ltd. Mr. Zhang had served as Director of Bengbu Municipal Posts and Telecommunications Bureau in Anhui Province and Deputy Director of Anhui Provincial Posts and Telecommunications Bureau. Mr. Zhang has long and extensive management experience in the telecommunications industry. The office address of Mr. Zhang is 21 Finance Street, Xicheng District, Beijing, China.

Independent Non-Executive Directors

Mr. WANG Jun, age 71, is an Independent Non-Executive Director of our Company. Mr. Wang graduated from the Harbin Engineering Institute in the PRC. Mr. Wang was the former Chairman of China International Trust and Investment Corporation ("CITIC"). After his retirement in July 2006, he became the Executive Director and Chairman of the Board of Directors of CITIC 21CN Company Limited and the Chairman and Executive Director of Goldbond Group Holdings Limited. Until 17 April 2008, Mr. Wang was a Non-Executive Director and Honorary Chairman of HKC (Holdings) Limited. The office address of Mr. Wang is No.19 Chaoyangmen Beidajie, Dongcheng District, Beijing, China.

Mr. CHAN Mo Po, Paul, age 57, is an Independent Non-Executive Director of our Company. Mr. Chan is a member of the Legislative Council of HKSAR, representing the Accountancy Constituency, and Chairman of Legal Aid Services Council. He is the Co-Chairman of Crowe Horwath (HK) CPA Limited. He is also an independent director of China Vanke Co., Ltd, a company listed on Shenzhen Stock Exchange and an Independent Non-Executive Director of Hong Kong Economic Times Holdings Limited and The Wharf (Holdings) Limited, both of which are listed on Hong Kong Stock Exchange. Until 29 August 2011, Mr. Chan was an independent non-executive director of Kingmaker Footwear Holdings Limited. Until 1 January 2009, Mr. Chan was an independent non-executive director of China Resources Land Limited. Mr. Chan is a graduate of The Chinese University of Hong Kong where he obtained both his bachelor's and master's degrees in Business Administration. Mr. Chan is a Practising Certified Public Accountant in Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the Association of Chartered Certified Accountants ("ACCA"), CPA Australia, the Society of Chinese Accountants and Auditors, the Taxation Institute of Hong Kong and the Hong Kong Institute of Company Secretaries. Mr. Chan has over 31 years' experience in both professional and commercial fields and is a former president of the HKICPA and a former Chairman of the ACCA Hong Kong. In 2006, he was awarded a Medal of Honour by the Government of HKSAR and in 2007, he was appointed a Justice of the Peace. In 2008, he was appointed a member of Shanghai City's Chinese People's Political Consultative Conference and advisor to the Accounting Standards Committee of the Ministry of Finance of PRC. The office address of Mr. Chan is No.19 Chaoyangmen Beidajie, Dongcheng District, Beijing, China.

Mr. ZHAO Chunjun, age 71, is an Independent Non-Executive Director of our Company. Mr. Zhao is an Independent Non-Executive Director of Dongfang Electric Corporation Limited and an Independent Director of China United Network Communications Limited. He is the committee member of Degree Committee and the Academic Council of Tsinghua University. Until 11 May 2010, Mr. Zhao was the Chairman of the Supervisory Committee of Tongfang Co., Limited. Mr. Zhao graduated from Tsinghua University in the PRC. He was Dean of the School of Economics and Management of Tsinghua University between June 2001 and October 2005, having previously served as Executive/First Vice Dean between January 1987 and June 2001. The office address of Mr. Zhao is No.19 Chaoyangmen Beidajie, Dongcheng District, Beijing, China.

Mr. WU Shangzhi, age 62, is an Independent Non-Executive Director of our Company. Mr. Wu is the Chairman of CDH China Holdings Management Company Limited ("CDH"). Prior to joining CDH, Mr. Wu was an investment officer and senior investment officer at the World Bank from 1984 to 1991 and he also was a senior investment officer of the International Finance Corporation of the World Bank Group from 1991 to 1993. From 1993 to 1995, Mr. Wu was an executive director of Beijing Copia Consulting Co. Ltd. Mr. Wu was a managing director of the Direct Investment Department of China International Capital Corporation (CICC) from 1995 to 2002 and member of the Management Committee of CICC from 2000 to 2002. Mr. Wu graduated from the Massachusetts Institute of Technology with a Ph.D. degree in Mechanical Engineering and a M.S. in Management of Technology. The office address of Mr. Wu is No.19 Chaoyangmen Beidajie, Dongcheng District, Beijing, China.

Mr. HAO Weimin, age 77, is an Independent Non-Executive Director of our Company. Mr. Hao graduated from the PLA Zhangjiakou Institute of Communications Engineering, and the Beijing Institute of Posts and Telecommunications in 1953 and 1963 respectively. He is a professor-level senior engineer with over 60 years' experience in the telecommunications industry. Mr. Hao is the Vice Chairman of the China Association of Communications Enterprises and is also a standing committee member of the telecommunication technology committee and the radio frequency planning and consulting committee of the Ministry of Industry and Information Technology. From 1983 to 1986, Mr. Hao was sent to the United States as a visiting scholar to carry out telecommunications research on GTE Network Systems at Stanford University. Mr. Hao has been involved in management and research projects in the fields of management of technology, data communication, satellite communication, network planning and international communication since his return from the United States. Mr. Hao previously served as a Deputy Director-General and Chief Engineer of the DGT of the former MPT and a Vice Chairman and the General Manager of China Orient Telecomm Satellite Co., Limited prior to December 2003. The office address of Mr. Hao is No.19 Chaoyangmen Beidajie, Dongcheng District, Beijing, China.

Supervisors

Ms. XIA Jianghua, age 53, is Chairperson of the Supervisory Committee. Ms. Xia is Vice Director of Auditing Office and Division-Director of Construction Auditing Division of China Telecommunications Corporation. Ms. Xia is a senior auditor. Prior to joining China Telecommunications Corporation, she served as Vice-Divisional Director of the Auditing Bureau of MPT, Vice Divisional Director (standing) of the Auditing Division of DGT. Ms. Xia has over 27 year management and auditing experience in the telecommunications industry. The office address of Ms. Xia is 31 Finance Street, Xicheng District, Beijing, China.

Mr. HAI Liancheng, age 67, is an Independent Supervisor of our Company. Mr. Hai studied at the Civil Aviation College and Chinese Communist Party's (CPC) School, and obtained a college diploma. Mr. Hai has served as Vice-Divisional Director and Divisional Director of the Financial Division of the Financial Department of Civil Aviation Administration of China ("CAAC"), Vice-Director and Director of the Financial Department of CAAC, General Manager of China Aviation Oil Supply Corporation and Vice General Manager of China Aviation Oil Holding Company. From September 2001 to February 2006, Mr. Hai served as Chairman of South China BlueSky Aviation Oil Co., Ltd and China Aviation Oil Corporation Ltd. Mr. Hai is the Director General of the CAAC Sub-association of the China Association of Chief Financial Officers and Chairman of the CAAC Training Centre for Accounting and Auditing since January 2006. Mr. Hai was employed by PICC Property and Casualty Co. Ltd. as consultant from June 2007 to June 2009. From October 2007 to March 2011, Mr. Hai was the Chairman of Zhong Peng Certified Public Accountants Ltd. Since March 2011, Mr. Hai has served as senior advisor of China PnR Co., Ltd. The office address of Mr. Hai is No.19 Chaoyangmen Beidajie, Dongcheng District, Beijing, China.

Mr. YAN Dong, age 40, is an Employee Representative Supervisor of our Company. Mr. Yan is the Director of the Corporate Affairs Department of the Company. Prior to that, Mr. Yan was the Divisional Director of the Risk Management Department of the Company and the Deputy Director and Chief Financial Officer of China International Telecommunications Construction Corporation. Mr. Yan received an MBA from Shandong University in 2002. Prior to joining China Telecommunications Corporation in 2004, Mr. Yan served as a Project Manager in Shandong International Trust and Investment Corporation, Office Director, Manager of the Investment Department and Secretary of the Board of Directors of Shandong Luxin Investment Corporation and General Manager of Shandong Luxin Property Investment and Development Co., Ltd. The office address of Mr. Yan is No.19 Chaoyangmen Beidajie, Dongcheng District, Beijing, China.

Other Senior Management Members

Mr. WANG Qi, age 56, is an Executive Vice President of our Company. Mr. Wang is also the Chairman of China International Telecommunications Construction Corporation, a subsidiary of the Company. Until November 2008, Mr. Wang was the Chief Executive Officer of Guangdong Communications Services Company Limited. Mr. Wang graduated from the Chinese Communist Party's (CPC) School of Guangdong in 1998. Mr. Wang had served as General Manager of Guangdong Post and Telecommunications Development Corporation, and Director of the Telecom Engineering Administration Centre of Guangdong Telecommunications Corporation. Mr. Wang was involved in a number of major communications network projects for Guangdong Telecom, and was awarded the Excellent Engineering Project Prize issued by the MPT. Mr. Wang has 38 years of management experience in the telecommunications industry in China. The office address of Mr. Wang is No.19 Chaoyangmen Beidajie, Dongcheng District, Beijing, China.

Mr. LIANG Shiping, age 42, is an Executive Vice President of our Company. Mr. Liang joined the Company in August 2008 as Director of the Marketing Department of the Company. Mr. Liang received a bachelor's degree in Computer Engineering from the Computer Science Department of Jilin University in 1992 and master's degree in Computer Application from the Sixth Research Institute of the Ministry of Machinery and Electronics Industry in 1996. Prior to joining the Company, Mr. Liang served at the Data Communication Bureau of the Ministry of Posts and Telecommunications, the Multimedia Bureau of the Telecom Administration of the Ministry of Posts and Telecommunications and the Technology Development Department of China Telecom Data Communication Bureau. From October 2000 to August 2008, Mr. Liang served as a Divisional Director of the Planning Division of the Data Communication Bureau and the Application Development Division of the Corporate Informatization Department. Mr. Liang has over 20 years' experience in telecommunications and IT industry. The office address of Mr. Liang is No.19 Chaoyangmen Beidajie, Dongcheng District, Beijing, China.

Mr. CHUNG Wai Cheung, Terence, age 38, has been our Company Secretary, Assistant Chief Financial Officer and Qualified Accountant since 16 October 2006. Mr. Chung graduated from Melbourne University, Australia, with a bachelor of commerce degree in 1996 and received a master's degree in Business Administration from the Australian Graduate School of Management in 2005. Mr. Chung is a member of the Hong Kong Institute of Certified Public Accountants and the CPA Australia. Between March 2001 and October 2006, Mr. Chung worked as Finance Manager and Senior Finance Manager with China Mobile Limited and China Telecom Corporation Limited respectively. Mr. Chung has nearly 16 years of experience in auditing, financial management and company secretarial work with accounting firm and listed companies. The office address of Mr. Chung is Room 3203-3205, 32/F, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong.

3. PARTIES INVOLVED IN THE RIGHTS ISSUE AND CORPORATE INFORMATION OF THE COMPANY

Registered Address of the Company	Level 5 No. 2 and B Fuxingmen South Avenue Xicheng District Beijing, PRC
Business Address of the Company	No. 19 Chaoyangmen Beidajie Dongcheng District Beijing, PRC
Principal place of business in Hong Kong	Room 3203-3205, 32/F, Great Eagle Centre 23 Harbour Road Wanchai, Hong Kong
Authorized Representative of the Company	Mr. LI Ping No. 19 Chaoyangmen Beidajie Dongcheng District Beijing, PRC Mr. CHUNG Wai Cheung, Terence Room 3203-3205, 32/F, Great Eagle Centre, 23 Harbour Road Wanchai, Hong Kong
Company Secretary of the Company	Mr. CHUNG Wai Cheung, Terence
H Share Registrar and Transfer Office	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong
Underwriter	CITIC Securities Corporate Finance (HK) Limited 26th Floor, CITIC Tower 1 Tim Mei Avenue Central, Hong Kong

Legal Advisers to the Company	*As to Hong Kong Law* Freshfields Bruckhaus Deringer 11th Floor Two Exchange Square Central, Hong Kong
	As to PRC Law Jingtian & Gongcheng 34th Floor, Tower 3, China Central Place 77 Jianguo Road, Chaoyang District Beijing, PRC
Legal Advisers to the Underwriters	*As to Hong Kong Law* Davis Polk & Wardwell The Hong Kong Club Building 3A Chater Road Central, Hong Kong
Auditors and Reporting Accountants	KPMG Certified Public Accountants 8/F Prince's Building 10 Chater Road Central, Hong Kong
Receiving Bank	Bank of Communications Co., Ltd. Hong Kong Branch 20 Pedder Street Central, Hong Kong

4. SHARE CAPITAL

(a) The registered share capital of the Company as at the Latest Practicable Date was RMB5,771,682,000.

(b) The issued share capital of the Company as at the Latest Practicable Date was, and immediately following completion of the Rights Issue will be as follows:

As at the Latest Practicable Date:

Domestic Shares	3,778,831,800
H Shares	1,992,850,200

Rights Shares to be issued upon completion of the Rights Issue:

Domestic Shares	755,766,360[(1)]
H Shares	398,570,040[(2)]
Total:	1,154,336,400

Notes:

(1) Assuming the Domestic Share Rights Issue becomes unconditional and the Domestic Rights Shares are fully subscribed for and no further Domestic Rights Shares are issued by the Company.

(2) Assuming the H Share Rights Issue becomes unconditional and the H Rights Shares are fully subscribed for and no further H Shares are issued by the Company.

(c) All Domestic Shares and H Shares presently in issue rank *pari passu* in all respects as regards voting, dividends, distributions and return of capital.

(d) The H Rights Shares to be allotted and issued pursuant to the H Share Rights Issue will, when issued and fully paid, rank *pari passu* in all respects with the H Shares then in issue as regards voting, dividends, distributions and return of capital.

(e) The H Shares in issue are listed on the Hong Kong Stock Exchange. Save as disclosed above, no part of the share capital or any other securities of the Company is listed or dealt in on any other stock exchange and no application is being made or is currently proposed or sought for the Shares or any other securities of the Company to be listed or dealt in on any other stock exchange.

(f) As at the Latest Practicable Date, the Company was not a party to any agreement to issue new Shares and none of the members of the Group had any other outstanding options or convertible securities.

5. DISCLOSURE OF INTERESTS

(a) As at the Latest Practicable Date, none of the Directors, Supervisors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or as otherwise notified to the Company and Hong Kong Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules.

(b) Save as disclosed in this section, the Directors, Supervisors and chief executive of the Company are not aware of any other person who, as at the Latest Practicable Date, had an interest or short position in the Shares, the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

The following persons, as at the Latest Practicable Date, had an interest or short position in the Shares, the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of the Shareholders	Type of Shares	Capacity	Number of Shares held
China Telecommunications Corporation[1]	Domestic Shares	Beneficial owner	2,926,752,080(L)
	H Shares	Interest of corporation controlled by the substantial shareholder	188,087,774(L)
China Mobile Communications Corporation	Domestic Shares	Beneficial owner	506,880,000(L)
China United Network Communications Group Company Limited	Domestic Shares	Beneficial owner	236,300,000(L)

Name of the Shareholders	Type of Shares	Capacity	Number of Shares held
Commonwealth Bank of Australia	H Shares	Interest of corporation controlled by the substantial shareholder	381,945,795 (L)
CITIC Securities Company Limited[2]	H Shares	Interest of corporation controlled by the substantial shareholder	398,570,040(L) 188,087,774(S)
CITIC Securities Corporate Finance (HK) Limited[2]	H Shares	Beneficial owner	398,570,040(L) 188,087,774(S)
CITIC Securities International Company Limited[2]	H Shares	Interest of corporation controlled by the substantial shareholder	398,570,040(L) 188,087,774(S)
Guang Hua Properties Limited[1]	H Shares	Beneficial owner	188,087,774(L)

Note: (L) stands for long position, (S) stands for short position.

1. China Telecommunications Corporation is the sole shareholder of Guang Hua Properties Limited, which entered into a sub-underwriting agreement with the Underwriter on 30 December 2011 to sub-underwrite up to such number of H Rights Shares not exceeding a total subscription amount of HK$600,000,000 based on the Subscription Price.

2. Pursuant to the Underwriting Agreement, the Underwriter, CITIC Securities Corporate Finance (HK) Limited, agreed to fully underwrite up to 398,570,040 H Rights Shares. CITIC Securities Company Limited is the sole shareholder of CITIC Securities International Company Limited, which wholly owns the equity interest of the Underwriter.

The following persons, as at the Latest Practicable Date, were interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of subsidiary	Name of shareholder	Total amount of registered capital of subsidiary *('000)*	Percentage of shareholder's interest in registered capital
Zhejiang Bell technology Co. Ltd* 浙江貝爾技術有限公司	Alcatel Shanghai Bell Co., Ltd.* 上海貝爾阿爾卡特股份有限公司	RMB44,180	40%
Shanghai Tele-Communication Industry Construction & Supervision Co., Ltd.* 上海信產建設監理有限公司	Shanghai Telecommunications Engineering Business Division* 上海電信工程業務部	RMB25,000	10%
Nanjing Ningdian Rural Telephone Service Company Limited* 南京寧電農村電話服務有限公司	Jiangsu Guoxin Investment Group Limited* 江蘇省國信資產管理集團有限公司	RMB500	32%
	China Telecom Jiangsu Company Limited* 中國電信集團江蘇省電信公司		18%
Suzhou Baochun Rural Telephone Service Company Limited* 蘇州寶純農村電話服務有限公司	Jiangsu Guoxin Investment Group Limited* 江蘇省國信資產管理集團有限公司	RMB1,500	32%
	China Telecom Jiangsu Company Limited* 中國電信集團江蘇省電信公司		18%

Name of subsidiary	Name of shareholder	Total amount of registered capital of subsidiary *('000)*	Percentage of shareholder's interest in registered capital
Wuxi Tongfa Rural Telephone Service Company Limited* 無錫通發農村電話服務有限公司	Jiangsu Guoxin Investment Group Limited* 江蘇省國信資產管理集團有限公司	RMB1,500	32%
	China Telecom Jiangsu Company Limited* 中國電信集團江蘇省電信公司		18%
Changzhou Yanling Rural Telephone Service Company Limited* 常州延陵農村電話服務有限公司	Jiangsu Guoxin Investment Group Limited* 江蘇省國信資產管理集團有限公司	RMB500	32%
	China Telecom Jiangsu Company Limited* 中國電信集團江蘇省電信公司		18%
Xuzhou Fulai Rural Telephone Service Company Limited* 徐州福來農村電話服務有限公司	Jiangsu Guoxin Investment Group Limited* 江蘇省國信資產管理集團有限公司	RMB1,500	32%
	China Telecom Jiangsu Company Limited* 中國電信集團江蘇省電信公司		18%
Nantong Rural Telephone Service Company Limited* 南通農村電話服務有限公司	Jiangsu Guoxin Investment Group Limited* 江蘇省國信資產管理集團有限公司	RMB1,500	32%
	China Telecom Jiangsu Company Limited* 中國電信集團江蘇省電信公司		18%

Name of subsidiary	Name of shareholder	Total amount of registered capital of subsidiary *('000)*	Percentage of shareholder's interest in registered capital
Yangzhou Tongyuan Rural Telephone Service Company Limited* 揚州通源農村電話服務有限公司	Jiangsu Guoxin Investment Group Limited* 江蘇省國信資產管理集團有限公司	RMB1,500	32%
	China Telecom Jiangsu Company Limited* 中國電信集團江蘇省電信公司		18%
Zhenjiang Xinhui Rural Telephone Service Company Limited* 鎮江新輝農村電話服務有限公司	Jiangsu Guoxin Investment Group Limited* 江蘇省國信資產管理集團有限公司	RMB1,000	32%
	China Telecom Jiangsu Company Limited* 中國電信集團江蘇省電信公司		18%
Taizhou Baoxingtong Rural Telephone Service Company Limited* 泰州百幸通農村電話服務有限公司	Jiangsu Guoxin Investment Group Limited* 江蘇省國信資產管理集團有限公司	RMB1,500	32%
	China Telecom Jiangsu Company Limited* 中國電信集團江蘇省電信公司		18%
Yancheng Qitian Rural Telephone Service Company Limited* 鹽城齊天農村電話服務有限公司	Jiangsu Guoxin Investment Group Limited* 江蘇省國信資產管理集團有限公司	RMB1,500	32%
	China Telecom Jiangsu Company Limited* 中國電信集團江蘇省電信公司		18%

Name of subsidiary	Name of shareholder	Total amount of registered capital of subsidiary *('000)*	Percentage of shareholder's interest in registered capital
Huaian Lanying Rural Telephone Service Company Limited* 淮安藍鷹農村電話服務有限公司	Jiangsu Guoxin Investment Group Limited* 江蘇省國信資產管理集團有限公司	RMB1,000	32%
	China Telecom Jiangsu Company Limited* 中國電信集團江蘇省電信公司		18%
Lianyungang Lianxin Rural Telephone Service Company Limited* 連雲港連信農村電話服務有限公司	Jiangsu Guoxin Investment Group Limited* 江蘇省國信資產管理集團有限公司	RMB1,000	32%
	China Telecom Jiangsu Company Limited* 中國電信集團江蘇省電信公司		18%
Suqian Liaoyuan Rural Telephone Service Company Limited* 宿遷燎原農村電話服務有限公司	Jiangsu Guoxin Investment Group Limited* 江蘇省國信資產管理集團有限公司	RMB500	32%
	China Telecom Jiangsu Company Limited* 中國電信集團江蘇省電信公司		18%
Shanghai Construction Communication Network Co., Ltd.* 上海市建築通信網絡有限公司	Shanghai Information Pipeline Co., Ltd.* 上海市信息管綫有限公司	RMB50,000	40%
China Communications Services Software Technology Co., Ltd.* 中通服軟件科技有限公司	Accenture International Co., Ltd 埃森哲國際有限公司	USD25,000	40%
Super Flow Investments Ltd	Marbella Capital Partners Ltd	USD50	20%

* *for identification purpose only*

(c) None of the Directors or Supervisors had any interest, direct or indirect, in any assets which have been, since the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

(d) As at the Latest Practicable Date, the following Directors are directors or employees of a company which has an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Name	**Position in the entities disclosed under the provisions of Division 2 and 3 of Part XV of the SFO**
Li Ping	Vice president of China Telecommunications Corporation
Zheng Qibao	Managing director of the Sideline Industrial Management Department of China Telecommunications Corporation
Yuan Jianxing	Deputy managing director of the Sideline Industrial Management Department of China Telecommunications Corporation
Liu Aili	Vice president of China Mobile Communications Corporation
Zhang Junan	Vice president of China United Network Communications Group Company Limited

(e) As at the Latest Practicable Date, none of the Directors or Supervisors was materially interested in any contract or arrangement subsisting at the date of this prospectus which was significant in relation to the business of the Group taken as a whole.

(f) Upon completion of the Rights Issue, it is expected that China Telecommunications Corporation will be the only legal person to hold Domestic Shares or foreign shares other than H Shares which will constitute more than 10% of the existing issued share capital of the Company.

China Telecommunications Corporation is a large State-owned telecom operator in China. It mainly provides the integrated information services including the fixed-line telephone, mobile service, Internet connection and applications services. Its address is 31 Finance Street, Xicheng District, Beijing, PRC. As at the Latest Practicable Date, China Telecommunications Corporation held 2,926,752,080 Domestic Shares, representing 50.71% of the total issued share capital of the Company.

6. FOREIGN EXCHANGE RESTRICTIONS

Set out below are restrictions affecting the remittance of profits or repatriation of capital into Hong Kong from outside Hong Kong:

(a) PRC enterprises (including foreign-invested enterprises) which require foreign transactions relating to current account items may, without the approval of PRC State Administration of Foreign Exchange, effect payment into foreign exchange accounts at the designated foreign exchange banks if the enterprises have valid proof of such requirements. Foreign-invested enterprises which require foreign exchange for the distribution of profits to their shareholders, and PRC enterprises which in accordance with regulations are required to pay dividends to shareholders in foreign exchange (like us), may, on the strength of shareholders' general meeting resolutions on the distribution of profits, effect payment from their foreign exchange accounts or convert and pay at the designated foreign exchange banks; and

(b) convertibility of foreign exchange in respect of capital account items, including direct investments and capital contributions, is still subject to restrictions, and prior approval from the State Administration of Foreign Exchange of the PRC must be obtained.

7. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any material litigation or arbitration and there was no material litigation or claim known to the Directors to be pending or threatened by or against any member of the Group.

8. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or Supervisors has entered into any existing or proposed service contracts with the Company save for those expiring or determinable by the relevant employer within one year without payment of compensation (other than statutory compensation).

9. EXPERT

The following is the qualification of the expert who has given its report for the inclusion in this prospectus:

Name	**Qualification**
KPMG	Certified Public Accountants

KPMG has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and references to its name in the form and context in which they appear.

As at the Latest Practicable Date, KPMG did not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

10. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The Prospectus Documents and the written consent of KPMG as referred to under the paragraphs headed "Expert" above have been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Hong Kong Companies Ordinance.

11. MATERIAL CONTRACTS

Set out below is the information on the material contracts, not being contracts entered into in the ordinary course of business, which were entered into by the Group during the two years immediately preceding the date of this prospectus and up to the Latest Practicable Date:

the Underwriting Agreement.

12. 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 2010, the date to which the latest published audited accounts of the Group were made up.

13. GENERAL

(a) The expenses in connection with the H Share Rights Issue, including the financial advisory fee, underwriting commission, printing, registration, translation, legal and accounting charges, are estimated to amount to approximately RMB89.69 million and will be payable by the Company.

(b) As at the Latest Practicable Date, none of the Directors or Supervisors had any interest, direct or indirect, in any assets which had been acquired or disposed of by or leased to any member of the Group since 31 December 2010 (being the date to which the latest published audited financial statements of the Company were made up) or proposed to be so acquired, disposed of or leased to any member of the Group.

(c) In the event of any inconsistency, the English language text of this document shall prevail over the Chinese language text.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company at Room 3203-3205, 32/F, Great Eagle Centre, 23 Harbour Road Wanchai, Hong Kong during normal business hours from the date of this prospectus up to and including 27 January 2012:

(a) the Articles of Association;

(b) the audited financial statements of the Group for the three years ended 31 December 2008, 2009 and 2010;

(c) the unaudited financial statements of the Group for the six months ended 30 June 2010 and 2011;

(d) the report from KPMG relating to the unaudited pro forma financial information of the Group as set out in Appendix II to this prospectus;

(e) the material contract referred to in the section headed "Material Contracts" in this Appendix;

(f) the written consent referred to in the section headed "Expert" in this Appendix;

(g) a circular of the Company dated 12 May 2011 in relation to, among other things, the Rights Issue; and

(h) the Announcement.