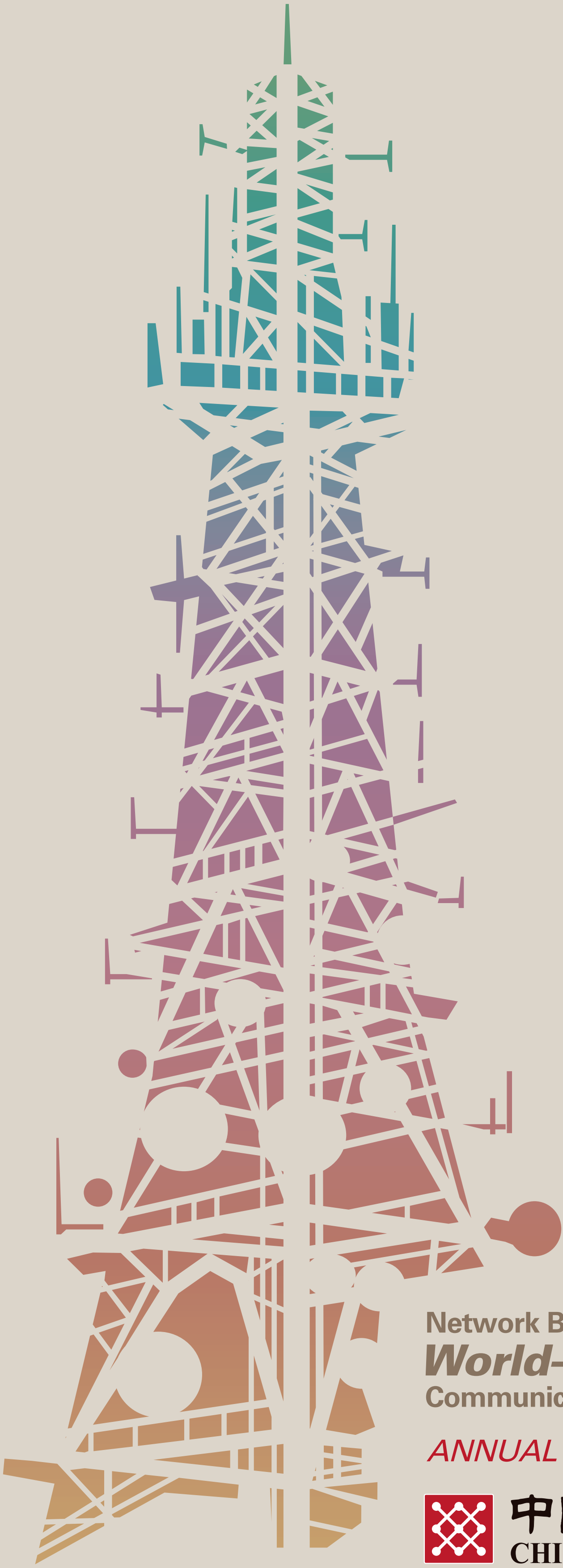

Network Builder for the

World-Class

Communications Infrastructure

ANNUAL REPORT 2012

中国通信服务
CHINA COMSERVICE

CHINA COMMUNICATIONS SERVICES
CORPORATION LIMITED

STOCK CODE: 552

1 Vision

2 Relationships

3 Major Markets

5 Strategies

4 Transformations

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The industry developments such as rapid growth in communications industry in China, the construction of the optical fiber broadband network, the popularization of information application and the coming issuance of 4G license, bring forward tremendous business opportunities. The Company, being a "Network Builder for the World-Class Communications Infrastructure", aims to build a hundred-billion enterprise with superior performance and a culture of harmony and happiness in long term. Based on 6 years' successful experience since listing, collective wisdom from staff as well as the current opportunities and challenges, the Company introduces "123456" strategy system to motivate the Company towards globalization, informatization and synergistic development and thus creating greater value for its shareholders, customers, staff members, partners and the community. The design idea of this annual report closely correlates to the Company's "123456" strategy system and demonstrates a full picture of the Company's promising development.

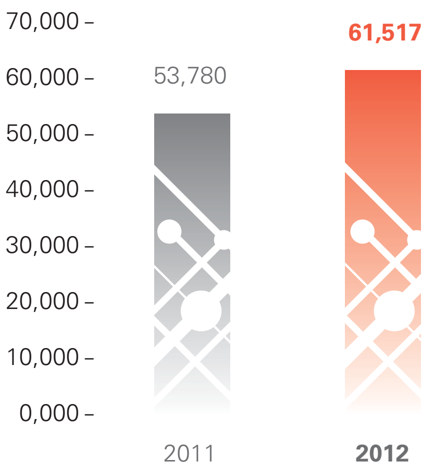
CONTENTS

FINANCIAL HIGHLIGHTS

	2011 (Restated)[1]	**2012**	Change
Revenues (RMB million)	53,780	**61,517**	14.4%
Gross profit (RMB million)	8,581	**9,785**	14.0%
Profit attributable to equity shareholders (RMB million)	2,129	**2,407**	13.0%
Basic earnings per share (RMB)	0.358[2]	**0.353**	-1.4%
Free cash flow[3] (RMB million)	193	**166**	-14.0%

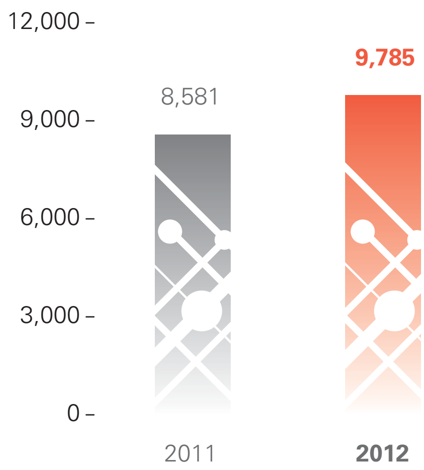
Revenues

(RMB million)



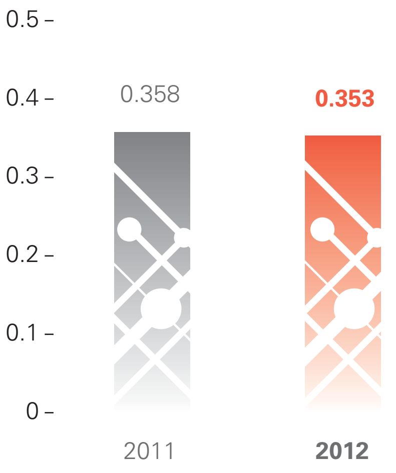
Gross Profit

(RMB million)



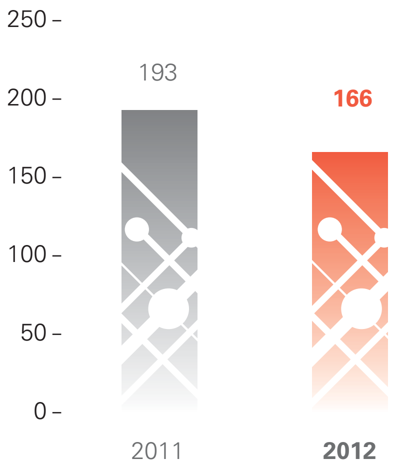
Basic Earnings Per Share

(RMB)



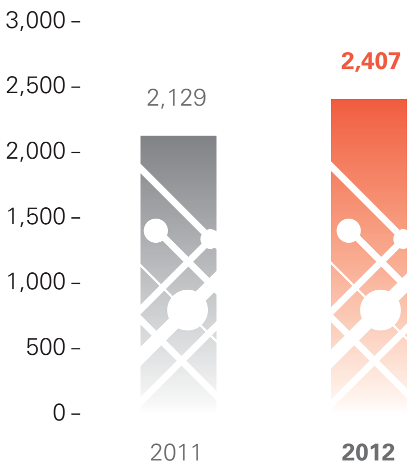
Free Cash Flow

(RMB million)



Profit Attributable to Equity Shareholders

(RMB million)



(1) The financial data for 2011 have been restated due to the newly acquired companies. Please refer to note 1 of the audited financial statements for details.

(2) Basic earnings per share for the twelve months ended 31 December 2011 have been restated pursuant to factors set out in (1) as well as the rights issue of the Company in February 2012. Please refer to note 16 of the audited financial statements for details.

(3) Free cash flow = Profit for the year + Depreciation and amortization – Changes in working capital – Capital expenditure

COMPANY PROFILE AND CORPORATE INFORMATION

China Communications Services Corporation Limited (the "Company") is a leading service provider in the informatization sector in the PRC, in commitment of "building world-class networks for the informatization services", providing integrated support services in the informatization sector, including telecommunications infrastructure ("TIS") services, business process outsourcing ("BPO") services and applications, content and other ("ACO") services. Our shareholders include China Telecommunications Corporation ("China Telecom"), China Mobile Communications Corporation ("China Mobile"), China United Network Communications Group Company Limited ("China Unicom") and China National Postal and Telecommunications Appliances Corporation. Meanwhile all three telecommunications operators in the PRC are our customers. We also provide services to domestic non-operator customers like government agencies, industrial customers and small and medium enterprises as well as overseas 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 2012, the aggregate share capital of the Company was 6,926,018,400, of which 2,391,420,240 were H shares.

In 2012, the Company was ranked 87th on the "2012 *FORTUNE China* 500" and 14th in "The Most Innovative Chinese Companies 2012" released by *FORTUNE China*.

Honorary Chairman
Mr. Wang Xiaochu

Board of Directors
Executive directors
Mr. Li Ping (Chairman)
Mr. Zheng Qibao
Mr. Yuan Jianxing
Ms. Hou Rui

Non-executive directors
Mr. Li Zhengmao
Mr. Zhang Junan

Independent non-executive directors
Mr. Wang Jun
Mr. Zhao Chunjun
Mr. Wei Leping
Mr. Siu Wai Keung, Francis

Board Committee
Audit Committee
Mr. Siu Wai Keung, Francis
(Committee Chairman)
Mr. Zhao Chunjun
Mr. Wei Leping

Remuneration Committee
Mr. Siu Wai Keung, Francis
(Committee Chairman)
Mr. Zhao Chunjun
Mr. Wei Leping

Nomination Committee
Mr. Zhao Chunjun
(Committee Chairman)
Mr. Wang Jun
Mr. Wei Leping

Non-Competition Undertaking Review Committee
Mr. Wei Leping
(Committee Chairman)
Mr. Zhao Chunjun
Mr. Siu Wai Keung, Francis

Right of First Refusal and Priority Right Committee
Mr. Wei Leping
(Committee Chairman)
Mr. Zhao Chunjun
Mr. Siu Wai Keung, Francis

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
King & Wood Mallesons Lawyers

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

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Computershare Hong Kong Investor Services Limited
Shops 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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Email: ir@chinaccs.com.hk

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

Website
www.chinaccs.com.hk

MILESTONES

2006 8

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

2006 12

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 approximately HK$3.3 billion.

2007 8

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

2007 10

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

2007 12

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

2008 4

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.

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

2008 5

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.

2009 3

24 March 2009: China Telecommunications Corporation completed the transfer 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.

2009 5

26 May 2009: The Group acquired the equity interests in Guoxin Lucent Technologies Network Technologies Co., Ltd. ("Guoxin Lucent") (51%), Shanghai Tongmao Import & Export Co. Ltd. (95.945%) and Shenzhen Telecom Engineering Company Limited (40%) for a total consideration of approximately RMB115 million.

2009 7

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 the second session of the Supervisory Committee of the Company. All members of the first session of the Board of Directors and the first session of the Supervisory Committee continued to hold their offices.

2009 10

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.

2009 11

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

2010 3

3 March 2010: Mr. Liang Shiping was appointed as Executive Vice President of the Company.

2010 4

7 April 2010: The Company acquired the remaining 49% equity interests in Guoxin Lucent for a total consideration of RMB41 million. After the completion of the acquisition, Guoxin Lucent became a wholly-owned subsidiary of the Company.

2010 6

21 June 2010: Mr. Zhang Zhiyong resigned as President and Executive Director of the Company; Mr. Zheng Qibao was appointed as President of the Company.

2010 8

10 August 2010: Mr. Zheng Qibao was appointed as Executive Director of the Company.

2010 10

27 October 2010: Ms. Hou Rui was appointed as Executive Vice President of the Company.

2010 12

30 December 2010: Ms. Hou Rui succeeded Mr. Yuan Jianxing as Chief Financial Officer of the Company.

2011 2

23 February 2011: Ms. Hou Rui was appointed as Executive Director of the Company.

2011 3

30 March 2011: The Company proposed rights issue of domestic shares and H shares.

2011 5

8 May 2011: The Company proposed rights issue of domestic shares and H shares with revised basis and fund raising size.

19 May 2011: The Company announced the receipt of approval from the State-owned Assets Supervision and Administration Commission of the State Council of the rights issue.

2011 6

17 June 2011: The Company and Sybase, Inc. announced to establish a joint venture.

28 June 2011: The Company's proposed rights issue was approved at the shareholders' general meeting.

2011 10

31 October 2011: The Group and Bytemobile, Inc. announced to establish a joint venture.

2011 12

6 December 2011: The Company announced the receipt of approval from the China Securities Regulatory Commission of the rights issue.

30 December 2011: The Company announced the formal launch and details of the rights issue.

2012 2

10 February 2012: Dealing in the H rights shares commenced on The Stock Exchange of Hong Kong Limited. The rights issue raised gross proceeds of approximately RMB2,991 million (approximately HK$3,677 million).

2012 6

20 June 2012: The Company acquired the equity interests and assets in relation to several telecommunications infrastructure service companies in Ningxia and Xinjiang, etc. as well as 51% equity interests in Sino-British Submarine System Co., Ltd. ("SBSS") for a total consideration of approximately RMB416 million.

28 June 2012: An annual general meeting was held and resolutions were passed to approve the re-elections of the members of the third session of the Board of Directors and the third session of the Supervisory Committee of the Company. All members of the second session of the Board of Directors except Mr. Wu Shangzhi and Mr. Hao Weimin continued to hold their offices and new Independent Non-Executive Directors Mr. Wei Leping and Mr. Siu Wai Keung, Francis were appointed. All members of the second session of the Supervisory Committee continued to hold their offices.

2012 7

28 July 2012: Mr. Chan Mo Po, Paul resigned as an Independent Non-Executive Director of the Company.

2012 9

11 September 2012: Mr. Liu Aili resigned as a Non-Executive Directors of the Company.

2012 11

27 November 2012: Mr. Li Zhengmao was appointed as a Non-Executive Director of the Company.

1 Vision

- **To build a hundred-billion enterprise with superior performance and a culture of harmony and happiness**

Create a harmonious and happy environment unwaveringly while proactively building an enterprise in revenue scale of hundred-billion with superior performance, ensuring the sustainable healthy development of the Group and that its staff can realize their dreams.

CHAIRMAN'S STATEMENT

Li Ping
Chairman

Dear Shareholders,

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

Operating Results

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

Reinforcing the Leading Position in Domestic Telecommunications Operator Market

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

Vigorously Expanding into Domestic Non-operator Market and Overseas Market

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

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

Completion of Rights Issue

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

Corporate Governance

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

Corporate Social Responsibility

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

Prospects

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

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

Li Ping
Chairman

Beijing, PRC
27 March 2013

PRESIDENT'S STATEMENT

Zheng Qibao
President

Dear Shareholders,

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

Financial Performance

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

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

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

Business Development

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

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

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

Market Expansion

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

Enhancement of Management Efficiency

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

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

Prospect for 2013

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

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

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

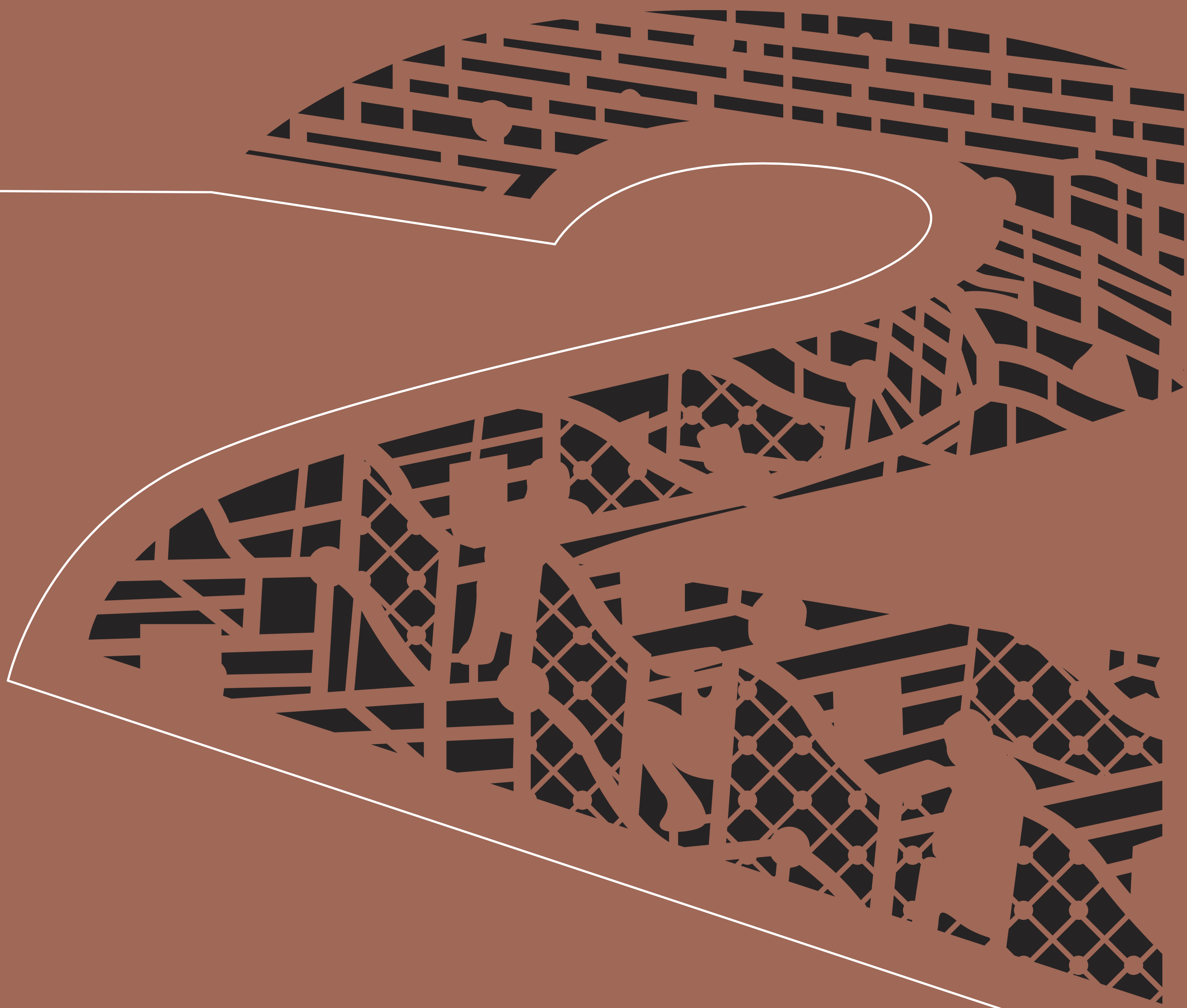
- Foster key projects and key regional markets overseas: Centralize resources allocation, promote synergistic operation in subcontracting project, realize breakthrough in scale of overseas turnkey projects through synergistic marketing, and enhance overseas risk management;

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

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

Zheng Qibao
President

Beijing, PRC
27 March 2013

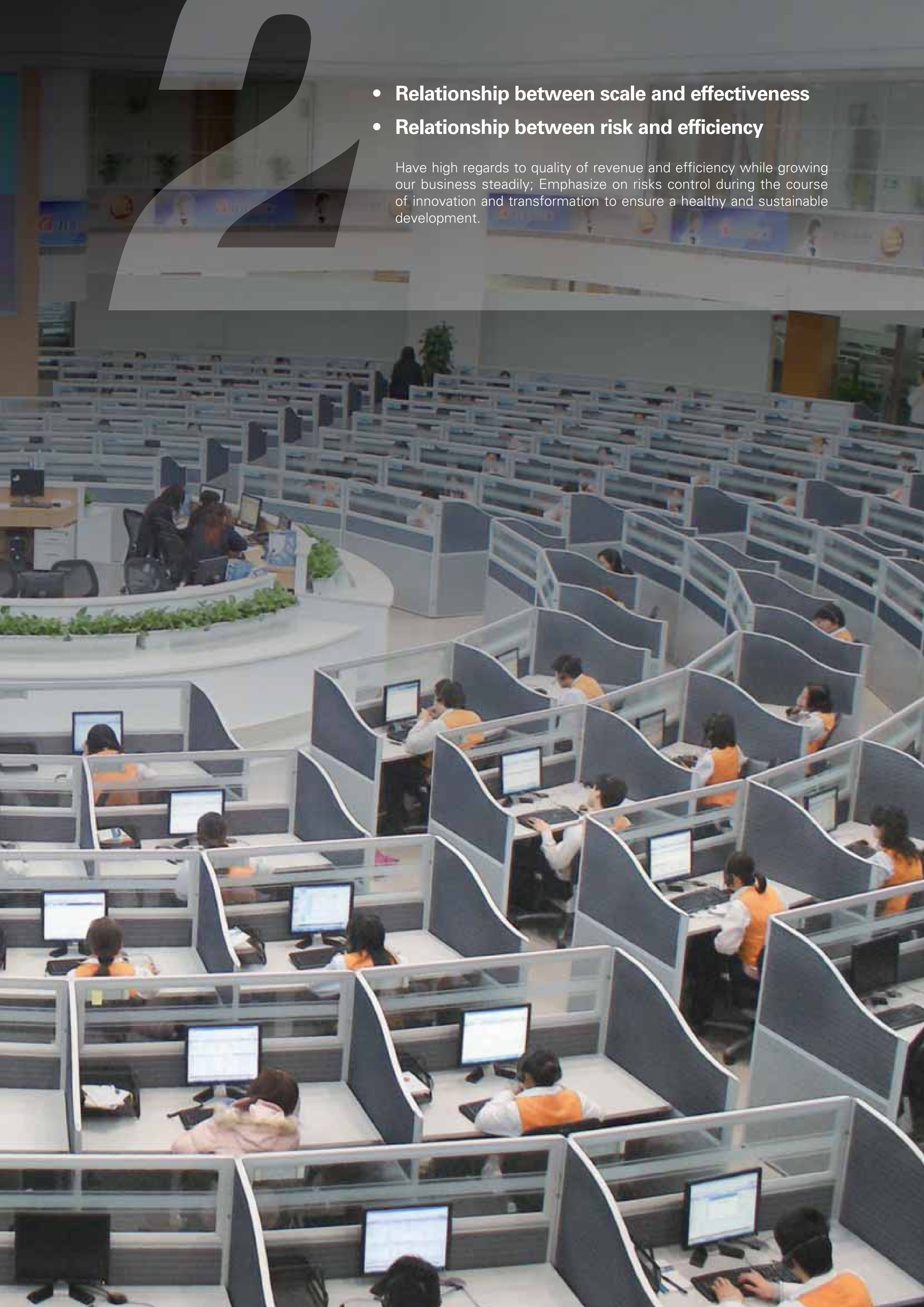


2 Relationships

2

- **Relationship between scale and effectiveness**
- **Relationship between risk and efficiency**

Have high regards to quality of revenue and efficiency while growing our business steadily; Emphasize on risks control during the course of innovation and transformation to ensure a healthy and sustainable development.



BUSINESS OVERVIEW

The Group is a leading service provider in the PRC that provides integrated support services in the informatization sector including telecommunications, media and technology. The Group provides integrated solutions, including telecommunications infrastructure services, business process outsourcing services as well as applications, content and other services to telecommunications operators, government agencies, industrial customers and small and medium enterprises.

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

Customer Services and Market Expansion

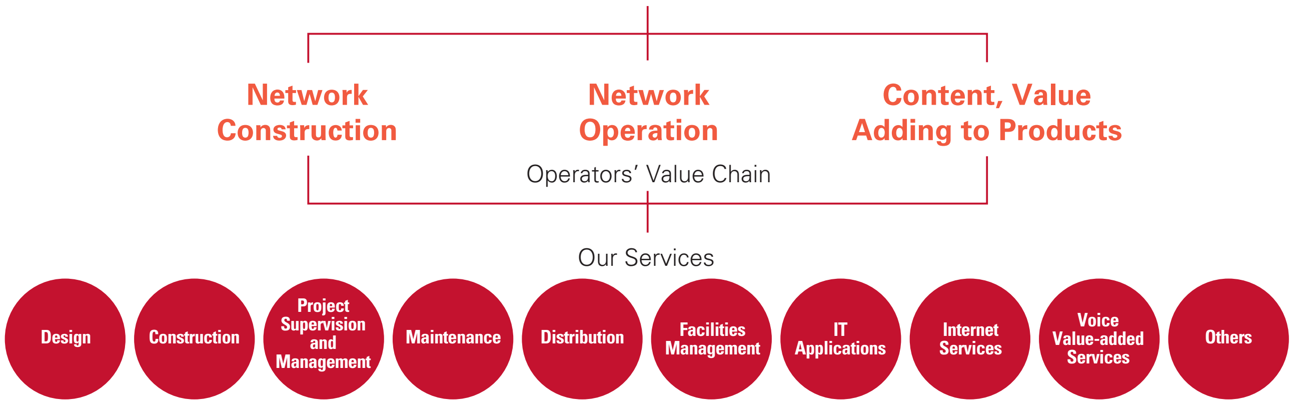
In 2012, guiding by innovations and enhancing efficiency through synergistic management, the Group reinforced its leading market position in the domestic telecommunications operator market, actively explored into the domestic non-operator market and proactively developed overseas market. As such, the Group achieved a stable growth of total revenues, which amounted to RMB61,517 million in 2012, representing a year-on-year growth of 14.4%.

The Company participated in exhibitions

In 2012, the Group attained a relatively stable customer mix. Revenue from domestic telecommunications operator customers increased by 16.2% to RMB39,745 million, accounting for 64.6% of total revenues, among which revenue from China Mobile and China Unicom increased by 21.8% to RMB13,665 million, accounting for 22.2% of total revenues; revenue from domestic non-operator customers increased by 15.5% to RMB18,361 million, accounting for 29.9% of total revenues and revenue from overseas customers decreased by 7.0% to RMB3,411 million, accounting for 5.5% of total revenues.

(In RMB million except percentages)	**2012** Revenue	**2012** Percentage to total revenues	2011 Revenue	2011 Percentage to total revenues	Change over 2011
Domestic telecommunications operator customers	**39,745**	**64.6%**	34,213	63.6%	16.2%
Of which: China Telecom	**26,080**	**42.4%**	22,996	42.8%	13.4%
China Mobile and China Unicom	**13,665**	**22.2%**	11,217	20.8%	21.8%
Domestic non-operator customers	**18,361**	**29.9%**	15,901	29.6%	15.5%
Overseas customers	**3,411**	**5.5%**	3,666	6.8%	–7.0%
Total	**61,517**	**100.0%**	53,780	100.0%	14.4%

We provide an integrated package of services through all stages of operators' value chain



In 2012, with continuous promotion of "Broadband China" strategy and acceleration of development in domestic mobile Internet, the domestic telecommunications operators devoted more resources to the expansion and upgrade of fiber optic broadband and mobile network, and increased their capital expenditure suitably compared with the past years. Accordingly, the Group took advantage of its service capacity of integrated communication services and continuously promoted its service quality. Revenue from the domestic telecommunications operators increased rapidly and its position in the industry was further reinforced.

After being awarded the "National Prime-Quality Project Gold Award" in 2011, the Group participated in the China Mobile's project of TD-SCDMA trial network on network technology and application in 2012, and again won such gold award. It is also the second project that was won by China's communications industry, which has fully demonstrated the Group's leading capacity in the communications construction industry.

Based on the judgment of the development trend of the communications industry and experiences in serving customers over the past years, the Group believes that the

"Smart Nanjing" Project

Projects for Transportation Industry

capital expenditure by the domestic telecommunications operators will keep increasing stably in the coming years given the continuing growth of their customer base and network scale, as well as the continued introduction of new technologies and businesses related to LTE and cloud computing data center. More investment will be put into the optimization and maintenance of the network by telecommunications operators. All of the above will bolster the continued steady business development of the Group in the domestic telecommunications operator market.

The Group has endeavored to expand the domestic non-operator market. In addition to replicating its experiences and technologies in serving domestic telecommunications operators, the Group proactively provides services, such as city pipelines engineering, intelligence building and cloud computing data center construction, to key customers such as government agencies and customers in the industries of construction and property, transportation, etc. In 2012, the Group captured the opportunities of industrialization, informatization and urbanization in China, improved its product offering and thus achieved breakthroughs in the expansion of many industrial customers. Subsequent to certain completed projects such as "Safe City" in Chongqing and Xi'an Horticultural Expo, the Group won several sizable projects during the year, including Integrated Management, Operation and Service Platform Development Project for "Smart Nanjing", Integrated Public Safety Management System Platform Construction Project in Fujian province, pipelines engineering related projects of Shenzhen Metro, etc. All of the above have significantly enhanced the Group's brand awareness and market influence and led to steady revenue growth from its domestic non-operator customers.


Telecommunications Infrastructure Project


Network Optimization Project

Overseas Construction Sites

In 2012, the Group sticked to its "Overseas-focus and Four-steps" Strategy, and developed overseas business at a steady pace. During the year, the Group focused on its expansion in turnkey projects and made groundbreaking steps in winning new projects for customers including telecommunications operators, government agencies and large enterprises, such as construction of overseas POP project for domestic telecommunications operator, Phase II SCPT national backbone fiber optic network project in Congo-Kinshasa, Mobily FTTH project in Saudi Arabia. Meanwhile, the Group deepened the execution of the strategic cooperation agreements with telecommunications equipment manufacturers, actively promoted synergistic subcontracting, and firmly adhered to efficient development.

Development of Overseas Customers

During the year, revenue from overseas market declined slightly over the last year due to implementation delay in certain turnkey projects. The Group will further enhance its marketing capability and risk management in overseas market, endeavoring to achieve scale breakthrough in overseas market in a prudent manner.

Submarine Cable Projects

Telecommunications Infrastructure Services

As the largest telecommunications infrastructure service provider in China, the Group is in possession of the highest-grade qualifications in the communications construction industry in China. In 2012, the Group's revenue from telecommunications infrastructure services amounted to RMB28,413 million, representing a year-on-year growth of 12.0%.

The Group provides a full range of telecommunications infrastructure services to telecommunications operators in China and overseas. These services include planning, design, construction and project supervision for fixed line, mobile, broadband and support systems. In 2012, revenue of telecommunications infrastructure services of the Group from domestic telecommunications operators amounted to RMB22,375 million, representing a year-on-year growth of 18.1%, which demonstrated the Group's solid leading position in the market.

Submarine Cable Construction Equipment

The Group also provides integrated solutions for ancillary communications networks and integrated solutions for informatization to domestic non-operator customers such as government agencies, financial institutions, broadcasting and television enterprises and construction enterprises as well as overseas customers. In 2012, the Group continued to achieve breakthroughs in projects of Smart Nanjing, Safe Xinjiang, Safe Guangdong and Fujian Safety.

The rapid development of broadband network, mobile Internet, as well as popularization of cloud computing and 4G constructions will lead to stable growth of capital expenditure from domestic telecommunications operators. Besides, with further development of informatization and urbanization in China, there will be more investments in infrastructure construction, new technologies, and etc. Moreover, there are still huge demands in the construction of telecommunications infrastructure network, mobile network from many emerging overseas countries. The Group believes that there is ample potential for development of telecommunications infrastructure services. The Group will capture the strategic opportunities to realize the stable development of telecommunications infrastructure services.

Base Station Maintenance Projects

Retail Store for Handsets

Network Maintenance Projects

Business Process Outsourcing Services

The Group is a leading provider of business process outsourcing services for the communications industry in China. Leveraging our advantage in providing integrated service capability in various services along the value chain of the communications industry, the Group provides network and equipment maintenance, distribution of telecommunications services and products ("Distribution") and facilities management to domestic telecommunications operators, government agencies and enterprise customers. In 2012, revenue of business process outsourcing services amounted to RMB26,304 million, representing a year-on-year growth of 17.8%.

The Group provides maintenance services to telecommunications operators in relation to fiber optic cables, electric cables, base stations, network equipments and user terminals. Firmly seizing the continued demand of operation and maintenance outsourcing as a result of the full-service operations of domestic telecommunications operators, the Group improved its service quality, thereby achieved a continuous and rapid growth in the revenue of network maintenance business. In 2012, the Group's revenue of network maintenance business amounted to RMB6,414 million, representing a rapid year-on-year growth of 21.6%.

The distribution services of the Group include the wholesale and distribution of communications machineries and handsets, logistics, procurement agency services. Our major customers are telecommunications operators, telecommunications equipment manufacturers, government agencies and medium to large-sized enterprises. Benefitted from the huge demand in smart phones in the domestic market, the Group seized the opportunity, optimised resources allocation, and enhanced the cooperation on the supply chain, achieving fast development in the distribution services. In 2012, the revenue of the distribution services of the Group amounted to RMB16,944 million, representing a steady year-on-year growth of 17.3%. The Group would make further efforts on the management of the distribution services, drive innovations in sales model, and strive for efficient development of its distribution services.

The Group provides facilities management services on machinery buildings and high-end office buildings for both domestic telecommunications operators and non-operator customers. In 2012, revenue of the facilities management services amounted to RMB2,946 million, representing a year-on-year growth of 13.0%.

Applications, Content and Other Services

The Group provides system integration, software development, system operation and maintenance support and voice value-added services to the domestic telecommunications operators, industrial customers and etc. In 2012, revenue of applications, content and other services amounted to RMB6,800 million, representing a year-on-year growth of 11.9%, among which, the revenue of IT applications which mainly comprises of system integration services, demonstrated a year-on-year growth of 24.8%.

In 2012, the Group made more efforts in product research and popularization. The Group's strength in mobile Internet, wireless network optimization and software development was further enhanced. Besides, the Group enhanced mechanism and system innovation that certain IT companies of the Group have implemented shares ownership scheme by core staff to energize their innovation and enterprise vitality, so as to support the rapid growth of business. Meanwhile, in order to develop products with core competitiveness and support its market expansions, the Group continued to carry out technology innovation and to explore models for new businesses, and enhanced co-operations with equipment manufacturers, universities and research institutions.

In the second half of 2012, the Group established specific fund for encouraging innovation to guide the direction of research and development strategically. In the future, the Group will continue to manage the innovation fund well, to boost the transformation to a technology and management oriented enterprise.

Video Surveillance Centers

Cloud Computing Centers

Voice Call Centers

3 Major Markets

3

- **Domestic telecommunications operator market**
- **Domestic non-operator market**
- **Overseas market**

Focus on three major markets: reinforcing our leading position in domestic telecommunications operator market, exerting extra efforts in cultivating domestic non-operator market and overseas market as our two "new growth engines".

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

Overview

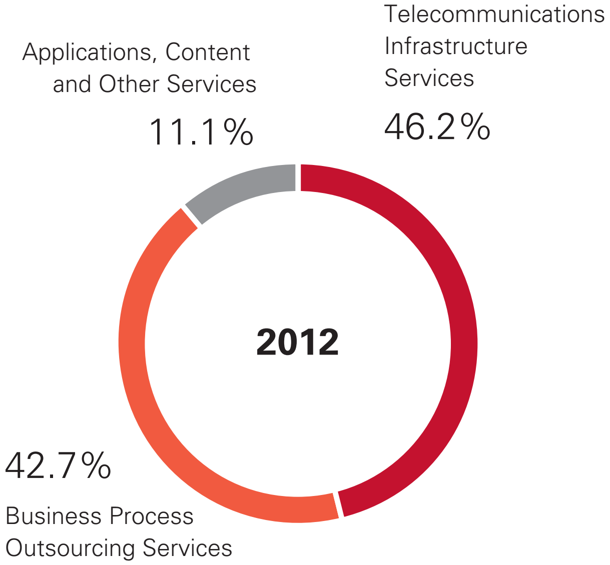
In 2012, against a backdrop of the unstable macro-economic environment in China and the world, the Group overcame such challenges and persisted to focus on three major markets and allocated its resources in an adaptive manner to bolster the Company's sustained and stable development. Our total revenues amounted to RMB61,517.38 million, representing an increase of 14.4% from 2011. Profit attributable to equity shareholders of the Company amounted to RMB2,406.79 million, representing an increase of 13.0% from RMB2,129.21 million[(1)] of 2011. Basic earnings per share were RMB0.353. Free cash flow amounted to RMB165.60 million.

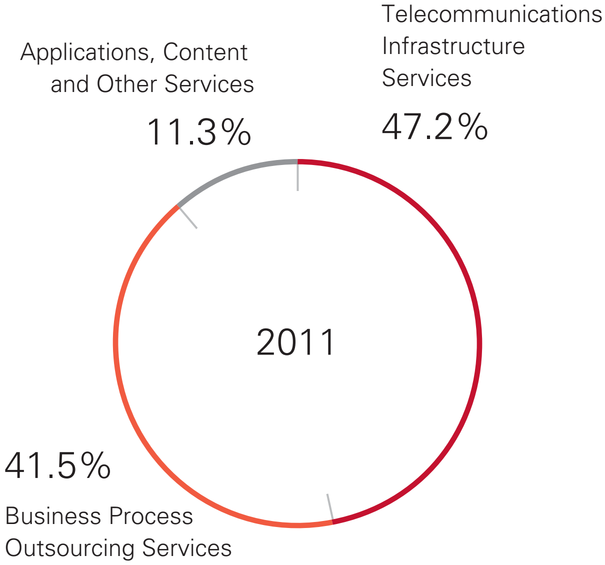
Total Revenues

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

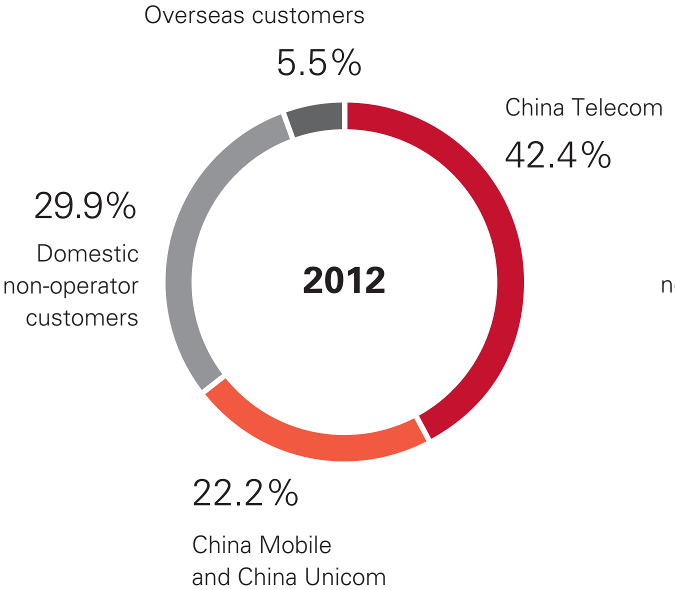
(1) On 20 June 2012, the Company published an announcement, in relation to the acquisitions on equity interest and assets of certain telecommunications infrastructure services companies, including 100% equity interest in Ningxia Communications Constructions Co., Ltd., 100% equity interest in Ningxia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

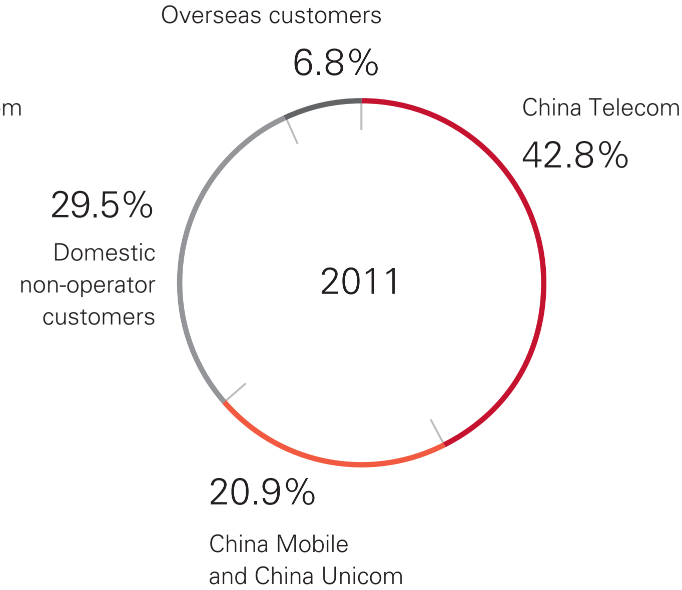
Business Mix





Customer Mix





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

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

Telecommunications Infrastructure Services

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

Business Process Outsourcing Services

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

Applications, Content and Other Services

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

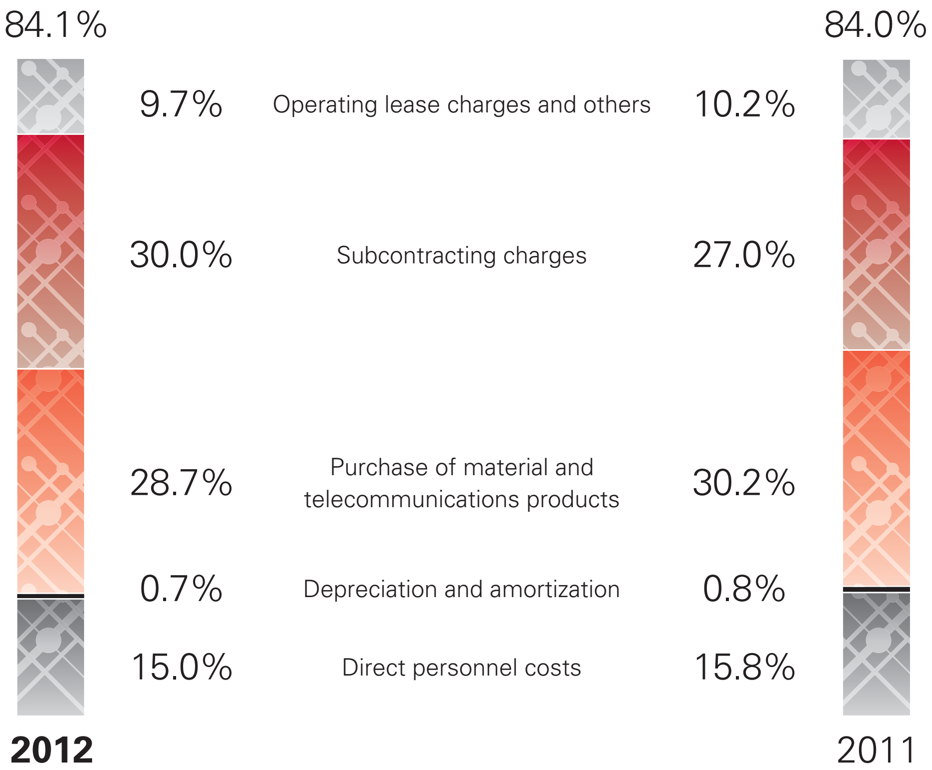
Cost of Revenues

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

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

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

Cost of Revenues as a % of Total Revenues



Direct Personnel Costs

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

Depreciation and Amortization

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

Purchase of Materials and Telecommunications Products

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

Subcontracting Charges

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

Operating Lease Charges and Others

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

Gross Profit

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

Selling, General and Administrative Expenses

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

Finance Costs

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

Income Tax

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

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

In 2012, profit attributable to equity shareholders of the Company was RMB2,406.79 million, representing an increase of 13.0% over RMB2,129.21 million in 2011. Profit attributable to equity shareholders of the Company accounted for 3.9% of our total revenues, remaining at a relative stable level as compared with 2011. Basic earnings per share(2) were RMB0.353, decreased by 1.4% over the last year. The decrease in basic earnings per share was due to the Company's enlarged share capital arising from the rights issue conducted in early 2012.

Capital Expenditure

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

(2) As described in the note 16 of the audited financial statements, the Company completed the rights issue in February 2012. In calculating earnings per share, the weighted average number of shares outstanding during the years ended 31 December 2012 and 2011 were calculated as if the bonus elements without consideration included in the rights issue had been existed from the beginning of the comparative year.

Cash Flow

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

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

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

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

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

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

Working Capital

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

Indebtedness

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

As at the end of 2012, our gearing ratio[3] was 2.4%, a decrease of 4.1 percentage points from 6.5% in 2011.

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

Contractual Obligations

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

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

Exchange Rate

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

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Honorary Chairman

Mr. WANG Xiaochu

age 55, is the Honorary Chairman[1] of our Company. Mr. Wang is also the Chairman 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.

Executive Directors

Mr. LI Ping

age 59, 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 37 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. ZHENG Qibao

age 55, is the President and an Executive Director of our Company, responsible for our daily operations and management. Mr. Zheng is also a Managing Director of the Sideline Industrial Management Department of China Telecommunications Corporation. Mr. Zheng graduated from Shanghai Second Polytechnic University in 1986 and received a bachelor degree in mechanical engineering, received an EMBA degree from China Europe International Business School in 1998, and a doctoral degree in Political Economics from Fudan University in 2003. Mr. Zheng previously served as a Managing Director of Shanghai Telecom Corporation Limited and Dean of China Telecom Corporation Limited Shanghai Research Institute, Executive Vice Dean of China Telecom Corporation Limited Beijing Research Institute and the Managing Director of the Corporate Strategy Department of China Telecommunications Corporation. Prior to that, Mr. Zheng served as Deputy General Engineer of Shanghai Posts and Telecommunications Bureau, Dean of Shanghai Telecom Technology Research Institute and General Manager of Shanghai Telecom Long Distance Communication Division. Mr. Zheng has 35 years of operational and managerial experience in the telecommunications industry in China.

Mr. YUAN Jianxing

age 58, is an Executive Vice President and Executive Director of our Company. Mr. Yuan is also the Deputy Managing Director of the Sideline Industrial Management Department of China Telecommunications Corporation and the Director of Besttone Holding Co.,Ltd.[2]. Until 30 December 2010, Mr. Yuan was the Chief Financial Officer of our Company. Prior to that, he served as the Deputy Director of Finance Department of Shanxi Provincial Post and Telecommunications Bureau, the General Manager of Shanxi Provincial Posts and Telecommunications Industrial Company, Director of Xinzhou Posts and Telecommunications Bureau in Shanxi Province, the General Manager of Taiyuan Branch of Shanxi Telecom Company Limited, Deputy General Manager of Shanxi Telecom Company Limited, Deputy Managing Director of the Sideline Industrial Management Department of China Telecommunications Corporation, Vice President and Chief Accountant of Hunan Telecom Company Limited and the Chairman of China Satcom Guomai Communications Co., Ltd.. Mr. Yuan received an MBA degree from the Ukrainian-American Humanitarian Institute "Wisconsin International University (USA) Ukraine" in 2002. Mr. Yuan has over 35 years experience in the telecommunications industry.

[2] China Satcom Guomai Communications Co., Ltd was renamed to Besttone Holding Co., Ltd. on 20 August 2012.

Ms. HOU Rui

age 43, is an Executive Director, Executive Vice President and Chief Financial Officer of our Company. Ms. Hou received a master degree in Management Engineering from Beijing University of Posts and Telecommunications in 1995 and a master degree in International Commercial Accounting from The University of New South Wales in 2002. Prior to joining the Company, Ms. Hou was Deputy Managing Director of the Finance Department in China Telecommunications Corporation. Prior to that, Ms. Hou served as Divisional Director of General Finance Division and Budgeting Division of China Telecommunications Corporation's Finance Department and the director and the Chief Accountant of Guangxi Telecom Company. Ms. Hou has over 18 years experience in telecommunications industry and financial management.

Non-Executive Directors

Mr. LI Zhengmao

aged 51, is a Non-Executive Director of the Company. Mr. Li was newly appointed as a Non-Executive Director of the Company on 27 November 2012. Mr. Li is the Vice President of China Mobile Communications Corporation, and the Director and Deputy General Manager of China Mobile Communication Company Limited. Mr. Li received a doctor's degree of radio engineering from the Southeast University. Mr. Li previously served as a professor of radio engineering, the Deputy Director of the Science and Technology Institute for the University of Electronic Science and Technology of China and the Director of national key laboratory. Mr. Li has held various positions in the China United Telecommunications Corporation, including the Deputy Head of the Network Technology Department, the Head of the Wireless Communication Department, the Head of the Technology Department and the Deputy Chief Engineer. He was also the Executive Director and Vice President of China Unicom Limited, the General Manager of the Yunnan branch of China United Telecommunications Corporation, and the Director and Deputy General Manager of China United Telecommunications Corporation. Mr. Li has extensive experience in telecommunications technology and business operations.

Mr. ZHANG Junan

age 56, is a Non-Executive Director of our Company. Mr. Zhang is a Vice President of China United Network Communications Group Company Limited, a Senior Vice President of China Unicom (Hong Kong) Limited and a Director and Senior Vice President of China United Network Communications Limited. Mr. Zhang graduated from the Nanjing University of Posts and Telecommunications majoring in carrier communication in 1982, received a master degree in Business Administration from the National Australian University in 2002 and received a Doctor of Business Administration from Hong Kong Polytechnic University in October 2008. Mr. Zhang previously served as Executive Director of China Unicom (Hong Kong) Limited, Deputy General Manager and General Manager of the Anhui Provincial Telecommunication Company, Chairman and General Manager of Anhui Provincial Telecommunication Co., Ltd., 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.

Independent Non-Executive Directors

Mr. WANG Jun

age 72, is an Independent Non-Executive Director of our Company. Mr. Wang graduated from the Harbin Engineering Institute in the PRC. Mr. Wang was the former Chairman of China International Trust and Investment Corporation ("CITIC"). After his retirement in July 2006, he became the Executive Director and Chairman of the Board of Directors of CITIC 21CN Company Limited and the Chairman and Executive Director of Goldbond Group Holdings Limited. Until 17 April 2008, Mr. Wang was a Non-Executive Director and Honorary Chairman of HKC (Holdings) Limited.

Mr. ZHAO Chunjun

age 72, is an Independent Non-Executive Director of our Company. Mr. Zhao is the committee member of Degree Committee and the Academic Council of Tsinghua University, the Chairman of Chinese Society for Management Modernization, an Independent Non-Executive Director of Dongfang Electric Corporation Limited and an Independent Director of China United Network Communications Limited. Mr. Zhao was the Chairman of the Supervisory Committee of Tongfang Co., Limited, an Independent Director of Daheng New Epoch Technology, Inc. and Bank of China Investment Management Company Limited. Mr. Zhao graduated from Tsinghua University in the PRC. He was Dean of the School of Economics and Management of Tsinghua University between June 2001 and October 2005, having previously served as Executive/First Vice Dean between January 1987 and June 2001.

Mr. WEI Leping

age 67, is an Independent Non-Executive Director of our Company. Mr. Wei is the Executive Vice Chairman of Science and Technology Committee of the Ministry of Industry and Information Technology of the PRC ("MIIT") and the Chairman of Science and Technology Advisory Committee of China Telecommunications Corporation, mainly responsible for the high-level technical advisory work for the telecommunications industry of China and China Telecommunications Corporation. Mr. Wei is a professor level Senior Engineer. He graduated in 1970 from Tsinghua University with a major in radio engineering and received a master degree in communication and information systems engineering from the Research Institute of Telecommunications and Technology. Mr. Wei previously served as Executive Director and Executive Vice President of China Telecom Corporation Limited, Chief Engineer of China Telecommunications Corporation, Deputy Director of the Telecommunications Research Institute of the Ministry of Information Industry of the PRC (now known as "MIIT"), Deputy Director of the Telecommunications Science Planning and Research Institute of the MPT and Deputy Director and Chief Engineer of the Telecommunications Transmissions Research Center of the MPT. Mr. Wei has 35 years of experience in research and development for technologies in the telecommunications industry in China and has been involved in research and decision making on major technology strategic development and projects for the nation, industry and enterprise for a long time.

Mr. SIU Wai Keung, Francis

age 59, is an Independent Non-Executive Director of our Company. Mr. Siu is currently an independent non-executive director of GuocoLand Limited (listed on the Singapore Exchange), Hua Xia Bank Co., Limited and Beijing Hualian Hypermarket Company Limited (listed on the Shanghai Stock Exchange) and CITIC Pacific Limited and Hop Hing Group Holdings Limited (listed on the Hong Kong Stock Exchange). Mr. Siu graduated from the University of Sheffield, United Kingdom, with a Bachelor of Arts in Economics and Accounting and Financial Management in 1979. He is also a fellow member of the Institute of Chartered Accountants in England and Wales, and a fellow member of the Hong Kong Institute of Certified Public Accountants. He joined KPMG Manchester, UK in 1979 and returned to Hong Kong in 1986 and became a partner of KPMG Hong Kong in 1993. From 2000 to 2002, he was a Senior Partner of KPMG Shanghai Office. From 2002 to March 2010, he was a Senior Partner of KPMG Beijing Office as well as a Senior Partner of Northern Region, KPMG China. Mr. Siu was also appointed to be the deputy head of the Technical Advisory Board of the Chinese Institute of Certified Public Accountants in 1997 and was the team leader of the Foreign Advisory Panel of the Independent Auditing Standards Consultation Committee commissioned by the Ministry of Finance, PRC. Mr. Siu has been in the accounting profession for 32 years.

Supervisors

Ms. XIA Jianghua

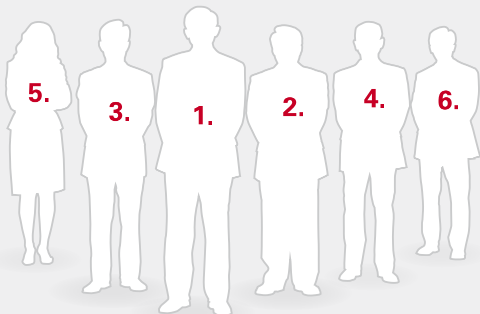
age 54, is Chairperson of our Supervisory Committee. Ms. Xia is Vice General Manager of Auditing Office of China Telecommunications Corporation. Ms. Xia is a senior auditor. Prior to joining China Telecommunications Corporation, she served as Vice-Divisional Director of the Auditing Bureau of MPT, Vice Divisional Director (standing) of the Auditing Division of DGT. Ms. Xia has 28 years management and auditing experience in the telecommunications industry.

Mr. HAI Liancheng

age 68, is an Independent Supervisor of our Company. Mr. Hai studied at the Civil Aviation College and Chinese Communist Party's (CPC) School, and obtained a college diploma. Mr. Hai has served as Vice-Divisional Director and Divisional Director of the Financial Division of the Financial Department of Civil Aviation Administration of China ("CAAC"), Vice-Director and Director of the Financial Department of CAAC, General Manager of China Aviation Oil Supply Corporation and Vice General Manager of China Aviation Oil Holding Company. From September 2001 to February 2006, Mr. Hai served as Chairman of South China BlueSky Aviation Oil Co., Ltd. and China Aviation Oil Corporation Ltd.. Mr. Hai is the Director General of the CAAC Sub-association of the China Association of Chief Financial Officers and Chairman of the CAAC Training Centre for Accounting and Auditing since January 2006. Mr. Hai was employed by PICC Property and Casualty Co. Ltd. as consultant from June 2007 to June 2009. From October 2007 to March 2011, Mr. Hai was the Chairman of Zhong Peng Certified Public Accountants Ltd.. Since March 2011, Mr. Hai has served as senior advisor of China PnR Co., Ltd..

Mr. YAN Dong

age 41, is an Employee Representative Supervisor of our Company. Mr. Yan is the Director of the Corporate Affairs Department of the Company. Prior to that, Mr. Yan was the Divisional Director of the Risk Management Department of the Company and the Deputy Director and Chief Financial Officer of China International Telecommunications Construction Corporation. Mr. Yan received an MBA from Shandong University in 2002. Prior to joining China Telecommunications Corporation in 2004, Mr. Yan served as a Project Manager in Shandong International Trust and Investment Corporation, Office Director, Manager of the Investment Department and Secretary of the Board of Directors of Shandong Luxin Investment Corporation and General Manager of Shandong Luxin Property Investment and Development Co., Ltd..



1. **Mr. LI Ping**
2. **Mr. ZHENG Qibao**
3. **Mr. YUAN Jianxing**
4. **Mr. WANG Qi**
5. **Ms. HOU Rui**
6. **Mr. LIANG Shiping**

Management

Mr. LI Ping

(Please refer to the "Executive Directors" section)

Mr. ZHENG Qibao

(Please refer to the "Executive Directors" section)

Mr. YUAN Jianxing

(Please refer to the "Executive Directors" section)

Ms. HOU Rui

(Please refer to the "Executive Directors" section)

Mr. WANG Qi

age 57, is an Executive Vice President of our Company. Mr. Wang is also the Chairman of China International Telecommunications Construction Corporation, a subsidiary of the Company. Until November 2008, Mr. Wang was the Chief Executive Officer of Guangdong Communications Services Company Limited. Mr. Wang graduated from the Chinese Communist Party's (CPC) School of Guangdong in 1998. Mr. Wang had served as General Manager of Guangdong Post and Telecommunications Development Corporation, and Director of the Telecom Engineering Administration Centre of Guangdong Telecommunications Corporation. Mr. Wang was involved in a number of major communications network projects for Guangdong Telecom, and was awarded the Excellent Engineering Project Prize issued by the MPT. Mr. Wang has 39 years of management experience in the telecommunications industry in China.

Mr. LIANG Shiping

age 43, is an Executive Vice President of our Company. Mr. Liang joined the Company in August 2008 as Director of the Marketing Department of the Company. Mr. Liang received a bachelor's degree in Computer Engineering from the Computer Science Department of Jilin University in 1992 and master's degree in Computer Application from the Sixth Research Institute of the Ministry of Machinery and Electronics Industry in 1996. Prior to joining the Company, Mr. Liang served at the Data Communication Bureau of the Ministry of Posts and Telecommunications, the Multimedia Bureau of the Telecom Administration of the Ministry of Posts and Telecommunications and the Technology Development Department of China Telecom Data Communication Bureau. From October 2000 to August 2008, Mr. Liang served as a Divisional Director of the Planning Division of the Data Communication Bureau and the Application Development Division of the Corporate Informatization Department. Mr. Liang has over 21 years' experience in telecommunications and IT industry.

Company Secretary

Mr. CHUNG Wai Cheung, Terence

age 39, 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 17 years of experience in auditing, financial management and company secretarial work with accounting firm and listed companies.

4 Transformations

- **Transformation towards “Modern Information Service Industries”**
- **Transformation towards “Technology and Management Oriented”**
- **Transformation towards “Information, Communication and Technology”**
- **Transformation towards “World-Class”**

Bolster the continuous enhancement in core competitiveness and capability in sustainable development through “four transformations”.

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 2012.

Principal Businesses

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

Results

Results of the Group for the year ended 31 December 2012 and the financial position of the Company and the Group as at that date are set out in the audited financial statements on page 111 to page 182 in this annual report.

Dividends

The Board proposed a cash dividend of RMB0.1390 per share for the year ended 31 December 2012 based on dividend payout ratio of 40% over the profit attributable to equity shareholders of the Company, and total dividend amounted to approximately RMB963 million. The proposed dividends will be submitted for consideration and approval at the 2012 annual general meeting to be held on 27 June 2013. The Company proposed to distribute the dividends on the basis of the total share capital as at the close of trading on the record date for dividend distribution. Dividends will be denominated and declared in RMB. Dividends of domestic shares will be paid in RMB, 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 2012 annual general meeting.

Further details in respect of the dividends and distribution by the Company are set out in note 15 of the audited financial statements on page 142 of this annual report.

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

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

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

Directors and Senior Management of the Company

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

Name	Position in the Company	Date of appointment
Wang Xiaochu	Honorary Chairman[1]	8 April 2008
Li Ping	Chairman Executive Director	8 April 2008 3 August 2006
Zheng Qibao	Executive Director President	10 August 2010 21 June 2010
Yuan Jianxing	Executive Director Executive Vice President	12 December 2007 16 October 2006
Hou Rui	Executive Director Chief Financial Officer Executive Vice President	23 February 2011 30 December 2010 27 October 2010
Li Zhengmao	Non-executive Director	27 November 2012
Zhang Junan	Non-executive Director	12 October 2006
Wang Jun	Independent Non-executive Director	26 September 2006
Zhao Chunjun	Independent Non-executive Director	26 September 2006
Wei Leping	Independent Non-executive Director	28 June 2012
Siu Wai Keung, Francis	Independent Non-executive Director	28 June 2012
Wang Qi	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) 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 28 June 2012, the term of office of the second session of the Board of the Company expired. Except for Mr. Wu Shangzhi and Mr. Hao Weimin who retired as independent non-executive directors of the Company, the remaining directors of the second session of the Board were re-elected as directors of the third session of the Board at the annual general meeting held on the same day. Mr. Wei Leping and Mr. Siu Wai Keung, Francis were newly appointed as independent non-executive directors of the Company.

Mr. Chan Mo Po, Paul resigned as an independent non-executive director of the Company on 28 July 2012.

Mr. Liu Aili resigned as a non-executive director of the Company on 11 September 2012.

Mr. Li Zhengmao was appointed as a non-executive director of the Company on 27 November 2012.

The following table sets out information concerning the senior management of the important 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
Chen Zhijian	Chief Executive Officer of Shanghai Communications Services Company Limited	7 December 2010
Wu Xiaowei	Chief Executive Officer of Zhejiang Communications Services Company Limited	6 September 2010
Yang Yonghe	Chief Executive Officer of Fujian Communications Services Company Limited	13 March 2007
Tian Dailiang	Chief Executive Officer of Hubei Communications Services Company Limited	28 December 2012
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
Niu Haiming	Chief Executive Officer of Guangxi Communications Services Company Limited	8 May 2012
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

Name	Position in the Group	Date of appointment
Qing Deming	Chief Executive Officer of Yunnan Communications Services Company Limited	5 April 2007
Gao Xiaobing	Chief Executive Officer of Shaanxi Communications Services Company Limited	28 December 2012
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
Ma Shaohong	Chief Executive Officer of Ningxia Communications Services Company Limited	8 May 2012

On 28 December 2012, Mr. Tian Dailiang succeeded Mr. Gao Liangping as Chief Executive Officer of Hubei Communications Services Company Limited.

On 8 May 2012, Mr. Niu Haiming succeeded Mr. Qi Yan as Chief Executive Officer of Guangxi Communications Services Company Limited.

On 28 December 2012, Mr. Gao Xiaobing succeeded Mr. Yang Changlin as Chief Executive Officer of Shaanxi Communications Services Company Limited.

On 8 May 2012, Mr. Ma Shaohong was appointed as Chief Executive Officer of Ningxia Communications Services Company Limited.

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 28 June 2012, the terms of office of the second session of the members of the Supervisory Committee expired. Upon the re-election by shareholders in the annual general meeting on 28 June 2012, Ms. Xia Jianghua and Mr. Hai Liancheng continue to hold office in the third session of the Supervisory Committee. Upon the re-election by employees, Mr. Yan Dong continues to be the Employee Representative Supervisor in the third session of the Supervisory Committee.

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

Share Capital

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

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

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

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

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

As at 31 December 2012, the share capital of the Company was RMB6,926,018,400 divided into 6,926,018,400 shares of RMB1.00 each. The share capital of the Company was comprised of the following as at the 31 December 2012:

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

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

As at 31 December 2012, 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	3,559,362,496 (L)	78.49	51.39
China Mobile Communications Corporation	Domestic shares	Beneficial owner	608,256,000 (L)	13.41	8.78
China United Network Communications Group Company Limited	Domestic shares	Beneficial owner	236,300,000 (L)	5.21	3.41
Commonwealth Bank of Australia	H Shares	Interest of corporation controlled by the substantial shareholder	451,936,553 (L)	18.90	6.53
Value Partners Group Limited	H Shares	Interest of corporation controlled by the substantial shareholder	120,462,606 (L)	5.03	1.74

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 (%)
Cheah Capital Management Limited (1)	H Shares	Interest of corporation controlled by the substantial shareholder	120,462,606 (L)	5.03	1.74
Cheah Company Limited (2)	H Shares	Interest of corporation controlled by the substantial shareholder	120,462,606 (L)	5.03	1.74
Hang Seng Bank Trustee International Limited (3)	H Shares	Trustee (other than a bare trustee)	120,462,606 (L)	5.03	1.74
Cheah Cheng Hye (4)	H Shares	Founder of a discretionary trust	120,462,606 (L)	5.03	1.74
To Hau Yin (5)	H Shares	Interest of the substantial shareholder's spouse	120,462,606 (L)	5.03	1.74

* Note (L)-Long Position

(1) Value Partners Group Limited or its directors are accustomed to act in accordance with the directions of Cheah Capital Management Limited. Therefore, Cheah Capital Management Limited is deemed to be interested in 120,462,606 H shares.

(2) Cheah Company Limited owns 100% interest in Cheah Capital Management Limited, and is therefore deemed to be interested in 120,462,606 H shares.

(3) Hang Seng Bank Trustee International Limited owns 100% interest in Cheah Company Limited, and is therefore deemed to be interested in 120,462,606 H shares.

(4) Cheah Cheng Hye is a founder of a discretionary trust whose trustee is Hang Seng Bank Trustee International Limited, and is therefore deemed to be interested in 120,462,606 H shares.

(5) To Hau Yin is the spouse of Cheah Cheng Hye, and is therefore deemed to be interested in 120,462,606 H shares.

Save as stated above, as at 31 December 2012, 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 2012, 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 2012, the Company had not granted its directors or supervisors, or their respective spouses or children below the age of 18 any rights to subscribe for the shares or debentures of the Company or any of its associated corporations and none of them has ever exercised any such right to subscribe for shares or debentures.

Share Appreciation Rights

Please refer to note 40 to the audited financial statements for details of the share appreciation rights scheme of the Company and the share appreciation rights granted during the year ended 31 December 2012.

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 Contracts

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

Directors' and Supervisors' Interests in Contracts

For the year ended 31 December 2012, 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 2012.

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 183 to 184 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 2012.

Bank Loans and Other Borrowings

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

Property, Plant and Equipment

Please refer to note 17 to the audited financial statements for movements in the fixed assets of the Group for the year ended 31 December 2012.

Distributable Reserves

Please refer to note 47 to the audited financial statements for details of the movements in the reserves of the Group for the year ended 31 December 2012.

Donations

For the year ended 31 December 2012, the Group made charitable and other donations of a total amount of RMB0.37 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 2012.

Changes in Equity

Please refer to the consolidated statement of changes in equity contained in the audited financial statements (pages 116 to 117 of this annual report).

Plan of Employees' Retirement Benefits

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

Pre-emptive Rights

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

Major Customers and Supplier

For the reporting period, the sales to the five largest customers of the Group represented 66.0% of the operating revenue of the Group; of which, the sales to the largest customer of the Group represented 42.4% of the operating revenue of the Group. The purchases from the five largest suppliers of the Group accounted for less than 5.4% 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 2012, 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

On 20 June 2012, Ningxia Hui Autonomous Region Communications Industrial Services Company Limited ("Ningxia CCS"), a directly wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement and Asset Acquisition Agreement ("Ningxia Agreement") with Ningxia Telecommunications Industrial Company Limited ("Ningxia Telecom Industrial"), an indirectly wholly-owned subsidiary of China Telecom pursuant to which Ningxia Telecom Industrial has agreed to sell, and the Ningxia CCS has agreed to acquire 100% equity interest in Ningxia Communications Constructions Co., Ltd. ("Ningxia Construction") and Ningxia Telecom Constructions Supervision Consultancy Co., Ltd. ("Ningxia Supervision") for a total consideration of RMB35,313,400 payable in cash. Pursuant to the Ningxia Agreement, Ningxia Telecom Industrial has also agreed to sell, and the Ningxia CCS has agreed to acquire certain assets, owned by Ningxia Telecom Industrial, at a total consideration of RMB60,631,781 payable by cash. The Equity interests in Ningxia Construction and Ningxia Supervision as well as the assets under the Ningxia Agreement are all located at Ningxia Hui Autonomous Region, where the Company currently does not have business coverage. By acquiring such equity interests and assets, the Group could strategically expand its business to Ningxia Hui Autonomous Region and its surrounding areas, which expect to increase the Company's customer base, revenue and net profit, and to strengthen the Group's competitive market position. Ningxia Telecom Industrial is an indirectly wholly-owned subsidiary of China Telecom which is the controlling shareholder of the Company, so Ningxia Telecom Industrial is a connected person of the Company under the Listing Rules. Accordingly, the above acquisition constituted a connected transaction of the Company. The Company has complied with the relevant Listing Rules requirements in respect of such connected transaction and made corresponding announcement on 20 June 2012.

On 20 June 2012, the Company entered into the Equity Transfer Agreement with China Telecommunications Corporation Industrial Assets Management Center, ("China Telecom Industrial") a directly wholly-owned subsidiary of China Telecom, pursuant to which China Telecom Industrial has agreed to sell, and the Company has agreed to acquire 51% equity interest in Sino-British Submarine System Co., Ltd. ("SBSS") and all the rights and obligations related to such portion of equity interest, at a total consideration of RMB264,601,398, payable in cash. The business of SBSS possesses high growth potential, the acquisition of the 51% equity interests in SBSS represents a new and important opportunity for the Company to add new source of income and optimize its business structure. In addition, such equity acquisition is in compliance with the Company's overseas business development strategy, and will further strengthen the Company's competitiveness in providing service to submarine communication cable construction and maintenance as well as to energy industry. China Telecom Industrial is a directly wholly-owned subsidiary of China Telecom which is the controlling shareholder of the Company, so China Telecom Industrial is a connected person of the Company under the Listing Rules. Accordingly, the above acquisition constituted a connected transaction of the Company. The Company has complied with the relevant Listing Rules requirements in respect of such connected transaction and made corresponding announcement on 20 June 2012.

On 20 June 2012, Xinjiang Uygur Autonomous Region Communications Industry Service Company Limited ("Xinjiang CCS"), a directly wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with China Telecommunications Corporation Xinjiang Uygur Autonomous Region Telecommunications Company Limited ("Xinjiang Telecom"), a directly wholly-owned subsidiary of China Telecom pursuant to which Xinjiang Telecom has agreed to sell, and the Xinjiang CCS has agreed to acquire 100% equity interest in Xinjiang Communications Planning & Designing Institute Co., Ltd. ("Xinjiang Planning & Designing") for a total consideration of RMB15,760,000 payable in cash. By acquiring the 100% equity interest in Xinjiang Planning & Designing, the Group could further expand its core businesses to northwestern area of China and to avoid competition with China Telecom, the controlling shareholder of the Company. Xinjiang Telecom is a directly wholly-owned subsidiary of China Telecom which is the controlling shareholder of the Company, so Xinjiang Telecom is a connected person of the Company under the Listing Rules. Accordingly, the above acquisition constituted a connected transaction of the Company. The Company has complied with the relevant Listing Rules requirements in respect of such connected transaction and made corresponding announcement on 20 June 2012.

On 20 June 2012, Guangdong Communications Industrial Service Company Limited ("Guangdong CCS"), a directly wholly-owned subsidiary of the Company, entered into the Assets Acquisition Agreement with Guangdong Telecom Industrial Group Corporation ("Guangdong Telecom Industrial"), an indirectly wholly-owned subsidiary of China Telecom pursuant to which Guangdong Telecom Industrial and/or its subsidiary has agreed to sell, and the Guangdong CCS and/or its subsidiaries has agreed to acquire the relevant assets, at a total consideration of RMB39,811,000, payable by cash. The properties acquired by the Group are necessary for the development of the Group's current businesses, and could benefit the business development of the Group, reduce cost as well as have great potential to appreciate in value in the future. Guangdong Telecom Industrial is an indirectly wholly-owned subsidiary of China Telecom which is the controlling shareholder of the Company, so Guangdong Telecom Industrial is a connected person of the Company under the Listing Rules. Accordingly, the above acquisition constituted a connected transaction of the Company. The Company has complied with the relevant Listing Rules requirements in respect of such connected transaction and made corresponding announcement on 20 June 2012.

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 2012:

Unit: RMB million

	Year ended 31 December 2012		Year ending 31 December 2013	Year ending 31 December 2014	Year ending 31 December 2015
	Annual Caps	Actual Amounts	Annual Caps	Annual Caps	Annual Caps
Engineering related services provided to China Telecom Group	14,000	12,431	17,000	17,000	17,000
Ancillary telecommunications services provided to China Telecom Group	7,550	6,151	9,000	10,000	11,000
Operation support services provided to/by China Telecom Group					
Revenue	2,300	2,135	2,800	2,900	3,000
Expenditure	600	571	650	650	650
IT application services provided to/by China Telecom Group					
Revenue	1,900	1,401	2,000	2,100	2,300
Expenditure	430	197	430	460	490
Centralized services provided to China Telecom Group	350	316	400	410	420
Property leasing provided to/by China Telecom Group					
Revenue	166	63	166	166	166
Expenditure	150	142	160	170	180
Supplies procurement services provided to/by China Telecom Group					
Revenue	4,400	3,899	4,600	5,100	5,600
Expenditure	2,600	2,535	3,100	3,600	4,100

Continuing Connected Transactions Agreements Between the Company and China Telecom

The Company and China Telecom entered into six continuing connected transactions agreements on 16 November 2006 to manage the continuing connected transactions between the Group and China Telecom Group. These agreements include Engineering Framework Agreement, Ancillary Telecommunications Services Framework Agreement, Operation Support Services Framework Agreement, IT Application Services Framework Agreement, Property Leasing Framework Agreement and Centralized Services Agreement. Each of these agreements had an initial term 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 autonomous regions), being the Group's primary service regions immediately after the completion of the acquisition of the Target Business. On 19 September 2008, the Company entered into a supplementary agreement with China Telecom in respect of the aforementioned six agreements (the "2008 Supplementary Agreement") and extended the term of the six continuing connected transactions agreements to 31 December 2010. On 29 October 2009, the Company entered into a Supplies Procurement Service Framework Agreement with China Telecom effective from 1 January 2009 to 31 December 2010. On 9 November 2010, the Company entered into another supplemental agreement with China Telecom in respect of the aforementioned seven agreements (the "2010 Supplementary Agreement") and extended the term of the seven continuing connected transactions agreements to 31 December 2012 with other terms unchanged. On 20 September 2012, the Company entered into another supplemental agreement with China Telecom in respect of the aforementioned seven agreements (the "2012 Supplementary Agreement") and extended the term of the seven continuing connected transactions agreements to 31 December 2015 with other terms generally remained unchanged.

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

The Company announced on 14 November 2011 to propose the increase of annual caps for service charges payable to China Telecom Group under the Supplies Procurement Services Framework Agreement to RMB2,100 million and RMB2,600 million respectively, for the two years ended 31 December 2011 and 2012. Details of above revised annual caps for the Supplies Procurement Service Framework Agreement were disclosed in the circular dated 15 November 2011 and approved by the independent shareholders of the Company on 30 December 2011.

The Company announced on 20 September 2012 to propose the increase of annual caps for the service charges receivable by the Company from China Telecom Group and the service charges payable by the Company to China Telecom Group under Operation Support Services Framework Agreement for the year ended 31 December 2012 to RMB2,300 million and to RMB600 million, respectively, and the annual cap for the service charges receivable by the Company from China Telecom Group under the Supplies Procurement Services Framework Agreement for the year ended 31 December 2012 to RMB4,400 million. The reasons of the aforementioned revision of annual caps were mainly due to the rapid business development of both our Group and China Telecom Group in 2012 as well as the increasing demand of our services required from China Telecom Group along with the development of mobile Internet and proliferation of mobile terminals including smart phones. Details of above revised annual caps of connected transactions were disclosed in the circular dated 27 September 2012 and approved by the independent shareholders of the Company on 27 November 2012.

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

Engineering Framework Agreement

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

Ancillary Telecommunications Services Framework Agreement

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

(1) government-prescribed price;

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

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

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

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

Operation Support Services Framework Agreement

Pursuant to the Operation Support Services Framework Agreement, the Company agreed to provide to China Telecom Group operation support services, including but not limited to facilities management and renovation, network facilities management in relation to buildings used for telecommunications purposes, human resources management, equipment maintenance, advertisements, conferencing services, vehicles and certain repair and leasing of equipment. Under the same Operation Support Services Framework Agreement, China Telecom Group has agreed to provide operation support services such as logistic services, warehouse, medical care, food and beverage, 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 Company 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 transactions under the Strategic Cooperation Agreement have been covered by the aforementioned seven continuing connected transaction agreements. In order to simplify the connected transactions between the Company and China Telecom, the Strategic Cooperation Agreement (revised by the "2007 Supplementary Strategic Agreement" and the "2009 Supplementary Strategic Agreement") which expired on 31 December 2012, was terminated upon expiry and not renewed.

The independent non-executive directors of the Company have confirmed that all continuing connected transactions for the year ended 31 December 2012 to which the Group was a party:

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

2. had been entered into either:

   (i) on normal commercial terms; or

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

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

The independent non-executive directors have further confirmed that:

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

The auditors of the Company have performed procedures 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 2012 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 2012 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 2012 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 2012 annual caps as disclosed in the circular dated 12 November 2010, 15 November 2011 and 27 September 2012 of the Company and approved by the independent shareholders of the Company on 30 December 2010, 30 December 2011 and 27 November 2012.

Employees

As at 31 December 2012, the Group had 130 thousand employees as follows:

	Number of Staff (thousand)	Percentage (%)
Management	9	6.9
Technical and marketing	58	44.6
Operations	63	48.5
Total	130	100

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

Compliance with Corporate Governance Code

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

Material Legal Proceedings

As at 31 December 2012, 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 (Special General Partnership) were engaged as the international and domestic auditors of the Company respectively for the year ended 31 December 2012. KPMG has audited the accompanying financial statements, which were prepared in accordance with International Financial Reporting Standards. A resolution for the appointment of Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the international and domestic auditors of the Company for the year ending 31 December 2013 will be proposed at the upcoming 2012 annual general meeting of the Company.

By order of the Board
Li Ping
Chairman

Beijing, PRC
27 March 2013

REPORT OF THE SUPERVISORY COMMITTEE

Dear Shareholders,

During the reporting period, all 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 Articles of Association of the Company.

During the reporting period, the Supervisory Committee held three meetings. At the seventh meeting of the second session of the Supervisory Committee held on 23 March 2012, the Supervisory Committee reviewed and approved seven resolutions on the financial statements of the Company for 2011, the profit distribution proposal and dividends distribution plan, external auditors' report, work report of risk management for 2011 and its work plan for 2012, the work report of the Supervisory Committee for 2011 and the work plan of the Supervisory Committee for 2012, and reelection of the Supervisory Committee. At the first meeting of the third session of the Supervisory Committee held on 13 August, the Supervisory Committee reviewed and approved an election of the chairperson of the third session of the Supervisory Committee. At the second meeting of the third session of the Supervisory Committee held on 24 August, the Supervisory Committee reviewed and approved the unaudited interim financial statements for 2012, review report of unaudited interim financial statements for 2012 by external auditor and work report on risk management of the Company in the first half of 2012. During the reporting period, members of the Supervisory Committee attended the meetings of the Board of Directors, shareholders' general meeting and the meetings of the Audit Committee held in 2012, and 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.

The Supervisory Committee is of the opinion that, under the macro-economic downturn environment, the Company accommodated adverse effects such as keen competition in the market. The Company set 2012 as an "Innovation Year" and adhered to five strategies. The Company focused on its three major markets, namely, domestic telecommunications operator market, domestic non-operator market and overseas market with its adaptive resources allocation. The Company explored innovations in internal mechanism, enhanced "six management" and risk management and control. The Company implemented internal control assessment to achieve higher efficiency and cost reduction. As such, the Company recorded remarkable operating results and maintained a double-digit growth in revenues and net profit. Its revenues exceeded RMB60 billion for the first time.

The Supervisory Committee is of the opinion that, all members of the Board of Directors and senior management of the Company have complied with the laws and regulations, and favorably performed their duties in accordance with the Articles of Association of the Company in 2012. In addition, they have also safeguarded the interests of the shareholders, earnestly carried out various resolutions of the shareholders' general meetings and the Board of Directors, and operated strictly in accordance with the regulatory requirements for a listed company. The Supervisory Committee was not aware of any violation of relevant national laws and regulations and the Articles of Association, or any acts which would violate the interests of the Company.

The Supervisory Committee carefully reviewed the financial statements of the Company for 2012 which were audited by external auditors who have issued an unqualified opinion, and is intended to be submitted by the Board of Directors to the shareholders' general meeting, and other relevant information. The Supervisory Committee is of the opinion that the financial statements give an objective and true view of the Company's financial position and operating results.

In 2013, to safeguard the interests of the shareholders and the interests of the Company and emphasize the fulfillment of the promises made to the shareholders, the Supervisory Committee will continue to perform its supervisory duties diligently over the major decisions and key operating activities in accordance with the Company Law of the PRC and the Articles of Association of the Company.

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

Beijing, PRC
22 March 2013

5 Strategies

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- **Strategy of Maintaining a Leading Position in the Domestic Operator Market**
- **Strategy of Differentiation and Cooperation in the Domestic Non-operator Market**
- **Strategy of Overseas Market-Focused and Four Steps**
- **Strategy of Talents Management**
- **Strategy of Synergistic Operation**

Implement five strategies and achieve successful transformation through innovation, thereby enhancing service quality and product competitiveness and realizing superior performance.

CORPORATE GOVERNANCE REPORT

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

Corporate Governance Practices

As a company incorporated in the PRC and listed on the Stock Exchange, the Company has not only complied with the relevant provisions of 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. While strictly complying with relevant laws and regulations, the Group is continually striving to further strengthen its internal control and risk management procedures in order to improve its corporate governance standards and transparency.

The Board is responsible for performing corporate governance duties, including developing and reviewing the Company's policies and practices on corporate governance and making recommendations, reviewing and monitoring the training and continuous professional development of directors and senior management, reviewing and monitoring the Company's policies and practices in compliance with legal and regulatory requirements, developing, reviewing and monitoring the code of conduct and compliance manual applicable to employees and directors and reviewing the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

The Company has sound corporate governance structure, in which five committees are set up under the Board with only independent non-executive directors as committee members. The directors are required to make declaration of own interest and abstain from voting for resolutions in which they are interested to ensure the full independence in the major decisions of the Company. The Company strictly complies with the regulations and requirements of information disclosure of the Listing Rules. During the year, the Company made prompt information disclosure for its sensitive information regarding rights issue, acquisitions, etc. Meanwhile, the Company circulated internally the disclosure requirements and guidelines of "Inside Information" of the Securities & Futures Commission of Hong Kong and the Stock Exchange, to ensure that the Company complied with relevant regulations and requirements. In accordance with relevant regulations of the PRC, the Company also kept implementing the measures for the "Three Major One Significant Decision Making System", carried out stringent approval procedures for major decision making, major appointment and removal of personnel, major project arrangement and significant funding operation, to standardize the decision behaviour of the Company and enhance the level of corporate decision making, and strived to prevent operation risks and promote internal management.

The Company's persistent efforts in fostering sound corporate governance have been recognized by the capital market: the Group was awarded No. 1 in "Best Managed Company in China" by *Euromoney*, a Global renowned financial magazine and recognized as one of "The Best of Asia" by *Corporate Governance Asia*, an authoritative journal on Corporate Governance in Asia. Moreover, the Company was awarded again a Gold Award in "Corporate Governance and Investor Relations" again by *The Asset*, a respected financial magazine in Asia.

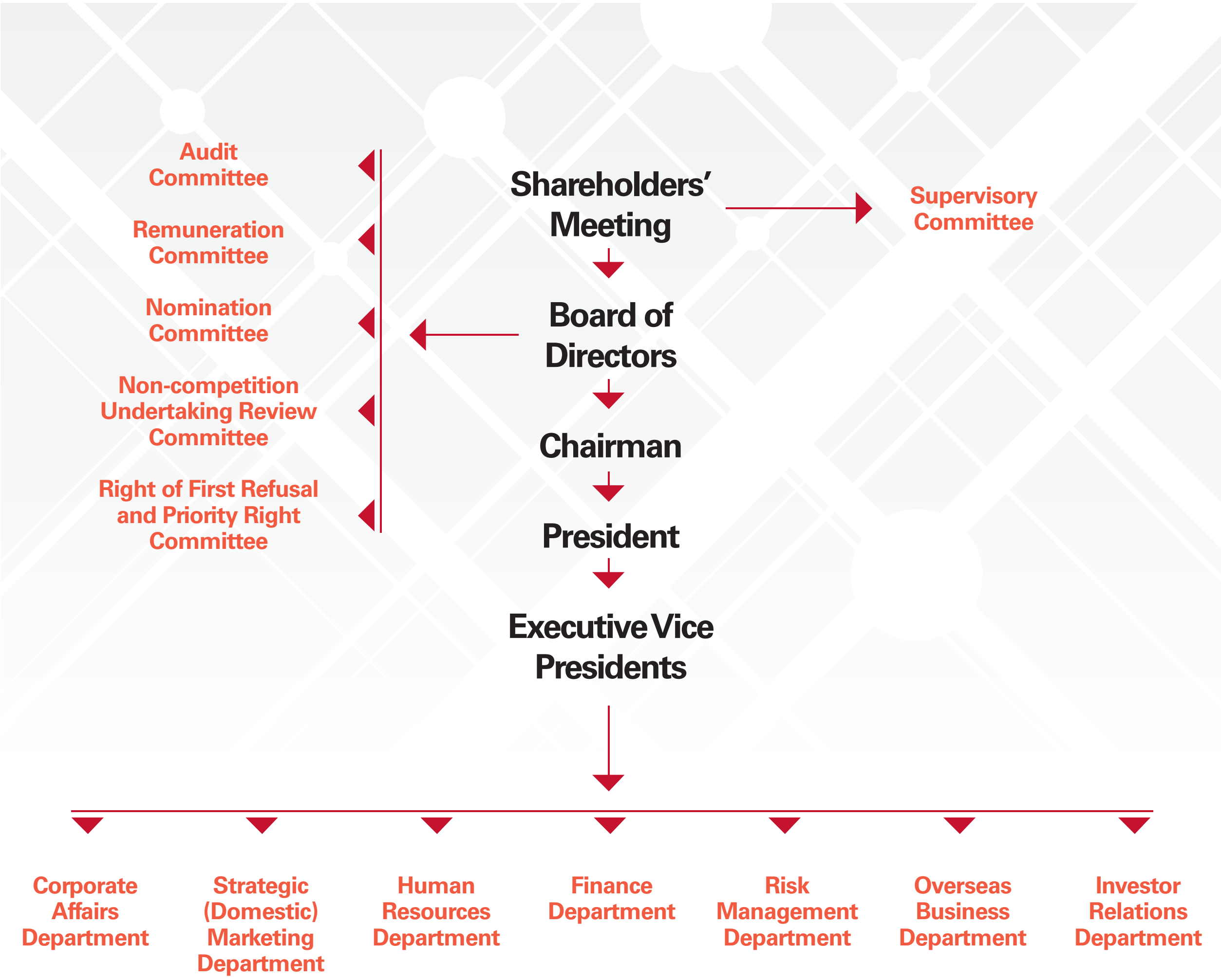
Throughout the twelve months ended 31 December 2012, the Company has complied with the code provisions as set out in the former Code on Corporate Governance Practices and the new Corporate Governance Code (effective from 1 April 2012) contained in Appendix 14 of the Listing Rules.

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

The responsibility statement of KPMG, our external auditors, regarding its Independent Auditor's Report on the financial statements of the Group is set out on page 109 of this annual report.

2012 is the opening year of the second five-year plan of the Company. In the "Chairman's statement" section of this annual report, the Company states the development objectives and business strategies that will be adopted to achieve our sustainable and stable long-term development target for the coming years.

Corporate 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 is convened once a year and within six months after the end of a financial year. In 2012, apart from the AGM, the Company also convened one EGM. A resolution was 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 2012.

For the AGM of 2011, a physical meeting was held in Beijing on 28 June 2012, at which the resolutions, including the 2011 financial statements, profit distribution proposal and dividend declaration proposal, appointment of auditors, report of the Directors, report of the Supervisory Committee, election of the third session of Board and the amendments to the Articles of Association, were considered and approved by shareholders.

For the EGM of 2012, a physical meeting was held in Beijing on 27 November 2012, at which the resolutions regarding revision of annual caps, renewal of continuing connected transactions and proposed new annual caps between the Company and the Company's controlling shareholder, China Telecom, and the proposed appointment of non-executive director, were considered and approved by shareholders. China Telecom and its associates, being connected persons to the Company, abstained from voting on resolutions related to the connected transaction.

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.

Shareholders' Rights

Convening General Meeting and Submitting Proposals at Shareholders' Meetings by Shareholders

Pursuant to Article 8.24 of the Company's Article of Association, shareholders who request for convening an extraordinary general meeting or a class meeting shall comply with the following procedures:

(1) Two (2) or more shareholders holding in aggregate 10% or more of the shares carrying the right to vote at the meeting sought to be held shall sign one (1) or more counterpart requisitions stating the object of the meeting and requiring the Board to convene an extraordinary general meeting or a class meeting thereof. The Board shall as soon as possible proceed to convene an extraordinary general meeting or a class meeting thereof after receipt of such requisition(s). The amount of shareholdings referred to above shall be calculated as at the date of deposit of the requisition(s).

(2) If the Board fails to issue a notice of such a meeting within thirty (30) days from the date of receipt of the requisition(s), the requisitionists may themselves convene such a meeting (in a manner as similar as possible to the manner in which shareholders' meetings are convened by the Board) within four (4) months from the date of receipt of the requisition(s) by the Board.

Pursuant to Article 8.6 of the Company's Article of Association, when the Company convenes an annual general meeting, shareholder(s) holding 5% or more of the total voting shares of the Company shall have the right to submit new proposals in writing, and the Company shall place such proposals on the agenda for such annual general meeting if they are matters falling within the functions and powers of shareholders in general meetings.

Shareholders' Enquiries

Enquiries or requisitions to convene a general meeting or submit a proposal pursuant to the Articles of Association of the Company that the shareholders of the Company wish to make to the Board may be addressed to the Investor Relations Department of the Company by our shareholders' hotline at 852-3699 0000 or email to ir@chinaccs.com.hk.

Communication with the Shareholders

In 2012, the Board reviewed the shareholders communication policy, which regulates various regular and irregular daily communication channels with shareholders by the Company, including general meetings, road shows and daily meetings. The above arrangements enable that shareholders and investors can become aware of the latest operating status and development prospects of the Company promptly. Meanwhile, the above arrangements can also enable the Company to get different opinions from the market in an effective and timely way. The details of the communication with the shareholders are set out in the section of "Investor Relations" of this annual report and the website of the Company.

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.

Chairman and President

Mr. Li Ping and Mr. Zheng Qibao take up the position of Chairman and President of the Company, 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. Zheng Qibao is responsible for the Company's daily operation and management.

In 2012, to the best knowledge of the directors, 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.

Composition of the Board

As of 31 December 2012, the Board comprised ten directors, including four executive directors (Mr. Li Ping as Chairman and executive director, Mr. Zheng Qibao, Mr. Yuan Jianxing and Ms. Hou Rui as executive directors), two non-executive directors (Mr. Li Zhengmao and Mr. Zhang Junan) and four independent non-executive directors (Mr. Wang Jun, Mr. Zhao Chunjun, Mr. Wei Leping and Mr. Siu Wai Keung, Francis). Mr. Wang Xiaochu is 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 and the Company's website.

The Board has four independent non-executive directors, constituting over 1/3 of the members of the Board. All independent non-executive directors possess considerable experiences in their respective industries and professions. This ensured the independence of the Board and the compliance with Rules 3.10 and 3.10A of the Listing Rules. The four executive directors, one non-executive directors and four 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 except for Mr. Li Zhengmao. Mr. Li Zhengmao was appointed for a term commencing from the date of the extraordinary general meeting approving his appointment on 27 November 2012 to the date of annual general meeting of the Company for the year 2014 to be held in 2015.

The Company has received the written annual confirmation of independence from each of the independent non-executive 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.

The directors of the Company all devote sufficient time and efforts to the business of the Company. The Company also requires the directors to disclose the number of positions they hold in public companies or organizations and provide the Company with the time they devote to the relevant positions.

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

Appointment of Directors

The Company follows a formal, considered and transparent procedure for the appointments of new directors. Appointments are first considered by the Nomination Committee. The recommendations of the Nomination Committee are then put to the Board for decision. The candidate of director at the shareholders' general meeting should be recommended by the Board and directors shall be elected at the shareholders' general meeting each for a term of three years, effective from the date of election.

On 28 June 2012, the term of office of the second session of the Board and the Supervisory Committee of the Company expired. Except for Mr. Wu Shangzhi and Mr. Hao Weimin who retired as independent non-executive directors of the Company, the remaining directors of the second session of the Board were re-elected as directors of the third session of the Board at the annual general meeting held on the same day. Mr. Wei Leping and Mr. Siu Wai Keung, Francis were newly appointed as independent non-executive directors of the Company.

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. The Board and each of the directors may contact the senior management independently if necessary and obtain extra information from the Company so that the directors can make informed decisions with relevant information.

All the minutes of the Board meetings record the details of resolutions considered and decisions made, and were kept by meeting secretary and open for inspection for the directors. In 2012, the Board held four meetings and passed six written resolutions. In addition to general matters such as the review of the annual and interim financial statements, dividend distribution, corporate governance and budget, the Board also considered the resolutions regarding to changes of directors, appointment of directors, remuneration package of directors, acquisition, and amendment of the Articles of Association and renewal of continuing connected transactions. For the resolutions on the connected transactions such as revision of annual caps, renewal of continuing connected transactions and proposed new annual caps between the Company and China Telecom, directors with conflict of interests abstained from voting. Meanwhile, in the agenda of approving director remuneration, relevant directors with conflicts of interests on their own remuneration also abstained from voting.

The attendance record of the Company's directors in Board meetings, board committee meetings and shareholder meetings in 2012 are as follows:

	Attendance in 2012/Meeting convened during period of appointment							
	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	Non-competition Undertaking Review Committee	Right of First Refusal & Priority Right Committee	AGM	EGM
Executive Director								
Li Ping (Chairman)	4/4						1/1	0/1
Zheng Qibao	4/4						1/1	1/1
Yuan Jianxing	4/4[8]						1/1	1/1
Hou Rui	4/4						1/1	1/1
Non-executive Director								
Liu Aili [1]	3/3[9]						0/1	
Li Zhengmao [2]	1/1							
Zhang Junan	4/4[10]						0/1	0/1
Independent Non-executive Director								
Wang Jun	4/4[11]			1/1			0/1	1/1
Chan Mo Po, Paul [3]	2/2[12]	1/1	1/1		2/2		0/1	
Zhao Chunjun	4/4[13]	1/1	1/1	1/1	3/3	1/1	0/1	1/1
Wu Shangzhi [4]	2/2[14]	1/1	1/1			1/1	0/1	
Hao Weimin [5]	2/2	1/1		1/1	2/2	1/1	1/1	
Wei Leping [6]	2/2[15]	1/1	–	–	1/1	–		1/1
Siu Wai Keung, Francis [7]	2/2	1/1	–		1/1	–		1/1

(1) Mr. Liu Aili resigned as a non – executive director of the Company on 11 September 2012.
(2) Mr. Li Zhengmao was appointed as a non-executive director of the Company on 27 November 2012.
(3) Mr. Chan Mo Po, Paul resigned as an independent non-executive director of the Company on 28 July 2012.
(4) Mr. Wu Shangzhi retired as an independent non-executive director of the Company on 28 June 2012.
(5) Mr. Hao Weimin retired as an independent non-executive director of the Company on 28 June 2012.
(6) Mr. Wei Leping was appointed as an independent non-executive director of the Company on 28 June 2012.
(7) Mr. Siu Wai Keung, Francis was appointed as an independent non-executive director of the Company on 28 June 2012.
(8) Mr. Yuan Jianxing appointed other director to attend in one meeting.
(9) Mr. Liu Aili appointed other directors to attend in three meetings.
(10) Mr. Zhang Junan appointed other directors to attend in three meetings.
(11) Mr. Wang Jun appointed other directors to attend in three meetings.
(12) Mr. Chan Mo Po, Paul appointed other directors to attend one Board meeting and one committee meeting.
(13) Mr. Zhao Chunjun appointed other director to attend in one meeting.
(14) Mr. Wu Shangzhi appointed other directors to attend in one Board meeting and two committee meetings.
(15) Mr. Wei Leping appointed other director to attend in one meeting.

Director's Training

Each newly appointed director will be offered training by the Company upon the appointment, so as to ensure that they have appropriate understanding of the Company's business and they are fully aware of their duties as director under the laws and regulations. In 2012, the Company engaged external lawyers to provide the new directors with training regarding issues on directors' duties and the Listing Rules.

Since 1 April 2012, the Company distributes board memorandum to directors each month, setting out monthly updates on major business and financial position of the Company, to facilitate the directors to discharge their duties. In addition, the Company also issues latest information regarding corporate governance and directors' responsibilities under the Listing Rules and other applicable laws and regulations to the directors, to ensure their awareness of their responsibilities under the laws and regulations. All directors are also encouraged to participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contributions to the Board remain informed and relevant. Directors are requested to provide their records of trainings they received in 2012 to the Company for record.

Details of trainings that the Company's directors participated in 2012 are as follows:

	Attend training or seminar relevant to the Company's industry and business, director's duties and/or corporate governance	**Give a speech at the meeting relevant to the Company's industry and business, director's duties and/or corporate governance**	**Read information relevant to the Company's industry and business, director's duties and/or corporate governance; and/or read regular updates issued by the Company**
Executive Director			
Li Ping (Chairman)	√	√	√
Zheng Qibao	√	√	√
Yuan Jianxing	√	√	√
Hou Rui	√	√	√
Non-Executive Director			
Li Zhengmao	√		√
Zhang Junan	√	√	√
Independent Non-executive Director			
Wang Jun	√		√
Zhao Chunjun	√	√	√
Wei Leping	√	√	√
Siu Wai Keung, Francis	√		√

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 the 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 the overall safeguard and supervision. The list of members of these committees is published on the websites of the Company and the Stock Exchange.

Audit Committee

The Audit Committee consists of three independent non-executive directors: Mr. Siu Wai Keung, Francis (Chairman), Mr. Zhao Chunjun and Mr. Wei Leping. The Chairman, Mr. Siu Wai Keung, Francis holds accounting or related financial management expertise and complied with the relevant provisions of the Listing Rules. The Audit Committee is mainly responsible for 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. In addition, the Audit Committee is also responsible for examining the appointment of external auditors, considering and supervising the financial reporting procedures and the internal control systems of the Company, and overseeing the execution of the connected transactions. The Audit Committee makes an assessment of the effectiveness of the Group's internal control at least once a year. In addition, the Audit Committee is also responsible for reviewing the adequacy of resources of the Group's accounting and financial reporting function.

In 2012, the Audit Committee held two meetings, mainly reviewing the resolutions of the Company for its audited financial report of 2011, interim report of 2012, report on connected transactions, report on internal control and risk management and appointment of independent auditors. 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.

Remuneration Committee

The Remuneration Committee consists of three independent non-executive directors: Mr. Siu Wai Keung, Francis (Chairman), Mr. Zhao Chunjun and Mr. Wei Leping. According to the charter of the Remuneration Committee, meetings will be convened when needed. The Remuneration Committee is mainly responsible for making recommendations to the Board on the Company's policy and structure for remunerations of all directors, on the establishment of a formal and transparent procedure for developing remuneration policy and the remuneration packages of directors.

In 2012, the Remuneration Committee held one meeting and also passed two written resolutions, mainly reviewing the resolutions of the second phase of share appreciation rights scheme of the Company, adjusting the exercise price and quantity of the first phase of share appreciation rights scheme of the Company, amendment of the Remuneration Committee Charter and the remuneration packages of the third session of the Board.

Nomination Committee

The Nomination Committee consists of three independent non-executive directors: Mr. Zhao Chunjun (Chairman), Mr. Wang Jun and Mr. Wei Leping. The Nomination Committee is mainly responsible for making recommendations to the Board on the appointment or reappointment of directors and succession planning for directors and reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board annually.

In 2012, the Nomination Committee held one meeting and also passed one written resolution, mainly reviewing the resolutions of change of the term of office of the third session of the Board, including the review of the Board structure and composition. The Nomination Committee also reviewed the resolutions of amendment of the Nomination Committee Charter and recommending Mr. Li Zhengmao as the non-executive director of the Company and making their recommendations to the Board.

Non-Competition Undertaking Review Committee

The Non-competition Undertaking Review Committee consists of three independent non-executive directors: Mr. Wei Leping (Chairman), Mr. Zhao Chunjun and Mr. Siu Wai Keung, Francis. The Non-competition Undertaking Review Committee is mainly responsible for monitoring the implementation of the non-competition undertakings given by China Telecom to us.

In 2012, 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 Telecom, the second supplementary non-competition agreement between the Company and China Telecom and made their recommendations to the Board.

The Company has received a letter issued to the Company by China Telecom stating that they were not in breach of any non-competition undertakings in 2012. 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. Wei Leping (Chairman), Mr. Zhao Chunjun and Mr. Siu Wai Keung, Francis. According to the charter of the Right of First Refusal and Priority Right Committee, meetings 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 Telecom upon the listing of the Company, and protecting the interests of independent shareholders when such right of first refusal or priority right is exercised.

In 2012, The Right of First Refusal and Priority Right Committee held one meeting, mainly reviewing the resolutions of the acquisition of equity interests and assets in relation to several telecommunications infrastructure service companies in Ningxia and Xinjiang from China Telecom and made their recommendations to the Board.

Independent Board Committee

Pursuant to the requirements under the Listing Rules, the Company held an Independent Board Committee meeting on 20 September 2012, at which four independent non-executive directors of the Company attended. The Independent Board Committee mainly reviewed the resolution regarding the revision of annual caps, renewal of continuing connected transactions and proposed new annual caps between the Company and China Telecom, and made its recommendations to the independent shareholders. Details of this resolution and the Independent Board Committee's recommendation were contained in the circular dispatched to shareholders on 27 September 2012.

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 28 June 2012, the second session of the Supervisory Committee expired. Upon the re-election at the annual general meeting on 28 June 2012, the chairperson and the external independent supervisor of the second session of the Supervisory Committee, Ms. Xia Jianghua and Mr. Hai Liancheng, continued to hold their offices in the third 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 terms 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 2012, the Supervisory Committee held three meetings, details of which are set out in the "Report of the Supervisory Committee" of this annual report.

Amendment on the Articles of Association

During the 2011 Annual General Meeting, the shareholders of the Company approved the amendments to the Articles of Association, including the amendments of the Company's scope of business as requested by the competent PRC regulatory authority and the changes of the shareholding structure of the Company after the completion of the rights issue. The amended Articles of Association is published on the websites of the Company and the Stock Exchange.

Company Secretary

The Company Secretary, Mr. Chung Wai Cheung, Terence, is an employee of the Company and has appropriate understanding of the Company's business. The Company Secretary is responsible for the daily operation of the Board and its compliance with the policy and procedure of the Board. All of the directors can access to opinions of the Company Secretary to ensure that the procedures of the Board conform to the applicable laws and regulations. The profile of the Company Secretary is set out in the section of "Directors, Supervisors and Senior Management" in this annual report. The Company Secretary met the requirement on professional training under the Rule 3.29 of the Listing Rules in 2012.

Remuneration of the Auditors

The international and domestic auditors of the Company are KPMG and KPMG Huazhen (SGP), respectively. The remuneration received by the external auditors for the audit services provided to the Company during the year amounted to RMB40,085 thousand. No non-audit services were provided to the Company by the external auditors during the year.

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 to secure the investment of the shareholders and the assets of the Group. The Group established internal control system and risk management system which conform to COSO standard, including setting 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 major control measures of the Group in 2012 are summarized as follows:

- Improving the system for significant decision making. Subsidiaries of various levels also established their implementation rules on "Three Major One Significant Decision Making System", which refers to major decision making, major appointment and removal of personnel, major project arrangement and significant funding operation; refining the scope of decision making, authority and procedures, to further standardize the decision making behaviors.

- Revising the internal control system. In accordance with the needs from new business development and management, the Group supplemented and improved "Internal Control Guidance of China Communications Services Corporation Limited (2012 edition)", focused on revising internal control procedures such as investment, contract management and business subcontracting.

- Strengthening internal control assessment. Subsidiaries of various levels all established internal control assessment team, focused on the assessment on key business cycles such as contract management, cash management, business subcontracting, procurement management, inventory management, sales and material delivery, revealing deficiencies on the design and implementation of internal procedures, and providing suggestion and recommendation so as to prevent material risks on internal control.

- Reinforcing the monitor and review on important business issues. Promoting integration of "Three Major One Significant Decision Making System", internal control system and meeting system; intensifying reviews on procedure and compliance of significant economic decision; promoting efficiency monitor on the key areas and steps in the operating management; strengthening internal audit review to avoid risk of compliance on accounting records.

- Keep advancing construction on internal control information management system. Combining internal control with EMOSS (Enterprise Management Operation Support System) and utilizing the information system to strengthen each control procedures; improving function of project management systems and reinforcing project control, so as to enhance the profitability and delivery capability of project; establishing contract management system and achieving overall control on business contracts; focusing on lying out the business information management system, realizing the effective management and sharing of business information, and facilitating expansion of domestic non-operator market; utilizing risk management information network to promote communication among various internal control departments, so as to increase the ability to against the risks.

The Board considers that by implementing the above measures, the Company 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 2013.

6 Management

- **Collaboration management**
- **Sub-contracting management**
- **Human resource management**
- **Fund management**
- **Project management**
- **Contract management**

Strengthen management over those six aspects to enhance management capability, thereby effectively bolstering synergistic management, enhancing management standard and operational efficiency.

INVESTOR RELATIONS

2012 marked a commencing year of the Company's 2nd 5-year plan. The Company carried on the past and heralded the future. In 2012, The Company strived to continue with its practical and efficient investor relations practices. During the year, the Company's investor relations played an active role in supporting and promoting the successful completion of the Company's rights issue plan, expanding investor base as well as enhancing communication with the capital market. Meanwhile, the Company's investor relations practices continued to be highly recognized and complimented by the capital market.

In the future, the Company will adhere to its mission that continues to perfect its multi-channel interactive communication mechanism with the capital market. The Company will also follow a principle of timely, fair and accurate information disclosure so as to further enhance its shareholders' value.

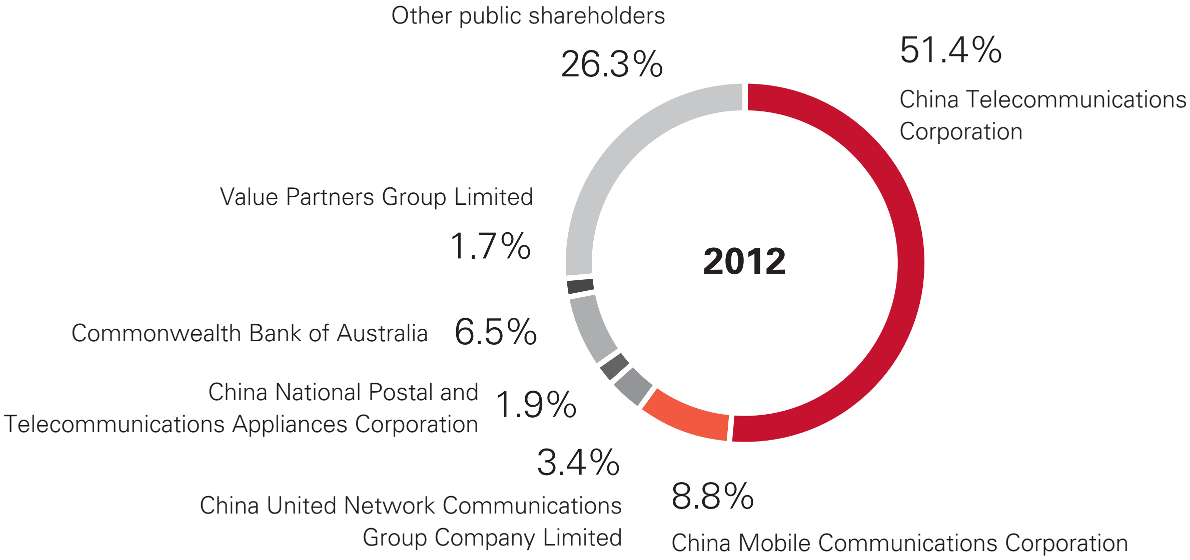
Investor Relations Activities

In 2012, the Company's rights issue plan was successful completed, during which the Company's investor relations played an active role in supporting and promoting the successful completion of the plan. By leveraging a multi-channel interactive communication mechanism, the Company continued to promote the purpose of the rights issue plan and its relevant strategies to its shareholders as well as disseminate implementation details in relation of the rights issue to investors timely and proactively. All the above have effectively led to the ultimate success of the plan.

In 2012, through its multi-channel interactive communication mechanism, the Company's efforts of investors relations played a positive role in bolstering the Company's share price performance. During the year, in view of the fluctuation in the growth of macro-economy and profit volatility in certain companies within the industry, the Company communicated with investors proactively. In addition to the introduction of the performance highlights, the Company also explicated to investors proactively the challenges faced by the Company in its operations and the corresponding actions. Such step enabled capital market to fully evaluate and understand our operation more effectively.

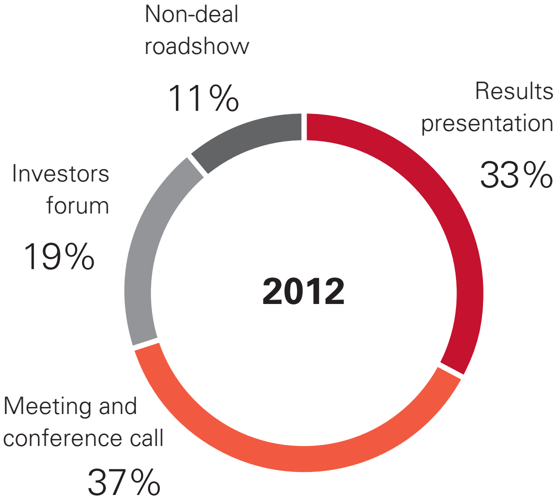
In 2012, the Company made proactively efforts in expanding investor base. During the year, the Company continued to appoint an international survey company to conduct investigation on the shareholding of the Company. Through an understanding of its shareholding structure, geographical locations of shareholders, investment styles and position changes in shareholdings, the Company pertinently developed potential investors and expanded investor base in an active and strategic manner. The Company also made good use of the investigation results to locate target markets and investors. In November 2012, the Company held a non-deal roadshow in the U.S., and showcased the operations and development strategy to its overseas investors. Such move was an important step for the expansion of its investor base.

Shareholding Structure As of 31 December 2012



In 2012, the Company continued to improve its multi-channel interactive communication mechanism with the capital market. Through diversified investors communication channels such as investor and press conferences, non-deal roadshows, investor forums held by investment banks, one-on-one meetings, teleconferences and video conferences, emails, press releases as well as investor relations website, the Company promptly released its latest operations status and promotions on its development strategies to investors. In 2012, the Company held meetings and communicated with almost 500 analysts and investors, including two investor and press conferences in respect to its operations results and three non-deal roadshows, seven investor forums held by international investment banks, as well as one-on-one meetings, teleconferences or video conferences.

Attendance Analysis of Investor Relations Activities in 2012



List of Investor Relations Activities of the Company conducted in 2012

Period	Activities	Venue
3/2012	2011 Annual Results Announcement – Analysts Briefing – Press Conference	Hong Kong
3/2012	Non-deal Roadshow	Hong Kong
4/2012	Nomura China Investor Forum	Xiamen
5/2012	Macquarie Greater China Conference	Hong Kong
6/2012	Nomura Asia Equity Forum 2012	Singapore
6/2012	DB Access China Corporate Day	Hong Kong
8/2012	2012 Interim Results Announcement – Analysts Briefing – Press Conference	Hong Kong
8/2012	Non-deal Roadshow	Hong Kong
10/2012	Jefferies 2nd Annual Asia Summit	Hong Kong
10/2012	Nomura China Telecom & Technology Corporate Day	Hong Kong
10/2012	BNP Paribas 19th China Conference	Kunming
11/2012	Non-deal Roadshow	USA

Information Disclosure

The Company firmly believes that information disclosure is not only the responsibility and obligation to protect investors' interest in accordance with the regulatory provisions for the listed companies, but also an important means to improve transparency, enhance the understanding of the Company by the capital market and establish a smooth communication channel.

Since its listing, the Company has strictly complied with the information disclosure requirements for listed companies and made information disclosure in a timely, just, fair and accurate manner. In 2012, the Company published more than 20 corporate communications such as announcements and circulars. Such publications have objectively and comprehensively disclosed information regarding the Company's results, operating performance, financial information, rights issue, dividend payment, connected transactions and poll results of shareholder meetings, and certain other voluntary disclosures as well as awards received from the capital market. The Company's website (http://www.chinaccs.com.hk) is not only a distribution channel for relevant corporate information dissemination, but also an important platform for the investors to access Company's information.

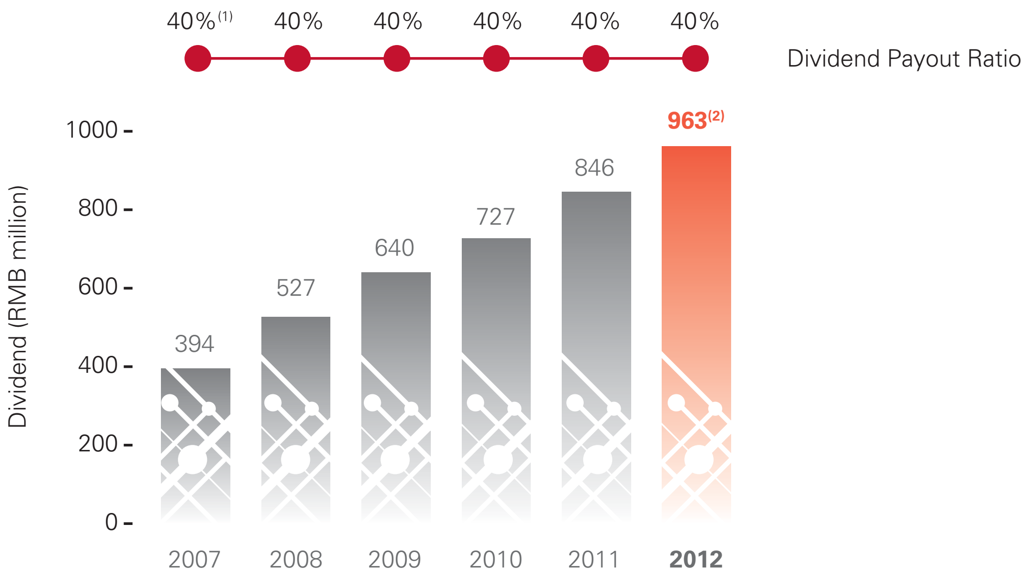
In 2012, the Company published the following information on the websites of the Stock Exchange and the Company pursuant to the Listing Rules:

12-Jan-12	Circular relating to the listing documents (H shares rights issue prospectus etc.)
6-Feb-12	Announcement of the allotment results for the rights issue
14-Mar-12	Announcement relating to the date of the board meeting to approve the 2011 annual results
29-Mar-12	Announcement of annual results for the year ended 31 December 2011
19-Apr-12	2011 annual report
19-Apr-12	Circular relating to the proposed election and re-election of directors and supervisors and notice of the AGM
19-Apr-12	Notice of the annual general meeting to be held on 28 June 2012, reply slip and proxy form
1-Jun-12	Announcement in relation to the Audit of National Audit Office
13-Jun-12	Circular relating to the supplemental notice of annual general meeting
13-Jun-12	Supplemental notice of annual general meeting to be held on 28 June 2012 and proxy form
20-Jun-12	Announcement of acquisitions
28-Jun-12	Poll results of the annual general meeting held on 28 June 2012, payment of final dividend and appointments of directors and supervisors
30-Jul-12	Announcement of resignation of independent non-executive director
16-Aug-12	Announcement relating to the date of the board meeting to approve the 2012 interim results
29-Aug-12	Announcement of interim results for the six months ended 30 June 2012
11-Sep-12	Announcement of resignation of non-executive director

14-Sep-12	2012 interim report
20-Sep-12	Announcement relating to the revision of annual caps, renewal of continuing connected transactions, proposed new annual caps and proposed appointment of non-executive director
27-Sep-12	Circular relating to the revision of annual caps, renewal of continuing connected transactions, proposed new annual caps and proposed appointment of non-executive director
27-Sep-12	Notice of the extraordinary general meeting to be held on 27 November 2012, reply slip and proxy form
27-Nov-12	Poll results of the extraordinary general meeting held on 27 November 2012 and appointment of non-executive director

Dividends

The Company attaches great importance to the shareholders' views on its dividends, and determines its dividends with reference to the Company's financial status, long-term development needs and potential investment opportunities. Since its listing in 2006, the Company has endeavored to maintain a stable dividend payout ratio although funding requirement is more demanding due to the enlarging business scale and the needs for strategic development in the future. The following table shows the steady growth of the Company's dividend and the stable dividend payout ratio since its listing, which demonstrates the Company's continued efforts in steadily increasing shareholders return.



Notes:

(1) The calculation of the 2007 dividend payout ratio excluded the new profits contributed by the acquisitions in 13 provincial business prior to 31 August 2007 (being the completion date of the acquisitions).

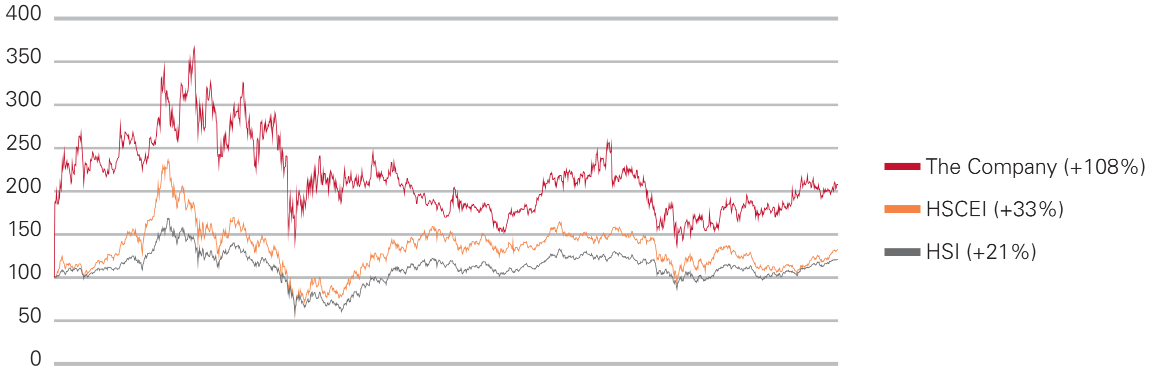
(2) Subject to the approval at the 2012 annual general meeting to be held on 27 June 2013.

Share Price Performance

The Company's H shares were listed on the Stock Exchange on 8 December 2006 at an offer price of HK$2.2 per share. During the last six years since its listing, the Company has sustained steady business growth. On the basis of stable performance, sound corporate governance, together with pragmatic and efficient investor relations, the share price performance had been good in overall terms. The price of the Company's H shares as at 31 December 2012 has doubled with an increase over 108% since its listing. In 2012, the share price of the Company increased by 31% and outperformed the Hang Seng Index and Hang Seng China Enterprises Index.

Share Price Performance Since Listing

From 8 December 2006 to 31 December 2012

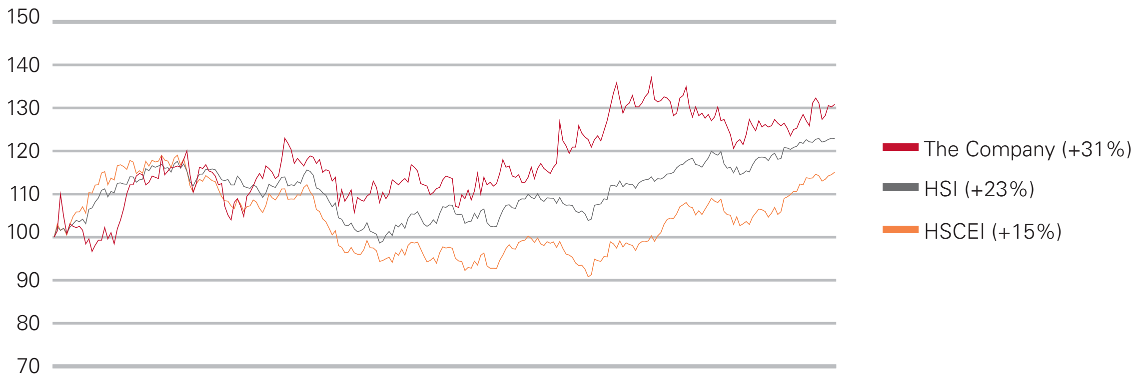


As of 31 December 2012, the total number of shares for the Company was 6,926,018,400 shares, of which, 4,534,598,160 shares were domestic shares and 2,391,420,240 shares were H shares, both with par value of RMB1.00 each. All the H shares of the Company are listed at the Stock Exchange, representing approximately 34.5% of the total shares of the Company. Based on the closing price as of 31 December 2012, the Company's market value was about HK$31 billion.

2012	Highest	Lowest	Closing
Price per H share of the Company (HK$)	4.69	3.31	4.48

Share Price Performance in 2012

From 1 January 2012 to 31 December 2012



Recognitions and Honors in the Capital Market

In 2012, there were an increasing number of analysts and institutional investors covering and closely following the Company. There were more than 10 international research institutions regularly publishing research reports on the Company. Since its listing, the Company's investment value has been highly recognized by the capital market and as of 31 December 2012, most of the major research institutions maintained "Buy" or "Hold" investment ratings on the Company.

In 2012, the Company continued to achieve breakthroughs in respect of investor relations, and was highly recognized by the capital market. The Company was awarded over 10 major international awards or honors during the year. This year, the Company was voted the No.1 "Best Managed Companies in China" in *Euromoney's* "Best Managed Companies in Asia" ranking, and also ranked the sixth of the "Overall Performance in Best Managed Companies in Asia" amongst the 207 corporate candidates across various industries in Asia. It was the first award from *Euromoney* since the Company's listing, and this was not only an underline of the Company's continuous hard work and excellent performance in corporate governance over the years, but also an evidence that the capital market highly recognized the Company's adherence to strive for best corporate governance practice.

The Company was also awarded the Gold Award in "Best Investor Relations" by *The Asset* during "The Asset Corporate Awards 2012" for the third consecutive year, and various awards such as ARC Award and *Corporate Governance Asia*. In the future, the Company will endeavor to perfect its investor relations and continue to bridge the Company with the capital market closely, with an aim to improve shareholder's value.

Major Awards and Recognitions in 2012

"Best Managed Companies in Asia 2013" by *Euromoney*

– China – Rank 1st
– Asia – Rank 6th

"Corporate Governance Asia Recognition Award 2012" by *Corporate Governance Asia*

– The Best of Asia

"Asian Excellence Recognition Awards 2012" by *Corporate Governance Asia*

– Best Investor Relations by a China Company

"The Asset Corporate Awards 2012" by *The Asset*

– Gold Award – Financial Performance, Corporate Governance and Investor Relations

"Top 100 Hong Kong Listed Companies – Top 10 Best Overall Performance (Mid-cap Enterprise)"

– Rank 5th

"2012 International ARC Awards"

– "Cover Photo/Design" – Gold Award
– "Interior Design" – Bronze Award

"The Most Innovative Chinese Companies 2012" published by *Fortune China*

– Rank 14th

"2012 FORTUNE China 500" published by *Fortune China*

– Rank 87th

Other Necessary Information for Shareholders

Shareholder services

Any matters relating to shareholding, such as transfer of shares, change of name or address, and loss of share certificates should be addressed in writing to the Registrar:

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
Telephone: (852) 2862 8628
Facsimile: (852) 2529 6087

Shareholder enquiries

Enquiry hotline during normal office hours:
Telephone: (852) 3699 0000

Investor relations

For enquiries from institutional investors and securities analysts, please contact:

Investor Relations Department, China Communications Services Corporation Limited
Room 3203–3205, 32/F., Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong
Telephone: (852) 3699 0000
Facsimile: (852) 3699 0120
Email: ir@chinaccs.com.hk

HUMAN RESOURCES DEVELOPMENT

In 2012, the Group has endeavored to stick with the strategy of "Talents Management", committed to complying with the requirement of "leading through innovations, and enhancing efficiency through synergistic management" and adhered to the guidelines of "supporting development, controlling risks, creating value and enhancing capability". The Group thus devoted to build a "hundred-billion enterprise with superior performance and a culture of harmony and happiness" through transformation of human resource strategy.

In 2012, adhering to the guidance of human resource plan, the Group improved allocation of human resources, directed distribution of labour expenses and tilted human resource allocation towards provincial subsidiaries with satisfactory efficiency and rapid development, as well as key business, quality business, and core talents teams. The Group gradually pushed on the outsourcing of low-end business and continued to optimize employment structure. As at the end of 2012, the Group had a total of 130 thousand staff. Revenue per headcount amounted to RMB474 thousand per year.

In 2012, the Group highly emphasized on the buildup of high-end talents team, carried out construction of "four channels" for market-oriented talents and expanded their career development. Strategies were gradually deployed in the selection, appointment, appraisal, cultivation and motivation of high-end talents, by which core talents were effectively motivated and retained.

In 2012, the Group continued to strengthen the ability of human resource teams. On-the-job trainings on senior management and staff were orderly facilitated by allocating the internal and external resources of the Group, which resulted in an overall enhancement of staff's work capability and skills. Teaching resources of the Group's affiliated schools were integrated and in-house trainer team was set up. There have been more than 5,700 certified project managers and certified marketing managers who had completed the training programs, strongly supporting the development of the Group.

In 2012, the Group has continued to promote preciseness of human resource management. The Group also improved the information system for human resource management to enhance the capabilities of comprehensive analysis and human resource management.

In 2012, the Group kept on with its "people-oriented" philosophy and cared on its staff. The Group abided the relevant national laws and regulations, improved its enterprise pension system and established a healthy and harmonious work environment for its staff as well as built stable labor relationship with its employees. Furthermore, the Group has always stressed the great importance of labor safety and effectively ensured a good environment for the staff's health and safety.

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 2012 will be held at 2:00 p.m. on 27 June 2013 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 2012 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 2013;

2 **THAT** the profit distribution proposal and the declaration and payment of a final dividend for the year ended 31 December 2012 be considered and approved;

3 **THAT** the appointment of Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the international auditors and domestic auditors of the Company, respectively, for the year ending 31 December 2013 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 To consider and approve, by way of special resolutions, each of the following resolutions in relation to the granting of a general mandate to the Board of the Company to issue debentures:

4.1 **THAT** the grant of a general mandate to the Board to issue debentures denominated in local or foreign currencies, in one or more tranches in the PRC and overseas, including but not limited to, short-term commercial paper, medium term note, company bond and corporate debts (the "Debentures"), with a maximum aggregate outstanding repayment amount of up to RMB6 billion be and is hereby approved.

4.2 **THAT** the Board or any two of three directors of the Company duly authorized by the Board, namely Mr. Li Ping, Mr. Zheng Qibao and Ms. Hou Rui (the "Directors"), taking into account the specific needs of the Company and market conditions, be and are hereby generally and unconditionally authorized to:

a) determine the specific terms and conditions of, and other matters relating to, the issue of debentures, including but not limited to, the determination of the type, amount, interest rate, term, rating, security, time and place of the issue, any repurchase or redemption provisions, any placing arrangements, any option to adjust the nominal interest rates and the use of proceeds, determine the underwriting arrangements, secure approvals, engage professional advisors, disseminate relevant application documents to the regulatory authorities, obtain approvals from the regulatory authorities, execute all requisite legal documentation relating to the issue as requested by the regulatory authorities and make relevant disclosure;

b) do all such acts which are necessary and incidental to the issue of debentures;

c) take all such steps which are necessary for the purposes of executing the issue of debentures (including, but not limited to, the execution of all requisite documentation and the disclosure of relevant information in accordance with applicable laws) and to the extent that any of the aforementioned acts and steps that have already been undertaken by the Board or the duly authorized Directors in connection with the issue of debentures, be and are hereby approved, confirmed and ratified.

4.3 **THAT** the grant of the general mandate under this resolution shall come into effect upon approval from the general meeting and will be valid for 12 months from that date.

5 **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 5:

"Relevant Period" means the period from the passing of special resolution 5 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.

6 **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 5, 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
China Communications Services Corporation Limited
Chung Wai Cheung, Terence
Company Secretary

Beijing, PRC

22 April 2013

Notes:

(1) The detail of the proposed appointment of the auditors of the Company for the year ending 31 December 2013 concerning the above ordinary resolution numbered 3 is set as follows:

The Company is a subsidiary of China Telecommunications Corporation, which is a state-owned enterprise under the supervision of the State-owned Assets Supervision and Administration Commission of the State Council (the "SASAC"). Pursuant to the relevant regulations issued by the Ministry of Finance of the People's Republic of China and the SASAC, there are restrictions in respect of the years of audit services that an accounting firm can continuously provide to a state-owned enterprise and its subsidiaries. Pursuant to the relevant regulations, KPMG and KPMG Huazhen (SGP) will retire as the international auditors and domestic auditors of the Company respectively effective upon the close of the forthcoming 2012 annual general meeting of the Company and will not be re-appointed. The board of directors of the Company (the "Board"), as proposed by the Audit Committee of the Company, has resolved to propose the appointment of Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the Company's international auditors and domestic auditors respectively for the year ending 31 December 2013 at the general meeting.

KPMG and KPMG Huazhen (SGP) have confirmed in writing that there are no matters in relation to their retirement which should be brought to the attention of the shareholders of the Company. Neither the Board nor the Audit Committee is aware of any matters in relation to the proposed change of auditors that need to be brought to the attention of the shareholders of the Company.

(2) Buyers who submit the share transfer application forms to the Company's share registrar before 4:30 p.m. on 27 May 2013 (Monday) and then register as shareholders on the register of members of the Company are entitled to attend the annual general meeting.

(3) 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 2012, which is expected to be despatched to shareholders on around 22 April 2013 (Monday).

(4) 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

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

(6) 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 6 June 2013 (Thursday).

(7) Closure of the register of members:

(a) Annual General Meeting

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

(b) Proposed Final Dividend

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

(8) 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.

(9) 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

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

INDEPENDENT AUDITOR'S REPORT

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") and its subsidiaries (together "the Group") set out on pages 111 to 182, which comprise the consolidated and company balance sheets as at 31 December 2012, 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 information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 consolidated financial statements.

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

INDEPENDENT AUDITOR'S REPORT

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 2012 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards as issued 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

27 March 2013

CONSOLIDATED INCOME STATEMENT

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

	Note	**2012** **RMB'000**	2011 RMB'000 (Restated)
Revenues	4	**61,517,375**	53,780,127
Cost of revenues	5	**(51,732,008)**	(45,198,637)
Gross profit		**9,785,367**	8,581,490
Other operating income	6	**851,336**	684,821
Selling, general and administrative expenses		**(7,514,881)**	(6,464,571)
Other operating expenses	7	**(69,258)**	(64,408)
Finance costs	8	**(26,030)**	(64,556)
Share of profits/(losses) of associates		**4,844**	(2,600)
Profit before tax	9	**3,031,378**	2,670,176
Income tax	10	**(585,514)**	(538,778)
Profit for the year		**2,445,864**	2,131,398
Attributable to:			
Equity shareholders of the Company		**2,406,792**	2,129,212
Non-controlling interests		**39,072**	2,186
Profit for the year		**2,445,864**	2,131,398
Basic and diluted earnings per share (RMB)	16	**0.353**	0.358

The notes on pages 120 to 182 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 2012
(Expressed in Renminbi)

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

The notes on pages 120 to 182 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2012
(Expressed in Renminbi)

	Note	**31 December 2012 RMB'000**	31 December 2011 RMB'000 (Restated)	1 January 2011 RMB'000 (Restated)
Non-current assets				
Property, plant and equipment, net	17	**4,517,754**	4,495,582	4,223,420
Investment properties	18	**765,075**	729,045	732,491
Construction in progress	19	**387,190**	229,348	191,765
Lease prepayments	20	**933,697**	935,659	925,531
Goodwill	21	**103,005**	103,005	103,005
Other intangible assets	22	**170,105**	144,439	150,464
Interests in associates	24	**52,106**	62,661	61,433
Other investments	25	**662,300**	663,116	694,912
Deferred tax assets	26	**204,803**	197,392	153,327
Other non-current assets	27	**27,880**	28,876	–
Total non-current assets		**7,823,915**	7,589,123	7,236,348
Current assets				
Inventories	28	**1,894,825**	1,705,641	1,839,009
Accounts and bills receivable, net	29	**21,321,955**	17,323,211	12,943,390
Prepayments and other current assets	31	**4,773,469**	4,636,968	3,975,362
Restricted deposits	32	**266,979**	320,039	269,099
Cash and cash equivalents	33	**8,879,491**	7,380,435	8,570,349
Total current assets		**37,136,719**	31,366,294	27,597,209
Total assets		**44,960,634**	38,955,417	34,833,557
Current liabilities				
Interest-bearing borrowings	34	**409,805**	998,335	1,780,523
Accounts and bills payable	35	**14,843,934**	12,780,549	9,809,836
Receipts in advance for contract work		**1,386,805**	1,166,285	1,089,174
Accrued expenses and other payables	36	**6,763,252**	6,853,292	6,597,266
Income tax payable		**309,761**	305,717	285,618
Total current liabilities		**23,713,557**	22,104,178	19,562,417
Net current assets		**13,423,162**	9,262,116	8,034,792
Total assets less current liabilities		**21,247,077**	16,851,239	15,271,140

The notes on pages 120 to 182 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2012
(Expressed in Renminbi)

	Note	**31 December 2012 RMB'000**	31 December 2011 RMB'000 (Restated)	1 January 2011 RMB'000 (Restated)
Non-current liabilities				
Interest-bearing borrowings	34	**89,883**	131,374	–
Other non-current liabilities	37	**134,105**	60,156	1,232
Deferred tax liabilities	26	**20,930**	23,485	53,101
Total non-current liabilities		**244,918**	215,015	54,333
Total liabilities		**23,958,475**	22,319,193	19,616,750
Equity				
Share capital	38	**6,926,018**	5,771,682	5,771,682
Reserves		**13,576,721**	10,512,426	9,092,812
Equity attributable to equity shareholders of the Company		**20,502,739**	16,284,108	14,864,494
Non-controlling interests		**499,420**	352,116	352,313
Total equity		**21,002,159**	16,636,224	15,216,807
Total liabilities and equity		**44,960,634**	38,955,417	34,833,557

Approved and authorised for issue by the Board of Directors on 27 March 2013.

Li Ping
Chairman

Hou Rui
Executive Vice President and Chief Finance Officer, Director

The notes on pages 120 to 182 form part of these financial statements.

BALANCE SHEET

At 31 December 2012
(Expressed in Renminbi)

	Note	**31 December 2012 RMB'000**	31 December 2011 RMB'000
Non-current assets			
Property, plant and equipment, net	17	**10,041**	11,633
Construction in progress	19	**3,503**	5,489
Other intangible assets	22	**9,856**	8,273
Investments in subsidiaries	23	**12,017,339**	11,464,867
Interests in associates	24	**–**	1,059
Total non-current assets		**12,040,739**	11,491,321
Current assets			
Prepayments and other current assets	31	**1,360,620**	1,308,317
Restricted deposits	32	**–**	100,000
Cash and cash equivalents	33	**2,023,065**	128,326
Total current assets		**3,383,685**	1,536,643
Total assets		**15,424,424**	13,027,964
Current liabilities			
Interest-bearing borrowings	34	**–**	800,000
Accrued expenses and other payables	36	**94,318**	100,154
Total current liabilities		**94,318**	900,154
Net current assets		**3,289,367**	636,489
Total assets less current liabilities		**15,330,106**	12,127,810
Total liabilities		**94,318**	900,154
Equity			
Share capital	38	**6,926,018**	5,771,682
Reserves	47	**8,404,088**	6,356,128
Total equity		**15,330,106**	12,127,810
Total liabilities and equity		**15,424,424**	13,027,964

Approved and authorised for issue by the Board of Directors on 27 March 2013.

Li Ping
Chairman

Hou Rui
Executive Vice President and
Chief Finance Officer, Director

The notes on pages 120 to 182 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

		Equity attributable to equity shareholders of the Company											
	Note	Share capital RMB'000	Share premium (note a) RMB'000	Capital reserve (note b) RMB'000	Statutory surplus reserve (note c) RMB'000	Specific reserve (note d) RMB'000	Fair value reserve (note e) RMB'000	Exchange reserve (note f) RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance as at 1 January 2012 as previously reported		5,771,682	2,727,647	1,846,468	428,707	–	22,654	(9,589)	(6,344)	5,222,342	16,003,567	121,260	16,124,827
Adjustment in relation to the acquisitions of the Target Interests and SBSS (as defined in note 1)	1(c)	–	–	–	–	–	–	84	206,688	73,769	280,541	230,856	511,397
Balance as at 1 January 2012 as adjusted		5,771,682	2,727,647	1,846,468	428,707	–	22,654	(9,505)	200,344	5,296,111	16,284,108	352,116	16,636,224
Changes in equity for the year ended 31 December 2012													
Profit for the year		–	–	–	–	–	–	–	24,739	2,382,053	2,406,792	39,072	2,445,864
Other comprehensive income		–	–	–	–	–	(100)	(4,308)	–	–	(4,408)	–	(4,408)
Total comprehensive income		–	–	–	–	–	(100)	(4,308)	24,739	2,382,053	2,402,384	39,072	2,441,456
Consideration for the acquisitions of the Target Interests and SBSS (as defined in note 1)		–	–	–	–	–	–	–	(340,701)	–	(340,701)	–	(340,701)
Issuance of shares	38	1,154,336	1,801,663	–	–	–	–	–	–	–	2,955,999	–	2,955,999
Capital injection by non-controlling owners to subsidiaries		–	–	–	–	–	–	–	47,261	–	47,261	124,538	171,799
Dividend declared	15(b)	–	–	–	–	–	–	–	–	(846,359)	(846,359)	–	(846,359)
Distribution to non-controlling owners		–	–	–	–	–	–	–	–	–	–	(16,306)	(16,306)
Appropriation		–	–	–	112,672	–	–	–	–	(112,672)	–	–	–
Appropriation of maintenance and production funds		–	–	–	–	271,340	–	–	–	(271,340)	–	–	–
Utilisation of maintenance and production funds		–	–	–	–	(233,124)	–	–	–	233,124	–	–	–
Others		–	–	–	–	–	–	–	47	–	47	–	47
Balance as at 31 December 2012		6,926,018	4,529,310	1,846,468	541,379	38,216	22,554	(13,813)	(68,310)	6,680,917	20,502,739	499,420	21,002,159
Balance as at 1 January 2011 as previously reported		5,771,682	2,727,647	1,846,468	326,318	–	40,959	(6,164)	(27,396)	3,937,100	14,616,614	132,634	14,749,248
Adjustment in relation to the acquisitions of the Target Interests and SBSS (as defined in note 1)	1(c)	–	–	–	–	–	–	84	185,661	62,135	247,880	219,679	467,559
Balance as at 1 January 2011 as adjusted		5,771,682	2,727,647	1,846,468	326,318	–	40,959	(6,080)	158,265	3,999,235	14,864,494	352,313	15,216,807
Changes in equity for the year ended 31 December 2011													
Profit for the year		–	–	–	–	–	–	–	2,715	2,126,497	2,129,212	2,186	2,131,398
Other comprehensive income		–	–	–	–	–	(18,305)	(3,425)	–	–	(21,730)	–	(21,730)
Total comprehensive income		–	–	–	–	–	(18,305)	(3,425)	2,715	2,126,497	2,107,482	2,186	2,109,668
Contribution from the then shareholders in relation to the acquisitions of the Target Interests and SBSS		–	–	–	–	–	–	–	18,312	–	18,312	–	18,312
Capital injection by a non-controlling owner to a subsidiary		–	–	–	–	–	–	–	–	–	–	20,000	20,000
Acquisition of non-controlling interests		–	–	–	–	–	–	–	(460)	–	(460)	(3,769)	(4,229)
Dividend declared	15(b)	–	–	–	–	–	–	–	–	(727,232)	(727,232)	–	(727,232)
Distribution to non-controlling owners		–	–	–	–	–	–	–	–	–	–	(18,614)	(18,614)
Appropriation		–	–	–	102,389	–	–	–	–	(102,389)	–	–	–
Others		–	–	–	–	–	–	–	21,512	–	21,512	–	21,512
Balance as at 31 December 2011		5,771,682	2,727,647	1,846,468	428,707	–	22,654	(9,505)	200,344	5,296,111	16,284,108	352,116	16,636,224

The notes on pages 120 to 182 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

Notes:

(a) Share premium

The share premium represents the difference between the total amount of the par value of shares issued and the amount of the net proceeds received from the initial public offering in 2006 and subsequent share issuance in 2008 and 2012 (see note 38) respectively.

(b) Capital reserve

The capital reserve represents the difference between the total amount of the par value of shares issued and the amount of the net assets transferred from China Telecommunications Corporation ("CTC"), Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation upon the formation of the Company. Then, the capital reserve was net off by the difference between the consideration for the acquisition of Target Business (as defined in note 1(b)) and the net assets value of the Target Business in 2007 and subsequent common control acquisition net balances. As a result of the adoption of amendment to IFRS 1 in 2011, the capital reserve has been restated.

(c) Statutory surplus reserve

According to the Company's Article of Association, the Company is required to transfer 10% of its net profit as determined in accordance with the PRC Accounting Rules and Regulations to its statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, or to expand the Company's business, and may be converted into share capital by the issuance of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

For the year ended 31 December 2012, the Company transferred RMB113 million being 10% of the current year's net profit as determined in accordance with the PRC Accounting Rules and Regulations, to this reserve.

(d) Specific reserve for maintenance and production funds

Pursuant to the relevant PRC regulations, provision for production maintenance, production safety and other related expenditures are accrued by the Group at fixed rates based on production volume (the "maintenance and production funds"). The Group is required to make a transfer for the provision of maintenance and production funds from retained earnings to a specific reserve. The maintenance and production funds could be utilised when expenses or capital expenditures on production maintenance and safety measures are incurred. The amount of maintenance and production funds utilised would be transferred from the specific reserve back to retained earnings.

(e) 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.

(f) Exchange reserve

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

CONSOLIDATED CASH FLOW STATEMENT

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

	Note	2012 RMB'000	2011 RMB'000 (Restated)
Operating activities			
Profit before tax		**3,031,378**	2,670,176
Adjustments for:			
– Depreciation and amortisation		**758,788**	722,793
– Impairment losses on accounts and bills receivable and other receivables		**53,708**	99,939
– Impairment losses on property, plant and equipment and other intangible assets		**7,067**	5,757
– Impairment losses on inventories		**14,726**	17,362
– Interest income		**(104,699)**	(85,802)
– Finance costs		**26,030**	64,556
– Share of (profits)/losses of associates		**(4,844)**	2,600
– Dividend income		**(69,346)**	(43,227)
– Gain on disposal of investments		**(20,309)**	(42,311)
– Net gain on disposal of property, plant and equipment and other assets		**(90,850)**	(51,356)
– Impairment loss on other investments		**517**	–
– Exchange differences		**8,041**	14,113
– Write-back of non-payable liabilities		**(21,138)**	(11,824)
Operating profit before changes in working capital		**3,589,069**	3,362,776
(Increase)/decrease in inventories		**(203,910)**	116,006
Increase in accounts and bills receivable		**(4,042,384)**	(4,426,513)
Decrease/(increase) in prepayments and other current assets		**27,698**	(661,606)
Increase in accounts and bills payable		**2,077,320**	3,062,606
Increase in receipts in advance for contract work		**220,520**	77,111
(Decrease)/increase in accrued expenses and other payables		**(189,250)**	264,750
Net cash inflow from operations		**1,479,063**	1,795,130
Interest paid		**(26,977)**	(63,481)
Interest received		**97,259**	90,326
Income tax paid		**(597,112)**	(560,843)
Net cash generated from operating activities		**952,233**	1,261,132

The notes on pages 120 to 182 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

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

	Note	2012 RMB'000	2011 RMB'000 (Restated)
Investing activities			
Payments for purchase of property, plant and equipment and other assets		**(972,830)**	(1,184,453)
Proceeds from disposal of property, plant and equipment and other assets		**91,642**	96,639
Payments for the acquisitions of the Target Interests and SBSS	41(i)	**(314,930)**	–
Payments for acquisition of other investments		**(20,000)**	(113,294)
Proceeds from disposal of investments	41(ii)	**338**	78,105
Restricted bank deposits received		**100,000**	–
Dividends received		**69,346**	52,739
Net cash used in investing activities		**(1,046,434)**	(1,070,264)
Financing activities			
Proceeds from bank and other loans		**645,272**	1,602,556
Repayments of bank and other loans		**(1,301,470)**	(2,221,449)
Dividends paid		**(878,092)**	(787,388)
Proceeds from issuance of shares		**2,963,789**	–
Contributions from the then shareholders in relation to the acquisitions of the Target Interests and SBSS		**–**	19,612
Contribution from non-controlling owners to subsidiaries		**171,799**	20,000
Net cash generated from/(used in) financing activities		**1,601,298**	(1,366,669)
Net increase/(decrease) in cash and cash equivalents		**1,507,097**	(1,175,801)
Cash and cash equivalents at the beginning of year		**7,380,435**	8,570,349
Effect of foreign exchange rate changes		**(8,041)**	(14,113)
Cash and cash equivalents at the end of year	33	**8,879,491**	7,380,435

The notes on pages 120 to 182 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

1 Principal activities and organisation

(a) Principal activities

China Communications Services Corporation Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") is a leading integrated service provider to the telecommunications, media and technology industries in the People's Republic of China (the "PRC"). Its principal activities comprise provision of a full range of telecommunications support services in the PRC and overseas, including (i) telecommunications infrastructure design, construction and supervision and management; (ii) business process outsourcing (including network maintenance, facilities management, distribution of telecommunications service and products); and (iii) a variety of other services including applications, content and others.

(b) Organisation

The Company was established in the PRC on 30 August 2006 as a joint stock limited company under the Company Law of the PRC as part of the Restructuring (as defined below) of CTC, a state-owned enterprise under the direct supervision of the State Council of the PRC. Pursuant to the Restructuring (as defined below), the Group assumed the telecommunications support services previously carried on by various subsidiaries wholly-owned or controlled by CTC in six provinces and municipality in the PRC, namely, Guangdong Province, Zhejiang Province, Shanghai Municipality, Fujian Province, Hubei Province and Hainan Province (collectively, the "Predecessor Operations") from CTC. The Company was founded by CTC, Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation by ways of the injection of those subsidiaries carrying on the Predecessor Operations and cash contributions.

In connection with the Restructuring (as defined below), the Predecessor Operations together with the related assets and liabilities that were to be transferred to the Group were segregated from CTC effective on 31 March 2006 (the "Restructuring"). The Restructuring comprised the following:

(i) CTC underwent a restructuring programme in connection with its full range of telecommunications related services, namely (1) telecommunications infrastructure design, construction and supervision and management; (2) business process outsourcing (including network maintenance, facilities management and distribution of telecommunications services and products); and (3) a variety of other services including applications, content and others.

(ii) The net assets were injected into the Company by ways of asset injection of those subsidiaries carrying on the Predecessor Operations in consideration of approximately 3,623.4 million ordinary shares with a par value of RMB1.00 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

1 Principal activities and organisation (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 HKD2.20 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 HKD2.20 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. On 8 February 2012, the Company issued 398,570,040 H shares on the basis of 2 H rights shares for every 10 existing H shares at a price of HKD3.19 per H rights share, and issued 755,766,360 domestic shares on the basis of 2 domestic rights shares for every 10 existing domestic shares at a price of RMB2.59 per domestic rights share. A total of 2,391,420,240 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.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

1 Principal activities and organisation (continued)

(c) Basis of preparation

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

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

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

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

In addition to acquisitions of the Target Interests and SBSS, as described in note 16, the restated basic and diluted earnings per share include the impact of the rights issue of the Company on 8 February 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

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") as issued by the International Accounting Standards Board ("IASB"). IFRSs include all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and related interpretations. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2012 comprise the Group and its interests in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities:

– 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 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 44.

(c) Basis of consolidation

(i) Business combinations involving enterprises under common control

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The assets and liabilities obtained are measured at the carrying amounts as recorded by the enterprise being combined at the combination date. The difference between the carrying amount of the net assets obtained and the carrying amount of consideration paid for the combination (or the total face value of shares issued) is adjusted to share premium in the capital reserve. If the balance of share premium is insufficient, any excess is adjusted to retained earnings. The combination date is the date on which one combining enterprise effectively obtains control of the other combining enterprises.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(c) Basis of consolidation (continued)

(ii) Business combinations involving entities not under common control

A business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination.

The acquirer, at the acquisition date, allocates the cost of the business combination by recognising the acquiree's identifiable asset, liabilities and contingent liabilities at their fair value at that date.

(iii) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(c) Basis of consolidation (continued)

(iv) Associates

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

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

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

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

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

(d) Goodwill

Goodwill represents the excess of

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(e) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries and associate, are as follows:

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

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

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

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

(f) Investment properties

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

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

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

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

(g) Property, plant and equipment

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(g) Property, plant and equipment (continued)

Depreciation is provided 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
Building improvements	5 years
Motor vehicles	5–10 years
Furniture, fixtures and other equipment	5–20 years

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

(h) Construction in progress

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

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

(i) Lease prepayments

Lease prepayments represent land use rights paid to the PRC's government 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(l) Impairment of assets

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

Investments in debt and equity securities (other than investments in subsidiaries: see note 2(l)(ii)) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events.

- Significant financial difficulty of the debtor;
- A breach of contract, such as default or delinquency in interest or principal payments;
- It becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

- For investment in associate recognised using the equity method (see note 2(c)(iv)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carry amount in accordance with note 2(l)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(l)(ii).
- For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.
- For trade and other current receivables and other financial assets carried at cost or amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(l) Impairment of assets (continued)

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

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.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the consolidated income statement.

(ii) Impairment of other assets

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

– property, plant and equipment;

– investment properties;

– construction in progress;

– lease prepayments;

– goodwill;

– other intangible assets;

– investments in subsidiaries; and

– other investments stated at cost.

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

– Calculation of recoverable amount

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(l) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(l)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not the consolidated income statement.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(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 at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the balance sheet as the "Gross amount due from customers for contract work" (as an asset) or the "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included under "Trade debtors and bills receivable". Amounts received before the related work is performed are presented as "Advances received" under "Trade and other payables".

(o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(t) Employee benefits (continued)

(ii) Share appreciation rights scheme

Compensation expense under the Group's share appreciation rights scheme is measured as the amount by which the quoted market price of the Company's H shares exceeds the exercise price. Compensation expense in respect of the share appreciation rights granted is accrued as a charge to the consolidated income statement over the applicable vesting period based on the fair value of the stock appreciation rights. The liability of the accrued compensation expense is remeasured to fair value at each balance sheet date with the effect of changes in the fair value of the liability is charged or credited to the consolidated income statement. Further details of the Group's share appreciation rights scheme are set out in note 40.

(iii) Termination benefits

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

(u) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the consolidated income statement except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(u) Income tax (continued)

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

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

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(v) Provisions and contingent liabilities

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

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

(w) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated income statement as follows:

(i) Contract revenue

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

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

(ii) Services rendered

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(w) Revenue recognition (continued)

(iii) Sales of goods

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

(iv) Rental income from operating leases

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

(v) Dividends

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

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

(vi) Interest income

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

(x) Government grants

Government grants are recognised in the consolidated balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in the consolidated income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are 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. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(z) Borrowing costs

Borrowing costs that directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

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

(aa) Segment reporting

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

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

The Group principally has one business segment and hence no segment information is provided (see note 46).

(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

(a) A person, or a close member of that person's family, is related to the Group if that person:

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

  (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

  (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

  (iii) Both entities are joint ventures of the same third party;

  (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

  (v) The entity is controlled or jointly controlled by a person identified in (a);

  (vi) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

3 Changes in accounting policies

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

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

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

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

4 Revenues

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

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

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

5 Cost of revenues

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

6 Other operating income

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

7 Other operating expenses

	2012 RMB'000	2011 RMB'000 (Restated)
Impairment losses on property, plant and equipment	**7,067**	–
Impairment loss on other intangible assets	**–**	5,757
Impairment loss on other investments	**517**	–
Loss on disposal of property, plant and equipment and other intangible assets	**6,627**	9,187
Donations	**373**	757
Penalty charge	**9,616**	7,494
Net foreign exchange loss	**6,720**	9,122
Others	**38,338**	32,091
	69,258	64,408

8 Finance costs

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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9 Profit before tax

		2012 RMB'000	2011 RMB'000 (Restated)
(a)	Staff costs:		
	Salaries, wages and other benefits	**12,805,944**	11,441,675
	Contributions to defined contribution retirement schemes	**1,006,851**	924,111
		13,812,795	12,365,786
(b)	Other items:		
	Depreciation		
	– Property, plant and equipment	**644,561**	610,750
	– Investment properties (note 18)	**40,890**	38,869
	Amortisation		
	– Lease prepayments (note 20)	**28,613**	28,939
	– Other intangible assets (note 22)	**44,724**	44,235
	Auditors' remuneration	**40,085**	42,150
	Cost of inventories (note 28)	**17,645,654**	16,253,237
	Write-down of inventories (note 28)	**17,843**	18,160
	Reversal of write-down of inventories (note 28)	**(3,117)**	(798)
	Impairment losses on accounts and bills and other receivables	**108,087**	140,015
	Reversal of impairment losses on accounts and bills and other receivables	**(54,379)**	(40,076)
	Operating lease charges	**1,137,790**	1,051,307
	Research and development costs	**1,193,138**	853,736
	Share of associates' taxation	**1,274**	446

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

10 Income tax

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

	2012 RMB'000	2011 RMB'000 (Restated)
Current tax		
PRC enterprise income tax	**575,697**	567,818
Overseas enterprise income tax	**19,580**	17,026
Deferred tax		
Origination and reversal of temporary differences (note 26)	**(9,763)**	(46,066)
Total income tax	**585,514**	538,778

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

10 Income tax (continued)

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

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

Notes:

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

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

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

11 Other comprehensive income

Available-for-sale securities

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

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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 2012 are as follows:

	Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000	Pension scheme contribution RMB'000	2012 Total RMB'000
Directors and supervisors					
Li Ping	–	–	–	–	–
Zheng Qibao	–	172	535	60	767
Yuan Jianxing	–	154	480	59	693
Hou Rui	–	113	482	54	649
Liu Aili (resigned on 11 September 2012)	–	–	–	–	–
Li Zhengmao (appointed on 27 November 2012)	–	–	–	–	–
Zhang Junan	–	–	–	–	–
Wang Jun	200	–	–	–	200
Chan Mo Po, Paul (resigned on 28 July 2012)	114	–	–	–	114
Zhao Chunjun	150	–	–	–	150
Wu Shangzhi (resigned on 28 June 2012)	75	–	–	–	75
Hao Weimin (resigned on 28 June 2012)	75	–	–	–	75
Wei Leping (appointed on 28 June 2012)	76	–	–	–	76
Siu Wai Keung, Francis (appointed on 28 June 2012)	122	–	–	–	122
Xia Jianghua	–	–	–	–	–
Hai Liancheng	75	–	–	–	75
Yan Dong	–	92	341	50	483
	887	531	1,838	223	3,479

The above remuneration does not include share appreciation rights as it has not been granted to the above directors and supervisors (see note 40).

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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 2011 are as follows:

	Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000	Pension scheme contribution RMB'000	2011 Total RMB'000
Directors and supervisors					
Li Ping	–	–	–	–	–
Zheng Qibao	–	164	450	53	667
Yuan Jianxing	–	137	375	49	561
Hou Rui	–	106	375	44	525
Liu Aili	–	–	–	–	–
Zhang Junan	–	–	–	–	–
Wang Jun	200	–	–	–	200
Chan Mo Po, Paul	200	–	–	–	200
Zhao Chunjun	150	–	–	–	150
Wu Shangzhi	150	–	–	–	150
Hao Weimin	150	–	–	–	150
Xia Jianghua	–	–	–	–	–
Hai Liancheng	75	–	–	–	75
Yan Dong	–	86	296	41	423
	925	493	1,496	187	3,101

13 Individuals with highest emoluments and senior management's remuneration

(a) The five highest paid employees of the Group

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

	2012	2011
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:

	2012 RMB'000	2011 RMB'000
Salaries, allowances and other benefits in kind	**680**	862
Bonuses	**3,946**	3,032
Pension scheme contributions	**437**	416
	5,063	4,310

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(Expressed in Renminbi)

13 Individuals with highest emoluments and senior management's remuneration (continued)

(a) The five highest paid employees of the Group (continued)

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

	2012	2011
HKD equivalent		
Nil to 1,000,000	–	3
1,000,001 to 1,500,000	**5**	2

(b) Senior management's remuneration

The number of the senior management whose remuneration fell within the following bands:

	2012	2011
HKD equivalent		
Nil to 1,000,000	**18**	15
1,000,001 to 1,500,000	**2**	2

14 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB1,127 million (2011: RMB1,024 million) 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:

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

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

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

(i) Calculated on the basis of the total share capital of the Company after the rights issue on 8 February 2012 (see note 38).

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 2012 of RMB2,406,792 thousand (2011: RMB2,129,212 thousand (as restated)) and the weighted average number of shares in issue during the year ended 31 December 2012 of 6,821,990 thousand shares (2011: 5,949,749 thousand shares). As described in note 38, the Company completed the rights issue on 8 February 2012. In calculating earnings per share, the weighted average number of shares outstanding during the years ended 31 December 2012 and 2011 were calculated as if the bonus elements without consideration included in the rights issue had been existed from the beginning of the comparative year.

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

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(Expressed in Renminbi)

17 Property, plant and equipment, net

The Group

	Buildings RMB'000	Building improvements RMB'000	Motor vehicles RMB'000	Furniture, fixtures and other equipment RMB'000	Total RMB'000
Cost:					
As at 1 January 2012 as previously reported	2,819,347	321,459	1,360,340	2,265,430	6,766,576
Adjustment in relation to the acquisitions of the Target Interests and SBSS (note 1)	24,231	–	4,976	826,817	856,024
As at 1 January 2012, as restated	2,843,578	321,459	1,365,316	3,092,247	7,622,600
Transfer to investment properties (note 18)	(44,729)	–	–	–	(44,729)
Transfer from investment properties (note 18)	487	–	–	–	487
Transfer from construction in progress (note 19)	39,273	20,673	130	32,763	92,839
Additions	66,866	29,080	215,337	338,825	650,108
Disposals	(48,328)	(676)	(65,936)	(139,293)	(254,233)
As at 31 December 2012	2,857,147	370,536	1,514,847	3,324,542	8,067,072
Accumulated depreciation and impairment losses:					
As at 1 January 2012 as previously reported	617,878	213,768	704,956	1,300,863	2,837,465
Adjustment in relation to the acquisitions of the Target Interests and SBSS (note 1)	20,660	–	2,774	266,119	289,553
As at 1 January 2012, as restated	638,538	213,768	707,730	1,566,982	3,127,018
Transfer to investment properties (note 18)	(12,387)	–	–	–	(12,387)
Transfer from investment properties (note 18)	134	–	–	–	134
Depreciation charge	126,071	34,103	133,480	351,054	644,708
Written back on disposals	(22,910)	(676)	(62,103)	(131,533)	(217,222)
Impairment loss	–	–	187	6,880	7,067
As at 31 December 2012	729,446	247,195	779,294	1,793,383	3,549,318
Net carrying value:					
As at 31 December 2012	2,127,701	123,341	735,553	1,531,159	4,517,754
As at 1 January 2012, as restated	2,205,040	107,691	657,586	1,525,265	4,495,582

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(Expressed in Renminbi)

17 Property, plant and equipment, net (continued)

The Group (continued)

	Buildings RMB'000	Building improvements RMB'000	Motor vehicles RMB'000	Furniture, fixtures and other equipment RMB'000	Total RMB'000
Cost:					
As at 1 January 2011 as previously reported	2,809,995	297,192	1,197,311	2,087,532	6,392,030
Adjustment in relation to the acquisitions of the Target Interests and SBSS (note 1)	25,729	190	4,734	646,378	677,031
As at 1 January 2011, as restated	2,835,724	297,382	1,202,045	2,733,910	7,069,061
Transfer to investment properties (note 18)	(55,628)	–	–	–	(55,628)
Transfer from investment properties (note 18)	15,397	–	–	–	15,397
Transfer from construction in progress (note 19)	86,847	13,346	–	322,503	422,696
Additions	13,447	28,944	220,507	362,028	624,926
Disposals	(3,482)	(17,663)	(51,639)	(314,902)	(387,686)
Disposal of subsidiaries	(48,727)	(550)	(5,597)	(11,292)	(66,166)
As at 31 December 2011, as restated	2,843,578	321,459	1,365,316	3,092,247	7,622,600
Accumulated depreciation and impairment losses:					
As at 1 January 2011 as previously reported	517,794	193,079	623,213	1,172,998	2,507,084
Adjustment in relation to the acquisitions of the Target Interests and SBSS (note 1)	20,838	–	2,566	315,153	338,557
As at 1 January 2011, as restated	538,632	193,079	625,779	1,488,151	2,845,641
Transfer to investment properties (note 18)	(19,073)	–	–	–	(19,073)
Transfer from investment properties (note 18)	4,747	–	–	–	4,747
Depreciation charge	124,871	28,481	126,879	330,519	610,750
Written back on disposals	(1,032)	(7,792)	(44,462)	(224,838)	(278,124)
Disposal of subsidiaries	(9,607)	–	(414)	(5,728)	(15,749)
Impairment loss	–	–	(52)	(21,122)	(21,174)
As at 31 December 2011, as restated	638,538	213,768	707,730	1,566,982	3,127,018
Net carrying value:					
As at 31 December 2011, as restated	2,205,040	107,691	657,586	1,525,265	4,495,582
As at 1 January 2011, as restated	2,297,092	104,303	576,266	1,245,759	4,223,420

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17 Property, plant and equipment, net (continued)

The Company

	Furniture, fixtures and other equipment RMB'000
Cost:	
As at 1 January 2011	5,308
Additions	1,959
Transfer from construction in progress (note 19)	7,126
As at 31 December 2011	14,393
Accumulated depreciation:	
As at 1 January 2011	1,118
Charge for the year	1,642
As at 31 December 2011	2,760
Net carrying value:	
As at 31 December 2011	11,633
Cost:	
As at 1 January 2012	14,393
Additions	483
Transfer from construction in progress (note 19)	680
As at 31 December 2012	15,556
Accumulated depreciation:	
As at 1 January 2012	2,760
Charge for the year	2,755
As at 31 December 2012	5,515
Net carrying value:	
As at 31 December 2012	10,041
As at 31 December 2011	11,633
As at 1 January 2011	4,190

(a) All the Group's buildings are located in the PRC.

(b) As at 31 December 2012, certain banking facilities and borrowings from banks of the Group were secured by property, plant and equipment with carrying amount of RMB408 million (2011: RMB430 million (as restated)).

(c) Up to the date of issue of these financial statements, the Group is still in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB377 million as at 31 December 2012 (2011: RMB275 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.

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18 Investment properties

	The Group	
	2012	2011
	RMB'000	RMB'000
Cost:		
As at 1 January	**976,476**	926,727
Transfer from property, plant and equipment (note 17)	**44,729**	55,628
Transfer to property, plant and equipment (note 17)	**(487)**	(15,397)
Additions	**45,354**	9,518
Disposals	**(423)**	–
As at 31 December	**1,065,649**	976,476
Accumulated depreciation:		
As at 1 January	**247,431**	194,236
Transfer from property, plant and equipment (note 17)	**12,387**	19,073
Transfer to property, plant and equipment (note 17)	**(134)**	(4,747)
Depreciation charge	**40,890**	38,869
As at 31 December	**300,574**	247,431
Net carrying value:		
As at 31 December	**765,075**	729,045
As at 1 January	**729,045**	732,491
Fair value	**1,508,792**	1,200,048

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

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

	The Group	
	2012	2011
	RMB'000	RMB'000
Within 1 year	**97,183**	94,138
After 1 year but within 5 years	**139,801**	128,953
After 5 years	**13,886**	11,944
	250,870	235,035

During the year ended 31 December 2012, RMB109 million (2011: RMB104 million) has been recognised as rental income in the consolidated income statement and RMB28 million (2011: RMB30 million) in respect of direct operating expenses relating to investment properties has been recognised as expenses in the consolidated income statement.

Up to the date of these financial statements, the Group is still in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB60 million as at 31 December 2012 (2011: RMB56 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.

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19 Construction in progress

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Cost:				
As at 1 January as previously reported	**227,858**	154,234	**5,489**	11,759
Adjustment in relation to the acquisitions of the Target Interests and SBSS (note 1)	**1,490**	37,531	**–**	–
As at 1 January, as restated	**229,348**	191,765	**5,489**	11,759
Additions	**263,812**	460,443	**2,623**	856
Disposals	**(581)**	(164)	**–**	–
Transfer to other intangible assets (note 22)	**(12,550)**	–	**(3,929)**	–
Transfer to property, plant and equipment (note 17)	**(92,839)**	(422,696)	**(680)**	(7,126)
As at 31 December	**387,190**	229,348	**3,503**	5,489

20 Lease prepayments

	The Group	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Cost:		
As at 1 January as previously reported	**1,053,941**	1,014,227
Adjustment in relation to the acquisitions of the Target Interests and SBSS (note 1)	**11,017**	11,728
As at 1 January, as restated	**1,064,958**	1,025,955
Additions	**27,286**	39,714
Disposals	**(690)**	(711)
As at 31 December	**1,091,554**	1,064,958
Accumulated depreciation:		
As at 1 January	**118,282**	89,343
Adjustment in relation to the acquisitions of the Target Interests and SBSS (note 1)	**11,017**	11,081
As at 1 January, as restated	**129,299**	100,424
Amortisation charge	**28,613**	28,939
Written back on disposals	**(55)**	(64)
As at 31 December	**157,857**	129,299
Net carrying value:		
As at 31 December	**933,697**	935,659
As at 1 January, as restated	**935,659**	925,531

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 15 to 67 years as at 31 December 2012.

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21 Goodwill

	2012	2011
	RMB'000	RMB'000
Cost and carrying amount	**103,005**	103,005

	2012	2011
	RMB'000	RMB'000
Impairment tests for cash-generating units containing goodwill		
China International Telecommunications Construction Corporation ("CITCC")	**103,005**	103,005

The recoverable amounts of goodwill arising from the acquisition of CITCC are determined based on value in use calculation. The calculation use cash flow projection based on financial budget approved by management covering a one-year period and pre-tax discount rates is 12.66% (2011: 12.30%).

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.

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22 Other intangible assets

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Cost:				
As at 1 January as previously reported	**341,474**	306,367	**13,754**	6,894
Adjustment in relation to the acquisitions of the Target Interests and SBSS (note 1)	**637**	609	**–**	–
As at 1 January, as restated	**342,111**	306,976	**13,754**	6,894
Additions	**65,773**	60,665	**23**	6,860
Transfer from construction in progress (note 19)	**12,550**	–	**3,929**	–
Disposals	**(39,999)**	(17,047)	**–**	–
Disposal of subsidiaries	**–**	(8,483)	**–**	–
As at 31 December	**380,435**	342,111	**17,706**	13,754
Accumulated amortisation:				
As at 1 January as previously reported	**197,365**	156,272	**5,481**	4,261
Adjustment in relation to the acquisitions of the Target Interests and SBSS (note 1)	**307**	240	**–**	–
As at 1 January, as restated	**197,672**	156,512	**5,481**	4,261
Amortisation charge	**44,724**	44,235	**2,369**	1,220
Written back on disposals	**(32,066)**	(5,466)	**–**	–
Disposal of subsidiaries	**–**	(3,366)	**–**	–
Impairment loss	**–**	5,757	**–**	–
As at 31 December	**210,330**	197,672	**7,850**	5,481
Net carrying value:				
As at 31 December	**170,105**	144,439	**9,856**	8,273
As at 1 January, as restated	**144,439**	150,464	**8,273**	2,633

Other intangible assets mainly represent computer software used in telecommunications infrastructure projects.

23 Investments in subsidiaries

	The Company	
	2012	2011
	RMB'000	RMB'000
Unlisted investments, at cost	**12,017,339**	11,464,867

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23 Investments in subsidiaries (continued)

The following list contains only the particulars of subsidiaries at 31 December 2012 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	–	RMB2,808 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
Hunan Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB886 million	Provision of integrated telecommunications support services through its subsidiaries in Hunan Province

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(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
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
Xinjiang Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB195 million	Provision of integrated telecommunications support services through its subsidiaries in Xinjiang Uygur Autonomous Region

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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
China International Telecommunication Construction Corporation	Limited Liability Company	The PRC	100	–	RMB550 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
Zhongshutong Information Co., Ltd.	Limited Liability Company	The PRC	60.38	–	RMB120 million	Provision of integrated telecommunications support services
China Comservice Software Tech. Co., Ltd	Limited Liability Company	The PRC	60	–	USD25 million	Provision of integrated telecommunications support services
Ningxia Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB106 million	Provision of integrated telecommunications support services through its subsidiaries in Ningxia Hui Autonomous Region
Shandong Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB100 million	Provision of integrated telecommunications support services through its subsidiaries in Shandong Province
Sino-British Submarine System Co., Ltd.	Limited Liability Company	The PRC	51	–	RMB327 million	Provision of submarine cable installation and other related services

24 Interests in associates

	The Group 2012 RMB'000	The Group 2011 RMB'000	The Company 2012 RMB'000	The Company 2011 RMB'000
Share of net assets	**52,106**	62,661	**–**	1,059

As at 31 December 2012, the Group's associates are unlisted, established and operated in the PRC. The Group's interests in associates are individually and in aggregate not material to the Group's financial condition or results of operation for the year.

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25 Other investments

	The Group	
	2012	2011
	RMB'000	RMB'000
At cost/fair value:		
Unlisted equity securities, at cost	**627,930**	628,443
Listed equity securities, at quoted market price	**34,370**	34,673
	662,300	663,116

26 Deferred tax assets and liabilities

Deferred tax assets and liabilities attributable to the following:

	Assets			Liabilities			Net balance		
	31 December 2012 RMB'000	31 December 2011 RMB'000 (Restated)	1 January 2011 RMB'000 (Restated)	**31 December 2012 RMB'000**	31 December 2011 RMB'000 (Restated)	1 January 2011 RMB'000 (Restated)	**31 December 2012 RMB'000**	31 December 2011 RMB'000 (Restated)	1 January 2011 RMB'000 (Restated)
Impairment losses, primarily receivables and inventories	**80,406**	75,487	55,892	**–**	–	–	**80,406**	75,487	55,892
Revaluation of other investments	**–**	–	–	**(1,058)**	(1,188)	(22,700)	**(1,058)**	(1,188)	(22,700)
Revaluation of property, plant and equipment	**–**	–	–	**(13,937)**	(16,159)	(18,160)	**(13,937)**	(16,159)	(18,160)
Unused tax losses (note (i))	**13,818**	10,414	11,497	**–**	–	–	**13,818**	10,414	11,497
Change in fair value (note (ii))	**–**	–	–	**(5,935)**	(6,138)	(12,241)	**(5,935)**	(6,138)	(12,241)
Unpaid expenses	**110,579**	111,491	85,938	**–**	–	–	**110,579**	111,491	85,938
Deferred tax assets and (liabilities)	**204,803**	197,392	153,327	**(20,930)**	(23,485)	(53,101)	**183,873**	173,907	100,226

Movements in temporary differences for the year ended 31 December 2012 and 2011 are as follows:

The Group

	As at 1 January 2012 RMB'000 (Restated)	**Recognised in the consolidated income statement RMB'000**	**Recognised in shareholders' equity RMB'000**	**As at 31 December 2012 RMB'000**
Impairment losses, primarily for receivables and inventories	**75,487**	**4,919**	**–**	**80,406**
Revaluation of other investments	**(1,188)**	**130**	**–**	**(1,058)**
Revaluation of property, plant and equipment	**(16,159)**	**2,222**	**–**	**(13,937)**
Unused tax losses (note (i))	**10,414**	**3,404**	**–**	**13,818**
Change in fair value (note (ii))	**(6,138)**	**–**	**203**	**(5,935)**
Unpaid expenses	**111,491**	**(912)**	**–**	**110,579**
Deferred tax assets and (liabilities)	**173,907**	**9,763**	**203**	**183,873**
		(note 10(a))		

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26 Deferred tax assets and liabilities (continued)

The Group (continued)

	As at 1 January 2011 RMB'000 (Restated)	Recognised in the consolidated income statement RMB'000 (Restated)	Recognised in shareholders' equity RMB'000 (Restated)	As at 31 December 2011 RMB'000 (Restated)
Impairment losses, primarily for receivables and inventories	55,892	19,595	–	75,487
Revaluation of other investments	(22,700)	–	21,512	(1,188)
Revaluation of property, plant and equipment	(18,160)	2,001	–	(16,159)
Unused tax losses (note (i))	11,497	(1,083)	–	10,414
Change in fair value (note (ii))	(12,241)	–	6,103	(6,138)
Unpaid expenses	85,938	25,553	–	111,491
Deferred tax assets and (liabilities)	100,226	46,066	27,615	173,907
		(note 10(a))		

Notes:

(i) Expiry of recognised tax losses

	2012 RMB'000	2011 RMB'000
Year of expiry		
2013	**–**	3,284
2014	**–**	1,612
2015	**–**	27,608
2016	**9,152**	9,152
2017	**46,118**	–
	55,270	41,656

(ii) As at 31 December 2012, 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 RMB0.20 million (2011: RMB6.10 million) related to the change in fair value of available-for-sale investments was recognised in shareholders' equity.

(iii) As at 31 December 2012, the Group has not recognised deferred tax assets in respect of tax losses of RMB361.1 million (2011: RMB481.5 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 2013 to 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

27 Other non-current assets

Other non-current assets mainly represent the rental prepayments for buildings and equipment.

28 Inventories

	The Group	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Construction materials	**259,219**	326,651
Finished goods	**1,603,775**	1,341,590
Spare parts and consumables	**31,831**	37,400
	1,894,825	1,705,641

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

	The Group	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Carrying amount of inventories consumed and sold	**17,645,654**	16,253,237
Reversal of write-down of inventories	**(3,117)**	(798)
Write-down of inventories	**17,843**	18,160
	17,660,380	16,270,599

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

29 Accounts and bills receivable, net

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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29 Accounts and bills receivable, net (continued)

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

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

(e) Accounts and bills receivable that is not impaired

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

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

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

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

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30 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 2012 are RMB10,093 million (2011: RMB8,427 million (as restated)).

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 2012 are RMB24 million (2011: RMB20 million (as restated)).

31 Prepayments and other current assets

	The Group		**The Company**	
	2012	2011	**2012**	2011
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Advances to staff	**210,911**	230,186	**83**	360
Amounts due from CTC Group and an associate of the Group	**1,316,856**	1,240,284	**96,591**	57,165
Amounts due from subsidiaries	**–**	–	**165,603**	191,137
Prepayments in connection with construction work and equipment purchases	**2,149,850**	2,145,983	**–**	–
Prepaid expenses and deposits	**292,107**	247,782	**1,011**	685
Dividends receivable	**–**	–	**1,088,732**	1,058,970
Others	**803,745**	772,733	**8,600**	–
	4,773,469	4,636,968	**1,360,620**	1,308,317

The amounts due from CTC Group and an associate of the Group are unsecured, interest-free and are expected to be recovered within one year.

32 Restricted deposits

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

33 Cash and cash equivalents

	The Group		**The Company**	
	2012	2011	**2012**	2011
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Cash at bank and in hand	**6,046,031**	6,887,279	**382,455**	100,989
Deposits with banks and other financial institutions	**2,833,460**	493,156	**1,640,610**	27,337
Cash and cash equivalents	**8,879,491**	7,380,435	**2,023,065**	128,326

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.

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34 Interest-bearing borrowings

The Group's and the Company's short-term interest-bearing borrowings comprise:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB denominated				
Borrowings from banks				
– unsecured	**–**	8,000	**–**	–
Loans from ultimate holding company				
– unsecured	**–**	800,000	**–**	800,000
Loans from fellow subsidiaries				
– unsecured	**13,280**	13,280	**–**	–
HKD denominated				
Borrowings from banks				
– unsecured	**185,684**	–	**–**	–
USD denominated				
Borrowings from banks				
– secured	**17,851**	–	**–**	–
– unsecured	**192,990**	177,055	**–**	–
	409,805	998,335	**–**	800,000

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

	The Group		The Company	
	2012	2011	**2012**	2011
RMB denominated				
Borrowings from banks				
– unsecured	**–**	6.06%	**–**	–
Loans from ultimate holding company				
– unsecured	**–**	4.88%	**–**	4.88%
Loans from fellow subsidiaries				
– unsecured	**2.39%**	2.39%	**–**	–
HKD denominated				
Borrowings from banks				
– unsecured	**1.95%**	–	**–**	–
USD denominated				
Borrowings from banks				
– secured	**5.30%**	–	**–**	–
– unsecured	**2.24%–2.46%**	1.55%–3.71%	**–**	–

The Group's long-term interest-bearing borrowings comprise:

	The Group	
	2012	2011
	RMB'000	RMB'000
		(Restated)
USD denominated		
Borrowings from banks		
– secured	**89,883**	131,374

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34 Interest-bearing borrowings (continued)

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

	The Group	
	2012	2011
USD denominated		
Borrowings from banks		
– secured	**5.30%**	5.58%

The Group's and the Company's borrowings were repayable as follows:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Within 1 year	**409,805**	998,335	**–**	800,000
After 1 year but within 2 years	**17,851**	17,851	**–**	–
After 2 years but within 5 years	**53,553**	53,553	**–**	–
After 5 years	**18,479**	59,970	**–**	–
	499,688	1,129,709	**–**	800,000

As at 31 December 2012, certain borrowings from banks of the Group were secured by property, plant and equipment with carrying amount of RMB402 million (2011: RMB424 million (as restated)). Such banking facilities amounted to RMB131 million (2011: RMB131 million (as restated)). The facilities were utilised to the extent of RMB131 million (2011: RMB131 million (as restated)).

As at 31 December 2012, no borrowings from bank were subject to financial covenants.

35 Accounts and bills payable

Accounts and bills payable comprise:

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

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

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

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35 Accounts and bills payable (continued)

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

36 Accrued expenses and other payables

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Wages and welfare payables	**1,480,656**	1,412,381	**17,951**	6,384
Amounts due to fellow subsidiaries (note i)	**770,720**	889,694	**62,772**	33,658
Advances received	**570,401**	714,124	**–**	–
Other taxes payable	**613,507**	451,041	**3,589**	2,590
Special dividend and profit distribution payable to CTC Group (note ii)	**136,365**	114,337	**–**	–
Dividend payable	**30,293**	82,137	**–**	13,721
Payables for construction and purchase of fixed assets	**204,067**	144,478	**–**	–
Others	**2,957,243**	3,045,100	**10,006**	43,801
	6,763,252	6,853,292	**94,318**	100,154

Notes:

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

(ii) Special dividend and profit distribution payable to CTC Group

As disclosed in the Prospectus of the Company dated 27 November 2006, in accordance with the "Provisional Regulation relating to Corporate Restructuring of Enterprises and Related Management of State-owned Capital and Financial Treatment" which was issued by the PRC Ministry of Finance and a resolution passed on 1 November 2006, the directors proposed and the shareholders approved the distribution of profit of the Group for the period from 1 April 2006 to 29 August 2006, being the calendar day immediately preceding to the date of incorporation of the Company. In the same resolution, the directors proposed and the shareholders approved the distribution of profit of the Group for the period from 30 August 2006 to the calendar day immediately preceding the date of its listing on the Stock Exchange (i.e. 7 December 2006) (together, the "2006 special dividend").

Pursuant to a resolution passed at directors' meeting on 17 April 2007, the directors resolved to pay the 2006 special dividend to CTC and its subsidiaries amounting to RMB535 million in total, out of which RMB117 million was directly distributed at the subsidiary level. The Group has paid RMB500 million special dividend to CTC and its subsidiaries by 31 December 2012.

As disclosed in the Circular of the Company dated 20 June 2007, in line with the principles set out in the "Notice of the Forwarding the Implementation Opinions of the state-owned Assets Supervision and Administration Commission about Further Standardisation of the Work Relating to the Reconstruction of State-owned Enterprise" issued by the General Office of the State Council of the PRC, the changes in net assets between the period from 1 February 2007 to 31 August 2007 of the Target Business should be distributed in form of cash to CTC and its subsidiaries amounting to RMB197 million in total, of which RMB122 million has been paid to CTC and its subsidiaries by 31 December 2012.

Pursuant to the Equity Transfer Agreements entered into by the Group and CTC and its subsidiaries on 20 June 2012 in relation to the acquisitions of the Target Interests and SBSS, the net profit or loss made by the Target Interests and SBSS between the period from the respective valuation dates (31 October 2011 for Ningxia Construction and Ningxia Supervision and 30 June 2011 for Xinjiang Planning & Designing and SBSS) to 30 June 2012 (for the Target Interests) and 26 July 2012 (for SBSS) should be distributed in form of cash to CTC and its subsidiaries amounting to RMB26 million in total, of which nil has been paid to CTC and its subsidiaries by 31 December 2012.

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37 Other non-current liabilities

Other non-current liabilities mainly represent the deferred revenue arising from government grants and warranty provisions.

38 Share capital

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

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

On 8 February 2012, the Company issued 398,570,040 H shares on the basis of 2 H rights shares for every 10 existing H shares at a price of HKD3.19 per H rights share, and issued 755,766,360 domestic shares on the basis of 2 domestic rights shares for every 10 existing domestic shares at a price of RMB2.59 per domestic rights share. The total gross proceeds raised under the rights issue were RMB2,991 million, and the net proceeds raised under the rights issue were RMB2,956 million, after deduction of issuing expenses amounted to approximately RMB35 million. The rights issue increased RMB1,154 million of the Company's share capital and RMB1,802 million of the Company's share premium.

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 2012 was 2.4% (2011: 6.5% (as restated)). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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39 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 20% to 22% (2011: 20% 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.

40 Share appreciation rights scheme

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 first phase 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 HKD4.92 per unit.

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 first phase 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 HKD4.53 per unit.

In August 2011, the Company's remuneration committee approved the granting of share appreciation right units to new eligible employees (second batch of first phase share appreciation rights). Under the terms of this grant, 22.6 million share appreciation right units were granted to the employees who became eligible of this incentive plan since April 2009.

In January 2012, the Company's remuneration committee approved the granting of 198.3 million share appreciation right units to eligible employees (the second phase share appreciation rights). Under the terms of this grant, all share appreciation rights have a contractual life of five years from date of grant and an exercise price of HKD3.41 per unit.

A recipient of share appreciation rights cannot exercise the rights in the first 24 months after the date of grant. As at each of the third, fourth and fifth anniversary of the date of grant, the total number of share appreciation rights exercisable cannot in aggregate exceed one-third, two-third and 100%, respectively, of the total share appreciation rights granted to such person.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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40 Share appreciation rights scheme (continued)

In March 2012, the Company's Board of Directors approved the adjustment of the exercise price of the first batch of the first phase share appreciation rights from HKD4.92 per unit to HKD4.66 per unit and of the granted amount to 39.3 million share appreciation right units, and approved the adjustment of the exercise price of the second batch of the first phase share appreciation rights from HKD4.53 per unit to HKD4.28 per unit and of the granted amount to 74.1 million share appreciation right units.

During the year ended 31 December 2012, RMB102 million was charged (2011: RMB63 million credited) to the consolidated income statement arising from the fair value remeasurement of the accrued compensation liability at the balance sheet date. The first and second batches of share appreciation rights have not been fully granted to each eligible employee. As such, compensation expense of the share appreciation rights over the applicable vesting period recognised has not been fully allocated to each eligible employees.

41 Notes to consolidated cash flow statement

(i) Acquisitions of the Target Interests and SBSS in 2012

During the year ended 31 December 2012, the Group acquired entire equity interests of the Target Interests (see note 1) for a total cash consideration of RMB51.07 million, of which RMB50.33 million has paid to CTC and its subsidiaries by 31 December 2012.

During the year ended 31 December 2012, the Group acquired the 51% equity interest of SBSS and all the associated rights and obligations (see note 1) for a total cash consideration of RMB264.60 million, of which RMB264.60 million has been paid to CTC and its subsidiaries by 31 December 2012.

(ii) Disposal of subsidiaries in 2011

	RMB'000
Subsidiary disposal price	244,009
Cash and cash equivalents received from disposal of subsidiary	224,459
Less: cash and cash equivalents balance disposed of	146,354
Net cash inflow from subsidiary disposal of	78,105
Non-cash assets and liabilities of disposed of subsidiary	
Current asset	632,216
Non-current asset	65,524
Current liability	619,406

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

42 Commitments and contingent liabilities

(a) Capital commitments

As at 31 December 2012, the Group and the Company had capital commitments for acquisition and construction of property, plant and equipment and other assets as follows:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Authorised and contracted for	**96,168**	93,431	**2,804**	2,911
Authorised but not contracted for	**94,489**	61,516	**–**	–

(b) Operating lease commitments

As at 31 December 2012, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Within 1 year	**233,698**	188,272
After 1 year but within 5 years	**345,111**	238,955
After 5 years	**90,758**	48,634
	669,567	475,861

The Group leases a number of properties under operating leases. The leases typically run for period of 1 year to 20 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 2012, the Group had no material contingent liabilities and no material financial guarantees issued.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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43 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

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposure to credit risks is monitored on an ongoing basis. Normally, the Group does not obtain collateral from customers.

The Group's major customers are CTC Group and CM Group. The Group has a certain concentration of credit risk as the Group's largest customers accounted for 64% of the total accounts and bills receivable as at 31 December 2012 (2011: 61% (as restated)). The Group has no significant credit risk with any of these customers since the Group maintains long-term and stable business relationships with these large customers in the telecommunications industry.

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

The credit risk on available-for-sale investments arises from loss in value through corporate failure. The Group mitigate the credit risk on available-for-sale investments by closely monitor its portfolio and minimise investments on these assets. The Group's available-for-sale investments are less than 2% of its total assets for both 2012 and 2011.

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 and long-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 34.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

43 Financial risk management and fair values (continued)

(c) Liquidity risk

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

The following tables 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

	2012		2011	
	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)	Balance sheet carrying amount RMB'000 (Restated)
Short-term interest-bearing borrowings (note 34)	**412,145**	**409,805**	1,014,336	998,335
Account and bills payable (note 35)	**14,843,934**	**14,843,934**	12,780,549	12,780,549
Receipt in advance for contract work	**1,386,805**	**1,386,805**	1,166,285	1,166,285
Accrued expenses and other payables (note 36)	**6,763,252**	**6,763,252**	6,853,292	6,853,292
	23,406,136	**23,403,796**	21,814,462	21,798,461

The Company

	2012		2011	
	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
Short-term interest-bearing borrowings (note 34)	**–**	**–**	814,413	800,000
Accrued expenses and other payables (note 36)	**94,318**	**94,318**	100,154	100,154
	94,318	**94,318**	914,567	900,154

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

43 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 respective functional currencies of Group entities. The Group's foreign currency risk exposure relates to the bank deposits and borrowings denominated primarily in United States dollars, Hong Kong dollars, Nigerian Naria, and Saudi Arabian Riyal (see notes 33 and 34).

89.3% (2011: 95.5% (as restated)) of the Group's cash and cash equivalents and 2.7% (2011: 72.7% (as restated)) of the Group's short-term debt and long-term debt as at 31 December 2012 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) 2012					
	United States dollars '000	**Hong Kong dollars '000**	**Nigerian Naira '000**	**Saudi Arabian Riyal '000**	**Ethiopian Birr '000**	**Others '000**
Cash and cash equivalents	**206,503**	**560,110**	**31,797**	**–**	**–**	**1,421**
Accounts receivable	**329,119**	**6,455**	**–**	**–**	**9**	**139,044**
Accounts payable	**(105,913)**	**(4,692)**	**–**	**–**	**–**	**(79)**
Short-term interest-bearing loans	**(210,841)**	**–**	**–**	**–**	**–**	**–**
Long-term interest-bearing loans	**(89,883)**	**–**	**–**	**–**	**–**	**–**
Overall net exposure	**128,985**	**561,873**	**31,797**	**–**	**9**	**140,386**

	Exposure to foreign currencies (expressed in RMB) 2011 (Restated)					
	United States dollars '000	Hong Kong dollars '000	Nigerian Naira '000	Saudi Arabian Riyal '000	Ethiopian Birr '000	Others '000
Cash and cash equivalents	190,898	43,930	31,083	25,475	1,765	40,980
Accounts receivable	412,741	17,311	16,186	–	69,823	180,960
Accounts payable	(369,346)	(12,717)	(12,673)	–	(689)	(116,669)
Short-term interest-bearing loans	(177,055)	–	–	–	–	–
Long-term interest-bearing loans	(131,374)	–	–	–	–	–
Overall net exposure	(73,146)	48,524	34,596	25,475	70,899	105,271

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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43 Financial risk management and fair values (continued)

(d) Currency risk (continued)

Exposure to currency risk (continued)

The Company

	Exposure to foreign currencies (expressed in RMB)			
	2012		2011	
	United States dollars '000	**Hong Kong dollars '000**	United States dollars '000	Hong Kong dollars '000
Cash and cash equivalents	**13**	**528,000**	5	108

The following significant exchange rates applied during the year:

The Group

	Average rate		Spot rate	
	2012	2011	**2012**	2011
United States dollars	**6.29**	6.46	**6.29**	6.30
Hong Kong dollars	**0.81**	0.83	**0.81**	0.81
Nigerian Naira	**0.04**	0.04	**0.04**	0.04
Ethiopian Birr	**0.35**	0.38	**0.34**	0.36
Saudi Arabian Riyan	**1.67**	1.73	**1.66**	1.68

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

		2012			2011 (Restated)	
	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%**	**4,837**	**–**	5%	(3,657)	–
	(5)%	**(4,837)**	**–**	(5)%	3,657	–
Hong Kong dollars	**5%**	**21,070**	**–**	5%	2,426	–
	(5)%	**(21,070)**	**–**	(5)%	(2,426)	–
Nigerian Naira	**5%**	**1,192**	**–**	5%	1,730	–
	(5)%	**(1,192)**	**–**	(5)%	(1,730)	–
Ethiopian Birr	**5%**	**–**	**–**	5%	3,545	–
	(5)%	**–**	**–**	(5)%	(3,545)	–
Saudi Arabian Riyal	**5%**	**–**	**–**	5%	1,274	–
	(5)%	**–**	**–**	(5)%	(1,274)	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

43 Financial risk management and fair values (continued)

(d) Currency risk (continued)

Sensitivity analysis (continued)

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 2011.

(e) Equity price risk

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

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

The Group is also exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of other financial liabilities of the Group. As at the balance sheet date the Group is exposed to this risk through the share appreciation rights scheme issued by the Company as disclosed in note 40.

At 31 December 2012, it is estimated that an increase/(decrease) of 5% (2011: 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 (decreased)/increased the Group's profit after tax (and retained profits) and other components of consolidated equity as follows:

The Group

	2012			2011		
	Increase/ (decrease) in equity price	**Effect on profit after tax and retained profits '000**	**Effect on other components of equity '000**	Increase/ (decrease) in equity price	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%**	**(14,250)**	**1,289**	5%	(4,640)	1,300
Decrease	**(5)%**	**14,250**	**(1,289)**	(5)%	4,640	(1,300)

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 2011.

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(Expressed in Renminbi)

43 Financial risk management and fair values (continued)

(f) Fair value

(i) Financial instruments carried at fair value

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

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

	The Group			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Available-for-sale securities				
– Listed equity securities	34,370	–	–	34,370
Liabilities				
Share appreciation rights	–	132,961	–	132,961

	The Company			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Available-for-sale securities				
– Listed equity securities	–	–	–	–
Liabilities				
Share appreciation rights	–	14,219	–	14,219

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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43 Financial risk management and fair values (continued)

(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.

44 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 30 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

44 Significant accounting estimates and judgements (continued)

(b) Impairment for trade and other receivables

The Group estimates impairment losses for trade and other receivables resulting from the inability of the customers to make the required payments. The Group bases the estimates on the ageing of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

(c) Impairment of long-lived assets

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

(d) Depreciation and amortisation

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

(e) Deferred tax assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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45 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 and the Group's associates

Companies are considered to be related if one company has the ability, directly or indirectly, to control or jointly control the other company or have significant influence over the other company in making financial and operating decisions. Companies are also considered to be related if they are subject to common control.

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

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

	2012	2011
	RMB'000	RMB'000
		(Restated)
Income from related parties:		
Engineering related services (note (i))	**12,431,287**	11,009,010
IT application services (note (ii))	**1,400,908**	1,354,958
Provision of ancillary telecommunications services (note (iii))	**6,151,153**	5,389,628
Provision of operation support services (note (iv))	**2,134,579**	1,903,269
Supplies procurement service (note (v))	**3,898,977**	3,280,890
Property leasing (note (vi))	**62,695**	58,644
Management fee income (note (vii))	**315,634**	309,211
Expenses paid to related parties:		
Property leasing charges (note (viii))	**141,543**	140,157
IT application service charges (note (ix))	**197,471**	164,755
Operation support service charges (note (x))	**571,426**	463,818
Supplies procurement service charges (note (xi))	**2,535,073**	1,638,763
Interest paid (note (xii))	**849**	51,021

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

45 Related parties (continued)

(a) Transactions with CTC Group and the Group's associates (continued)

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 and an associate of the Group.

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

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

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

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

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

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

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

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

Amounts due from/to CTC Group and the Group's associates included in respective balances are summarised as follows:

	2012 **RMB'000**	2011 RMB'000 (Restated)
Accounts and bills receivable, net	**9,599,241**	7,600,352
Prepayments and other current assets	**1,316,856**	1,240,284
Other non-current assets	**–**	3,134
Total amounts due from CTC Group and the Group's associates	**10,916,097**	8,843,770
Interest-bearing borrowings	**13,280**	813,280
Accounts and bills payable	**1,244,697**	812,834
Receipts in advance for contract work	**61,446**	43,642
Accrued expenses and other payables	**907,085**	1,004,031
Total amounts due to CTC Group and the Group's associates	**2,226,508**	2,673,787

As at 31 December 2012, the Group has recognised impairment losses of RMB8 million (2011: RMB7 million) for bad and doubtful debts in respect of amounts due from CTC Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

45 Related parties (continued)

(a) Transactions with CTC Group and the Group's associates (continued)

As at 31 December 2012, the Group has capital commitments to CTC Group for acquisition and construction of property, plant and equipment and other assets as follows:

	2012	2011
	RMB'000	RMB'000
Authorised and contracted for	**2,804**	6,545

As at 31 December 2012, the Group total future minimum lease payments to CTC Group under non-cancellable operating leases were payable as follows:

	2012	2011
	RMB'000	RMB'000
		(Restated)
Within 1 year	**69,847**	43,587
After 1 year but within 5 years	**143,119**	69,560
After 5 year	**74,595**	31,687
	287,561	144,834

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

In connection with the Restructuring, the Company and CTC entered into a number of agreements effective as at November 16, 2006 to take up the existing agreements signed between the Predecessor Operations and CTC as set out in items (1), (2) and (3) below, together with a new agreement governing the provision of headquarter management function by the Company as set out in item (4). After the Company acquired the Target Business in 2007, these agreements were amended by way of the 2008 Supplemental Agreement, pursuant to which the terms of the Agreements were renewed to 31 December 2010. On 29 October 2009, the Company entered into the Supplies Procurement Services Framework Agreement as set out in item (5) below. On 9 November 2010, these agreements were amended by way of 2010 Supplement Agreement, pursuant to which the terms of the Agreements were renewed to 31 December 2012. On 14 November 2011, the Company announced to propose the increase of annual caps for service charges payable to CTC Group under the Supplies Procurement Services Framework Agreement to RMB2,100 million and RMB2,600 million respectively, for the two years ending 31 December 2011 and 2012. On 20 September 2012, the Company announced to propose the increase of annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under Operation Support Services Framework Agreement for the year ending 31 December 2012 to RMB2,300 million and to RMB600 million, respectively, and the annual cap for the service charges receivable by the Company from CTC Group under the Supplies Procurement Services Framework Agreement for the year ending 31 December 2012 to RMB4,400 million. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

45 Related parties (continued)

(a) Transactions with CTC Group and the Group's associates (continued)

(3) The Group has entered into operation support services agreements for facilities management, advertising, conferencing, logistics, cultural, educational, hygiene and other community services with CTC. In addition, the Group has entered into ancillary services agreements with CTC. The ancillary services provided to CTC Group include repairs and maintenance of telecommunications equipment and facilities and certain customer services. Pursuant to these agreements, the Group charges CTC Group, and vice versa, for these services in accordance with the following terms:

- government prescribed price;
- where there is no government prescribed prices but where there is a government guided price, the government guided price will apply;
- where there is neither a government prescribed price nor a government guided price, the market price will apply; and
- where none of the above is available, the pre is to be agreed between the relevant parties, which shall be based on the cost incurred in providing the services plus a reasonable profit margin.

(4) The Group has entered into agreement with CTC pursuant to which the Group takes up the role as headquarter management function to manage assets of the telecommunications support business of provinces, municipalities and autonomous regions ("Centralised Services") including Ningxia, Tibet and any assets retained by CTC after the Restructuring and acquisition of Target Business. The aggregate administrative costs incurred by the Group for the provision of the centralised services are apportioned pro rata between the Group and CTC Group according to the net asset ratio of each of the relevant party.

(5) The Group has entered into Supplies Procurement Services Framework agreement for procurement of telecommunication and non – telecommunication supplies, agency services of supplies procurement, sales of telecommunication supplies and management of biddings, verification of technical specifications, warehousing transportation and installation service. Pursuant to the agreement, the Group charges CTC Group for these services in accordance with the following terms:

- maximum 1% of the contract value for procurement services on imported telecommunication supplies;
- maximum 3% of the contract value for procurement services on domestic telecommunication and non-telecommunication supplies and materials;
- government prescribed price;
- where there is no government prescribed prices but where there is a government guided price, the government guided price will apply;
- where there is neither a government prescribed price nor a government guided price, the market price will apply; and
- where none of the above is available, the pre is to be agreed between the relevant parties, which shall be based on the cost incurred in providing the services plus a reasonable profit margin.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

45 Related parties (continued)

(a) Transactions with CTC Group and the Group's associates (continued)

(6) On 10 April 2011, the Company, through Zhejiang Communications Services Company Limited ("Zhejiang CCS"), a direct wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with the Difo Telecommunications Group Limited ("Difo Telecom"), an indirect wholly-owned subsidiary of China Telecom pursuant to which Zhejiang CCS agrees to sell, and the Difo Telecom agrees to acquire 100% equity interest in Zhejiang Nantian Post and Communications Technology Company Limited ("Zhejiang Nantian") for a total consideration of RMB194 million payable in cash. After the completion of the Disposal, Zhejiang Nantian ceased to be a subsidiary of the Company. Difo Telecom is an indirect wholly-owned subsidiary of China Telecom which is the controlling shareholder of the Company, so Difo Telecom was a connected person of the Company under the Listing Rules. Accordingly, the disposal constituted a connected transaction of the Company. The Company has complied with the relevant Listing Rules requirements in respect of such connected transaction and made corresponding announcement on 11 April 2011.

On 5 September 2011, Tianxun Ruida Communications Technology Company Limited ("Tianxun Ruida"), an indirectly wholly-owned subsidiary of the Company, entered into the Asset and Business Acquisition Agreement with E-Surfing Electronic Commerce Company Limited ("E-Surfing Electronic"), an indirectly wholly-owned subsidiary of China Telecom. Pursuant to the Asset and Business Acquisition Agreement, Tianxun Ruida will sell, and E-Surfing Electronic will acquire the assets and business in relation to the payment business of Tianxun Ruida, which include all the assets, liabilities, rights and obligations associated with the payment business, for a total consideration of RMB15 million payable in cash, subject to adjustment. E-Surfing Electronic is an indirect wholly-owned subsidiary of China Telecom which is the controlling shareholder of the Company, so E-Surfing Electronic was a connected person of the Company under the Listing Rules. Accordingly, the disposal constituted a connected transaction of the Company. The Company has complied with the relevant Listing Rules requirements in respect of such connected transaction and made corresponding announcement on 5 September 2011.

On 29 November 2011, Hongbo Information Company Limited ("Hongbo Information"), an indirectly wholly-owned subsidiary of the Company, entered into the Video Business and Asset Acquisition Agreement with E-Surfing Video Media Company Limited ("E-Surfing Video"), an indirect subsidiary of China Telecom, pursuant to which, Hongbo Information has agreed to sell, and E-Surfing Video has agreed to acquire, the target video business and asset for a total consideration of RMB32 million, subject to adjustment. E-Surfing Video is an indirect wholly owned subsidiary of China Telecom which is the controlling shareholder of the Company, so E-Surfing Video was a connected person of the Company under the Listing Rules. Accordingly, the disposal constituted a connected transaction of the Company. The Company has complied with the relevant Listing Rules requirements in respect of such connected transaction and made corresponding announcement on 29 November 2011.

On 8 December 2011, the Company entered into the Equity Transfer Agreement with Hunan Telecommunications Industrial (Group) Company Limited ("Hunan Industrial"), a wholly-owned subsidiary of China Telecom pursuant to which, the Company has agreed to sell, and Hunan Industrial has agreed to acquire 100% equity interest in the Hunan New Nantian Real Property Company Limited, a wholly-owned subsidiary of the Company, for a total consideration of RMB40 million. Hunan Industrial is an indirect wholly-owned subsidiary of China Telecom which is the controlling shareholder of the Company, so Hunan Industrial was a connected person of the Company under the Listing Rules. Accordingly, the disposal constituted a connected transaction of the Company. The Company has complied with the relevant Listing Rules requirements in respect of such connected transaction and made corresponding announcement on 8 December 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

45 Related parties (continued)

(a) Transactions with CTC Group and the Group's associates (continued)

(7) On 20 June 2012, the Company entered into a series of equity transfer and asset acquisition agreements with CTC's subsidiaries (the "Transferors") to acquire (i) the Target Interests and SBSS (as defined in note 1(b)); (ii) certain assets owned by Ningxia Telecom Industrial; and (iii) certain assets owned by Guangdong Telecom Industrial and/or its subsidiary for a total consideration of RMB416 million. As the Transferors are all subsidiaries of China Telecom which is the controlling shareholding of the Company, so the Transferors are connected persons of the Company under the Listing Rules. Accordingly, the equity transfers and asset acquisitions constituted connected transactions of the Company. The Company has complied with the relevant Listing Rules requirements in respect of such connected transactions and made corresponding announcement on 20 June 2012.

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

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

Apart from transactions with parent company and its affiliates (note 45(a)), the Group has collectively, but not individually significant transactions with other government-related entities, which include but are not limited to the following:

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

45 Related parties (continued)

(c) Transactions with key management personnel

Remuneration for key management personnel, including amounts paid to the Company's directors and supervisors as disclosed in note 12 and certain of the highest paid employees as disclosed in note 13, is as follows:

	2012 RMB'000	2011 RMB'000
Salaries and other emoluments	**5,265**	4,108
Retirement benefits	**2,183**	1,583
Bonuses	**14,596**	9,680
	22,044	15,371

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

(d) Contributions to defined contribution retirement plans

In accordance with the labour regulations of the PRC, the Group participates in various defined contribution retirement schemes organised by the municipal and provincial governments for its employees. The Group is required to make contributions to the retirement schemes at rates ranging from 20% to 22% of the salaries, bonuses and certain allowances of the employees. A member of the scheme is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date. The Group has no other material obligation for the payment of pension benefits associated with these schemes beyond the annual contributions described above.

As at 31 December 2012 and 2011, there was no material outstanding contribution to post-employment benefit plans.

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

(e) Applicability of the Listing Rules relating to connected transactions

The related party transactions disclosed in note 45(a) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The applicable disclosures required by Chapter 14A of the Listing Rules are provided in the "Connected Transactions" and "Continuing Connected Transactions" sections of the report of the directors on pages 67 to 74.

46 Segment reporting

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

47 Distributable reserves

The movements of shareholders' equity of the Company for 2012 is as follows:

	Share capital RMB'000 (note 38)	Share premium RMB'000 (note i)	Capital reserve RMB'000 (note ii)	Statutory surplus reserve RMB'000 (note iii)	Retained earnings RMB'000	Total RMB'000
At 1 January 2012	5,771,682	2,727,647	2,002,418	428,707	1,197,356	12,127,810
Issuance of shares (see note 38)	1,154,336	1,801,663	–	–	–	2,955,999
Consideration for the acquisition of SBSS (see note 1)	–	–	(34,067)	–	–	(34,067)
Profit for the year	–	–	–	–	1,126,723	1,126,723
Distribution of dividend (see note 15(b))	–	–	–	–	(846,359)	(846,359)
Appropriation	–	–	–	112,672	(112,672)	–
At 31 December 2012	6,926,018	4,529,310	1,968,351	541,379	1,365,048	15,330,106

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.

	2012 RMB'000	2011 RMB'000
At 31 December	**357,138**	305,805

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

Notes:

(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 and 2012 (see note 38) respectively.

(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 and subsequent common control acquisition in 2009 and 2012. As a result of adoption of amendment to IFRS 1 in 2011, the capital reserve has been restated.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi)

48 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ended 31 December 2012

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2012 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to IAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
IFRS 10, *Consolidated financial statements*	1 January 2013
IFRS 11, *Joint arrangements*	1 January 2013
IFRS 12, *Disclosure of interests in other entities*	1 January 2013
IFRS 13, *Fair value measurement*	1 January 2013
IAS 27, *Separate financial statements (2011)*	1 January 2013
IAS 28, *Investments in associates and joint ventures*	1 January 2013
Revised IAS 19, *Employee benefits*	1 January 2013
Amendments to IFRS 7, *Financial instruments: Disclosures – Disclosures – Offsetting financial assets and financial liabilities*	1 January 2013
Amendments to IFRS 1, *First-time adoption of International Financial reporting Standards – Government loans*	1 January 2013
Annual Improvements to IFRSs – 2009-2011 Cycle	1 January 2013
Amendments to IFRS 10, *Consolidated financial statements,* IFRS 11, *Joint arrangements* and IFRS 12, *Disclosure of interests in other entities – Transition guidance*	1 January 2013
Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*	1 January 2014
Amendments to IAS 32, *Financial instruments: Presentation – Offsetting financial assets and financial liabilities*	1 January 2014
IFRS 9, *Financial instruments*	1 January 2015
Amendments to IFRS 9, *Financial instruments* and IFRS 7, *Financial instruments: Disclosures – Mandatory effective date and transition disclosures*	1 January 2015

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.

The application of IFRS 10 is not expected to change any of the control conclusions reached by the group in respect of its involvement with other entities as at 1 January 2013. However, it may in the future result in investees being consolidated which would not have been consolidated under the Group's existing policies or vice versa.

49 Immediate and ultimate controlling party

At 31 December 2012, 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.

50 Comparative figures

Certain comparative figures have been adjusted as a result of the acquisitions of the Target Interests and SBSS in 2012. Further details are disclosed in note 1.

FINANCIAL SUMMARY

(Amounts in thousands, except per share data)

	For the five years ended 31 December				
	2012	2011	2010	2009	2008
	RMB	RMB	RMB	RMB	RMB
		(Note 3)	(Note 2&3)	(Note 2&3)	(Note 1&2&3)
Results					
Revenue from telecommunications infrastructures services	**28,413,360**	25,377,847	21,881,864	19,762,362	15,779,110
Revenue from business process outsourcing services	**26,304,137**	22,325,184	18,508,424	15,954,982	13,755,609
Revenue from applications, content and others	**6,799,878**	6,077,096	5,272,263	4,266,546	3,932,119
Total Revenues	**61,517,375**	53,780,127	45,662,551	39,983,890	33,466,838
Depreciation and amortization	**(439,095)**	(430,290)	(397,591)	(388,110)	(371,825)
Direct personnel costs	**(9,229,460)**	(8,517,004)	(7,502,935)	(7,115,485)	(6,001,001)
Purchase of materials and telecommunications products	**(17,645,654)**	(16,253,237)	(13,560,958)	(12,393,848)	(11,256,929)
Subcontracting charges	**(18,447,867)**	(14,528,052)	(11,887,623)	(9,311,553)	(7,117,159)
Operating lease charges and others	**(5,969,932)**	(5,470,054)	(4,854,272)	(4,312,924)	(3,297,549)
Cost of revenues	**(51,732,008)**	(45,198,637)	(38,203,379)	(33,521,920)	(28,044,463)
Gross profit	**9,785,367**	8,581,490	7,459,172	6,461,970	5,422,375
Other operating income	**851,336**	684,821	631,825	525,582	515,327
Selling, general and administrative expenses	**(7,514,881)**	(6,464,571)	(5,674,824)	(4,738,380)	(3,947,433)
Other operating expenses	**(69,258)**	(64,408)	(71,983)	(77,806)	(70,897)
Deficit on revaluation of property, plant and equipment	**–**	–	–	–	–
Net financing income	**(26,030)**	(64,556)	(57,803)	(92,097)	(176,405)
Share of profits less (losses) of associates	**4,844**	(2,600)	3,126	1,571	2,161
Negative goodwill	**–**	–	–	–	–
Profit before tax	**3,031,378**	2,670,176	2,289,513	2,080,840	1,745,128
Income tax	**(585,514)**	(538,778)	(461,750)	(432,778)	(403,013)
Profit for the year	**2,445,864**	2,131,398	1,827,763	1,648,062	1,342,115
Attributable to:					
Equity shareholders of the Company	**2,406,792**	2,129,212	1,820,506	1,616,447	1,318,314
Non-controlling interests	**39,072**	2,186	7,257	31,615	23,801
Profit for the year	**2,445,864**	2,131,398	1,827,763	1,648,062	1,342,115
Basic and diluted earnings per share (RMB)	**0.353**	0.358	0.306	0.272	0.225

FINANCIAL SUMMARY

(Amounts in thousands, except per share data)

	At 31 December				
	2012	2011	2010	2009	2008
	RMB	RMB	RMB	RMB	RMB
		(Note 3)	(Note 2&3)	(Note 2&3)	(Note 1&2&3)
Financial condition					
Property, plant and equipment, net	**4,517,754**	4,495,582	4,223,420	4,071,432	3,818,559
Other non-current assets	**3,306,161**	3,093,541	3,012,928	2,534,419	2,596,147
Inventories	**1,894,825**	1,705,641	1,839,009	1,665,474	1,188,927
Accounts and bills receivables, net	**21,321,955**	17,323,211	12,943,390	10,513,532	9,530,408
Prepayments and other current assets	**4,773,469**	4,636,968	3,975,362	3,148,469	2,981,594
Cash and cash equivalents	**8,879,491**	7,380,435	8,570,349	9,051,954	8,726,264
Restricted deposits	**266,979**	320,039	269,099	160,526	178,312
Total assets	**44,960,634**	38,955,417	34,833,557	31,145,806	29,020,211
Interest-bearing borrowings	**409,805**	998,335	1,780,523	1,268,280	2,063,047
Accounts and bills payable	**14,843,934**	12,780,549	9,809,836	8,918,367	7,850,195
Receipts in advance for contract work	**1,386,805**	1,166,285	1,089,174	1,091,715	827,147
Accrued expenses and other payables	**6,763,252**	6,853,292	6,597,266	5,582,089	4,859,350
Income tax payable	**309,761**	305,717	285,618	195,563	191,040
Non-current liabilities	**244,918**	215,015	54,333	60,768	105,896
Total liabilities	**23,958,475**	22,319,193	19,616,750	17,116,782	15,896,675
Equity attributable to shareholders of the Company	**20,502,739**	16,284,108	14,864,494	13,709,638	12,745,820
Non-controlling interests	**499,420**	352,116	352,313	319,386	377,716
Total equity	**21,002,159**	16,636,224	15,216,807	14,029,024	13,123,536
Total liabilities and equity	**44,960,634**	38,955,417	34,833,557	31,145,806	29,020,211

Note 1: On 26 May 2009, the Group acquired the Target Business from CTC. Since the Group and the Target Business are under common control of CTC, the Target Business 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 Business have been accounted for at historical costs and the consolidated financial statements of the Company prior to the acquisition of the Target Business have been restated to include the results of operations and assets and liabilities of the Target Business on a combined basis. Our financial summary of 2008 has been restated to include the results and financial condition of the Target Business in the relevant period.

Note 2: As a result of the amendment to IFRS 1, the Group has retrospectively adjusted the amounts reported for previous periods in the respective IFRS financial statements to be consistent with the retrospective recognition of property, plant and equipment, investment properties, lease prepayment, other intangible assets and other investments assumed during the Restructuring and acquired during the acquisition of Target Business at their deemed cost in the respective first IFRS financial statements based on the results of valuations, with consequential adjustments for depreciation and amortisation charged in subsequent periods.

Note 3: On 30 June 2012 and 26 July 2012, the Group acquired the Target Interests and SBSS from CTC. Since the Group, the Target Interests and SBSS are under common control of CTC, the Target Interests and SBSS 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 and SBSS have been accounted for at historical costs and the consolidated financial statements of the Company prior to the acquisition of the Target Interests and SBSS have been restated to include the results of operations and assets and liabilities of the Target Interests and SBSS on a combined basis. Our financial summary from 2008 to 2011 have been restated to include the results and financial condition of the Target Interests and SBSS in the relevant period.

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