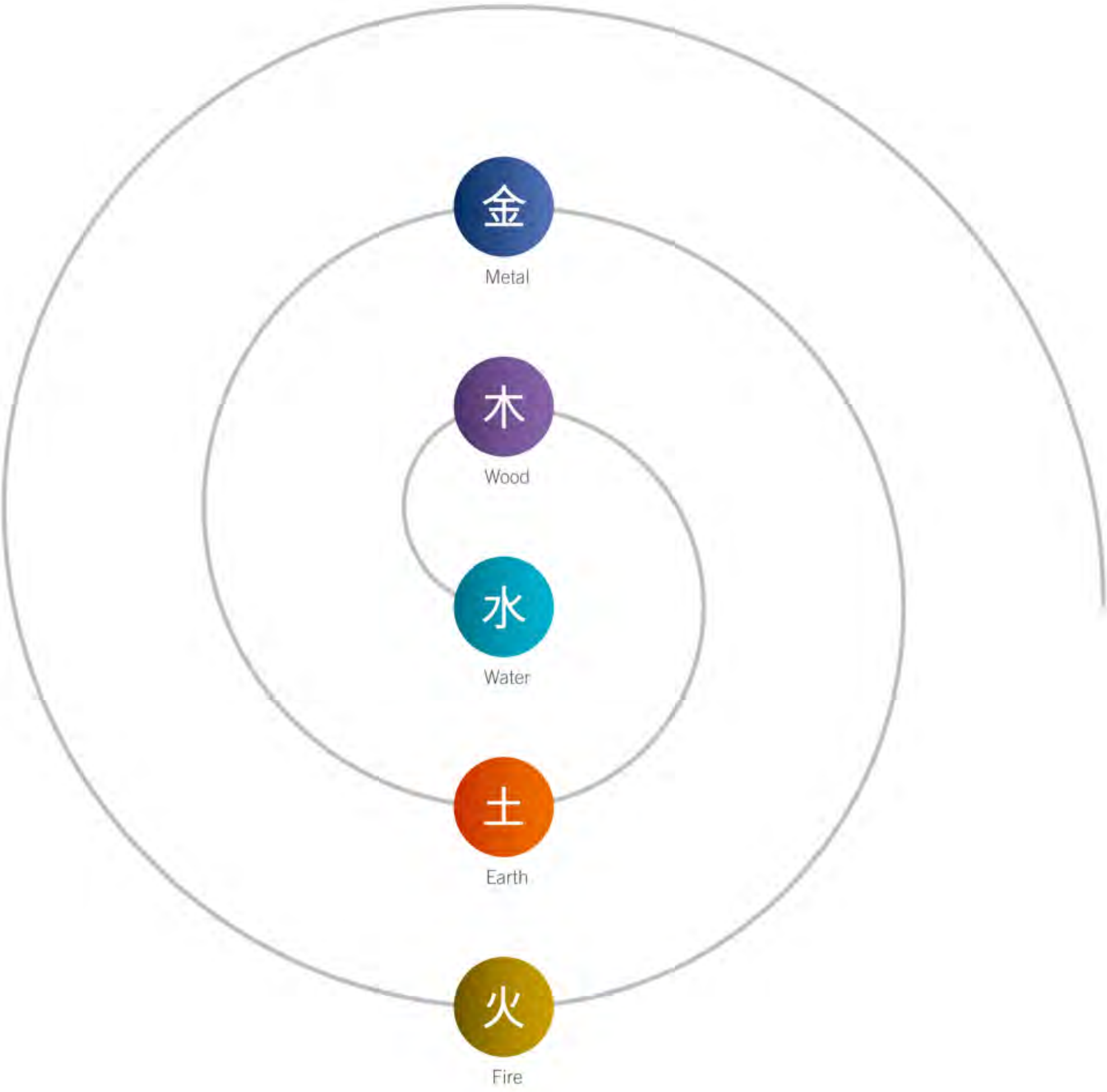
中国通信服务
CHINA COMSERVICE



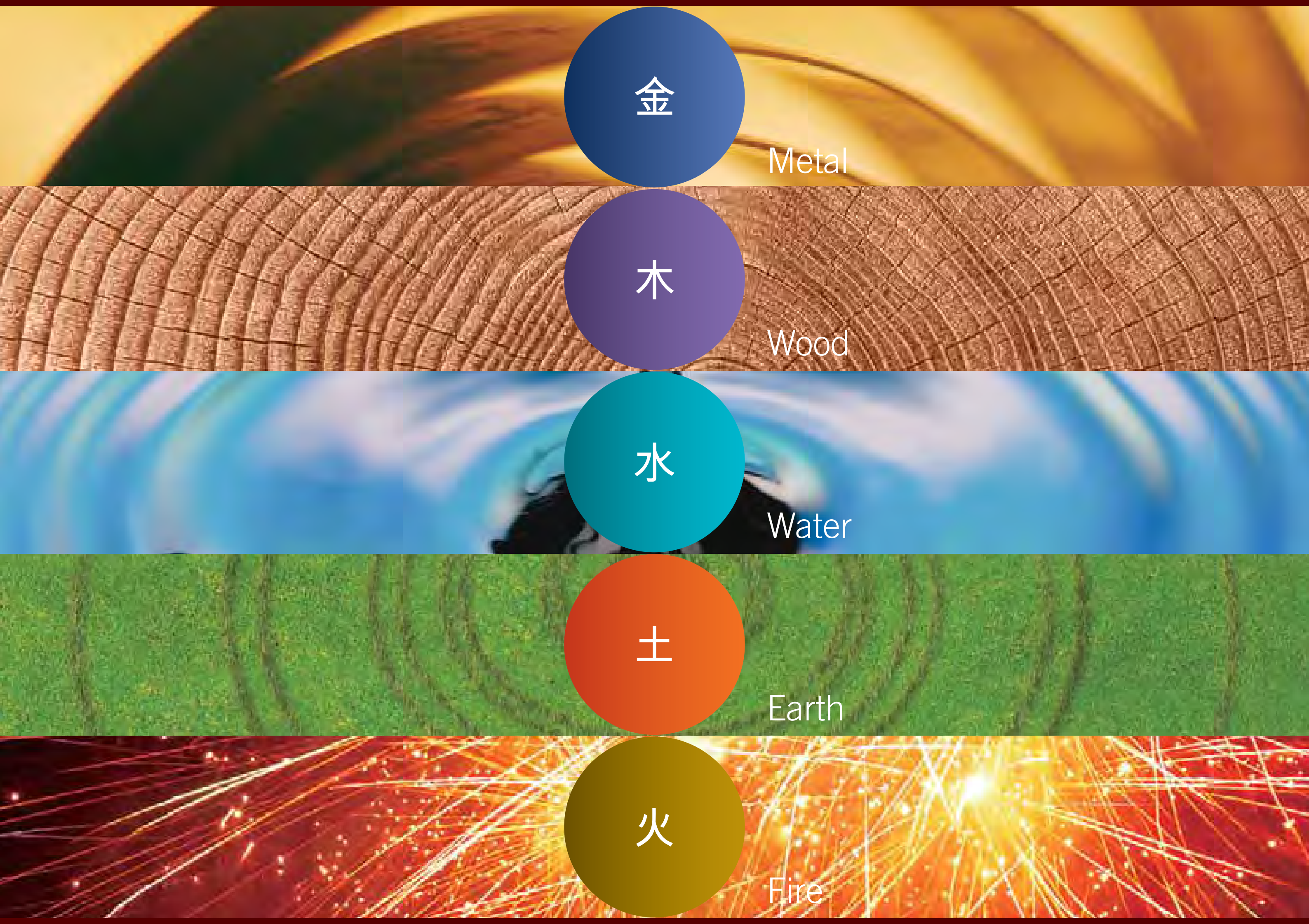
CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

Stock code: 552

ANNUAL REPORT 2009

Service provider for telecommunications, media and technology companies

We are a service provider for telecommunications, media and technology companies. We have years of experience in providing services for telecommunications operators, government agencies, enterprises and other customers. These services include telecommunications infrastructure services covering planning, consulting, design, engineering and construction and project supervision and management, business process outsourcing services covering maintenance, distribution of telecommunications products and services, and facilities management, as well as applications, content and other services. We provide integrated services covering the key activities of the value chain of telecommunications operators and we have the ability to provide integrated solutions to our customers.

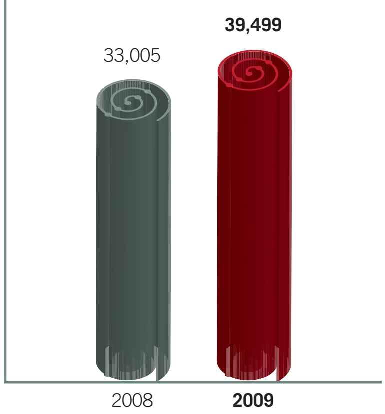

金
Metal
木
Wood
水
Water
土
Earth
火
Fire

Contents

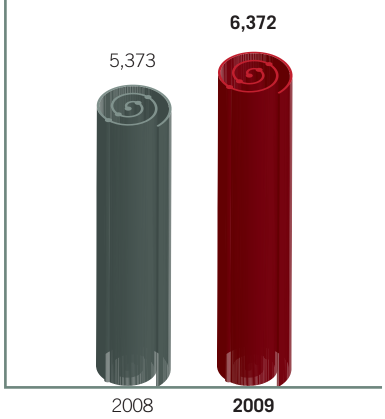
Financial Highlights

	2008	**2009**	Change
Revenues (RMB million)	33,005	**39,499**	**19.7%**
Gross profit (RMB million)	5,373	**6,372**	**18.6%**
Profit attributable to equity shareholders (RMB million)	1,327	**1,599**	**20.5%**
Basic earnings per share (RMB)	0.233	**0.277**	**18.9%**
Free cash flow[1] (RMB million)	1,264	**1,207**	**(4.5%)**

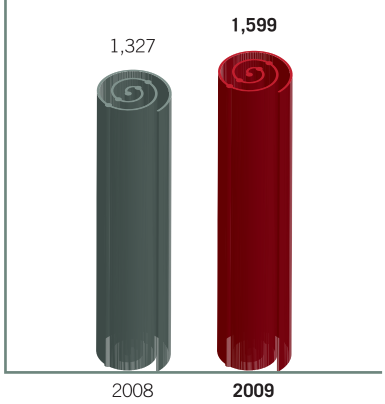
Revenues
(RMB million)



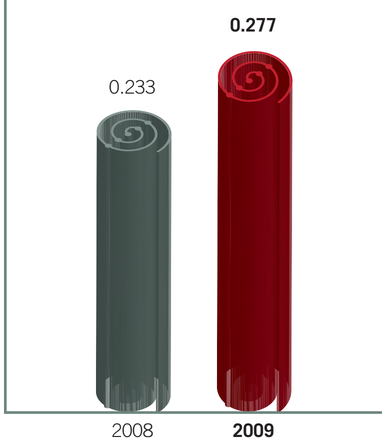
Gross profit
(RMB million)



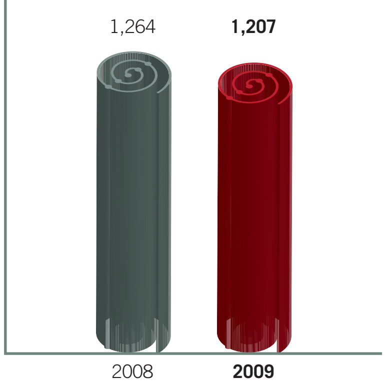
Profit attributable to equity shareholders
(RMB million)



Basic earnings per share
(RMB)



Free cash flow[1]
(RMB million)



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

Company Profile, Corporate Information and Milestones

China Communications Services Corporation Limited ("the Company") is a service provider for telecommunications, media and technology companies, and also the largest telecommunications infrastructure service group in the PRC, providing specialized telecommunications infrastructure ("TIS") services, business process outsourcing ("BPO") services and applications, content and other ("ACO") services. All the major telecommunications operators in the PRC, namely, China Telecommunications Corporation ("China Telecom"), China Mobile Communications Corporation ("China Mobile") and China United Network Communications Group Company Limited ("China Unicom") are our customers and also our shareholders. We also provide services to telecommunications equipment manufacturers, corporate customers, governmental organizations and public customers. Our service coverage is spread across the nation and we have also extended our business to over 50 countries and regions globally.

On 8 December 2006, the H shares issued by the Company were successfully listed on the Main Board of the Stock Exchange of Hong Kong Limited. As at 31 December 2009, the aggregate share capital of the Company was 5,771,682,000, of which 1,992,850,200 were H shares.

Honorary Chairman

Mr. Wang Xiaochu

Board of Directors

Executive directors

Mr. Li Ping (Chairman)
Mr. Zhang Zhiyong
Mr. Yuan Jianxing

Non-executive directors

Mr. Liu Aili
Mr. Zhang Junan

Independent non-executive directors

Mr. Wang Jun
Mr. Chan Mo Po, Paul
Mr. Zhao Chunjun
Mr. Wu Shangzhi
Mr. Hao Weimin

Board Committee

Audit Committee

Mr. Chan Mo Po, Paul (Committee Chairman)
Mr. Wu Shangzhi
Mr. Hao Weimin

Remuneration Committee

Mr. Wu Shangzhi (Committee Chairman)
Mr. Chan Mo Po, Paul
Mr. Zhao Chunjun

Nomination Committee

Mr. Zhao Chunjun (Committee Chairman)
Mr. Wang Jun
Mr. Hao Weimin

Non-Competition Undertaking Review Committee

Mr. Hao Weimin (Committee Chairman)
Mr. Chan Mo Po, Paul
Mr. Zhao Chunjun

Milestones

2006 2007 2008

AUGUST 2006

30 August 2006: The Company was established, with initial primary service areas including Shanghai, Zhejiang Province, Fujian Province, Hubei Province, Guangdong Province and Hainan Province.

DECEMBER 2006

8 December 2006: The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited. Gross proceeds from the IPO was about HK$3.3 billion.

AUGUST 2007

31 August 2007: The Company completed the acquisition of the businesses of specialized telecommunications support services in 13 provinces (municipality and autonomous regions) from China Telecommunications Corporation at a consideration of RMB4,630 million.

OCTOBER 2007

10 October 2007: China Communications Services (Hong Kong) International Limited was established.

DECEMBER 2007

12 December 2007: Mr. Zhang Zhiyong and Mr. Yuan Jianxing were appointed as executive directors of the Company.

APRIL 2008

8 April 2008: Mr. Wang Xiaochu resigned as non-executive director and Chairman of the Company, and was re-designated as the Honorary Chairman. On the same date, Mr. Li Ping was appointed as Chairman of the Company. Mr. Zhang Zhiyong was appointed as President of the Company.

APRIL 2008

9 April 2008: The Company completed the placement of 327 million new H Shares with net proceeds of HK$1,668 million.

Right of First Refusal and Priority Right Committee
Mr. Wu Shangzhi (Committee Chairman)
Mr. Zhao Chunjun
Mr. Hao Weimin

Supervisory Committee
Ms. Xia Jianghua (Committee Chairperson)
Mr. Hai Liancheng (Independent Supervisor)
Mr. Yan Dong (Employee Representative Supervisor)

Legal Name (in Chinese)
中國通信服務股份有限公司

Legal Name (In English)
China Communications Services Corporation Limited

Legal Representative
Mr. Li Ping

Company Secretary and Qualified Accountant
Mr. Chung Wai Cheung, Terence

International Auditors
KPMG

Legal Advisors
Freshfields Bruckhaus Deringer
Jingtian & Gongcheng

Registered Office
Level 5 No. 2 and B
Fuxingmen South Avenue
Xicheng District
Beijing, PRC 100032

Business Address
No. 19,
Chaoyangmen Beidajie
Dongcheng District
Beijing, PRC 100010

H Share Registrar
Computershare Hong Kong Investor Services Limited
1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Listing Place
The Stock Exchange of Hong Kong Limited

Stock Code
00552

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Office of Board of Directors:
Telephone: (8610) 5850 2290
Fascimile: (8610) 5850 1534

Website
www.chinaccs.com.hk

2009

MAY 2008
30 May 2008: The Company completed the acquisition of the 100% equity interests in China International Telecommunications Construction Corporation at a consideration of RMB505 million.

MARCH 2009
24 March 2009: China Telecommunications Corporation completed the transfers of 506,880,000 and 236,300,000 domestic shares of the Company to China Mobile Communications Corporation and China United Network Communications Group Company Limited respectively.

MAY 2009
26 May 2009: The Group acquired the equity interests in Guoxin Lucent Technologies Network Technologies Co., Ltd. (51%), Shanghai Tongmao Import & Export Co. Ltd. (95.945%) and Shenzhen Telecom Engineering Company Limited (40%) for a total consideration of RMB 115 million.

JULY 2009
31 July 2009: An extraordinary general meeting was held and resolutions were passed to approve the re-elections of the members of the second session of the Board of Directors and those of the Supervisory Committee of the Company. All members of the first session of the Board of Directors and those of the Supervisory Committee continued to hold their office.

OCTOBER 2009
29 October 2009:The Company signed 2009 Supplementary Strategic Agreement with China Telecom Corporation Limited to renew Strategic Cooperation Agreement for three years ending 31 December 2012.

NOVEMBER 2009
25 November 2009: The Company and Accenture International Sarl established a joint venture, China Communication Service Application Solution Technology Co., Ltd.

Chairman's Statement

Dear Shareholders,

I am pleased to report to you the overall operating results of the Group in 2009.

In 2009, the Group continued to implement its customer-focused service innovation strategy, seized opportunities, expanded our markets and improved services and efficiency and as a result we were able to achieve good operating results.

In 2009, total revenue of the Group reached RMB39,499 million, representing a year-on-year growth of 19.7%. Profit attributable to equity shareholders was RMB1,599 million, representing a year-on-year growth of 20.5%. Free cash flow reached RMB1,207 million, remaining at a stable level. Having considered the interests of, and return to, our shareholders, and the funding requirements of the Group's long-term development, the board of directors of the Company (the "Board") has proposed to pay a final dividend of RMB0.1108 per share for the financial year ended 31 December 2009, representing a year-on-year growth of 21.4%.

Focused On Customer Needs And Seizing Opportunities For Development

In 2009, the Group quickly responded to the network construction demands of the three telecommunications operators, with revenues from those customers achieving a year-on-year growth of 26.3%. In 2009, the three telecommunications operators invested tremendously in 3G network construction, and the subsequent demand for services, including network capacity expansion, optimization, maintenance and content applications etc. is expected to continue. Furthermore, industry development and technology evolution will bring new business opportunities for the improvement and upgrade of broadband networks. While revenue from telecommunications operators grew stably, contributions from government agencies and corporate customers to the Group became more and more significant. In 2009, in accordance with the State's policy of stimulating domestic demand, the Group captured the opportunities for the State's urbanization construction and informatization construction of government agencies and corporate customers and provided them integrated services such as communications network consulting, design, construction and maintenance, and achieved favorable growth in revenues from government agencies and corporate customers.

Overseas Markets Expansion With Remarkable Results

Overseas markets expansion is one of our long term development strategies. In 2009, the Group implemented proactive overseas market expansion strategies, further improved our mechanism in overseas market expansion, strengthened our management in overseas platforms and co-ordination and interaction of front-end and back-end operation, and set up co-operative mechanisms with telecommunications equipment vendors, telecommunications operators, large-scale state-owned enterprises and national financial institutions for the purpose of complementing our mutual strengths, sharing resources and jointly developing overseas markets. In 2009, overseas revenues achieved a substantial year-on-year growth of 82.3%, representing 3.3% of the Group's overall revenues. At present, we have completed Phase I of the nationwide optical fiber transmission network projects in Congo (K) and Tanzania. Phase II of the project has already commenced in Congo (K) and we also have several additional strategic projects in the pipeline. The Group expects that contributions of overseas revenues to overall revenues will continue to increase significantly over the coming years.

Innovative ACO Business Development And Building Branded Enterprises

In 2009, the Group continued to accelerate the development of businesses in applications, contents and other ("ACO") services, strengthened internal integration and external co-operation, and strived to improve its core competitiveness. The Company and Accenture International Sarl recently established a joint venture, China Communication Service Application Solution Technology Co., Ltd., to jointly develop businesses in the domestic IT market. In future, the Group will continue to identify suitable acquisition opportunities, and strive to capture opportunities to accelerate our development.

Enhanced Core Management And Improved Corporate Operational Efficiency

In 2009, the Group stably progressed its internal integration by setting up strategic business units focusing on professional services such as designs and construction, reducing the number of companies and gradually achieved the transformation from functional management to integrated operational control for our provincial subsidiaries. At the same time, the Group further facilitated the centralized management in finance, procurement and project sub-contracting, improved its operational efficiency and further realized benefits from economies of scale.

Continual Improvement Of Corporate Governance Standards And Achieved Social Recognition

While our results grow steadily, the Group also strictly complied with relevant laws and regulations and further optimized its corporate governance structure to ensure a stable, optimized and effective internal control system. During the year of 2009, the Board completed its session change and all the members of the first session continue to hold their positions. Half of the Board members are independent non-executive directors, thereby maintaining the Board's continuity and independence of operation.

In 2009, the Group actively promoted its corporate culture construction. With the objective of people-oriented, concern on staff and customer care, we carried out our social responsibilities proactively and operated in good faith, establishing a harmonious enterprise. The Group is widely recognized for these efforts by the communities in which we operate. The Company was awarded "The Most Faithful Enterprise in China of 2009" by the China Faithful Enterprise Election Committee, and we were also ranked as one of "China's Most Promising Companies 2009" by the authoritative international financial magazine, The Asset.

Outlook

Throughout more than three years since our listing in the end of 2006, through the enormous efforts of the whole Group, we have been able to sustain healthy business growth with expanding market share and continued enhancement in operating results, laying a solid foundation for our sustained, rapid and healthy development in the future. Looking forward, macro-economic environment in the PRC continues to be optimistic, and potential in both domestic and overseas markets is expected to expand further. With telecommunications operators' full service integrated operations, convergence of the three networks, the emergence of Cloud Computing and Internet of Things and escalating demand for mobile Internet applications, there will be tremendous opportunities provided to the Group for our future development. Entering 2010, we will adhere to our defined development strategy, optimize our resource allocation, speed up our development in overseas market, enhance our core capabilities and foster innovation. Our goal is to establish ourselves as an enterprise delivering excellent results through high efficiency and outstanding core competitiveness.

Finally, on behalf of the Board, I would like to express my sincere gratitude to all our customers and shareholders who showed their care and support to the Group and my utmost respect to all our dedicated and tireless staff!

Li Ping
Chairman

Beijing, PRC
30 March 2010

President's Statement

Dear Shareholders,

I am very pleased to present the operating results of the Group in 2009.

In 2009, the Group recorded revenues of RMB39,499 million, representing a year-on-year growth of 19.7%. Profit attributable to equity shareholders amounted to RMB1,599 million, representing a year-on-year growth of 20.5%. The continuous and stable growth of our operating results was mainly achieved by seizing the opportunities arising from 3G network construction and subsequent increasing demand for associated support services. Furthermore, by focusing on customer needs, effectively developing our markets, strengthening our cash management and improving operating efficiency and effectiveness, the Group was able to deliver strong results over the past year.

In 2009, costs of revenues of the Group amounted to RMB33,127 million, representing a year-on-year growth of 19.9%, which was basically in line with our revenue growth. The Group's gross profit margin was 16.1%, maintaining a similar level to last year. Net profit margin for the year was 4.0%, on par with last year. Through strengthening working capital management and adopting a prudent strategy in capital expenditure, our free cash flow for the year amounted to RMB1,207 million, achieving favorable financial results.

In 2009, we achieved a continuous and stable growth in all three of our main businesses. Our revenue from telecommunications infrastructure ("TIS") services saw a year-on-year increase of 25.8%, of which TIS revenues from government agencies and corporate customers increased by 28.6% on a year-on-year basis. This favorable revenue growth was mainly attributable to increased investments in 3G network construction and optimization by the three telecommunications operators, increased investments in urbanization and informatization construction by government and our aggressive efforts to expand business in overseas markets.

Revenues from business process outsourcing services enjoyed a year-on-year increase of 16.0%, of which revenue from maintenance service recorded a year-on-year increase of 47.8%. The rapid growth in revenue was mainly due to increased demand for ongoing operational support services following network construction by telecommunications operators and their increasing trend towards outsourcing services. Moreover, by exercising effective control in the development of the distribution business[(1)] which has a lower profit margin, there was a positive contribution to keeping our overall gross profit margin stable.

Revenues from applications, contents and other services increased 8.5% on a year-on-year basis. We continued our efforts in internal business integration and the introduction of strategic co-operative partners to enhance our core capabilities. We also carried out innovative development models, set up the ACO Coordination Committee and established five major business lines including OSS[(2)], BSS[(2)], MSS[(2)], system integration/IT outsourcing, and mobile Internet value-added business, with focus on brand building. We are delighted to see initial success in business development and laying a solid foundation for rapid future development.

In 2009, the Group continued to develop its market and expanded its business coverage. While endeavouring to support the network construction and optimization of telecommunications operators, the Group also continued to strive for the development of government agencies and corporate customers. During the year, revenues from the three telecommunications operators amounted to RMB27,473 million, representing a year-on-year growth of 26.3%. Moreover, the Company renewed the strategic agreement with China Telecom Corporation Limited for a further three years, thereby consolidating the sound relationship with our major customer and securing the Group's ability to deliver sustainable development. Revenues from government agencies and corporate customers amounted to RMB12,026 million, representing a stable growth from the same period last year, of which the core businesses, including communication construction and maintenance, have developed rapidly. Whilst consolidating our domestic market share, the Group also took aggressive measures to expand its business in overseas markets. We built upon our strong collaborative relationships with telecommunications equipment vendors, telecommunications operators, large-scale state-owned enterprises and national financial institutions, managed our outsourcing projects diligently, and actively developed turn-key projects. In 2009, the Group achieved significant progress in overseas market expansion, and recorded revenue of RMB1,287 million, representing a year-on-year increase of 82.3%.

In the first half of 2009, the Group completed the acquisitions of a 51% equity interest in Guoxin Lucent Technologies Network Technologies Co., Ltd., a 95.945% equity interest in Shanghai Tongmao Import & Export Co., Ltd. and a 40% equity interest in Shenzhen Telecom Engineering Co., Limited respectively. The acquisitions facilitate the integration of our existing businesses of comprehensive logistic services, the development of operation support systems and further improve the overall competitive strengths of the Group.

In 2009, the Group further rationalized its internal control and risk management mechanism and enhanced systems for the identification and control of major risks, thereby ensuring the effective implementation of corporate strategies and protection of shareholders' interests. At the same time, we enhanced the overall operation management standard by promulgating management measures on outsourcing business, optimizing and promoting the EMOSS[(3)] management system, progressing centralized cash management, and improving the integration level of project management. The above measures have improved our efficiency in corporate operation effectively, enhanced the effective allocation of resources and effectively minimized operational risks.

(1) Distribution business means distribution of telecommunications services and products.

(2) OSS (Operation Support System); BSS (Business Support System); MSS (Management Support System)

(3) EMOSS (Enterprise Management Operation Support System)

In 2009, with our focus on people-oriented principles, the Group strengthened the building of our talent pool, optimized our human resources structure and enhanced labour deployment management. We established a forecast model for human resources requirement which allowed for dynamic staff allocation. We focused on recruiting high caliber professionals, strengthened training for core talents and optimized our annual performance assessment system, thereby providing strong human resources support for our long-term development.

Looking forward, underpinned by our established strategic direction, the Group will strive to perform the followings in 2010 in order to seize opportunities and accelerate development, with a view to bringing robust performance to our shareholders and society:

- While maintaining stable growth in TIS revenue, we will leverage the demand for full service integrated operation by telecommunications operators and speed up development in businesses such as maintenance, network optimization, logistics and mobile Internet applications. We will also step up our efforts in market development in Northern China and follow closely the opportunities from the three networks convergence, joint construction and sharing of telecommunications infrastructures and the evolution of new technologies.

- By seizing the demand for the State's urbanization construction and informatization construction of government agencies and corporate customers, we will endeavour to expand businesses for non-operator markets and strengthen co-operation with telecommunications operators, telecommunications equipment vendors and large-scale state-owned enterprises, focusing on key projects such as the construction of Shanghai Disneyland, the Asian Games in Guangzhou, high-speed railways, airports and expressways, so as to speed up our development.

- By accelerating our business development in overseas markets such as Africa, Latin America, the Middle East and Hong Kong and Macau, we will strive to achieve sustainable breakthrough in those overseas markets by capitalizing on our own strengths and enhancing our strong collaborative relationship with telecommunications equipment vendors, telecommunications operators, large-scale state-owned enterprises and national financial institutions, sharing each other's resources and complementing mutual strengths. We will optimize the construction of overseas support platforms, and regulate our financial, legal and logistics support, so as to ensure rapid business development in overseas markets and effective risk management.

- By implementing innovative models in ACO development, talents retention and incentive mechanisms, and increasing our investments in resources, we will strive to establish branded products and enterprises, with the objective of improving our competitiveness and accelerating market expansion.

- We will continue to progress internal integration, enhance resources allocation and strengthen cost control measures, with a view to further improving the value of the Company.

Zhang Zhiyong
President

Beijing, PRC
30 March 2010


移动支付
Mobile Payment
手机订购
Handset Order
手机缴费
Handset Payment
手机银行
Handset Bank
手机刷卡

Innovative ACO development model
Establish branded enterprise

Capture **GOLDen** opportunities arising from mobile Internet, Three Networks Convergence, etc.

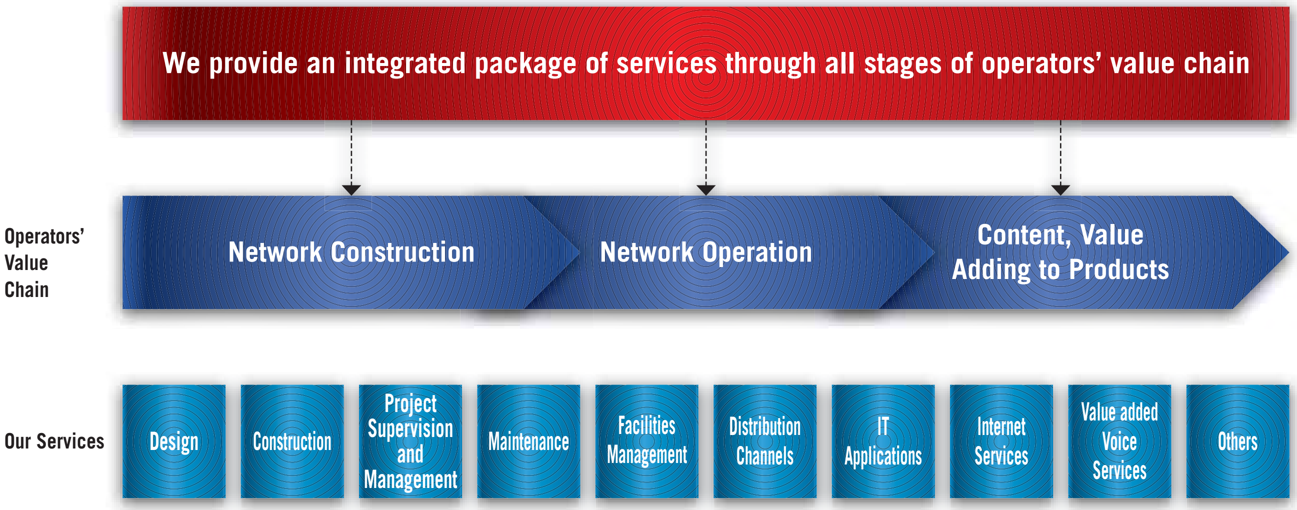
Business Review

The Group mainly provides supporting services for telecommunications, media and technology companies, and is a leading enterprise in the field it operates. For over 40 years, we have provided services to telecommunications operators, telecommunications equipment manufacturers, government agencies and corporate customers such as media companies. We have established long-term and solid customer relationship, accumulated extensive service experience and built a professional team with excellent capabilities. We are the largest telecommunications infrastructure service provider and the leading business process outsourcing service provider in China and we also continue to explore the provision of value-added services.

With global engineering partners

Our service coverage is spread across the nation and we have also extended our business to over 50 countries and regions globally.

In 2009, by focusing on customers' needs and capitalizing on various demands arising from 3G network construction by domestic operators, government infrastructure investments and informatization process of government agencies and corporate customers, we achieved operating revenues of RMB39,499 million, a year-on-year growth of 19.7%.



Customer Services and Market Expansion

China Telecom, China Mobile and China Unicom (the "Three Major Operators") are our top three major customers. After obtaining their 3G licenses in 2009, all of the Three Major Operators focused their investments on 3G networks and also increased their investments in broadband and data networks. In 2009, investments in fixed assets of domestic telecommunications industry amounted to RMB372.5 billion, increasing by 26.1% on a year-on-year basis.

The Group had already well-prepared for such an opportunity and started implementing our "CTW[1] program", specifically tailored to the Three Major Operators, since the second half year of 2008. In 2009, we progressed the "CTW program" further by reacting more timely to market demand and enhancing our customer marketing and servicing quality. We fully captured the opportunities from the needs of operators in area such as network design, construction, maintenance, logistics and value-added business services. Therefore, revenues from all of the Three Major Operators achieved a rapid and balanced growth, with a total amount of RMB27,473 million, representing a year-on-year growth of 26.3%. At the same time, we have also been paving the way for developing our new growth drivers, such as increasing our efforts in developing the Northern China market in which we have a relatively lower market share, putting more resources in area such as human resources and staff training for our maintenance business, and working with telecommunications operators in pilot test sites for joint construction and sharing of telecommunications infrastructures project and collaborative logistics management.

(In RMB million except percentages)	**2009** Revenues	**2009** Percentage to total revenues	2008 Revenues	2008 Percentage to total revenues	**Increase over 2008**
China Telecom	**20,243**	**51.2%**	15,966	48.4%	**26.8%**
China Mobile and China Unicom	**7,230**	**18.3%**	5,787	17.5%	**24.9%**
Government agencies, corporate and other customers	**12,026**	**30.5%**	11,252	34.1%	**6.9%**
Total	**39,499**	**100.0%**	33,005	100.0%	**19.7%**

1 CTW refers to CDMA, TD-SCDMA, WCDMA and their subsequent technologies

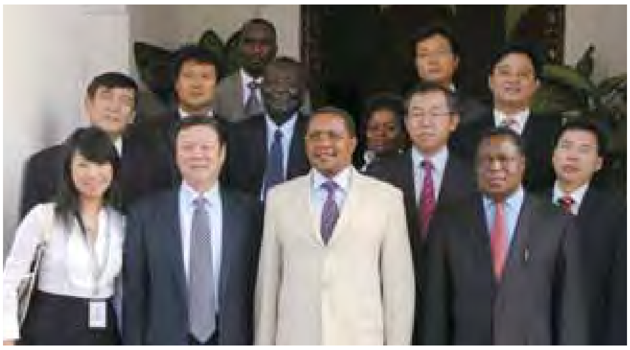
The Group provides integrated construction and maintenance services of communications, IT and weak current system for government agencies, telecommunications equipment manufacturers, media companies, infrastructure enterprises, educational and medical institutions and small to medium-sized enterprises. In 2009, we capitalized on the business demands brought by on-going urbanization and informatization in China, particularly the increase in investments in infrastructure encouraged by the State's policy in stimulating domestic demand, provided services for key projects and major customers. For example, we provided ancillary communications facilities construction services for World Expo in Shanghai, Asian Games in Guangzhou and subway projects in many cities, and provided an intranet construction service for a jewellery chain store to connect its nationwide outlets. In 2009, our revenues from government agencies and corporate customers amounted to RMB12,026 million, a growth of 6.9%, of which revenue growth from two core services, including telecommunication infrastructure service and maintenance service, grew by 34.0%.

Design staff carried out field survey in Shanghai World Expo

Design staff carried out testing of wireless communication in Wuhan-Guangzhou high-speed railway

Overseas expansion is one of the Group's long-term development strategies. We focus on market expansion in regions such as Hong Kong and Macau, Southeast Asia, Africa and South America. We provide services such as consultation, design, construction, maintenance and operation in telecommunications network, IT and weak current system for the local customers in these regions. The Group has already established a co-operation mechanism with the PRC financial institutions, large state-owned enterprises and telecommunications equipment manufacturers (which have years of experience in overseas markets), thereby complement the strengths of one another and jointly develop the markets. In 2009, our projects in Congo (K) and Tanzania, in which we acted as principal contractor, progressed smoothly, and we also had a handful of project reserve in other regions. At the same time, we put equal emphasis on subcontracting projects and actively undertook outsourcing projects from equipment manufacturers. In 2009, revenues from overseas markets had a year-on-year growth of 82.3%, amounting to RMB1,287 million[1].

The Group envisaged the shortage of the supply of communications services in regions such as Africa, and hence there would be a huge demand for local communications infrastructure construction service. By combining our advantages on experience, technology and talents accumulated from years of services in the PRC telecommunications industry, together with the capital and customer resources of our co-operative partners, the Group will have further development in overseas markets.



Honorary Chairman WANG Xiaochu and Chairman LI Ping met Mr. Jakaya Mrisho Kikwete, the President of Tanzania

Network construction in Ethiopia

Nationwide optical fiber transmission network project in Tanzania

Chairman LI Ping met the Minister of the Ministry of Communication Science and Technology of Tanzania

(1) Revenues from overseas is included as part of revenues from government agencies and corporate customers.

Telecommunications Infrastructure Services

The Group has many companies covering design, engineering and construction, and project supervision and management which are the leaders in their respective industries. These companies are the major regulation-formulators in engineering design, construction, project supervision and management of the PRC telecommunications industry and they have good reputations with both domestic and overseas customers. In 2009, the Group's revenue in telecommunications infrastructure services amounted to RMB19,289 million, representing a year-on-year growth of 25.8%.

Communication ducts and pipelines laying design

Equipment installation quality checking

The Group provides a full range of telecommunications infrastructure services to both domestic and overseas telecommunications operators. These services include planning, design, construction and project supervision and management for wireline, wireless, broadband networks and support systems. The Group provides full support to the Three Major Operators in 3G network construction and assisted China Telecom, China Mobile and China Unicom to construct the world's largest CDMA network, TD-SCDMA network and WCDMA network respectively. In 2009, the Group's revenue from providing telecommunications infrastructure services to the Three Major Operators recorded a growth of 25.2%, demonstrating our solid leading market position.

The Group also provides communications and informatization solutions such as construction design, intranet design, intelligent buildings, generic cabling, ducts relocation, and projects principal contracting to government agencies, IT companies, media companies (including cable television companies) and other corporate customers. In 2009, the Group's telecommunications infrastructure services revenue from government agencies and corporate customers recorded a year-on-year growth of 28.6%.

We believe that there is ample development potential in telecommunications infrastructure services. As at the end of 2009, the number of mobile phone subscribers in China had already exceeded 700 million, and broadband subscribers are over 100 million. To ensure network and service quality, telecommunications operators should maintain their investments at a substantial level. New technologies, like "Internet of Things", "Cloud Computing", and continuous emergence of new demands will push telecommunications operators to upgrade and re-engineer their networks. At national level, there is still gap between China and other developed countries in respect of urbanization and informatization and thus there are tremendous business opportunities. The government puts great efforts in changing the ways of economic growth, and promotes many policies including "Three Networks Convergence" and "Energy-Saving and Emission-Reduction", which will also help provide development opportunities for service-oriented enterprises, such as us. Taking "Three Networks Convergence" as an example, it could be expected that there would be demand from cable television network companies on their investments in network and supporting system, and demand from telecommunications operators on their acceleration in upgrading and re-engineering their broadband networks.

Business Process Outsourcing Services

The Group's business process outsourcing services include network maintenance, distribution of telecommunications products and services ("distribution") and facilities management services. In 2009, revenue from business process outsourcing services amounted to RMB15,943 million, representing a year-on-year growth of 16.0%, of which revenue from network maintenance, distribution and facilities management services were up by 47.8%, 10.1% and 5.9%, respectively.

With expansion in scale of operators' networks and growing proportion of non-core business outsourcing, these have pushed our network maintenance revenue continued to increase rapidly. Taking mobile base station as an example, by the end of 2009, the number of mobile base stations under our maintenance reached approximately 175,000, more than doubled when compared with the end of 2008, representing around 20% of the total number of mobile base stations of the country. Apart from the maintenance of base stations, we also provide maintenance services of fiber optic cables, cables, user access lines, users terminals and network equipment to telecommunications operators. At the same time, we also actively develop network optimization services and undertake the construction of indoor coverage systems. Telecommunications operators' demand for network maintenance and optimization is long-term and sustainable, and we will build up our branded maintenance service teams and enhance our service quality to ensure our sustainable development in this field.

The distribution services of the Group mainly include sales of telecommunications equipment, mobile phone terminal, logistic and procurement agency and agency services for telecommunications business, and our major customers are telecommunications operators and telecommunications equipment manufacturers. In 2009, the Group focused on the procurement, logistics and distribution services of telecommunications equipment and mobile phone terminal brought by 3G network construction and operation, and continued to manage the development of certain distribution businesses with lower gross profit margin. In 2009, revenue from sales of telecommunication equipment and handset terminals represented approximately 70% of the distribution revenue.

Distribution business provides us a valuable opportunity to assist operators to develop customers and business, and also constitutes a stable source of income. Hence, we will continue to further enhance the content and quality of this business in future. In 2009, we completed the acquisition and integration of Shanghai Tongmao Import & Export Co., Ltd., which has extensive experience and full qualifications in the logistics industry, and commenced a trial run of collaborative logistics services in certain provinces and cities, with an aim to decrease the procurement and logistics costs for operators. These activities will help us strengthen our customer relationship, enhance customer value and utilize efficiently our existing resources in warehousing and vehicles, thereby establish ourselves to become a modernized branded logistics enterprise in IT industry.

Retail outlet

Applications, Content and Other Services

In 2009, revenue from applications, content and other services amounted to RMB4,267 million, a growth of 8.5% on a year-to-year basis. Among the businesses, revenue from voice value-added service, which mainly included call center outsourcing service and voice message service, was increased by 12.9%. Revenue from IT application service, which mainly included system integration and development of software and hardware, was maintained at a steady level. Revenue from Internet service dropped as we continued to close down some Internet cafés with unsatisfactory performance. The 3G investment upsurge had boosted up the significant demand for our telecommunications network ancillary products such as telecommunications racks and base station antenna feeders, resulting in relatively faster revenue growth in other services.

We have observed the continuous demand for the management, operation and business support systems by telecommunications, media and technology companies following the commencement of the 3G era and the gradual development of "Three Networks Convergence". Government agencies and corporate customers have a huge demand for system integration and IT outsourcing. China has the largest telephone subscriber base and Internet user base in the world, and definitely there will be a tremendous demand for voice, data, video and other multi-play services. With our years of service experience in these areas, our integrated service model and leading position in the industry will provide us with distinctive development advantages.

Through several years of practical experience, in 2009, we further aligned our development vision of the above area and clearly set out our five major development business lines, namely, MSS, BSS, OSS, system integration/IT outsourcing, and mobile Internet value-added business. This alignment will enable us to focus our resources in developing products and enterprises with greater potential. The Group and Accenture International Sarl recently established a joint venture, China Communication Service Application Solution Technology Co. Ltd. ("CCS Software") to jointly develop these markets. In coping with the key issues in developing businesses in this area, we will implement a market-oriented incentive mechanism for core employees. While running CCS Software smoothly, we will also continue to explore the introduction of strategic cooperation partners and identify suitable acquisition targets, with the objective of enhancing our core competitiveness and establishing certain branded enterprises to achieve breakthroughs in these areas.

Video surveillance management platform

"All-purpose card" system developed for mobile phone



Firmly grasped business opportunities from operators

NetWork Optimization, Operation anD maintence services following network construction

Management Discussion & Analysis of Financial Conditions and Results of Operations

Overview

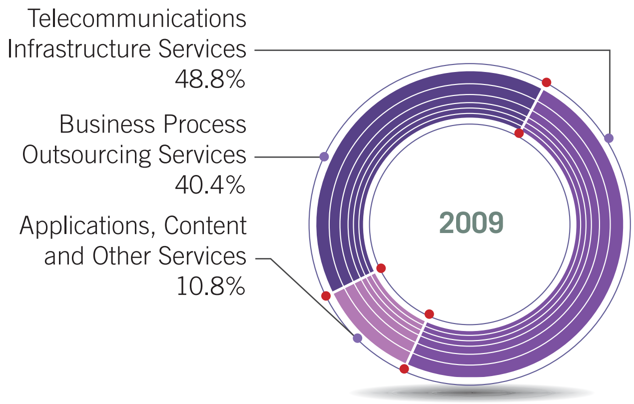
On 26 May 2009, the Company acquired 95.945% equity interests in Shanghai Tongmao Import & Export Co., Ltd and 51% equity interests in Guoxin Lucent Technologies Network Technologies Co., Ltd (collectively the "Target Interests"), for consideration of RMB64.16 million and RMB33.89 million respectively. Since the Group and the Target Interests are under common control of China Telecommunications Corporation, the Target Interests have been accounted for as a combination of entities under common control in a manner similar to pooling-of-interests. Accordingly, the assets and liabilities of the Target Interests have been accounted for at historical costs and the consolidated financial statements of the Company prior to the acquisition of the Target Interests have been restated to include 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.

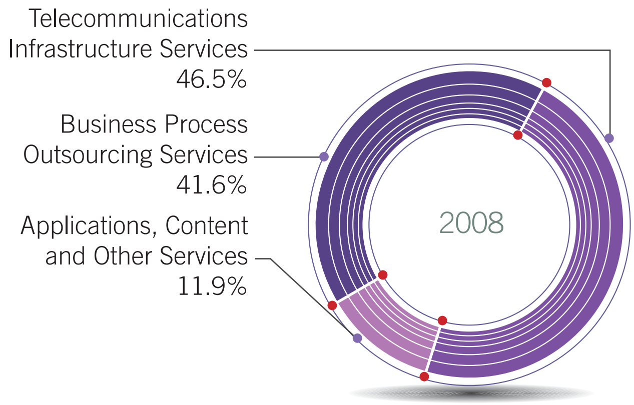
In 2009, the domestic telecommunications industry has entered the era of full services integrated operations. The whole Group, united as one, further focused on customer demand and strongly supported the 3G networks construction and full services integrated operations of the three telecommunications operators. The growth of all of our major businesses remained strong and we achieved favorable operating results. Our revenues amounted to RMB39,499.45 million, representing an increase of 19.7% from 2008. Profit attributable to equity shareholders of the Company amounted to RMB1,598.59 million, representing an increase of 20.5% from 2008. Basic earnings per share were RMB0.277, representing an increase of 18.9% from 2008. Free cash flow amounted to RMB1,207.14 million.

Revenues

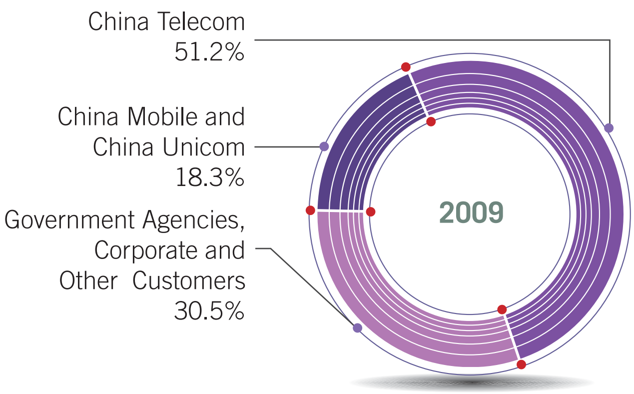
Our revenues in 2009 were RMB39,499.45 million, an increase of 19.7% from 2008. Among our businesses, revenue from telecommunications infrastructure services was RMB19,289.58 million, an increase of 25.8% from 2008; revenue from business process outsourcing services was RMB15,943.33 million, an increase of 16.0% from 2008; revenue from applications, content and other services was RMB4,266.54 million, an increase of 8.5% from 2008. Telecommunications infrastructure services and network maintenance services under business process outsourcing services were the major sources of our revenue growth in 2009. In terms of customer structure, the Group's revenues from the three telecommunications operators amounted to RMB27,472.73 million, representing 69.6% of the total revenues, an increase of 3.7 percentage points over last year.

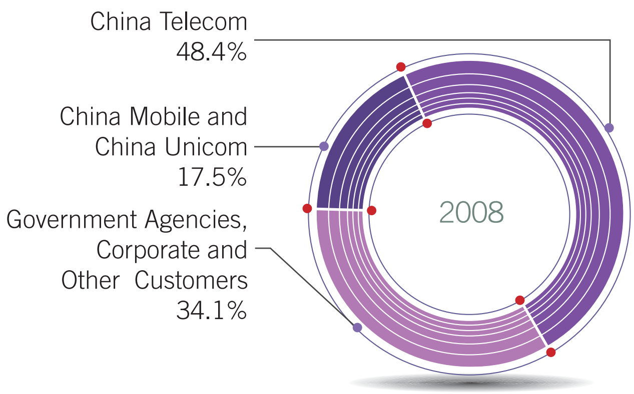
Business Mix





Customer Mix





The following table sets forth a breakdown of our revenues for 2008 and 2009, together with their respective rates of change:

	2009 RMB'000	2008 RMB'000	Percentage change
Telecommunications Infrastructure Services			
Design services	**4,021,105**	3,166,637	27.0%
Construction services	**14,086,311**	11,316,088	24.5%
Project supervision and management services	**1,182,163**	846,739	39.6%
	19,289,579	15,329,464	25.8%
Business Process Outsourcing Services			
Network maintenance	**3,484,132**	2,356,815	47.8%
Distribution of telecommunications services and products	**10,389,777**	9,433,761	10.1%
Facilities management	**2,069,417**	1,953,213	5.9%
	15,943,326	13,743,789	16.0%
Applications, Content and Other Services			
IT applications	**2,084,600**	2,076,912	0.4%
Internet service	**286,732**	361,170	(20.6%)
Voice VAS	**652,885**	578,071	12.9%
Other	**1,242,328**	915,966	35.6%
	4,266,545	3,932,119	8.5%
Total	**39,499,450**	33,005,372	19.7%

Telecommunications Infrastructure Services

In 2009, revenue from telecommunications infrastructure services was RMB19,289.58 million, which is our primary source of income, and accounted for 48.8% of our revenues. As the domestic telecommunications industry has entered into the era of full services integrated operations, all telecommunications operators significantly increased their investments in telecommunications network construction and optimization. The Group captured opportunities and strived to support the development of 3G network construction and full services integrated operations for the three telecommunications operators, China Telecom, China Mobile and China Unicom. The growth of our telecommunications infrastructure services business remained strong and revenue from this business increased by 25.8% over RMB15,329.46 million in 2008. The proportion of revenue from telecommunications infrastructure services to our total revenues increased by 2.3 percentage points.

Business Process Outsourcing Services

In 2009, revenue from business process outsourcing services was RMB15,943.33 million, representing an increase of 16.0% over RMB13,743.79 million for 2008. Business process outsourcing services accounted for 40.4% of our revenues, representing a decrease of 1.2 percentage points from 41.6% in 2008. Among our businesses, revenue from network maintenance was RMB3,484.13 million, representing an increase of 47.8% from 2008 and kept growing strongly. The growth was mainly due to telecommunications operators increasing their network capacity and outsourcing non-core businesses. In addition, the Group continued to strengthen the management of distribution of telecommunications services and products and optimize its business structure, such that the development of low-margin businesses was reasonably controlled and operating efficiency was improved. Revenues from distribution of telecommunications services and products amounted to RMB10,389.78 million, an increase of 10.1% from 2008. The proportion of revenue from the distribution of telecommunications services and products to our revenues decreased by 2.3 percentage points.

Applications, Content and Other Services

In 2009, revenue from applications, content and other service was RMB4,266.54 million, representing an increase of 8.5% over RMB3,932.12 million for 2008. As the primary focus of all telecommunications operators was on investments in 3G network construction in 2009, our revenues from both telecommunications infrastructure services and business process outsourcing services grew more rapidly. This led to the proportion of revenue from applications, content and other services to our revenues being reduced to 10.8%, representing a decrease of 1.1 percentage points from 11.9% in 2008. Among the businesses, revenue from IT applications amounted to RMB2,084.60 million and remained stable. Revenues from Internet services amounted to RMB286.73 million, representing a decrease of 20.6% from 2008. This was mainly due to the fact that the Group adjusted its business strategy and closed certain Internet cafés which historically had lower operational efficiency. Revenue from voice VAS was RMB652.89 million, representing a growth of 12.9% over 2008, which was mainly a result of the implementation of call centre business outsourcing by telecommunications operators.

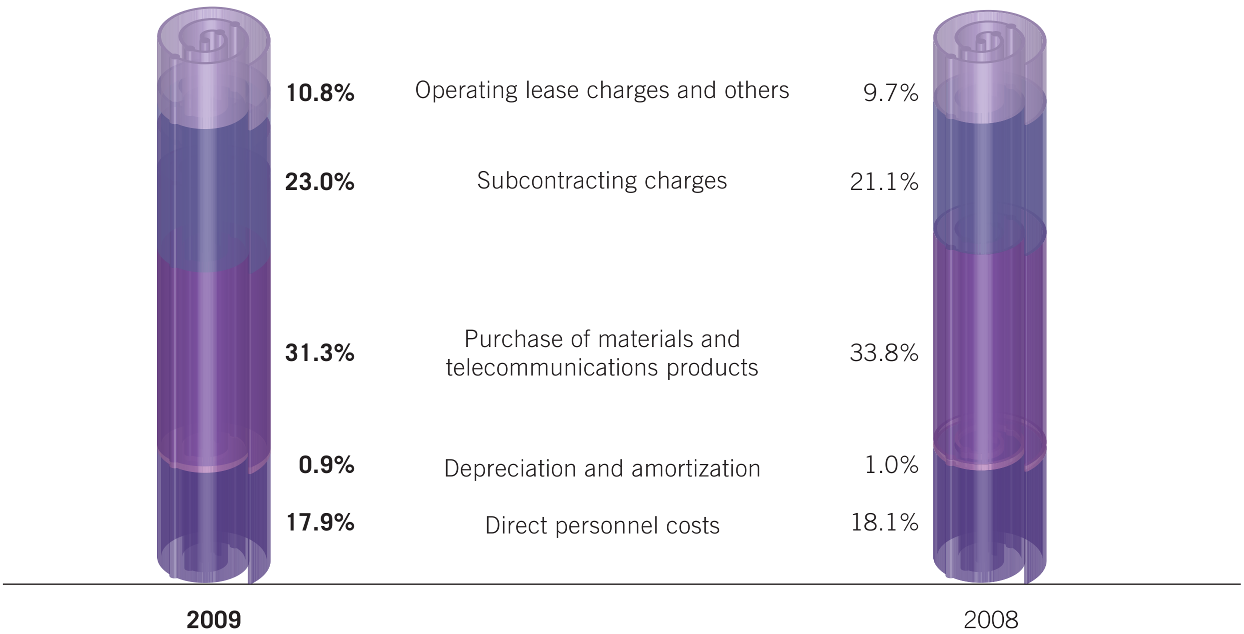
Cost of Revenues

Our cost of revenues in 2009 was RMB33,127.51 million, representing an increase of 19.9% from 2008 and accounting for 83.9% of our revenues.

The following table sets out a breakdown of our cost of revenues in 2008 and 2009 and their respective rates of change:

	2009 RMB'000	2008 RMB'000	Percentage change
Direct personnel costs	**7,073,351**	5,962,414	18.6%
Depreciation and amortization	**351,402**	336,629	4.4%
Purchase of materials and telecommunications products	**12,364,499**	11,167,207	10.7%
Subcontracting charges	**9,064,577**	6,970,705	30.0%
Operating lease charges and others	**4,273,684**	3,195,413	33.7%
Total cost of revenues	**33,127,513**	27,632,368	19.9%

Costs of revenues as the percentage of total revenues



Direct Personnel Costs

In 2009, direct personnel costs were RMB7,073.35 million, which accounted for 17.9% of our revenues and an increase of 18.6% over RMB5,962.41 million in 2008. With the rapid growth in business volume in 2009, the Group consistently applied reasonable control over its total headcount and subcontracted our low-end businesses, thereby minimizing the staff costs and avoiding related risk. The proportion of direct personnel costs to our revenues decreased by 0.2 percentage points compared to 2008.

Depreciation and Amortization

In 2009, depreciation and amortization amounted to RMB351.40 million, which accounted for 0.9% of our revenues and represented an increase of 4.4% over RMB336.63 million in 2008.

Purchase of Materials and Telecommunications Products

In 2009, the cost of purchasing materials and telecommunications products was RMB12,364.50 million, representing 31.3% of revenues and an increase of 10.7% over RMB11,167.21 million in 2008. In 2009, the Group strengthened its management in the business of distribution of telecommunications services and products and controlled the development of low-margin distribution businesses. This effectively lowered the growth of the cost of purchasing materials and telecommunications products. Its proportion to our revenues decreased by 2.5 percentage points compared to 2008.

Subcontracting Charges

In 2009, subcontracting charges were RMB9,064.58 million, which accounted for 23.0% of our revenues and represented an increase of 30.0% over RMB6,970.71 million in 2008. The increase in subcontracting charges was mainly derived from the business of telecommunications infrastructure services. As the business volume increased significantly in 2009, we outsourced certain of the low-end work to satisfy tight schedule demands of customers after taking into consideration of efficiency and benefits. Its proportion to our revenues increased by 1.9 percentage points compared to 2008.

Operating Lease Charges and Others

In 2009, operating lease charges and others were RMB4,273.68 million, which accounted for 10.8% of our revenues and represented an increase of 33.7% over RMB3,195.41 million in 2008. In 2009, the Group put more resources to explore market, satisfy customer demand and enhance service quality.

Gross Profit

In 2009, the Group's gross profit amounted to RMB6,371.94 million, representing an increase of RMB998.94 million from RMB5,373.00 million in 2008, representing an increase of 18.6%. The Group's gross profit margin in 2009 was 16.1%, representing a decrease of 0.2 percentage point over 16.3% in 2008. The Group was able to achieve a relatively stable gross profit margin level in 2009 through strengthening our project management, optimizing business structure and controlling staff cost.

Selling, General and Administrative Expenses

Our selling, general and administrative ("SG&A") expenses in 2009 were RMB4,691.51 million, representing an increase of 20.1% over RMB3,905.12 million in 2008, which accounted for 11.9% of revenues. In 2009, in order to capture opportunities, expand market share and enhance our core competitiveness, the Group put more resources into marketing and research and development. During the year, through enhancing our comprehensive budget management, we effectively controlled the growth of SG&A expenses. The proportion of SG&A expenses to our revenues was maintained at about the same level as in 2008.

Finance Costs

In 2009, the Group's finance costs was RMB88.44 million, represented a decrease of 49.8% over RMB176.33 million. The significant decrease was mainly due to the fact that the Group strengthened the centralized cash management and the cooperation with banks, improved our efficiency in cash utilization and repaid certain short term borrowings.

Income Tax

Certain of our subsidiaries were recognized as new and high-technology enterprises and were entitled to a preferential income tax rate of 15%. Our subsidiaries in Shenzhen, Zhuhai, Xiamen and Hainan Special Economic Zones were entitled to an income tax rate of 20%. Apart from these companies, the Company and other subsidiaries of the Group are subject to an income tax rate of 25%. The income tax of the Group in 2009 was RMB427.36 million and our effective tax rate was 21.0%, representing a decrease of 2.1 percentage point over 23.1% in 2008. This was mainly due to the fact that certain of our subsidiaries successfully applied for the preferential income tax treatment for new and high-technology enterprises. The difference between our effective tax rate and the statutory tax rate was mainly due to the effect of the aforementioned preferential tax rate treatment of our subsidiaries.

Profit Attributable to Equity Shareholders of the Company

In 2009, profit attributable to equity shareholders of the Company was RMB1,598.59 million, an increase of 20.5% over RMB1,326.77 million in 2008 which was slightly higher than the revenue growth, and we therefore achieved the simultaneous growth in scale and efficiency.

Capital Expenditure

We implemented stringent budget management over capital expenditure, and therefore adjusted our capital expenditure plan according to the changes of market condition. In 2009, our capital expenditure amounted to RMB795.69 million, representing an increase of 12.5% over RMB707.14 million in 2008. The capital expenditure in 2009 represented 2.0% of our revenues, maintained at the similar level as in 2008. Our capital expenditure included the purchases of production facilities and equipment, machinery and meters, plant and office buildings, intangible assets and other operating assets.

Cash Flow

Our net cash inflow in 2009 was RMB336.68 million whereas that in 2008 was RMB1,769.48 million. As at the end of 2009, our cash and cash equivalents amounted to RMB8,870.42 million, of which 96.9% was denominated in Renminbi.

The following table sets out our cash flow positions in 2008 and 2009, respectively:

	2009 RMB'000	2008 RMB'000
Net cash generated from operating activities	**2,062,227**	1,947,733
Net cash used in investing activities	**(814,115)**	(44,778)
Net cash used in financing activities	**(911,437)**	(133,480)
Net increase in cash and cash equivalents	**336,675**	1,769,475

In 2009, net cash generated from operating activities was RMB2,062.23 million, an increase of RMB114.50 million from RMB1,947.73 million in 2008. The increase in net cash generated from operating activities was mainly cash generated from rapid revenue growth, and this not only supported the rapid development of the Group's domestic and overseas business but also provided a small amount of excess cash.

In 2009, net cash used in investing activities was RMB814.12 million, an increase of RMB769.34 million from RMB44.78 million in 2008. This was mainly because that the amount in 2008 included the cash paid for the acquisition of China International Telecommunications Construction Corporation and the cash brought into our Group by it. Cash used in investing activities in 2009 mainly comprised the consideration paid for the acquisition of the Target Interests and capital expenditure.

In 2009, net cash used in financing activities was RMB911.44 million, an increase of RMB777.96 million from RMB133.48 million in 2008. This was mainly because the Group strengthened its cash management, enhanced our cash utilization efficiency and repaid certain short term borrowings.

Working Capital

As at the end of 2009, working capital (i.e. non-cash current assets minus operating current liabilities) deficit was RMB218.41 million, while working capital surplus was RMB107.40 million in 2008, mainly because we strengthened our accounts receivable management and obtained better credit terms.

Indebtedness

As at the end of 2009, total indebtedness of the Group was RMB1,268.28 million, and most of them were fixed interest rate loans and denominated in Renminbi. Our indebtedness decreased by RMB725.15 million from RMB1,993.43 million at the year end of 2008.

As at the end of 2009, our gearing ratio[1] was 8.8%, a decrease of 5.4 percentage points from 14.2% in 2008.

Contractual Obligations

The following table sets out our contractual obligations as at 31 December 2009:

	Total RMB'000	2010 RMB'000	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 and after RMB'000
Short-term debt	1,268,280	1,268,280	–	–	–	–
Long-term debt	–	–	–	–	–	–
Operating lease commitments	241,164	114,187	56,632	35,940	18,120	16,285
Capital commitments	217,083	217,083	–	–	–	–
Of which:						
Authorized and contracted for	100,064	100,064	–	–	–	–
Authorized but not contracted for	117,019	117,019	–	–	–	–
Total of contractual obligations	1,726,527	1,599,550	56,632	35,940	18,120	16,285

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

Exchange Rate

Most of our revenues and expenses are settled in Renminbi and therefore the risks associated with foreign currency exchange rates have no significant impact on our business performance. As at the end of 2009, the balance of our cash and cash equivalents in foreign currencies accounted for 3.1% of our total cash and cash equivalents, of which 1.4% and 1.1% were denominated in US dollars and Hong Kong dollars respectively.

Acquisitions and Integration

In May 2009, the Group completed its acquisition of the Target Interests. After completion of the acquisition, through effective integration, the Group enhanced the management standard and operation efficiency of the Target Interests and their operating results achieved our target. The acquisition is a complement to the Group's existing business as a specialized telecommunications support service provider. This assisted our provision of better service to telecommunications operators and strengthened our leading market position and competitiveness. Furthermore, the Group could reap the benefits from the increasing demand for our services following China's entering into the 3G era in early 2009.

Accelerate the momentum in overseas markets development

Leveraging on Chinese lower cost advantage and sufficient capital and cooperating with equipment vendors, operators and large scale state-owned enterprises to develop over SEAs markets together

Directors, Supervisors and Senior Management

Mr. WANG Xiaochu

age 52, is the Honorary Chairman[1] of our Company. Mr. Wang is also President of China Telecommunications Corporation, Chairman and Chief Executive Officer of China Telecom Corporation Limited. Until 8 April 2008, Mr. Wang was the Chairman and non-executive director of the Company.

Mr. LI Ping

age 56, 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 34 years of operational and managerial experience in the telecommunications industry in China.

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


Mr. ZHANG Zhiyong

age 45, is the President and an Executive Director of our Company responsible for our daily operations and management. Mr. Zhang is also the Managing Director of the Sideline Industrial Management Department of China Telecommunications Corporation. Mr. Zhang received a bachelor's degree in Radio Engineering from the Changchun Institute of Posts and Telecommunications in 1986 and received a master's degree in Control Engineering from the Yanshan University in 2002 and an MBA from the BI Norwegian School of Management in 2005. Prior to joining China Telecommunications Corporation in November 2002, Mr. Zhang served as Director of the Qinhuangdao City Telecommunications Bureau, General Manager of Hebei Telecom Company Limited, Qinhuangdao Branch, and Deputy General Manager of China Telecom Beijing Telecom Co. Ltd. Mr. Zhang has 24 years of operational and management experience in the telecommunications industry in China.


Mr. YUAN Jianxing

age 55, is an Executive Director, Executive Vice President and Chief Financial Officer of our Company. Mr. Yuan received an MBA degree from the Ukrainian- American Humanitarian Institute "Wisconsin International University (USA) Ukraine" in 2002. Mr. Yuan served as Vice President and General Accountant of Hunan Telecom Company Limited from September 2004 to October 2006. Prior to that, he served as the Finance Department Deputy Director of Shanxi Provincial Post and Telecommunications Bureau, the General Manager of Shanxi Provincial Posts and Telecommunications Industrial Company, Director of Xinzhou Post 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 and Deputy Managing Director of the Sideline Industrial Management Department of China Telecommunications Corporation. Mr. Yuan has over 32 year experience in the telecommunications industry.

Mr. LIU Aili

age 46, 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 27 years of management experience in the telecommunications industry.

Mr. ZHANG Junan

age 53, 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's 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.

Mr. WANG Jun

age 69, 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. He is also the Chairman of the advisory committee of CCT Resources Holdings Limited. Until 17 April 2008, Mr. Wang was a Non-Executive Director and Honorary Chairman of HKC (Holdings) Limited.

Mr. CHAN Mo Po, Paul

age 55, 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 Chairman of Crowe Horwath (HK) CPA Limited. He is also an Independent Non-Executive Director of publicly listed Kingmaker Footwear Holdings Limited, Hong Kong Economic Times Holdings Limited and The Wharf (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.

Mr. ZHAO Chunjun

age 69, is an Independent Non-Executive Director of our Company. Mr. Zhao is an Independent Non-Executive Director of Dongfang Electric Corporation Limited. Mr. Zhao is also Chaiman of the Supervisory Committee of Tongfang Co., Limited and an Independent Director of China United Network Communications Limited, which are listed in the PRC. He is the committee member of Degree Committee and the Academic Council of Tsinghua University. 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.

Mr. WU Shangzhi

age 60, is an Independent Non-Executive Director of our Company. Mr. Wu is the founder and Managing Partner of CDH China Holdings Management Company Limited ("CDH"). Prior to joining CDH, Mr. Wu was a general manager of the Direct Investment Department, Managing Director and member of the Management Committee of China International Capital Corporation (CICC) and he was also a Director of Focus Media Holdings Limited, a company listed on Nasdaq in the United States. Mr. Wu served as an Officer at the World Bank and the International Finance Corporation from 1984 to 1993. 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.

Mr. HAO Weimin

age 75, 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 51 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 (previously known as Ministry of Information Industry). 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.

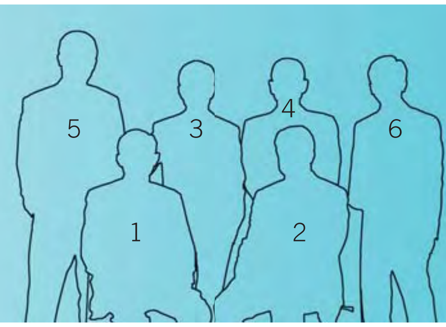
Supervisors

Ms. XIA Jianghua, age 51, 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 25 year management and auditing experience in the telecommunications industry.

Mr. HAI Liancheng, age 65, 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. Mr. Hai is employed by PICC Property and Casualty Co. Ltd. as consultant since June 2007. Since October 2007, Mr. Hai is the Chairman of Zhong Peng Certified Public Accountants Ltd.

Mr. YAN Dong, age 38, is an Employee Representative Supervisor of our Company. Mr. Yan is the Divisional Director of the Risk Management Department of the Company. Mr. Yan is 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. Mr. Yan has served as Director of Shandong Luxin Property Investment and Development Co., Ltd., Shandong International Investment Industries Corporation, and Yantai Zhenghai Electronic Mask Co., Ltd.

1. Mr. LI Ping
2. Mr. ZHANG Zhiyong
3. Mr. YUAN Jianxing
4. Mr. WANG Qi
5. Mr. LIU Xiaoyi
6. Mr. LIANG Shiping



Management

Mr. LI Ping. (Please refer to the "Directors" Section)

Mr. ZHANG Zhiyong. (Please refer to the "Directors" Section)

Mr. YUAN Jianxing. (Please refer to the "Directors" Section)

Mr. WANG Qi, age 54, is an Executive Vice President of our 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 36 years of management experience in the telecommunications industry in China.

Mr. LIU Xiaoyi, age 42, is an Executive Vice President of our Company. Mr. Liu received a bachelor's degree in Communications Engineering from the Beijing Institute of Posts and Telecommunications in 1989, a master's degree in Communications Engineering from the Beijing University of Posts and Telecommunications in 1994, and an MBA degree from Tsinghua University in 2001. Mr. Liu joined China Telecommunications Corporation in October 2000 and served as a Director of the Data Business Division and as a Senior Manager of the International Division. From June 2002 to September 2006, Mr. Liu was Vice President of China Telecom (USA) Corporation. Mr. Liu has over 21 years' experience in the telecommunications industry.

Mr. LIANG Shiping, age 40, is an Executive Vice President of our Company. Mr. Liang joined the Company in August 2008 as Director of the Marketing Division 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. Mr. Liang joined China Telecommunications Corporation in 2000 and 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 18 years' experience in telecommunications and IT industry.

Company Secretary

Mr. CHUNG Wai Cheung, Terence, age 36, 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 14 years of experience in auditing, financial management and company secretarial work with accounting firms and listed companies.


下一出口

Focus on the needs of government agencies and corporate customers,

Aggressively provide ancillary informatization and communications facilities construction services to large-scale infrastructure and **LAND** construction projects

Report of the Directors

The board of directors (the "Board") of China Communications Services Corporation Limited (the "Company") is pleased to present the Report of the Directors of the Company, together with the audited financial statements of the Company and its subsidiaries (the "Group") prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2009.

Principal Businesses

The Group is a leading integrated service provider in the PRC that provides specialized telecommunications support services to telecommunications, media and technology companies. We offer telecommunications infrastructure services, including design, construction and project supervision and management; business process outsourcing services, including network maintenance, facilities management and distribution of telecommunications services and products; applications, content and other services, including IT applications, Internet services and value-added voice services, as well as other services. We also provide services to telecommunications equipment manufacturers, large enterprises and overseas customers. The principal business of the Company is investment holding.

Results

Results of the Group for the year ended 31 December 2009 and the financial position of the Company and the Group as at that date are set out in the audited financial statements on page 86 to page 170 in this Annual Report.

Dividends

The Board proposed a cash dividend of RMB0.1108 per share for the year ended 31 December 2009, approximately RMB640 million in total. The proposed dividends will be submitted for consideration and approval at the 2009 annual general meeting to be held on 28 June 2010. Dividends will be denominated and declared in RMB. Dividends of domestic shares will be paid in RMB, whereas dividends of H Shares will be paid in Hong Kong dollars. The relevant exchange rate will be the average of the mid-point rates of RMB to Hong Kong dollars as announced by the People's Bank of China for the week prior to the date of approval of declaration of dividends at the 2009 annual general meeting.

Further details in respect of the dividends and distribution of the Company are set out in note 15 of the audited financial statements on page 123 of this Annual Report.

According to the "Corporate Income Tax Law of the People's Republic of China" and the "Implementation Rules of the Corporate Income Tax Law of the People's Republic of China" (hereinafter collectively referred to as "Corporate Income Tax Laws") implemented in 2008, as from 1 January 2008, any PRC domestic enterprise which pays dividends to a non-resident enterprise shareholder shall withhold and pay corporate income tax for such shareholder. Therefore, the Company shall withhold and pay 10% corporate income tax when the Company distributes the 2009 final dividend to non-resident enterprise shareholders (including HKSCC Nominees Limited, corporate nominees or trustees, or other organizations or entities that are considered non-resident enterprise shareholders) whose names appear on the register of H shareholders of the Company. In the event that the shareholders of the Company need to change their names in the register of members of the Company, they need to consult their nominees or trustees about the relevant procedures. The Company will abide by the Corporate Income Tax Laws and withhold and pay the corporate income tax for non-resident enterprise shareholders whose names appear on the H shareholders register of the Company on 28 June 2010. The Company will not be responsible for and will reject any disputes that arise from our withholding and paying corporate income tax due to a shareholder's failure to submit documentary proof to the Company before the stated deadline for the shareholders register to be changed.

Directors and Senior Management of the Company

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

Name	Position in the Company	Date of appointment
Wang Xiaochu	Honorary Chairman[1]	8 April 2008
Li Ping	Chairman	8 April 2008
	Executive Director	3 August 2006
Zhang Zhiyong	President	8 April 2008
	Executive Director	12 December 2007
Yuan Jianxing	Executive Director	12 December 2007
	Executive Vice President and Chief Financial Officer	16 October 2006
Liu Aili	Non-executive Director	12 October 2006
Zhang Junan	Non-executive Director	12 October 2006
Wang Jun	Independent Non-executive Director	26 September 2006
Chan Mo Po, Paul	Independent Non-executive Director	26 September 2006
Zhao Chunjun	Independent Non-executive Director	26 September 2006
Wu Shangzhi	Independent Non-executive Director	26 September 2006
Hao Weimin	Independent Non-executive Director	27 October 2006
Wang Qi	Executive Vice President	16 October 2006
Liu Xiaoyi	Executive Vice President	16 October 2006
Liang Shiping	Executive Vice President	3 March 2010
Chung Wai Cheung, Terence	Company Secretary, Assistant Chief Financial Officer and Qualified Accountant	16 October 2006

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

On 2 August 2009, the term of office of the first session of the members of the Board expired. Upon the re-election by shareholders in the extraordinary general meeting on 31 July 2009, all members of the first session of the Board continue to hold office in the second session of the Board.

In June 2009, Mr. Li Jian resigned from the position of Executive Vice President of the Company.

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

Name	Position in the Group	Date of appointment
Chen Hong	Chief Executive Officer of Guangdong Communications Services Company Limited	5 February 2009
Yuan Jinling	Chief Executive Officer of Shanghai Communications Services Company Limited	17 August 2006
Shi Yongsheng	Chief Executive Officer of Zhejiang Communications Services Company Limited	17 August 2006
Yang Yonghe	Chief Executive Officer of Fujian Communications Services Company Limited	13 March 2007
Gao Liangping	Chief Executive Officer of Hubei Communications Services Company Limited	17 August 2006
Cheng Hongyan	Chief Executive Officer of Jiangsu Communications Services Company Limited	5 April 2007
Gu Ping	Chief Executive Officer of Anhui Communications Services Company Limited	5 April 2007
Chen Biao	Chief Executive Officer of Jiangxi Communications Services Company Limited	5 April 2007
Xiao Yafan	Chief Executive Officer of Hunan Communications Services Company Limited	5 April 2007
Qi Yan	Chief Executive Officer of Guangxi Communications Services Company Limited	5 April 2007
Li Xiulin	Chief Executive Officer of Chongqing Communications Services Company Limited	5 April 2007
Deng Chang	Chief Executive Officer of Sichuan Communications Services Company Limited	5 April 2007
Xu Haiming	Chief Executive Officer of Guizhou Communications Services Company Limited	23 July 2009
Qing Deming	Chief Executive Officer of Yunnan Communications Services Company Limited	5 April 2007
Yang Changlin	Chief Executive Officer of Shaanxi Communications Services Company Limited	5 April 2007
Ren Chengyin	Chief Executive Officer of Gansu Communications Services Company Limited	17 October 2008
Deng Xiaohui	Chief Executive Officer of Qinghai Communications Services Company Limited	5 April 2007
Hou Zhilong	Chief Executive Officer of Xinjiang Communications Services Company Limited	5 February 2009
Yang Fan	Chief Executive Officer of China Communications Services (Hong Kong) International Limited	1 November 2007
Xu Chuguo	Chief Executive Officer of China International Telecommunications Construction Corporation	5 November 2008

In August 2009, the Company injected 100% equity interest of Hainan Communications Services Company Limited ("Hainan CCS") to Guangdong Communications Services Company Limited ("Guangdong CCS") to increase its share capital. After completion of the share capital increase, Hainan CCS became a wholly-owned subsidiary of Guangdong CCS.

In July 2009, Mr. Guo Zhihao resigned from the position of Chief Executive Officer of Guizhou Communications Services Company Limited and the position was taken by Mr. Xu Haiming.

Supervisors of the Company

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

Name	Position in the Company	Date of appointment
Xia Jianghua	Chairperson of the Supervisory Committee	3 August 2006
Hai Liancheng	Independent Supervisor	3 August 2006
Yan Dong	Supervisor (Employee Representative)	15 August 2006

On 2 August 2009, the term of office of the first session of the members of the Supervisory Committee expired. Upon the re-election by shareholders in the extraordinary general meeting on 31 July 2009, Ms. Xia Jianghua and Mr. Hai Liancheng continue to hold office in the second session of the Supervisory Committee. Upon the re-election by employees, Mr. Yan Dong continues to be the Employee Representative Supervisor in the second session of the Supervisory Committee.

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

Share Capital

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

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

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

As at 31 December 2009, the share capital of the Company was RMB5,771,682,000, divided into 5,771,682,000 shares of RMB1.00 each. The share capital of the Company is comprised of the followings:

Shares	Number of shares	Approximate % of issued share capital
Domestic shares (Total)	3,778,831,800	65.47%
Domestic shares held by:		
China Telecommunications Corporation	3,035,651,800	52.60%
China Mobile Communications Corporation	506,880,000	8.78%
China United Network Communications Group Company Limited	236,300,000	4.09%
H shares (Total)	1,992,850,200	34.53%
Total	5,771,682,000	100.00%

Material Interests and Short Positions in Shares and Underlying Shares of the Company

As at 31 December 2009, the interests or short positions of persons who at any of the Company's general meetings (excluding the directors and supervisors of the Company) are entitled to exercise or control the exercise of 5% or more of the voting power in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be maintained under Section 336 of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) (the "SFO") were as follows:

Name of shareholder	Type of shares	Capacity	Number of Shares held	Percentage of the respective type of share (%)	Percentage of the total number of shares in issue (%)
China Telecommunications Corporation	Domestic shares	Beneficial owner	3,035,651,800	80.33	52.60
China Mobile Communications Corporation	Domestic shares	Beneficial owner	506,880,000	13.30	8.78
China United Network Communications Group Company Limited	Domestic shares	Beneficial owner	236,300,000	6.25	4.09
Commonwealth Bank of Australia	H shares	Interest of corporation controlled by the substantial shareholder	283,148,164(L)	14.21	4.91

*Note: (L) – Long Position

Save as stated above, as at 31 December 2009, in the register required to be maintained under Section 336 of the SFO, no other persons were recorded as holding any interests or short positions in the shares or underlying shares of the equity derivatives of the Company.

Directors' and Supervisors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2009, none of the directors and supervisors of the Company had any interests or short positions in the shares, underlying shares of equity derivatives or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be maintained under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers. As at 31 December 2009, the Company had not granted its directors or supervisors, or their respective spouses or children below the age of 18 any rights to subscribe for the shares or debentures of the Company or any of its associated corporations and none of them has ever exercised any such right to subscribe for shares or debentures.

Share Appreciation Rights

Please refer to note 38 to the audited financial statements for details of the share appreciation rights scheme of the Company and the share appreciation rights granted during the year ended 31 December 2009.

Public Float

As at the date of this Annual Report, based on information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained the prescribed public float under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Directors' and Supervisors' Service Contract

Each of the directors and supervisors has entered into a service contract with the Company. According to the service contract, each of the contracts has an initial term of three years and is renewable in accordance with the Articles of Association of the Company when the initial term expires. These contracts are terminable at the option of either party by giving three months' notice in writing or according to the terms of the contract prior to the expiry of the contract.

Directors' and Supervisors' Interests in Contracts

For the year ended 31 December 2009, no director or supervisor of the Company had any material interest, whether direct or indirect, in any contract of significance entered into by the Company, any of its holding companies or subsidiaries or fellow subsidiaries, apart from the service contracts mentioned above.

Emoluments of the Directors and Supervisors

Based on the overall remuneration policy of the Company and with reference to the payroll standard of the same industry companies in the market, the remuneration of directors and supervisors is determined after taking into account the scope and complexities of their duties. Please refer to note 12 to the audited financial statements for details of the emoluments of the directors and supervisors of the Company in 2009.

Purchase, Sale and Redemption of Shares

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

Summary of Financial Information

Please refer to pages 171 to 172 of this Annual Report for a summary of the operating results, assets and liabilities of the Group for each of the years in the five-year period ended 31 December 2009.

Bank Loans and Other Borrowings

Please refer to note 33 to the audited financial statements for details of bank loans and other borrowings of the Group.

Property, Plant and Equipment

Please refer to note 17 to the audited financial statements for movements in the fixed assets of the Group for the year ended 31 December 2009.

Distributable Reserves

Please refer to note 45 to the audited financial statements for details of the movements in the reserves of the Company for the year ended 31 December 2009.

Donations

For the year ended 31 December 2009, the Group made charitable and other donations of a total amount of RMB0.45 million.

Subsidiaries and Associated Companies

Please refer to note 23 and note 24 to the audited financial statements for details of the Company's subsidiaries and the Company's associated companies as at 31 December 2009.

Changes in Equity

Please refer to the consolidated statement of changes in equity contained in the audited financial statements (page 91 of this Annual Report).

Plan of Employees' Retirement Benefits

Please refer to note 37 to the audited financial statements for details of the retirement benefits provided by the Group.

Pre-emptive Rights

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

Major Customers and Suppliers

For the reporting period, the sales to the five largest customers of the Group represented 70.6% of the operating revenue of the Group; of which, the sales to the largest customers of the Group represented 51.2% of the operating revenue of the Group. The purchases from the five largest suppliers of the Group accounted for less than 10.8% of the total annual purchases of the Group.

So far as the directors are aware of the five largest customers of the Group during the reporting period, as at 31 December 2009, Mr. Liu Aili, a non-executive director of the Company, held 224,100 share purchase options in China Mobile Limited, a subsidiary of China Mobile, one of our five largest customers, and Mr. Zhang Junan, a non-executive director of the Company, held 460,000 share purchase options in China Unicom (Hong Kong) Limited, a subsidiary of China Unicom, one of our five largest customers.

Other than that, no director of the Group, their associates, or any person holding more than 5% of the issued share capital of the Company has any interests in such suppliers or customers.

Connected Transactions

In April 2009, the Company participated in the open bidding process on the Shanghai Assets Exchange and Beijing Assets Exchange and won three open bids to acquire several equity interests. Following the awarding of winning bids to the Group by the relevant assets exchange, the Group entered into the following equity transfer agreements with the relevant vendors:

(a) On 26 May 2009, Shanghai Communications Services Company Ltd. ("Shanghai CCS"), a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with Shanghai Telecommunications Industry (Group) Company ("Shanghai Telecom Industry"), pursuant to which Shanghai CCS agreed to purchase, and Shanghai Telecom Industry agreed to sell, a 95.945% equity interest in Shanghai Tongmao Import & Export Co., Ltd. for a consideration of approximately RMB64.16 million.

(b) On 26 May 2009, the Company entered into an equity transfer agreement with China Telecom and China Telecom Corporation Limited respectively, pursuant to which the Company agreed to purchase, and China Telecom and China Telecom Corporation Limited agreed to sell, a 41% and a 10% equity interest respectively in Guoxin Lucent Technologies Network Technologies Co., Ltd. for a total consideration of approximately RMB33.89 million.

(c) On 26 May 2009, Guangdong Communications Services Company Limited ("Guangdong CCS"), a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with Shenzhen Shenda Telephone Co., Ltd. ("Shenda Telephone") and Guangdong Hongbo Communications Investment and Holding Co., Ltd. ("Guangdong Hongbo") respectively, pursuant to which Guangdong CCS agreed to purchase, and Shenda Telephone and Guangdong Hongbo agreed to sell, a 40% and a 1% equity interest respectively in Shenzhen Telecom Engineering Co., Ltd. ("Telecom Engineering") for a total consideration of approximately RMB16.51 million.

The above acquisitions were in line with the Company's current businesses as a specialized telecommunications support services provider, and provided the Group with an opportunity to provide better services to telecommunication operators, strengthen its market leader position and competitiveness, and to enjoy benefits from the increased demand for its services following the commencement of 3G era in the PRC.

As the relevant vendors were either China Telecom, the controlling shareholder of the Company, or its subsidiaries, the above acquisitions (except for the 1% equity interest in Telecom Engineering purchased from Guangdong Hongbo) each constituted a connected transaction of the Company and the Company has complied with the relevant Listing Rules requirements in respect of such connected transactions. The transactions were announced on 26 May 2009.

Continuing Connected Transactions

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

The following table sets out the amounts of continuing connected transactions of the Group during the year ended 31 December 2009:

Transaction	The Group (RMB million)	Annual cap of continuing connected transaction (RMB million) 2009	2010
Engineering related services provided to China Telecom Group	10,996.44	12,500.00	**12,500.00**
Ancillary telecommunications services provided to China Telecom Group	4,468.91	6,700.00	**6,700.00**
Operation support services provided to/by China Telecom Group			
Revenue	1,694.09	1,910.00	**1,910.00**
Expenditure	215.26	470.00	**470.00**
IT application services provided to/by China Telecom Group			
Revenue	1,093.00	1,300.00	**1,600.00**
Expenditure	186.10	230.00	**230.00**
Property leasing provided to/by China Telecom Group			
Revenue	41.36	76.00	**76.00**
Expenditure	119.05	120.00	**120.00**
Supplies procurement services provided to/by China Telecom Group			
Revenue	1,949.40	2,000.00	**2,800.00**
Expenditure	634.60	800.00	**900.00**
Centralized services provided to China Telecom Group	259.85	350.00	**350.00**

Continuing Connected Transactions Agreements Between the Group and China Telecom

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

The Company announced on 15 June 2007, and completed on 31 August 2007, its acquisition of China Telecom's specialized telecommunications support business ("Target Business") located in 13 provinces (municipalities and autonomous regions). In connection with the acquisition of the Target Business, a supplemental agreement in respect of the aforementioned six continuing connected transactions agreements was entered into between the Company and China Telecom on 15 June 2007 (the "2007 Supplemental Agreement"). The 2007 Supplemental Agreement extended the validity period of the six continuing connected transactions agreements to 31 December 2009, and extended the coverage of those agreements to 19 provinces (municipalities and automous regions), being the Group's primary service regions immediately after the completion of the acquisition of the Target Business. On 19 September 2008, the Company entered into a second supplementary agreement with China Telecom in respect of the aforementioned six agreements (the "2008 Supplementary Agreement") and extended the term of the six continuing connected transactions agreements to 31 December 2010.

Subject to approval from the shareholders (if applicable), the aforementioned six amended continuing connected transactions agreements will be automatically renewed for a further period of not more than three years each time, unless terminated by either party by giving a written notice three months in advance. In connection with the entry of the 2008 Supplementary Agreement, the Company also set new annual caps for the three years ended 31 December 2010 in respect of the transactions contemplated under the six continuing connected transactions agreements (see the table above). The 2008 Supplemental Agreement and the new annual caps (excluding the new annual caps for the Property Leasing Framework Agreement and Centralized Services Agreement that did not require any independent shareholders approval under the Listing Rules) were approved by the independent shareholders of the Company at the extraordinary general meeting held on 14 November 2008. Details of the terms of these continuing connected transactions are set out below.

On 29 October 2009, the Company and China Telecom entered into Supplies Procurement Services Framework Agreement, effective from 1 January 2009 to 31 December 2010. In respect of these connected transaction, the annual caps of revenue and that of expenditure are RMB2,000 million and RMB800 million respectively for the year ending 31 December 2009. The annual caps of revenue and that of expenditure are RMB2,800 million and RMB900 million respectively for the year ending 31 December 2010. Supplies Procurement Services Framework Agreement was approved by the independent shareholders of the Company at the extraordinary general meeting held on 29 December 2009. Details of the terms of Supplies Procurement Services Framework Agreement are set out below.

Engineering Framework Agreement

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

Ancillary Telecommunications Services Framework Agreement

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

(1) government-prescribed price;

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

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

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

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

Operation Support Services Framework Agreement

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

IT Application Services Framework Agreement

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

Centralized Services Agreement

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

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

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

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

Property Leasing Framework Agreement

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

Supplies Procurement Services Framework Agreement

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

Continuing Connected Transaction Agreement Between the Group and China Telecom Corporation Limited

Strategic Cooperation Agreement

As disclosed in the Prospectus of the Company, we entered into a Strategic Cooperation Agreement dated 30 August 2006 with China Telecom Corporation Limited, a subsidiary of China Telecom, for a period of three years commencing 1 January 2007 until 31 December 2009, renewable and extendable in geographical areas by mutual agreement. The areas for strategic business cooperation between the parties shall include engineering related services in connection with our design, construction, project supervision and management businesses; maintenance and management services including but not limited to our network maintenance and facilities management; and certain business process outsourcing services such as integrated information solutions and call centres; and provision of applications, content and other services such as system integration and value-added services.

In connection with the acquisition of the Target Business from China Telecom in 2007, the Company entered into a supplementary agreement to the Strategic Cooperation Agreement (the "2007 Supplementary Strategic Agreement") with China Telecom Corporation Limited to extend the geographic scope of cooperation between the Company and China Telecom Corporation Limited to the 19 provinces (municipalities and autonomous regions) of our primary service areas immediately following acquisition of the Target Business.

Pursuant to the Strategic Cooperation Agreement (as amended by the 2007 Supplementary Strategic Agreement), in relation to the Company's provision of engineering related services in design, construction, project supervision and management businesses, provided that our terms and conditions for the provision of the engineering related services are no less favourable than those offered by any independent third parties, China Telecom Corporation Limited has undertaken that the relevant subsidiaries (and their successors) of China Telecom Corporation Limited in the 19 provinces (municipalities and autonomous regions) shall spend an annual minimum amount of not less than 10.6% of the total annual capital expenditure of the relevant wholly-owned provincial subsidiaries (and their successors) of China Telecom Corporation Limited to purchase such services provided by the Company. In relation to the Company's provision of maintenance and management services including but not limited to our network maintenance and facilities management businesses, provided that our terms and conditions for the provision of the maintenance and management services are no less favourable than those offered by any independent third parties, China Telecom Corporation Limited has undertaken that the relevant subsidiaries (and their successors) of China Telecom Corporation Limited in the 19 provinces (municipalities and autonomous regions) shall spend an annual minimum amount of not less than RMB1,780 million to purchase such services provided by the Company.

The Company shall offer at least 5% discount for the engineering-related services to be provided to the relevant wholly-owned provincial subsidiaries (and their successors) of China Telecom Corporation Limited based on the applicable standard prices. Such discount is on normal commercial terms and it is in-line with market practice to give a discount as favourable treatment offered to large enterprise customers which are able to commit to a minimum purchase volume per annum. The percentage discount depends on a number of factors, such as the committed minimum purchase volume, competition and so on. In relation to our provision of maintenance and management services including but not limited to our network maintenance and facilities management businesses, we have undertaken to fully utilize our competitive edge on having established professional operation with economies of scales to assist China Telecom Corporation Limited in achieving the goals of lowering its costs and expenditure.

In relation to the Company's provision of business process outsourcing services, integrated information solutions, call centre and other services such as system integration and value-added services, China Telecom Corporation Limited has undertaken to use its best endeavours to grant us business opportunities, provided that our terms and conditions for the provision of such services are no less favourable than those offered by any independent third parties. In return, the Company will utilize its capacities and resources to support the strategic transformation of China Telecom Corporation Limited into an integrated information service provider. The annual caps for the provision of the relevant services contemplated under the Strategic Cooperation Agreement have already been subsumed respectively under the Engineering Framework Agreement, the Ancillary Telecommunications Services Framework Agreement, the Operation Support Services Framework Agreement and the IT Application Services Framework Agreement described above and therefore no separate annual caps shall be applied to the Strategic Cooperation Agreement.

The Company entered into a supplementary agreement to the Strategic Cooperation Agreement (the “2009 Supplementary Strategic Agreement) with China Telecom Corporation Limited on 29 October 2009 to extend the period of the Strategic Cooperation Agreement to 31 December 2012.

The independent non-executive directors of the Company have confirmed that all continuing connected transactions for the year ended 31 December 2009 to which the Group was a party:

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

2. had been entered into either:

   (i) on normal commercial terms; or

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

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

The independent non-executive directors have further confirmed that:

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

The auditors of the Company have performed procedures on the continuing connected transactions and issued a letter to the Board to advise that:

1. the continuing connected transactions entered into between the Group and China Telecom Group during the year ended 31 December 2009 have been approved by the Directors;

2. they have performed sample checks on the continuing connected transactions entered into between the Group and China Telecom Group during the year ended 31 December 2009 and have not found that the continuing connected transactions were not in accordance with the pricing policies as stated in the relevant agreements;

3. they have performed sample checks on the continuing connected transactions entered into between the Group and China Telecom Group during the year ended 31 December 2009 and have not found that the continuing connected transactions were not in accordance with the terms of the agreements governing the transactions; and

4. they note that the continuing connected transactions have not exceeded the 2009 annual caps as disclosed in the circular dated 26 September 2008 and 12 November 2009 of the Company and approved by the independent shareholders of the Company on 14 November 2008 and 29 December 2009.

Employees

As at 31 December 2009, the Group had 125,249 employees as follows:

	Number of staff	Percentage
Management	8,316	6.6%
Technical and marketing	46,980	37.5%
Operations	69,953	55.9%
Total	125,249	100.0%

The Company has implemented a performance-linked remuneration system. Remuneration for employees includes basic salary, performance-based bonus and welfare. In addition, the Company also emphasizes the importance of employee training and uses various means of training to improve the quality and capability of key employees.

Compliance with Code on Corporate Governance Practices

Please see the "Corporate Governance Report" set out in this Annual Report for details of our compliance with the Code on Corporate Governance Practices.

Material Legal Proceedings

As at 31 December 2009, so far as the directors are aware, the Company was not involved in any material litigation or arbitration and no material litigation claims had been made against, or were pending or threatened against the Company.

Auditors

KPMG and KPMG Huazhen were engaged as the international and domestic auditors of the Company respectively for the year ended 31 December 2009. KPMG has audited the accompanying financial statements, which were prepared in accordance with International Financial Reporting Standards. The Company has retained KPMG and KPMG Huazhen since the date of its listing. A resolution for the reappointment of KPMG and KPMG Huazhen as the international and domestic auditors of the Company for the year ending 31 December 2010 will be proposed at the upcoming 2009 annual general meeting of the Company.

By order of the Board
Li Ping
Chairman

Beijing, China
30 March 2010

Report of the Supervisory Committee

Dear Shareholders,

During the reporting period, all the members of the Supervisory Committee conscientiously performed their supervisory duties and earnestly safeguarded the interests of the shareholders and the Company in accordance with the requirements of the relevant laws and regulations such as the Company Law of the PRC and the Company's Articles of Association.

During the reporting period, the Supervisory Committee held four meetings. At the sixth meeting of the first session of the Supervisory Committee held on 26 March 2009, the Company's operating results and financial statements for 2008 were reviewed. In addition, the Supervisory Committee reviewed and approved five resolutions, including the financial statements for 2008, profit distribution proposal and dividends distribution plan and external auditors' report for the year ended 2008. At the seventh meeting of the first session of the Supervisory Committee held on 10 June 2009, Ms. Xia Jianghua and Mr. Hai Liancheng were nominated for the shareholders' re-election in the general meeting as a Shareholder Representative Supervisor and an Independent Supervisor respectively of the second session of the Supervisory Committee of the Company. In addition, authorization to determine the supervisor's remuneration by the Supervisory Committee was sought in the shareholders' general meeting. At the first meeting of the second session of the Supervisory Committee held on 31 July 2009, Ms. Xia Jianghua was elected as the Chairperson of the Supervisory Committee. At the second meeting of the second session of the Supervisory Committee held on 27 August 2009, the 2009 interim financial statements and the external auditors' 2009 review report were considered. During the reporting period, members of the Supervisory Committee supervised the major decisions of the Company and the performance of the members of the Board of Directors and senior management, and made relevant management recommendations with a serious and responsible attitude through attending the shareholders' general meeting of the Company and the meetings of the Board of Directors.

At the third meeting of the second session of the Supervisory Committee held on 25 March 2010, the Supervisory Committee carefully reviewed the Company's financial reports for 2009 prepared in accordance with the PRC accounting principles and International Financial Reporting Standards, together with other relevant information, which was proposed to be submitted by the Board to the shareholders' general meeting and audited by external auditors who will issue an unqualified opinion. The Supervisory Committee is of the opinion that the financial reports were in conformity with the principle of consistency and reflected the Company's financial position and operating results in a true and complete manner.

In 2009, the Company captured the 3G network construction opportunity in China and progressed the implementation of the Company's strategies with remarkable results. The Company achieved satisfactory operating result, with around 20% growth in revenue and net profit. The Supervisory Committee believes that, during the reporting period, all members of the board of directors and senior management have complied with the law and regulations, and were dedicated, conscientious and prudent in their decision-making. They earnestly carried out various resolutions of the meetings of the shareholders and the board of directors. With a view to maximizing the value of shareholders, they contributed positively to the development of the Company. The Supervisory Committee was not aware of any violation of the interests of the shareholders or staff of the Company.

In 2010, to safeguard the interest of the shareholders and pursue its supervisory duties diligently, the Supervisory Committee will continue to perform its duties in accordance with the Company Law of the PRC, the Company's Articles of Association, and the relevant regulatory requirements of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited .

By order of the Supervisory Committee
Xia Jianghua
Chairperson of the Supervisory Committee

Beijing, PRC
25 March 2010

Flourishing future

Adhere to defined development strategies, enhance resource allocation, speed up overseas market development, improve core capabilities and innovative drivers and deliver **FIRE**-cracking results

Corporate Governance Report

The Company is committed to maintaining sound corporate governance standards and procedures to ensure the completeness, transparency and quality of our information disclosure, and we strive to achieve more standardized operational procedures and effective management, so as to safeguard shareholders' interests to the greatest extent possible.

Corporate Governance Practices

As a company incorporated in the PRC and listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company has not only complied with the relevant provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") but also abided by the PRC Company Law and other applicable laws, regulations and regulatory requirements of Hong Kong and the PRC as fundamental guidelines for the Company's corporate governance.

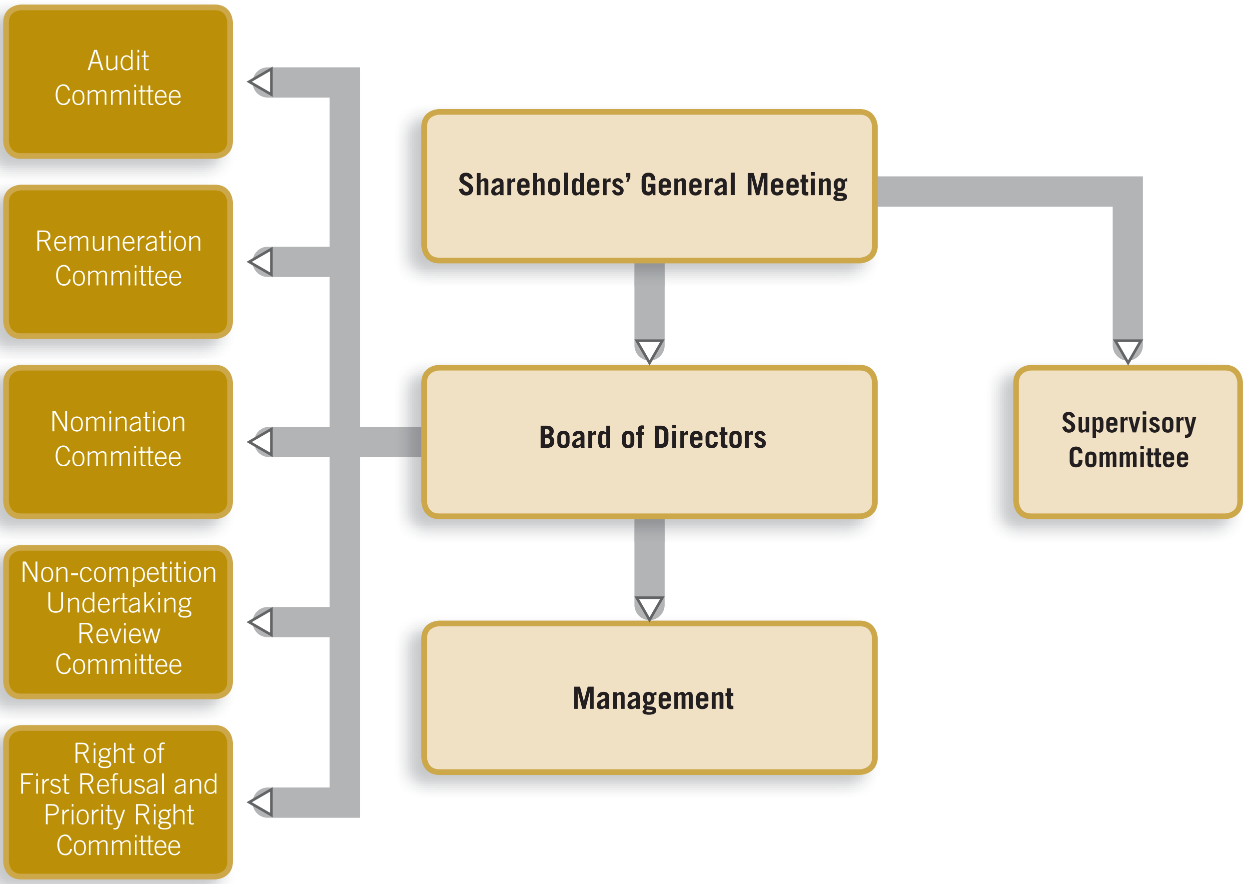
The Company commits itself to maintaining a high standard of business conduct and integrity. The Company's endeavours in corporate governance in the past had received particular recognition in capital markets. In the contest of "2009 Faithful Enterprises in China" by the China Faithful Enterprise Election Committee, the Company was awarded "2009 The Most Faithful Enterprises in China", and we received Titanium Award for "Corporate Governance and Investor Relations" in The Asset Triple A Awards 2009 – Corporate Award.

For the year ended 31 December 2009, the Company had complied with the code provisions in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (the "Code Provisions"). In addition, the Company had also adopted certain applicable recommended best practices as set out in Appendix 14 of the Listing Rules (the "Recommended Best Practices") in accordance with our actual situation.

The directors of the Company confirm that it is their responsibility to prepare the financial statements of the Company and its subsidiaries (the "Group"), and to ensure that the financial statements are prepared in accordance with relevant laws and the accounting standards applicable to the Company. The directors also ensure that the financial statements of the Company are published promptly.

The responsibility statement of KPMG, our external auditors, regarding its report on the financial statements of the Group is set out on page 85 of this Annual Report.

Corporate Governance Structure of the Company



Shareholders' Meeting

Pursuant to the Company's Article of Association, the shareholders' meetings are classified as annual general meeting (the "AGM") and extraordinary general meeting (the "EGM"). The AGM will be convened once a year and within six months after the end of a financial year. In 2009, apart from the AGM, the Company also convened two EGMs. A resolution will be separately put forward in respect of each independent matter. The details of the voting procedures and voting by poll at the request of shareholders were set out in the notices of the general meetings in accordance with the provisions under the Articles of Association and the Listing Rules. In accordance with the Listing Rules, all the resolutions were voted by poll in all shareholders' meetings held in 2009.

At the AGM of 2008 held on 9 June 2009, the resolutions, including the 2008 financial statements, profit distribution proposal and dividend declaration proposal, appointment of auditors, report of the directors, report of the Supervisory Committee, were considered and approved by shareholders.

At the first EGM of 2009 held on 31 July 2009, the resolutions, including the re-election of the second session of the members of the Company's board of directors (the "Board"), the re-election of the second session of the members of the Company's Supervisory Committee representing the shareholders and amendments to the Articles of Association, were considered and approved by shareholders.

At the second EGM of 2009 held on 29 December 2009, the resolutions regarding the connected transactions such as the Supplies Procurement Services Framework Agreement between the Company and its controlling shareholder, China Telecommunications Corporation and the renewal of Strategic Cooperation Agreement between the Company and China Telecom Corporation Limited, were considered and approved by independent shareholders. China Telecommunications Corporation and its associates, being connected persons to the Company, abstained from voting for this resolution.

The above resolutions at the AGM and EGM were approved and passed by shareholders, and the relevant voting results were published on the websites of the Company and the Stock Exchange.

Board of Directors

The leadership and supervision of the Company are vested in the Board, which is responsible for implementing the resolutions passed by the shareholders in general meetings, overseeing the Group's businesses and affairs, approving operation plans and investment proposals, reviewing financial policies and performance, and formulating the basic management systems of the Company. The Board has delegated to the senior management, the powers and responsibilities to conduct the day-to-day management and operations of the Group and to organize the implementation of the resolutions of the Board, annual business plans and investment proposals. The senior management must obtain the approval of the Board before entering into any material transactions. The Articles of Association of the Company has clearly defined the scope of duties of the Board and management of the Company.

Where necessary, all directors can have full and timely access to all relevant information and obtain the advice and services of the Company Secretary. The directors may, where appropriate, seek independent professional advice to ensure compliance with the procedures of the Board and all applicable rules and regulations, at the Company's expense.

The Company has also arranged appropriate insurance cover in respect of legal actions against its directors, supervisors and senior management.

Composition of the Board

On 2 August 2009, the first session of the Board expired. Upon re-election by the shareholders in general meeting held on 31 July 2009, all members of the first session of the Board continue to hold office in the second session of the Board.

Accordingly, the Board comprises ten directors, including three executive directors (Mr. Li Ping as Chairman and executive director, Mr. Zhang Zhiyong and Mr. Yuan Jianxing as executive directors), two non-executive directors (Mr. Liu Aili and Mr. Zhang Junan) and five independent non-executive directors (Mr. Wang Jun, Mr. Chan Mo Po, Paul, Mr. Zhao Chunjun, Mr. Wu Shangzhi and Mr. Hao Weimin). Mr. Wang Xiaochu continues to be the Honorary Chairman of the Company. The Honorary Chairman is not a member of the Board and has no voting rights on any matters to be considered by the Board. The profiles of the directors are set out in the "Profiles of Directors, Supervisors and Senior Management" section of this Annual Report.

The Board has five independent non-executive directors, constituting half of the members of the Board, and complied with the Recommended Best Practices in respect of the number of independent non-executive directors. This ensured the independence of the Board. All independent non-executive directors possess considerable experience in their respective industries and professions.

To the best knowledge of the directors, in 2009, the members of the Board did not have any financial, business, family or other material connection with each other, in particular between the Chairman and the President, and all of them are free to make independent judgments.

The Company has received the written annual confirmation of independence from each of the independent directors pursuant to Rule 3.13 of the Listing Rules, and considers all independent non-executive directors to be independent.

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

Meetings of the Board

Pursuant to the Company's Articles of Association and the Listing Rules, the Board shall convene at least four meetings a year to review and approve its financial and operational performance, and consider and approve the overall strategy and policies of the Company.

The Company Secretary assists the Chairman in preparing the agenda for Board meetings. Unless stipulated otherwise by the Board in advance, the time and place for any Board meeting shall be notified to all the directors at least 14 days prior to the date of the meeting. The agenda and related documents of the Board meetings will be delivered to all directors at least 3 days prior to the date of the meeting, so that the Directors are apprised of the latest developments and financial position of the Company to make informed decisions. The Board and each of the directors may contact the senior management independently if necessary.

All the minutes of the meetings of the Board contain details of the matters considered and resolutions adopted, and are kept by the secretary of the meeting and available to the Directors for inspection.

In 2009, the Board held four meetings and passed three written resolutions. For the resolutions on the connected transactions such as renewal of the Strategic Cooperation Agreement between the Company and its fellow subsidiary, China Telecom Corporation Limited, directors with conflict of interests abstained from voting.

Director's individual attendance (including attendances by written proxies) at the Board meetings held in 2009 is as follows:

	Attendance in 2009/Meetings convened during period of appointment									
	Executive Directors			Non-executive Directors		Independent Non-executive Directors				
	Li Ping (Chairman)	Zhang Zhiyong	Yuan Jianxing	Liu Aili	Zhang Junan	Wang Jun	Chan Mo Po, Paul	Zhao Chunjun	Wu Shangzhi	Hao Weimin
First session	2/2	2/2	2/2	2/2	2/2	2/2	2/2	2/2	2/2	2/2
Second session	2/2	2/2	2/2	2/2	2/2	2/2	2/2	2/2	2/2	2/2
2009 whole year	4/4	4/4	4/4	4/4	4/4	4/4	4/4	4/4	4/4	4/4

Executive Directors, Chairman and President

The three executive directors of the Company take up the position of Chairman, President and Chief Financial Officer respectively. Our Chairman, Mr. Li Ping is responsible for overseeing the operation of the Board and in charge of the Company's overall management. Our President, Mr. Zhang Zhiyong is responsible for the Company's daily operation and management.

Non-Executive Directors

The two non-executive directors and five independent non-executive directors of the Company are each appointed for a term of three years and may serve consecutive terms if re-elected upon the expiry of the term of their appointment.

Board Committees

As an important part of sound corporate governance practice and for supervision of the overall affairs of the Company in various areas, the Board has set up the following five Board Committees to assist it in discharging its responsibilities: the Audit Committee, the Remuneration Committee, the Nomination Committee, the Non-competition Undertaking Review Committee and the Right of First Refusal and Priority Right Committee. All five Board Committees comprise of independent non-executive directors to ensure the full expression of independent and objective views and to fulfill each of its responsibilities of overall safeguard and supervision.

Audit Committee

The Audit Committee consists of three independent non-executive directors: Mr. Chan Mo Po, Paul (Chairman), Mr. Wu Shangzhi and Mr. Hao Weimin. The Audit Committee is mainly responsible for examining the appointment of external auditors, considering and supervising the financial reporting procedures and the internal control systems of the Company, overseeing the execution of the connected transactions, reviewing the interim and annual financial statements of the Company to ensure a true and fair view of the state of affairs, reviewing interim and annual results of the Company after consulting with external auditors, and making recommendations to the Board. The Audit Committee makes an assessment of the effectiveness of the Group's internal control at least once a year to enable the Board to understand the overall financial position and protect the assets of the Group. In addition, the Audit Committee is also responsible for reviewing the adequacy of resources of staff of the Group's accounting and financial reporting function.

In 2009, the Audit Committee held four meetings, mainly reviewing the resolutions of the Company for its audited financial report of 2008, interim report of 2009, report on connected transactions, report on internal control and risk management, appointment of independent auditors, entering into continuing connected transaction agreements, and renewal of Strategic Cooperation Agreement. The Audit Committee also met with the external auditors separately to discuss the matters found during the audit and other issues that might be raised by the auditors.

Committee member's individual attendance (including attendances by written proxies) at the Committee meetings held in 2009 is as follows:

	Attendance in 2009/Meetings convened during period of appointment		
	First Session	Second Session	2009 whole year
Chan Mo Po, Paul (Chairman)	2/2	2/2	4/4
Wu Shangzhi	2/2	2/2	4/4
Hao Weimin	2/2	2/2	4/4

Remuneration Committee

The Remuneration Committee consists of three independent non-executive directors: Mr. Wu Shangzhi (Chairman), Mr. Chan Mo Po, Paul and Mr. Zhao Chunjun. According to the charter of the remuneration committee, meeting will be convened when needed. The Remuneration Committee is mainly responsible for giving recommendation on the overall remuneration policies and structure of the directors and senior management to the Board. The Remuneration Committee has not convened a meeting in 2009.

Nomination Committee

The Nomination Committee consists of three independent non-executive directors: Mr. Zhao Chunjun (Chairman), Mr. Wang Jun and Mr. Hao Weimin. The Nomination Committee is mainly responsible for reviewing the structure, size and composition of the Board, and the skills, knowledge and experience of members of the Board. In 2009, the Nomination Committee held one meeting, at which the members of the committee mainly reviewed the composition of the second session of the Board.

Committee member's individual attendance (including attendances by written proxies) at the Committee meetings held in 2009 is as follows:

	Attendance in 2009/ Meetings convened during period of appointment 2009 whole year (First Session)
Zhao Chunjun (Chairman)	1/1
Wang Jun	1/1
Hao Weimin	1/1

Non-competition Undertaking Review Committee

The Non-competition Undertaking Review Committee consists of three independent non-executive directors: Mr. Hao Weimin (Chairman), Mr. Chan Mo Po, Paul and Mr. Zhao Chunjun. The Non-competition Undertaking Review Committee is mainly responsible for monitoring the implementation of the non-competition undertakings given by China Telecommunications Corporation to us.

In 2009, the Non-competition Undertaking Review Committee held two meetings, at which the members of the committee mainly reviewed the implementation of the non-competition undertakings by China Telecommunications Corporation and made their recommendations to the Board.

Committee member's individual attendance (including attendances by written proxies) at the Committee meetings held in 2009 is as follows:

	Attendance in 2009/Meetings convened during period of appointment		
	First Session	Second Session	2009 whole year
Hao Weimin (Chairman)	1/1	1/1	2/2
Chan Mo Po, Paul	1/1	1/1	2/2
Zhao Chunjun	1/1	1/1	2/2

The Company has received a letter issued to the Company by China Telecommunications Corporation stating that they were not in breach of any non-competition undertakings in 2009. The letter has been reviewed by the Non-competition Undertaking Review Committee and the Board.

Right of First Refusal and Priority Right Committee

The Right of First Refusal and Priority Right Committee consists of three independent non-executive directors: Mr. Wu Shangzhi (Chairman), Mr. Zhao Chunjun and Mr. Hao Weimin. According to the Charter of the Right of First Refusal and Priority Right Committee, meeting will be convened when needed. The Right of First Refusal and Priority Right Committee is mainly responsible for monitoring the enforcement of the right of first refusal and priority right granted by China Telecommunications Corporation upon the listing of the Company, and protecting the interests of independent shareholders when such right of first refusal or priority right is exercised. The Right of First Refusal and Priority Right Committee has not convened a meeting in 2009.

Independent Board Committee

Pursuant to the requirements under the Listing Rules, the Company held an Independent Board Committee Meeting on 5 November 2009, at which five independent non-executive directors of the Company attended. The Independent Board Committee mainly reviewed the resolution regarding the connected transactions such as the Supplies Procurement Services Framework Agreement between the Company and China Telecommunications Corporation and the renewal of Strategic Cooperation Agreement between the Company and China Telecom Corporation Limited, and it made its recommendations to the independent shareholders. The details of this resolution and the Independent Board Committee's recommendation were contained in the circular despatched to shareholders on 12 November 2009.

Supervisory Committee

The Company has established a Supervisory Committee pursuant to the Company Law of the PRC. The Supervisory Committee consists of three members, including one chairperson, one external independent supervisor and one employee representative supervisor. On 2 August 2009, the first session of the Supervisory Committee expired. Upon the re-election at the extraordinary general meeting on 31 July 2009, the chairperson and the external independent supervisor of the first session of the Supervisory Committee, Ms. Xia Jianghua and Mr. Hai Liancheng, continue to hold their offices in the second session of the Supervisory Committee. In addition, Mr. Yan Dong was elected by the employees as the employee representative supervisor. The terms of the supervisors are three years and the supervisors may serve consecutive terms if re-elected upon the expiry of their term of service. The Supervisory Committee is a standing supervisory institution of the Company and is accountable and reports to all the shareholders. The Supervisory Committee normally meets at least twice a year.

The primary duties of the Supervisory Committee are to supervise the financial activities of the Group, review the financial statements and other financial information prepared and presented by the Board to the shareholders in general meetings, supervise the performance of duties of the directors and other senior management and prevent them from any abuse of power and represent the Company in dealing with the directors or initiate legal actions against the directors on behalf of the Company.

In 2009, the Supervisory Committee held four meetings, details of which are set out in the "Report of the Supervisory Committee" of this Annual Report.

Remuneration of the Auditors

The international and domestic auditors of the Company are KPMG and KPMG Huazhen respectively. A breakdown of the remuneration received by the external auditors for the audit and non-audit services provided to the Company during the year is set out below:

	Fees (RMB'000)
Auditing services for the year ended 31 December 2009	38,000
Non-auditing services	–
	38,000

Internal Control

The Board of the Company is granted full authority to maintain the soundness and effectiveness of the internal control system and risk management procedures of the Group, including setting a management structure and its terms of reference. The purpose is to ensure efficient and effective use of the Group's resources to assist the Group in achieving its operation objectives, safeguarding the Group's assets against any unauthorized use or disposal, ensuring an appropriate maintenance of accounting records and the availability of reliable financial information for internal use or external release, and ensuring compliance of all operating activities with the relevant laws and regulations. Such control system is intended to have in place reasonable safeguards, but not an absolute guarantee, against material misrepresentation or loss, and to minimize but not eliminate any defects in the Group's operating system and the risk of failing to achieve its objectives.

The Group is committed to strengthening its internal control and risk management and has established a sound internal control foundation. The Group further improved internal control system and implemented comprehensive risk management pursuant to the relevant requirements of the Stock Exchange, promoted the application of risk management process in operating activities and daily management, and gradually improved the overall level of the internal control and risk management. The Group put great emphasis on the formulation and improvement of the relevant internal control and risk management system. We formulated the "Internal Control Guidance of China Communications Services Corporation Limited" and our subsidiaries of various levels also established their implementation rules on internal control. The Group also organized subsidiaries of various levels to evaluate the effectiveness on the design and implementation of internal control, and instructing them to establish risk management committees to safeguard an effective organizational structure on risk management. The Group focused on the training on internal control and risk management for the management personnel of provincial-level companies and specialized companies, and organized training for staff involved in risk management by the National Accounting Institute, and we also organized risk management trainings by auditors and lawyers for various provincial subsidiaries. When reviewing the Group's internal control, we will also consider the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget. The findings of the review were reported to the Audit Committee and the Board.

The Company endeavoured to integrate its internal control and risk management with its information system, and proactively used IT technology to assimilate the internal control and risk management processes into IT system, thereby achieved the integration of company risk management and operational management, the reduction of operational risks and an enhancement of internal control and risk management.

The Board considers that the implementation of the above measures was in compliance with the internal control requirements under C.2 of the Code Provisions and that the internal control and risk management system of the Company was effective. The Board intends to continue to further improve and enhance its internal control and risk management in 2010.

Information Disclosure

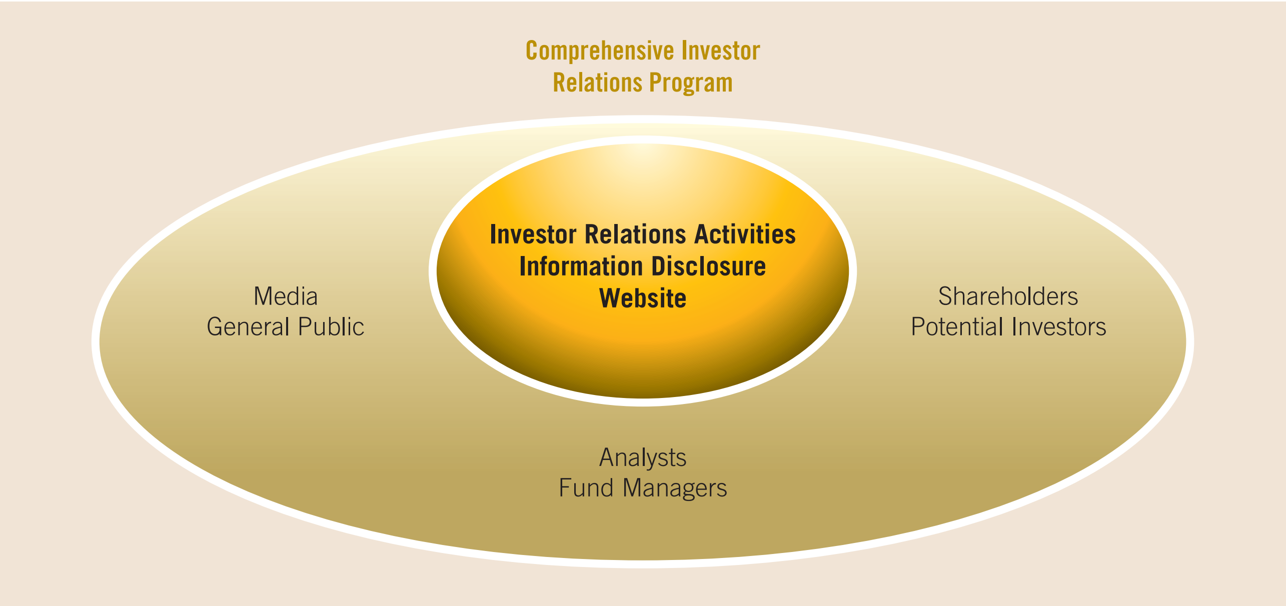
The Company considers that integrity, timeliness, fairness and accuracy in information disclosure are key to improving corporate governance. In accordance with the Company's internal policy on information disclosure and the requirements of the Listing Rules, the Company endevoured to ensure true, accurate, complete and timely information disclosure, especially in respect of important information such as price sensitive information, information related to annual reports and interim reports.

The Company's website (http://www.chinaccs.com.hk) is not only a channel for information disclosure required by the Listing Rules but also an important platform for investors to acquire information and news about the Company, so as to enhance the capital market's understanding of the Company. At the same time, the Company has set up an investor relations department that is responsible for providing necessary information and services to our shareholders and investors. Details of Investor Relations are contained in the "Investor Relations" section of this Annual Report.

Investor Relations

Overview

The Group always attaches great importance to investor relations and maintains a proactive and interactive communication with capital markets. The Group has followed a principle of good faith, timely, fair and accurate information disclosure and believes that it will promote a positive interaction between the Company and its investors and enhance investors' understanding on the Group. At the same time, this principle will enable us to understand the views and expectations of capital markets regarding the developments of the Company, which will help us to enhance shareholders' value and maximize our shareholders' interests.



Review

(1) Investor Relations Activities

The Group maintains close contact with capital markets and social public and communicates with various types of investors and media through different channels. We participated actively in investor forums and roadshows, held press conferences in connection with results announcement and established timely and effective communication channels.

In 2009, the Group held presentation meetings and press conferences in connection with the announcements of its annual and interim results. We also participated various types of investor forums on 5 occasions. In order to facilitate our communications with general investors, the Group had specifically set up different kinds of communication channels, such as investor relations electronic mailbox and telephone hotline, thereby responding to investor inquiries timely. To ensure that all parties can obtain company information fairly and impartially, all of the Group's responses to investor inquiries, including the communications between the Company and the analysts, were confined to the general discussion on interpretations of materials previously published and non-price sensitive information. At the same time, in 2009, the Company had specifically arranged and organized site visits to our major businesses for investors and analysts, so as to enable the market to have a further in-depth understanding of our actual operating conditions.

The major investor relations activities of the Company in 2009:

Activities period	Respective activities	Venue
1/2009	UBS Greater China Conference 2009	Shanghai
4/2009	2008 Annual Results Announcement ~ Analysts Briefing ~ Press Conference	Hong Kong
	Non-deal Roadshow	Hong Kong
6/2009	2008 Annual General Meeting	Beijing
	Goldman Sachs Telco & Internet Corporate Day 2009	Hong Kong
7/2009	The First Extraordinary General Meeting in 2009	Beijing
9/2009	2009 Interim Results Announcement ~ Analysts Briefing ~ Press Conference	Hong Kong
	CLSA Investors Forum 2009	Hong Kong
10/2009	Citi Greater China Investor Conference 2009	Beijing
11/2009	Goldman Sachs China Investment Frontier Conference 2009	Beijing
12/2009	The Second Extraordinary General Meeting in 2009	Beijing

(2) Information Disclosure

Information disclosure is not only the ongoing responsibility and obligation of the Group under applicable regulatory requirements for the protection of investor interests. The Company also believes that timely, fair and accurate information of disclosure can enhance the transparency of the Company and facilitates the capital market's understanding of the Group, which in turn will help to establish smooth communication channels.

In 2009, the Group published over 18 corporate communications such as announcements and circulars. Such publications have objectively and comprehensively disclosed information regarding our results, financial information, dividends payment, operating conditions, connected transactions, change of session of directors and supervisors, poll results of shareholder meetings and certain other voluntary disclosures. In our annual report, the Company analyzed comprehensively the operating and financial position of the Company as well as those major factors affecting the business to help investors understand fully the business and development trend of the Company.

In 2009, the Group published the following information on the websites of the Stock Exchange and the Company pursuant to the Listing Rules:

Publishing date	Respective matters
13/3/2009	Announcement relating to the date of the board meeting to approve the 2008 annual results
25/3/2009	Announcement relating to the completion of equity transfer arrangements
2/4/2009	Announcement of annual results for the year ended 31 December 2008
23/4/2009	2008 annual report
23/4/2009	Notice of the annual general meeting to be held on 9 June 2009, reply slip and proxy form
23/4/2009	Announcement relating to the withholding and payment of enterprise income tax for overseas non-resident enterprises in respect of the proposed distribution of 2008 final dividends
26/5/2009	Announcement relating to the connected transactions in relation to the acquisition of equity interests in Shanghai Tongmao Import & Export Co., Ltd., Shenzhen Telecom Engineering Co. Limited and Guoxin Lucent Technologies Network Technologies Co., Ltd.
9/6/2009	Announcement relating to poll results of annual general meeting held on 9 June 2009 and payment of final dividends
16/6/2009	Circular relating to the re-election of directors and supervisors and amendment to Articles of Association
16/6/2009	Notice of extraordinary general meeting to be held on 31 July 2009, reply slip and proxy form
31/7/2009	Announcement relating to poll results of extraordinary general meeting held on 31 July 2009
21/8/2009	Announcement relating to the date of board meeting to approve the 2009 interim results
1/9/2009	Announcement of interim results for the six months ended 30 June 2009
14/9/2009	2009 interim report
29/10/2009	Announcement relating to the continuing connected transactions in relation to the supplies procurement services framework agreement and 2009 supplemental strategic agreement
12/11/2009	Circular relating to the continuing connected transactions in relation to the supplies procurement service framework agreement and 2009 supplemental strategic agreement
12/11/2009	Notice of extraordinary general meeting to be held on 29 December 2009, reply slip and proxy form
29/12/2009	Announcement relating to the poll results of extraordinary general meeting held on 29 December 2009

* *The aforesaid publications exclude the monthly return of equity issuer on movements in securities.*

(3) The Company's website

The Company's website is not only the distribution channel for relevant information dissemination as required by the Listing Rules, it is also an important means for the capital market to have contact with the Company. Moreover, the website is also the means to convey our corporate image, promote our Company and another important platform for establishing investors' relations. Any person can access the Company's website for basic information on the Group, information disclosure documents, press releases, corporate governance rules, Board of Directors and its professional committees, organization structure and historical financial information, etc.

In 2009, the Group undertook a complete revamping on the Company's website in order to give public more comprehensive information about the Group. With reference to international best practices, and coupled with the latest webpage technology and design elements, the functions of the website have been further enhanced. The website is equipped with a more user-friendly webpage interface and improved usability, thereby enabling users to access information they need more easily. At the same time, we enhanced interactive elements and provided email alert functions, RSS feed and inquiry area, thereby allowing us to actively publish the latest information to registered users more timely and obtain feedback more easily. On the other hand, the content in our website was also enriched and new columns such as the FAQ (frequently asked questions) section were added in order to address key questions regularly raised by investors.

The Company's revamped website (http:www.chinaccs.com.hk)

We have already taken the initiatives in relation to the election of language and means of receipt of corporate communication for shareholders, in order to protect the environment and save costs. We encourage investors to access our annual report and other corporate communications published at the website. As website is a kind of fair, environmental-friendly and low-cost method of communication, the Company will further enhance its construction, and provide investors with more enriched and timely corporate information and news about the Company.

Recognition in Capital Markets

Since our listing to date, there are increasing numbers of analysts and institutional investors following our Company. There are many Hong Kong and international research institutions regularly publishing research reports covering the Company. The Company's investment value is highly recognized and as at 31 December 2009, most of the major financial institutions have maintained a "Buy" or "Outperform" investment rating on the Company.

In addition, with years of management experience and our efforts in corporate governance, the Company was awarded many international awards during the year, including the International ARC, Galaxy Awards, ranked as one of "China's Most Promising Companies 2009" and awarded "Titanium Award – Corporate Governance & Investor Relations" by the Asset. These awards clearly showed our overall recognition by capital markets in respect of the quality and content of the information disclosed by the Company and demonstrated fully the Company's high standards in corporate governance and good investor relations.

Major awards of the Group in 2009:

"2009 International ARC Awards"

- "Annual Report Printing and Production – Communication Services" – Gold Award
- "Overall Annual Report – IT Services & Solution" – Bronze Award

"2009 International Galaxy Awards"

- "Design: Covers- Annual Reports" – Gold Award
- "Annual Reports: Telecommunications" – Honors Award

"The Asset China's Most Promising Companies 2009"

- "Telecom Industry Category" – Ranked Third

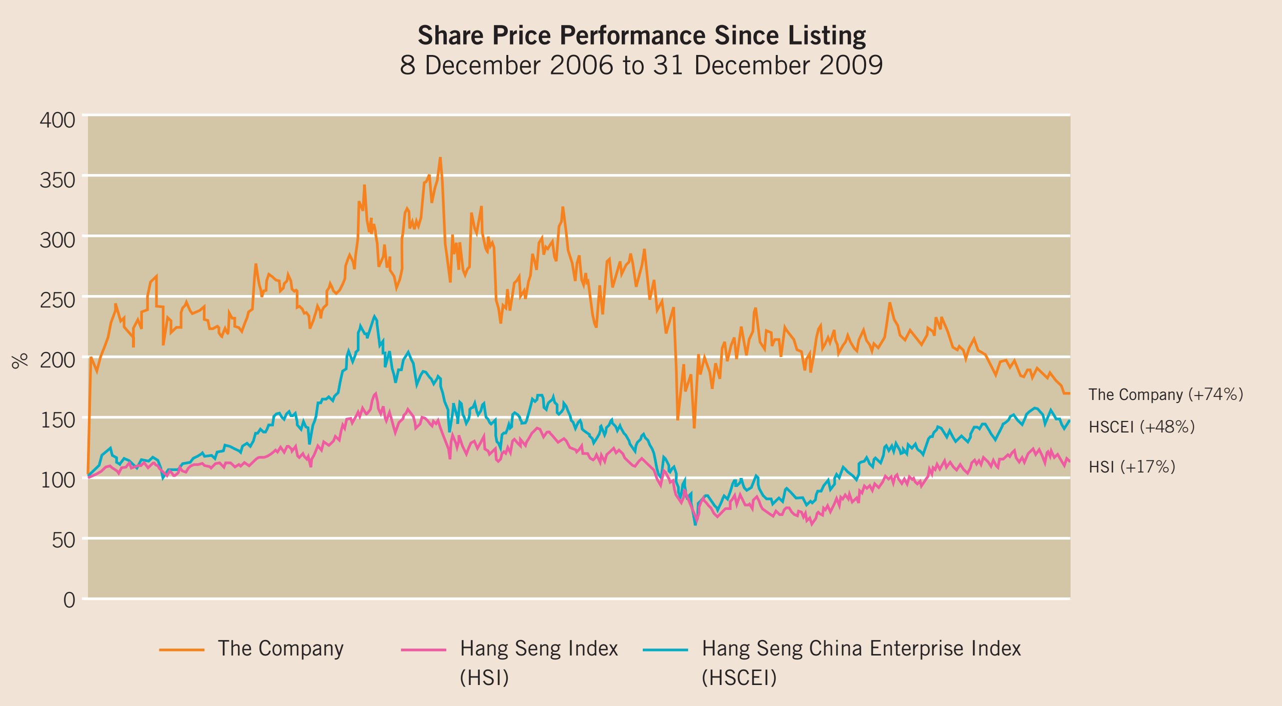
"The Asset Triple A Awards 2009 – Corporate Award"

- "Corporate Governance and Investor Relations" – Titanium Award

The Company's H shares were listed at the Stock Exchange on 8 December 2006 following a global offering at an offer price of HK$ 2.2 per share, and were included in the constituent stock list of MSCI China Index in 2007. Since its listing to 31 December 2009, the share price of the Company had increased by 74%. On 31 December 2009, the total number of shares of the Company were 5,771,682,000, of which, 3,778,831,800 shares were domestic shares, and 1,992,850,200 were H shares, both with par value of RMB1.00 each. All the H shares of the Company are listed at the Stock Exchange, representing approximately 34.5% of the total issued shares of the Company. Based on the closing price as at 31 December 2009, the Company's market value was about HK$ 22 billion.

Share price performance in 2009

	Highest	Lowest	Closing
Share price per H Share of the Company (HK$)	5.45	3.67	3.82



Human Resources Development

As a service provider for telecommunications, media and technology companies, the Group has always regarded our staff, who possesses professional skills and service spirit, as our most valuable resources. In 2009, the Group actively responded to the changes to our external environment, which particularly included the opportunities provided by the domestic 3G network construction and subsequent business development, and accordingly increased our headcount reasonably. We perfected and consolidated our human resources management platform, put forth innovating management measures and optimized our talent recruitment, retention and incentive mechanism. We progressed the information system construction, optimized staff allocation, improved staff quality and cared for staff growth. These would provide human resources and organizational support for the effective implementation of our strategies.

In 2009, the Group put forth an innovative headcount control mechanism, established a forecast model on human resources needs, promoted the scientific deployment of human resources among business lines and subsidiaries, thereby achieved the dynamic management of our human resources. According to the current business development and long term development needs, we mainly focused on the recruitment of talents in the field of businesses such as 3G, overseas, ACO and maintenance. We accelerated the nutrition of professional managers with excellent management capabilities, professional skills and leadership abilities. We also further optimized our human resources structure. As at the end of 2009, the Group had a total of 125,249 employees, of which 8,316 were management personnel, 46,980 were technical and marketing personnel, and 69,953 were operational personnel.

In 2009, the Group continued to improve its performance appraisal management system and strengthened performance appraisal and job performance evaluation for senior management, thereby enhanced both performance and capability of the management personnel. We improved our incentive mechanism under the impartial principle, strengthened the linkage between remuneration package and corporate performance, regulated the senior management remuneration distribution and continued to implement the share appreciation right scheme to middle and senior management. We intensified the incentive effectiveness of remuneration distribution to facilitate the enhancement of corporate performance level.

In 2009, the Group continued to improve its training scheme and endeavoured to provide on-job training programmes to employees. At the same time, we guided our staff actively to take part in education programmes for academic credentials and training and tests for professional qualifications. Hence, the overall capability of all our staff team had improved effectively. We strengthened our efforts in improving the leadership abilities of top management and had successfully conducted series of training activities like seminars for senior management and seminars for head office's middle management, thereby facilitated the upgrading of leadership and strategic execution capability of middle and senior management. We also conducted various professional qualifications certification training programmes such as International Project Management Professional (IPMP), International Public Management Association for Human Resources (IPMA), Sales & Marketing Executives International (SMEI) and International Import-Export Institute– Certified International Trade Logistics Specialist (IIEI-CITLS) to train our staff with international top technical skills.

In 2009, the Group kept on its "people-oriented" philosophy and care on staff. We abided the relevant national laws and regulations, established a harmonious and stable labour relationship and set up a harmonious enterprise. We optimized our talent promotion mechanism and provided clear career development pathes for our staff, such that our employee were able to reap the fruits of the corporate development. Furthermore, the Company stressed great importance on labour safe production and achieved our effective protection on our staff's health and safety.

Recreation activities

On-job training

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of China Communications Services Corporation Limited (the "Company") for the year 2009 will be held at 2:00 pm on 28 June 2010 at No. 19, Chaoyangmen Beidajie, Dongcheng District, Beijing, PRC, to consider and, if thought fit, pass the following businesses:

ORDINARY RESOLUTIONS

1. **THAT** the consolidated financial statements of the Company, the report of the Directors, the report of the Supervisory Committee and the report of the international auditors for the year ended 31 December 2009 be considered and approved, and the board of directors of the Company (the "Board") be authorized to prepare the budget of the Company for the year 2010;

2. **THAT** the profit distribution proposal and the declaration and payment of a final dividend for the year ended 31 December 2009 be considered and approved;

3. **THAT** the reappointment of KPMG and KPMG Huazhen as the international auditors and domestic auditors of the Company, respectively, for the year ending 31 December 2010 be considered and approved, and the Board be authorized to fix the remuneration of the auditors;

and to consider and approve other businesses (if any).

And as special businesses, to consider and, if thought fit, pass the following special resolutions:

SPECIAL RESOLUTIONS

4. **THAT**:

   (a) subject to paragraph (c) below, the exercise by the Board during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be hereby generally and unconditionally approved;

   (b) the approval in paragraph (a) shall authorize the Board during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

   (c) the amount of additional domestic shares or overseas-listed foreign invested shares ("H shares") (as the case may be) allotted, issued and dealt with or agreed conditionally or unconditionally to be allotted, issued and dealt with either separately or concurrently by the Board pursuant to the approval in paragraph (a), otherwise than pursuant to (i) a Rights Issue (as hereinafter defined) or (ii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the articles of association of the Company shall not exceed 20% of each of the Company's existing domestic shares and H shares (as the case may be) in issue at the date of passing this special resolution; and

(d) for the purpose of this special resolution 4:

“Relevant Period” means the period from the passing of special resolution 4 until the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the 12 months period following the passing of these special resolutions; and

(iii) the revocation or variation of the authority given to the Board under these special resolutions by a special resolution of the Company’s shareholders by way of a general meeting.

“Rights Issue” means an offer of shares open for a period fixed by the Board to holders of shares on the register of members on a fixed record date in proportion of their then holdings of such shares (subject to such exclusion or other arrangements as the Board may deem necessary or expedient in relation to fractional entitlements or having regard to any legal or practical restrictions or obligations under the laws of, or the requirement of, any recognized regulatory body or any stock exchange in any territory applicable to the Company) and an offer, allotment or issue of shares by way of rights shall be construed accordingly.

5. **THAT** the Board be authorized to increase the registered capital of the Company to reflect the issue of shares in the Company authorized under special resolution 4, and to make such appropriate and necessary amendments to the Articles of Association as they think fit to reflect such increases in the registered capital of the Company and to take any other action and complete any formality required to effect such increase of the registered capital of the Company.

By Order of the Board
Chung Wai Cheung, Terence
Company Secretary

Beijing, PRC
19 April 2010

Notes:

(1) Buyers who submit the share transfer application forms to the Company’s share registrar before 4:30 pm on 28 May 2010 (Friday) and then register as shareholders on the register of members of the Company are entitled to attend the annual general meeting.

(2) Each shareholder entitled to attend and vote at the annual general meeting may appoint one or more proxies to attend and vote on his behalf at the annual general meeting. A proxy need not be a shareholder. Each shareholder who wishes to appoint one or more proxies should first review the annual report of the Company for the year 2009, which is expected to be despatched to shareholders on around 19 April 2010 (Monday).

(3) To be valid, the form of proxy together with the power of attorney or other authorization document (if any) signed by the authorized person or notarially certified power of attorney must be delivered to the Office of the Board of the Company for holders of domestic shares and to the Computershare Hong Kong Investor Services Limited for holders of H shares not less than 24 hours before the designated time for the holding of the annual general meeting. Completion and return of a form of proxy will not preclude a shareholder from attending in person and voting at the annual general meeting if he so wishes.

The address of the share registrar for the Company's H shares is as follow:
Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen's Road East, Wanchai, Hong Kong.

(4) All resolutions at the general meeting will be voted by poll.

(5) The registration procedure for attending the annual general meeting:

(a) shareholders attending the annual general meeting in person or by proxy shall present their identity certification. If the attending shareholder is a corporation, its legal representative or person authorized by the board or other decision making authority shall present a copy of the relevant resolution of the board or other decision making authority in order to attend the annual general meeting.

(b) shareholders intending to attend the annual general meeting shall return the attendance slip via hand delivery, mail or fax to the Office of the Board of the Company on or before 7 June 2010 (Monday).

(6) Closure of the register of members: The register of members of the Company will be closed from 29 May 2010 (Saturday) to 28 June 2010 (Monday) (both days inclusive).

(7) The annual general meeting is expected to last for half a day and shareholders (in person or by proxy) attending the annual general meeting shall be responsible for their own transport and accommodation expenses.

(8) The address of the Office of the Board is as follows:

No. 19, Chaoyangmen Beidajie
Dongcheng District
Beijing 100010
PRC

Contact person: Chung Wai Cheung, Terence
Telephone: (8610) 5850 2290
Facsimile: (8610) 5850 1534

Independent Auditor's Report

KPMG

Independent auditor's report to the shareholders of
China Communications Services Corporation Limited
(Established in The People's Republic of China with limited liability)

We have audited the consolidated financial statements of China Communications Services Corporation Limited (the "Company") set out on pages 86 to 170, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

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

30 March 2010

Consolidated Income Statement

For the year ended 31 December 2009
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Revenues	4	**39,499,450**	33,005,372
Cost of revenues	5	**(33,127,513)**	(27,632,368)
Gross profit		**6,371,937**	5,373,004
Other operating income	6	**520,810**	524,353
Selling, general and administrative expenses		**(4,691,507)**	(3,905,116)
Other operating expenses	7	**(76,782)**	(70,749)
Finance costs	8	**(88,435)**	(176,334)
Share of profits of associate		**1,571**	2,161
Profit before tax	9	**2,037,594**	1,747,319
Income tax	10	**(427,356)**	(403,675)
Profit for the year		**1,610,238**	1,343,644
Attributable to:			
Equity shareholders of the Company		**1,598,589**	1,326,770
Minority interests		**11,649**	16,874
Profit for the year		**1,610,238**	1,343,644
Basic and diluted earnings per share (RMB)	16	**0.277**	0.233

The notes on pages 95 to 170 form part of these financial statements. Details of dividend payable to equity shareholders of the company attributable to the profit for the year are set out in note 15.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Profit for the year (restated – note 1(c))		**1,610,238**	1,343,644
Other comprehensive income/(loss) for the year (after tax)			
Exchange differences on translation of financial statements of subsidiaries outside Mainland PRC		**(1,324)**	(2,386)
Effect on opening deferred tax balances resulting from a change in tax rate		**(1,145)**	(2,065)
Available-for-sale securities: net movement in the fair value reserve	11	**35,612**	(38,694)
		33,143	(43,145)
Total comprehensive income for the year		**1,643,381**	1,300,499
Attributable to:			
Equity shareholders of the Company		**1,631,732**	1,283,625
Minority interests		**11,649**	16,874
Total comprehensive income for the year		**1,643,381**	1,300,499

The notes on pages 95 to 170 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2009
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000 (restated – note 1(c))
Non-current assets			
Property, plant and equipment, net	17	**3,912,721**	3,642,735
Investment properties	18	**685,959**	707,215
Construction in progress	19	**73,334**	231,008
Lease prepayments	20	**481,687**	431,291
Goodwill	21	**103,005**	103,005
Other intangible assets	22	**148,453**	115,581
Interest in associate	24	**12,960**	12,902
Other investments	25	**304,773**	269,788
Deferred tax assets	26	**140,552**	117,616
Total non-current assets		**5,863,444**	5,631,141
Current assets			
Inventories	27	**1,659,626**	1,182,471
Accounts and bills receivable, net	28	**10,467,689**	9,330,772
Prepayments and other current assets	30	**3,140,398**	2,975,964
Restricted deposits	31	**160,525**	178,312
Cash and cash equivalents	32	**8,870,424**	8,538,142
Total current assets		**24,298,662**	22,205,661
Total assets		**30,162,106**	27,836,802
Current liabilities			
Interest-bearing borrowings	33	**1,268,280**	1,993,426
Accounts and bills payable	34	**8,844,718**	7,746,787
Receipts in advance for contract work		**1,088,327**	808,196
Accrued expenses and other payables	35	**5,553,079**	4,826,825
Income tax payable		**194,701**	186,525
Total current liabilities		**16,949,105**	15,561,759
Net current assets		**7,349,557**	6,643,902
Total assets less current liabilities		**13,213,001**	12,275,043

Consolidated Balance Sheet

At 31 December 2009

(Expressed in Renminbi)

	Note	**2009 RMB'000**	2008 RMB'000 (restated – note 1(c))
Non-current liabilities			
Deferred tax liabilities	26	**35,769**	31,453
Total non-current liabilities		**35,769**	31,453
Total liabilities		**16,984,874**	15,593,212
Equity			
Share capital	36	**5,771,682**	5,771,682
Reserves		**7,297,004**	6,315,179
Equity attributable to equity shareholders of the Company		**13,068,686**	12,086,861
Minority interests		**108,546**	156,729
Total equity		**13,177,232**	12,243,590
Total liabilities and equity		**30,162,106**	27,836,802

Approved and authorised for issue by the Board of Directors on 30 March 2010.

Li Ping
Chairman

Yuan Jianxing
Executive Vice President and Chief Financial Officer

The notes on pages 95 to 170 form part of these financial statements.

Balance Sheet

At 31 December 2009
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment, net	17	**4,809**	389
Construction in progress	19	**1,580**	3,361
Other intangible assets	22	**3,527**	3,625
Investments in subsidiaries	23	**10,226,636**	9,987,008
Total non-current assets		**10,236,552**	9,994,383
Current assets			
Prepayments and other current assets	30	**1,577,116**	1,220,938
Cash and cash equivalents	32	**422,232**	429,528
Total current assets		**1,999,348**	1,650,466
Total assets		**12,235,900**	11,644,849
Current liabilities			
Interest-bearing borrowings	33	**1,000,000**	1,000,000
Accrued expenses and other payables	35	**645,460**	297,253
Total current liabilities		**1,645,460**	1,297,253
Net current assets		**353,888**	353,213
Total assets less current liabilities		**10,590,440**	10,347,596
Total liabilities		**1,645,460**	1,297,253
Equity			
Share capital	36	**5,771,682**	5,771,682
Reserves	45	**4,818,758**	4,575,914
Total equity		**10,590,440**	10,347,596
Total liabilities and equity		**12,235,900**	11,644,849

Approved and authorised for issue by the Board of Directors on 30 March 2010.

Li Ping
Chairman

Yuan Jianxing
Executive Vice President and Chief Financial Officer

The notes on pages 95 to 170 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009
(Expressed in Renminbi)

		Equity attributable to equity shareholders of the Company											
	Note	Share capital RMB'000	Share premium (note g) RMB'000	Capital reserve (note i) RMB'000	Revaluation reserve RMB'000	Statutory surplus reserve (note h) RMB'000	Fair value reserve (note j) RMB'000	Exchange reserve (note k) RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
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													
Consideration for the acquisition of the Target Interests (as defined in note1 (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 minority interests	(a)	—	—	—	—	—	—	—	(39,852)	—	(39,852)	(30,781)	(70,633)
Dividend declared	15(b)	—	—	—	—	—	—	—	—	(526,955)	(526,955)	—	(526,955)
Distribution to minority shareholders		—	—	—	—	—	—	—	—	—	—	(29,051)	(29,051)
Total comprehensive income for the year		—	—	—	—	—	35,612	(1,324)	(1,145)	1,598,589	1,631,732	11,649	1,643,381
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
Balance as at 1 January 2008 as previously reported		5,444,986	1,557,783	917,666	415,557	97,826	61,075	(3,062)	66,751	1,002,196	9,560,778	77,430	9,638,208
Adjusted for acquisition of Target Interests (as defined in note 1 (c))		—	—	—	—	—	—	—	109,526	—	109,526	34,382	143,908
Balance as at 1 January 2008, restated		5,444,986	1,557,783	917,666	415,557	97,826	61,075	(3,062)	176,277	1,002,196	9,670,304	111,812	9,782,116
Changes in equity for the year ended 31 December 2008													
Issuance of shares	36	326,696	1,169,864	—	—	—	—	—	—	—	1,496,560	—	1,496,560
Transfer from retained earnings to other reserve	(b)	—	—	—	—	—	—	—	10,504	(10,504)	—	—	—
Profit distribution	(c)	—	—	—	—	—	—	—	(24,038)	—	(24,038)	(1,016)	(25,054)
Contributions	(d)	—	—	—	—	—	—	—	—	8,335	8,335	—	8,335
Capital injection by minority shareholder to subsidiary	(e)	—	—	—	—	—	—	—	46,567	—	46,567	25,893	72,460
Increase in minority interests	(f)	—	—	—	—	—	—	—	—	—	—	12,475	12,475
Acquisition of minority interests		—	—	—	—	—	—	—	(863)	—	(863)	(1,335)	(2,198)
Total comprehensive income for the year		—	—	—	—	—	(38,694)	(2,386)	(2,065)	1,326,770	1,283,625	16,874	1,300,499
Dividend declared	15(b)	—	—	—	—	—	—	—	—	(393,629)	(393,629)	—	(393,629)
Distribution to minority shareholders		—	—	—	—	—	—	—	—	—	—	(7,974)	(7,974)
Appropriation		—	—	—	—	64,332	—	—	—	(64,332)	—	—	—
Balance as at 31 December 2008		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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

(Expressed in Renminbi)

Notes:

(a) Acquisition of minority interests in 2009 represents the premium paid by the Group for acquiring equity interests in certain subsidiaries of the Group.

(b) Transfer from retained earnings to other reserve in 2008 represented the net profit of the Target Interests (as defined in note 1(c)) for the period from 1 January 2008 to 31 December 2008, which was included in the consideration for the acquisition of the Target Interests.

(c) Profit distribution in 2008 represented the appropriation made and dividend declared by a subsidiary within the Target Interests prior to the acquisition of the Target Interests (as defined in note 1(c)) by the Group.

(d) Capital contribution in 2008 represented the profit distribution to a subsidiary of China Telecommunication Corporation ("CTC") by the Target Business (as defined in note 1(b)), which was subsequently waived by the subsidiary.

(e) Capital injection by minority shareholder represented a minority shareholder injected of US$ 10 million to acquire 30% equity interest in a subsidiary, Zhejiang Freeland New Media Co., Ltd, of the Group at a premium. The Company's shared portion of the premium has been recorded in other reserve.

(f) The amount represented minority interests of certain non-wholly owned subsidiaries which the Group obtains the equity interests in these subsidiaries through donation from labour unions (see note 39(ii)).

(g) 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.

(h) 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 2009, the Company transferred RMB 77,219,000 being 10% of the current year's net profit as determined in accordance with the PRC Accounting Rules and Regulations, to this reserve.

(i) 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 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.

(j) 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.

(k) Exchange reserve
The exchange reserve represents all foreign exchange differences arising from the translation of the financial statements of subsidiaries located in Cambodia, Egypt, Hong Kong, Indonesia, Nigeria, Pakistan, Saudi Arabia, Sudan, Tanzania and Zambia.

The notes on pages 95 to 170 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2009
(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Operating activities			
Profit before tax		**2,037,594**	1,747,319
Adjustments for:			
— Depreciation and amortisation		**609,607**	575,907
— Impairment losses on accounts and other receivable		**61,919**	36,842
— Impairment losses on property, plant and equipment		**3,847**	1,073
— Impairment losses on inventories		**23,409**	4,846
— Interest income		**(72,726)**	(103,306)
— Finance costs		**88,435**	176,334
— Share of profits of associates		**(1,571)**	(2,161)
— Dividend income		**(31,594)**	(19,332)
— Gain on disposal of investments		**(6,845)**	(7,340)
— Loss on disposal of property, plant and equipment and other assets		**22,217**	24,297
— Impairment loss on other investments		**8,211**	—
— Exchange differences		**9,051**	14,827
— Donation of equity interests		**—**	(12,475)
— Write back of non-payable liabilities		**(25,135)**	(14,367)
Operating profit before changes in working capital		**2,726,419**	2,422,464
Increase in inventories		**(500,656)**	(140,837)
Increase in accounts and bills receivable		**(1,173,726)**	(1,918,730)
Increase in prepayments and other current assets		**(207,093)**	(428,500)
Increase in accounts and bills payable		**1,091,363**	2,570,144
Increase in receipts in advance for contract work		**280,129**	248,781
Increase/(decrease) in accrued expenses and other payables		**292,961**	(279,472)
Net cash inflow from operations		**2,509,397**	2,473,850
Interest paid		**(73,588)**	(176,220)
Interest received		**72,936**	101,760
Income tax paid		**(446,518)**	(451,657)
Cash generated from operating activities		**2,062,227**	1,947,733

Consolidated Cash Flow Statement

For the year ended 31 December 2009

(Expressed in Renminbi)

	Note	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Investing activities			
Payments on acquisition of property, plant and equipment and other assets		**(724,820)**	(758,198)
Proceeds from disposal of property, plant and equipment and other assets		**47,173**	57,279
Net cash inflow arising from acquisition of subsidiaries	39(i)	**3,529**	612,796
Net cash inflow arising from receipt of donation of equity interests	39(ii)	**—**	55,178
Payments for acquisition of investments		**—**	(2,201)
Payments for acquisition of minority interests		**(71,807)**	—
Payments for acquisition of Target Interests (as defined in note (1c))		**(98,081)**	—
Payments for acquisition of Target Business (as defined in note (1b)) and assets		**—**	(44,092)
Proceeds from disposal of investments		**7,194**	32,030
Proceeds from disposal of associate		**–**	403
Dividends received		**22,697**	2,027
Net cash used in investing activities		**(814,115)**	(44,778)
Financing activities			
Proceeds from bank and other loans		**1,450,905**	2,103,747
Repayments of bank and other loans		**(2,135,142)**	(3,646,149)
Dividends paid		**(309,177)**	(342,201)
Contribution from minority owners to subsidiaries		**—**	72,460
Net proceeds from issuance of new shares		**—**	1,484,752
Decrease in restricted deposits		**81,977**	193,911
Net cash used in financing activities		**(911,437)**	(133,480)
Net increase in cash and cash equivalents		**336,675**	1,769,475
Cash and cash equivalents at the beginning of year		**8,538,142**	6,769,326
Effect of exchange rate fluctuations on cash held		**(4,393)**	(659)
Cash and cash equivalents at the end of year	32	**8,870,424**	8,538,142

The notes on pages 95 to 170 form part of these financial statements.

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 integrated service provider to the telecommunications industry in the People's Republic of China (the "PRC"). Its principal activities comprise provision of a full range of telecommunications support services to the telecommunication operators in the PRC, including (i) telecommunications infrastructure design, construction and supervision and management; (ii) business process outsourcing (including network maintenance, facilities management, distribution of telecommunications service and products); and (iii) a variety of other services including applications, content and others.

(b) Organisation

The Company was established in the PRC on 30 August 2006 as a joint stock limited company under the Company Law of the PRC as part of the Restructuring (as defined below) of 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.

1 Principal activities, organisation and basis of presentation (Continued)

(b) Organisation (Continued)

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 (see note (36)). 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 Group and CTC and certain of its subsidiaries on 26 May 2009, the Group acquired 95.945% and 51% equity interests in Shanghai Tongmao Import & Export Co., Ltd and Guoxin Lucent Technologies Network Technologies Co., Ltd (collectively the "Target Interests"), respectively, 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 have been accounted for as a combination of entities under common control in a manner similar to pooling-of-interests. Accordingly, the assets and liabilities of the Target Interests have been accounted for at historical costs and the consolidated financial statements of the Company prior to the acquisition of the Target Interests have been restated to include 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.

1 Principal activities, organisation and basis of presentation (Continued)

(c) Basis of presentation (Continued)

The results of operations for the year ended 31 December 2008, the financial position as at 31 December 2008 and the cash flow effect for the year ended 31 December 2008 previously reported by the Group have been restated to include the results of the Target Interests as set out below:

	The Group (as previously reported) RMB'000	Target Interests RMB'000	Combined adjustments RMB'000	Combined RMB'000
Results of operations for the year ended 31 December 2008				
Revenues	32,470,570	565,207	(30,405)	33,005,372
Gross profit	5,300,842	76,691	(4,529)	5,373,004
Profit for the year	1,331,601	12,043	–	1,343,644
Basic earnings per share (in RMB)	0.232	–	–	0.233
Financial position as at 31 December 2008				
Total assets	27,459,220	395,293	(17,711)	27,836,802
Total liabilities	15,346,526	264,397	(17,711)	15,593,212
Total equity	12,112,694	130,896	–	12,243,590
Cash flow effect for the year ended 31 December 2008				
Net cash generated from operating activities	1,950,309	(2,576)	–	1,947,733
Net cash used in investing activities	(43,609)	(1,169)	–	(44,778)
Net cash used in financing activities	(123,291)	(10,189)	–	(133,480)

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

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.

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 2009 comprise the Group and its interests in associate.

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 (see note 17) 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.

2 Significant accounting policies (Continued)

(c) Basis of consolidation

(i) Subsidiaries and minority interests

Subsidiaries are those companies controlled by the Group. Control exists when the Group has the power 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. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and 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.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Group, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority 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 minority interests and the equity shareholders of the Company.

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

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

(ii) Associates

An associate is an entity in which the Group has significant influence, but not control, over its management, including participation in the financial and operating decisions.

An investment in an associate is accounted for in the 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 investment is initially recorded at cost and adjust thereafter 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 (l)). 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.

2 Significant accounting policies (Continued)

(c) Basis of consolidation (Continued)

(ii) Associates (Continued)

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

Goodwill is state at cost less any 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)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate and the investment as a whole is tested for impairments whenever there is objective evidence of impairment (see note 2(l)).

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

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

(e) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries and 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)).

2 Significant accounting policies (Continued)

(e) Other investments in debt and equity securities (Continued)

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) Other property, plant and equipment

The following items of property, plant and equipment stated recognised in the consolidated balance sheet at cost less accumulated depreciation and impairment losses (see note 2(l)):

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

– other items of plant and equipment.

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

2 Significant accounting policies (Continued)

(g) Other property, plant and equipment (Continued)

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.

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 (note 17), 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.

(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.

2 Significant accounting policies (Continued)

(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.

2 Significant accounting policies (Continued)

(l) Impairment of assets

(i) Impairment of investments in debt and equity securities and 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 carrying 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.

2 Significant accounting policies (Continued)

(l) Impairment of assets (Continued)

(i) Impairment of investments in debt and equity securities and receivables (Continued)

– 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.

2 Significant accounting policies (Continued)

(I) Impairment of assets (Continued)

(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.

2 Significant accounting policies (Continued)

(l) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

– 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".

2 Significant accounting policies (Continued)

(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.

2 Significant accounting policies (Continued)

(t) Employee benefits (Continued)

(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 schemes 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).

2 Significant accounting policies (Continued)

(u) Income tax (Continued)

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.

2 Significant accounting policies (Continued)

(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.

2 Significant accounting policies (Continued)

(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 completed.

2 Significant accounting policies (Continued)

(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 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 one new IFRS, a number of amendments to IFRSs and 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 8, *Operating segments*
- IAS 1 (revised 2007), *Presentation of financial statements*
- IAS 23 (revised 2007), *Borrowing costs*
- Amendments to IAS 27, *Consolidated and separate financial statements — cost of an investment in a subsidiary, jointly controlled entity or associate*
- Amendments to IFRS 2, *Share-based payment — vesting conditions and cancellations*
- Amendments to IFRS 7, *Financial instruments: Disclosures — improving disclosures about financial instruments*
- Improvements to IFRSs (2008)

The amendments to IFRS 2, IAS 23 and improvements to IFRSs (2008) have had no material impact on the Group's financial statements as the amendments were consistent with policies already adopted by the Group. The impact of these developments on the financial statements is as follows:

- As a result of the adoption of IAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

- IFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. As the Group principally has one reportable segment, such change has no material impact to the presentation of this financial information. For additional information about segment reporting, please refer to note 44.

3 Changes in accounting policies (Continued)

- As a result of the adoption of the amendments to IFRS 7, the financial statements include expanded disclosures in note 41(f) about the fair value measurement of the Group's financial instruments, categorising these fair value measurement into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to IFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments have not been provided.

- The amendments to IAS 27 have removed the requirement that dividends out of pre- acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009, all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognised in the Group's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividends. In such cases, in addition to recognising dividend income in profit or loss, the Group would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

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:

	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Revenue from telecommunications infrastructure services	**19,289,579**	15,329,464
Revenue from business process outsourcing services	**15,943,326**	13,743,789
Revenue from applications, content and other services	**4,266,545**	3,932,119
	39,499,450	33,005,372

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"), both with revenue exceeding 10% of the Group's total revenue. Revenues from the provision of integrated telecommunications support services to CTC Group and CM Group for the year ended 31 December 2009 amount to RMB20,243 million and RMB5,642 million respectively (2008: RMB15,966 million and RMB4,749 million respectively), being 51.2% and 14.3% of the Group's total revenue respectively (2008: 48.4% and 14.4% respectively). In addition, the revenue derived from areas outside Mainland PRC for the year ended 31 December 2009 amounts to RMB1,287 million (2008: RMB706 million).

5 Cost of revenues

	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Depreciation and amortisation	**351,402**	336,629
Direct personnel costs	**7,073,351**	5,962,414
Operating lease charges	**608,086**	463,145
Purchase of materials and telecommunications products	**12,364,499**	11,167,207
Subcontracting charges	**9,064,577**	6,970,705
Others	**3,665,598**	2,732,268
	33,127,513	27,632,368

6 Other operating income

	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Interest income	**72,726**	103,306
Dividend income from unlisted securities	**31,594**	19,332
Government grants	**97,461**	89,300
Gain on disposal of investments	**6,845**	7,340
Gain on disposal of property, plant and equipment	**9,629**	7,464
Penalty income	**6,888**	2,142
Management fee income	**259,849**	245,879
Write-back of non-payable liabilities	**25,135**	14,367
Others	**10,683**	35,223
	520,810	524,353

7 Other operating expenses

	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Impairment losses on property, plant and equipment	**3,847**	1,073
Impairment loss on other investments	**8,211**	–
Loss on disposal of property, plant and equipment	**31,846**	31,761
Donations	**452**	1,744
Penalty charge	**12,584**	10,653
Net foreign exchange loss	**9,051**	14,827
Others	**10,791**	10,691
	76,782	70,749

8 Finance costs

	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Interest on bank advances and other borrowings wholly repayable within five years	**88,435**	176,334

For the years ended 31 December 2009 and 2008, no borrowing costs were capitalised in relation to construction in progress.

9 Profit before tax

		2009 RMB'000	2008 RMB'000 (restated– note 1(c))
(a)	Staff costs:		
	Salaries, wages and other benefits	**8,643,858**	7,365,663
	Contributions to defined contribution retirement schemes	**883,961**	683,363
		9,527,819	8,049,026
(b)	Other items:		
	Depreciation		
	– Property, plant and equipment (note 17)	**530,513**	503,875
	– Investment properties (note 18)	**31,995**	29,751
	Amortisation		
	– Lease prepayments (note 20)	**9,590**	8,948
	– Other intangible assets (note 22)	**37,509**	33,333
	Auditors' remuneration	**38,000**	36,000
	Cost of inventories	**12,364,499**	11,167,207
	Impairment losses on accounts and other receivable	**74,521**	46,795
	Reversal of impairment losses on accounts and other receivable	**(12,602)**	(9,953)
	Operating lease charges	**748,195**	584,102
	Research and development costs	**257,073**	122,543
	Share of associate's taxation	**277**	388

10 Income tax

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

	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Current tax		
PRC enterprise income tax	**454,675**	424,558
Deferred tax		
Origination and reversal of temporary differences (note 26)	**(27,319)**	(20,883)
Total income tax	**427,356**	403,675

10 Income tax (Continued)

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

	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Profit before tax	**2,037,594**	1,747,319
Expected PRC enterprise income tax expense at a statutory tax rate of 25% (2008: 25%) (note (i))	**509,398**	436,830
Differential tax rates on subsidiaries' income (note (i))	**(146,787)**	(100,799)
Non-deductible expenses (note (ii))	**39,259**	41,806
Non-taxable income	**(10,374)**	(12,072)
Tax losses not recognised	**31,118**	50,043
Utilisation of previously unrecognised tax losses	**(3,626)**	(8,784)
Reversal of previously recognised tax losses	**—**	2,068
Effect on opening deferred tax resulting from a reduction in PRC statutory tax rate (note (iii))	**8,368**	(5,417)
Income tax	**427,356**	403,675

Notes:

(i) The provision of PRC 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 2009 and for the year ended 31 December 2008, except for certain subsidiaries of the Group, which are taxed at preferential rates of 15% or 20%.

(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 2009 and 2008 represented the tax effect on opening balances of deferred tax assets arising from the change in the enterprise income tax rate applicable to certain subsidiaries due to changes in preferential tax qualification during the years concerned. The deferred tax assets were remeasured for the change in applicable tax rates.

11 Other comprehensive income/(loss)

Available-for-sale securities

	2009 RMB'000	2008 RMB'000
Changes in fair value recognised during the period	43,197	(44,877)
Net deferred tax (charged)/credited to other comprehensive income	(7,585)	6,183
Net movement in the fair value reserve during the period recognised in other comprehensive income/(loss)	35,612	(38,694)

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 2009 are as follows:

	Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000	Pension scheme contribution RMB'000	2009 Total 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 above remuneration does not include share appreciation rights as it has not been granted to above directors and supervisors (see note 38).

12 Directors' and supervisors' emoluments (Continued)

The names of the directors and the supervisors of the Company and their remuneration for the year ended 31 December 2008 are as follows:

	Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000	Pension scheme contribution RMB'000	2008 Total RMB'000
Name of directors and supervisors					
Wang Xiaochu	—	—	—	—	—
Li Ping	—	—	—	—	—
Zhang Zhiyong	—	—	—	—	—
Yuan Jianxing	—	—	—	—	—
Liu Aili	—	—	—	—	—
Zhang Junan	—	—	—	—	—
Wang Jun	200	—	—	—	200
Chan Mo Po, Paul	213	—	—	—	213
Zhao Chunjun	150	—	—	—	150
Wu Shangzhi	150	—	—	—	150
Hao Weimin	150	—	—	—	150
Xia Jianghua	—	—	—	—	—
Yan Dong	—	—	—	—	—
Hai Liancheng	75	—	—	—	75
	938	—	—	—	938

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

	2009	2008
HK$ equivalent		
Nil to 1,000,000	**13**	14

13 Individuals with highest emoluments

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

	2009	2008
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:

	2009 RMB'000	2008 RMB'000
Salaries, allowances and other benefits in kind	**874**	720
Bonuses	**2,730**	2,890
Pension scheme contributions	**349**	306
	3,953	3,916

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

	2009	2008
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 RMB772,186 thousand (2008: RMB643,313 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:

	2009 RMB'000	2008 RMB'000
Final dividend proposed after the balance sheet date RMB0.1108 per share (2008: RMB0.0913 per share)	**639,502**	526,955

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

	2009 RMB'000	2008 RMB'000
Final dividend in respect of the financial year ended 31 December 2008, approved during the year, of RMB0.0913 per share (2007: RMB0.0682 per share)	**526,955**	393,629

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 2009 of RMB1,598,589 thousand (2008: RMB1,326,770 thousand) and the weighted average number of shares in issue during the year ended 31 December 2009 of 5,771,682 thousand shares (2008: 5,683,313 thousand shares).

	2009 Thousand shares	2008 Thousand shares
Ordinary share issued at 1 January	**5,771,682**	5,444,986
Effect of share issued in April 2008	**—**	238,327
	5,771,682	5,683,313

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 RMB'000 (restated – note 1(c))	Buildings improvements RMB'000 (restated – note 1(c))	Motor vehicles RMB'000 (restated – note 1(c))	Furniture, fixtures and other equipment RMB'000 (restated – note 1(c))	Total RMB'000 (restated – note 1(c))
Cost or valuation:					
As at 1 January 2008	2,252,023	211,041	684,509	1,330,233	4,477,806
Transferred to investment properties (note 18)	(130,768)	—	—	—	(130,768)
Transferred from investment properties (note 18)	31,068	—	—	—	31,068
Transferred from construction in progress (note 19)	131,710	16,619	482	12,783	161,594
Additions	46,133	23,867	117,186	271,784	458,970
Disposals	(5,082)	(39,790)	(56,477)	(125,627)	(226,976)
Through acquisition of subsidiaries (note 39(i))	224,352	—	112,954	154,635	491,941
As at 31 December 2008	2,549,436	211,737	858,654	1,643,808	5,263,635
Representing:					
Cost	1,071,035	86,046	413,367	885,064	2,455,512
Valuation — 2006 (note b)	1,478,401	125,691	445,287	758,744	2,808,123
	2,549,436	211,737	858,654	1,643,808	5,263,635
Accumulated depreciation and impairment losses:					
As at 1 January 2008	108,220	126,587	289,955	571,252	1,096,014
Transferred to investment properties (note 18)	(19,676)	—	—	—	(19,676)
Transferred from investment properties (note 18)	4,041	—	—	—	4,041
Depreciation charge	102,316	36,757	109,235	255,567	503,875
Written back on disposal	(1,270)	(12,135)	(39,359)	(95,349)	(148,113)
Impairment loss	—	—	610	463	1,073
Through acquisition of subsidiaries (note 39(i))	28,967	—	58,559	96,160	183,686
As at 31 December 2008	222,598	151,209	419,000	828,093	1,620,900
Net carrying value:					
As at 31 December 2008	2,326,838	60,528	439,654	815,715	3,642,735

17 Property, plant and equipment, net (Continued)

The Group (Continued)

	Buildings RMB'000	Buildings improvements RMB'000	Motor vehicles RMB'000	Furniture, fixtures and other equipment RMB'000	Total RMB'000
Cost or valuation:					
As at 1 January 2009	2,549,436	211,737	858,654	1,643,808	5,263,635
Transferred to investment properties (note 18)	(53,328)	—	—	—	(53,328)
Transferred from investment properties (note 18)	43,751	—	—	—	43,751
Transferred 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
Transferred to investment properties (note 18)	(12,895)	—	—	—	(12,895)
Transferred 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

17 Property, plant and equipment, net (Continued)

The Company

	Furniture, fixtures and other equipment RMB'000
Cost :	
As at 1 January 2008	119
Additions	339
As at 31 December 2008	458
Accumulated depreciation:	
As at 1 January 2008	11
Charge for the year	58
As at 31 December 2008	69
Net carrying value:	
As at 31 December 2008	389
Cost :	
As at 1 January 2009	**458**
Additions	**190**
Transferred 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**

17 Property, plant and equipment, net (Continued)

(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 minority interests as at 31 March 2006 amounting to RMB294 million and RMB1 million respectively. The deficit arising from the valuation of these assets amounting to RMB105 million, 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 2009, certain banking facilities of the Group were secured by property, plant and equipment with carrying amount of RMB7 million (2008: RMB45 million). As at 31 December 2009, no lease prepayment (2008: RMB13 million) was secured for banking facilities.

(d) Up to the date of issue of these financial statements, the Group was in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB290 million as at 31 December 2009 (2008: RMB270 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.

17 Property, plant and equipment, net (Continued)

(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 2009 would have been as follows:

	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Buildings	**2,338,597**	2,164,135
Buildings improvements	**60,844**	60,283
Motor vehicles	**439,393**	368,091
Furniture, fixtures and other equipment	**878,997**	824,938
	3,717,831	3,417,447

18 Investment properties

	The Group	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Cost:		
As at 1 January	**822,970**	713,285
Transferred from property, plant and equipment (note 17)	**53,328**	130,768
Transferred to property, plant and equipment (note 17)	**(43,751)**	(31,068)
Transferred to lease prepayments (note 20)	**—**	(2,684)
Additions	**—**	280
Disposals	**—**	(17)
Through acquisition of subsidiaries (note 39(i))	**—**	12,406
As at 31 December	**832,547**	822,970
Accumulated depreciation:		
As at 1 January	**115,755**	68,563
Transferred from property, plant and equipment (note 17)	**12,895**	19,676
Transferred to property, plant and equipment (note 17)	**(14,057)**	(4,041)
Transferred to lease prepayments (note 20)	**—**	(121)
Depreciation charge	**31,995**	29,751
Through acquisition of subsidiaries (note 39(i))	**—**	1,927
As at 31 December	**146,588**	115,755
Net carrying value:		
As at 31 December	**685,959**	707,215
Fair value	**813,237**	797,417

18 Investment properties (Continued)

All the Group's investment properties are located in the PRC.

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	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Within 1 year	**50,381**	51,099
After 1 year but within 5 years	**74,408**	71,119
After 5 years	**11,597**	5,919
	136,386	128,137

During the year ended 31 December 2009, RMB80 million (2008: RMB75 million) was recognised as rental income in the consolidated income statement and RMB21 million (2008: RMB20 million) in respect of direct operating expenses relating to investment properties was recognised as expenses in the consolidated income statement.

Up to the date of these financial statements, the Group was in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB103 million as at 31 December 2009 (2008: RMB144 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	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))	**2009 RMB'000**	2008 RMB'000
Cost:				
As at 1 January	**231,008**	228,174	**3,361**	—
Additions	**130,396**	162,017	**2,541**	3,361
Transferred to property, plant and equipment (note 17)	**(288,070)**	(161,594)	**(4,322)**	—
Through acquisition of subsidiaries (note 39(i))	**—**	2,411	**—**	—
As at 31 December	**73,334**	231,008	**1,580**	3,361

20 Lease prepayments

	The Group	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Cost:		
As at 1 January	**454,562**	383,896
Additions	**64,248**	16,200
Disposals	**(4,584)**	—
Transferred from investment properties (note 18)	**—**	2,684
Through acquisition of subsidiaries (note 39(i))	**—**	51,782
As at 31 December	**514,226**	454,562
Accumulated depreciation:		
As at 1 January	**23,271**	12,097
Amortisation charge	**9,590**	8,948
Written back on disposal	**(322)**	—
Transferred from investment properties (note 18)	**—**	121
Through acquisition of subsidiaries (note 39(i))	**—**	2,105
As at 31 December	**32,539**	23,271
Net carrying value:		
As at 31 December	**481,687**	431,291

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 16 to 69 years as at 31 December 2009.

21 Goodwill

	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Cost and carrying amount	**103,005**	103,005
Impairment tests for cash-generating units containing goodwill		
China International Telecommunications Construction Corporation ("CITCC") (note 39(i))	**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 9.6%.

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	
	2009 RMB'000	2008 RMB'000 (restated – note 1(c))	**2009 RMB'000**	2008 RMB'000
Cost:				
As at 1 January	**196,533**	131,947	**4,500**	—
Additions	**71,200**	71,076	**1,477**	4,500
Disposals	**(9,788)**	(10,566)	**—**	—
Through acquisition of subsidiaries (note 39(i))	**—**	4,076	**—**	—
As at 31 December	**257,945**	196,533	**5,977**	4,500
Accumulated amortisation:				
As at 1 January	**80,952**	51,787	**875**	—
Amortisation charge	**37,509**	33,333	**1,575**	875
Written back on disposal	**(8,969)**	(5,839)	**—**	—
Through acquisition of subsidiaries (note 39(i))	**—**	1,671	**—**	—
As at 31 December	**109,492**	80,952	**2,450**	875
Net carrying value:				
As at 31 December	**148,453**	115,581	**3,527**	3,625

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

23 Investments in subsidiaries

	The Company	
	2009 RMB'000	2008 RMB'000
Unlisted investments, at cost	**10,226,636**	9,987,008

(Expressed in Renminbi)

23 Investments in subsidiaries (Continued)

The following list contains only the particulars of subsidiaries at 31 December 2009 which principally affected the results, assets or liabilities of the Group.

Name of company	Type of legal entity	Place of incorporation/ establishment	Held by the Company Directly %	Held by the Company Indirectly %	Issued and fully paid up/ registered capital	Principal activities
Guangdong Communications Services Company Limited	Limited Liability Company	The PRC	100	—	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
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

(Expressed in Renminbi)

23 Investments in subsidiaries (Continued)

Name of company	Type of legal entity	Place of incorporation/ establishment	Held by the Company Directly %	Held by the Company Indirectly %	Issued and fully paid up/ registered capital	Principal activities
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
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

23 Investments in subsidiaries (Continued)

Name of company	Type of legal entity	Place of incorporation/ establishment	Held by the Company Directly %	Held by the Company Indirectly %	Issued and fully paid up/ registered capital	Principal activities
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 Telecommunication Construction Corporation	Limited Liability Company	The PRC	100	—	RMB317 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
Guoxin Lucent Technologies Network Technologies Co., Ltd.	Limited Liability Company	The PRC	51	—	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

24 Interest in associate

	The Group 2009 RMB'000	The Group 2008 RMB'000 (restated– note 1(c))
Share of net assets	**12,960**	12,902

As at 31 December 2009, the Group's associate is unlisted, established and operated in the PRC. The Group's interest in associate is individually and in aggregate not material to the Group's financial condition or results of operation for the year.

25 Other investments

	The Group	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
At cost/fair value:		
Unlisted equity securities, at cost	**226,775**	234,986
Listed equity securities, at quoted market price	**77,998**	34,802
	304,773	269,788

26 Deferred tax assets and liabilities

Deferred tax assets and liabilities attributable to the following:

	Assets		Liabilities		Net balance	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))	**2009 RMB'000**	2008 RMB'000 (restated– note 1(c))	**2009 RMB'000**	2008 RMB'000 (restated– note 1(c))
Impairment losses, primarily for receivables and inventories	**37,208**	22,523	**—**	—	**37,208**	22,523
Revaluation of other investments	**—**	—	**(2,420)**	(4,282)	**(2,420)**	(4,282)
Revaluation of property, plant and equipment	**—**	—	**(19,716)**	(21,123)	**(19,716)**	(21,123)
Unused tax losses (note (i))	**4,651**	4,247	**—**	—	**4,651**	4,247
Change in fair value (note (ii))	**—**	—	**(13,633)**	(6,048)	**(13,633)**	(6,048)
Revaluation of lease prepayments (note (iii))	**57,304**	60,000	**—**	—	**57,304**	60,000
Unpaid expenses	**41,389**	30,846	**—**	—	**41,389**	30,846
Deferred tax assets and (liabilities)	**140,552**	117,616	**(35,769)**	(31,453)	**104,783**	86,163

26 Deferred tax assets and liabilities (Continued)

Movements in temporary differences for the year ended 31 December 2008 and 2009 are as follows:

The Group

	As at 1 January 2009 RMB'000	Acquisition of subsidiary RMB'000	Recognised in the consolidated income statement RMB'000	Recognised in shareholders' equity RMB'000	As at 31 December 2009 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 39(i))	(note 10(a))		

	As at 1 January 2008 RMB'000 (restated– note 1(c))	Acquisition of subsidiaries RMB'000	Recognised in the consolidated income statement RMB'000	Recognised in shareholders' equity RMB'000	As at 31 December 2008 RMB'000 (restated– note 1(c))
Impairment losses, primarily for receivables and inventories	13,089	3,748	5,686	—	22,523
Revaluation of other investments	—	(4,282)	—	—	(4,282)
Revaluation of property, plant and equipment	—	(22,449)	1,326	—	(21,123)
Unused tax losses (note (i))	3,372	—	875	—	4,247
Change in fair value (note (ii))	(9,276)	(585)	(2,370)	6,183	(6,048)
Revaluation of lease prepayments (note (iii))	63,966	—	(1,901)	(2,065)	60,000
Unpaid expenses	13,579	—	17,267	—	30,846
Deferred tax assets and (liabilities)	84,730	(23,568)	20,883	4,118	86,163
		(note 39(i))	(note 10(a))		

26 Deferred tax assets and liabilities (Continued)

Notes:

(i) Expiry of recognised tax losses

	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Year of expiry		
2011	—	—
2012	—	—
2013	**16,988**	16,988
2014	**1,612**	—
	18,600	16,988

(ii) As at 31 December 2009, 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 RMB13.6 million (2008: RMB6.0 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 2009 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 2009, the Group has not recognised deferred tax assets in respect of tax losses of RMB511.6 million (2008: RMB386.8 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 2010 to 2014.

27 Inventories

	The Group	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Construction materials	**405,439**	434,571
Finished goods	**1,190,318**	686,105
Spare parts and consumables	**63,869**	61,795
	1,659,626	1,182,471

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

	The Group	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Carrying amount of inventories consumed and sold	**12,364,499**	11,167,207
Reversal of write-down of inventories	**(1,286)**	(23)
Write-down of inventories	**24,695**	4,869
	12,387,908	11,172,053

28 Accounts and bills receivable, net

	The Group	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Bills receivable	**101,718**	146,577
Unbilled revenue for contract work	**2,970,511**	2,620,511
Trade receivables	**7,727,589**	6,864,788
	10,799,818	9,631,876
Less: impairment losses	**(332,129)**	(301,104)
	10,467,689	9,330,772

28 Accounts and bills receivable, net (Continued)

(a) Included in accounts and bills receivable are amounts due from fellow subsidiaries of RMB6,772 million (2008: RMB5,332 million) as at 31 December 2009. 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	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Current	**5,313,774**	4,364,365
Within 1 year	**4,320,911**	4,320,944
After 1 year but less than 2 years	**618,309**	459,572
After 2 years but less than 3 years	**130,957**	119,212
After 3 years	**83,738**	66,679
Amount past due	**5,153,915**	4,966,407
	10,467,689	9,330,772

(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	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
At 1 January	**301,104**	73,514
Acquisition of subsidiaries	**—**	202,334
Impairment loss recognised	**46,077**	40,647
Reversal of impairment loss previously recognised	**(9,260)**	(8,089)
Uncollectible amounts written off	**(5,792)**	(7,302)
At 31 December	**332,129**	301,104

28 Accounts and bills receivable, net (Continued)

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

At 31 December 2009, the Group's accounts and bills receivable of RMB290.3 million (2008: RMB256.9 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 RMB234.4 million (2008: RMB213.2 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	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Neither past due nor impaired	**5,313,774**	4,364,365
Within 1 year	**4,320,911**	4,319,752
After 1 year but less than 2 years	**335,743**	283,800
After 2 years but less than 3 years	**64,262**	77,571
After 3 years	**22,005**	18,442
At 31 December	**10,056,695**	9,063,930

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 2009 are RMB5,600 million (2008: RMB4,336 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 2009 are RMB26 million (2008: RMB25 million).

30 Prepayments and other current assets

	The Group		The Company	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))	**2009 RMB'000**	2008 RMB'000
Advances to staff	**221,450**	206,385	**—**	—
Amounts due from fellow subsidiaries	**392,209**	502,996	**35,330**	21,276
Amounts due from subsidiaries	**—**	—	**170,005**	67,867
Prepayments in connection with construction work and equipment purchases	**1,779,566**	1,609,409	**—**	—
Prepaid expenses and deposits	**207,347**	235,965	**729**	667
Dividends receivable	**38,903**	25,394	**1,371,008**	1,131,128
Others	**500,923**	395,815	**44**	—
	3,140,398	2,975,964	**1,577,116**	1,220,938

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 construction projects.

32 Cash and cash equivalents

	The Group		The Company	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))	**2009 RMB'000**	2008 RMB'000
Cash at bank and in hand	**7,420,776**	7,143,953	**24,232**	64,528
Highly liquid investments	**163,000**	245,000	**163,000**	245,000
Deposits with banks and other financial institutions	**1,286,648**	1,149,189	**235,000**	120,000
Cash and cash equivalents	**8,870,424**	8,538,142	**422,232**	429,528

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	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))	**2009 RMB'000**	2008 RMB'000
RMB denominated				
Borrowings from banks				
— collateralised	**—**	15,212	**—**	—
— unsecured	**850,000**	282,488	**700,000**	—
Loans from ultimate holding company				
— unsecured	**300,000**	1,000,000	**300,000**	1,000,000
Loans from fellow subsidiaries				
— unsecured	**118,280**	645,780	**—**	—
Loans from third parties				
— unsecured	**—**	39,000	**—**	—
Current portion of long-term borrowings				
— collateralised	**—**	940	**—**	—
United States dollars denominated				
Borrowings from banks				
— collateralised	**—**	10,006	**—**	—
	1,268,280	1,993,426	**1,000,000**	1,000,000

33 Interest-bearing borrowings (Continued)

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

	The Group		The Company	
	2009	2008 (restated– note 1(c))	**2009**	2008
RMB denominated				
Borrowings from banks				
— collateralised	—	3.30%	—	—
— unsecured	**3.51%**	6.03%–7.47%	**3.51%**	—
Loans from ultimate holding company				
— unsecured	**3.89%**	4.03%	**3.89%**	4.03%
Loans from fellow subsidiaries				
— unsecured	**2.39%–5.31%**	3.00%–5.26%	—	—
Loan from third party				
— unsecured	—	5.83%–5.91%	—	—
United States dollars denominated				
Borrowings from banks				
— collateralised	—	2.25%	—	—

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

	The Group	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Borrowings from banks:		
— collateralised	—	940
	—	940
Less: Current portion of long-term borrowings	—	(940)
	—	—

As at 31 December 2009, no borrowings from bank were subject to financial covenants.

As at 31 December 2009, no bank loan (2008: RMB26 million) is secured by property, plant and equipment (2008: net book value of RMB22 million) and restricted deposits (2008: net book value of RMB24 million) of the Group respectively.

The loan from ultimate holding company in as at 31 December 2009 is unsecured and repayable on 9 June 2010.

34 Accounts and bills payable

Accounts and bills payable comprise:

	The Group	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Accounts payable	**7,054,217**	6,190,058
Bills payable	**1,790,501**	1,556,729
	8,844,718	7,746,787

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

	The Group	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Within 1 year	**8,302,532**	7,356,165
After 1 year but less than 2 years	**407,273**	267,125
After 2 years but less than 3 years	**79,705**	84,554
After 3 years	**55,208**	38,943
	8,844,718	7,746,787

Included in accounts and bills payable are amounts due to fellow subsidiaries of RMB283 million (2008: RMB254 million) as at 31 December 2009. 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	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))	**2009 RMB'000**	2008 RMB'000
Wages and welfare payables	**833,792**	769,653	**4,947**	3,606
Amounts due to fellow subsidiaries (note i)	**840,302**	957,286	**19,594**	13,240
Advances received	**445,725**	543,475	**—**	—
Other taxes payable	**332,808**	358,003	**3,616**	1,146
Special dividend and profit distribution relating to Target Business payable to CTC (note ii)	**294,628**	349,879	**—**	—
Dividend payable	**612,064**	309,824	**568,154**	257,716
Payables for construction and purchase of fixed assets	**146,704**	42,102	**500**	—
Others	**2,047,056**	1,496,603	**48,649**	21,545
	5,553,079	4,826,825	**645,460**	297,253

Note:

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

(ii) 2006 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 Company has been paying the 2006 special dividend to CTC and its subsidiaries in a series of payments commenced in July 2007.

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.

36 Share capital

	2009 RMB'000	2008 RMB'000
Registered, issued and fully paid:		
3,778,831,800 (2008: 3,778,831,800) domestic state-owned ordinary shares of RMB1.00 each	**3,778,832**	3,778,832
1,992,850,200 (2008: 1,992,850,200) H shares of RMB1.00 each	**1,992,850**	1,992,850
	5,771,682	5,771,682

	2009 Thousand shares	2008 Thousand shares
At 1 January	**5,771,682**	5,444,986
Conversion of domestic state-owned ordinary shares into H shares	—	(32,670)
Issue of H shares	—	359,366
At 31 December	**5,771,682**	5,771,682

On 9 April 2008, the Company completed the Placing of an aggregate of 359,365,600 new overseas-listed foreign-invested shares at a price of HK$5.25 per share (the "Placing Shares"). The Placing Shares comprise (1) 326,696,000 new H shares issued by the Company in connection with the placing, and (2) 32,669,600 H shares issued by the Company upon the conversion of the same number of the existing domestic legal person shares by SSF. The net proceeds from the placing, after deducting share issue expenses of RMB45,309,000, amounted to RMB1,496,560,000 of which RMB326,696,000 and RMB1,169,864,000 were credited to the Company's paid up capital and share premium reserve respectively.

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 2009 was 8.8% (2008: 14.2%). 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% (2008: 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 second, third and fourth 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 second, third and fourth 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 RMB8.4 million for the year ended 31 December 2009 (2008: reversed RMB0.3 million). The first batch 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. The second batch of share appreciation rights have not been granted to each eligible employee, no compensation expense of the second batch of share rights over the applicable vesting period recognised has been 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	
	2009 RMB'000	2008 RMB'000
Property, plant and equipment, net	**314**	308,255
Investment properties	**—**	10,479
Construction in progress	**—**	2,411
Lease prepayments	**—**	49,677
Other intangible assets	**—**	2,405
Other investments	**—**	29,478
Deferred tax assets	**31**	3,748
Inventories	**—**	2,661
Accounts and bills receivable, net	**4**	825,994
Prepayments and other current assets	**286**	483,599
Cash and cash equivalents	**3,529**	814,282
Interest-bearing borrowings	**—**	(943,753)
Accounts and bills payable	**(80)**	(336,654)
Receipts in advance for contract work	**—**	(38,690)
Accrued expenses and other payables	**(3,242)**	(773,924)
Income tax payable	**(22)**	(10,195)
Deferred tax liabilities	**—**	(27,316)
Net identifiable assets and liabilities	**820**	402,457
Goodwill on acquisition	**—**	103,005
Total purchase consideration	**820**	505,462
Less: consideration payable	**—**	303,976
Less: non-cash consideration	**820**	—
Consideration paid in cash	**—**	201,486
Less: cash and cash equivalent balance acquired	**3,529**	814,282
Net cash inflow	**3,529**	612,796

On 30 November 2009, the Group acquired all of the shares in PT HuaNing Consulting Indonesia ("PT HuaNing") from Mr. Yuan Qin and Mr. Jiang Kai Cheng for a consideration of USD0.12 million.

For the period from the date of acquisition to 31 December 2009, PT HuaNing contributed a profit of RMB0.07 million to the Group.

If the acquisition had accrued on 1 January 2009, management estimated that consolidated revenue would have been RMB39,506 million and consolidated profit for the year would have been RMB1,611 million.

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.

39 Notes to consolidated cash flow statement (Continued)

(i) Acquisition of subsidiary (Continued)

On 30 May 2008, the Group acquired all of the shares in CITCC from China National Postal and Telecommunications Appliances Corporation ("the Vendor") for a consideration of RMB505.46 million. The cost of acquisition has been settled by cash payment of RMB201.48 million and the assumption of a debt of the Vendor due to CITCC of RMB303.98 million.

For the period from the date of acquisition to 31 December 2008, CITCC contributed a profit of RMB41 million to the Group.

If the acquisition had accrued on 1 January 2008, management estimated that consolidated revenue would have been RMB34,151 million and consolidated profit for the year would have been RMB1,352 million.

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.

The goodwill recognised on the acquisition is attributable mainly to the skills and technical talent of the acquired business work force, optimising the Group's customer base and geographic coverage, help to accelerate its overseas business development and the synergies expected to be achieved from integrating CITCC into the Group's existing telecommunications support services.

(ii) Donation of equity interests

In 2008, the Group received equity interests in certain companies as donation to the Group from local labour unions. These companies became non-wholly owned subsidiaries of the Group on the date of donation. The donation received had the following effect on the Group's assets and liabilities:

	2008 RMB'000
Cash and cash equivalents	55,178
Accounts and other receivables	23,714
Accounts and other payables	(12,296)
Other assets and liabilities	(41,646)
Net assets	24,950
Less: minority interests	12,475
Donation of equity interests	12,475

40 Commitments and contingent liabilities

(a) Capital commitments

As at 31 December 2009, the Group has capital commitment for acquisition and construction of property, plant and equipment as follows:

	The Group		The Company	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))	**2009 RMB'000**	2008 RMB'000
Authorised and contracted for	**100,064**	163,397	**6,419**	3,053
Authorised but not contracted for	**117,019**	189,877	**41,895**	—

(b) Operating lease commitments

As at 31 December 2009, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group		The Company	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))	**2009 RMB'000**	2008 RMB'000
Within 1 year	**114,187**	98,362	**205**	—
After 1 year but within 5 years	**120,369**	112,878	**23**	—
After 5 years	**6,608**	5,998	**—**	—
	241,164	217,238	**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 2009, the Group had no material contingent liabilities and no 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 and its subsidiaries (collectively referred to as "CTC Group"), and China Mobile Limited. The Group has a certain concentration of credit risk as the Group's largest customer accounted for 65% of the total accounts and bills receivable as at 31 December 2009 (2008: 57%). 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 1% of its total assets for both 2009 and 2008.

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.

41 Financial risk management and fair values (Continued)

(c) Liquidity risk (Continued)

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

	2009		2008	
	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	Balance sheet carrying amount RMB'000	Contractual undiscounted cash outflow within 1 year or on demand RMB'000 (restated– note 1(c))	Balance sheet carrying amount RMB'000 (restated– note 1(c))
Interest-bearing borrowings	1,283,783	1,268,280	2,039,200	1,993,426
Account and bills payable	8,844,718	8,844,718	7,746,787	7,746,787
Receipt in advance	1,088,327	1,088,327	808,196	808,196
Accrued expenses and other payable	5,553,079	5,553,079	4,826,825	4,826,825
	16,769,907	16,754,404	15,421,008	15,375,234

The Company

	2009		2008	
	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	Balance sheet carrying amount RMB'000	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	Balance sheet carrying amount RMB'000
Interest-bearing borrowings	1,011,294	1,000,000	1,017,674	1,000,000
Accrued expenses and other payable	645,460	645,460	297,253	297,253
	1,656,754	1,645,460	1,314,927	1,297,253

41 Financial risk management and fair values (Continued)

(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 97.0% (2008: 99.3%) of the Group's cash and cash equivalents and 100% (2008: 99.5%) of the Group's short-term debt as at 31 December 2009 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)

	2009			2008		
	United States dollars ’000	**Hong Kong dollars ’000**	**Nigerian Naira ‘000**	United States dollars ’000	Hong Kong dollars ’000	Nigerian Naira ‘000
Cash and cash equivalents	**126,963**	**92,430**	**46,430**	49,716	18,804	—
Accounts receivable	**93,578**	**—**	**—**	10,224	—	—
Accounts payable	**(11,611)**	**—**	**—**	(11,611)	—	—
Interest-bearing loans	**(9,644)**	**—**	**—**	(9,664)	—	—
Overall net exposure	**199,286**	**92,430**	**46,430**	38,665	18,804	—

41 Financial risk management and fair values (Continued)

(d) Currency risk (Continued)

Exposure to currency risk (Continued)

The following significant exchange rates applied during the year:

The Company

	Exposure to foreign currencies (expressed in RMB)			
	2009		2008	
	United States dollars '000	**Hong Kong dollars '000**	United States dollars '000	Hong Kong dollars '000
Cash and cash equivalents	**—**	**2,504**	—	—

The Group

	Average rate		Spot rate	
	2009	2008	**2009**	2008
United States dollars	**6.83**	7.07	**6.83**	6.83
Hong Kong dollars	**0.88**	0.91	**0.88**	0.88
Nigerian Naira	**0.05**	—	**0.05**	—

41 Financial risk management and fair values (Continued)

(d) Currency risk (Continued)

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

	2009			2008		
	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%	9,964	—	5%	1,933	—
	(5)%	(9,964)	—	(5)%	(1,933)	—
Hong Kong dollars	5%	4,622	—	5%	940	—
	(5)%	(4,622)	—	(5)%	(940)	—
Nigerian Naira	5%	2,322	—	5%	—	—
	(5)%	(2,322)	—	(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 2008.

41 Financial risk management and fair values (Continued)

(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 schemes issued by the company as disclosed in note 38.

At 31 December 2009, it is estimated that an increase/(decrease) of 5% (2008: 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

	2009			2008		
		Effect on profit after tax and retained profits '000	Effect on other components of equity '000		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%	(3,684)	3,899	5%	(4,516)	1,740
Decrease	(5)%	3,684	(3,899)	(5)%	4,516	(1,740)

41 Financial risk management and fair values (Continued)

(e) Equity price risk (Continued)

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 2008.

(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

41 Financial risk management and fair values (Continued)

(f) Fair value (Continued)

(i) Financial instruments carried at fair value (Continued)

	The Group				The Company			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets								
Available-for-sale securities — Listed equity securities	77,998	—	—	77,998	—	—	—	—
Liabilities								
Share appreciation rights	—	30,744	—	30,744	—	3,437	—	3,437

(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 aging of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

(c) Impairment of long-lived assets

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

42 Significant accounting estimates and judgements (Continued)

(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.

43 Related parties (Continued)

(a) Transactions with CTC Group (Continued)

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

	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Income from related parties:		
Engineering related services (note (i))	**10,996,437**	8,701,853
IT application services (note (ii))	**1,092,998**	990,723
Provision of ancillary telecommunications services (note (iii))	**4,468,905**	3,373,577
Provision of operation support services (note (iv))	**1,694,087**	1,590,803
Supplies procurement service (note (v))	**1,949,401**	1,254,702
Property leasing (note (vi))	**41,355**	53,991
Management fee income (note (vii))	**259,849**	245,879
Expenses paid to related parties:		
Property leasing charges (note (viii))	**119,048**	112,068
IT application service charges (note (ix))	**186,098**	111,554
Operation support service charges (note (x))	**215,256**	178,383
Supplies procurement service charges (note (xi))	**634,604**	216,714
Interest paid (note (xii))	**28,192**	117,956

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.

43 Related parties (Continued)

(a) Transactions with CTC Group (Continued)

Notes: (Continued)

(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:

	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Accounts and bills receivable, net	**6,771,830**	5,331,861
Prepayments and other current assets	**392,209**	502,996
Total amounts due from CTC Group	**7,164,039**	5,834,857
Interest-bearing borrowings	**418,280**	1,645,780
Accounts and bills payable	**282,570**	253,724
Receipts in advance for contract work	**56,569**	41,732
Accrued expenses and other payables	**1,605,436**	1,503,672
Total amounts due to CTC Group	**2,362,855**	3,444,908

As at 31 December 2008 and 2009, no impairment losses for bad and doubtful debts were recorded in respect of amounts due from CTC Group.

The directors are of the opinion that the above transactions with related parties were conducted on normal commercial terms in the ordinary course of business and the terms are fair and reasonable so far as the shareholders of the Company are concerned.

43 Related parties (Continued)

(a) Transactions with CTC Group (Continued)

In connection with the Restructuring, the Company and CTC entered into a number of agreements effective as at 16 November 2006 to take up the existing agreements signed between the Predecessor Operations and CTC as set out in items (1), (2) and (3) below, together with a new agreement governing the provision of headquarter management function by the Company as set out in item (4). 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. 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.

43 Related parties (Continued)

(a) Transactions with CTC Group (Continued)

(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.

43 Related parties (Continued)

(b) 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:

	2009 RMB'000	2008 RMB'000
Salaries and other emoluments	3,874	2,423
Retirement benefits	1,243	1,301
Bonuses	7,672	7,185
	12,789	10,909

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

(c) 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 2009 and 2008, there was no material outstanding contribution to post-employment benefit plans.

(d) 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 RMB27,805 million for the year ended 31 December 2009 (2008: RMB23,697 million).

Transactions with Group's ten largest suppliers, which are state-controlled entities, amounting to RMB1,373 million for the year ended 31 December 2009 (2008: RMB1,147 million).

44 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 4.

45 Distributable reserves

The movement of shareholders' equity of the Company for 2009 is as follows:

	Share capital RMB'000 (note 36)	Share premium RMB'000 (note i)	Capital reserves RMB'000 (note ii)	Statutory surplus reserves RMB'000 (note iii)	Retained earnings RMB'000	Total RMB'000
At 1 January 2008	5,444,986	1,557,783	993,576	97,826	507,181	8,601,352
Profit for the year	—	—	—	—	643,313	643,313
Issuance of shares (see note 36)	326,696	1,169,864	—	—	—	1,496,560
Distribution of dividend (see note 15(b))	—	—	—	—	(393,629)	(393,629)
Appropriation	—	—	—	64,332	(64,332)	—
At 31 December 2008	5,771,682	2,727,647	993,576	162,158	692,533	10,347,596
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

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:

	2009 RMB'000	2008 RMB'000
At 31 December	**175,850**	120,374

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

45 Distributable reserves (Continued)

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 Comparative figures

As a result of the application of IAS 1 (revised 2007), *Presentation of financial statements*, certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 3. In addition, as stated in note 1(c), as a result of the acquisition of Target Interests, comparative figures have been restated.

(Expressed in Renminbi)

47 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ended 31 December 2009

Up to the date of issue of these financial statements, the IASB has issued amendments, new standards and interpretations which are not yet effective for the accounting year ended 31 December 2009 and which have not been adopted in these financial statements. Of these developments, the following relate to matters they may be relevant to the Group's operations and financial statements:

		Effective for accounting periods beginning on or after
Revised IFRS 3	Business combinations	1 July 2009
Amendments to IAS 27	Consolidated and separate financial statements	1 July 2009
Amendments to IAS 39	Financial instruments: Recognition and measurement — Eligible hedged items	1 July 2009
IFRIC 17	Distributions of non-cash assets to owners	1 July 2009
Improvements to IFRSs 2009		1 July 2009 or 1 January 2010
Amendments to IFRS 1	First-time adoption of International Financial Reporting Standards — Additional exemptions for first-time adopters	1 January 2010
Amendments to IFRS 2	Share-based payment — Group cash-settled share-based payment transactions	1 January 2010
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
Amendment 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
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
IFRS 9	Financial instruments	1 January 2013

47 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ended 31 December 2009 (Continued)

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.

48 Immediate and ultimate controlling party

At 31 December 2009, 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.

Financial Summary

(Amounts in thousands, except per share data)

For the years ended 31 December

	2009 RMB	2008 RMB (Note 1&2)	2007 RMB (Note 1&2)	2006 RMB (Note 1&2)	2005 RMB (Note 1&2)
Results					
Revenue from telecommunications infrastructure services	**19,289,579**	15,329,464	11,093,007	10,941,175	10,450,989
Revenue from business process outsourcing services	**15,943,326**	13,743,789	9,695,630	6,787,975	5,752,371
Revenue from applications, content and other services	**4,266,545**	3,932,119	3,251,874	2,448,019	2,412,772
Total revenues	**39,499,450**	33,005,372	24,040,511	20,177,169	18,616,132
Depreciation and amortization	**(351,402)**	(336,629)	(307,149)	(328,393)	(306,074)
Direct personnel costs	**(7,073,351)**	(5,962,414)	(4,600,240)	(3,975,421)	(3,476,979)
Purchase of materials and telecommunications products	**(12,364,499)**	(11,167,207)	(7,993,192)	(6,420,470)	(6,225,594)
Subcontracting charges	**(9,064,577)**	(6,970,705)	(4,580,668)	(3,583,645)	(2,784,981)
Operating lease charges and others	**(4,273,684)**	(3,195,413)	(2,428,831)	(2,235,047)	(2,055,029)
Cost of revenues	**(33,127,513)**	(27,632,368)	(19,910,080)	(16,542,976)	(14,848,657)
Gross profit	**6,371,937**	5,373,004	4,130,431	3,634,193	3,767,475
Other operating income	**520,810**	524,353	465,396	321,775	203,302
Selling, general and administrative expenses	**(4,691,507)**	(3,905,116)	(2,843,607)	(2,528,507)	(2,762,015)
Other operating expenses	**(76,782)**	(70,749)	(39,336)	(37,009)	(33,793)
Deficit on revaluation of property, plant and equipment	**–**	–	(388)	(135,629)	–
Finance costs	**(88,435)**	(176,334)	(56,086)	(30,928)	(22,446)
Share of profits less (losses) of associates	**1,571**	2,161	3,575	(14)	14,676
Negative goodwill	**–**	–	–	4,039	159,499
Profit before tax	**2,037,594**	1,747,319	1,659,985	1,227,920	1,326,698
Income tax	**(427,356)**	(403,675)	(462,930)	(375,904)	(349,292)
Profit for the year	**1,610,238**	1,343,644	1,197,055	852,016	977,406
Attributable to:					
Equity shareholders/owner	**1,598,589**	1,326,770	1,181,108	829,288	769,162
Minority interests	**11,649**	16,874	15,947	22,728	208,244
Profit for the year	**1,610,238**	1,343,644	1,197,055	852,016	977,406
Basic and diluted earnings per share (RMB)	**0.277**	0.233	0.217	0.204	0.194

Financial Summary

(Amounts in thousands, except per share data)

	At 31 December				
	2009 RMB	2008 RMB (Note 1)	2007 RMB (Note 1)	2006 RMB (Note 1)	2005 RMB (Note 1)
Financial condition					
Property, plant and equipment, net	**3,912,721**	3,642,735	3,381,792	3,007,364	3,330,232
Other non-current assets	**1,950,723**	1,988,406	1,740,261	1,228,466	1,966,025
Inventories	**1,659,626**	1,182,471	1,042,854	995,167	669,845
Accounts and bills receivable, net	**10,467,689**	9,330,772	6,826,220	5,949,868	5,209,012
Prepayments and other current assets	**3,140,398**	2,975,964	2,253,543	2,181,501	2,906,361
Cash and cash equivalents	**8,870,424**	8,538,142	6,769,323	8,262,305	5,033,287
Restricted deposits	**160,525**	178,312	251,129	–	–
Total assets	**30,162,106**	27,836,802	22,265,122	21,624,671	19,114,762
Interest-bearing borrowings	**1,268,280**	1,993,426	2,593,256	157,700	302,547
Accounts and bills payable	**8,844,718**	7,746,786	4,837,946	4,278,768	3,158,142
Receipts in advance for contract work	**1,088,327**	808,197	520,725	680,048	1,067,701
Accrued expenses and other payables	**5,553,079**	4,826,825	4,318,266	3,756,661	4,019,396
Income tax payable	**194,701**	186,525	200,213	224,426	495,685
Non-current liabilities	**35,769**	31,453	12,601	31,473	12,000
Total liabilities	**16,984,874**	15,593,212	12,483,007	9,129,076	9,055,471
Equity attributable to equity holders of the Company	**13,068,686**	12,086,861	9,704,685	12,348,886	9,378,818
Minority interests	**108,546**	156,729	77,430	146,709	680,473
Total equity	**13,177,232**	12,243,590	9,782,115	12,495,595	10,059,291
Total liabilities and equity	**30,162,106**	27,836,802	22,265,122	21,624,671	19,114,762

Note 1: On 26 May 2009, the Group acquired the Target Interests from CTC. Since the Group and the Target Interests are under common control of CTC, the Target Interests have been accounted for as a combination of entities under common control in manner similar to pooling-of-interests. Accordingly, the assets and liabilities of the Target Interests have been accounted for at historical costs and the consolidated financial statements of the Company prior to the acquisition of the Target Interests have been restated to include the results of operations and assets and liabilities of the Target Interests on a combined basis. Our financial summary of 2005, 2006, 2007 and 2008 have been restated to include the results and financial condition of the Target Interests in the relevant period.

Note 2: As a result of the application of IAS 1 (revised 2007), presentation of financial statement, certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009.

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