中国通信服务
CHINA COMSERVICE

CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED
中國通信服務股份有限公司

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

GLOBAL OFFERING

Joint Global Coordinators and Joint Bookrunners

Goldman Sachs

CICC
CHINA INTERNATIONAL CAPITAL CORPORATION LIMITED

Joint Sponsors and Joint Lead Managers

CICC
CHINA INTERNATIONAL CAPITAL CORPORATION (HONG KONG) LIMITED

Goldman Sachs

IMPORTANT: If you are in any doubt about any of the contents of this prospectus, you should seek independent professional advice.

中国通信服务
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中 國 通 信 服 務 股 份 有 限 公 司
CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

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

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	**:**	**1,291,293,000 H Shares (subject to adjustment and the Over-Allotment Option)**
Number of International Offer Shares	**:**	**1,162,161,000 H Shares (subject to adjustment and the Over-Allotment Option)**
Number of Hong Kong Offer Shares	**:**	**129,132,000 H Shares (subject to adjustment)**
Maximum Offer Price	**:**	**HK$2.20 per Offer Share payable in full on application in Hong Kong dollars, subject to refund, plus 1% brokerage, SFC transaction levy of 0.004% and a Hong Kong Stock Exchange trading fee of 0.005%**
Nominal value	**:**	**RMB1.00 each**
Stock code	**:**	**552**

Joint Global Coordinators and Joint Bookrunners

Goldman Sachs

Goldman Sachs (Asia) L.L.C.

CICC
CHINA INTERNATIONAL CAPITAL CORPORATION LIMITED

China International Capital Corporation Limited

Joint Sponsors and Joint Lead Managers

CICC
CHINA INTERNATIONAL CAPITAL CORPORATION (HONG KONG) LIMITED

China International Capital Corporation (Hong Kong) Limited

Goldman Sachs

Goldman Sachs (Asia) L.L.C.

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix IX to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Hong Kong Companies Ordinance. The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around December 1, 2006 and, in any event, not later than December 5, 2006. The Offer Price will be not more than HK$2.20 and is currently expected to be not less than HK$1.70.

The Joint Global Coordinators (on behalf of the Underwriters, and with our consent) may reduce the number of Offer Shares and/or the indicative offer price range below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. Further details are set forth in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares".

If, for whatever reason, we and the Joint Global Coordinators are not able to agree on the Offer Price, the Global Offering (including the Hong Kong Public Offering) will not proceed.

We are incorporated, and substantially all of our businesses are located, in the People's Republic of China ("PRC"). Potential investors should be aware of the differences in the legal, economic and financial systems between the mainland of the PRC and Hong Kong, and that there are different risk factors relating to investment in PRC-incorporated companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong, and should take into consideration the different market nature of our Shares. Such differences and risk factors are set forth in the sections headed "Risk Factors", "Industry and Regulatory Overview", Appendix VI — "Summary of Principal Legal and Regulatory Provisions" and Appendix VII — "Summary of Articles of Association".

November 27, 2006

Latest time to lodge **WHITE** and **YELLOW** Application Forms . . . . 12:00 noon on Thursday, November 30, 2006

Latest time to give **electronic application instructions** to HKSCC[2] . . . . 12:00 noon on Thursday, November 30, 2006

Application lists open[3] . . . . 11:45 a.m. on Thursday, November 30, 2006

Application lists close . . . . 12:00 noon on Thursday, November 30, 2006

Expected Price Determination Date . . . . Friday, December 1, 2006

Announcement of:

- the Offer Price
- the level of indication of interest in the International Offering
- the level of applications in the Hong Kong Public Offering
- the basis of allocation of the Hong Kong Offer Shares

to be published in the *South China Morning Post* (in English) and the *Hong Kong Economic Times* (in Chinese) on or before . . . . Thursday, December 7, 2006

H Share certificates in respect of wholly or partially successful applications to be dispatched on or before[4] . . . . Thursday, December 7, 2006

Refund cheques in respect of wholly or partially unsuccessful applications to be dispatched on or before[4][5] . . . . Thursday, December 7, 2006

Dealings in H Shares on the Hong Kong Stock Exchange expected to commence on . . . . Friday, December 8, 2006

(1) All times refer to Hong Kong local time.

(2) Applicants who apply for Hong Kong Offer Shares by giving electronic application instructions to HKSCC should refer to the section headed "How to Apply for Hong Kong Offer Shares — III. Applying by Giving Electronic Application Instructions to HKSCC".

(3) If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, November 30, 2006, the application lists will not open on that day. See the paragraph headed "6. Effect of bad weather conditions on the opening of the application lists" in the section headed "How to Apply for Hong Kong Offer Shares".

(4) **H Share certificates will become valid certificates of title only if the Hong Kong Public Offering has become unconditional in all respects and neither the Hong Kong Underwriting Agreement nor the International Purchase Agreement has been terminated in accordance with their respective terms. Investors who trade the H Shares on the basis of publicly available allocation details prior to the receipt of H Share certificates or prior to the H Share certificates becoming valid certificates of title do so entirely at their own risk.**

For details of the structure of the Global Offering, including its conditions, see the section headed "Structure of the Global Offering."

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by China Communications Services Corporation Limited solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorized by us, the Joint Global Coordinators, the Joint Sponsors, the Underwriters, any of their respective directors, or any other person or party involved in the Global Offering. Please note that the totals set forth in the tables in this prospectus may differ from the sum of individual items in such tables due to rounding.

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This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in our H Shares.

There are risks associated with any investment. Some of the particular risks in investing in our H Shares are set forth in the section headed "Risk Factors". You should read that section carefully before you decide to invest in our H Shares.

OVERVIEW

We are a leading integrated provider of specialized telecommunications support services to telecommunications operators in the PRC. We offer telecommunications infrastructure ("TIS") services, including design, construction and project supervision and management, business process outsourcing ("BPO") services, and applications, content and other ("ACO") services. All five major telecommunications operators in the PRC, namely, China Telecom, China Mobile, China Unicom, China Netcom, and China Railcom, are our customers. We also provide services to telecommunications equipment manufacturers and large corporates in the PRC.

Our principal business covers the following three areas:

- *TIS services*. We offer a range of telecommunications infrastructure services, including design, construction and engineering, and project supervision and management for telecommunications network infrastructure related projects.

- *BPO services*. We offer a range of BPO services for telecommunications operators, including network maintenance, facilities management, and distribution of telecommunications services and products.

- *ACO services*. We offer a variety of value added telecommunications and information technology services, including system integration, Internet services, and value added voice services, as well as other services.

For the three years ended December 31, 2003, 2004, and 2005, and the six months ended June 30, 2006, our revenue was RMB10,917 million, RMB12,249 million, RMB13,232 million and RMB6,372 million, respectively.

We have established relationships with the major telecommunications operators in China and our key customers include China Telecom, China Mobile, and China Unicom. For the year ended December 31, 2005 and the six months ended June 30, 2006, our revenue from the provision of services to these three major customers was approximately RMB8,289 million and RMB4,188 million, respectively, representing approximately 62.7% and 65.7% of our total revenue. China Telecom is our single largest customer by revenue, and revenue from China Telecom represented approximately 45.2% and 51.2% of our total revenue for the year ended December 31, 2005 and the six months ended June 30, 2006, respectively.

We are ranked among the top service providers in a number of our key businesses. For example, based on the most recent industry statistics available, two of our design institutes were ranked by the Ministry of Construction among the top five telecommunications design companies in the PRC in 2004; we have eight out of 11 top-two tier construction qualifications and six out of 11 top-two tier project supervision and management qualifications in our Primary

Service Regions, based on statistics published by the MII. Over the period from 2003 to 2005, we received more than 100 awards for telecommunications design, construction or project supervision and management services from the MII and provincial telecommunications administrations.

Our business operations have historically been conducted as part of the functions of the former MPT (now the MII). Prior to the restructuring of the telecommunications industry in the PRC starting in 1998, the MPT dominated the telecommunications industry in the PRC and provided specialized telecommunications support services. Following the restructuring of the PRC telecommunications industry, our operations were conducted as part of the overall business of the predecessor of China Telecom, together with China Telecom Listco's current telecommunications operator businesses. Our Company was subsequently formed following a separation from China Telecom and restructuring, with China Telecom Group as the controlling shareholder.

We are headquartered in Beijing, the PRC. Our business activities are conducted primarily in our Primary Service Regions in Shanghai municipality, and Zhejiang, Fujian, Hubei, Guangdong, and Hainan provinces. We also provide our services in other regions in the PRC as well as overseas.

OUR COMPETITIVE STRENGTHS

We believe that we possess the following principal competitive strengths:

- Market leading integrated services for PRC telecommunications operators.
- Established customer relationships and deep understanding of customer requirements.
- Top tier technical and business qualifications and ability to offer first class services.
- Strong customer base with key customers as shareholders.
- Robust financial position to drive expansion and growth.
- Experienced management and staff with sound industry knowledge, management skills and technical know-how.

OUR STRATEGY

We intend to maintain and strengthen our market leading position in our Primary Service Regions, and to pursue select opportunities in the PRC and overseas markets. The key components of our strategy are:

- Consolidate our existing customer base through providing customized and differentiated integrated solutions.
- Develop strong 3G capabilities.
- Expand into new businesses and new markets.
- Improve operational efficiencies and effectively control operating costs.
- Strengthen our competitive position through selective acquisitions.

RISK FACTORS

There are certain risks relating to an investment in the Offer Shares. These risks can be categorized into (i) risks relating to our business; (ii) risks relating to the industries in which we operate; (iii) risks relating to the PRC; and (iv) risks relating to the Global Offering. These risks are further described in the section headed "Risk Factors" and are listed below:

Risks Relating to Our Business

- We rely substantially on a few key customers, deriving a significant portion of our revenue from them.
- We will continue to engage in connected transactions with China Telecom, including China Telecom Listco.
- Our business is highly reliant on the level of activity and trends in the telecommunications industry in the PRC.
- Our controlling shareholder, China Telecom Group, will continue to have substantial influence over our company.
- We have only recently been established following a restructuring of our management, business and organizational structure.
- We face increasing competition in the business areas in which we operate. Our competitors may develop the expertise, experience and resources to provide similar or better services at more competitive prices.
- We face risks inherent in our growth strategy.
- We face a number of uncertainties in relation to the rollout of 3G in the PRC, and the increase in demand for 3G-related services may not materialize as expected.
- We are subject to legal and business risks if we fail to obtain or renew the qualifications and licences which enable us to conduct our business.
- Our business requires significant working capital in order to provide our services to our customers.
- The lessors do not possess valid title to certain of our leased properties.
- Our dividend distributions to our existing shareholders made prior to the completion of the Global Offering should not be treated as indicative of our Company's future dividend policy. These dividend distributions before the listing may adversely impact the total value of our assets and your investment.
- The actual amount of the pre-Global Offering dividend to be distributed to China Telecom Group and its relevant subsidiaries could be greater than the estimated amount disclosed in this prospectus.
- If we lose one or more of our key personnel without obtaining adequate replacements in a timely manner or if we are unable to retain and recruit skilled personnel, our operations could become disrupted and the growth of our business could be delayed or restricted.

Risks Relating to the Industries in which We Operate

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

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

Risks Relating to the PRC

- China's economic, political and social conditions, as well as government policies, could affect our business.

- Interpretation and enforcement of PRC laws and regulations involve uncertainty.

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

- Government control of currency conversion and future fluctuation of Renminbi exchange rates could have a material adverse effect on our financial condition and results of operations, and may reduce the value of, and dividends payable on, our H Shares in foreign currency terms.

- The outbreak of Severe Acute Respiratory Syndrome, or SARS, and the potential outbreak of avian flu in the PRC, and concerns over the spread of these diseases in Asia and elsewhere have caused, and may continue to cause, damage to economies, financial markets and business activities in the PRC and elsewhere.

- Holders of H Shares may become subject to PRC taxation.

- Payment of dividends is subject to restrictions under PRC law.

- The effect of recent amendments to the PRC Securities Law and the PRC Company Law may be uncertain because there are few examples of their application.

- We cannot guarantee the accuracy of facts and statistics derived from PRC official government publications with respect to the PRC, the PRC economy and the PRC telecommunications industry contained in this prospectus, and investors should not place undue reliance on them.

Risks Relating to the Global Offering

- An active trading market for our H Shares may not develop, and the liquidity and market price of our H Shares may be volatile.

- Because the initial public offering price of the H Shares is higher than the net tangible asset value per share, you will incur immediate dilution.

- Sales, or perceived sales, of substantial amounts of H Shares in the public market after the Global Offering could decrease the value of your investment.

- Disposal of H Shares to be retained by the SSF following our listing may result in an increase of the number of H Shares available on the market and may affect the price of our H Shares.

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

- You should not place any reliance on any information contained in press articles or other media regarding us and the Global Offering.

SUMMARY HISTORICAL COMBINED FINANCIAL INFORMATION

You should read the summary historical combined financial information set forth below in conjunction with our combined financial statements, including the notes thereto, included in the Accountants' Report set forth in Appendix I, which are prepared in accordance with IFRS. The summary historical combined results for the years ended December 31, 2003, 2004 and 2005 and the six months ended June 30, 2006 set forth below are derived from our combined financial statements that have been audited by KPMG and included in the Accountants' Report set forth in Appendix I. The summary historical combined income statement data for the six months ended June 30, 2005 set forth below is derived from our unaudited combined financial statements, which has been reviewed by KPMG and included in the Accountants' Report set forth in Appendix I.

	For the year ended December 31,			For the six months ended June 30,	
	2003	2004	2005	2005	2006
				(unaudited)	
	(RMB in thousands)[1]				
Summary Historical Combined Income Statement Data					
Revenues	10,917,264	12,248,828	13,232,291	5,770,191	6,372,225
Cost of revenues	(8,638,904)	(9,874,637)	(10,544,380)	(4,628,677)	(5,207,579)
Gross profit	2,278,360	2,374,191	2,687,911	1,141,514	1,164,646
Other operating income	94,260	164,494	115,672	74,482	81,290
Selling, general and administrative expenses	(1,619,517)	(1,733,861)	(1,951,122)	(827,193)	(791,252)
Other operating expenses	(24,715)	(31,751)	(21,066)	(10,026)	(2,976)
Deficit on revaluation of property, plant and equipment	–	–	–	–	(105,299)
Net financing income	39,311	42,643	38,403	16,155	7,657
Share of profits less (losses) of associates	6,508	5,442	11,687	6,759	(1,085)
Negative goodwill	62,526	43,299	159,499	159,378	4,039
Profit before tax	836,733	864,457	1,040,984	561,069	357,020
Income tax	(262,793)	(273,960)	(260,482)	(157,483)	(147,197)
Profit for the year/period	573,940	590,497	780,502	403,586	209,823
Attributable to:					
Equity owner	458,436	525,619	597,556	273,204	194,083
Minority interests	115,504	64,878	182,946	130,382	15,740
Profit for the year/period	573,940	590,497	780,502	403,586	209,823
Basic and diluted earnings per share[2]	0.116	0.133	0.151	0.069	0.049

(1) Except for per share numbers which are presented in RMB.

(2) The calculation of earnings per share is based on the net profit attributable to equity owner of each period presented on the assumption that 3,960,000,000 Shares, representing the number of Shares of our Company outstanding immediately before the Global Offering, had been in issue as at January 1, 2003. We had no dilutive potential shares outstanding for all periods presented.

FORECAST FOR THE YEAR ENDING DECEMBER 31, 2006[(1)]

Forecast profit attributable to shareholders of the Company[(2)] for the year ending December 31, 2006 not less than	RMB650 million
Forecast earnings per Share	
(a) Pro forma fully diluted[(3)]	RMB0.12 (HK$0.12)
(b) Weighted average[(4)]	RMB0.16 (HK$0.16)

(1) All statistics in this table are based on the assumption that the Over-Allotment Option is not exercised.

(2) The bases on which the above profit forecast has been prepared are set out in Appendix III and includes a non-recurring deficit on a revaluation of property, plant and equipment of RMB105.3 million. If such deficit is excluded, the forecast profit attributable to shareholders of the Company will not be less than RMB755 million.

(3) The calculation of the forecast earnings per Share on a pro forma fully diluted basis is based on the forecast profit attributable to shareholders of the Company, including a non-recurring deficit on a revaluation of property, plant and equipment of RMB105.3 million, for the year ending December 31, 2006, assuming that we had been listed since January 1, 2006 and a total of 5,251,293,000 Shares were issued and outstanding during the entire year. This calculation assumes that the Over-Allotment Option will not be exercised, and the H Shares issued pursuant to the Global Offering were issued on January 1, 2006. If such calculation excludes the aforementioned deficit, the forecast earnings per Share on a pro forma fully diluted basis will be RMB0.14.

(4) The calculation of the forecast earnings per Share on a weighted average basis is based on the forecast profit attributable to shareholders of the Company, including a non-recurring deficit on a revaluation of property, plant and equipment of RMB105.3 million, for the year ending December 31, 2006 and a weighted average number of 4,044,906,937 Shares issued and outstanding during the year. This calculation assumes that the Over-Allotment Option will not be exercised and the H Shares issued pursuant to the Global Offering will be issued on December 8, 2006. If such calculation excludes the aforementioned deficit, the forecast earnings per Share on a weighted average basis will be RMB0.19.

OFFER STATISTICS[(1)]

	Based on an Offer Price of HK$1.70	Based on an Offer Price of HK$2.20
Market capitalization of our H Shares[(2)]	HK$2,415 million	HK$3,125 million
Prospective price/earnings multiple		
(a) Pro forma fully diluted[(3)]	14.1 times	18.3 times
(b) Weighted average[(4)]	10.9 times	14.1 times
Pro forma adjusted combined net tangible asset value per Share[(5)]	HK$1.30	HK$1.41

(1) All statistics in this table are based on the assumption that the Over-Allotment Option is not exercised.

(2) The calculation of market capitalization is based on 1,420,422,300 H Shares expected to be in issue following the Global Offering.

(3) The calculation of the prospective price/earnings multiple on a pro forma fully diluted basis is based on the forecast earnings per Share on a pro forma fully diluted basis at the respective offer prices of HK$1.70 and HK$2.20. If such calculation excludes the non-recurring deficit on a revaluation of property, plant and equipment of RMB105.3 million included in the forecast profit attributable to shareholders of the Company for the year ending December 31, 2006, the prospective price/earnings multiple will be 12.2 times and 15.8 times.

(4) The calculation of the prospective price/earnings multiple on a weighted average basis is based on the forecast earnings per Share on a weighted average basis at the respective offer prices of HK$1.70 and HK$2.20. If such calculation excludes the aforementioned non-recurring deficit, the prospective price/earnings multiple will be 9.4 times and 12.1 times.

(5) The pro forma adjusted combined net tangible asset value per Share has been arrived at after adjustments referred to in the paragraph headed "Unaudited pro forma adjusted combined net tangible assets" under the section "Unaudited pro forma financial information" in Appendix II to this prospectus, and is based on 5,251,293,000 Shares expected to be in issue following the completion of the Global Offering, assuming the Over-allotment Option is not exercised.

If the Over-Allotment Option is exercised in full, assuming an Offer Price of HK$1.95 (being the midpoint of the estimated offer price range of HK$1.70 and HK$2.20), the adjusted net tangible asset value per H Share will be HK$1.37 per H Share, while the earnings per H Share on a pro forma fully diluted basis and on a weighted average basis will be diluted correspondingly to HK$0.12 and HK$0.16 respectively.

DIVIDEND POLICY

We may distribute dividends by way of cash or by other means that we consider appropriate. A decision to distribute any dividends would require the approval of our Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on a number of factors, including our results of operations, cash flows, financial condition, the payment by our subsidiaries of cash dividends to us, future prospects and other factors that our Directors may consider important.

In any case, we will pay dividends out of our after-tax profits only after we have made the following allocations:

- recovery of accumulated losses, if any;
- allocations to the statutory common reserve fund equivalent to 10% of our after-tax profit, as determined under PRC GAAP; and
- allocations, if any, to a discretionary common reserve fund that are approved by the Shareholders in a Shareholders' meeting.

The minimum allocation to the statutory common reserve fund is 10% of our after-tax profit, as determined under PRC GAAP. When the statutory common reserve fund reaches and is maintained at or above 50% of our registered capital, no further allocations to this statutory fund will be required.

Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years. Subject to the considerations and constraints described above, we currently expect to distribute as dividends not less than 40% of our net profit for the years commencing on or after January 1, 2007.

In accordance with the "Provisional Regulations Relating to Corporate Reorganization of Enterprises and Related Management of State-owned Capital and Financial Treatment" issued by the Ministry of Finance (the "**MOF Regulations**"), China Telecom Group shall be entitled to any increase in the net assets of the Company arising from distributable profits attributable to the assets subject to our reorganization during the period from April 1, 2006 to August 29, 2006, being the calendar day immediately preceding the date of incorporation of our Company.

On November 1, 2006, we resolved to distribute to China Telecom Group and its relevant subsidiaries (i) our distributable profit for the period from April 1, 2006 to August 29, 2006 as the mandatory distribution described above; and (ii) our distributable profit for the period from August 30, 2006 to the calendar day immediately preceding the Listing Date (together, the "**2006 Special Dividend**"). The financial statements of the Company and its subsidiaries for the period from April 1, 2006 to the date immediately preceding the Listing Date will be subject to a special audit. Our Company will determine the 2006 Special Dividend with reference to the distributable profit as reflected in the audited financial statements for such period, in accordance with the PRC accounting rules and regulations, being the lower of forecast profit determined in accordance with the PRC accounting rules and regulations or IFRS, less estimated appropriation to the statutory reserve.

Using December 8, 2006 as the proposed Listing Date, we estimate that the 2006 Special Dividend will be approximately RMB600 million, based on (i) an estimate of the actual distributable profit for the period from April 1, 2006 to June 30, 2006, and (ii) an estimate of the distributable profit for the period from July 1, 2006 to the date immediately preceding the Listing Date (calculated as 160 (being the number of days from July 1, 2006 to the date immediately preceding the Listing Date)/184 of the difference between our Company's forecast profit for the year ending December 31, 2006 and actual profit for six months ended June 30, 2006. The declaration of the 2006 Special Dividend will be disclosed through a public announcement. We expect to pay the 2006 Special Dividend to China Telecom Group and its subsidiaries in a series of payments commencing in July 2007 from our cash and cash equivalents.

Investors in the Global Offering should note that they will not be entitled to share in the 2006 Special Dividend and, therefore, any distributable profits for the year ending December 31, 2006 available for distribution to our Company's shareholders after the Global Offering will exclude the amount of the 2006 Special Dividend to be paid to China Telecom Group and its subsidiaries. As described above, the declaration of the dividends with respect to our distributable profit for the period from April 1, 2006 to August 29, 2006 is mandatory under the MOF Regulations. However, the declaration of dividends with respect to our distributable profits for the period from August 30, 2006 to the calendar day immediately preceding the Listing Date is made by us as a commercial decision.

The 2006 Special Dividend is not indicative of the dividends that we may declare or pay in the future.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

We estimate that we will receive net proceeds from the Global Offering of approximately HK$2,337 million (RMB2,406 million), after deducting the estimated underwriting fees and expenses payable by us in the Global Offering, assuming the Over-Allotment Option is not exercised and assuming an Offer Price of HK$1.95 per H Share, the midpoint of the estimated offer price range. We intend to use the net proceeds from the Global Offering for the following purposes:

- up to HK$1,168 million (representing approximately 50% of the net proceeds) for capital expenditure items over the next 24 months, of which:
  - HK$467 million, or approximately 20%, for the purchase of testing and construction equipment for our design, construction and project supervision and management businesses, and large scale maintenance equipment for our network maintenance business;
  - HK$350 million, or approximately 15%, for the purchase, development and/or upgrading of simulation and testing systems and applications development platforms for strategic new products in our information technology and Internet services;
  - HK$234 million, or approximately 10%, for the development of business capabilities associated with 3G technology and applications;
  - HK$117 million, or approximately 5%, for upgrading our existing premises and/or adding new premises to house our production and research and development facilities;
- up to HK$935 million (representing approximately 40% of the net proceeds) for the implementation of our business strategies and funding of business expansion, including potential selective acquisitions from China Telecom Group and other strategic investments, although no acquisitions or strategic investments are pending;
- the remaining amount (representing approximately 10% of the net proceeds) for additional working capital and other general corporate purposes.

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the midpoint of the estimated offer price range.

In the event that the Over-Allotment Option is exercised in full, we estimate that we will receive additional net proceeds from the offering of these additional Offer Shares of approximately HK$359 million, after deducting the estimated underwriting fees and expenses payable by us and assuming the same midpoint of the estimated offer price range. The additional proceeds received from the exercise of the Over-Allotment Option will be applied pro rata to the abovementioned purposes.

To the extent that the net proceeds of the Global Offering are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, they will be placed on short term deposits with authorized financial institutions and/or licensed banks in Hong Kong.

The net proceeds from the Global Offering received by us in US dollars and Hong Kong dollars will be accounted for in our financial statements at the exchange rate published by the PBOC in effect at the time the net proceeds are received.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set forth in the section headed “Risk Factors”. You should read that section carefully before you decide to invest in the Offer Shares.

In this prospectus, unless the context otherwise requires, the following words and expressions have the following meanings.

"3G"	Third Generation Mobile System, next generation of mobile network infrastructure
"Application Form(s)"	**white** application form(s) and **yellow** application form(s) or, where the context so requires, any of them
"Articles of Association"	the articles of association of the Company, adopted on November 1, 2006
"Board"	the board of directors of the Company
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Broker Participant"	a person admitted to participate in CCASS as a broker participant
"CCASS Custodian participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Broker Participant or a CCASS Custodian Participant or a CCASS Investor Participant
"China Mobile"	China Mobile Communications Corporation (中國移動通信集團公司), a state-owned enterprise established under the laws of the PRC, and its subsidiaries (including China Mobile Limited, a company whose shares are listed on the Hong Kong Stock Exchange)
"China Netcom"	China Network Communications Group Corporation (中國網絡通信集團公司), a state-owned enterprise established under the laws of the PRC and its subsidiaries (including China Netcom Group Corporation (Hong Kong) Limited, a company whose shares are listed on the Hong Kong Stock Exchange)
"China Railcom"	China TieTong Telecommunications Corporation (中國鐵通集團有限公司), a company incorporated in the PRC with limited liability, and its subsidiaries
"China Satcom"	China Satelite Communications Corporation (中國衛星通信集團公司), a state-owned enterprise established under the laws of the PRC, and its subsidiaries

"China Telecom"	China Telecom Group and its subsidiaries, including China Telecom Listco
"China Telecom Listco"	China Telecom Corporation Limited, a company established under the laws of the PRC, whose shares are listed on the Hong Kong Stock Exchange
"China Telecom Group"	China Telecommunications Corporation, a state-owned enterprise renamed under the laws of the PRC on May 17, 2000, and our controlling shareholder
"China Unicom"	China United Telecommunications Corporation (中國聯合通信有限公司), a company incorporated in the PRC with limited liability, and its subsidiaries (including China Unicom Limited, a company whose shares are listed on the Hong Kong Stock Exchange)
"Cisco"	Cisco Systems, Inc.
"Cisco BV"	Cisco Systems International B.V.
"Company"	China Communications Services Corporation Limited, a joint stock company with limited liability incorporated under the laws of the PRC on August 30, 2006, and, except where the context otherwise requires, includes all of its subsidiaries, or, where the context refers to any time prior to its incorporation, the businesses which its predecessors or the predecessors of its present subsidiaries were engaged in and which were subsequently assumed by it pursuant to our restructuring
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the PRC national securities markets
"DGT"	Directorate General of Telecommunications of the Ministry of Posts and Telecommunications of the PRC, a state-owned enterprise which operated the nationwide wireline telecommunications business previously controlled and operated by MPT, and which was renamed in May 2000 as China Telecommunications Corporation
"Director(s)"	the director(s) of the Company
"Domestic Shares"	ordinary shares of the Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in Renminbi by PRC nationals and/or PRC corporate entities
"GDP"	gross domestic product (all references to GDP growth rates are to real as opposed to nominal rates of GDP growth)

"Global Offering"	the Hong Kong Public Offering and the International Offering
"Guangdong Telecom Industry"	Guangdong Telecom Industry Group Corporation (廣東省電信實業集團公司), a state-owned enterprise established in the PRC and wholly-owned by China Telecom Group, and one of our Promoters
"H Shares"	overseas listed foreign shares in our ordinary share capital, with a nominal value of RMB1.00 each, which are to be listed on the Hong Kong Stock Exchange, and subscribed for and traded in Hong Kong dollars
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Hong Kong dollars" or "HK dollars" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Hong Kong Offer Shares"	the 129,132,000 Offer Shares initially being offered for subscription in the Hong Kong Public Offering (subject to adjustment as described in the section headed "Structure of the Global Offering")
"Hong Kong Public Offering"	the offer for subscription of Offer Shares in Hong Kong (subject to adjustment as described in the section headed "Structure of the Global Offering") at the Offer Price (plus brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee) and on and subject to the terms and conditions described in this prospectus and the Application Forms, as further described in the section "Structure of the Global Offering — The Hong Kong Public Offering"
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hong Kong Takeovers Code"	the Codes on Takeovers and Mergers and Share Repurchases
"Hong Kong Underwriters"	the Underwriters listed in the section headed "Underwriting" under "Hong Kong Underwriters"

"Hong Kong Underwriting Agreement"	the underwriting agreement dated November 24, 2006 relating to the Hong Kong Public Offering entered into among us, the Joint Global Coordinators and the Hong Kong Underwriters
"IDGIMS"	IDG International Marketing Services (Asia) Limited
"IFRS"	International Financial Reporting Standards promulgated by the International Accounting Standards Board ("IASB"); IFRS includes International Accounting Standards ("IAS") and their interpretations
"International Offer Shares"	the 1,162,161,000 Offer Shares initially being offered under the International Offering
"International Offering"	the offer for subscription and sale of certain Offer Shares to investors as further described in the section headed "Structure of the Global Offering — The International Offering"
"International Purchasers"	the group of underwriters, led by China International Capital Corporation Limited and Goldman Sachs (Asia) L.L.C., expected to enter into the International Purchase Agreement to underwrite the International Offering
"International Purchase Agreement"	the international purchase agreement relating to the International Offering, expected to be entered into among our Company and the Joint Global Coordinators as the representatives of the International Purchasers on or around December 1, 2006
"Joint Bookrunners"	China International Capital Corporation Limited and Goldman Sachs (Asia) L.L.C.
"Joint Global Coordinators"	Goldman Sachs (Asia) L.L.C. and China International Capital Corporation Limited
"Joint Sponsors"	China International Capital Corporation (Hong Kong) Limited and Goldman Sachs (Asia) L.L.C.
"Listing Date"	the date, expected to be on or about December 8, 2006, on which our H Shares are first listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange
"Macau"	the Macau Special Administrative Region of the PRC
"Mandatory Provisions"	the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas, for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas, which were promulgated by the PRC Securities Commission, the predecessor of the CSRC, and the State Restructuring Commission on August 27, 1994, as amended and supplemented from time to time

"Ministry of Commerce"	the Ministry of Commerce of the PRC (中華人民共和國商務部), which assumed the regulatory functions of the former Ministry of Foreign Trade and Economic Cooperation of the PRC ("MOFTEC") and the former State Economic and Trade Commission of the PRC
"Ministry of Information Industry" or "MII"	the Ministry of Information Industry of the PRC (中華人民共和國信息產業部) formed in March 1998
"MPT"	Ministry of Posts and Telecommunications of the PRC (中華人民共和國郵電部), the predecessor of MII, Which, prior to the formation of MII, was the regulatory body under the State Council responsible for the administration of telecommunications industry
"National People's Congress" or "NPC"	the National People's Congress of the PRC (全國人民代表大會)
"Offer Price"	the final Hong Kong dollar price per Hong Kong Offer Share (exclusive of brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee) at which Hong Kong Offer Shares are to be sold, to be determined in the manner described in the section headed "Structure of the Global Offering"
"Offer Shares"	the H Shares offered in the Global Offering (for the purposes of this prospectus, the total number of initial Offer Shares under the Global Offering is assumed to be 1,291,293,000 Offer Shares)
"our Company", the "Company", "Group", "we" and "us"	the Company, and, except where the context otherwise requires, all of its subsidiaries
"Over-Allotment Option"	the option expected to be granted by us to the International Purchasers, exercisable by the Joint Global Coordinators on behalf of the International Purchasers for up to 30 days from the last day for lodging of applications under the Hong Kong Public Offering, to require us to issue and sell up to an aggregate of 193,693,000 additional H Shares as described in the section headed "Structure of the Global Offering"
"PBOC"	the People's Bank of China (中國人民銀行)
"PBOC Rate"	the exchange rate for foreign exchange transactions set daily by the PBOC based on the previous day's China interbank foreign exchange market rate and with reference to current exchange rates on the world financial markets

"PRC", "China" or the "People's Republic of China"	the People's Republic of China, excluding, for purposes of this prospectus only (unless otherwise indicated), Hong Kong, Macau and Taiwan
"PRC Company Law"	the Company Law of the PRC, as enacted by the Standing Committee of the Eighth National People's Congress on December 29, 1993 and effective on July 1, 1994, as amended, supplemented or otherwise modified from time to time
"PRC GAAP"	accounting rules and regulations in the PRC
"Price Determination Date"	the date on which the pricing of the Offer Shares will be fixed by the Joint Global Coordinators, on behalf of the Underwriters and us, expected to be on or around December 1, 2006, and in any event not later than December 5, 2006
"Primary Service Regions"	our primary service regions, namely Shanghai municipality, and Zhejiang, Fujian, Hubei, Guangdong and Hainan provinces in the PRC
"Promoters" or "Promoter"	China Telecom Group, Guangdong Telecom Industry and Zhejiang Telecom Industry; a Promoter means any one of the Promoters
"Regulation S"	Regulation S under the US Securities Act
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"Rule 144A"	Rule 144A under the US Securities Act
"SASAC"	the State-Owned Assets Supervision and Administration Commission of the PRC (國務院國有資產監督管理委員會)
"SFC"	the Securities and Futures Commission of Hong Kong (香港證券及期貨事務監察管理委員會)
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shares"	ordinary shares in the capital of our Company with a nominal value of RMB1.00 each, comprising Domestic Shares and H Shares
"Special Regulations"	the Special Regulations on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies issued by the State Council of the PRC on August 4, 1994, as amended, supplemented or otherwise modified from time to time

"SSF"	the National Council for Social Security Fund of the PRC (全國社會保障基金理事會)
"State Administration of Foreign Exchange" or "SAFE"	the PRC State Administration of Foreign Exchange (中華人民共和國國家外匯管理局)
"State Administration of Industry and Commerce" or "SAIC"	the PRC State Administration of Industry and Commerce (中華人民共和國國家工商行政管理總局)
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"Supervisors"	the members of the Supervisory Committee of our Company
"Supervisory Committee"	the supervisory committee established pursuant to the PRC Company Law, as described in the section headed "Directors, Supervisors, Senior Management and Staff"
"Underwriters"	the Hong Kong Underwriters and the International Purchasers
"United States" or "US"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US dollars" or "US$"	United States dollars, the lawful currency of the United States
"US Exchange Act"	the United States Securities Exchange Act of 1934, as amended
"US GAAP"	generally accepted accounting principles in the United States
"US Securities Act"	the United States Securities Act of 1933, as amended
"WTO"	the World Trade Organization
"Zhejiang Telecom Industry"	Zhejiang Telecom Industry Corporation (浙江省電信實業集團公司), a state-owned enterprise established in the PRC and wholly-owned by China Telecom Group, and one of our Promoters

In this prospectus, the terms "associate", "connected person", "controlling shareholder" and "substantial shareholders" shall have the meanings given to these terms in the Hong Kong Listing Rules.

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies and our various measures and initiatives to implement these strategies;
- the future competitive environment for the PRC telecommunications and specialized telecommunications support services;
- our dividend policy;
- any capital expenditure plans;
- our operations and business prospects, including development plans for our existing and new businesses, products and services;
- the regulatory environment as well as the general industry outlook for the PRC telecommunications and related services industries; and
- future developments in the PRC telecommunications and related services industries.

The words "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "seek", "will", "would" and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors set forth under the section headed "Risk Factors" and the following:

- any changes in the laws, rules and regulations of the central and local governments in the PRC and the rules, regulations and policies and other relevant government authorities relating to all aspects of our business operations;
- general economic, market and business conditions in the PRC;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices;
- the effects of competition in the PRC telecommunications and related services industries on the demand for and price of our products and services;
- various business opportunities that we may pursue;
- our ability to identify, measure, monitor and control risks in our business, including our ability to improve our overall risk profile and risk management practices;

- our ability to properly price our products and services; and
- other factors beyond our control.

Subject to the requirements of the Hong Kong Listing Rules, we do not intend to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information.

You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below before making an investment in our H Shares. You should pay particular attention to the fact that we are a PRC company and are governed by a legal and regulatory environment which in some respects may differ from that which prevails in other countries. Our business, financial condition or results of operations could be materially and adversely affected by any of these risks. The trading price of our H Shares could decrease due to any of these risks, and you may lose all or part of your investment. For more information concerning the PRC and certain related matters discussed below, see the section headed "Industry and Regulatory Overview", Appendix VI — "Summary of Principal Legal and Regulatory Provisions" and Appendix VII — "Summary of Articles of Association".

We face certain risks, a number of which are beyond our control. These risks can be categorized into: (i) risks relating to our business; (ii) risks relating to the industries in which we operate; (iii) risks relating to the PRC; and (iv) risks relating to the Global Offering.

RISKS RELATING TO OUR BUSINESS

We rely substantially on a few key customers, deriving a significant portion of our revenue from them.

We derive a significant portion of our revenue from the provision of services to a few key customers.

In the three years ended December 31, 2003, 2004 and 2005 and the six months ended June 30, 2006, approximately 49.1%, 48.3%, 45.2% and 51.2% respectively of our revenue was derived from the provision of services to China Telecom, our single largest customer. In addition, in the three years ended December 31, 2003, 2004, 2005 and the six months ended June 30, 2006, approximately 8.3%, 8.9%, 12.9% and 10.7% of our revenue was derived from the provision of services to China Mobile and approximately 2.6%, 3.1%, 4.6% and 3.8% of our revenue was derived from the provision of services to China Unicom, respectively.

We anticipate that we will continue to derive a significant portion of our revenue from our three key customers identified above. These three key customers rank among the largest players in the telecommunications industry in the PRC, and we believe that there are no alternative customers in the PRC which could provide the same level of demand for our services as these customers. Our continued reliance on these key customers means that factors which could affect the demand by these customers for our services could adversely affect our business, results of operations and financial condition. These factors could include for example, the ability and willingness of each of these customers to fund capital expenditure and any move to develop in-house capabilities to undertake services which we currently provide to them.

We will continue to engage in connected transactions with China Telecom, including China Telecom Listco.

We have historically engaged in a variety of transactions with China Telecom, including China Telecom Listco, and we will continue to enter into transactions with them in the future. In the six months ended June 30, 2006, we derived 51.2% of our revenue from transactions with China Telecom. For further details, see the section headed "Relationship with China Telecom — Connected Transactions" in this prospectus.

Such connected transactions include:

- engineering services;
- ancillary telecommunications services; and
- operation support services.

We have applied for a waiver from the Hong Kong Stock Exchange to continue our continuing connected transactions with China Telecom after the Global Offering on normal commercial terms and in the ordinary course of business. After the Global Offering, some of these connected transactions must comply with the relevant provisions of the Listing Rules governing connected transactions, and will require the prior approval of our independent shareholders and, if applicable, the prior approval of the independent shareholders of China Telecom Listco on an on-going basis. If such approval is not obtained, we may not be able to execute these transactions.

Our business is highly reliant on the level of activity and trends in the telecommunications industry in the PRC.

Demand for our services depends on the level of activity in the telecommunications industry in the PRC. We derive a substantial portion of our revenue from telecommunications companies in the PRC. In the three years ended December 31, 2003, 2004 and 2005 we derived a total of 60.0%, 60.3% and 62.7% respectively of our revenue from our three largest telecommunications operator customers in the PRC. Any slowdown in the growth of, or decline in, demand for telecommunications services provided by these companies may result in a reduction in demand for our services from these companies.

Demand for our services is particularly sensitive to the level of capital expenditure on fixed line and mobile telecommunications infrastructure by telecommunications companies in the PRC. A decline in such capital expenditure may have an adverse effect on our revenues and profit margins. There can be no certainty regarding the grant of 3G licences, 3G capital expenditure and the rollout of 3G services.

Demand for our services is also sensitive to the extent to which telecommunications companies in the PRC decide to outsource their internal operational processes and engage directly in the services which they currently outsource and which we provide. To the extent that the current trend favoring the outsourcing of such services is reduced or reversed, our business, financial condition and results of operations may be materially adversely affected.

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

Our controlling shareholder, China Telecom Group, will continue to have substantial influence over our company.

After the Global Offering, China Telecom Group will directly and indirectly own approximately 66.8% of our Shares assuming the Over-allotment Option is not exercised (or approximately 64.1% if the Over-allotment Option is exercised in full). Consequently, as our controlling shareholder, China Telecom Group will, subject to our Articles of Association and applicable laws and regulations, be in a position to influence our policies and affairs, and to influence the outcome of corporate actions requiring shareholder's approval. In addition, it will be able to influence the election of our Directors and in turn, the selection of our senior management. The interests of China Telecom Group as our controlling shareholder could conflict with the interests of our other shareholders. In addition, the business interests of China Telecom, our largest customer, could conflict with our business interests. As a result, China Telecom Group may take actions with respect to our business that may not be in our or our other shareholders' interests.

Subject to the PRC Company Law, our Articles of Association and the Hong Kong Listing Rules, China Telecom Group may be able to influence on our dividend policies. Such policies may not be in line with the interests of our other shareholders. For our dividend policy and information on our past distributions, see the section headed "Financial Information — Dividends".

We have only recently been established following a restructuring of our management, business and organizational structure.

We were established as a joint stock limited liability company under PRC law as the operating company for our present business on August 30, 2006. Prior to our restructuring, each of our operating entities in our Primary Service Regions was operated as separate subsidiaries in distinct geographical markets. We have recently reorganized our corporate structure and integrated our business lines across the different service regions. We have also put in place a single management team drawn from the operating entities to streamline our management processes. We cannot assure you that the intended benefits of our integration and restructuring will be fully realized. In order to realise the benefits of our integration and reorganization plans, our new corporate structure and operations may require further adjustment and development.

As we have only recently been organized as an independent entity, the financial information in this prospectus may not necessarily reflect what our results of operations, financial condition and cash flows would have been had we actually been a separate, independent entity during the periods presented.

For further details, please see the section headed "Our History and Restructuring — Our Restructuring".

The development of our management and internal control measures has largely coincided with the evolution of our principal businesses. As we transition from a decentralized management model to a centralized management platform integrating our various businesses across our Primary Service Regions, there has been an increasing emphasis on management and internal control mechanisms to address issues. We are currently working on improving our internal control measures, including: (i) standardizing control policies and procedures among each of our operating businesses; (ii) generating more detailed operating data of our operating businesses

(iii) raising the level of experience among our financial and accounting staff. We cannot assure you that we will be able to design and implement an effective management structure and internal control mechanisms that adequately respond to our expanded scope of operations, or that we will be able to implement our reorganization and restructuring plan efficiently or successfully.

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

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

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

We face risks inherent in our growth strategy.

We currently conduct our operations primarily in the Primary Service Regions and we also provide our services in other regions of the PRC. We plan to expand our domestic business operations in the PRC through organic growth, and acquiring appropriate businesses from China Telecom Group. In addition, we may also acquire third party businesses as part of our growth strategy. In acquiring such businesses, there is no guarantee that we will be able to successfully integrate these new business operations and their management teams, or retain the management teams of the acquired businesses, or operate the acquired businesses efficiently and profitably. Consequently, any such acquisition may present a significant challenge for our management and our financial, operational and administrative systems and resources. If we fail to integrate these businesses or maintain systems and resources sufficient to keep pace with our expansion strategy successfully, we may experience difficulties in managing our growth and may not be able to execute our business plan successfully and take advantage of market opportunities.

We also plan to expand into overseas markets by selectively pursuing international business opportunities. However, we may be a relatively late entrant into the international markets in which we choose to purse opportunities and may be required to commit substantial capital resources to gain entry and market share. Furthermore, our competitors in these international markets may possess greater resources and experience operating in these regions, and our plans may be subject to the risk of uncertain economic, political and legal environments. There can be no assurance that our domestic and overseas expansion plans will be successful.

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

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

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

We face a number of uncertainties in relation to the rollout of 3G in the PRC, and the increase in demand for 3G-related services may not materialize as expected.

We have allocated financial and manpower resources in preparation for the provision of 3G-related services. However, we face a number of uncertainties related to our plans to provide 3G-related services:

- uncertainty of timing: the PRC government has not yet formally announced the timing for the issuance of 3G licences. The longer the PRC government takes to approve 3G technology standards and to issue licences, the more we continue to incur significant expenditure to keep abreast of 3G related technological developments, without the benefit of revenue from offering 3G services;
- uncertainty of migration: a slow migration of the telecommunications market in the PRC to 3G technologies may limit our ability to grow our business; and
- uncertainty of 3G business: there is no certainty that we will offer 3G-related services on terms that are more attractive and competitive than our competitors and if we are not able to do so, there is no certainty we are able to develop our 3G business successfully.

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

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

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

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

The lessors do not possess valid title to certain of our leased properties.

There are about 399 leased properties in which the lessors cannot provide the property certificates and which may be unenforceable. These leased properties are used for various purposes, including office and operation outlets, warehouse, temporary dormitory, workshop, car parks and plant rooms and have a total gross floor area of approximately 148,464 square meters. We cannot predict how our rights as lessee of these properties, and our operations carried out on or from these properties, may be adversely affected and we may be required to surrender possession of or stop using these leased properties. We may be required to relocate our business operations carried out on properties that we do not have unassailable legal rights to use or occupy temporarily or permanently, and such relocation could adversely affect our financial condition and results of operations. See the section headed "Business — Properties" in this prospectus for further details.

Our dividend distributions to our existing shareholders made prior to the completion of the Global Offering should not be treated as indicative of our Company's future dividend policy. These dividend distributions before the listing may adversely impact the total value of our assets and your investment.

On November 1, 2006, we declared a special dividend of approximately RMB600 million to China Telecom Group and its subsidiaries, which is equal to (i) our distributable profit for the period from April 1, 2006 to August 29, 2006; and (ii) our distributable profit for the period from August 30, 2006 to the calendar day immediately preceding the Listing Date (together, the "**2006 Special Dividend**"). The funds for paying such 2006 Special Dividend will be sourced from our cash and cash equivalents. The payment will be made after the Listing Date and relevant details of the 2006 Special Dividend will be disclosed by us as appropriate.

In accordance with the "Provisional Regulations Relating to Corporate Reorganization of Enterprises and Related Management of State-owned Capital and Financial Treatment," issued by the MOF, China Telecom Group shall be entitled to any increase in the net assets of the Company arising from the distributable profits attributable to the assets subject to our reorganization during the period from April 1, 2006 to August 29, 2006, being the calendar day immediately preceding the date of incorporation of our Company.

Investors of our H Shares under the Global Offering will not be entitled to participate in the above dividends or distribution of profit. Such dividends, distributions or profits are not indicative of the dividends that our Company may declare or pay in the future. Any distributable profits available for distribution to our shareholders after the Global Offering will exclude the respective amounts of such dividends, distributions and profits. In addition, the payment and distribution of the special dividends, pre-Global Offering distribution and profit prior to the listing may adversely impact the total value of our assets and your investment.

We cannot guarantee when and if dividends will be paid in the future, and the amount of dividends that we have declared historically are not indicative of the dividends that we may pay in the future. Details of our Company's dividend policy after completion of the Global Offering are set out in the section headed "Financial Information – Dividends". The declaration, payment and the amount of any future dividends will be at the discretion of our Board and will depend upon general business conditions and strategies, our financial results and capital requirements, interests of our shareholders, taxation conditions, statutory and regulatory restrictions and other factors that our Board deems relevant.

As stipulated under PRC law, dividends may be paid only out of distributable profits, which are our retained earnings, as determined in accordance with PRC GAAP and IFRS, whichever is lower, less allocations to our statutory and discretionary common reserve funds. Any distributable profits that are not distributed in a given year will be retained and available for distribution in subsequent years. The calculation of distributable profits under PRC GAAP is different from the calculation under IFRS in certain respects. As a result, our operating subsidiaries may not have distributable profits as determined under PRC GAAP, even if they have profits for that year as determined under IFRS, or vice versa. Accordingly, we may not have sufficient distribution from our subsidiaries to enable us to make dividend distributions to our shareholders in the future, including in respect of periods that our financial statements indicate that our operations have been profitable.

The actual amount of the pre-Global Offering dividend to be distributed to China Telecom Group and its relevant subsidiaries could be greater than the estimated amount disclosed in this prospectus.

In accordance with the "Provisional Regulations Relating to Corporate Reorganization of Enterprises and Related Management of State-owned Capital and Financial Treatment" issued by the Ministry of Finance (the "**MOF Regulations**"), China Telecom Group shall be entitled to any increase in the net assets of the Company arising from distributable profits attributable to the assets subject to our reorganization during the period from April 1, 2006 to August 29, 2006, being the calendar day immediately preceding the date of incorporation of our Company.

On November 1, 2006, we resolved to distribute to China Telecom Group and its relevant subsidiaries (i) our distributable profit for the period from April 1, 2006 to August 29, 2006 as the mandatory distribution described above; and (ii) our distributable profit for the period from August 30, 2006 to the calendar day immediately preceding the Listing Date (together, the "**2006 Special Dividend**"). The financial statements of our Company and its subsidiaries for the period from April 1, 2006 to the date immediately preceding the Listing Date will be subject to a special audit. Our Company will determine the 2006 Special Dividend with reference to the distributable profit as reflected in the audited financial statements for such period, in accordance with the PRC accounting rules and regulations, being the lower of forecast profit determined in accordance with the PRC accounting rules and regulations or IFRS, less estimated appropriation to the statutory reserve.

Using December 8, 2006 as the proposed Listing Date, we estimate that the 2006 Special Dividend will be approximately RMB600 million, based on (i) an estimate of the actual distributable profit for the period from April 1, 2006 to June 30, 2006, and (ii) an estimate of the distributable profit for the period from July 1, 2006 to the date immediately preceding the Listing Date (calculated as 160 (being the number of days from July 1, 2006 to the date immediately preceding the Listing Date)/184 of the difference between our Company's forecast profit for the year ending December 31, 2006 and actual profit for six months ended June 30, 2006. The declaration of the 2006 Special Dividend will be disclosed through a public announcement. We expect to pay the 2006 Special Dividend to China Telecom Group and its subsidiaries in a series of payments commencing in July 2007 from our cash and cash equivalents. See "Financial Information – Dividends". We cannot assure you that total amount required to be distributed to China Telecom Group will not be greater than the estimated amount of RMB600 million, which may adversely affect our financial condition.

If we lose one or more of our key personnel without obtaining adequate replacements in a timely manner or if we are unable to retain and recruit skilled personnel, our operations could become disrupted and the growth of our business could be delayed or restricted.

Our success depends on the continued service of our key executive officers, and in particular, Mr. Li Ping, our executive Director and Vice Chairman of the Board of Directors. We do not carry key person insurance on any of our personnel. If we lose the services of any of our key executive officers, it may be difficult to attract and integrate adequate replacement personnel into our operations in a timely manner, which could in turn temporarily disrupt our operations and the growth of our business.

We will require an increased number of experienced executives and other skilled employees in the future to implement our growth plans. If we are unable to retain our existing personnel or attract, assimilate and retain new experienced personnel in the future, our operations could become disrupted and the growth of our business could be delayed or restricted.

RISKS RELATING TO THE INDUSTRIES IN WHICH WE OPERATE

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

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

If we are not able to keep abreast of technological developments in the telecommunications industry and to provide the latest technological services which our customers require, this may have an adverse effect on demand for our services, and our results of operations and financial condition.

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

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

RISKS RELATING TO THE PRC

China's economic, political and social conditions, as well as government policies, could affect our business.

Substantially all of our business, assets and operations are located in China. Accordingly, our results of operations, financial condition and business prospects are, to a significant degree, subject to the economic, political and social developments in China.

China's economy has historically been a planned economy. A substantial portion of productive assets in China is still owned by the PRC government. The government also exercises significant control over China's economic growth through measures such as the allocation of resources, setting monetary policy and providing preferential treatment to particular industries or companies. In recent years, the government has implemented economic reform measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises. Such economic reform measures may be adjusted or modified or applied inconsistently from industry to industry, or across different regions of the country. These measures may subject our business to some measure of uncertainty.

China has been one of the world's fastest growing economies as measured by gross domestic product, or GDP, in recent years. However, China may not be able to sustain such a growth rate. In addition, any future calamities, including, among others, natural disasters and outbreak of health epidemics may cause a decrease in the level of economic activity and adversely affect economic growth in the PRC, Asia and elsewhere in the world. If China's economy experiences a significant downturn for any of the foregoing reasons, our financial condition and results of operations, as well as our future prospects, would be materially and adversely affected.

Interpretation and enforcement of PRC laws and regulations involve uncertainty.

We are organized under the laws of the PRC. The Chinese legal system is based on written statutes. Since the late 1970s, the PRC has promulgated laws and regulations dealing with such economic matters as the issuance and trading of securities, shareholders' rights, foreign investment, corporate organization and governance, commerce, taxation and trade. However, many of these laws and regulations are relatively new and continue to evolve, are subject to different interpretations, and may be inconsistently enforced. In addition, there is only a limited volume of published court decisions, which may be cited for reference but are not binding on subsequent cases and have limited value as precedents. These uncertainties relating to the interpretation of PRC laws and regulations can affect the legal remedies that are available to you and can adversely affect your legal protections.

Our articles of association provide that disputes between holders of H Shares and us, our directors, supervisors and officers and the holders of domestic shares, arising out of our Articles of Association or the PRC Company Law and related regulations, concerning the affairs of our company or with respect to the transfer of our Shares, are to be resolved through arbitration by arbitration organizations in Hong Kong or China, rather than by a court of law. Awards that are made by Chinese arbitral authorities recognized under the Hong Kong Arbitration Ordinance can be enforced in Hong Kong. Hong Kong arbitral awards are also enforceable in China, subject to the satisfaction of certain PRC legal requirements. However, to our knowledge, no action has been brought in China by any holder of H Shares issued by a Chinese company to enforce an arbitral award. As a result, we are uncertain whether any action brought in China to enforce an arbitral award made in favour of holders of H Shares would succeed.

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

We are a company incorporated under the laws of the PRC and substantially all of our business, assets and operations are located in China. In addition, a majority of our directors, supervisors and executive officers reside in China and substantially all of the assets of such directors, supervisors and executive officers are located in China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon us or such directors, supervisors or executive officers, including with respect to matters arising under United States federal securities laws or applicable state securities laws. Moreover, China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, Japan or many other countries. In addition, Hong Kong has no arrangement with the United States for reciprocal enforcement of judgments. As a result, recognition and enforcement in China or Hong Kong of judgments of a court in the United States and any of the other jurisdictions mentioned above in relation to any matter may be difficult or impossible.

The holders of H Shares will not be able to bring actions on the basis of violations of the Hong Kong Listing Rules and must rely on the Hong Kong Stock Exchange to enforce its rules. The Hong Kong Listing Rules and Hong Kong Codes on Takeovers and Mergers and Share Repurchases do not have the force of law in Hong Kong.

Government control of currency conversion and future fluctuation of Renminbi exchange rates could have a material adverse effect on our financial condition and results of operations, and may reduce the value of, and dividends payable on, our H Shares in foreign currency terms.

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

Under the PRC's existing foreign exchange regulations, following the completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior approval from the State Administration of Foreign Exchange by complying with certain procedural requirements. However, the PRC government may take measures at its discretion in the future to restrict access to foreign currencies for current account transactions if foreign currencies become scarce in the PRC. We may not be able to pay dividends in foreign currencies to our shareholders if the PRC government restricts access to foreign currencies for current account transactions. Foreign exchange transactions under our capital account continue to be subject to significant foreign exchange controls and require the approval of the State Administration of Foreign Exchange. These limitations could affect our ability to obtain foreign exchange through equity financing, or to obtain foreign exchange for capital expenditures.

The value of the Renminbi fluctuates, is subject to changes in the PRC government's policies and depends to a large extent on domestic and international economic and political developments as well as supply and demand in the local market. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and US dollars, has been based on rates set by the PBOC, which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates on the world financial markets. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of Renminbi to that of US dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies determined by the PBOC. The Renminbi may appreciate or depreciate significantly in value against the US dollar or other foreign currencies in the long term, depending on the fluctuation of the basket of currencies against which it is currently valued, or it may be permitted to enter into a full float, which may also result in a significant appreciation or depreciation of the Renminbi against the US dollar or other foreign currencies. Fluctuations of the Renminbi could adversely affect any dividends payable on our H Shares, and therefore the price of our shares.

The outbreak of Severe Acute Respiratory Syndrome, or SARS, and the potential outbreak of avian flu in the PRC, and concerns over the spread of these diseases in Asia and elsewhere have caused, and may continue to cause, damage to economies, financial markets and business activities in the PRC and elsewhere.

Beginning in early 2003, certain areas of the PRC and certain other Asian countries and regions encountered an outbreak of SARS, a highly contagious disease. The SARS outbreak had a significant negative impact on the economy of the PRC and the Asia-Pacific region while it was in full force. Recently, concerns have been raised with respect to the spread of avian flu in various areas of the PRC and certain other Asian countries and regions. A new outbreak of SARS, a spread of avian flu or any similar adverse public health development may result in health or other governmental authorities of the PRC or other countries and international organizations imposing transportation restrictions between countries and regions. This would directly or indirectly have an adverse impact on the PRC's general economy, which may affect demand for our products and services.

Holders of H Shares may become subject to PRC taxation.

Under the PRC's current tax laws, regulations and codes, dividends paid by us to holders of H Shares outside China are currently exempt from PRC income tax. In addition, gains realized by individuals or enterprises upon the sale or other disposition of H Shares are currently exempt from PRC income tax. If the exemptions are withdrawn in the future, holders of H Shares may be subject to withholding taxes on dividends, which are currently imposed at the rate of 20%, or income tax on capital gains, which may currently be imposed upon individuals at the rate of 20%.

Payment of dividends is subject to restrictions under PRC law.

Under PRC law, dividends may be paid only out of distributable profits. Distributable profits are our net profit as determined under PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient or any distributable profits to enable us to make dividend distributions to our shareholders in the future, including in respect of periods which our financial statements indicate that our operations have been profitable. Furthermore, we may not be able to pay any dividends in a given year if (i) we do not have distributable profits as determined under PRC GAAP, even if we have profits for that year as determined under IFRS or (ii) we do not have distributable profits under IFRS, even if we have profits for that year as determined under PRC GAAP. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years.

The effect of recent amendments to the PRC Securities Law and the PRC Company Law may be uncertain because there are few examples of their application.

Substantial amendments to the PRC Securities Law and the PRC Company Law came into effect on January 1, 2006. As a result, the State Council and the CSRC may revise the Special Regulations and the Mandatory Provisions and adopt new regulations and rules, to implement and take into account the amendments to the PRC Securities Law and the PRC Company Law. There can be no assurance that the revision of existing regulations and rules, and the adoption of new regulations and rules by the State Council and the CSRC will not have a material adverse effect on the rights of holders of H Shares.

We cannot guarantee the accuracy of facts and statistics derived from PRC official government publications with respect to the PRC, the PRC economy and the PRC telecommunications industry contained in this prospectus, and investors should not place undue reliance on them.

Certain facts and statistics relating to the PRC, the PRC economy and the PRC telecommunications industry, including those set out in the sections headed “Summary,” “Industry Overview,” “Business” and “Financial Information”, in this prospectus are derived from various PRC official government publications. However, we cannot guarantee the quality or reliability of such source materials. While the Directors have taken reasonable care in the reproduction of the information, they have not been prepared or independently verified by us, the Joint Global Coordinators, the Joint Sponsors or the Underwriters or any of our or their respective affiliates or advisors and, therefore, we make no representation as to the accuracy or completeness of such facts and statistics, which are derived from PRC official government publications and may not be consistent with other information compiled within or outside the PRC. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein that are from PRC official government publications may be inaccurate, incomplete or may not be comparable to statistics produced for other economies and should not be unduly relied upon. Further, there is no assurance that the facts and statistics derived from the PRC official government publications contained in this prospectus are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts or statistics.

RISKS RELATING TO OUR GLOBAL OFFERING

An active trading market for our H Shares may not develop, and the liquidity and market price of our H Shares may be volatile.

Prior to the Global Offering, no public market for our shares has existed. We cannot assure you that a liquid public market for our H Shares will develop or be sustained after the Global Offering. In addition, the offer price of our H Shares is expected to be fixed by agreement among the Joint Global Coordinators (on behalf of the Underwriters) and our Company, and may not be indicative of the market price of our H Shares following the completion of the Global Offering. If an active public market for our H Shares does not develop after the Global Offering, the market price and liquidity of our H Shares may be adversely affected.

Because the initial public offering price of the H Shares is higher than the net tangible asset value per share, you will incur immediate dilution.

The initial public offering price of our H Shares is higher than the net tangible asset value per share of the outstanding shares issued to our three existing shareholders. Therefore, purchasers of our H Shares in the Global Offering will experience an immediate dilution in net tangible asset value of HK$0.59 per H Share (assuming an offer price of HK$1.95, which is the mid-point of our indicative offer price range, and assuming the over-allotment option is not exercised). In addition, holders of our H Shares may experience a significant dilution of their interest if we obtain additional capital in the future.

Sales, or perceived sales, of substantial amounts of H Shares in the public market after the Global Offering could decrease the value of your investment.

Before the Global Offering, there was no public market for our Shares. Immediately after completion of the Global Offering, we will have 5,251,293,000 Shares outstanding, of which 1,291,293,000 Shares, or approximately 24.6% (assuming the Over-allotment Option is not exercised), will be held by investors who subscribe for or purchase Shares in the Global Offering, while 3,830,870,700 Shares, or approximately 73.0% (assuming the Over-allotment Option is not exercised), will be held by our Promoters. Future sales by us or our Promoters of substantial numbers of our H Shares in the public market after the Global Offering could adversely affect market prices prevailing from time to time.

Please refer to the section headed “Share Capital” for a more detailed discussion.

Disposal of H Shares to be retained by the SSF following our listing may result in an increase of the number of H Shares available on the market and may affect the price of our H Shares.

Pursuant to the approval of the SASAC and the SSF, each of our Promoters is required to transfer to the SSF, in proportion to their respective holdings in our Company, such number of Domestic Shares as shall be in the aggregate equivalent to 10% of the number of Offer Shares. These Domestic Shares will be converted into H Shares on a one-for-one basis upon our listing and will be held by the SSF immediately thereafter. The SSF will retain approximately 129,129,300 H Shares, representing 2.5% or 148,498,600 H Shares, representing 2.7% of our total issued share capital, assuming that the Over-Allotment Option is not exercised or is exercised in full, respectively. SSF has not entered into any undertaking restricting its disposal or resale of our H

Shares. As advised by our PRC counsel, Jingtian & Gongcheng Attorneys at Law, there is no legal restriction on the SSF to transfer or dispose of such H Shares following our listing. This arrangement will result in an increase of the number of H Shares available on the market and may, directly or indirectly, affect the trading price of our H Shares following our listing.

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

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

Unless otherwise required by an overseas securities exchange, the listing and trading of the transferred shares shall not be required to be resolved in a class meeting of the Company. Potential conversion of a substantial amount of Domestic Shares into H Shares could further increase the supply of our H Shares in the market and could negatively impact the market price of our H Shares. Please see the section headed “Share Capital — Transfer of Our Domestic Shares for Listing and Trading on the Overseas Stock Exchange”.

You should not place any reliance on any information contained in press articles or other media regarding us and the Global Offering.

Prior to the publication of this prospectus, there has been press and media coverage regarding us and the Global Offering, including in the South China Morning Post, The Standard, Hong Kong Economic Journal, Ming Pao, The Oriental Daily and The Apple Daily on November 14, 2006, which included certain financial information, financial projections, valuations and other information about us that does not appear in the prospectus. We have not authorized the disclosure of any such information in the press or media. We do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this prospectus is inconsistent or conflicts with the information contained in this prospectus, we disclaim it. Accordingly, prospective investors should not rely on any such information. In making your decision as to whether to purchase our H Shares, you should rely only on the financial, operational and other information included in this prospectus.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus contains particulars given in compliance with the Hong Kong Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Hong Kong Listing Rules for the purpose of giving information to the public with regard to our Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable inquiries, that, to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this prospectus misleading.

CSRC APPROVAL

The CSRC has given their approval for the Global Offering and the making of the application to list the H Shares on the Hong Kong Stock Exchange on November 7, 2006, respectively. In granting such approval, the CSRC accepts no responsibility for the financial soundness of our Company or the accuracy of any of the statements made or opinions expressed in this prospectus or in the Application Forms.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering.

The listing of the Offer Shares on the Hong Kong Stock Exchange is sponsored by the Joint Sponsors. The Global Offering is managed by the Joint Global Coordinators. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is underwritten by the Hong Kong Underwriters. The International Purchase Agreement is expected to be entered into on or about December 1, 2006, subject to agreement on the Offer Price among us and the Joint Global Coordinators (on behalf of the Underwriters). If, for any reason, the Offer Price is not agreed among us and the Joint Global Coordinators (on behalf of the Underwriters), the Global Offering will not proceed. Further details about the Underwriters and the underwriting arrangements are contained in the section headed "Underwriting".

SELLING RESTRICTIONS

Each person acquiring Hong Kong Offer Shares will be required to confirm, or by his acquisition of Hong Kong Offer Shares be deemed to confirm, that he is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus.

No action has been taken to permit an offering of the Offer Shares in any jurisdiction other than Hong Kong or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been offered and sold, and will not be offered or sold, directly or indirectly, in the PRC.

CERTAIN MATTERS RELATING TO THE HONG KONG PUBLIC OFFERING

Application for Listing on the Hong Kong Stock Exchange

We have applied to the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Offer Shares, including any Offer Shares which may be issued or sold pursuant to the exercise of the Over-Allotment Option. Dealings in the H Shares on the Hong Kong Stock Exchange are expected to commence on December 8, 2006.

Save as disclosed in this prospectus, no part of our share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

H Share Register and Stamp Duty

All of the H Shares issued pursuant to applications made in the Hong Kong Public Offering will be registered on our H Share register to be maintained in Hong Kong. Our principal register of members will be maintained by us at our head office in the PRC.

Dealings in the H Shares registered on our H Share register will be subject to Hong Kong stamp duty. See Appendix V — "Taxation and Foreign Exchange".

Professional Tax Advice Recommended

Applicants for the Hong Kong Offer Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding and dealing in H Shares. It is emphasized that none of us, the Joint Global Coordinators, the Joint Sponsors, the Underwriters, none of their respective directors, nor any other person or party involved in the Global Offering accepts responsibility for any tax effects or liabilities of holders of H Shares resulting from the subscription, purchase, holding or disposal of H Shares.

Registration of Subscription, Purchase and Transfer of H Shares

We have instructed Computershare Hong Kong Investor Services Limited, our H Share registrar, and Computershare Hong Kong Investor Services Limited has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until the holder delivers a signed form to our H Share registrar in respect of those H Shares bearing statements to the effect that the holder:

(i) agrees with us and each of our shareholders, and we agree with each shareholder, to observe and comply with the PRC Company Law, the Special Regulations, and the Articles of Association;

(ii) agrees with us, each of our shareholders, Directors, Supervisors, managers and officers, and each of us acting for ourselves and for each of our Directors, Supervisors, managers and officers agrees with each of our shareholders to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which arbitration shall be final and conclusive. See Appendix VII — "Summary of Articles of Association";

(iii) agrees with us and each of our shareholders that the H Shares are freely transferable by the holders thereof; and

(iv) authorizes us to enter into a contract on his behalf with each of our Directors and officers whereby such Directors and officers undertake to observe and comply with their obligations to our shareholders as stipulated in the Articles of Association.

STABILIZATION

In connection with the Global Offering, Goldman Sachs (Asia) L.L.C. (the "**Stabilizing Manager**"), and/or its affiliates and agents on behalf of the Underwriters, in consultation with the other Joint Global Coordinators may over-allocate or effect any other transactions with a view to supporting the market price of the H Shares at a level higher than that which might otherwise prevail for a limited period after the commencement of trading in the H Shares. However, there is no obligation on the Stabilizing Manager to do this. Such stabilizing action, if taken, may be discontinued at any time, and must be brought to an end after a limited period. The stabilizing action which may be taken by the Stabilizing Manager may include primary and ancillary stabilizing action such as purchasing or agreeing to purchase any of the H Shares, exercising the Over-Allotment Option, stock borrowing, establishing a short position in the H Shares, liquidating long positions in the H Shares or offering or attempting to do any such actions. The number of H Shares which can be over-allocated will not exceed the number of H Shares which may be issued or sold under the Over-Allotment Option, namely 193,693,000 H Shares, which is approximately 15% of the Offer Shares initially available under the Global Offering.

The Stabilizing Manager may, in connection with the stabilizing action, maintain a long position in the H Shares. There is no certainty regarding the extent to which and the time period for which the Stabilizing Manager will maintain any such position. In the event of any liquidation of any such long position, there may be an impact on the market price of the H Shares. Stabilizing action cannot be taken to support the price of any H Shares for longer than the stabilizing period, which begins on the commencement of trading of the H Shares and ends 30 days from the last day for lodging of applications under the Hong Kong Public Offering. The stabilizing period is expected to expire on December 31, 2006, and after this date, demand for the H Shares and therefore their price, could fall. Investors should be aware that the price of the H Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action. Stabilizing bids may be made or transactions effected in the course of stabilizing action at any price below the Offer Price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. Such transactions, if commenced, may be discontinued at any time.

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public offer price of the securities. In Hong Kong, the stabilization price will not exceed the Offer Price.

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedure for applying for Hong Kong Offer Shares is set forth in the section headed "How to Apply for Hong Kong Offer Shares" and in the Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set forth in the section headed "Structure of the Global Offering".

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations of certain Renminbi amounts into Hong Kong dollars, of Renminbi amounts into US dollars and of Hong Kong dollars into US dollars at specified rates. You should not construe these translations as representations that the Renminbi amounts could actually be converted into any Hong Kong dollar or US dollar amounts (as the case may be) at the rates indicated or at all. Unless we indicate otherwise, the translations of Renminbi into Hong Kong dollars, of Renminbi into US dollars and of Hong Kong dollars into US dollars have been made at the rate of RMB1.02942 to HK$1.00, the PBOC Rate prevailing on June 30, 2006, RMB7.9943 to US$1.00 and HK$7.7666 to US$1.00, the noon buying rates in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York on June 30, 2006, respectively. Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding. Further information on exchange rates is set forth in Appendix V — "Taxation and Foreign Exchange".

Name	Address	Nationality
DIRECTORS		
Chairman		
WANG Xiaochu	No. 8, Longtanhu East Road Chongwen District Beijing PRC	Chinese
Executive Director		
LI Ping	No. 9 Building Beiyingfang East Lane Xicheng District Beijing PRC	Chinese
Other Non-Executive Directors		
LIU Aili	No. 42, Jing Eleven Road Central District Jinan PRC	Chinese
ZHANG Junan	No. 7 Fengrongyuan District Shefang Lane Xicheng District Beijing PRC	Chinese

Name	Address	Nationality
DIRECTORS		
Independent Non-Executive Directors		
WANG Jun	No. 9 Cuihuawan Hutong Xicheng District Beijing PRC	Chinese
CHAN Mo Po, Paul	Unit B, 23rd Floor, Tower 7 Leighton Hill 2B Broadwood Road Happy Valley Hong Kong	Chinese
ZHAO Chunjun	No. 301, Block 12 Lanqiying Haidian District Beijing PRC	Chinese
WU Shangzhi	#23, Longyuan Shunnan Road Shunyi District Beijing PRC	Chinese
HAO Weimin	Room 1203, Block 26 Guangximenbei Lane Chaoyang District Beijing PRC	Chinese
SUPERVISORS		
XIA Jianghua	No. 1906, Beiyingfang East Lane Fuchengmen Xicheng District Beijing PRC	Chinese
HAI Liancheng	No. 11-2-402 Jiqing Lane Chaoyang District Beijing PRC	Chinese
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Legal Advisors to Our Company	*As to Hong Kong and United States Laws:* Simmons & Simmons 35th Floor Cheung Kong Center 2 Queen's Road Central Hong Kong *As to PRC Law:* Jingtian & Gongcheng Attorneys at Law 15th Floor, The Union Plaza 20 Chaoyangmenwai Dajie Beijing 100020 PRC

Legal Advisors to the Underwriters	*As to Hong Kong and United States Laws:* Freshfields Bruckhaus Deringer 11th Floor Two Exchange Square Central Hong Kong *As to PRC Law:* Haiwen & Partners Room 1711, Beijing Silver Tower No. 2, Dong San Huan North Road Chaoyang District Beijing 100027 PRC
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Property Valuer	Savills Valuation and Professional Services Limited 23/F, Two Exchange Square Central Hong Kong
Receiving Bankers	Industrial and Commercial Bank of China (Asia) Limited 33rd Floor, ICBC Tower 3 Garden Road Central Hong Kong Standard Chartered Bank (Hong Kong) Limited 15th Floor, Standard Chartered Tower 388 Kwun Tong Road Kwun Tong Hong Kong The Bank of East Asia, Limited 10 Des Voeux Road Central Hong Kong

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Authorized Representatives	Li Ping No. 9 Building Beiyifang East Lane Xicheng District Beijing PRC Chung Wai Cheung, Terence Flat G, 32nd Floor, Block 18 Laguna Verde Hung Hom Kowloon Hong Kong
Audit Committee	Chan Mo Po, Paul *(Chairman)* Wu Shangzhi Hao Weimin
Hong Kong H Share Registrar	Computershare Hong Kong Investor Services Limited Rooms 1712-16, 17th Floor Hopewell Centre 183 Queen's Road East Wan Chai Hong Kong

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The information presented in this section has been derived from official or publicly available sources, unless otherwise indicated. While we have compiled and reproduced the information, it has not been independently verified by us, our Directors, the Underwriters or any of our or their respective affiliates or advisers. This information may not be consistent with other information compiled within or outside China.

OVERVIEW OF THE PRC ECONOMY

The PRC economy has grown rapidly since the PRC government adopted the national policy of "reform and opening" in the late 1970s and early 1980s. As a result of a series of economic reforms, particularly following the PRC's accession to the WTO, the PRC economy has demonstrated strong growth and significant potential. According to the National Bureau of Statistics of China, from 2000 to 2005, the PRC's GDP grew at an average annual growth rate of 9.5% and the country's total foreign trade volume increased at an average annual growth rate of 24.6%, reaching US$1,422 billion in 2005. This has made China one of the fastest growing economies in the world. The economic development of the PRC has a direct impact on our businesses as domestic demand for telecommunications services and products is primarily driven by the growth in the PRC economy.

OVERVIEW OF THE PRC TELECOMMUNICATIONS INDUSTRY

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

According to the MII, the total number of fixed-line subscribers increased from 6.9 million as of the end of 1990 to 144.8 million as of the end of 2000, and to 350.4 million as of the end of 2005, with the penetration rate increasing from 21.1% to 27.0% between the end of 2003 and the end of 2005. As of June 30, 2006, the total number of fixed-line subscribers was 365.3 million. There are currently four licensed fixed-line operators in China, consisting of China Telecom, China Unicom, China Railcom and China Netcom.

From the end of 1995 to the end of 2005, mobile services also experienced significant growth. The number of mobile telephone subscribers increased from 3.6 million as of the end of 1995 to 84.5 million as of the end of 2000, and to 393.4 million as of the end of 2005 and the mobile penetration rate increased from 21.0% to 30.3% between the end of 2003 and the end of 2005. As of June 30, 2006, the total number of mobile subscribers was 426.4 million. China Mobile and China Unicom are the only licensed providers of mobile communications services in China.

In China, only holders of the appropriate licenses granted by the MII may engage in the provision of telecommunications services. Only a limited number of providers have obtained licenses to provide the key telecommunications services in China. There are currently two licensed mobile telecommunications service providers, namely China Mobile and China Unicom, and four fixed line service providers in China, including China Telecom, China Netcom, China Unicom, and China Railcom.

With the proliferation of personal computers and other broadband service devices, as well as the increasing affordability and expanding availability of Internet content and applications, such as online games and video-on-demand, broadband and other Internet-related services in China experienced significant growth in recent years. According to the MII, China is one of the largest markets in the world in terms of Internet subscribers, with 45.1 million broadband subscribers and 30.9 million dial-up and dedicated line subscribers, as of June 30, 2006.

In line with China's economic development and the increase of corporate users in recent years, the demand for business and data communications services has also increased in the same period. The rise of the Internet and the wider adoption of broadband applications as well as the increased demand for corporate networks and communications, have stimulated demand for managed data services, particularly from business customers. The main providers of business and data communications services are China Telecom, China Netcom and, to a lesser extent, China Railcom and China Unicom.

Total telecommunications spending in China is closely linked with the growth of the overall economy and GDP. From 2003 to 2005, China's GDP grew from RMB13.58 trillion to RMB18.23 trillion. Growth in the Chinese economy in recent years has led to significant increases in per capita income levels, business activity, and consumer wealth, which in turn led to increasing demand for telecommunications services. This greater demand is reflected in the significant growth of penetration rate and total usage of fixed-line telephone, mobile telephone, broadband and other Internet-related services, and business and data communications services in China. From 2003 to 2005, total revenues for China's telecommunications industry grew from RMB459.3 billion to RMB584.0 billion. For the six months ended June 30, 2006, revenues for China's telecommunications industry totaled RMB313.9 billion.

China has an extensive telecommunications network infrastructure. According to the MII, the total length of fiber-optic networks in China measured approximately 4.1 million kilometers as of the end of 2005, while the total capacity of long distance switches reached 13.7 million ports and the total capacity of local switches reached 472.0 million ports. In 2005, the aggregate capital expenditure of telecommunications operators in the PRC amounted to RMB209.7 billion, comprising 1.15% of the GDP for the year. The following table shows aggregate capital expenditure of PRC telecommunications operators:

	2005
	(RMB in billion)
Shanghai	10.0
Zhejiang	12.8
Fujian	7.7
Hubei	6.4
Guangdong	27.5
Hainan	1.3
Our Primary Service Regions	**65.7**
Nationwide	**209.7**

Source: MII

3G DEVELOPMENT IN PRC

The Chinese government has been actively promoting 3G development in the PRC. In 1998, the development of "TD-SCDMA", one of the 3G technologies which are adopted by ITU as widely accepted 3G standards, commenced in the PRC. Currently China Telecom, China Mobile, and China Netcom are conducting field testing of TD-SCDMA in Baoding, Xiamen and Qingdao respectively.

The commercial trial of TD-SCDMA is expected to begin at the end of 2006 after the field testing is completed. Selected users in major cities will be able to use TD-SCDMA services during the commercial trial. In addition to TD-SCDMA, research and development of other 3G technologies like WCDMA and CDMA2000 commenced in 1998 and over 100 methods of know-how have been developed since International telecommunications equipment manufacturers like Nokia and Motorola are also establishing R&D centers in China.

In early 2006, Wang Xudong, Minister of MII, stated that the MII would actively promote the issuance of 3G licenses by the end of 2006 after further testing of 3G technologies. However, there is currently no further clear official indication as to when and what 3G licenses will be granted to Chinese operators.

SPECIALIZED TELECOMMUNICATIONS SUPPORT SERVICES

Telecommunications Infrastructure Services

The design, construction, project supervision and management of telecommunications network infrastructure are regulated by the MII and the Ministry of Construction. Companies that wish to undertake the provision of telecommunications infrastructure services in China must first obtain the requisite operating qualifications or approvals from the MII and the Ministry of Construction. Different levels of operating qualifications are granted by the MII and the Ministry of Construction, ranging from qualifications to provide low end services to qualifications to provide more sophisticated services held by only a few service providers.

The telecommunications infrastructure services sector has witnessed growth that has been in tandem with the overall growth of the PRC telecommunications industry. According to the MII, there are currently a total of 153 telecommunications network design service providers, 487 construction service providers and 104 project supervision and management service providers in China, of which only 59 telecommunications network design service providers, 11 construction services providers and 37 project supervision and management service providers hold qualifications that fall within the top tier of qualifications. The following table shows the number of enterprises that have been awarded qualifications:

	Number of Telecommunications Network Design Service Providers		
	First tier	**Second tier**	**Total**
Our Primary Service Regions	15	22	37
Total nationwide	59	94	153

Source: MII report published in August 2006

	Number of Telecommunications Construction Service Providers			
	First tier	**Second tier**	**Others**	**Total**
Our Primary Service Regions	5	6	95	106
Total nationwide	11	36	440	487

Source: MII report published in August 2006

	Number of Telecommunications Project Supervision and Management Service Providers			
	First tier	Second tier	Others	Total
Our Primary Service Regions	7	4	7	18
Total nationwide	37	31	36	104

Source: MII report published in August 2006

Note: "Others" refer to a group of qualifications including third tier (Grade C) and temporary qualifications. Temporary qualifications are issued to newly established project supervision and management companies. After 2 years of operation, these companies can apply for formal qualifications.

Under the applicable PRC regulations, enterprises participating in the communications infrastructure construction are categorized into two groups: general contracting enterprises for communications project implementation and specialized contracting enterprises for telecommunications project implementation, each group further categorized into three tiers according to professional levels. Enterprises ranked as first tier general contracting enterprises for communications project implementation are allowed to undertake implementation contracts of all kinds of telecommunications and information network projects, whereas those ranked as second tier and third tier professional levels are only allowed to undertake implementation contracts of all kinds of telecommunications and information network projects provided that the project costs are RMB30 million or lower and RMB10 million or lower respectively. Enterprises ranked as first tier specialized contracting enterprises for telecommunications projects are allowed to undertake implementation contracts of all kinds of communications projects whereas those ranked as tier 2 and tier 3 professional levels are only allowed to undertake implementation contracts of communications projects which project costs are RMB10 million or lower and RMB5 million or lower respectively.

Business Process Outsourcing (BPO) services

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

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

	2003	2004	2005
		(RMB in billion)	
China Telecom	72.1	74.2	80.7
China Mobile	68.9	88.7	113.0
China Unicom	42.7	52.1	58.6
China Netcom	38.6	40.8	41.7

Source: Annual reports

Applications, content and other services

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

As of the end of 2005, according to China Internet Network Information Center, China had 111 million Internet users (an 18.1% increase from 2004), 2.6 million domain names, and 694 thousand websites. The large Internet user base has accelerated the growing demand for value-added services in China. In 2005, fixed line operators had RMB14.2 billion revenue from value added services, a 55% increase from 2004. In the second half of 2005, GPRS and CDMA 1x subscribers grew at an average of 4.8 million monthly, reaching 18.0% of total mobile subscribers at year end, from 11.6% at mid-2005. Mobile data services such as MMS, application downloads, and WAP browsing continue to grow rapidly.

In addition, the PRC government has emphasized in the 11th Five-Year Plan strategy to develop an information society in the following four aspects: (a) acceleration of information transformation in manufacturing industry; (b) further development of information resources for better processing, sharing, and utilization; (c) optimization of information infrastructure by converging telecommunication network, broadcasting network, and the Internet; (d) improvement of information security. The growth target for the information industry set out in the 11th Five-Year Plan is to grow the industry from RMB1.34 trillion in 2006 to RMB2.26 trillion in 2010.

INDUSTRY TRENDS AND FUTURE DEVELOPMENT OF THE TELECOMMUNICATIONS INDUSTRY

In the context of the 11th Five-Year plan, the Company believes the following industry trends are closely related to our business:

- Given the continuing high telecommunications service subscriber growth in China, the current capital expenditure of telecom operators on network expansion and maintenance would still remain at a relative high level in the immediate future.

- We anticipate that 3G licenses will be granted to telecom operators in the near future. Once the 3G licenses are issued, operators will start another round of infrastructure investment, which would immediately increase the demand for network design and construction services. In addition to network development, 3G services is likely to also stimulate demand for new content and application services.

- Telecommunications operators in China have reviewed their strategy and repositioned themselves as integrated information service providers to meet the rising demand for VAS services. With the increasing demand for live, interactive, multimedia content and applications, major operators compete for larger bandwidth, hence boosting spending on network upgrading towards “Next Generation Network”. This will in turn increase demand for network development services.

- We expect that competition among major telecommunications operators will increase with higher penetration and lower average revenue per user. The changing market environment will likely induce telecommunications operators to redirect resources away from non-core functions, which should creates opportunities for BPO services providers in the area of facility management services.

COMPETITION FACED BY THE COMPANY

In the specialized telecommunications support services industry, we are an integrated services provider in China. Due to our integrated business model, we have no direct competitor in the PRC providing the same integrated services. However, there are a few key competitors to some of the services we provide:

- Design services: Our key competitors of the Company are China Mobile Group Design Institute Co. Ltd. and China Information Technology Designing & Consulting Institute (CITC). Both entities are affiliates of China Mobile and China Unicom, respectively, and mainly engage in traditional network design services.

- Construction services: Our main competitor is China International Telecommunication Construction Corporation, which specialises in scaled project construction and has engineering, procurement and construction capabilities.

- Project supervision and management services: We face competition from a few small and medium sized supervision companies.

REGULATORY OVERVIEW OF THE PRC TELECOMMUNICATIONS INDUSTRY

Rules Governing Telecommunications Services

Pursuant to the Telecommunication Regulations of the People’s Republic of China promulgated and implemented by the State Council on September 25, 2000, telecommunications services are categorized into basic telecommunications services and value-added telecommunications services. Telecommunications services providers must obtain telecommunications operator licenses issued by the information industry authority of the State Council or administrative authorities in charge of telecommunications in the respective provinces, autonomous regions and municipalities in accordance with their category of services.

Rules Regulating Communications Construction

The communications construction industry is subject to government regulation. The regulatory authorities primarily include the National Development and Reform Commission, the Ministry of Information Industry, and the Ministry of Construction which have regulatory responsibilities for various aspects of communications construction industry.

Pursuant to the provisions of the Measures of Administration of Telecommunication Construction which were jointly promulgated by the former State Development Planning Commission and the Ministry of Information Industry on January 4, 2002 and which became effective on February 1, 2002, all operators participating in construction of telecommunication networks must meet the requisite criteria set by the Ministry of Information Industry or the administrative authorities in charge of telecommunications infrastructure construction in the respective provinces, autonomous regions, or municipalities and complete the professional level examination and approval and annual review formalities. No operators shall undertake any telecommunication construction project before completing the examination and approval procedures foresaid. Telecommunications construction project owners shall not assign telecommunication construction project contracts to any design, implementation, supervision and control, consultation, system integration, customer pipelines construction, tender agent entity which has not completed the required examination and approval procedures with the relevant authorities or which has not obtained the relevant professional level certifications in telecommunication construction.

With reference to the Administrative Rules on Professional Levels of Construction Enterprises which was promulgated by the Ministry of Construction on April 18, 2001 and became effective on July 1, 2001, Construction enterprises, including those undertaking construction implementation of communications projects, shall apply for professional level qualification according to their registered capital, net asset, professional technicians employed, technical equipment and facilities possessed and construction project results achieved and they shall obtain the professional level certifications of the corresponding level before they undertake any construction activities in the scope permitted by their approved professional level.

Design, construction, supervision and consultation of communication project, including construction of communication customer pipelines, site investigation are all required to obtain the professional qualifications.

Rules Governing Information Technology Application and Technology Development

According to the Administrative Measures on Software Products promulgated and implemented by the Ministry of Information Industry, software products are subject to a registration and record filing system. Administrative authorities in charge of information industry in the respective provinces, autonomous regions and municipalities are responsible for examination and approval of, the registration of locally developed software in their own jurisdiction. Upon the approval by the above mentioned administrative authorities, the software products passing examination shall receive a local software product registration code and a software product registration certificate.

Design and development of software, communication information network system integration, and computer information system integration are regulated and supervised by the Ministry of Information Industry.

Rules Governing Property Management

The primary regulatory authorities are the Ministry of Construction and its local departments.

According to the Property Management Regulations of the People's Republic of China promulgated by the State Council on June 8, 2003, enterprises providing property management services shall obtain the corresponding professional levels and personnel performing property management functions shall also obtain the professional qualification certificates pursuant to the pertaining requirement of the state.

According to the Administrative Measures on Professional Levels of Property Management Enterprises promulgated by the Ministry of Construction on March 17, 2004, property management enterprises are classified into three grades according to their professional levels: A, B and C. Enterprises of different professional levels are bound by different requirements in terms of registered capital, number of professional level staff and operating results and thus the scale of property allowed to manage varies: grade A professional level property management enterprises can undertake all kinds of property management cases; grade B professional level property management enterprises can provide property management services to residential cases under 300,000 sq.m. and non-residential cases under 80,000 sq.m.; grade C professional level property management enterprises can provide property management services to residential cases under 200,000 sq.m. and non-residential cases under 50,000 sq.m.

RESTRUCTURING OF THE TELECOMMUNICATIONS INDUSTRY

Historically, the business currently operated by us was operated by the former MPT, which was responsible for the administration of the telecommunications industry in China. As part of the restructuring, MII was established in March 1998 to assume the regulatory responsibilities of the MPT. The business operation functions of the former MPT were separated along four business lines: fixed-line, mobile, paging and satellite communications in 1999 with the approval of State Council. The DGT was renamed China Telecom Group in May 2000 to operate the nationwide fixed-line telecommunications business and specialized telecommunications support businesses. China Mobile and China Satcom were established in April 2000 and December 2001, respectively, to operate the nationwide mobile and satellite telecommunications business, while the paging business was transferred to China Unicom.

RESTRUCTURING OF CHINA TELECOM GROUP

In accordance with the State Council's comprehensive restructuring plan relating to wireline telecommunication sector in 2001, the telecommunications business of China Telecom was divided geographically into two businesses. Telecommunications business in northern ten provinces, autonomous region and centrally administered municipalities in China (namely Beijing, Liaoning, Tianjin, Hebei, Shandong, Henan, Heilongjiang, Jilin, Neimenggu and Shanxi) was merged with those of China Netcom Corporation and Jitong Communications Co., Ltd. to form China Netcom Group. China Telecom Group retained the telecommunications business as well as the specialized telecommunications support services in the remaining southern 21 provinces, autonomous regions and centrally administered municipalities in China (namely Shanghai, Guangdong, Zhejiang, Jiangsu, Anhui, Fujian, Jiangxi, Guangxi, Chongqing, Sichuan, Hubei, Hunan, Hainan, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang and Tibet) and continued to own the brand name "China Telecom".

Since 2001, China Telecom Group has carried out a series of restructuring of its telecommunications business, including restructuring of specialized telecommunications support services business. As part of the restructuring, China Telecom Group transferred its telecommunications operations in Shanghai, Guangdong, Jiangsu and Zhejiang and the related assets and liabilities to China Telecom Listco. In November 2002, China Telecom Listco completed its initial public offering on the Hong Kong Stock Exchange and the New York Stock Exchange.

OUR RESTRUCTURING

In anticipation of the Global Offering, we were incorporated on August 30, 2006 as a joint stock company with limited liability by our Promoters. To effect our restructuring, we entered into a restructuring agreement with China Telecom Group, pursuant to which the restructuring took effect as of March 31, 2006. As part of the restructuring, China Telecom Group transferred its specialized telecommunications support businesses in Shanghai municipality, Zhejiang, Fujian, Hubei, Guangdong and Hainan provinces, which comprised our Primary Service Regions, together with the related assets and liabilities, to us. These regions are among the first within the southern 21 provinces, autonomous regions and centrally administrated municipalities which completed the restructuring process. China Telecom Group retains the ownership of, and continues to operate through its wholly owned subsidiaries, the specialized telecommunications support businesses in the southern 15 provinces, autonomous regions and centrally administrated municipality in China (namely Jiangsu, Anhui, Jiangxi, Guangxi, Chongqing, Sichuan, Hunan, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang and Tibet) outside our Primary

Service Regions. The nature of operations of such retained businesses of China Telecom Group is the same as our businesses. Please see the section headed "Relationship with China Telecom" — "Exempted Connected Transactions" — "Non-competition Undertaking" for further details.

The specialized telecommunications support businesses transferred to us included:

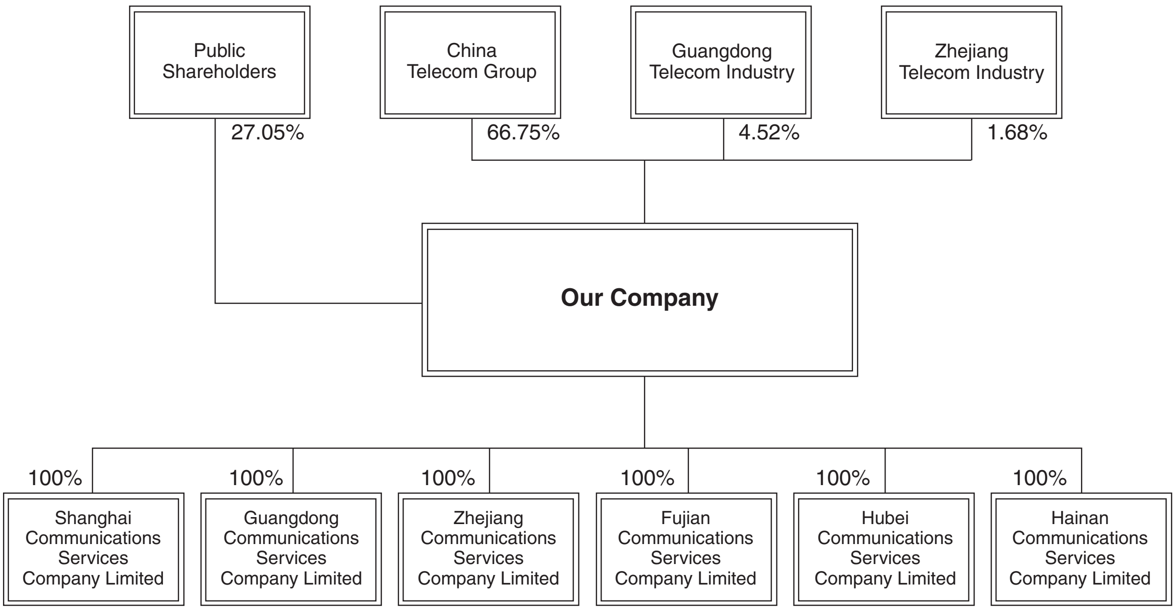
- Telecommunications infrastructure services;
- Business process outsourcing services; and
- Applications, content and others.

Certain assets and liabilities not in association with the specialized telecommunications support businesses are retained by China Telecom Group within our Primary Service Regions. These assets and liabilities are not considered necessary to the specialized telecommunications support businesses and comprise mainly office buildings and investment properties which do not directly generate operating revenue by themselves or only generate an insignificant rental revenue.

In consideration of the net assets related to the specialized telecommunications support businesses transferred to us, we issued 3,623,400,000 Shares, 245,520,000 Shares and 91,080,000 Shares to China Telecom Group, Guangdong Telecom Industry and Zhejiang Telecom Industry respectively. Since most of the key assets of our Company are located in Guangdong and Zhejiang provinces, as a measure to recognise their contribution to our Company and as a transitional arrangement, Guangdong Telecom Industry and Zhejiang Telecom Industry have been chosen, together with China Telecom Group, to become our promoters.

Immediately prior to the Global Offering, China Telecom Group, Guangdong Telecom Industry and Zhejiang Telecom Industry each owns 91.5%, 6.2% and 2.3%, respectively, of our Shares.

The following chart sets forth our corporate organization and shareholders following our restructuring and after giving effect to the Global Offering, assuming the Over-allotment Option is not exercised.

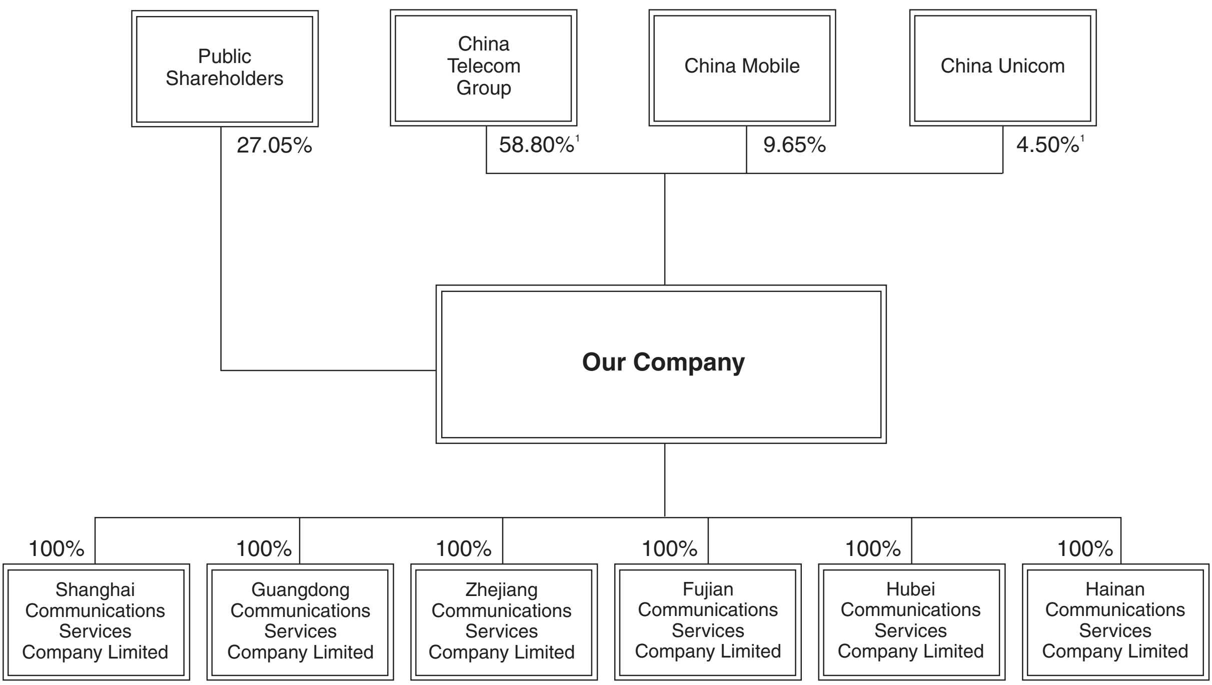


China Mobile and China Unicom are among our largest customers and as a strategy to further consolidate our customer base and strengthen the relationship with China Mobile and China Unicom, subject to the approval of the SASAC, China Telecom Group will transfer a portion of its interest in our Company to China Mobile and China Unicom for free. Since China Mobile is the state-owned enterprise, China Unicom is a state controlled company, under PRC laws and regulations, subject to the SASAC's approval, the state-owned shares held by state-owned enterprises can be transferred among them with nil consideration. Therefore, it is legal and valid for China Telecom Group to transfer the shares it held to China Mobile and China Unicom at nil consideration basis. The transfer will take effect upon the equity transfer agreement becoming effective, the Company being validly established for at least one year, such transfer having been approved by SASAC and the name of the transferee being registered in the Company's share registrar. As the PRC Company Law imposes a restriction that the issued shares of a company before public offering cannot be transferred within one year upon the Listing Date, such transfer will take effect at least one year after the Listing Date of our Company. Pursuant to an equity transfer agreement entered into between China Telecom Group and China Mobile, China Telecom Group will hold the said portion of Shares and enjoy the rights and undertake the obligations as the shareholder of the Company in accordance with the Company Law and the Articles of Association of the Company from the incorporation date of the Company to the date on which the equity transfer becomes effective. During such period, China Telecom Group is obligated to pay China Mobile any dividend received from the Company regarding the said portion of shares and China Mobile is entitled to nominate one non-executive Director candidate through China Telecom Group.

Pursuant to a memorandum of understanding entered into between China Telecom Group and China Unicom and the requirements of the PRC Company Law and other relevant regulations and rules, China Telecom Group will transfer a portion of its interest in our Company to China Unicom conditional upon an equity transfer agreement being executed, the Company being validly established for at least one year, the lapse of one year from the Listing Date, such transfer having been approved by SASAC, the name of the transferee being registered in the Company's share registrar and the approval of the independent shareholders of China Unicom. China Unicom enjoys the monetary benefits of its beneficial ownership by way of dividends and is entitled to nominate one non-executive Director candidate through China Telecom Group. In this connection, China Telecom Group has undertaken to use its reasonable efforts to procure our Company (i) not to compete with China Unicom in the provision of basic telecommunications services and certain value-added telecommunications services (in accordance with the definition set out in the Telecommunications Services Directory promulgated by MII); and (ii) not to offer any better terms to any other telecommunications operators in the provision of specialized telecommunications support services provided the terms offered by China Unicom are no less favourable than any other third parties.

After a year from the Listing Date and as an effort to improve our corporate governance and structure by introducing diversified shareholders, Guangdong Telecom Industry and Zhejiang Telecom Industry will transfer their shareholdings in our Company to China Telecom Group for nil consideration. In accordance with the equity transfer agreement signed between China Telecom Group and China Mobile, China Telecom Group will transfer 506,880,000 Shares to China Mobile, representing approximately 9.65% of the issued share capital of our Company immediately after Global Offering (assuming no Over-allotment Option is exercised). Our PRC counsel confirms that the equity transfer agreement entered into between China Telecom Group and China Mobile is valid, legal and enforceable. In accordance with the memorandum of understanding signed between China Telecom Group and China Unicom, China Telecom Group undertakes to transfer no more than 4.5% of the issued share capital of our Company immediately after Global Offering (assuming no Over-allotment Option is exercised) to China Unicom upon the entering into a definitive equity transfer agreement.

The following chart sets forth our corporate organization and shareholders after a year from the Listing Date and the shareholdings of China Mobile and China Unicom have become effective and assuming no Over-allotment Option is exercised and there is no change in our outstanding issued share capital:



Note:

(1) Assuming China Telecom Group will transfer 4.50% of the issued share capital of our Company immediately after Global Offering (assuming no Over-allotment Option is exercised) to China Unicom and assuming the percentage of the public shareholding remains unchanged at 27.05%, China Telecom Group will hold 58.80% of the issued share capital of our Company.

In connection with the restructuring, we have entered into various arrangements with China Telecom, excluding us, in respect of mutual provision of ongoing specialized telecommunications support services. These arrangements include agreements for engineering services, ancillary telecommunications services, operation support services, IT application services, centralized services and property leasing. See the Section headed "Relationship with China Telecom" for a more detailed description of these arrangements.

OVERVIEW

We recently entered into strategic and corporate relationships with Cisco BV and IDGIMS respectively. We believe these relationships will be beneficial to our operations.

On November 3, 2006, we entered into a strategic placing agreement with Cisco BV, an independent third party. Pursuant to the strategic placing agreement, Cisco BV agreed to purchase a number of our H Shares in the Global Offering. Cisco BV also entered into a cooperation agreement with us to offer managed services and network solutions as further described below.

Cisco BV is a wholly owned subsidiary of Cisco. Cisco is one of the world's leading companies in the development of Internet Protocol-based networking technologies. With more than 47,000 employees worldwide, Cisco develops products and technology solutions in the core areas of routing and switching, as well as in advanced technologies such as IP communications and application networking services. Given Cisco's strengths and experience in networking technologies and technical and business support, we believe that our business cooperation with them will be valuable and beneficial to our operation.

On October 31, 2006, we entered into a strategic investment agreement with IDGIMS, an independent third party. Pursuant to the strategic investment agreement IDGIMS agreed to purchase a number of our H Shares in the Global Offering.

International Data Group ("**IDG**") is the beneficial owner of IDGIMS. IDG is one of the world's premier technology media, events, research and venture capital investment company with its headquarters in Boston, USA. IDG Technology Venture Investment ("**IDGVC**"), one of the members in the IDG Group, is among the first American venture capital firms to enter the Chinese market and plays a leading role in the Chinese venture capital market.

OUR STRATEGIC RELATIONSHIP WITH CISCO

Strategic Placing Agreement

Investments in our H Shares

Pursuant to the strategic placing agreement we entered into with Cisco BV, Cisco BV will purchase such number of H Shares as shall be equal to an investment amount of US$50 million divided by the Offer Price, rounded down to the nearest board lot, converted from Hong Kong dollars into US dollars. Assuming the Over-allotment Option is not exercised and the Offer Price is the midpoint of the indicative offer price range, Cisco will purchase 199,143,000 H Shares in the Global Offering, representing 3.79% of our total issued share capital upon completion of the Global Offering. If the Over-Allotment Option is exercised and Cisco BV has notified the Joint Global Coordinators of its intention to participate, subject to the Hong Kong Stock Exchange's consent and provided that there is no serious delay caused to the timetable of the Global Offering, Cisco BV may further purchase such number of H Shares as would result in the percentage of H Shares that it holds in the total issued share capital of our Company being equal to the percentage of H Shares that it holds in the total issued share capital of our Company immediately after completion of the Global Offering.

The Joint Global Coordinators and the Company agree that the number of H Shares to be acquired by Cisco BV under the strategic placing agreement will not be subject to re-allocation to the Hong Kong Public Offering if there should arise any over-subscription under the Hong Kong Public Offering.

Conditions Precedent

The subscription obligation of Cisco BV to acquire our H Shares in the Global Offering is conditional upon (i) the execution of a cooperation agreement between Cisco BV and our Company; (ii) the underwriting agreements for the Hong Kong Public Offering and International Offering being entered into and becoming unconditional; and (iii) the Offer Price not exceeding an indicative upper price limit unless otherwise agreed among our Company, Cisco BV and the Joint Global Coordinators.

Restrictions on Cisco BV

Subject to the exceptions described below, Cisco BV has entered into a lock-up arrangement with us for a lock up period of 18 months from the Listing Date, during which Cisco BV will not, whether directly or indirectly, dispose of any of the H Shares purchased in the Global Offering without the prior written consent of our Company and the Joint Global Coordinators. The exceptions to the lock-up arrangement are: (i) intra-group transfers; and (ii) transfers pursuant to the stock lending agreement with one or both of the Joint Global Coordinators. After the expiry of the lock-up period, Cisco BV may dispose of all or part of its H Shares to any person or persons after it has given to us one month's prior notice of its intention, provided that such notice shall apply only in respect of the first disposal of the H Shares (in whole or in part) by Cisco BV and that Cisco BV will use all reasonable endeavours to ensure that the disposal does not create a disorderly or false market in our H Shares.

Cisco BV has agreed that, unless it obtains our prior written consent, it shall not acquire any H Shares in us (i) so that the aggregate holding (direct and indirect) of Cisco BV and its associates in the total issued share capital of our Company exceeds 9.99% of our total issued share capital; or (ii) as a result of such acquisition, the aggregate holding (direct or indirect) of Cisco BV and its associates in the total issued share capital of our Company shall cause the total securities of our Company held by the public (as defined in the Hong Kong Listing Rules) to fall below the required percentage set out in Rule 8.08 of the Hong Kong Listing Rules or such other percentage as approved by the Hong Kong Stock Exchange. However, nothing herein shall prevent Cisco BV from entering into any forms of agreements with any third party which will result in Cisco BV holding any shares in our capital (directly or indirectly) (the "**Contemplated Transaction**"), provided that if the Contemplated Transaction shall result in the aggregate holding (directly or indirectly) of Cisco BV and its associates in our total issued share capital exceeding the 9.99% threshold, before the closing of the Contemplated Transaction, Cisco BV undertakes to our Company that it will make proper arrangements to complete the sell-down of the aggregate holding to no more than 9.99%. In the event that Cisco BV proposes to sell-down the aggregate holding to no more than 9.99%, Cisco BV shall (i) use its reasonable endeavours to inform our Company the progress of such sell-down from time to time (provided that such obligation shall not prejudice any confidentiality obligations that Cisco BV or its affiliates may be subject to under the Contemplated Transaction); and (ii) discuss with us in good faith in relation to the way of such sell-down in order to avoid a disorderly or false market in our H Shares.

Cisco BV has also agreed that it may not, and should procure that none of its associate may not, apply for or place an order through the book building process for our H Shares in the Global Offering (other than pursuant to the strategic placing agreement).

Right of First Refusal

Subject to the applicable laws and regulations (including rules and regulations of the Hong Kong Stock Exchange), and our Articles of Association, and without causing any material and adverse effect on the Global Offering, we agree that Cisco BV shall have the right of first refusal to acquire further H Shares in our Company from the top three corporate investors and strategic investors (other than Cisco BV), after the Listing Date to the extent we have such rights over those H Shares. We shall use our reasonable endeavours to cause these shareholders to grant to a third party to be designated by us from time to time a freely transferable right of first refusal over the H Shares they will hold on the Listing Date. We will then cause such right of first refusal be transferred to Cisco BV in accordance with the applicable laws and regulations, and the Articles of Association of our Company.

Cooperation Agreement

Scope of Cooperation

We have entered into a cooperation agreement with Cisco BV with a view to increasing the respective revenue and market share of our Company and Cisco BV in China through the resale of Cisco BV's products. Two business cooperation areas that the cooperation agreement covers are:

- managed services, being total end-to-end solutions provided to the telecommunications services operators for the operator's end user's network operation, administration and maintenance, as well as network equipment, applications and services; and

- network solutions, being all other networking solutions, including IP infrastructure, VPN, IPTV, and 3G platform and applications.

We and Cisco BV have agreed that our scope of cooperation may be expanded by further agreements.

Preferred Partner Status

Pursuant to our cooperation agreement with Cisco BV, we have agreed to give priority consideration to Cisco BV when selecting a vendor in relation to the business cooperation areas listed above, unless our customers prefer otherwise. Where Cisco BV is not chosen as our vendor because the customer prefers otherwise, we agree to assist Cisco BV in ascertaining the reasons for such preference with a view to improving both parties' ability to better serve such customer or other relevant customers.

In return, Cisco BV has agreed to choose us as one of its preferred partners in the two business cooperation areas in the PRC given the same condition, unless the customer otherwise prefers.

The cooperation agreement will terminate on the third anniversary of the Listing Date, unless extended by both parties for a further term of three years.

Joint Committees

Pursuant to the cooperation agreement, we and Cisco BV have agreed to adopt the following measures:

- set up a leaders' forum, comprising the most senior leader of our company in the PRC and the most senior leader responsible for Cisco BV's businesses for the PRC, to provide strategic direction for the ongoing development of our cooperation;

- set up an executive committee, comprising the executives of our company in the PRC and Cisco BV's affiliate incorporated in the PRC, to provide executive level leadership for key operational issues and major decision support to the leaders' forum;

- set up an operation committee, comprising of nominees from our company and Cisco BV to implement our cooperation; and

- promote the establishment of an associate forum and to invite those members of our board nominated by China Mobile and China Unicom to join the forum and facilitate communication between our Company, Cisco BV, China Mobile and China Unicom on technology and business cooperations.

Business Plans

We agree to cooperate with Cisco BV in preparing a business plan for the development of the areas of cooperation set out in this section headed "Scope of Cooperation" as the parties may agree upon. Both our Company and Cisco BV expect (i) the business plan to be consistent with their present understanding with respect to the areas of cooperation mentioned in the above section headed "Scope of Cooperation"; (ii) the business plan to at least set out specific timeframes for execution of the initiatives of cooperation, the strategies to be adopted to pursue such initiatives, the qualitative and quantitative objectives of such initiatives, and the criteria to be used to determine whether the objectives are met, and (iii) to have at least one round of exchange of a substantive draft of the business plan within one month of the Listing Date.

OUR STRATEGIC RELATIONSHIP WITH IDGIMS

Strategic Investment Agreement

Investments in our H Shares

Pursuant to the strategic investment agreement we entered into with IDGIMS, IDGIMS will purchase such number of H Shares as shall be equal to an investment amount of US$10 million divided by Offer Price, rounded down to the nearest board lot, converted from Hong Kong dollars to US dollars. Assuming the Over-allotment Option is not exercised and the Offer Price is the midpoint of the indicative price range, IDGIMS will purchase 39,828,000 H Shares in the Global Offering, representing 0.76% of our total issued share capital upon completion of the Global Offering.

Conditions Precedent

IDGIMS's obligation to acquire our H Shares in the Global Offering is conditional upon the underwriting agreements for the Hong Kong Public Offering and International Offering being entered into, having become and remaining unconditional, and not being terminated.

Restrictions on the Investor

Except pursuant to the stock borrowing and lending arrangement entered into with one or both Joint Global Coordinators, IDGIMS has agreed not to sell, lend, transfer or pledge (excluding such pledge which is not enforceable by the chargee within a period of six months from the Listing Date) the H Shares purchased in the Global Offering without the prior written consent of our Company and the Joint Global Coordinators within a period of six months from the Listing Date.

Further Equity Investments

Pursuant to the strategic investment agreement, it has been agreed that our Company and IDGIMS will, within a period of three years from the date of the strategic investment agreement, use their reasonable efforts to enter into negotiation in relation to further equity investments in our existing or potential business.

OVERVIEW

We are a leading integrated provider of specialized telecommunications support services to telecommunications operators in the PRC. We offer telecommunications infrastructure ("TIS") services, including design, construction and project supervision and management, business process outsourcing ("BPO") services and applications, content and other ("ACO") services. All five major telecommunications operators in the PRC, namely, China Telecom, China Mobile, China Unicom, China Netcom, and China Railcom, are our customers. We also provide services to telecommunications equipment manufacturers and large corporates in the PRC.

Our principal business covers the following three areas:

- *TIS services*. We offer a range of telecommunications infrastructure services, including design, construction and engineering, and project supervision and management for telecommunications network infrastructure related projects.

- *BPO services*. We offer a range of BPO services for telecommunications operators, including network maintenance, facilities management, and distribution of telecommunications services and products.

- *ACO services*. We offer a variety of value added telecommunications and information technology services, including system integration, Internet services, and value added voice services, as well as other services.

For the three years ended December 31, 2003, 2004, and 2005, and the six months ended June 30, 2006, our revenue was RMB10,917 million, RMB12,249 million, RMB13,232 million and RMB6,372 million, respectively. The following table sets forth our revenues from each of our three key business areas in 2003, 2004, 2005, and the six months ended June 30, 2006, and the contribution in percentage terms by each of them to our total revenue for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,	
	2003		2004		2005		2006	
	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except for percentages)							
Telecommunications infrastructure services	6,693,087	61.3	7,241,852	59.1	7,199,590	54.4	3,145,606	49.4
BPO services	3,157,619	28.9	3,637,461	29.7	4,363,152	33.0	2,457,462	38.6
Applications, content and others	1,066,558	9.8	1,369,515	11.2	1,669,549	12.6	769,157	12.0
Total	10,917,264	100.0	12,248,828	100.0	13,232,291	100.0	6,372,225	100.0

We have established relationships with the major telecommunications operators in China and our key customers include China Telecom, China Mobile, and China Unicom. For the year ended December 31, 2005 and the six months ended June 30, 2006, our revenue from the provision of services to these three major customers was approximately RMB8,289 million and RMB4,188 million, respectively, representing approximately 62.7% and 65.7% of our total revenue. China Telecom is our single largest customer by revenue, and revenue from China Telecom represented approximately 45.2% and 51.2% of our total revenue for the year ended December 31, 2005 and the six months ended June 30, 2006, respectively.

We are ranked among the top service providers in a number of our key businesses. For example, based on the most recent industry statistics available, two of our design institutes were ranked by the Ministry of Construction among the top five telecommunications design companies in the PRC in 2004; we have eight out of 11 top-two tier construction qualifications and six out of 11 top-two tier project supervision and management qualifications in our Primary Service Regions, based on statistics published by the MII. Over the period from 2003 to 2005, we received more than 100 awards for telecommunications design, construction or project supervision and management services from the MII and provincial telecommunications administrations.

Our business operations have historically been conducted as part of the functions of the former MPT (now the MII). Prior to the restructuring of the telecommunications industry in the PRC starting in 1998, the MPT dominated the telecommunications industry in the PRC and provided specialized telecommunications support services. Following the restructuring of the PRC telecommunications industry, our operations were conducted as part of the overall business of the predecessor of China Telecom, together with China Telecom Listco's current telecommunications operator businesses. Our Company was subsequently formed following a separation from China Telecom and restructuring, with China Telecom Group as the controlling shareholder.

We are headquartered in Beijing, the PRC. Our business activities are conducted primarily in our Primary Service Regions in Shanghai municipality, and Zhejiang, Fujian, Hubei, Guangdong, and Hainan provinces. We also provide our services in other regions in the PRC as well as overseas.

OUR COMPETITIVE STRENGTHS

We believe we have greater expertise, experience and resources than our competitors in our business areas. We possess the following principal competitive strengths:

Market leading integrated services for PRC telecommunications operators

We have established a market leading position as an integrated one-stop provider of specialized telecommunications support services for telecommunications operators in our service regions in the PRC. We have been responsible for the design, construction and subsequent upgrading and expansion of a number of large scale projects, including the first Total Access Communication System, or TACS, and GSM networks in the PRC. Our comprehensive range of services supports different types of business activities of telecommunications operators. Our integrated one-stop shop service model allows us to provide extensive coverage of our customers' requirements, enabling us to better satisfy our customers' needs, further develop our client relationships and cross-sell our different services. We believe our clients can take advantage of cost efficiencies from our economies of scale and our ability to share internal resources and expertise across different businesses, as well as benefit from the convenience of a single interface with a one-stop shop service. We believe that the integrated and specialized services we provide make us an indispensable service provider in the business operations of our customers.

Established customer relationships and deep understanding of customer requirements

We have established long term relationships with our major customers, which include major PRC telecommunications operators, China Telecom, China Mobile, and China Unicom. Prior to the restructuring of the telecommunications industry in the PRC, our businesses were operated together with the business of a number of other major telecommunications operators as a single post and telecommunications system. Consequently, we have been providing our services to China Mobile since its establishment in 1997, to China Telecom Group since its restructuring in 2000 and to China Telecom Listco since its incorporation in 2002. We have retained strong links with China Telecom and other major telecommunications operators and have an in-depth knowledge of their business, including various network configurations, operational procedures and business development plans at all levels.

We have a thorough understanding of the industry in which we operate. We believe that our historical involvement in the telecommunications industry in the PRC and many years of in-depth and extensive cooperation with the major telecommunications operators have enhanced our reputation and profile that gives us an important edge over our competitors.

Top tier technical and business qualifications and ability to offer first class services

We believe we have a strong reputation for our ability to deliver a comprehensive range of first class services to our customers, built on our thorough understanding of the industry and our customers' requirements, our extensive resources, the high quality of our services, as well as our ability to respond speedily to the needs of our customers.

Our key subsidiaries have obtained key top-tier regulatory qualifications and operating licences for telecommunications design, construction and project supervision and management, which enable us to provide a broad range of high-quality services. We also hold critical regulatory licences and qualifications required by the relevant government authorities to enable us to provide our IT applications services, value added telecommunications services, and Internet and content services.

The specialized qualifications and licences we hold demonstrate the high quality of our services, as well as the higher level of sophistication and technical know-how of our staff and the services we offer, which we believe will enable us to offer more high-end services to our customers which will, in turn, generate higher overall profitability for us. We also believe that these qualifications and licences impose significant barriers of entry to our competitors who aspire to compete in the high-end market. Based on 2005 MII statistics for qualifications in the telecommunications infrastructure services industry, we have nine out of 37 top-two tier design qualifications, eight out of 11 top-two tier construction qualifications, and six out of 11 top-two tier project supervision and management qualifications in our Primary Service Regions.

Our extensive coverage of infrastructure set-up, equipment, qualified personnel enables us to respond speedily to the needs of our customers throughout our Primary Service Regions.

Strong customer base with key customers as shareholders

We have a strong customer base, with some of our key customers and strategic partners, including China Telecom Group, China Mobile and China Unicom, holding or having agreed to hold strategic investments in us. As a result of the strategic investments by these major telecommunications providers, we believe that we are well positioned to benefit from business opportunities from these providers and to further diversify our sources of revenue. We therefore believe that the strategic investments by our customers will help us to be the provider-of-choice for the services we provide, and will allow us to enhance our market leading position.

Robust financial position to drive expansion and growth

We maintain a strong financial position. As at June 30, 2006, we had cash of RMB2,445 million and our total indebtedness was RMB431 million. Given that a number of our key businesses require commitment of significant financial resources, we believe that our strong financial position gives us a competitive advantage against competitors who may have relatively weaker financial resources, and positions us well for our expansion and growth. Our capital structure also allows us greater financing flexibility as we seek to capture business expansion opportunities.

Experienced management and staff with sound industry knowledge, management skills and technical know-how

Our senior management possesses extensive experience, technical know-how, management skills and industry knowledge. Our management team has an average of over 20 years of relevant industry experience and hence has an in depth knowledge of the industry in which we operate. We believe our experienced management team enables us to capture market opportunities and to formulate and execute sound business strategies. Please refer to the section headed "Directors, Supervisors and Senior Management" for biographies of our management team.

We believe that telecommunications operators place particular value on skilled and experienced technical personnel. We believe that our staff, especially technical personnel, are amongst the best available in our industry in the PRC. We aim to attract and retain the best graduates from universities and technological institutions, as well as experienced professionals within the industry by relying on our market leading reputation. We provide our staff with training courses to ensure that their skills are constantly upgraded and commensurate with rapid technological advances.

OUR STRATEGY

We intend to maintain and strengthen our market leading position in our Primary Service Regions, and to pursue select opportunities in the PRC and overseas markets. The key components of our strategies are:

Consolidate our existing customer base through providing customized and differentiated integrated solutions

We seek to continue to consolidate and strengthen our existing customer base. We plan to pursue a number of initiatives aimed at enhancing our ability to deliver customized and differentiated integrated solutions to our customers. Our initiatives cover areas including optimizing our existing product and service offerings, continuing to build strategic relationships with telecommunications operators and equipment vendors, strengthening cooperation with other upstream and downstream partners as well as implementing a customer centric sales and marketing structure.

Each of our business areas operated as separate services within distinct service regions. We plan to realise synergies among our various business lines by realigning our internal resources to ensure that our best products and services are available to all our customers by centralizing our expertise in specific businesses across our Primary Service Regions as well as taking a more integrated cross-service approach within a service region. In addition we also plan to develop a more specialized management model along different business lines.

As telecommunications operators seek to transform their business model to become providers of comprehensive information and value added services, we plan to play an active role in their transformation by utilizing our distribution, technical and service advantages, thereby becoming an indispensable supplier in such operators' business operations. We also plan to strengthen our strategic relationships with upstream and downstream partners, including equipment manufacturers, software providers and transport and logistics providers. For example, we have entered into a strategic cooperation agreement with Cisco BV. For further details please refer to the section headed "Our strategic and Corporate Investors — Cooperation Agreement". We also plan to implement a customer centric sales and marketing structure and dedicated customer service teams, in order to enhance our ability to analyze and rapidly respond to changing needs of our customers.

We believe that our initiatives will allow us to offer our customers a complete spectrum of high quality customized and differentiated products and services that will position us as the leading integrated solutions provider to telecommunications operators.

Develop strong 3G capabilities

We have commenced preparation for the implementation of 3G telecommunications networks in China and aim to be the service provider of choice for telecommunications operators for their 3G related services.

Our preparation has focused on the following aspects:

- *Dedicated research team*. We have established a 3G research team to focus on 3G technology developments and the requirements for and business opportunities in network infrastructure and applications resulting from the launch of 3G in the PRC. Our research team has also conducted research in cooperation with a number of telecommunications operators and the PRC government on 3G related issues. We have also been actively involved in the PRC government and industry's 3G related activities, such as the discussion on the formulation of 3G standards.

- *Early involvement with operators*. We have been working closely with telecommunications operators such as China Telecom, China Mobile and China Unicom, providing them with feasibility study reports, and design and planning services relating to the construction of trial 3G networks and 3G business plan consulting. Through our early involvement with operators on 3G technology, we believe we are recognized as a strong 3G technology service provider for operators.

- *Cooperation with equipment suppliers*. We have cooperated with major telecommunication equipment suppliers on training, information exchange, and initiatives in potential construction engineering services. We have also established a 3G training center in Zhejiang Province in collaboration with Ericsson, Huawei Technologies and Siemens.

As at September 30, 2006 our capital expenditure expended in setting up our 3G initiatives is approximately RMB98 million. We estimate that we would invest a further sum of approximately RMB400 million in the next three years to further develop our 3G capabilities, the sources of funds for this investment will be from the proceeds of the Global Offering and our internal resources.

We believe that our initiatives to prepare for the launch of 3G services in the PRC, together with our track record of providing a full suite of services to the 2G networks of telecommunications operators, put us in a strong position to offer a full range of high quality services to telecommunication operators relating to the development of their 3G networks, as well as offer 3G related applications and content products to end users.

Expand into new businesses and new markets

In addition to maintaining a stable growth of our telecommunications infrastructure services business, we plan to develop high-end business capabilities in BPO services and applications, content and other services. We plan to continue to expand the product range and service mix that we offer telecommunications operators. We intend to build on our reputation for first class, high quality services by developing and offering services with high value-added and high technology elements, especially in relation to equipment tuning, network optimization, intelligent buildings. We also seek to continue to focus on applications and content platform development, as well as value added voice and Internet services.

We also seek to develop a customer base outside of telecommunications operators. The PRC government declared the development of the information technology industry a national priority and has encouraged the use of information technology in various aspects of economic and social life. The PRC government has also promulgated a national policy of "Industrialization Through Information Technology", which we believe has created a favorable environment for us to develop our enterprise and government agency customer base.

We plan to actively seek cooperation opportunities with telecommunications equipment manufacturers in and outside of China. We believe that there are significant opportunities for our specialized telecommunications support services in overseas markets.

Improve operational efficiencies and effectively control operating costs

We plan to improve our operational efficiencies and effectively control our operating costs through the following initiatives:

- centralizing our financial management and budgeting process, in order to deploy capital efficiently and tighten control over capital expenditure, utilize working capital efficiently and decrease the cost of financing;

- controlling the cost of materials by adopting an efficient procurement process through centralized and organized negotiation and strategic cooperation with suppliers, and by reducing inventory;

- increasing resources allocation and utilization efficiency by integrating the operation of our business lines, and decreasing our customers' and our own operation cost by providing "one-stop" integrated services;

- adjusting staff composition, controlling personnel cost by targeting a growth rate of personnel cost which is two percentage points lower than the growth rate of revenue, and adopting profitability oriented employee incentive schemes; and

- adopting centralized IT management systems to integrate accounting and financial and human resource information, improve operation efficiency, and reduce general and administration expenses.

We are committed to implementing the above initiatives on organizational restructuring and integration of service lines. However, there can be no assurance that we will be able to realize the intended benefits of these plans.

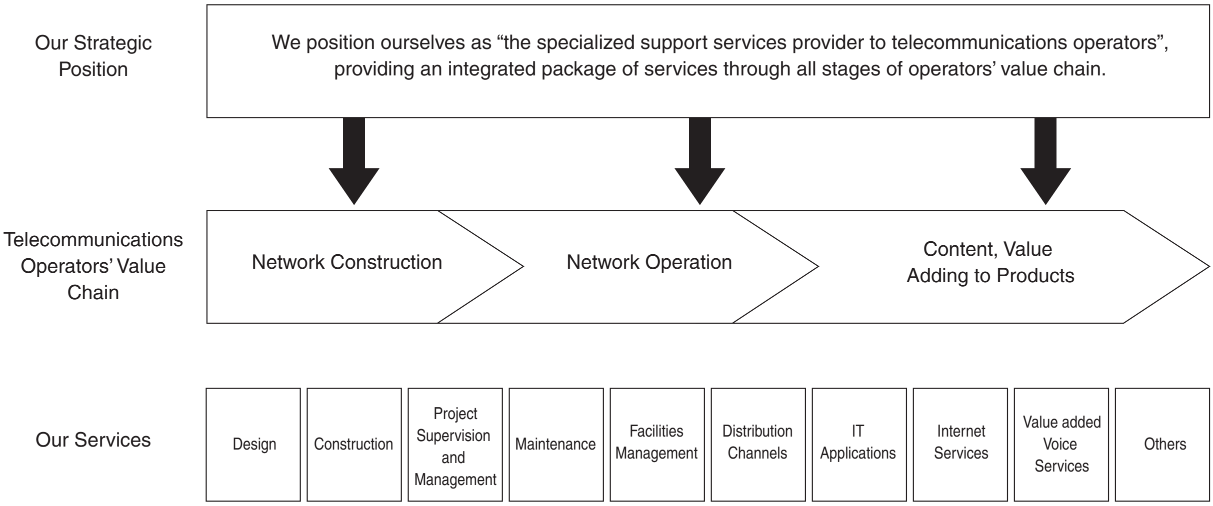
Strengthen our competitive position through selective acquisitions

We plan to expand our business geographically in the domestic PRC market through selective acquisitions, including the acquisition of other affiliates of China Telecom Group engaging in similar business in regions other than our Primary Service Regions. Under the non-competition undertaking entered into with China Telecom Group, we have been granted a priority right to be expired on the third anniversary of our Listing Date to acquire from China Telecom its retained specialized telecommunications support businesses outside of our Primary Service Regions at our discretion. Should China Telecom Group propose to transfer any of its existing businesses in certain other provinces, municipalities and autonomous regions in China outside of our Primary Service Regions to any third parties, we have also been granted a right of first refusal to acquire such competing businesses from China Telecom Group. At present, there are no definitive plan or timetable for such possible acquisition but we intend to acquire appropriate assets from China Telecom Group within the next 12 to 18 months. Any such acquisition will be subject to compliance with the relevant requirements of the Listing Rules in relation to notifiable transactions and connected transactions. We may also pursue other selective acquisition opportunities, particularly in business process outsourcing and content services.

OUR SERVICES

We provide integrated services relating to all stages of the business of telecommunications operators, from telecommunications network construction, maintenance, operation to the provision of services to users. We provide services across the country, with a focus on our Primary Service Regions.

Our business and operations model is designed to ensure a smooth integration of the specialized services we provide and to optimize both horizontal and vertical integration. Our business and operations model may be simplified as follows:



Telecommunications Infrastructure Services

We provide telecommunications infrastructure services, including telecommunications network planning and design, construction, and project supervision and management.

The following table sets forth our revenues from each of our three categories of telecommunications infrastructure services for the three years ended December 31, 2003, 2004 and 2005, and the six months ended June 30, 2006 and the respective contribution in percentage terms to our total revenues.

	For the year ended December 31,						For the six months ended June 30,	
	2003		2004		2005		2006	
	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except for percentages)							
Design services	1,143,942	17.1	1,331,434	18.4	1,438,025	20.0	661,409	21.0
Construction services	5,338,604	79.8	5,668,302	78.3	5,480,420	76.1	2,358,199	75.0
Project supervision and management services	210,541	3.1	242,116	3.3	281,145	3.9	125,998	4.0
Total	6,693,087	100.0	7,241,852	100.0	7,199,590	100.0	3,145,606	100.0

Design Services

We offer planning and design services for fixed line and mobile telecommunications networks. Our services include consultancy, planning, field survey and design of telecommunications networks, civil engineering projects and other auxiliary facilities. Through our planning and design services, we provide operators with information about the future trend for network development, as well as tailor-made network solutions.

Field survey and design for telecommunications projects. We provide field survey and design services for the following communication projects:

- construction of electrical and optical ducts and cables for telecommunications networks;
- installation of communications equipment;
- indoor wireless distribution systems and communications network optimization; and
- design of civil engineering projects and other auxiliary facilities.

Communications Planning. Our service capabilities cover the following areas:

- network planning for telecommunications operators including mid- and long-term overall planning and special planning;
- industry planning for government agencies;

Consultancy services. We provide customers with consultancy services, including:

- operation consultancy on development strategies, sales, marketing and management; and
- technology consultancy for the assessment, reconfiguration and optimization of networks.

Our principal customers are telecommunications operators including China Telecom, China Mobil, China Unicom, as well as government agencies.

Construction Services

Further to our design services described above, we carry out the construction, installation and adjustment work relating to fixed line and mobile telecommunications infrastructures, and help telecommunications operators form their network capability to provide telecommunications services. Our services include:

- laying and installation of electrical and optical duct and cable networks for communications systems;
- installation, adjustment and testing of communications equipment (including data equipment, transmission equipment, switching equipment and wireless equipment);
- civil engineering works and construction of other auxiliary infrastructures, including construction of equipment rooms, civil engineering decorations, construction of lightening protection equipment, environment and power systems such as communication power supply and air-conditioning systems, and construction of wireless transmission towers; and
- telecommunications network optimization projects, including optimizing of existing personal handy phone system, GSM, and CDMA networks.

Our principal customers are telecommunications operators. In addition, we also provide such specialized telecommunications infrastructure construction services to national and local utility companies, government agencies and other corporate customers. In the six months ended June 30, 2006, our revenue from providing such service to customers other than telecommunication operators accounted for 23% of our total revenue from our construction services. Through our network construction services, we help operators expand network capacity and coverage, in order to satisfy their fast growing business demand.

Project Supervision and Management Services

We offer clients with project supervision and management services. Through such independent services, we help customers control the quality, progress, cost and security of communications related projects, organize project completion inspections and acceptance, and conduct settlement auditing services. Our services comprise of the following two categories:

- supervision and management of communications projects, including the supervision of the laying of communications ducts and cables, and the installation of data, transmission, exchange and wireless equipment for telecommunications networks and systems; and

- supervision and management of civil engineering projects and installation of electricity and air-conditioning devices for communications facilities and equipment.

Our supervision and management services cover all stages and aspects of a project, from the initial stages of project planning such as project feasibility studies, business planning research, investment assessments, to the completion stage such as the auditing of project budgets and actual costs.

Our principal customers are telecommunications operators including China Telecom, China Mobile, China Unicom, as well as large enterprise customers such as Huawei Technologies and ZTE Corporation.

BPO Services

We provide comprehensive, high quality BPO services to telecommunications operators in China, offering a range of network maintenance, distribution of telecommunications services and products and facilities management services.

The following table summarises our revenue from our BPO operations for the three years ended December 31, 2003, 2004 and 2005 and the six months ended June 30, 2006 and the respective contribution in percentage terms:

	For the year ended December 31,						For the six months ended June 30,	
	2003		2004		2005		2006	
	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except for percentages)							
Network maintenance	142,098	4.5	219,918	6.0	593,653	13.6	277,605	11.3
Distribution of telecommunications services and products	1,925,244	61.0	2,313,267	63.6	2,576,583	59.1	1,681,809	68.4
Facilities management	1,090,277	34.5	1,104,276	30.4	1,192,916	27.3	498,048	20.3
Total	3,157,619	100.0	3,637,461	100.0	4,363,152	100.0	2,457,462	100.0

Network Maintenance

We offer services for the maintenance and repair of telecommunications network infrastructure and enterprise intranet, including:

- maintenance of telecommunications pipelines, cables and telecommunications related physical premises;

- maintenance of mobile telecommunications base stations, personal handy phone system base stations and communications equipment rooms; and

- maintenance and repair of equipment, covering telecommunications terminal equipment, air-conditioning systems, power supply facilities, telephone booths, and IT systems.

Through our regular and specialized network maintenance services, we help operators maintain a stable network operation and reduce their network operating cost.

Our principal customers are telecommunications operators like China Telecom, China Mobile, and China Unicom, as well as enterprise customers. In 2005, we maintained approximately 219,000 kilometers of optical cables, and approximately 417,000 base stations.

Distribution of Telecommunications Services and Products

We provide distribution channels for telecommunications services and products, including:

- subscriber base development for telecommunications services offered by telecommunications operators, such as the distribution of fixed telephone service, personal handy phone system services, mobile telephone services, data services, and broadband services and sale of telecommunications terminal equipment such as telephones, headsets and broadband modem;

- installation and removal of fixed lines and broadband lines for telecommunications operators and bill delivery and fee collection for telecommunications operators;
- distribution and sale of scratch cards for telecommunications operators; and
- distribution of other services developed by telecommunications operators.

China Telecom is the principal customer of our distribution of telecommunications services which complement China Telecom's proprietary retail outlets. We have more than 220 outlets in our Primary Service Regions. In 2005, our distribution outlets sold over one million handsets. All of them are capable of offering the almost identical range of services as China Telecom's own proprietary retail shops. We also offer the distribution of telecommunications cards and processing of broadband subscribers' applications in some of our Internet cafes. With our distribution channels, China Telecom is able to penetrate into regions where their own promoting and sale activities are difficult to cover or they cannot operate in a cost efficient manner.

Facilities Management

We provide facilities management services for telecommunications operators, including the management, maintenance and security of communications premises and equipment rooms, as well as other telecommunications facilities. We also provide the maintenance of intelligent buildings and management services for office buildings, residential compounds, and commercial buildings. In 2005, we managed approximately 14 million square meters of facilities.

Our principal customer is China Telecom, with which we normally enter into contracts with a minimum of one year term for respective services regarding certain facility or property.

Applications, Content and Others

We offer a variety of IT applications, Internet services, value added voice services, and other services for telecommunication operators and enterprise customers, as well as the public.

Applications

We offer information technology applications services, including system integration, communications network support services and software and hardware development to telecommunications operators and other enterprise users.

System integration services. We provide system integration services to telecommunications operators and enterprises, including network systems integration, business integration and applications integration. Our services cover operating systems, database systems, pre-emptive maintenance of databases, system performance adjustment, system security assessment, software and hardware function testing, IDC related services and the research and development of new services. We also provide system integration services for the computer system, customer service system and video monitoring systems of large enterprises and government agencies.

Communications network supporting services. We provide communication network supporting services to telecommunications operators and other enterprise customers. Our services cover software debugging, technology support; promotion and maintenance; and network updating, configuration, administration and security services.

Software and hardware development. We develop a comprehensive range of software and hardware, including:

- information system software;
- development and application of operation hardware and software (including MSS, BSS and OSS);
- development and application of Internet information sources;
- development of platforms for valued added services; and
- development of applications.

We offer IT application services to China Telecom, other telecommunications operators, large enterprise customers of China Telecom with demands for our services, and other enterprise customers we develop independently. By teaming up with China Telecom, we develop and provide integrated, customer centric solutions (where the customer can benefit from the distinct yet complementary services offered by us and China Telecom) that tailor directly to the diversified needs of various customers, thereby enhancing customer satisfaction and maximizing our revenue. An example of a project involving cooperation with China Telecom is the setting up of an IT network and connection platform between the branches of a PRC company across China where we provided services for systems integration, infrastructure design, supervision and maintenance and where China Telecom provided the cable and fibre set-up required for the IT network.

Value Added Voice Services

- Call center services. We operate call centers. Upon the demand of telecommunications operators and other enterprise customers, we provide marketing, customer-help and after-sale services on behalf of our customers through our call centers. For example, we are operating the “10000” customer service line for China Telecom in certain regions, and we are also providing call center service seats for the use of enterprise customers.
- Interactive voice response services (IVR). We offer human and automatic voice information services for telecommunications operators, government agencies and enterprise customers. For instance, we provide lifestyle and entertainment information services for China Telecom’s 160 and 168 paid information lines, and offer industry information services in cooperation with government agencies.
- ring tones and colourful back tones services for telephony users’ subscription.

Internet Services

We offer the following Internet services independently or in cooperation with telecommunications operators:

- ICP content provision. We provide Internet information and content services, such as online games, “infotainment” news, SMS and online advertising.

- Internet resources provision. We offer Internet access service, IDC, and bandwidth provision in the capacity of an agent of telecommunications operators.

- e-commerce (B2B). We provide e-commerce certificate authentication and electronic payment services and we were one of the first eight companies in the country that were granted qualifications to conduct e-commerce certificate authentication in 2005. We also provide business information platforms for small and medium enterprises.

- Internet cafes. We operate 36 Internet cafes in Guangdong Province.

Our Overseas Business

We derive a portion of our revenue from construction services conducted overseas. We have begun expanding into overseas markets by cooperating with PRC-based telecommunications equipment manufacturers such as Huawei Technologies (a telecommunications network solutions providing with global operations), ZTE Corporation (a telecommunications network solutions provider with global operations and which is listed on both the Shenzhen Stock Exchange and the Hong Kong Stock Exchange) and Alcatel Shanghai Bell. By sub-contracting from these equipment manufacturers or contracting directly with foreign customers such as telecommunications operators or governments, we provide telecommunication project design, construction, project supervision and maintenance services. Some of our local entities also entered into framework contracts with such equipment manufacturers for the development of overseas business. Our overseas ventures with these equipment manufacturers include the construction project for a major mobile operator network in Congo and the provision of consultancy services overseas on an 'ad-hoc" basis.

We also cooperated with foreign telecommunications consulting companies in developing overseas telecommunications infrastructure services market and derive a portion of our revenue from such corporation. For example, we began cooperation with Aircom of the UK in 2003 and have since then worked with it in Pakistan and Indonesia on some design and consulting projects.

Revenue amounting to RMB314,000 was derived from our cooperation with these foreign telecommunications consulting companies for the year ended December 31, 2005. There was no such revenue derived for the two years ended December 31, 2003 and 2004 and the six months ended June 30, 2006.

Our overseas clients are mainly located in South America, Africa and South Asia. Our overseas projects have included providing construction services and design services such as for the rural telephone network of Nigeria in cooperation with Alcatel Shanghai Bell, and providing certain survey and design services for the MIC network microwave and civil engineering work in the Democratic Republic of Congo in cooperation with Huawei Technologies.

SALES AND MARKETING

Our customer base includes China's leading telecommunications providers, China Telecom, China Mobile, China Unicom, China Netcom and China Railcom. Among them, China Telecom, China Mobile and China Unicom were our three largest customers in 2003, 2004 and 2005.

For each of the three financial years ended December 31, 2005 and the six months ended June 30, 2006, our five largest customers in the PRC are as follows:

Financial period	Five largest customers
Financial year ended December 31, 2003	China Telecom, China Mobile, China Unicom, Shanghai Post & Telecommunications Equipment Company Limited and Guangdong Post Save Exchange Bureau
Financial year ended December 31, 2004	China Telecom, China Mobile, China Unicom, Hangzhou Nantian Communications Company and Shanghai Municipal Asset Operation Development Company Limited
Financial year ended December 31, 2005	China Telecom, China Mobile, China Unicom, Hangzhou Nantian Communications Company and Shanghai Jiuhe Communication Equipment Company Limited
Six months ended June 30, 2006	China Telecom, China Mobile, China Unicom, Shanghai Lansha Digital Science and Technology Development Company Limited and Wujiang Photoelectricity Communication Circuitry Cable Factory

In 2003, 2004 and 2005 and the six months ended June 30, 2006 our three largest customers accounted for approximately 60.0%, 60.3%, 62.7% and 65.7% of our revenues and our five largest customers accounted for approximately 60.8%, 61.7%, 64.4% and 67.0% of our revenues. For each of the three financial years ended December 31, 2005 and the six months ended June 30, 2006, approximately 61.5%, 63.2%, 66.2% and 69.2% of our revenue was derived from the provision of services to our ten largest customers which are state-owned enterprises in the Primary Service Regions.

	For the year ended December 31,						Six months ended June 30,	
	2003		2004		2005		2006	
	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except for percentages)							
China Telecom	5,357,515	49.1	5,916,065	48.3	5,983,081	45.2	3,262,377	51.2
China Mobile	902,681	8.3	1,088,214	8.9	1,702,461	12.9	684,882	10.7
China Unicom	284,082	2.6	380,161	3.1	603,685	4.6	240,468	3.8
Others	4,372,986	40.0	4,864,388	39.7	4,943,064	37.3	2,184,498	34.3
	10,917,264	100.0	12,248,828	100.0	13,232,291	100.0	6,372,225	100.0

China Telecom has, in revenue terms, in 2003, 2004 and 2005 and the six months ended June 30, 2006, constituted our single largest customer accounting for approximate revenues of RMB5,358 million, RMB5,916 million, RMB5,983 million and RMB3,262 million representing 49.1%, 48.3%, 45.2% and 51.2% of our total revenue in 2003, 2004 and 2005 and the six months ended June 30, 2006 respectively.

Save for China Telecom, China Mobile and China Unicom and the interests of relevant Directors therein, all of our top five customers during 2003, 2004 and 2005 were companies independent of the Directors, Supervisors, Promoters, controlling shareholder, substantial shareholder and the chief executive (as defined in the Listing Rules) of the Company and its subsidiaries.

Pricing Policy

We price our construction, design, and project supervision services on the basis of guidance ceiling rates prescribed by relevant government agencies. In bidding for or negotiating to accept consignment of a specific project, downward adjustments of such rates may be made by reference to the circumstances of the project, such as the long-term relationship with a client, the estimated quote by competitors, and the difficulty in performing the project. We offer our other services at market rates.

Marketing and Customer Service

We have implemented certain marketing measures to strengthen, and consolidate our relationship with customers and improve our services, which include:

- forming strategic cooperation relationship with key customers. For example, we have entered into a strategic cooperation agreement with China Telecom, our single largest customer, through which we provide each other favourable treatment in granting business and providing services. For details please refer to the section headed "Relationship with China Telecom — Non-Exempted Continuing Connected Transactions between China Telecom and Us".

- setting up dedicated customer relationship and marketing teams targeted at and committed to different customers.

- creating "Chinese Walls" among different customer service teams committed to developing and serving different customers so as to ensure that confidential information and customer interests are not compromised.

- performing internal integration to offer integrated services lines to customers and improve operation efficiency.

SUPPLIERS

We make most of our purchases through competitive biding primarily based on product and service quality, system compatibility and price. For each of the three financial years ended December 31, 2005, and the six months ended June 30, 2006, our five largest suppliers for the respective periods accounted for 6.9%, 5.3%, 7.3% and 19.3% of our total purchases, and our ten largest suppliers which are state-owned enterprises for the respective periods accounted for approximately 5.8%, 9.1%, 6.7% and 12.8% of our total cost of inventories in the Primary Service Regions. For each of the three financial years ended December 31, 2005, and the six months ended June 30, 2006, our single largest supplier for the respective periods accounted for 2.8%, 1.5%, 2.2% and 11.0% of our total purchases. For each of the three financial years ended December 31, 2005, and the six months ended June 30, 2006, our five largest suppliers in the PRC are as follows:

Financial period	Five largest suppliers
Financial year ended December 31, 2003	UTStarcom Telecom Co., LTD, Shanghai Suotong Communication Equipment Company Limited, Alcatel Hangzhou Communication System Co., LTD, Zhongshan Rifeng Cable Manufacture Co., LTD and Foshan Shunde Ronggui South Communication Cable Co., LTD.
Financial year ended December 31, 2004	Ronghao Communication Equipment Company Limited, Nanchang Putian Communication Terminal Company Limited, Dalian Daxian Communication Equipment Company Limited, Shenzhen Putian Lingyun Communication Technology Company Limited and Wujiang Photoelectricity Communication Circuitry Cable Factory.
Financial year ended December 31, 2005	UTStarcom Telecom Co., LTD, Cisco BV, Zhongxing Communications Company Limited, Guangdong Wuhua Telecommunication Equipment Company Limited and Langchao LG Digital Mobile Communications Company Limited.
Six months ended June 30, 2006	UTStarcom Telecom Co., LTD, Zhongxing Communications Company Limited, Guangdong Wuhua Telecommunication Equipment Company Limited, Shanghai Puyin Communication Development Company Limited and Shenzhen Huawei Mobile Technologies Company Limited.

None of our Directors, their respective associates or any shareholders of our Company (which to the knowledge of our Directors, beneficially own more than 5% of our issued share capital) had any interest in any of our five largest suppliers for the three years ended December 31, 2005 and the six months ended June 30, 2006.

MANAGEMENT INFORMATION AND INFORMATION TECHNOLOGY SYSTEMS

We have in place certain key management information systems, including financial information, office automation system and human resources management systems. These systems have been adopted by our subsidiaries on a local basis. Currently, we have installed and integrated IT systems to fulfil our financial reporting and information disclosure obligations, and fulfil our needs for financial management and connected transaction monitoring. We expect to be able to conduct operation analyse on the basis of data collected by such systems and achieve electronic daily office management.

We intend to prioritise and further upgrade our information technology systems gradually and have adopted a two-phase plan as follows:

- By 2007, we intend to further improve our information management, building upon our current systems. We plan to establish centralized financial information systems and human resource management systems to enable us to obtain real time data on human resources or financial matters. We also intend to establish an operations analysis system and a contract management system to provide quantitative support for accurate management decision-making processes and effectively control the implementation of all kinds of services contracts.

- By 2008, we intent to integrate our IT systems across our various businesses. We believe that these new systems will improve our ability to serve our customers and develop market opportunities. We also believe that we will be able to leverage the experience obtained in the construction of our own information technology systems to provide enterprise information system development services to our customers.

EMPLOYEES

As at December 31, 2005, we had 73,458 employees who were deployed by function, with 5,223 management staff, 19,655 technical and marketing staff, and 48,580 operational staff.

We invest in continuing education and training programs for our management and technical staff in order to upgrade their skills and knowledge.

We enter into individual employment contracts with our employees typically covering remuneration, benefits, health and safety conditions in the workplace, confidentiality and grounds for termination.

We provide various defined contribution retirement plans, social insurance (for medical treatment, job-related injury, unemployment, and maternity) and housing funds schemes organized by municipal and provincial governments for our staff in compliance with PRC regulations. We are required to make contributions to such plans and schemes at rates prescribed by municipal and provincial governments, normally equalling to certain percentages of the salaries, bonus and allowances of our staff. We have no other materials obligation for the payment of pension or insurance benefits associated with such plans and schemes described above.

We have not experienced any strikes or other material labour disputes or disturbances that have interfered with our operations, and we believe that the relationship between our management and the labour union has been good.

PROPERTIES

Owned Properties

We use 336 buildings with a total gross floor area of approximately 458,157 square meters and 248 parcels of land with a total site area of approximately 296,256 square meters throughout our service regions as offices, distribution outlets and equipment rooms.

On the basis of the land use rights certificates provided by the Company, our PRC counsel has confirmed that (i) the Company had obtained long-term land use rights certificates on 219 owned properties; (ii) these relevant owned properties are in legal use.

On the basis of an approval from the PRC Ministry of Land and Resources (國土資源部《關於中國電信集團公司實業重組改制土地資產處置的批覆》(國土資函[2006]448號)), our PRC counsel has advised that (i) the Company currently owns 32 properties contributed by China Telecom Group. The Company has applied to local land administration authorities to alter the type of land use rights of these 32 properties from allocated land to authorized land. There are no legal obstacles to the alteration of the type of land use rights; (ii) these relevant owned properties are in legal use. There is one property with respect to which we are in the process of obtaining the relevant building ownership certificate, the carrying value of such property constitutes 1.3% of our total assets for the year ended December 31, 2005 and is used as our office space. Therefore our Directors believe the absence of such building ownership certificate will not adversely affect our operation in any material respect.

Savills Valuation and Professional Services Limited, an independent valuer, has valued our owned property interests as of September 30, 2006 at RMB2,178 million. The text of the letter and the valuation certificate issued by Savills Valuation and Professional Services Limited are set out in Appendix IV — "Property Valuation Report".

Leased Properties

We lease from China Telecom Group and/or affiliates and third parties approximately 851 properties throughout our service regions. China Telecom Group has undertaken to us that it will indemnify us against any loss or damage caused by or arising from any challenge to, or interference with, such right. See the section headed "Relationship with China Telecom — Connected Transactions — Non-exempt Continuing Connected Transactions — Property Leasing Framework Agreement."

Pursuant to the property certificates provided by the lessor, the lease and the confirmation by the lessee, our PRC counsel has advised that:

There are about 452 leased properties with respect to which (i) the lessors are the owner of the leased properties and have obtained valid title; (ii) the leases are legal, valid and enforceable; (iii) the terms are of a meaning duration; and (iv) these relevant leased properties are in legal use.

Our PRC counsel confirms that such leases are legal, valid and enforceable even without registration with the relevant PRC authorities.

There are about 399 leased properties that (i) the lessors cannot provide the property certificates, the PRC counsel does not believe they are the owners of the leased properties; and (ii) the leases may be unenforceable.

The table below illustrates the usages and their respective locations of the 399 leased properties which do not have property certificates:

Province	Leased properties without proper legal title								
	Uses								Total annual
	Commercial		Warehouse		Others		Total		rental
	No.	GFA (sqm)	No.	GFA (sqm)	No.	GFA (sqm)	No.	GFA (sqm)	(RMB)
Guangdong	113	77,308.52	10	21,451.04	196	22,634.36	319	121,393.92	23,686,379
Zhejiang	1	51.30	1	2,418.00	–	–	2	2,469.30	170,974
Shanghai	7	3,828.64	1	2,120.00	3	5,958.00	11	11,906.64	3,828,669
Hubei	4	1,447.48	–	–	–	–	4	1,447.48	763,352
Fujian	55	10,543.35	–	–	–	–	55	10,543.35	1,513,785
Hainan	6	531.76	–	–	2	172.00	8	703.76	155,076
Total	186	93,711.05	12	25,989.04	201	28,764.36	399	148,464.45	30,118,235

Notes:

(1) Commercial properties including office and operation outlets.

(2) Others properties including temporary dormitory, workshop, car parks and plant rooms, etc.

Even though the above 399 leases may be unenforceable, but the Directors believe none of such leases is crucial to the operation of the Group because these are primarily office leases, retail shop outlets leases, warehouses leases, dormitory leases which can be easily replaceable in the event that the Group is required to vacate from these leased premises. The relocation of offices or retail shops will not cause interruption to the business operation of the Group in any material extent. The Directors further believe that none of these leases are significant in terms of the Company's operating costs because the Company's cost of revenue was RMB10,544 million and the Company's selling, general and administrative expenses was RMB1,951 million in 2005, whilst the annual rental amount of these 399 leases only amounted to RMB30.12 million. Our Company's controlling shareholder, China Telecom Group has agreed to give an indemnity against all costs, including but not limited to, penalties and fines imposed by the relevant P.R.C. authority and relocation costs, incurred by the Group in any event the Group is required to vacate from these premises due to the leases not having proper and legal property certificates. Please see the section headed "Relationship with China Telecom — Exempted Connected Transactions — Restructuring Agreement" for further details.

In relation to these 399 leases, the Company will use its reasonable endeavours to procure the relevant lessors to obtain the required property certificates or failing which, identify the legal owner of the relevant property and execute a new lease with such legal owner. If the Company is unable to reach agreement with the relevant legal owner of such leased premises, or if there is a real risk of relocation, the Company will find suitable replacement without delay. In future, the Company will exercise caution in order to avoid entering into leases which the lessors cannot provide property certificates.

If the Company is required by law to vacate from any of these leased premises, the Company will use its best endevaours to minimize losses and relocate to properties with valid titles for the same usage.

The Company will:

(i) in respect of the 452 leased properties with the relevant building ownership certificates, complete the registration of such tenancies with the relevant PRC authorities on or before December 31, 2007, failing which, if the Group decides to terminate such tenancies and vacate the relevant premises, China Telecom Group has undertaken to indemnify the Group for any loss suffered as a consequence of such relocations; and

(ii) in respect of the 399 leased properties without proof of the relevant title documents, procure the relevant lessors to obtain the relevant building ownership certificates and complete the registration of such tenancies with the relevant PRC authorities on or before December 31, 2009, failing which, if the Group decides to terminate such tenancies and vacate the relevant premises, China Telecom Group has undertaken to indemnify the Group for any loss suffered as a consequence of such relocations.

Waiver

Regarding the format and content of the valuation report, owing to the substantial number of properties we own and lease, we have applied for and obtained a waiver from the Hong Kong Stock Exchange from strict compliance with Rules 5.01, 5.06, 19A.27(4) and paragraph 3(b) of Practice Note 16 of the Hong Kong Listing Rules and an exemption from the SFC from strict compliance with Paragraph 34(2) of Part II of the Third Schedule to the Hong Kong Companies Ordinance on the grounds that it would be unduly burdensome to include a fully compliant valuation report in this prospectus and the inclusion of such detailed information would be irrelevant to potential investors in a company which provides specialized telecommunications support services and would not be material to a potential investor's investment decision and it would be unduly burdensome to prepare an English translation of the report, as all of the properties are located in the PRC and consequently the underlying valuation and title information is in Chinese.

OUR INTELLECTUAL PROPERTY AND TRADE MARKS

We currently own certain patents, trademarks and domain names registered in the PRC. Details of our patents, trademarks and domain names portfolio are set out in "Appendix VIII — Statutory and General Information — Further Information about the Business — Intellectual Property Rights".

LEGAL AND COMPLIANCE

In the opinion of Jingtian & Gongcheng Attorneys at Law, our PRC legal counsel, we have complied with all relevant laws and regulations and have obtained all licenses, approvals and permits from the appropriate regulatory authorities for our business operations in the PRC.

We are involved, from time to time, in legal proceedings arising out of the ordinary course of business of our operations, including as plaintiff or defendant in litigation or arbitration proceedings. To the best of our knowledge, (a) there are no current litigation or arbitration proceedings or any pending or threatened litigation or arbitration proceedings, and (b) there are no claims, actions, suits and proceedings in connection with the operation of the assets acquired pursuant to our restructuring with the China Telecom Group, against us or any of our Directors that could have a material adverse effect on our financial condition or results of operation.

OWNERSHIP BY CHINA TELECOM GROUP

China Telecom Group, a PRC wholly state-owned enterprise, will directly and indirectly own or control an aggregate of 66.8% of our Shares immediately after the closing of the Global Offering, assuming that the Over-allotment Option is not exercised by the Underwriters, or 64.1% of our Shares, assuming that the Over-allotment Option is exercised in full. As a result, China Telecom Group will retain a controlling interest in our Company. China Telecom Group, subject to our Articles of Association and applicable laws and regulations, will effectively influence our management, policies and the composition of our Board, determining our dividend policies and approving certain significant corporate transactions.

In connection with our restructuring, we have entered into various agreements/arrangements with China Telecom Group, on behalf of itself and all of its associates, excluding us, ("associates" referred to herein shall have the meaning given to it in accordance with the Listing Rules) relating to, among others, the mutual provision of ongoing specialized telecommunications support services. Such agreements/arrangements constitute connected transactions within the meaning of the Listing Rules. Such agreements/arrangements include the following:

- Restructuring Agreement;
- Non-competition Undertaking;
- Provision of entrusted loans;
- Engineering Framework Agreement;
- Ancillary Telecommunications Services Framework Agreement;
- Operation Support Services Framework Agreement;
- IT Application Services Framework Agreement;
- Centralized Services Agreement; and
- Property Leasing Framework Agreement.

In addition, we have also entered into a strategic cooperation agreement with China Telecom Listco, our sister company, in order to form a strategic partnership by following the principle of equality and mutual benefits as well as the principles of realizing a win-win situation through cooperation and achieving complementary benefits (the "**Strategic Cooperation Agreement**"). Such agreement also constitutes connected transaction within the meaning of the Hong Kong Listing Rules.

DUAL CHAIRMANSHIP BY MR. WANG XIAOCHU

Mr. Wang Xiaochu is the Chairman of our Board of Directors and a non-executive Director of our Company whilst at the same time, remains the Chairman and Chief Executive Officer of China Telecom Listco. Regulations on management of state-owned assets issued by the PRC government require that China Telecom Group bear all responsibility for, and take all due care over, the assets it owns on behalf of the state to protect and enhance their value. The person in charge of China Telecom Group shall bear personal responsibility, administrative and legal, for any loss in state-owned assets due to improper exercise of power or gross negligence. The appointment of Mr. Wang Xiaochu, as President of China Telecom Group, to be Chairman of our Company, an important majority owned subsidiary, is therefore an essential step to discharge the above responsibilities. This is also consistent with the practice of most, if not all, other state-owned publicly listed companies. The above appointment of Mr. Wang Xiaochu has been filed with, and approved by SASAC.

The Joint Sponsors believe that the personal merits of Mr. Wang Xiaochu will make this appointment beneficial to our Company and all of its shareholders, including the independent shareholders. Mr. Wang, whilst not expected to be involved in the day-to-day management of our Company, will bring to our Company profound understanding of industry trends and in-depth knowledge of on-going transformation of the operator business model, which will enable him to provide invaluable guidance on strategic issues such as 3G business plan and continued restructuring to better cater to the needs of our Company's clients. Mr. Wang's prestige and well-established connections are also expected to be an important asset of our Company in consolidating and expanding its client base.

In accordance with the PRC Company Law and the Code on Corporate Governance Practices of the Hong Kong Listing Rules, the corporate power of a Chairman is identical with any other directors, except the Chairman has a casting vote when there is a tied-vote, he shall also act as a convenor for board meetings (at which he is not required to be abstained), ensure that all directors are properly briefed on issues arising at board meetings and is responsible for ensuring that directors receive adequate information, which must be complete and reliable, in a timely manner. Mr. Wang Xiaochu's Chairmanships in China Mobile and China Telecom Listco have demonstrated his ability to discharge these obligations.

However, Mr. Wang Xiaochu is not going to make management decisions on a daily basis. Such corporate power is vested with Mr. Li Ping, who has been appointed as the legal representative of our Company.

The numerous corporate governance measures introduced by our Company shall be adequate checks and balances to address Mr. Wang Xiaochu's dual and perceived conflicting roles as the Chairman of our Company and the Chairman of China Telecom Listco.

EXEMPTED CONNECTED TRANSACTIONS

Restructuring Agreement

To effect our restructuring, China Telecom Group and us entered into a restructuring agreement whereby China Telecom Group agreed to transfer to us the assets and liabilities referred to in the section headed “Our History and Restructuring”. China Telecom Group is the owner of our majority equity interest. Pursuant to the restructuring agreement, China Telecom Group will indemnify us for any actions, suits, proceedings, claims, losses, damages, payments or other expenses incurred in connection with or arising from, amongst others:

1. the assets transferred to us in the restructuring and arising before the completion of our restructuring, except for claims specifically assumed by us;

2. all taxes payable in respect of the assets which have been transferred to us pursuant to the restructuring arising on or before the assets valuation dates and were not included in the balance sheet;

3. all taxes payable in respect of the assets, interests and liabilities which are retained by China Telecom Group after the restructuring;

4. the assets, rights and liabilities retained by China Telecom Group after the restructuring;

5. the negligence or default of China Telecom Group acting on our behalf in holding any assets, interests or liabilities that are to be transferred to us, pending third party consents on or after the restructuring;

6. breach of the provisions of the restructuring agreement on the part of China Telecom Group;

7. breach of the provisions of any prior agreements in relation to any assets intended to be transferred but not transferred to us pursuant to the restructuring;

8. any liabilities arising from the restructuring actions taking place on or before the asset valuation dates and were not included in the balance sheet; and

9. those leased properties that lessors cannot provide the property certificates, thereby resulting in any defect of our property rights.

We have agreed to indemnify China Telecom Group for any claims or costs arising from our breach of the restructuring agreement.

Non-competition Undertaking

China Telecom Group retains the ownership of, and continues to operate through its wholly owned subsidiaries, its specialized telecommunications support businesses in the southern 15 provinces, municipalities and autonomous regions in China that are outside our Primary Service Regions. Historically, the retained specialised telecommunications support businesses, from time to time, provided various specialized telecommunications support services to telecommunications operators within our Primary Service Regions. We, at the same time, also provided various specialized telecommunications support services to telecommunications operators in all provinces, municipalities and autonomous regions in China outside our Primary Service Regions. Therefore, to a certain extent, we face direct competition with the retained specialized telecommunications support businesses of China Telecom Group.

Pursuant to a non-competition undertaking entered into between China Telecom Group and us, China Telecom Group has undertaken that, so long as to (i) it directly or indirectly controls 30% or more of our issued share capital or is deemed to be our controlling shareholder within the meaning of the Hong Kong Listing Rules or other applicable regulations; and (ii) our H Shares or any other equity securities are listed on the Hong Kong Stock Exchange or other stock exchanges, none of China Telecom and its subsidiaries will directly or indirectly compete, and will use its reasonable endeavours to procure any of its associates, excluding us, (for the purpose of this undertaking, “associates” means a company of which China Telecom Group holds not less than 10% equity interests or any joint venture entities which China Telecom Group is a party to and their relevant subsidiaries) not to compete, with our businesses in the areas of engineering services, network maintenance, distribution of telecommunications products and services and facilities management conducted in our Primary Service Regions and the northern ten provinces, municipalities and autonomous region including Beijing, Tianjin, Heilongjiang, Jilin, Liaoning, Hebei, Henan, Shandong, Shanxi and Neimenggu.

Under the non-competition undertaking, we have been granted a priority right to be expired on the third anniversary of our Listing Date to acquire from China Telecom Group its retained competing specialised telecommunications support businesses outside our Primary Service Regions at our discretion. Should China Telecom Group propose to transfer any of its existing competing businesses in certain other provinces, municipalities and autonomous regions in China outside our Primary Service Regions to any third parties, we have also been granted a right of first refusal to acquire such competing businesses from China Telecom Group. At present, there are no definitive plan or timetable for such possible acquisition but we intend to acquire appropriate assets from China Telecom Group within the next 12 to 18 months. Any such acquisition will be subject to compliance with the relevant requirements of the Hong Kong Listing Rules in relation to notifiable transactions and connected transactions.

Even though the Company has been granted such a priority right to acquire selective quality assets of the specialized telecommunications support businesses in the 15 provinces, municipalities and autonomous regions outside our Primary Service Regions from our controlling shareholder, China Telecom Group, our Company is under no obligation to acquire those assets if such assets do not meet certain criteria. The goal of the potential acquisition is to achieve external growth through geographic expansion and accretion of earnings per share to enhance financial returns to shareholders. The following criteria will be used to determine appropriate acquisition targets:

Business prospect

- development of provincial economy, such as GDP, GDP per capita, growth of GDP and growth of GDP per capita;

- development of local telecommunications services, such as the number of fixed and mobile subscribers, penetration rate and the capital expenditure of the provincial telecommunications operators;

- the competitiveness of the provincial retained businesses, such as number of competitors, market share of the existing retained businesses;
- sales and cost synergies with existing businesses, and the capability of the senior management; and

Financial performance

- the overall financial performance of the acquisition target shall match the Company's financial performance in terms of net profit margin, return on equity and positive cash flows.

The valuation methodology to be adopted will be a combination of the discounted cash flow model and comparable trading multiples, especially P/E multiples. Valuation of the acquisition target will be made with reference to the market trading levels of our Company with appropriate discounts.

Our Company anticipates that the priority right, if exercised, will take several phases, depending on the varied progress of the restructuring of each of the 15 provinces, municipalities and autonomous regions. If in the event that the priority right has been exercised in stages to acquire selective quality assets in a series of transactions, our Company undertakes to aggregate such series of transactions and treat them as if they were one transaction if they are all completed within a 12-month period or are otherwise related. The Company will comply with the relevant requirement set out in Rule 14.22 of the Hong Kong Listing Rules. The first phase of acquisition shall take place within 12 to 18 months after our Company's listing and the entire acquisition of selected quality assets from the controlling shareholder shall be completed within three years after the Company's listing. At that time, the majority of the retained businesses in the 15 provinces, municipalities and autonomous regions is expected to be integrated into our Group, with the rest divested by China Telecom Group. In the event that any such acquisition falls below the threshold of a major transaction, our Company still undertakes to comply with the rules of notification, publication and shareholders' approval requirements as if it was a major transaction. Relevant announcements and a shareholders' circular containing the accountants' report will be published and shareholders' meeting, with the controlling shareholder abstained from voting, will be convened to approve such acquisition.

In terms of the timetable, within the first phase of acquisition, our Company expects that it will be able to identify preliminary targets for acquisition within the first three months after our Company's listing, and commence restructuring including streamline of businesses, merge of suitable subsidiaries and reallocation of assets and employees within the first nine months after our Company's listing. After the formulation of the restructuring plan, our Company will then engage professional parties including financial advisers, legal counsel, auditors and appraiser. The overall restructuring plan, legal opinion, audit report and asset appraisal report will be submitted for approval by relevant state authorities. Announcement and shareholders' circular will be published and despatched together with board meeting and shareholders' meeting to be convened to approve the acquisition within the first 12 to 18 months after our Company's listing.

A right of first refusal and priority right committee (the **"Right of First Refusal and Priority Right Committee"**) comprised entirely of the independent non-executive directors will be established to consider the exercise of the priority right and our Company believes that such committee will carefully consider the use of proceeds, the optimal capital structure of our

Company, and the impact on earnings per share to determine the appropriate form of consideration to be used to finance such acquisition. The accounting, financial and corporate finance expertise of the independent non-executive directors will be crucial.

Assets which are not in association with the specialized telecommunications support businesses, such as schools, hospitals and hotels, will not be acquired and will be divested by China Telecom Group. Assets which are loss-making or generate negative cash flows in track record period with no expectation to turnaround into positive cash flows will also not be acquired and will be divested by China Telecom Group.

Our Company undertakes to publish announcements in relation to the progress of restructuring including material financial information conforming to the IFRS when such information becomes available, so that the shareholders will have the opportunity to timely anticipate our Company's proposed exercise of the priority right. Furthermore, our Company will also comply with the Hong Kong Listing Rules in relation to discloseable transactions and connected transactions when exercise the priority right. If a shareholder's circular is required to be published and an independent shareholders meeting is required to be convened in accordance with the rules of discloseable transactions and connected transactions, the independent shareholders will have at least 45 days to consider the acquisition pursuant to the exercise of the priority right.

During the three years ended December 31, 2005, certain provincial subsidiaries of China Telecom Listco competed with our businesses in the provision of applications, content and other services, including telephone information services, system integration and software development in Shanghai and Fujian. For the year ended December 31, 2005, businesses exposed to such competition constituted approximately 1.3% of our revenue. Pursuant to the same non-competition undertaking, China Telecom Group has agreed to use its best endeavours to procure its associates, (excluding us but including China Telecom Listco) to cooperate with us in our provision of application, content and other services in realising a win-win situation.

To the extent that there are any competing business opportunities in our businesses of engineering services, network maintenance, distribution of telecommunications products and services and facilities management discovered nationwide by China Telecom in the future, we will be granted a right of first refusal to pursue such business opportunities.

In order to ensure compliance with the relevant provisions of the non-competition undertaking, China Telecom Group will adopt certain measures to protect our interest, such as to inform all of its associates of the existence and the scope of the non-competition undertaking by distributing a summary of the relevant provisions of such undertaking and requesting such associates to comply with the said undertaking. China Telecom Group will further request its associates to report any breach or non-compliance of the non-competition undertaking.

We will also put in place internal measures to ensure compliance of the non-competition undertaking. First of all, China Telecom has undertaken to us that it will provide to us all information, allow access of our Company and our Company's accountants to inspect its corporate information or records necessary for our Company to ascertain the enforcement of the non-competition undertaking and update of the restructuring of the businesses in the 15 provinces, municipalities and autonomous regions outside the Primary Service Regions. China Telecom will also deliver a letter to our Company by the end of each financial year, confirming that there is no breach of the non-competition undertaking within that financial year. Content of such letter will be reproduced in the annual report of the Company after listing. Several committees, namely, the Right of First Refusal and Priority Right Committee and the non-competition undertaking review committee (the **"Non-competition Undertaking Review Committee"**), both comprised entirely of the independent non-executive directors of the Company, will be established to monitor and decide all matters which have any element of actual or perceived conflict with the controlling shareholder, including the exercise of the right of first refusal and the priority right granted by China Telecom Group and the enforcement of the non-competition undertaking. All such matters shall be subject to the approval of the relevant committees. Terms of references of all these committees include:

(i) meetings every six months to review the reports to be submitted by a co-ordination committee comprised of senior management of China Telecom Listco and the Company from time to time;

(ii) power to request further information to be provided by China Telecom as it deems to be appropriate in making their own judgement;

(iii) authority to appoint any financial or legal adviser as the relevant committees consider necessary;

(iv) decision-making in relation to the exercise of the right of first refusal or the priority right, and the relevant timetable, size and scope of the acquisition target(s) whenever a business opportunity arises;

(v) determination of the timing of any announcement to be made in relation to the update of the restructuring and acquisition process including key financial information conforming to the IFRS standard when such information is available in order to enable the shareholders to have the opportunity to timely anticipate the Company's proposed exercise of the relevant right of first refusal or the priority right, as the case may be;

(vi) the committee's approval being a condition precedent to the convening of a board meeting to approve the exercise of the right of first refusal or the priority right, as the case may be;

(vii) formation of its own opinion regarding the enforcement of the non-competition undertaking and disclose such opinion in the Company's annual report for each financial year;

(viii) initiation of legal proceedings against China Telecom Group in the event that the non-competition undertaking has been materially breached; and

(ix) the power to alter, modify or change the terms in whatever manner as the independent non-executive directors see fit.

As mentioned above, China Telecom Listco and the Company shall further establish a coordination committee comprising senior members of both companies to review all possible cooperation opportunities, potential competition matters and regularly report to members of the right of first refusal and Priority Right Committee and the Non-competition Undertaking Review Committee, as the case may be. Directors who may be perceived to have conflicts of interests, such as Directors nominated by China Telecom will not participate in any meetings or discussion of such committees, or be included in any decision-making process in relation to such conflicting matters.

Provision of entrusted loans

Prior to the listing of our H Shares on the Hong Kong Stock Exchange, China Telecom Group's provincial associates have provided various short-term entrusted loans (ranging from three months to a year) advanced by independent banks to our provincial subsidiaries. The provision of such entrusted loans is in line with the practice generally adopted by enterprises in the PRC.

As of September 30, 2006, the entrusted loans amounted to RMB369.9 million and all such loans were advanced by independent banks on normal commercial terms (or better terms) where no security over the assets of our Company was granted in respect of any such entrusted loans. Details of such entrusted loans are set out in the following:

Entrusting Party	Beneficiary	Bank	Amount of Entrusted Loan	Interest rate per annum	Term of Entrusted Loan
			(RMB in million)	(%)	(D/M/Y)
Fujian Telecom Industry Group Co., Ltd.	Fujian Youke Communications Technology Co., Ltd.	China Minsheng Banking Corporation	16.0	5.85	7/7/2006 to 7/7/2007
Fujian Telecom Industry Group Co., Ltd.	Fujian Post & Telecom Planning & Designing Institute Co., Ltd	China Minsheng Banking Corporation	7.5	5.85	26/6/2006 to 26/6/2007
Fujian Telecom Industry Group Co., Ltd.	Fujian Post and Telecom Engineering Co., Ltd.	Industrial Bank Co., Ltd.	5.0	5.85	26/6/2006 to 26/6/2007
Guangdong Telecom Industry Group	Guangdong Tisson Technologies Development Co., Ltd.	China CITIC Bank	32.0	2.5	29/6/2006 to 29/12/2006
Guangdong Telecom Industry Group	Guangdong Nanfang Communication Construction Limited Company	China CITIC Bank	56.9	2.5	29/6/2006 to 29/5/2007
Guangdong Telecom Industry Group	Guangdong Chang Xun Industry Co., Ltd.	China CITIC Bank	15.0	2.5	29/6/2006 to 29/12/2006
Guangdong Telecom Industry Group	Guangdong Gongcheng Telecommunication Project Management Co., Ltd.	China CITIC Bank	12.0	2.5	29/9/2006 to 29/12/2006
Guangdong Telecom Industry Group	Guangdong Wellcomm Communication Engineering Co., Ltd.	China CITIC Bank	20.0	2.5	29/6/2006 to 29/6/2007
Guangdong Telecom Industry Group	Shenzhen Hongbo Information Technology Co., Ltd.	China CITIC Bank	20.0	2.5	29/6/2006 to 29/3/2007
Guangdong Telecom Industry Group	Guangdong Data Communication Network Co., Ltd.	China CITIC Bank	5.0	2.5	29/6/2006 to 29/12/2006

Entrusting Party	Beneficiary	Bank	Amount of Entrusted Loan	Interest rate per annum	Term of Entrusted Loan
			(RMB in million)	(%)	(D/M/Y)
Guangdong Telecom Industry Group	Guangdong Netstar Film & TV Culture Media Co., Ltd.	China CITIC Bank	29.0	2.5	29/6/2006 to 29/6/2007
Guangdong Telecom Industry Group	Guangdong Gongcheng Property Management Co., Ltd.	China CITIC Bank	4.0	2.5	29/6/2006 to 29/12/2006
Guangdong Telecom Industry Group	Shenzhen Duxin Supervision & Management Co., Ltd	China CITIC Bank	45.0	2.5	29/6/2006 to 29/6/2007
Guangdong Telecom Industry Group	Guangdong Southern Planning & Designing Institute of Telecommunication Co., Ltd.	China CITIC Bank	45.0	2.5	29/6/2006 to 29/6/2007
Guangdong Telecom Industry Group	Guangdong Great Southern Information Technology Co., Ltd.	China CITIC Bank	31.0	2.5	29/6/2006 to 29/6/2007
Guangdong Telecom Industry Group	Guangdong Telecom Industry Group Shenzhen Limited Corporation	China CITIC Bank	20.0	2.5	29/6/2006 to 29/6/2007
Shenzhen Hongwang Asset Investment Co., Ltd.	Guangdong Southern Planning & Designing Institute of Telecommunication Co., Ltd.	China Construction Bank	6.5	5	1/11/2004 to 31/10/2006

The entrusted loans facilitate the operation and recent restructuring of our business, and will constitute connected transactions after the listing of our H Shares on the Hong Kong Stock Exchange in the form of financial assistance for the purposes of Chapter 14A of the Hong Kong Listing Rules. Our Company has undertaken to the Hong Kong Stock Exchange to settle all the outstanding balance of the entrusted loans prior to the Listing Date.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS BETWEEN CHINA TELECOM AND US

Non-exempt Continuing Connected Transactions

Strategic Cooperation Agreement

In order to strengthen our well-established relationship with China Telecom Listco and to bring forth further strategic mutual benefits, we have entered into a Strategic Cooperation Agreement dated August 30, 2006 with China Telecom Listco, on behalf of its six wholly-owned subsidiaries, namely Shanghai Telecom Company Limited, Zhejiang Telecom Company Limited, Fujian Telecom Company Limited, Hubei Telecom Company Limited, Guangdong Telecom Company Limited, Hainan Telecom Company Limited and their respective subsidiaries for a period of three years commencing from January 1, 2007 until December 31, 2009, renewable by mutual agreement and extendable in geographical areas. The areas for the 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 BPO services such as integrated information solution and call centres; and provision of applications, content and other services such as system integration and value added services.

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

1. government prescribed price;

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

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

4. where none of the above is applicable, the price is to be agreed between the relevant parties for the provision of the above services based on arm's length negotiation and shall be the reasonable cost incurred in providing the same plus a reasonable profit.

The above pricing mechanism is hereinafter referred to as the "Applicable Standard Prices". We would be accorded priority by China Telecom Listco in the provision of the relevant services, provided that the terms and conditions offered by independent third parties to China Telecom Listco are no more favourable than those offered by us for the same services, and in return, under the same terms and conditions, we have undertaken to China Telecom Listco that we shall not provide services to it on terms which are less favourable than those offered by us to independent third parties.

In relation to our provision of engineering related services in connection with our design, construction, project supervision and management businesses, China Telecom Listco has undertaken that, the relevant subsidiaries of China Telecom Listco in the six provinces, municipality including Shanghai, Zhejiang, Fujian, Hubei, Guangdong and Hainan, shall spend an annual minimum amount of not less than 12.5% of the total annual capital expenditure of the six corresponding wholly-owned provincial subsidiaries of China Telecom Listco, provided our terms and conditions for the provision of the engineering related services are no less favourable than those offered by any independent third parties and in return, we shall offer at least 5% discount for the engineering related services to be provided to the relevant wholly-owned provincial subsidiaries of China Telecom Listco based on the Applicable Standard Prices. Such discount is on normal commercial terms and in-line with market practice to give discount as a favourable treatment offered to large enterprise customers which are able to commit to a minimum purchase volume per annum. The percentage of discount depends on a number of factors, such as the committed minimum purchase volume, competition and so on. Given that China Telecom Listco has undertaken that the relevant subsidiaries of China Telecom Listco within our Primary Service Regions shall spend an annual minimum amount of not less than 12.5% of the total annual capital expenditure, which constituted approximately 50.5%, 47.5% and 46.1% of our Company's revenue in the provision of engineering related services during the three years ended 31 December 2003, 2004 and 2005, our Directors are of the view that the 5% discount to be given to China Telecom Listco is on normal commercial terms. We undertake, among other things, to implement quality control during the provision of the one-stop engineering related services.

In relation to our provision of maintenance and management services including but not limited to our network maintenance and facilities management businesses, China Telecom Listco has undertaken, the relevant subsidiaries of China Telecom Listco in the six provinces, municipality including Shanghai, Zhejiang, Fujian, Hubei, Guangdong and Hainan shall spend an annual minimum amount of not less than RMB1,330 million provided 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 and in return, we have undertaken to fully utilize our competitive edge on having established professional operation with economies of scales to assist China Telecom Listco to achieve the goals of lowering its costs and expenditure. The Directors believe there will not be any adverse impact on the operation of the Company in rendering certain assistance to China Telecom Listco. By assisting China Telecom Listco in controlling its costs, the Company will be able to strengthen its relationship with China Telecom Listco and this will in turn benefit the Company as the large customer base of China Telecom Listco will be a potential source of additional business opportunities for the Company. In addition, the one-stop integrated business model of the Company has in itself enabled us to provide cost-efficient outsourcing services to China Telecom Listco. Instead, the Directors believe this will create a win-win situation and is the best way to realize our Company's values towards China Telecom Listco as our largest customer.

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

The independent shareholders of China Telecom Listco have passed a resolution at an extraordinary general meeting dated October 25, 2006 to approve the Strategic Cooperation Agreement and the transactions contemplated thereunder. The effectiveness of the Strategic Cooperation Agreement is also conditional upon successfully obtaining a waiver from the Hong Kong Stock Exchange from strict compliance with Chapter 14A of the Hong Kong Listing Rules. The annual caps for the provision of the relevant services contemplated under the Strategic Cooperation Agreement have already been set out in the Engineering Framework Agreement, the Ancillary Telecommunications Services Framework Agreement, the Operation Support Services Framework Agreement and the IT Application Services Framework Agreement referred to below and therefore no separate annual caps shall be applied to the Strategic Cooperation Agreement.

Engineering Framework Agreement

We have entered into an engineering framework agreement dated November 16, 2006 with China Telecom Group (the "**Engineering Framework Agreement**"), pursuant to which we have agreed to provide certain engineering related services, such as design, construction, project supervision and management for telecommunications infrastructure projects undertaken by China Telecom. The terms of the Engineering Framework Agreement will expire on December 31, 2008, automatically renewable for further periods of no more than three years subject to shareholders' approval unless early terminated by either party with a three months' written notification.

The charges payable for engineering related services rendered under the Engineering Framework Agreement shall be determined by reference to market rates or as reflected by prices obtained through the tender process. According to the relevant regulations and under the internal policy of China Telecom, whenever the value of any design and/or project supervision and management contracts exceeds RMB0.5 million, or the value of any construction contracts exceeds RMB2 million, the award of the relevant contract is required to be the subject of a tender process (with a minimum of three parties tendering bids). We would be accorded priority by China Telecom 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 are no more favourable than those offered by us for the same services, and in return, we have undertaken to China Telecom that we shall not provide services to it on terms which are less favourable than those offered by us to independent third parties.

We would enter into individual engineering agreements with the relevant entities of China Telecom for the provision of engineering related services. The individual engineering agreements set out the terms and conditions under which specific engineering related services are to be requested from time to time. The individual engineering agreements are expected to contain provisions which reflect the binding principles, guidelines, terms and conditions set out in the Engineering Framework Agreement. As the individual engineering agreements are simply further elaboration of the Engineering Framework Agreement, they do not constitute new categories of connected transactions. Consequently the Engineering Framework Agreement forms the basis for the general waiver applied for herein in relation to these types of connected transactions.

For the three years ended December 31, 2005 and the six-months ended June 30, 2006, our revenue for the provision of engineering related services to China Telecom were approximately RMB3,387.8 million, RMB3,468.7 million, RMB3,326.3 million and RMB1,730.6 million respectively. The slight decrease of revenue for the year ended December 31, 2005 was due to the corresponding decrease in capital expenditure of China Telecom.

Ancillary Telecommunications Services Framework Agreement

We have entered into an ancillary telecommunications services framework agreement dated November 16, 2006 with China Telecom Group (the "**Ancillary Telecommunications Services Framework Agreement**"), pursuant to which we have agreed to provide to China Telecom certain ancillary telecommunications services such as maintenance of network facilities including equipment, ducts and cables, equipment rooms and base stations; distribution of telecommunications products and services; provision of application, content and other services such as fixed-line value added services, wireless value added services, Internet value added services, and development of online gaming, certificate authentication and value added business platform of Internet cafes (the "**Ancillary Telecommunications Services**"). The terms of the Ancillary Telecommunications Services Framework Agreement will expire on December 31, 2008, automatically renewable for further periods of no more than three years subject to shareholders' approval unless early terminated by either party with a three months' written notification.

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 applies;

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

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

We will be given priority by China Telecom in the provision of the Ancillary Telecommunications Services, provided that the terms and conditions offered by independent third parties to China Telecom are no more favourable than those offered by us for the same services, and in return, we have undertaken to China Telecom 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.

We would then enter into individual ancillary telecommunications services agreements with the relevant entities of China Telecom. The individual ancillary telecommunications services agreements set out the terms and conditions under which specific ancillary telecommunications services are to be requested from time to time. The individual ancillary telecommunications services agreements are expected to contain provisions which reflect the binding principles, guidelines, terms and conditions set out in the Ancillary Telecommunications Services Framework Agreement. As the individual service agreements are simply further elaboration of the Ancillary Telecommunications Services Framework Agreement, they do not constitute new categories of connected transactions. Consequently the Ancillary Telecommunications Services Framework Agreement forms the basis for the general waiver applied for herein in relation to these types of connected transactions.

For the three years ended December 31, 2005 and the six-months ended June 30, 2006, our revenue for the provision of Ancillary Telecommunications Services to China Telecom were approximately RMB948.6 million, RMB1,380.1 million, RMB1,496.1 million and RMB1,029.5 million respectively. The steady increase in our revenue during the period was due to the corresponding increase of the operating expenses of China Telecom.

Operation Support Services Framework Agreement

We have entered into an operation support services framework agreement dated November 16, 2006 with China Telecom Group (the "**Operation Support Services Framework Agreement**") to govern the arrangements with respect to mutual provision of operation support services. We have agreed to provide to China Telecom operation support services, including but not limited to facilities management and renovation, network facilities management in relation to buildings used for telecommunications purposes, labour resources management, equipment maintenance, advertisement, conferencing services, vehicles, and certain repair and leasing of equipment. Under the same Operation Support Services Framework Agreement, China Telecom has agreed to provide operation support services such as logistic services, warehouse, medical care, food and beverages, educational, hotel and travelling services, labour services and so on to us. The terms of the Operation Support Services Framework Agreement will expire on December 31, 2008, automatically renewable for further periods of no more than three years subject to shareholders' approval unless early terminated by either party with a three months' written notification.

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, and in return, each of the parties has undertaken to the other that it shall not provide services to the other on terms which are less favourable than those offered to independent third parties.

It is envisaged that from time to time and as required, individual operation support services agreements shall be entered into between the relevant entities of China Telecom and us. The individual operation support services agreements are expected to contain provisions which reflect the binding principles, guidelines, terms and conditions set out in the Operation Support Services Framework Agreement. As the individual operation support services agreements are simply further elaboration of the Operation Support Services Framework Agreement, they do not constitute new categories of connected transactions. Consequently the Operation Support Services Framework Agreement forms the basis for the general waiver applied for herein in relation to these types of connected transactions.

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.

For the three years ended December 31, 2005 and the six-months ended June 30, 2006, our revenue from the provision of operation support services to China Telecom were approximately RMB877.8 million, RMB895.6 million, RMB1,015.5 million and RMB444.0 million, respectively. The steady increase in our revenue during the period was due to the corresponding increase of the operating expenses of China Telecom. Our expenditure for receiving operation support services from China Telecom were approximately RMB84.7 million, RMB77.5 million, RMB101.7 million and RMB53.7 million, respectively. The slight decrease in our expenditure for the year ended December 31, 2004 was due to the corresponding reduction in operation volumes from China Telecom and the following increase for the year ended December 31, 2005 was due to the restructuring of our specialized telecommunication support businesses.

IT Application Services Framework Agreement

We have entered into an IT application services framework agreement date November 16, 2006 with China Telecom Group (the "**IT Application Services Framework Agreement**") to govern the arrangements with respect to mutual provision of IT application services. We have agreed to provide China Telecom with telecommunications network support services, software and hardware development and other related IT services. China Telecom has also agreed to provide to us certain IT application services including but not limited to, basic telecommunications services such as voice and data, value added services and information application services. The terms of the IT Application Services Framework Agreement will expire on December 31, 2008, automatically renewable for further periods of no more than three years subject to shareholders' approval unless early terminated by either party with a three months' written notification.

The charges payable for such IT application services under the IT Application Services Framework Agreement shall be determined by reference to market rates, for example, rates as reflected by prices obtained through the tender process (with a minimum of three parties tendering bids). The party receiving the relevant services will accord priority to the party providing such services, provided that the terms and conditions offered by independent third parties to the relevant party are no more favourable than those offered by the other party for the same services, and in return, each of the parties has undertaken to the other that it shall not provide services to the other on terms which are less favourable than those offered to independent third parties.

The relevant entities of China Telecom and us may enter into specific IT application services agreements which set out the terms and conditions under which such IT application services are to be provided. The individual IT application services agreements are expected to contain provisions which reflect the binding principles, guidelines, terms and conditions in accordance with which such services are required to be provided in the IT Application Services Framework Agreement. As the individual IT application services agreements are simply further elaboration of the IT Application Services Framework Agreement, they do not constitute new categories of connected transactions. Consequently the IT Application Services Framework Agreement forms the basis for the general waiver applied for herein in relation to these types of connected transactions.

For the three years ended December 31, 2005 and the six-months ended June 30, 2006, our revenue from IT application services made available to China Telecom were approximately RMB110.7 million, RMB133.4 million, RMB106.4 million and RMB40.4 million respectively. The slight decrease of revenue for the year ended December 31, 2005 was due to the corresponding decrease in capital expenditure of China Telecom. Our expenditure for receiving certain IT application services from China Telecom were approximately RMB93.9 million, RMB101.4 million, RMB176.8 million and RMB82.8 million respectively. The steady increase of our expenditure during the period was due to expansion of our business.

Centralized Services Agreement

Following the restructuring, we will assume certain centralized administrative operations, such as corporate headquarter management function and provincial headquarter management function. We have entered into a centralized services agreement dated November 16, 2006 with China Telecom Group (the "**Centralized Services Agreement**"). The terms of the Centralized Services Agreement will expire on December 31, 2008, automatically renewable for further periods of no more than three years subject to shareholders' approval unless early terminated by either party with a three months' written notification.

The centralized services to be provided by us to China Telecom include:

1. the corporate headquarter management function to manage assets of China Telecom Group's retained specialised telecommunications support businesses in provinces, municipalities and autonomous regions including Jiangsu, Anhui, Jiangxi, Sichuan, Chongqing, Hunan, Guizhou, Yunnan, Guangxi, Shaanxi, Ningxia, Gansu, Qinghai, Xinjiang, Tibet and any remaining assets, such as hotels, manufacturing plants not in association with the specialized telecommunications support businesses, schools and hospitals, resulting from our restructuring in our Primary Service Regions; and

2. the provincial headquarter management function to manage remaining assets resulting from our restructuring in our Primary Service Regions.

Except otherwise agreed by 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 headquarter management functions except remuneration for Directors, share appreciation rights and provision of bad debts) will be apportioned pro rata between us and China Telecom according to a ratio based on the net asset value of each of the relevant parties.

We would enter into individual centralized services agreements on the provincial level within our Primary Service Regions and the individual centralized services agreements are expected to contain provisions which reflect the binding principles, guidelines, terms and conditions set out in the Centralized Services Agreement. As the individual centralized services agreements are simply further elaboration of the Centralized Services Agreement, they do not constitute new categories of connected transactions. Consequently the Centralized Services Agreement forms the basis for the general waiver applied for herein in relation to these types of connected transactions.

Prior to the restructuring, as we conducted our operations as part of the overall business of the China Telecom Group, no such comparable centralized services were provided and therefore no historical figures of a comparable nature are available.

Continuing Connected Transaction Exempt from the Independent Shareholders' Approval Requirements

Property Leasing Framework Agreement

At present, China Telecom leases from us a total of 66 properties covering an aggregate gross floor area of approximately 14,000 square metres for use as its business premises, offices, equipment storage facilities and sites for network equipment. These properties are located throughout our Primary Service Regions. We also lease from China Telecom a total of 389 properties covering an aggregate gross floor area of approximately 336,000 square metres for use as our business premises, offices and equipment storage facilities. We therefore enter into a property leasing agreement dated November 16, 2006 with China Telecom Group to govern the mutual leasing arrangement (the "**Property Leasing Framework Agreement**").

The terms of the Property Leasing Framework Agreement will expire on December 31, 2008, automatically renewable for further periods of no more than three years unless terminated earlier by either party with a three months' written notification.

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

The relevant entities of the China Telecom and us may enter into individual leases which set out the terms and conditions under which specific properties are to be leased by/to us from time to time. The individual leases are expected to contain provisions which reflect the binding principles, guidelines, terms and conditions set out in the Property Leasing Framework Agreement. As the individual leases are simply further elaboration of the Property Leasing Framework Agreement, they do not constitute new categories of connected transactions.

For the three years ended December 31, 2005 and the six-months ended June 30, 2006, our rental income from China Telecom were approximately RMB32.6 million, RMB38.3 million, RMB38.8 million and RMB17.9 million, respectively. The steady increase of our rental income during the period was due to the corresponding increase in operating expenses of China Telecom. Our expenditure for rental charges were approximately RMB23.5 million, RMB27.3 million, RMB36.0 million and RMB22.5 million, respectively. The steady increase of our expenditure during the period was due to the corresponding expansion of our business including restructuring and further establishment of internet cafes.

Savills, an independent appraiser appointed by us for the purpose of the Global Offering, has reviewed the Property Leasing Framework Agreement and has confirmed that the rental rates payable under the Property Leasing Framework Agreement are fair and reasonable so far as we are concerned.

WAIVER

Scope of Waiver

Following the completion of the Global Offering, we will continue to enter into or carry out the transactions described above. Such transactions would constitute connected transactions for us under the Hong Kong Listing Rules once our H Shares are listed on the Hong Kong Stock Exchange and for so long as China Telecom Group remains a connected person within the meaning of the Hong Kong Listing Rules.

In respect of the Restructuring Agreement, save as disclosed in this prospectus and save for the indemnities given by each party in favour of the other as provided in the Restructuring Agreement, the rights and obligations of the parties in respect of the Restructuring Agreement have been performed and there shall be no further outstanding obligations under it after the listing of our H Shares on the Hong Kong Stock Exchange. Subject to the foregoing, they will not be subject to any reporting, announcement or independent shareholders' approval requirements related to connected transactions under the Hong Kong Listing Rules. In respect of the indemnities under the Restructuring Agreement, any payment which in the future might be made by either party in the performance of its obligations after the listing would not constitute a new transaction. Any such payment would merely be performance of a transaction which was entered into prior to the listing.

The Non-competition Undertaking was entered into prior to, and solely for the purpose of, the Global Offering. Furthermore, the transactions do not involve any monetary consideration. Accordingly, the transactions qualify under Rule 14A.31(2) of the Hong Kong Listing Rules as *de minimis* transactions exempt from reporting, announcement and independent shareholders' approval requirements. Should we elect to exercise our priority right or right of first refusal granted to us under the Non-competition Undertaking, we undertake to comply with the relevant requirements of the Hong Kong Listing Rules in relation to notifiable transactions and connected transactions.

The provision of entrusted loans constitutes connected transactions in the form of financial assistance under Chapter 14A of the Hong Kong Listing Rules. Such transactions however are exempted from reporting, announcement and independent shareholders' approval requirements based on Rule 14A.65(4) of the Hong Kong Listing Rules in the sense that such financial assistance is provided by a connected person for the benefit of a listed issuer on normal commercial terms (or better to the listed issuer) where no security over the assets of the listed issuer is granted. In any event, all the outstanding balance of the entrusted loans will be settled before the Listing Date.

The transactions described under the Strategic Cooperation Agreement, Engineering Framework Agreement, Ancillary Telecommunications Services Framework Agreement, Operation Support Services Framework Agreement, IT Application Services Framework Agreement, Centralized Services Agreement and Property Leasing Framework Agreement referred to above will constitute non-exempt continuing connected transactions under the Listing Rules once our H Shares are listed on the Stock Exchange. The transactions contemplated under Strategic Cooperation Agreement, Engineering Framework Agreement, Ancillary Telecommunications Services Framework Agreement, Operation Support Services Framework Agreement, IT Application Services Framework Agreement and Centralized Services Agreement would normally require full reporting, announcement and prior approval by our independent shareholders. The transactions contemplated under the Property Leasing Framework Agreement would normally require full reporting and announcement as the percentage ratios (other than profits ratio) calculated by reference to Rule 14.07 of the Hong Kong Listing Rules are expected on an annual basis to be more than 0.1% but less than 2.5%. It is considered that timely disclosure and/or approval in full compliance with the Hong Kong Listing Rules would be impracticable. We have applied for a waiver pursuant to Rule 14A.42(3) of the Hong Kong Listing Rules to exempt the non-exempt continuing connected transactions described under the Strategic Cooperation Agreement, Engineering Framework Agreement, Ancillary Telecommunications Services Framework Agreement, Operation Support Services Framework Agreement, IT Application Services Framework Agreement, Centralized Services Agreement and Property Leasing Framework Agreement referred to above from strict compliance with the announcement and/or independent shareholders' approval requirements of the Hong Kong Listing Rules subject to (i) our Directors undertaking that the Company would comply with the applicable requirements under Chapter 14A for three years ended December 31, 2008 (and in the event of the Strategic Cooperation Agreement, the "three years" refers to 2007, 2008 and 2009); and (ii) the aggregate value of each of the non-exempt continuing connected transactions described above for each financial year not exceeding the relevant cap set forth below (where applicable):

Transactions		Proposed Annual Caps 2006	2007	2008
		(RMB in million)		
1. Engineering Framework Agreement	revenue	4,700	4,700	4,700
2. Ancillary Telecommunications Services Agreement	revenue	2,300	2,300	2,300
3. Operation Support Services Framework Agreement	revenue	1,300	1,300	1,300
	expenditure	170	170	170
4. IT Application Services Framework Agreement	revenue	250	250	250
	expenditure	190	190	190
5. Centralized Services Agreement	Reimbursed apportioned cost	250	250	250
6. Property Leasing Framework Agreement	revenue	68.5	68.5	68.5
	expenditure	76.5	76.5	76.5

The transaction	Historical amount	Proposed annual cap	Reasons for the proposed caps
Engineering Framework Agreement	Revenue of approximately RMB3,387.8 million, RMB3,468.7 million, RMB3,326.3 million and RMB1,730.6 million for the three years ended December 31, 2005 and the six-months ended June 30, 2006, respectively.	Revenue of RMB4,700 million per annum until December 31, 2008.	Commencing from 2006, China Telecom, due to its own business needs and to reduce its operational costs, will appoint our Company to procure the raw materials for use in connection with the engineering related services we provided. Therefore, the proposed annual cap for engineering related services we provide shall include cost of raw materials as an additional item. Our historic connected transaction amounts in relation to the provision of engineering services was approximately an average of 56.7% when compared to the disclosure made by China Telecom Listco during the two years ended December 31, 2004 and 2005. In 2004, our historic connected transaction amount was approximately 61.6% of the relevant connected transaction amount disclosed by China Telecom Listco. The proposed annual cap will constitute approximately 56.4% of the relevant connected transaction annual cap disclosed by China Telecom Listco for the year ending December 31, 2006, which our Directors believe is fair and reasonable.
Ancillary Tele-communications Services Framework Agreement	Revenue of approximately RMB948.6 million, RMB1,380.1 million, RMB1,496.1 million and RMB1,029.5 million for the three years ended December 31, 2005 and the six-months ended June 30, 2006, respectively.	Revenue of RMB2,300 million per annum until December 31, 2008.	There has been a rapid increase of ancillary telecommunications services since 2005 and the compounded annual growth rate has exceeded 20%. Moreover, the six-months figure has already reached RMB1,029.5 million, almost half of our proposed annual cap. Our historic connected transaction amounts in relation to the provision of ancillary telecommunications services was approximately an average of 60.4% when compared to the disclosure made by China Telecom Listco during the two years ended December 31, 2004 and 2005. The proposed annual cap will constitute approximately 59.0% of the relevant connected transaction annual cap disclosed by China Telecom Listco for the year ending December 31, 2006, which our Directors believe is fair and reasonable.

The transaction	Historical amount	Proposed annual cap	Reasons for the proposed caps
Operation Support Services Framework Agreement	Revenue of approximately RMB877.8 million, RMB895.6 million, RMB1,015.5 million and RMB444.0 million for the three years ended December 31, 2005 and the six-months ended June 30, 2006, respectively. Expenditure of approximately RMB84.7 million, RMB77.5 million, RMB101.7 million and RMB53.7 million for the three years ended December 31, 2005 and the six-months ended June 30, 2006, respectively.	Revenue of RMB1,300 million per annum until December 31, 2008. Expenditure of RMB170 million per annum until December 31, 2008.	There has been a steady increase in the provision of operation support services since 2003 and the compounded annual growth rate is approximately 7.6%. Therefore, the proposed annual cap is in-line with such steady increase. Our historic connected transaction amounts in relation to the provision of operation support services was approximately an average of 40.0% when compared to the disclosure made by China Telecom Listco in relation to community services during the two years ended December 31, 2004 and 2005. The proposed annual cap for revenue will constitute approximately 38.1% of the relevant connected transaction annual cap disclosed by China Telecom Listco for the year ending December 31, 2006, which our Directors believe is fair and reasonable. There has been a steady increase in receiving operation support services from China Telecom since 2003 and compounded annual growth rate is approximately 10%. Therefore, the proposed annual cap is in-line with such steady increase.
IT Application Services Framework Agreement	Revenue of approximately RMB110.7 million, RMB133.4 million, RMB106.4 million and RMB40.4 million for the three years ended December 31, 2005 and the six-months ended June 30, 2006, respectively. Expenditure of approximately RMB93.9 million, RMB101.4 million, RMB176.8 million and RMB82.8 million for the three years ended December 31, 2005 and the six-months ended June 30, 2006, respectively.	Revenue of RMB250 million per annum until December 31, 2008. Expenditure of RMB190 million per annum until December 31, 2008.	Commencing from 2006, China Telecom, due to its own business needs and to reduce its operational costs, will appoint our Company to procure the raw materials for use in connection with the IT application services we provided. Therefore, the proposed annual cap for IT application services we provide shall include cost of raw materials as an additional item. Our historic connected transaction amounts in relation to the provision of IT application services in 2005 was approximately 72.0% when compared to the disclosure made by China Telecom Listco during the same period. The proposed annual cap for revenue will constitute approximately 51.0% of the relevant connected transaction annual cap disclosed by China Telecom Listco for the year ending December 31, 2006, which our Directors believe is fair and reasonable. There has been a steady increase in receiving certain IT application services from China Telecom since 2003 and the compounded annual growth rate has exceeded 20%. Therefore, the proposed annual cap for expenditure of IT application services is in-line with such steady increase.

The transaction	Historical amount	Proposed annual cap	Reasons for the proposed caps
Centralized Services Agreement	No comparable historical amount	Reimbursed apportioned cost of RMB250 million for three years ending December 31, 2008.	The proposed cap is based on the calculation of the costs incurred in relation to certain management functions provided by the headquarter and provincial subsidiaries of the Group to the rest of the non-listed provincial specialised telecommunications support businesses, taking into account the labour costs and benefits, depreciation of equipment and properties, daily operational expenditure, business development costs, maintenance, research and development costs etc. All such costs are apportioned on the basis of the respective proportional net asset value of the listed portion and the non-listed portion.
Property Leasing Framework Agreement	Revenue of approximately RMB32.6 million, RMB38.3 million, RMB38.8 million and RMB17.9 million for the three years ended December 31, 2005 and the six-months ended June 30, 2006, respectively. Expenditure of approximately RMB23.5 million, RMB27.3 million, RMB36.0 million and RMB22.5 million for the three years ended December 31, 2005 and the six-months ended June 30, 2006, respectively.	Revenue of RMB68.5 million per annum until December 31, 2008. Expenditure of RMB76.5 million per annum until December 31, 2008	There has been a rapid increase of expenditure in relation to rental charges since 2003 and the compounded annual growth rate has reached 23.6%. Considering factors such as restructuring, our Directors believe rental expenditure will further increase in 2007. Therefore, the proposed annual cap is in-line with such steady increase. Our historic connected transaction amounts in relation to the provision of property leasing services was approximately 11.9% when compared to the disclosure made by China Telecom Listco during the two years ended December 31, 2004 and 2005. The proposed annual cap for revenue will constitute approximately 13.7% of the relevant connected transaction annual cap disclosed by China Telecom Listco for the year ending December 31, 2006, which our Directors believe is fair and reasonable.

Our Directors (including the independent non-executive Directors) and Supervisors are of the opinion that (i) the transactions relating to the provision of the services described above have been entered into, and will be carried out, in our ordinary and usual course of business and on normal commercial terms which are fair and reasonable as far as our Company is concerned and are in the interest of our shareholders as a whole; and (ii) the proposed annual caps for such transactions (where applicable) are fair and reasonable.

We have undertaken that if any of the material terms of the Strategic Cooperation Agreement, Engineering Framework Agreement, Ancillary Telecommunications Services Framework Agreement, Operation Support Services Framework Agreement, IT Application Services Framework Agreement, Centralized Services Agreement and Property Leasing Framework Agreement referred to above are altered (unless as provided for under the terms of the relevant agreement or arrangement) or if we enter into any new agreements or arrangements with any connected persons (within the meaning of the Hong Kong Listing Rules) in the future under which the aggregate consideration paid or payable by us in each year exceeds the limits referred to above, we will comply with the provisions of Chapter 14A of the Hong Kong Listing Rules dealing with connected transactions unless we apply for and obtain a separate waiver from the Hong Kong Stock Exchange.

Confirmation from the Joint Sponsors

The Joint Sponsors have reviewed the relevant documentation, information and historical figures provided by us in relation to the transactions above and have participated in due diligence and discussions among our advisers and have considered representations and confirmations from us to satisfy themselves of the reliability of the documentation, information and historical figures provided in relation to the connected transactions described under the Strategic Cooperation Agreement, Engineering Framework Agreement, Ancillary Telecommunications Services Framework Agreement, Operation Support Services Framework Agreement, IT Application Services Framework Agreement, Centralized Services Agreement and Property Leasing Framework Agreement referred to above. Based on the above, the Joint Sponsors are of the view that (i) the non-exempt continuing connected transactions described under the Strategic Cooperation Agreement, Engineering Framework Agreement, Ancillary Telecommunications Services Framework Agreement, Operation Support Services Framework Agreement, IT Application Services Framework Agreement, Centralized Services Agreement and Property Leasing Framework Agreement above for which waiver is sought have been entered into in the ordinary and usual course of business of our Company on normal commercial terms and the terms of such transactions are fair and reasonable as far as our Company is concerned and are in the interests of our shareholders as a whole; and (ii) that the proposed annual caps for these non-exempt continuing connected transactions referred to above (except Strategic Cooperation Agreement where annual caps are inapplicable) are fair and reasonable, taken as a whole.

GENERAL

Our Board comprises one executive Director, three non-executive Directors and five independent non-executive Directors. We have a robust corporate governance structure.

Our Directors are elected to serve a term of three years. A director may serve consecutive terms if re-elected upon the expiration of his/her term.

The functions and powers of our Board include, among others:

- convening shareholders' meetings and reporting its work to shareholders at such meetings;
- implementing shareholders' resolutions;
- determining our business plans and investment proposals;
- formulating the proposed annual financial budgets and final accounts;
- formulating our profit distribution plans and loss recovery plans;
- deciding the internal management structure and the establishment of branch offices;
- hiring or dismissing the general manager based on nominations by the general manager hiring and dismissing the deputy general managers and financial controller, and determining their remuneration;
- formulating the basic management system;
- formulating proposals for any material acquisitions or disposals;
- proposing the appointment or change of an accounting firm to the shareholders' general meeting;
- formulating proposals for the increase or decrease in our registered capital and the issuance of debentures;
- formulating our plans for merger, demerger or dissolution; and
- formulating proposals for any amendments to our Articles of Association.

Except for the last three items above, which require the affirmative vote of two-thirds of all of our Directors, resolutions on any other items may be approved by the affirmative vote of a majority of our Directors.

The PRC Company Law requires a joint stock company with limited liability to establish a supervisory committee. Our Supervisory Committee is responsible for monitoring our financial matters and supervising the actions of our Board and our senior management personnel. Our Supervisory Committee consists of three Supervisors. According to our Articles of Association, one member of our Supervisory Committee must be employee representatives elected by our employees. The remaining members must be appointed by shareholders in a general meeting.

One member of our Supervisory Committee must act as its chairman. Members of the Supervisory Committee may not include any Director and senior management personnel of our Company. The term of office of our Supervisors is three years. A supervisor may serve consecutive terms if re-elected upon the expiration of his/her term.

The functions and powers of our Supervisory Committee include, among others:

- inspect the Company's financial activities.
- supervising the directors, chief executive officer and other senior management personnel in their performance of duties and to represent the Company in negotiation with or bring an action against a director and
- reviewing financial reports and other financial information prepared by the Board and which are proposed to be presented at shareholders' meetings.

DIRECTORS

The following table sets forth certain information concerning our Directors:

Name	Age	Position
Wang Xiaochu	48	Non-Executive Chairman
Li Ping	52	Vice Chairman and Executive Director
Liu Aili	43	Non-Executive Director
Zhang Junan	49	Non-Executive Director
Wang Jun	65	Independent Non-Executive Director
Chan Mo Po, Paul	51	Independent Non-Executive Director
Zhao Chunjun	65	Independent Non-Executive Director
Wu Shangzhi	56	Independent Non-Executive Director
Hao Weimin	71	Independent Non-Executive Director

Mr. WANG Xiaochu, age 48, is Chairman of our Board of Directors and a non-executive Director of our Company. Mr. Wang is President of China Telecom Group, and Chairman and Chief Executive Officer of China Telecom Listco. Mr. Wang has held positions including as director general of the Tianjin Posts and Telecommunications Administration, chairman and chief executive officer of China Mobile Limited (a company whose shares are listed on the Hong Kong Stock Exchange), and vice president of China Mobile Communications Corporation. He received the Class Three National Science and Technology Advancement Award and the Class One Science and Technology Advancement Award issued by MPT. Mr. Wang graduated from Beijing Institute of Posts and Telecommunications in 1980 and received a Doctorate degree in business administration from the Hong Kong Polytechnic University in 2005. He has over 25 years of management experience in the telecommunications industry. Mr. Wang was appointed a director of our Company on August 3, 2006.

Mr. LI Ping, age 52, is Vice Chairman of our Board of Directors, an executive Director and Chief Executive Officer of our Company. Mr. Li is Vice President of China Telecom Group, and Executive Director of China Telecom Listco. Mr. Li will be appointed as the Non-Executive Director of China Telecom Listco subsequent to the Listing Date. He was Joint Company Secretary of China Telecom Listco until October 26, 2006. Mr. Li graduated from the Beijing Institute of Posts and Telecommunications in 1976 with a major in radio telecommunications and received an MBA degree from the State University of New York at Buffalo, U.S.A. in 1989. Prior to joining China Telecom Group in August 2000, Mr. Li served as Chairman and the President of China

Telecom (Hong Kong) International Limited, Vice Chairman and Chief Operating Officer of China Mobile Limited (a company whose shares are listed on the Hong Kong Stock Exchange) and Deputy Director General of the DGT of the MPT. Mr. Li has extensive experience in managing public companies and 30 years of operational and management experience in the telecommunications industry in China. Mr. Li was appointed a director of our Company on August 3, 2006.

Mr. LIU Aili, age 43, is a non-executive director of our Company. Mr. Liu is Executive Director and Vice President of China Mobile Limited, whose shares are listed on the Hong Kong Stock Exchange. He is also Vice President of China Mobile Communications Corporation. Mr. Liu graduated from Heilongjiang Posts and Telecommunications School and received a doctoral degree in business administration from Hong Kong Polytechnic University. Prior to joining China Mobile Communications Corporation in February 2006, Mr. Liu was Chairman and President of Shandong Mobile and Zhejiang Mobile. Mr. Liu had previously served as Deputy Director General and Director General of Shandong Mobile Telecommunications Administration. He has over 23 years of management experience in the telecommunications industry. Mr. Liu was appointed a director of our Company on October 12, 2006.

Mr. ZHANG Junan, age 49, is a non-executive director of our Company. Mr. Zhang is an Executive Director and Vice President of China Unicom Limited, whose shares are listed on the Hong Kong Stock Exchange, and Vice President of China Unicom. Mr. Zhang graduated from the Nanjing University of Posts and Telecommunications majoring in carrier communication in 1982, and received a master degree in business administration from the National Australian University in 2002. Prior to joining China Unicom in December 2005, Mr. Zhang served as Deputy General Manager and General Manager of the Anhui Provincial Telecommunication Company, and Chairman and General Manager of Anhui Provincial Telecommunication Co., Ltd. Mr. Zhang had served as Director of the Bengbu Municipal Posts and Telecommunications Bureau in Anhui Province and Deputy Director of the Anhui Provincial Posts and Telecommunications Bureau. Mr. Zhang has long and extensive management experiences in the telecommunications industry. Mr. Zhang was appointed a director of our Company on October 12, 2006.

Mr. WANG Jun, age 65, is an independent non-executive Director of our Company. Mr. Wang graduated from Harbin Engineering Institute in the PRC. Mr. Wang, who retired as Chairman of China International Trust and Investment Corporation (CITIC) in July 2006, is chairman of the boards of directors of CITIC CN21 Limited, a company listed on the Hong Kong Stock Exchange. Mr. Wang was appointed a director of our Company on September 26, 2006.

Mr. CHAN Mo Po, Paul, age 51, is an independent non-executive director of our Company. Mr. Chan is the managing director of PCP CPA Limited. He is also an independent non-executive director of publicly listed I.T Limited, China Resources Land Limited, Kingmaker Footwear Holdings Limited, Hong Kong Economic Times Holdings Limited and The Wharf (Holdings) Limited. Mr. Chan is a graduate of The Chinese University of Hong Kong where he obtained both his bachelor's and master's degrees in Business Administration. Mr. Chan is a Practising Certified Public Accountant in Hong Kong and a fellow member of the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the Association of Chartered Certified Accountants ("ACCA"), the Society of Chinese Accountants and Auditors, the Institute of Chartered Secretaries and Administrators, the Taxation Institute of Hong Kong and the Hong Kong Institute of Company Secretaries. Mr. Chan has over 28 years' experience in both professional and commercial field and is currently the president of the HKICPA. He is a former chairman of the ACCA — Hong Kong. Mr. Chan was appointed a director of our Company on September 26, 2006.

Mr. ZHAO Chunjun, age 65, is an independent non-executive Director of our Company. Mr. Zhao is an independent non-executive director of Hangzhou Sunyard System Engineering Co., Limited, Daheng New Epoch Technology, Inc., all of which are companies listed in the PRC. Mr. Zhao is also a supervisor of Tsinghua Tongfang Co., Limited, a company listed in the PRC. 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 First Vice Dean between January 1987 and June 2001. Mr. Zhao was appointed a director of our Company on September 26, 2006.

Mr. WU Shangzhi, age 56, is an independent non-executive director of our Company. Mr. Wu is currently the chairman and managing partner of CDH China Holdings Management Company Limited, or CDH. Prior to joining CDH, Mr. Wu was a head of Direct Investment Department, managing director and member of the Management Committee of China International Capital Corporation (CICC) and he was also a director of Focus Media Holdings Limited, a company listed on Nasdaq in the US. Mr. Wu served as an officer at the World Bank and the International Finance Corporation from 1984 to 1993. Mr. Wu graduated from Massachusetts Institute of Technology with a Ph.D. degree in Mechanical Engineering and a M.S. in Management of Technology. Mr. Wu was appointed a director of our Company on September 26, 2006.

Mr. HAO Weimin, age 71, is an Independent Non-Executive Director of our Company. Mr. Hao graduated from the Beijing Institute of Posts and Telecommunications in 1963, He is a Professor. Mr. Hao is the Vice Chairman of the China Association of Communications Enterprises. He is also a standing committee member of China Telecommunications Academy, a Committee Member of the radio frequency planning and consulting committee of the MII. From 1983 to 1986, he was sent to the United States as a visiting scholar to carry out telecommunication research in GET Network Systems and Stanford University. He has worked in the fields of technical administration, data communication, satellite communication, network planning and international communication since coming back from the United States. He was a Vice Chairman and the President of China Orient Telecomm Satellite Co., Limited and a Deputy Director-General and Chief Engineer of the Directorate General of Telecommunications of MPT before December 2003. Mr. Hao was appointed a director of our Company on October 27, 2006.

COMPETING INTERESTS

Save as disclosed in this prospectus, none of our Directors has any competing interest, which competes or is likely to compete, either directly or indirectly, with our Group's business.

SUPERVISORS

The following table sets forth certain information concerning our Supervisors.

Name	Age	Position
Xia Jianghua	47	Chairman of Supervisory Committee
Hai Liancheng	61	Supervisor
Yan Dong	34	Supervisor

Ms. XIA Jianghua, age 47, is a Supervisor of our Company. Ms. Xia is vice director of Auditing Office and division-director of its Construction Auditing Division of China Telecom Group. She is also a supervisor of China Telecom Group North Corporation. She received a postgraduate certificate in enterprise management from University of International Business and Economics in 2004. Prior to joining China Telecom Group in 2000, Ms. Xia served as vice-divisional director of the Auditing Bureau of MPT, vice-divisional director (standing) of Auditing Division of DGT, and from 2000 to 2002 divisional director of Auditing Office of China Telecom Group. Ms. Xia was appointed a Supervisor of our Company on August 3, 2006.

Mr. HAI Liancheng, age 61, is a Supervisor of our Company. Mr. Hai is the director general of Civil Aviation Administration of China (CAAC) Sub-association of China Association of Chief Financial Officers and Chairman of CAAC Training Centre for Accounting and Auditing since January 2006. Mr. Hai had studied in 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 Financial Division of Financial Department of CAAC, vice-director and director of Financial Department of CAAC, general manager of China Aviation Oil Supply Corporation, and vice general manager of China Aviation Oil Holding Company. Over the past three years, Mr. Hai ever served as Chairman of South China BlueSky Aviation Oil Co., Ltd. Mr. Hai was appointed a Supervisor of our Company on August 3, 2006.

Mr. YAN Dong, age 34, is a Supervisor of our Company. Mr. Yan is the divisional director of Coordination and Development Division of the Sideline Industrial Management Department of China Telecom Group. He received an MBA from Shandong University in 2002. Prior to joining China Telecom Group in 2004, Mr. Yan served as a project manager in Shandong International Trust and Investment Corporation, office director, manager of Investment Department and secretary of board of directors of Shandong Luxin Investment Corporation, and general manager of Shandong Luxin Property Investment and Development Co., Ltd. Over the past three years, Mr. Yan had served as directors of Shandong Luxin Property Investment and Development Co., Ltd., Shandong International Investment Industries Corporation, and Yantai Zhenghai Electronic Mask Co., Ltd. Mr. Yan was appointed a Supervisor of our Company on August 15, 2006.

OTHER SENIOR MANAGEMENT

The following table sets forth certain information concerning other senior management personnel:

Name	Age	Position
Li Ping	52	Vice Chairman and Chief Executive Officer
Zhang Zhiyong	41	Executive Vice President
Li Zhigang	43	Executive Vice President
Yuan Jianxing	51	Executive Vice President and Chief Financial Officer
Wang Qi	50	Executive Vice President and Chief Executive Officer (Guangdong)
Li Jian	44	Executive Vice President
Liu Xiaoyi	38	Executive Vice President
Yuan Jinling	55	Chief Executive Officer (Shanghai)
Shi Yongsheng	56	Chief Executive Officer (Zhejiang)
Xu Qiude	55	Chief Executive Officer (Fujian)
Gao Liangping	52	Chief Executive Officer (Hubei)
Bao Tiejun	48	Chief Executive Officer (Hainan)
Chung Wai Cheung, Terence	32	Qualified Accountant and Company Secretary

LI Ping, see "— Directors".

Mr. ZHANG Zhiyong, age 41, is an Executive Vice President of our Company in charge of operations, business development and mergers and acquisitions. Mr. Zhang is managing director of the Sideline Industrial Management Department of China Telecom Group. He received a bachelor degree in radio engineering from the Changchun Institute of Posts and Telecommunications in 1986 and received a masters degree in control engineering from the Yanshan University in 2002 and an MBA from BI Norwegian School of Management in 2005. Prior to joining China Telecom Group in November 2002, Mr. Zhang served as deputy director of the Qinhuangdao City Posts and Telecommunications Bureau, director of the Qinhuangdao City Telecommunications Bureau, General Manager of Hebei Telecom Company Limited, Qinhuangdao Branch, and deputy general manager of China Telecom Group Beijing Telecom Co. Ltd. Mr. Zhang has 20 years of operational and management experience in the telecommunications industry in China.

Mr. LI Zhigang, age 43, is an Executive Vice President of our Company in charge of administration, legal and risk management functions. Mr. Li is deputy managing director of the Sideline Industrial Management Department of China Telecom Group. He graduated from the Beijing Institute of Posts and Telecommunications in 1985 with a major in radio engineering and received an Executive MBA from Peking University in 2006. Prior to joining China Telecom Group in June 2000, Mr. Li served as deputy divisional director of the policy and legislative division of the MPT, divisional director of the policy and legislative division of the MII, managing director of the corporate strategic development department of China Telecom Listco and deputy general manager of Guangdong Telecommunications Company Limited. Mr. Li has 21 years of operational and management experience in the telecommunications industry in China.

Mr. YUAN Jianxing, age 51, is Executive Vice President and Chief Financial Officer of our Company. Mr. Yuan received an MBA degree from Ukrainian-American Humanitarian Institute "Wisconsin International University (USA) Ukraine" in 2002. Mr. Yuan served as Vice President and General Accountant of Hunan Telecom Company Limited from September 2004 to October 2006. Prior to that, he had served as finance department director at the Shanxi Provincial Post and Telecommunications Bureau, General Manager of the Shanxi Provincial Posts and

Telecommunications Industrial Company, Director of the Xinzhou Post and Telecommunications Bureau in Shanxi Province, General Manager of Shanxi Telecom Company Limited, Taiyuan Branch, Deputy General Manager of Shanxi Telecom Company Limited and Deputy Managing Director of the Sideline Industrial Management Department of China Telecom Group. He has over 28 years experience in the telecommunications industry.

Mr. WANG Qi, age 50, is an Executive Vice President of our Company. He is the chief executive officer of Guangdong Communications Services Company Limited and is in charge of our Guangdong operations. Mr. Wang graduated from the Chinese Communist Party's (CPC) School of Guangdong in 1998. Mr. Wang joined Guangdong Telecom Industry Group Corporation as general manager in November 2000. Prior to that, he had served as general manager of Guangdong Post and Telecommunications Development Corporation, and director of 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 former Ministry of Posts and Telecommunication. Mr. Wang has 32 years of management experience in the telecommunications industry in China.

Mr. LI Jian, age 44, is an Executive Vice President of our Company. Mr. Li is a supervisor on our supervisory committee of China Telecom Listco and will remain on the committee until May, 2007. He is deputy managing director of the Sideline Industrial Management Department of China Telecom Group. He graduated from Beijing Radio and Television University in 1986 with a major in Accounting and obtained a Master degree in International Management from Australian National University. Prior to joining China Telecom Group in May 2000, he was Director of Treasury Division of the Department of Finance of the Ministry of Posts and Telecommunications before moving to China Telecom Group to take up the post of Director of the Treasury Division and Assets Division, and Director of the General Affairs and Assets Division under the Department of Finance. Mr. Li had also served as Chairman and President of China Telecom (Hong Kong) International Limited and Managing Director of the Investor Relations Department of China Telecom Listco. Mr. Li is an accountant and has 24 years of operational and management experience in the telecommunications industry in China.

Mr. LIU Xiaoyi, age 38, is Executive Vice President of our Company. Mr. Liu received a bachelor degree in communications engineering from the Beijing Institute of Posts and Telecommunications in 1989, a master degree in communications engineering from the Beijing University of Posts and Telecommunications in 1994, and an MBA degree from Tsinghua University in 2001. He joined China Telecom Group in October 2000 and served as a director at the data business division and as a senior manager at the international division. From June 2002 to September 2006, Mr. Liu was Vice President of China Telecom (USA) Corporation. Mr. Liu has over 17 years experience in the telecommunications industry.

Mr. YUAN Jinling, age 55, is the Chief Executive Officer of Shanghai Communications Services Corporation Limited and is responsible for our Shanghai operations. Mr. Yuan graduated from Shanghai Academy of Social Sciences. Mr. Yuan joined Shanghai Telecom Industry Corporation in October 2000 and served as deputy general manager and general manager. Prior to that, he had served as standing vice director of Industrial Development Division of Shanghai Post and Telecommunications Administration Bureau, general manager of Post and Communications Industry Corporation. Mr. Yuan has 32 years of operational and management experience in the telecommunications industry in China.

Mr. SHI Yongsheng, age 56, is the Chief Executive Officer of Zhejiang Communications Services Corporation Limited and is responsible for our Zhejiang operations. Mr. Shi graduated from Australian National University with a master of international management degree. Mr. Shi joined Zhejiang Telecom Industry Group Corporation as general manager in June 2005. Prior to that, he had served as general manager of Hangzhou Telecommunications Branch. Mr. Shi has 34 years of operational and management experience in the telecommunications industry in China.

Mr. XU Qiude, age 55, is the Chief Executive Officer of Fujian Communications Services Corporation Limited and is responsible for our Fujian operations. Mr. Xu studied radio physics in Xiamen University for three years and graduated from Xiamen University in 1975. Mr. Xu joined Fujian Telecom Industry Group Corporation as general manager in November 2000. Prior to that, he served as director general of Putian City Telecommunications Office and general manager of Putian City Telecommunications Branch. Mr. Xu has 33 years of operational and management experience in the telecommunications industry in China.

Mr. GAO Liangping, age 52, is the Chief Executive Officer of Hubei Communications Services Corporation Limited and is responsible for our Hubei operations. Mr. Gao graduated from Huazhong University of Science and Technology. Mr. Gao joined Hubei Telecom Industry Corporation as deputy general manage in February 2004. Prior to that, he served as deputy general manager of Wuhan City Telecommunications Branch and general manager of Wuhan City Telecommunications Industry Co., Ltd. Mr. Gao has 27 years of operational and management experience in the telecommunications industry in China.

Mr. BAO Tiejun, age 48, is the Chief Executive Officer of Hainan Communications Services Corporation Limited and is responsible for our Hainan operations. Mr. Bao graduated from Beijing Nomal University. Mr. Bao joined Hainan Dayou Group Company, the predecessor of Hainan Telecom Industry Group Corporation, as general manager in October 2000, and has since then served as chairman of board of directors and general manager of Hainan Telecom Industry Corporation. Prior to that, he served as office director of Hainan Post and Telecommunications Administration Bureau. Mr. Bao has 10 years of operational and management experience in the telecommunications industry in China.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. CHUNG Wai Cheung, Terence, age 32, has been our company secretary, assistant Chief Financial Officer and qualified accountant since October 16, 2006. Mr. Chung graduated from Melbourne University, Australia, with a bachelor of commerce degree in 1996 and received a master degree in business administration from the Australian Graduate School of Management in 2005. He 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 10 years of experience in auditing, financial management and company secretarial work with accounting firms and listed companies.

WAIVER FROM RULES 8.12 AND 19A.15 OF THE HONG KONG LISTING RULES

According to Rule 8.12 and Rule 19A.15 of the Hong Kong Listing Rules, an issuer must have a sufficient management presence in Hong Kong with at least two of the issuer's executive directors ordinarily resident in Hong Kong. We conduct substantially all of our operations in the PRC. Most of our directors reside in the PRC, with all of our Executive Directors ordinarily resident in the PRC. We do not and, for the foreseeable future, will not have a sufficient management presence in Hong Kong.

We will have certain internal arrangements to maintain effective communication with the Hong Kong Stock Exchange, including (i) appointing Li Ping and Chung Wai Cheung, Terence as our authorized representatives to act as our principal channel of communication with the Hong Kong Stock Exchange; and (ii) retaining China International Capital Corporation (Hong Kong) Limited as compliance advisors to act as our principal channel of communication with the Hong Kong Stock Exchange for the period commencing from the Listing Date and ending on the date when our Company publishes its first full year results pursuant to Rule 3A.19 and Rule 19A.06(4) of the Hong Kong Listing Rules. Accordingly, we have obtained from the Hong Kong Stock Exchange a waiver from strict compliance with Rule 8.12 and Rule 19A.15 of the Hong Kong Listing Rules which require us to have a sufficient management presence in Hong Kong.

BOARD COMMITTEES

Audit Committee

We have established an audit committee in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Hong Kong Listing Rules with terms of reference. The primary duties of the audit committee are to review and supervise our financial reporting process and internal control system. The audit committee shall comprise three Directors not involved in the day to day management of the Company, who shall be appointed by the Board. Our audit committee currently comprises the three independent non-executive Directors, namely, Messrs. Chan Mo Po, Paul (Chairman), Wu Shangzhi and Hao Weimin.

Remuneration Committee

We have established a remuneration committee with written terms of reference as suggested under the Code on Corporate Governance Practice set out in Appendix 14 of the Hong Kong Listing Rules. The primary functions of our remuneration committee include determining the policies in relation to human resources management, reviewing our remuneration policies and determining remuneration packages for our Directors. Our remuneration committee currently comprises the three independent non-executive directors, namely Messrs. Wu Shangzhi, Chan Mo Po, Paul and Zhao Chunjun, and is chaired by Mr. Wu Shangzhi.

Nominations Committee

We have established a nominations committee to make recommendations to our Board regarding candidates to fill vacancies on our Board. The current members of the nominations committee are Messrs. Zhao Chunjun (Chairman), Wang Jun and Hao Weimin, all independent non-executive directors.

Right of First Refusal and Priority Right Committee

We have established a Right of First Refusal and Priority Right Committee with terms of reference as stated in the section headed "Relationship with China Telecom — Exempted Connected Transactions — Non-competition Undertaking". The primary duty of the committee is to monitor the enforcement of the right of first refusal and the priority right granted by China Telecom Group and to protect the interest of independent shareholders when such right of first refusal or the priority right is exercised. The Right of First Refusal and Priority Right Committee shall comprise entirely of independent non-executive Directors. Our Right of First Refusal and Priority Right Committee currently comprises three independent non-executive Directors, namely, Messrs. Wu Shangzhi (Chairman), Zhao Chunjun and Hao Weimin.

Non-competition Undertaking Review Committee

We have established a Non-competition Undertaking Review Committee with terms of reference as stated in the section headed "Relationship with China Telecom – Exempted Connected Transactions — Non-competition Undertaking". The primary duty of the committee is to monitor the enforcement of the non-competition undertaking. The Non-competition Undertaking Review Committee shall comprise entirely of independent non-executive Directors. Our Non-competition Undertaking Review Committee currently comprises three independent non-executive Directors, namely, Messrs. Hao Weimin (Chairman), Chan Mo Po, Paul and Zhao Chunjun.

COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Directors and Supervisors who are also our employees receive compensation in the form of salaries, allowances and benefits in kind, including our contribution to the pension plans for our Directors and Supervisors. The Independent Non-Executive Directors and the independent supervisors receive fees from us. We have entered into a service contract with our executive Director.

There was no compensation (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) which was paid to the Directors and Supervisors during the three years ended December 31, 2003, 2004 and 2005.

The aggregate amount of compensation paid by us to our five highest paid senior executives in 2003, 2004 and 2005 was RMB2,366,000, RMB2,873,000 and RMB3,075,000, respectively.

Save as disclosed, no other amounts have been paid or are payable, in respect of the three years ended December 31, 2005 by us to our Directors.

Under the compensation arrangements currently in force, we estimate that the aggregate amount of compensation of the Directors payable for the year ending December 31, 2006 will be approximately RMB230,000.

Under the compensation arrangements currently in force, we estimate that the aggregate amount of compensation of the Supervisors payable for the year ending December 31, 2006 will be approximately RMB20,000.

SHARE APPRECIATION RIGHTS

In order to motivate and incentivize our management and other key employees, we intend to adopt a share appreciation rights policy, pursuant to which we will implement a share appreciation rights plan.

Our share appreciation rights policy will provide that eligible participants include directors, supervisors, management and other personnel to be designated by our Board. Eligible participants will be granted share appreciation rights, which will be exercised on a continuous basis with limits and upon exercise, will entitle eligible participants to receive an amount based on the calculation of share price appreciation in accordance with applicable regulations. The implementation of the share appreciation rights plan will be subject to obtaining all applicable approvals.

So far as our Directors are aware, as at the date of this prospectus, the entire issued share capital of our Company is owned as follows:

Name	Number of Shares	Approximate percentage of issued share capital
China Telecom Group[(1)]	3,623,400,000	91.50%
Guangdong Telecom Industry	245,520,000	6.20%
Zhejiang Telecom Industry	91,080,000	2.30%
Total	3,960,000,000	100.00%

Note:

(1) China Telecom Group has arrangements with China Mobile and China Unicom to transfer certain Shares to China Mobile and China Unicom, and China Telecom Group continues to hold such Shares until the transfers become effective. See page 54 of this prospectus for further details.

Immediately following completion of the Global Offering (but without taking into account the exercise of the Over-Allotment Option), the interests of our shareholders in our issued share capital would be as follows:

Name	Number of Shares	Approximate percentage of issued share capital
China Telecom Group[(1)]	3,505,246,691	66.75%
Guangdong Telecom Industry	237,513,983	4.52%
Zhejiang Telecom Industry	88,110,026	1.68%
SSF	129,129,300	2.46%
Investors who receive H Shares from the Global Offering	1,291,293,000	24.59%
Total	5,251,293,000	100.00%

Note:

(1) China Telecom Group has arrangements with China Mobile and China Unicom to transfer certain Shares to China Mobile and China Unicom, and China Telecom Group continues to hold such Shares until the transfers become effective. See page 54 of this prospectus for further details.

If the Over-Allotment Option is exercised in full, the interests of our shareholders in our issued share capital would be as follows:

Name	Number of Shares	Approximate percentage of issued share capital
China Telecom Group[1]	3,487,523,782	64.05%
Guangdong Telecom Industry	236,313,086	4.34%
Zhejiang Telecom Industry	87,664,532	1.61%
SSF	148,498,600	2.73%
Investors who receive H Shares from the Global Offering	1,484,986,000	27.27%
Total	5,444,986,000	100.00%

Note:

(1) China Telecom Group has arrangements with China Mobile and China Unicom to transfer certain Shares to China Mobile and China Unicom, and China Telecom Group continues to hold such Shares until the transfers become effective. See page 54 of this prospectus for further details.

Prior to the Global Offering, we had 3,960,000,000 Domestic Shares issued and outstanding.

As of the date of this prospectus, our share capital is as follows:

	Number of Shares	Approximate percentage of issued share capital
Domestic Shares in issue held by the Promoters (including Shares to be transferred to the SSF and converted into H Shares upon completion of the Global Offering)	3,960,000,000	100.00%

Immediately following completion of the Global Offering, but without taking into account the exercise of the Over-Allotment Option, our share capital will be as follows:

	Number of Shares	Approximate percentage of issued share capital
Domestic Shares in issue held by the Promoters	3,830,870,700	72.95%
H Shares under the Global Offering	1,291,293,000	24.59%
H Shares held by SSF	129,129,300	2.46%
	5,251,293,000	100.00%

If the Over-Allotment Option is exercised in full, our share capital will be as follows:

	Number of Shares	Approximate percentage of issued share capital
Domestic Shares in issue held by the Promoters	3,811,501,400	70.00%
H Shares under the Global Offering	1,484,986,000	27.27%
H Shares held by SSF	148,498,600	2.73%
	5,444,986,000	100.00%

RANKING

Domestic Shares and H Shares are ordinary shares in the share capital of our Company ranking *pari passu* with the same rights and benefits. H Shares, however, generally may only be subscribed for by, and traded in Hong Kong dollars between, legal or natural persons who are residents of Hong Kong, Macau, Taiwan or any country or jurisdiction other than the PRC (except for the SSF, which has obtained a special approval from the relevant PRC authority to hold H Shares and other Chinese qualified domestic institutional investors). Domestic Shares, on the other hand, generally may only be subscribed for by, and traded in Renminbi between, legal or natural persons who are residents of the PRC. In addition, under our Articles of Association, all shareholders holding ordinary shares of our Company, including Domestic Shares or H Shares, are entitled to the rights and assume the obligations stipulated in our Articles of Association equally. All dividends in respect of the H Shares are to be declared in Renminbi and paid by us in Hong Kong dollars. The H Shares to be issued under the Global Offering may only be subscribed for and traded in Hong Kong dollars.

Generally, Domestic Shares and H Shares are deemed as different classes of Shares under our Articles of Association. Any change or abrogation of the rights of shareholders of different classes must be approved by shareholders by way of a special resolution and at separate shareholders' class meetings convened by the affected shareholders of different classes. However, the procedures for approval by separate class shareholders shall not apply (i) where we issue, upon approval by a special resolution of our shareholders in a general meeting, either separately or concurrently every 12 months, not more than 20% of each of the existing issued Domestic Shares and H Shares; (ii) where our plan to issue Domestic Shares and H Shares on establishment is implemented within 15 months from the date of approval by the securities regulatory authorities of the State Council. See "Appendix VII — Variation of Rights of Existing Shareholders of Different Categories."

TRANSFER OF OUR DOMESTIC SHARES FOR LISTING AND TRADING ON THE OVERSEAS STOCK EXCHANGE

According to the provisions of our Articles of Association, our domestic shares may be transferred to overseas investors, and such transferred shares may be listed or traded on an overseas stock exchange without any class shareholder voting required, provided that the transfer and trading of such transferred shares shall have duly completed any requisite internal approval process and obtained the approval from the relevant PRC regulatory authorities, including the State Council securities regulatory authority, currently the CSRC. In addition, such transfer and trading shall in all respect comply with the regulations prescribed by the State Council securities regulatory authority and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange.

If any of our Domestic Shares are to be transferred to overseas investors and to be traded as H Shares on the Hong Kong Stock Exchange, the relevant procedural requirements for the transfer and conversion of such Domestic Shares are as follow:

(1) the transferor of Domestic Shares is to obtain the requisite approval of the State Council securities regulatory authority for the transfer and conversion of the domestic shares into H Shares;

(2) the transferor of Domestic Shares issues to us a removal request in respect of a specified number of Domestic Shares attaching the relevant documents of title;

(3) subject to obtaining the approval of our board of directors, we would then issue a notice to our H Share registrar with instructions that, with effect from a specified date, our H Share registrar is to issue the relevant holders with H Share certificates for such specified number of Domestic Shares;

(4) such specified number of Domestic Shares to be transferred and converted to H Shares are then re-registered on our H Share register maintained in Hong Kong on the condition that:

    (a) our H Share registrar lodges with the Hong Kong Stock Exchange a letter confirming the proper entry of the relevant shares on the H Share register and the due dispatch of share certificate; and

(b) the admission of the H Shares (converted from domestic shares) to trade in Hong Kong will comply with the Hong Kong Listing Rules and the General Rules of CCASS and CCASS Operational Procedures in force from time to time.

(5) Upon completion of the transfer and conversion, the shareholding of the transferor will be reduced by such number of domestic shares transferred and the number of H Shares in the H Share register will correspondingly increase by the same number of Shares.

(6) We will comply with the Hong Kong Listing Rules to inform shareholders and the public by way of an announcement of such fact not less than three days prior to the proposed effective date.

Until such Domestic Shares are re-registered on our H Share register, such Domestic Shares would not be listed as H Shares, and holders thereof would not be entitled to attend and vote at meetings of the holders of H Shares in respect of such Domestic Shares. After completion of the Global Offering, no further approval from the Hong Kong Stock Exchange or of our shareholders (including holders of our H Shares) would be required for the listing of such shares as H Shares on the Hong Kong Stock Exchange, although we still have to complete certain administrative procedures for the listing of the H Shares.

So far as our Directors are aware, none of our substantial shareholders propose to convert any of their shares into H Shares, except for state-owned shares to be transferred to the SSF and converted into H Shares in connection with this Global Offering, as further described under "Transfer of State-owned Shares" below.

TRANSFER OF PROMOTER SHARES

All the Domestic Shares in issue held by the Promoters are "promoter shares" as defined in the PRC Company Law. Pursuant to the PRC Company Law as currently in effect, promoter shares may not be transferred within a period of one year from the date of incorporation of our Company unless otherwise permitted by the relevant authorities in the PRC and if necessary and applicable approved by the Hong Kong Stock Exchange. This period will expire on August 29, 2007. The PRC Company Law also provides that in relation to the public offering of a company, the shares issued by a company prior to the public offering of shares shall not be transferred within a period of one year from the date on which the publicly offered shares are traded on any stock exchange.

Accordingly, Shares issued by our Company prior to the Listing Date shall be subject to this statutory restriction and not be transferred within a period of one year from the Listing Date. However, the Shares to be transferred by China Telecom Group, Guangdong Telecom Industry and Zhejiang Telecom Industry to SSF in accordance with relevant PRC regulations regarding the transfer of state-owned shares are not subject to such statutory restrictions on transfer following their transfer to SSF in accordance with the relevant PRC regulations regarding disposal of state-owned shares.

TRANSFER OF STATE-OWNED SHARES

In accordance with relevant PRC regulations regarding disposal of state-owned shares, each of our Promoters, is required to transfer to SSF, in proportion to their respective holdings in our Company, such number of Domestic Shares as in aggregate equivalent to 10% of the number of the Offer Shares (129,129,300 H Shares before the exercise of the Over-Allotment Option, and an additional 19,369,300 H Shares upon the exercise in full of the Over-Allotment Option). At the time of the listing of our H Shares on the Hong Kong Stock Exchange, such Domestic Shares will be converted into H Shares on a one-for-one basis. These H Shares will not be part of the Global Offering. Our Company will not receive any proceeds from the transfer by our Promoters to SSF or any subsequent disposal of such H Shares by SSF.

The transfer of state-owned Shares by our Promoters to SSF has been approved by SASAC on September 25, 2006. The conversion of those shares into H Shares has been approved by the CSRC on November 7, 2006. We have been advised that the transfer and the conversion, and the holding of H Shares by SSF following such transfer and conversion, have been approved by the relevant PRC authorities and are legal under PRC law.

You should read this section in conjunction with our audited combined financial information, including notes thereto, as set forth in Appendix I "Accountants' Report". The financial information have been prepared in accordance with IFRS.

The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcome and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. Please see the section headed "Risk Factors".

BASIS OF PRESENTATION

Pursuant to the restructuring, substantially all of our operating assets and liabilities relating to specialized telecommunications support services, comprising (i) TIS services, (ii) BPO services, and (iii) ACO services (the "**Predecessor Operations**") were transferred to us by China Telecom Group. As China Telecom Group owned or controlled the assets and liabilities that were transferred to us before the restructuring and continues to control us after the effective date of the restructuring, the restructuring is considered a business combination under common control. As a result, since there was no change in our controlling shareholder in the business combination, our financial information have been prepared as a combination under common control in a manner similar to pooling-of-interests. The financial information presents the results of our operations as if our current group structure had been in existence throughout the relevant periods and as if the Predecessor Operations were injected into us from China Telecom Group at the beginning of the earliest period presented or when the relevant businesses were acquired or the entities were set up by China Telecom Group. The assets and liabilities transferred to us have been stated at historical carrying amount as modified by the revaluation of property, plant and equipment.

OVERVIEW

We are a leading provider of integrated services to telecommunications operators in the PRC. We offer a full range of specialized telecommunications support services, including telecommunications infrastructure design, construction and supervision; BPO, including network maintenance, facilities management, and distribution of telecommunication services and products; and applications, content provision services.

Our business activities are conducted primarily in our Primary Service Regions. In addition, we also provide our services in other municipalities and provinces in the PRC as well as overseas.

Our business principally consists of three key areas:

- TIS services;
- BPO services; and
- ACO services.

FACTORS AFFECTING RESULTS OF OPERATIONS

Our results of operations and financial condition have been and will continue to be affected by a number of factors, including those set out below.

Capital and Operating Expenditures by Telecommunications Operators

Our telecommunications infrastructure services business is primarily dependent on capital expenditures relating to fixed-line and mobile networks by telecommunications operators in China and our BPO business is primarily dependent on operating expenditures relating to maintenance of these fixed assets by these operators, facilities management and distribution services. In addition, our business is dependent on the extent to which our customers, especially our three largest customers, China Telecom, China Mobile and China Unicom, outsource their telecommunications infrastructure requirements and engage directly in other services that they outsource to companies like us. Accordingly, changes in the businesses, infrastructure and capital and operating spending plans of our customers have had and will continue to have a material impact on our revenues.

A variety of factors affect capital and operating spending by telecommunications operators in China, including without limitation, the evolution of the Chinese telecommunications industry, advancements in technology and the intensity of competition in the industry.

Changes in operations by Telecommunications Operators

As a service provider to telecommunications operators, we are affected significantly by any changes in their investments or operations. Adjustments to their operations or investments may result in modifications of our business strategies and services. For example, we anticipate that as competition in the telecommunications industry intensifies and compels our customers to improve their profitability, they will more closely control and monitor their operating expenditures. In order to control their operating expenditures, we expect that our customers will conduct a cost-benefit analysis, and to the extent that outsourcing items such as maintenance of existing networks, facilities management and customer retail services, will cause the growth rate of operating expenditures to increase at a slower rate than revenues, they will increase the amount and types of services they outsource. Conversely, to the extent that it would be more cost-efficient to conduct such activities in-house, our principal customers would likely increase the amount that they outsource by a slower rate than the revenue growth rate, or even maintain or reduce the amount that they outsource.

Introduction of New Telecommunications Technologies and Product Offerings by Telecommunications Operators

Rapid and ongoing changes in technology and standards generally characterize the telecommunications industry. PRC telecommunications operators, including the China Telecom, China Mobile, the China Unicom and the China Netcom, have been undertaking to introduce new technologies into the PRC telecommunications market. These new technologies include 3G standards, such as WCDMA, CDMA2000 and TD-SCDMA, and IP based IPV6. As developments in 3G standards progress, new market opportunities arise for existing telecommunications infrastructure services companies, such as us, to design and construct the infrastructure and networks necessary for operation of 3G standards in China. In addition, new value added services will also be in demand with the introduction of these new technologies. Correspondingly, however, the introduction of the 3G standards will also attract new competitors to enter into the market due to the new market opportunities.

Competition in the Telecommunications Services Markets

The markets in which we operate are highly competitive, particularly in the facilities management. Competition in these businesses has, in certain instances, resulted in our lowering of prices. Generally, the more labor-intensive and less specialized and unskilled the service, the greater the competition we face. On the other hand, the more technical skill required, such as the services provided by our design business, the greater the barriers-to-entry, and the less severe the competition that we face. We believe, however, that due to our ability to provide integrated services, we are well situated in competing for large-scale, high value contracts.

We face competition primarily from domestic companies. In addition, further deregulation of the PRC telecommunications industry and the introduction of 3G standards may result in new domestic competitors in our business areas.

Potential changes in percentage at Auxiliary Material in Construction Contracts

Construction materials accounted for approximately 32.4%, 31.5%, 27.0%, 25.3% and 20.2% of our total cost of revenues in 2003, 2004, 2005 and the six months ended June 30, 2005 and June 30, 2006, respectively. Increasingly, telecommunications operators are focusing on procurement management in order to better control costs. The operators tend to adjust the percentage of auxiliary materials, such as pipes cables, PVC tubes and exchange boxes, in a construction contract in light of various factors, including, scope of services and price of materials.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our financial statements. Our significant accounting policies, which are important for an understanding of our financial condition and results of operation, are set forth in detail in Section V Note 2 to our Accountants Report included in Appendix I. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items such as revenue recognition, accounts and bills receivable and valuation of long-lived assets. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. We believe the following critical accounting policies involve the most significant estimates and judgments used in the preparation of our financial statements.

Revenue Recognition

The recognition of construction revenue involves a certain degree of management judgement. We recognize revenue derived from construction contracts when the outcome of the construction contract can be estimated reliably. We recognize revenue from a fixed price construction contract using a percentage of completion method, measured by reference to the percentage of the contract costs incurred to date to estimated total contract costs for the contract. When we cannot estimate reliably the outcome of a construction contract, we recognize revenue only to the extent that contract costs incurred will probably be recoverable.

We have adopted percentage of completion method of recognising our construction revenue. The respective project managers monitor the progress of each construction project against the budgets set. The key parameters to measure the outcome are attributable to whether the following criteria are met:

- total contract revenue can be measured reliably;
- it is probable that the economic benefits associated with the contract will flow to the entity;
- both the contract costs to complete the contract and the stage of contract completion at the balance sheet date can be measured reliably; and
- the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

Therefore, based on the past experience, no profit would be recognised at the early stage of each construction work until the respective project managers assess and conclude that the work is sufficiently advanced in light of the above-mentioned criteria.

Accounts and bills receivable

We initially recognize accounts and bills receivable at fair value. Thereafter, we state accounts and bills receivable at amortized cost less impairment losses for bad and doubtful debts. 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 of return for a similar financial asset where the effect of discounting is material. We provide for impairment losses for doubtful accounts based on our best estimate of the amount of losses that could result from the inability or lack of intention of our existing customers to make the required payments. We generally review the impairment losses by taking into account factors such as age of the accounts receivable balance, historical experience and economic conditions. We do not provide for impairment losses for accounts receivable owed by connected persons.

Valuation of long-lived assets

We periodically review the carrying amounts of long-lived assets, including property, plant and equipment, investment properties, constructions in progress, lease prepayments, intangible assets, and investments in associates, to assess whether they are impaired. These assets are tested for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable, such as obsolescence and continuous loss suffered. If there is an indication of impairment, we estimate the asset's recoverable amount and adjust the carrying amount on the balance sheet. We measure the amount recoverable of an asset by taking the greater of the asset's net selling price and its value in use. In determining value in use, the estimated future cash flows of the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining estimates of future cash flows, significant judgment in terms of projected future cash flows and assumptions is required. Where an asset does not generate cash inflow largely independent of those from other assets, the recoverable amount is determined from the smallest group of assets that generates cash inflows independently. We recognize an impairment loss in our income statement whenever the carrying amount of an asset, or the cash generating unit to which it belongs, exceeds its recoverable amount. An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount.

Revaluation

As required by the relevant PRC rules and regulations with respect to the restructuring, our property, plant and equipment were revalued as of March 31, 2006. Subsequent to that revaluation, our property, plant and equipment were carried at the revalued amount, being the fair value as at the date of the revaluation, less subsequent accumulated depreciation and impairment losses. Revaluations will be performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. In determining when the revaluation will be performed, some degree of judgement is required as to whether the carrying amount of property, plant and equipment differs from the fair value at the balance sheet date, and a degree of judgment in estimating the fair values of the assets. The results of subsequent revaluations may have an impact on the amount of revaluation deficit and surplus and the related depreciation expenses to the extent the fair values of our property, plant and equipment change significantly.

DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

Revenues

We derive revenue from our telecommunications infrastructure services, BPO services and applications, content and other services. We record our revenues net of applicable value added taxes and sales related taxes.

The following table sets forth our revenue contribution by revenue source and as a percentage of our revenue for the periods indicated:

	Years ended December 31,						Six months ended June 30,			
	2003		2004		2005		2005		2006	
	RMB	%	RMB	%	RMB	%	RMB (unaudited)	%	RMB	%
	(In thousands, except for percentages)									
Revenue from telecommunications infrastructure services	6,693,087	61.3	7,241,852	59.1	7,199,590	54.4	2,977,129	51.6	3,145,606	49.4
Revenue from business process outsourcing services	3,157,619	28.9	3,637,461	29.7	4,363,152	33.0	2,111,072	36.6	2,457,462	38.6
Revenue from applications, content and others	1,066,558	9.8	1,369,515	11.2	1,669,549	12.6	681,990	11.8	769,157	12.0
	10,917,264	100.0	12,248,828	100.0	13,232,291	100.0	5,770,191	100.0	6,372,225	100.0

The following table sets forth revenue from our customers and respective percentages of our revenue for the periods indicated:

	Years ended December 31,						Six months ended June 30,			
	2003		2004		2005		2005		2006	
	RMB	%	RMB	%	RMB	%	RMB (unaudited)	%	RMB	%
	(in thousands, except for percentages)									
China Telecom	5,357,515	49.1	5,916,065	48.3	5,983,081	45.2	2,844,570	49.3	3,262,377	51.2
China Mobile	902,681	8.3	1,088,214	8.9	1,702,461	12.9	549,297	9.5	684,882	10.7
China Unicom	284,082	2.6	380,161	3.1	603,685	4.6	244,373	4.2	240,468	3.8
Others	4,372,986	40.0	4,864,388	39.7	4,943,064	37.3	2,131,951	37.0	2,184,498	34.3
	10,917,264	100.0	12,248,828	100.0	13,232,291	100.0	5,770,191	100.0	6,372,225	100.0

Telecommunications infrastructure services. We derive revenue from our telecommunications infrastructure services primarily from the provision of a full range of planning and design services, project supervision and management services, and construction and installation services relating to fixed line and mobile telecommunications infrastructure.

Our telecommunications infrastructure services have historically been the single largest contributor to our revenue, though it has decreased from 61.3% in 2003 to 59.1% in 2004 to 54.4% in 2005 and from 51.6% in the six months ended June 30, 2005 to 49.4% for the same period in 2006. We believe this area will continue to be a significant source of our revenue.

The following table sets forth our revenue contribution by specific category of services and as a percentage of revenue from our telecommunications infrastructure services for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2003		2004		2005		2005		2006	
	RMB	%	RMB	%	RMB	%	RMB (unaudited)	%	RMB	%
	(in thousands, except for percentages)									
Design services	1,143,942	17.1	1,331,434	18.4	1,438,025	20.0	634,189	21.3	661,409	21.0
Construction services	5,338,604	79.8	5,668,302	78.3	5,480,420	76.1	2,226,552	74.8	2,358,199	75.0
Project supervision and management services	210,541	3.1	242,116	3.3	281,145	3.9	116,388	3.9	125,998	4.0
Total	6,693,087	100.0	7,241,852	100.0	7,199,590	100.0	2,977,129	100.0	3,145,606	100.0

BPO services. Revenue from our BPO services is primarily derived from the provision of services for the maintenance and repair of telecommunications network infrastructure, distribution of telecommunications services and products, and facilities management services.

Our BPO services have historically been the second largest contributor to our revenue, and has increased from 28.9% in 2003 to 29.7% in 2004 to 33.0% in 2005 and from 36.6% in the six months ended June 30, 2005 to 38.6% for the same period in 2006 of our revenue and we expect this trend to continue in the near future.

The following table sets forth our revenue contribution by specific category of services as a percentage of revenue from our BPO services for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2003		2004		2005		2005		2006	
	RMB	%	RMB	%	RMB	%	RMB (unaudited)	%	RMB	%
	(in thousands, except for percentages)									
Network maintenance	142,098	4.5	219,918	6.0	593,653	13.6	276,798	13.1	277,605	11.3
Distribution of telecommunications services and products	1,925,244	61.0	2,313,267	63.6	2,576,583	59.1	1,283,794	60.8	1,681,809	68.4
Facilities management	1,090,277	34.5	1,104,276	30.4	1,192,916	27.3	550,480	26.1	498,048	20.3
Total	3,157,619	100.0	3,637,461	100.0	4,363,152	100.0	2,111,072	100.0	2,457,462	100.0

Applications, content and others. Revenue from our applications, content and other services is primarily derived from a variety of value-added telecommunications and information technology services.

Our applications, content and other services have historically been the smallest contributor to our revenue. As a percentage of revenue, revenue from our content, applications and other services has increased from 9.8% in 2003 to 11.2% in 2004 to 12.6% in 2005 and from 11.8% in the six months ended June 30, 2005 to 12.0% for the same period in 2006 of our revenue.

The following table sets forth our revenue contribution by specific category of services and as a percentage of revenue from applications, content and others for the periods indicated:

	For the year ended December 31,						For the six months ended June 30,			
	2003		2004		2005		2005		2006	
	RMB	%	RMB	%	RMB	%	RMB (unaudited)	%	RMB	%
	(in thousands, except for percentages)									
System integration Service	360,335	33.8	497,048	36.3	670,923	40.2	270,845	39.7	287,271	37.3
Internet service	200,092	18.8	279,130	20.4	336,815	20.2	102,563	15.0	173,183	22.5
Voice VAS	183,801	17.2	199,082	14.5	226,127	13.5	105,779	15.5	107,835	14.0
Others	322,330	30.2	394,255	28.8	435,684	26.1	202,803	29.8	200,868	26.2
Total	1,066,558	100.0	1,369,515	100.0	1,669,549	100.0	681,990	100.0	769,157	100.0

Cost of Revenues

Our cost of revenues consists of direct personnel costs, purchase of materials and telecommunication products, subcontracting charges, depreciation and amortization, operating lease charges and others.

The following table sets forth our cost of revenues contribution by category and as a percentage of total cost of revenues for the periods indicated:

	Years ended December 31,						Six months ended June 30,			
	2003		2004		2005		2005		2006	
	RMB	%	RMB	%	RMB	%	RMB (unaudited)	%	RMB	%
	(In thousands, except for percentages)									
Depreciation and amortization	168,268	1.9	206,567	2.1	239,300	2.3	134,423	2.9	119,399	2.3
Direct personnel costs	1,268,439	14.7	1,423,520	14.4	2,023,144	19.2	927,354	20.0	936,641	18.0
Operating lease charges	90,028	1.0	135,234	1.4	138,022	1.3	51,100	1.1	87,269	1.7
Purchase of materials and telecommunication products	3,889,030	45.0	4,386,627	44.4	4,337,923	41.1	1,982,039	42.8	2,170,256	41.7
Subcontracting charges	2,210,650	25.6	2,665,201	27.0	2,527,912	24.0	1,067,809	23.1	1,347,970	25.9
Others	1,012,489	11.8	1,057,488	10.7	1,278,079	12.1	465,952	10.1	546,044	10.4
	8,638,904	100.0	9,874,637	100.0	10,544,380	100.0	4,628,677	100.0	5,207,579	100.0

Purchase of materials and telecommunications products. Purchase of materials and telecommunications products primarily includes auxiliary construction materials, such as pipes, cables, PVC tubes and exchange boxes used in the construction of telecommunications infrastructure and the cost of the handsets sold in connection with the sales of telecommunications products business.

Subcontracting charges. Our subcontracting charges primarily consist of the subcontracting of certain service items in construction services.

Operating lease charges. Our operating lease includes lease of distribution outlets, warehouses and equipment.

Others. Others consists of travelling expenses, repair and maintenance expenses, low value consumables, utility expenses and others.

Other Operating Income

We also derive income from dividend income from unlisted securities, government grants, write-off of non-payable liabilities and other sources. Government grants primarily consist of grants from the Shanghai municipal government for contributions to the local economy.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of remuneration of administrative staff, depreciation of fixed assets, travelling and entertainment expenses, costs relating to repair and maintenance of motor vehicles and equipment, office expenses, research and development expenses, costs for conventions and meetings, operating lease charges and others. Our selling, general and administrative expenses accounted for 14.8%, 14.2%, 14.7%, 14.3% and 12.4% of our revenue in 2003, 2004, 2005 and the six months ended June 30, 2005 and June 30, 2006, respectively.

Other Operating Expense

Other operating expenses consists primarily of impairment losses or net losses on investments, property plant and equipment, donations and others.

Net Financing Income

Net financing income primarily consists of interest income from bank deposits and net foreign exchange gain, net of interest on borrowings.

Negative Goodwill

We recognize negative goodwill when we acquire an asset at a cost which is less than the valuation of the asset. During the course of restructuring by China Telecom in the most recent three years, we acquired share equity in companies at less than their valued price. These companies had certain business cooperations with us and their business overlapped with ours.

Income Tax

In general, some of our subsidiaries, including those established in Hainan or in hi-tech parks or special economic zones in the PRC are income tax subject to a preferential income tax rate of 7.5% or 15% while we and our other subsidiaries are subject to an income tax rate of 33%.

Minority Interests

Minority interests represent the portion of our profit that is attributable to the shareholding in our subsidiaries that we do not own.

RESULTS OF OPERATIONS

The following table sets forth our selected income statement and other financial information for 2003, 2004 and 2005 and the six months ended June 30, 2005 and 2006, as derived from the Accountants' Report in Appendix I. The financial information contained herein and in the Accountants' Report in Appendix I is prepared in accordance with IFRS and is presented as if the current group structure had been in existence throughout the periods presented.

	Year ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
				(unaudited)	
	(RMB in thousands)[1]				
Revenues	10,917,264	12,248,828	13,232,291	5,770,191	6,372,225
Telecommunications infrastructure services	6,693,087	7,241,852	7,199,590	2,977,129	3,145,606
BPO services	3,157,619	3,637,461	4,363,152	2,111,072	2,457,462
Applications, content and others	1,066,558	1,369,515	1,669,549	681,990	769,157
Cost of revenues	(8,638,904)	(9,874,637)	(10,544,380)	(4,628,677)	(5,207,579)
Gross profit	2,278,360	2,374,191	2,687,911	1,141,514	1,164,646
Other operating income	94,260	164,494	115,672	74,482	81,290
Selling, general and administrative expenses	(1,619,517)	(1,733,861)	(1,951,122)	(827,193)	(791,252)
Other operating expenses	(24,715)	(31,751)	(21,066)	(10,026)	(2,976)
Deficit on revaluation of property, plant and equipment	—	—	—	—	(105,299)
Net financing income	39,311	42,643	38,403	16,155	7,657
Share of profits less (losses) of associates	6,508	5,442	11,687	6,759	(1,085)
Negative goodwill	62,526	43,299	159,499	159,378	4,039
Profit before tax	836,733	864,457	1,040,984	561,069	357,020
Income tax	(262,793)	(273,960)	(260,482)	(157,483)	(147,197)
Profit for the year/period	573,940	590,497	780,502	403,586	209,823
Attributable to:					
Equity owner	458,436	525,619	597,556	273,204	194,083
Minority interests	115,504	64,878	182,946	130,382	15,740
Profit for the year/period	573,940	590,497	780,502	403,586	209,823
Basic and diluted earnings per share[2]	0.116	0.133	0.151	0.069	0.049

(1) Except for per share numbers which are presented in RMB.

(2) The calculation of earnings per share is based on the net profit attributable to equity owner of each period presented on the assumption that 3,960,000,000 shares, representing the number of Shares of the Company outstanding immediately before the Global Offering, had been in issue as at January 1, 2003. We had no dilutive potential shares outstanding for all periods presented.

Six months ended June 30, 2006 compared to six months ended June 30, 2005

Revenue. Revenue for the six months ended June 30, 2006 was RMB6,372.2 million, an increase of RMB602.0 million, or 10.4%, compared to RMB5,770.2 million in the six months ended June 30, 2005, primarily due to an increase of RMB346.4 million from our BPO services and an increase of RMB168.5 million from our telecommunications infrastructure services.

Revenue from our telecommunications infrastructure services was RMB3,145.6 million for the six months ended June 30, 2006, an increase of RMB168.5 million, or 5.7%, as compared with RMB2,977.1 million in the six months ended June 30, 2005. This increase was primarily attributable to growth in our construction services. The increase in revenue from our construction services was primarily attributable to growth in business in Guangdong, which was attributable to the consolidation of our construction operations and resulting improvement in market share.

Revenue from our BPO services increased RMB346.4 million, or 16.4% from RMB 2,111.1 million in the six months ended June 30, 2005 to RMB2,457.5 million in the six months ended June 30, 2006. This increase was primarily attributable to an increase in revenue from our distribution of telecommunications services and products.

Revenue from our applications, content and others increased RMB87.2 million, or 12.8%, from RMB682.0 million in the six months ended June 30, 2005 to RMB769.2 million in the six months ended June 30, 2006. This increase was primarily attributable to increase in revenue from Internet services. Revenue from our Internet services increased primarily due to the increase in numbers and usage of our Internet cafes and the introduction of new product offerings.

Cost of revenues. Cost of revenues for the six months ended June 30, 2006 was RMB5,207.6 million, an increase of RMB578.9 million, or 12.5%, compared to RMB4,628.7 million in the six months ended June 30, 2005. The increase was primarily due to an increase in subcontracting charges of RMB280.2 million, or 26.2%, from RMB1,067.8 million in the six months ended June 30, 2005 to RMB1,348.0 million in the six months ended June 30, 2006 and an increase in purchase of materials and telecommunications products of RMB188.3 million, or 9.5%, from RMB1,982.0 million in the six months ended June 30, 2005 to RMB2,170.3 million in the six months ended June 30, 2006. Cost of revenue as a percentage of revenue increased from 80.2% in the six months ended June 30, 2005 to 81.7% in the six months ended June 30, 2006, primarily due to increases in subcontracting charges. The increase in subcontracting charges was primarily attributable to an increase of subcontracting work in our construction business.

Gross profit. Gross profit for the six months ended June 30, 2006 was RMB1,164.6 million, an increase of RMB23.1 million, or 2.0%, compared to RMB1,141.5 million in the six months ended June 30, 2005. Gross profit margin decreased from 19.8% in the six months ended June 30, 2005 to 18.3% in the six months ended June 30, 2006. The decrease was mainly due to an increase in sub-contracting charges to revenue ratio which increased from 18.5% in the six months ended June 30, 2005 to 21.2% in the six months ended June 30, 2006.

Other operating income. Other operating income in the six months ended June 30, 2006 was RMB81.3 million, an increase of RMB6.8 million, or 9.1%, as compared with RMB74.5 million in the six months ended June 30, 2005, primarily due to an increase in net gain on disposal of investments.

Selling, general and administrative expenses. Selling, general and administrative expenses in the six months ended June 30, 2006 were RMB791.3 million, a decrease of RMB35.9 million, or 4.3%, as compared with RMB827.2 million in the six months ended June 30, 2005. The decrease was primarily attributable to a decrease in the impairment losses for bad debts and a decrease in depreciation and amortization. The decrease in depreciation and amortization was primarily due to the distribution to owner of assets as part of our restructuring.

Deficit on revaluation of property, plant and equipment. A deficit arising from the valuation of these assets amounting to RMB105.3 million was recognised as an expense for the six months ended June 30, 2006. The reduction in the carrying amount of these assets was primarily the result of a current market decline in the replacement cost of certain buildings, furniture, fixtures, motor vehicles and other equipment.

Other operating expenses. Other operating expenses in the six months ended June 30, 2006 was RMB3.0 million, a decrease of RMB7.0 million, or 70.0%, as compared with RMB10.0 million in the six months ended June 30, 2005, primarily due to an impairment loss on property, plant and equipment of RMB2.1 million in the six months ended June 30, 2005 compared to no impairment loss in the six months ended June 30, 2006.

Net financing income. Net financing income during the six months ended June 30, 2006 was RMB7.7 million, a decrease of RMB8.5 million, or 52.5%, from RMB16.2 million in the six months ended June 30, 2005. The decrease was primarily attributable to a decrease in interest income, which was a result of the decrease in cash and bank balances.

Share of profits less losses of associates. Our share of losses from associates for the six months ended June 30, 2006 was RMB1.1 million, as compared to profits of RMB6.8 million in the six months ended June 30, 2005, primarily due to a loss incurred by an associate in Fujian in the six months ended June 30, 2006 as compared to profits earned by certain associates in the six months ended June 30, 2005.

Negative goodwill. Negative goodwill in the six months ended June 30, 2006 was RMB4.0 million, a decrease of RMB155.4 million, or 97.5%, as compared with RMB159.4 million in the six months ended June 30, 2005, primarily due to reduced acquisition of companies with business cooperations with us.

Profit before tax. As a result of the foregoing factors, profit before taxation for the six months ended June 30, 2006 was RMB357.0 million, a 36.4%, or RMB204.1 million, decrease as compared with RMB561.1 million for the six months ended June 30, 2005.

Income tax expense. Income tax expense for the six months ended June 30, 2006 was RMB147.2 million, a decrease of RMB10.3 million, or 6.5%, from RMB157.5 million in the six months ended June 30, 2005. Effective tax rate for the Company for the six months ended June 30, 2006 and the six months ended June 30, 2005 was 41.2% and 28.1%, respectively. The increase in effective tax rate in the six months ended June 30, 2006 compared to the six months ended June 30, 2005 was primarily due to the decrease in negative goodwill, which is a non-taxable item, and deficit on the valuation of property, plant and equipment, which is not a tax deductible item.

Minority interests. Minority interests for the six months ended June 30, 2006 were RMB15.7 million, a decrease of RMB114.7 million, or 88.0%, from RMB130.4 million in the six months ended June 30, 2005, primarily as a result of an acquisition of minority stake in one of our major subsidiaries in 2006.

Net profit attributable to equity owner. As a result of the foregoing factors, net profit attributable to equity owner for the six months ended June 30, 2006 was RMB194.1 million, a decrease of RMB79.1 million or 29.0%, as compared with RMB273.2 million for the six months ended June 30, 2005. Net profit margin attributable to equity owner for the six months ended June 30, 2006 was 3.0%, compared to 4.7% in the six months ended June 30, 2005.

2005 compared to 2004

Revenue. Revenue for 2005 was RMB13,232.3 million, an increase of RMB983.5 million, or 8.0%, compared to RMB12,248.8 million in 2004, due to an increase in revenue from our BPO services and applications, content and other services.

Revenue from our telecommunications infrastructure services for 2005 was RMB7,199.6 million, a decrease of RMB42.3 million, or 0.6%, compared to RMB7,241.9 million in 2004, primarily due to a decrease in capital expenditures by our principal customers in 2005, which resulted in a decrease in revenue from our construction services. The decrease in revenue from our construction services was partially offset by an increase in revenue from our provision of design services and project supervision and management services. Revenue attributable to our design services increased primarily due to an increase in penetration of our customer base within and outside of our Primary Service Regions. Revenue from the provision of supervision services increased primarily due to the increased emphasis on supervision of construction and communications projects by our customers.

Revenue from our BPO services for 2005 was RMB4,363.2 million, an increase of RMB725.7 million, or 20.0%, compared to RMB3,637.5 million in 2004, primarily due to acquisition of businesses in Fujian. Our network maintenance services and also our facilities management and distribution of telecommunications services and products all benefited from this reorganization, particularly. Revenue from our provision of network maintenance services also benefited from the trend of our customers outsourcing maintenance work to outside contractors, such as us. Revenue from our provision of distribution of telecommunications services and products also increased due to an increase in sales of personal handy system (“PHS”) handsets.

Revenue from applications, content and other services for 2005 was RMB1,669.5 million, an increase of RMB300.0 million, or 21.9%, compared to RMB1,369.5 million in 2004, primarily due to an increase in our provision of IT applications services and Internet services, which resulted primarily from increased demand for our services.

Cost of revenues. Cost of revenues for 2005 was RMB10,544.4 million, an increase of RMB669.8 million, or 6.8%, compared to RMB9,874.6 million in 2004, which was primarily due to an increase in direct personnel costs from RMB1,423.5 million in 2004 to RMB2,023.1 million in 2005, which was partially offset by a decrease in purchase of materials and telecommunications products from RMB4,386.6 million in 2004 to RMB4,337.9 million in 2005 and a decrease in subcontracting charges from RMB2,665.2 million in 2004 to RMB2,527.9 million in 2005. The decrease in subcontracting charges and increase in direct personnel costs resulted primarily from a change in our business practice to provide certain services in-house as opposed to subcontracting them out and from the acquisition of businesses in Fujian and Zhejiang in 2005. The decrease in purchase of materials and telecommunications products resulted primarily from a decrease in construction services and a decrease in ratio of our construction service contracts involving construction material procurement.

Gross profit. Gross profit for 2005 was RMB2,687.9 million, an increase of RMB313.7 million, or 13.2%, compared to RMB2,374.2 million in 2004. Gross profit margin increased from 19.4% in 2004 to 20.3% in 2005 primarily due to a decrease in purchase of materials and telecommunications products and a change in the nature of our construction contracts. In 2005, the Group started to accept more construction work under which the customers bore their own procurement costs of construction materials. Such change resulted in the slight increase in gross profit margin in the year ended December 31, 2005 as compared to that in the year ended December 31, 2004.

Other operating income. Other operating income in 2005 was RMB115.7 million, a decrease of RMB48.8 million, or 29.7%, as compared with RMB164.5 million in 2004, primarily due to a decrease in net gain on disposal of investment, decrease in dividend income from unlisted securities and a decrease in government grants.

Selling, general and administrative expenses. Selling, general and administrative expenses in 2005 was RMB1,951.1 million, an increase of RMB217.2 million, or 12.5%, as compared with RMB1,733.9 million in 2004, primarily due to personnel expenses increasing at a greater rate than revenue, which resulted primarily from the acquisition of businesses in Fujian and Zhejiang and increase in average salaries. Selling, general and administrative expenses as a percentage of revenue increased from 14.2% in 2004 to 14.7% in 2005.

Other operating expenses. Other operating expenses in 2005 was RMB21.1 million, a decrease of RMB10.7 million, or 33.6%, as compared with RMB31.8 million in 2004, primarily due to a decrease in impairment loss on property, plant and equipment.

Net financing income. Net financing income in 2005 was RMB38.4 million, a decrease of RMB4.2 million, or 9.9%, from RMB42.6 million in 2004. The decrease was due to an increase in interest on bank advances and other borrowings, which resulted from an increase in borrowing levels and interest rates, and was partially offset by an increase in interest income due to an increase in bank deposit interest rates.

Share of profits less losses of associates. Our share of profits from associates for 2005 was RMB11.7 million, an increase of RMB6.3 million, or 116.7%, compared to RMB5.4 million in 2004, primarily because of improvement in business results of such associates.

Negative goodwill. Negative goodwill in 2005 was RMB159.5 million, an increase of RMB116.2 million, or 268.4%, as compared with RMB43.3 million in 2004, primarily due to increased acquisition of companies with business cooperation with us.

Profit before tax. As a result of the foregoing factors, profit before taxation for 2005 was RMB1,041.0 million, an increase of RMB176.5 million, or 20.4%, as compared with RMB864.5 million in 2004.

Income tax expense. Income tax expense for 2005 was RMB260.5 million, a decrease of RMB13.5 million, or 4.9%, from RMB274.0 million in 2004. Effective tax rate for 2005 and 2004 was 25.0% and 31.7%, respectively. The decrease in effective tax rate in 2005 compared to 2004 was primarily due to the increase in negative goodwill in 2005, which is not a taxable item, and the grant of preferential tax rates to certain of our subsidiaries in 2005.

Minority interests. Minority interests for 2005 was RMB182.9 million, an increase of RMB118.0 million, or 181.8%, from RMB64.9 million in 2004, primarily as a result of the increase in profit from Hua Xin Consulting Co., Ltd., a subsidiary with a 49% minority shareholding then.

Net profit attributable to equity owner. As a result of the foregoing factors, net profit attributable to equity owner for 2005 was RMB597.6 million, an increase of RMB72 million or 13.7%, as compared with RMB525.6 million for 2004. Net profit margin attributable to equity owner for 2005 was 4.5%, compared to 4.3% in 2004.

2004 compared to 2003

Revenue. Revenue for 2004 was RMB12,248.8 million, an increase of RMB1,331.5 million, or 12.2%, compared to RMB10,917.3 million in 2003, due to an increase in revenue from all of our business areas.

Revenue from our telecommunications infrastructure services for 2004 was RMB7,241.9 million, an increase of RMB548.8 million, or 8.2%, compared to RMB6,693.1 million in 2003 primarily due to construction projects relating to ADSL in Shanghai, increased business from other customers in addition to China Telecom and the development of business outside of our Primary Services Regions. Revenue from our design services increased RMB187.5 million, or 16.4%, from RMB1,143.9 million in 2003 to RMB1,331.4 million in 2004. This increase was primarily attributable to our expansion of design services into new provinces.

Revenue from our BPO services for 2004 was RMB3,637.5 million, an increase of RMB479.9 million, or 15.2%, compared to RMB3,157.6 million in 2003 primarily due to growth of distribution of telecommunications services and products in Shanghai relating to the development of broadband and PHS services and development in our maintenance business.

Revenue from our applications, content and other services for 2004 was RMB1,369.5 million, an increase of RMB302.9 million, or 28.4%, compared to RMB1,066.6 million in 2003 primarily due to the growth of our Internet and information technology services.

Cost of revenues. Cost of revenues for 2004 was RMB9,874.6 million, an increase of RMB1,235.7 million, or 14.3%, compared to RMB8,638.9 million in 2003. The increase was primarily attributable to an increase of RMB497.6 million, or 12.8%, from RMB3,889.0 million in 2003 to RMB4,386.6 million in 2004 in the purchase of materials and telecommunications products, an increase of RMB454.5 million, or 20.6%, from RMB2,210.7 million in 2003 to RMB2,665.2 million in 2004 in subcontracting charges, and an increase of RMB155.1 million, or 12.2%, from RMB1,268.4 million in 2003 to RMB1,423.5 million in 2004 in direct personnel costs. Cost of revenues as a percentage of revenue increased from 79.1% in 2003 to 80.6% in 2004 primarily due to subcontracting charges as a percentage of revenue increasing from 20.2% in 2003 to 21.8% in 2004, which was primarily attributable to growth in demand for our construction services.

Gross profit. Gross profit for 2004 was RMB2,374.2 million, an increase of RMB95.8 million, or 4.2%, compared to RMB2,278.4 million in 2003. As a result of the foregoing factors, gross profit margin decreased from 20.9% in 2003 to 19.4% in 2004.

Other operating income. Other operating income in 2004 was RMB164.5 million, an increase of RMB70.2 million, or 74.4%, as compared with RMB94.3 million in 2003, primarily due to an increase in government grant obtained in Shanghai and a gain from our disposal of our investment in an electrical equipment manufacturer.

Selling, general and administrative expenses. Selling, general and administrative expenses in 2004 was RMB1,733.9 million, an increase of RMB114.4 million, or 7.1% as compared with RMB1,619.5 million in 2003. This increase was primarily attributable to increases in personnel expenses, provisions for bad debts and depreciation and amortization. Selling, general and administrative expenses as a percentage of revenue decreased from 14.8% in 2003 to 14.2% in 2004 primarily due to personnel costs increasing at a slower rate than revenue.

Other operating expenses. Other operating expenses in 2004 was RMB31.8 million, an increase of RMB7.1 million, or 28.7%, as compared with RMB24.7 million in 2003, primarily due to an increase in impairment losses on, and an increase in net loss on disposal of property, plant and equipment.

Net financing income. Net financing income during 2004 was RMB42.6 million, an increase of RMB3.3 million, or 8.4%, from RMB39.3 million in 2003. The increase was primarily due to an increase in interest income, which was primarily attributable to an increase in interest rates.

Share of profits less losses of associates. Our share of profits from associates for 2004 was RMB5.4 million, a decrease of RMB1.1 million, or 16.9%, compared to RMB6.5 million in 2003, primarily due to an increase in losses in 2004 by an associate that provides telecommunications terminal services.

Negative goodwill. Negative goodwill in 2004 was RMB43.3 million, a decrease of RMB19.2 million, or 30.7%, as compared with RMB62.5 million in 2003, primarily due to less acquisition of companies with business cooperations with us.

Profit before tax. As a result of the foregoing factors, profit before taxation for 2004 was RMB864.5 million, an increase of RMB27.8 million; or 3.3%, as compared with RMB836.7 million for 2003.

Income tax expense. Income tax expense for 2004 was RMB274.0 million, an increase of RMB11.2 million, or 4.3%, from RMB262.8 million in 2003. Effective tax rate for 2003 and 2004 was 31.4% and 31.7%, respectively. The increase in effective tax rate in 2004 compared to 2003 was attributable to the decrease in negative goodwill, which is a non-taxable item, despite the benefit of reduced tax rates for certain of our subsidiaries.

Minority interests. Minority interests for 2004 was RMB64.9 million, a decrease of RMB50.6 million, or 43.8%, from RMB115.5 million in 2003, primarily as a result of an acquisition of minority interests in certain subsidiaries in 2004.

Net profit attributable to equity owner. As a result of the foregoing factors, net profit attributable to equity owner for 2004 was RMB525.6 million, an increase of RMB67.2 million, or 14.7% as compared with RMB458.4 million for 2003. Net profit margin attributable to equity owner for 2004 was 4.3%, compared to 4.2% in 2003.

LIQUIDITY AND CAPITAL RESOURCES

We have historically met our working capital and other capital requirements principally from cash provided by operations and cash at hand.

Cash flow data

Cash flows from our operating activities and cash at hand constitute our principal source of liquidity. We continuously manage our liquidity situation to ensure that it is adequate to meet our plans.

The following table presents selected cash flow data from our combined cash flow statements for the periods presented.

	For the year ended December 31,			For the six months ended June 30,	
	2003	2004	2005	2005	2006
				(unaudited)	
			(RMB in thousands)		
Cash generated from/(used in) operating activities	670,660	178,733	275,170	(115,422)	(827,275)
Net cash used in investing activities	(387,009)	(221,433)	(276,593)	(231,784)	(3,996)
Net cash generated from/(used in) financing activities	164,673	(788,292)	(828,682)	52,798	(409,796)
Net increase/(decrease) in cash and cash equivalents	448,324	(830,992)	(830,105)	(294,408)	(1,241,067)
Cash and cash equivalents at the end of year/period	5,347,013	4,516,021	3,685,916	4,221,613	2,444,849

Cash flow from operating activities

In the six months ended June 30, 2006, we had net cash outflow from operating activities of RMB827.3 million. This outflow was primarily the result of an increase in accounts and bills receivables of RMB703.4 million, which was primarily due to delay in payment caused by an internal review of project management procedures at one of our customers, which we believe to be temporary and, an increase in prepayments and other current assets of RMB192.1 million, which was primarily due to increase in subcontracting activities, income tax paid of RMB256.6 million and a decrease in receipts in advance for contract work of RMB253.4 million, which was partially offset by operating profit before changes in working capital of RMB590.5 million.

In 2005, we had a net cash inflow of RMB275.2 million from operating activities. This inflow was primarily a result of an RMB1,180.8 million operating profit before working capital changes, an RMB107.5 million decrease in inventory, which was primarily attributable to a decrease in ratio of our construction service contracts involving construction materials procurement and which was partially offset by an increase in handset inventory, and an RMB243.2 million decrease in prepayments and other current assets, which was partially offset by an RMB54.1 million decrease in accounts and bills payable, and an RMB399.2 million increase in accounts and bills receivable, which was primarily attributable to the increase in revenue, and an income tax payment of RMB330.2 million.

In 2004, we had a net cash inflow of RMB178.7 million from operating activities. This inflow was primarily a result of an RMB1,074.1 million operating profit before working capital changes, which was partially offset by an increase in inventory of RMB200.7 million, which was primarily attributable to the amount of our construction service contracts involving construction materials procurement, an increase in accounts and bills receivable of RMB134.9 million, which was primarily attributable to an increase in revenue, a decrease in prepayments and other current assets of RMB49.8 million, which was primarily attributable to less prepayments for purchase of handsets, an increase in accounts and bills payable of RMB142.1 million, which was primarily attributable to an increase in contract deposits, a decrease in accrued expenses and other payables of RMB361.9 million and income tax payment of RMB217.1 million.

In 2003, we had a net cash inflow of RMB670.7 million from operating activities. This inflow was primarily a result of an RMB1,030.6 million operating profit before working capital changes, an RMB111.1 million decrease in inventories, an RMB184.1 million decrease in prepayments and current assets, and an increase of RMB310.3 million in accounts and bills payables, which was partially offset by an increase of RMB234.4 million in accounts and bills receivable, which was primarily attributable to an increase in revenue, and income tax paid of RMB385.5 million.

Cash flow from investing activities

In the six months ended June 30, 2006, we had net cash outflow from investing activities of RMB4.0 million. This net cash outflow was primarily the result of payments on acquisition of property, plant and equipment and other assets of RMB474.3 million, including the purchase of an office building in Shenzhen, which was partially offset by proceeds from the disposal of property, plant and equipment and other assets of RMB208.4 million, including the disposal of offices in Shanghai and Guangdong, and by the proceeds from disposal of investments of RMB239.7 million, which included the disposal of investment in some companies in Shanghai.

In 2005, we had net cash outflow from investing activities of RMB276.6 million. This cash net outflow was primarily the result of payment on acquisition of property, plant and equipment of RMB583.5 million, including the purchase of an office building in Shanghai and the purchase of other office space, which was partially offset by proceeds from the disposal of property, plant and equipment of RMB125.2 million the sale of assets in connection with our reorganization, and proceeds from disposal of investments of RMB140.2 million, which was primarily attributable to our restructuring.

In 2004, we had net cash outflow from investing activities of RMB221.4 million. This cash net outflow was primarily the result of payment on acquisition of property, plant and equipment of RMB579.1 million, which was partially offset by proceeds from the disposal of property, plant and equipment of RMB148.7 million, as a result of our restructuring and proceeds from disposal of investments of RMB159.5 million, primarily in Guangzhou.

In 2003, we had net cash outflow from investing activities of RMB387.0 million. This cash net outflow was primarily the result of payment on acquisition of property, plant and equipment of RMB899.4 million, which was partially offset by net cash inflow on acquisition of subsidiaries of RMB114.7 million mainly as a result of our restructuring in Shanghai, proceeds from the disposal of property, plant and equipment of RMB137.8 million as a result of our restructuring in Guangdong and proceeds from disposal of investments of RMB218.5 million in Shenzhen and Shanghai.

Cash flow from financing activities

In the six months ended June 30, 2006, net cash used in financing activities was RMB409.8 million. This net cash outflow was primarily the result of distributions to owner of RMB841.5 million, primarily in connection with capital reduction of companies and distribution of assets to equity owners in Shanghai and Fujian, as a result of a part of our restructuring, dividends paid of RMB618.7 million and repayments of bank and other loans of RMB169.0 million, which was partially offset by advances from owner and fellow subsidiaries of RMB393.3 million, proceeds from bank and other loans of RMB550.9 million and contributions from owner of RMB275.2 million.

In 2005, we had a net cash outflow of RMB828.7 million from financing activities, primarily as a result of distributions to owner of RMB523.5 million as part of our restructuring in Guangdong, advances to owner and fellow subsidiaries of RMB404.8 million, dividend paid of RMB316.6 million and repayments of bank and other loans of RMB188.8 million, which was partially offset by contributions from owner of RMB391.1 million in form of capital injection and proceeds from bank and other loans of RMB214.0 million.

In 2004, we had a net cash outflow of RMB788.3 million from financing activities, primarily as a result of dividend paid of RMB772.2 million, advances to owner and fellow subsidiaries of RMB295.6 million, and repayments of bank and other loans of RMB259.7 million, which was partially offset by contributions from owner of RMB345.3 million for capital injection in companies in Guangzhou, and proceeds from bank and other loans of RMB194.0 million.

In 2003, we had a net cash inflow of RMB164.7 million from financing activities, primarily as a result of advances from owner and fellow subsidiaries of RMB395.1 million, contributions from owner of RMB170.4 million in form of capital injection and proceeds from bank and other loans of RMB46.1 million which was partially offset by dividend paid of RMB334.4 million and repayments of bank and other loans of RMB112.5 million.

Working capital

Taking into account the net proceeds available to us from the Global Offering, our cash and bank balances at hand and our operating cash flow, we believe that we have sufficient working capital for our present requirements and for the next 12 months from the date of this prospectus.

Net current assets

As at September 30, 2006, the Group's net current assets were RMB3,331.5 million, which comprise the following current assets and current liabilities:

	As at September 30, 2006
	RMB in million
Current assets	
Inventories	681.5
Accounts and bills receivable, net	4,044.5
Prepayments and other current assets	1,547.9
Cash and cash equivalents	3,671.9
Total current assets	9,945.8
Current liabilities	
Interest-bearing borrowings	465.4
Accounts and bills payable	2,606.7
Receipts in advance for contract work	334.4
Accrued expenses and other payables	3,002.8
Income tax payable	205.0
Total current liabilities	6,614.3
Net current assets	3,331.5

Accounts and Bills Receivable and Accounts and Bills Payable

Our accounts and bills receivable (including amounts due from fellow subsidiaries which are of trade nature) primarily represent the receivables from our Telecom Infrastructure Services. Our accounts and bills payable (including amounts due to fellow subsidiaries which are of trade nature) primarily represent payment for purchase of auxiliary materials in connection with construction services. Our construction contracts generally provide that we receive a fixed percentage of the contract value at the commencement of our services, with the balance to be paid, usually within 30 days after completion and inspection of the project and agreement of the fees between the parties, which normally takes one to two months.

The following table sets out the turnover of our accounts and bills receivable and accounts any bills payable for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2003	2004	2005	2005	2006
			(days)		
Turnover of accounts and bills receivable(1)	75	71	83	81	101
Turnover of accounts and bills payable(2)	110	103	104	74	103

(1) Turnover of accounts and bills receivable (in days) equals accounts and bills receivable at the end of the year divided by revenue of the relevant year and multiplied by 365.

(2) Turnover of accounts and bills payable (in days) equals accounts and bills payable at the end of the year divided by cost of purchase of material and telecommunication products and subcontracting charges for the relevant year and multiplied by 365.

The increase in turnover days for our accounts and bills receivable to 101 days for the six months ended June 30, 2006 compared to 83 days in 2005 is primarily attributable to delay in payment caused by an internal review of project management procedures resulting from undertaking certain large-scale projects by one of our key customers, China Telecom, which we believe to be temporary. The outstanding amount due from China Telecom was RMB1,903 million as at 30 June 2006, of which RMB1,199 million was subsequently settled for the period up to 30 September 2006.

The increase in turnover days for our accounts and bills receivable from 71 days in 2004 to 83 days in 2005 was primarily due to the acquisition of a company with business cooperations with us, which had relatively high receivables, and the growth of our businesses outside of our Primary Service Regions and as part of our restructuring in 2005.

Other than the six months ended June 30, 2005, turnover days for our accounts and bills payable remained stable at approximately 100 days throughout the entire track record period.

The decrease in turnover days for our accounts and bills payable to 74 days for the six months ended June 30, 2005 was mainly due to the significant decrease in our accounts and bills payable balances by approximately RMB 765 million as at June 30, 2005 as compared with that as at December 31, 2004 resulting from the prompt settlement demanded by some of our suppliers in Guangdong during the course of our restructuring.

The following table sets forth the concentration of our gross accounts receivable by customers and as a percentage of our gross accounts and bills receivable balance (net of impairment loss) as at June 30, 2006:

	As at June 30, 2006	
	RMB	%
	(in thousands, except for percentages)	
China Telecom	1,903,180	53.8
China Mobile	607,935	17.2
China Unicom	306,546	8.7
Others	721,503	20.3
Total	3,539,164	100.0

The following table sets forth an aging analysis for our gross accounts and bills receivable (net of impairment loss), as at the dates indicated:

	As at December 31,						As at June 30,	
	2003		2004		2005		2006	
	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except for percentages)							
Due:								
Less than one year	2,132,899	94.8	2,164,277	90.4	2,782,245	92.9	3,343,462	94.5
After one year but less than two years	85,795	3.8	193,664	8.1	155,258	5.2	138,849	3.9
After two years but less than three years	22,253	1.0	28,475	1.2	47,570	1.6	45,040	1.3
After three years	9,274	0.4	6,994	0.3	10,434	0.3	11,813	0.3
Total	2,250,221	100.0	2,393,410	100.0	2,995,507	100.0	3,539,164	100.0

In general, debts are due for payment upon billing. The credit terms of receivables for certain customers with well-established trading and payment records (such as China Telecom and China Mobile) are usually between one and three months. The receivables which are overdue for over two years (amounting to approximately RMB57 million as at 30 June 2006) mainly represent receivables from China Telecom and China Mobile relating to certain construction and design projects. These projects have undergone subsequent changes resulting in longer project periods and delays in debt settlement.

The following table sets forth an aging analysis for our gross accounts and bills payable, as at the dates indicated:

	As at December 31,						As at June 30,	
	2003		2004		2005		2006	
	RMB	%	RMB	%	RMB	%	RMB	%
	(in thousands, except for percentages)							
Due:								
Less than one year	1,819,007	99.2	1,952,750	97.8	1,929,576	99.1	1,923,204	97.3
After one year but less than two years	10,392	0.6	38,108	1.9	13,790	0.7	43,573	2.2
After two years but less than three years	3,921	0.2	3,712	0.2	3,139	0.2	7,126	0.4
After three years	99	—	1,991	0.1	961	—	2,568	0.1
Total	1,833,419	100.0	1,996,561	100.0	1,947,466	100.0	1,976,471	100.0

Capital expenditures

Our capital expenditures consists of purchases of property, plant and equipment and intangible assets such as equipment and machinery, office premises and buildings, motor vehicles and office equipment, and other operational assets.

The following table shows our actual historical and planned capital expenditures for the periods indicated:

	Year ended/ending December 31,				
	2003	2004	2005	2006	2007
	(RMB in millions)				
Capital Expenditure	1,143	639	751	750	679

We expect our planned capital expenditures for 2006 to remain relatively stable at approximately the level as in 2005. We intend to fund such expenditures from internally generated funds and cash at hand, and a portion of the estimated net proceeds from the Global Offering.

The estimated amounts of expenditures set out may vary from actual amounts of expenditures for a variety of reasons, including changes in market conditions and other factors.

Investment Properties, Lease Prepayments and Interest in Associates

The following table sets out part of our non-current assets for the periods indicated:

	As at December 31,			As at June 30,
	2003	2004	2005	2006
	(RMB in thousands)			
Investment Properties[(1)]	623,174	648,175	675,863	157,981
Lease prepayments[(2)]	146,166	142,974	145,050	74,621
Interests in associates[(3)]	186,067	156,481	180,749	8,020

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

(2) Lease prepayments represent payments for land use rights paid to the PRC authorities and are located in the PRC.

(3) As at June 30, 2006, the Group's associates are unlisted, established and operated in the PRC.

The Group's investment properties, lease prepayments and interests in associates as at June 30, 2006 have significantly decreased compared to the same as at December 31, 2005. This is primarily due to the Group's restructuring in preparation for the Global Offering, which resulted in the transfer of offices and land use rights not directly necessary for our operations to China Telecom Group or the disposal of such assets to third parties.

INDEBTEDNESS

Borrowings

The following table sets out our interest-bearing short-term borrowings for the periods indicated:

	As at December 31,			As at June 30,	As at September 30,
	2003	2004	2005	2006	2006
	(RMB in thousands)				
Borrowings from banks					
Secured	6,116	—	—	95,000	80,000
Unsecured	98,000	121,838	151,500	15,500	15,500
Loans from fellow subsidiaries	146,000	62,545	58,045	320,900	369,900
Total	250,116	184,383	209,545	431,400	465,400

We do not currently have any long-term debt outstanding.

Gearing ratio

The following table set out the gearing ratio for the periods indicated:

	For the year ended December 31,			For the six months ended June 30,	
	2003	2004	2005	2005	2006
Gearing ratio(1)	1.9%	1.4%	1.6%	1.7%	4.0%

(1) Gearing ratio represents total debts divided by total assets at the end of each year/ period.

As reflected by the gearing ratio above, the Group's financial position was robust and its debt remained insignificant during the entire track record period. The increase in our gearing ratio as at June 30, 2006 is a combined effect of the increase in our interest-bearing borrowings and the decrease in our total assets. Increase in interest-bearing borrowings was mainly due to increased borrowings from our fellow subsidiaries to enhance our working capital. On the other hand, the decrease in our total assets was mainly due to the distribution to owner of certain assets as part of our restructuring.

CONTRACTUAL OBLIGATIONS AND CAPITAL COMMITMENTS

The following table sets forth our capital commitments as at the dates indicated:

	As at December 31,			As at June 30,
	2003	2004	2005	2006
	(RMB in thousands)			
Authorized and contracted for	6,719	64,967	129,649	112,809
Authorized but not contracted for	61,022	65,919	62,020	2,000

The following table sets forth our operating lease commitments as at the balance sheet dated indicated:

	As at December 31,			As at June 30,
	2003	2004	2005	2006
	(RMB in thousands)			
Within one year	16,543	39,629	46,783	54,923
After 1 year but within 5 years	19,529	52,761	129,844	133,221
After 5 years	—	85	11	3,678
Total	36,072	92,475	176,638	191,822

CONTINGENT LIABILITIES AND OFF-BALANCE SHEET ARRANGEMENTS

We do not have any contingent liabilities, off-balance sheet guarantees or arrangements, any outstanding derivative financial instruments, interest rate swap transactions or foreign currency forward contracts. We do not engage in trading activities involving non-exchange traded contracts.

PROPERTY INTERESTS AND VALUATION OF PROPERTIES

For the purpose of the listing of our shares on the Hong Kong Stock Exchange, our properties were revalued at RMB2,178,000,000 as at September 30, 2006 by Savills Limited. Details of the valuation are summarised in Appendix IV to this prospectus. There is a net revaluation surplus of approximately RMB331,544,000, mainly relates to the valuation of lease prepayments which should be carried at cost. Accordingly, such surplus will not be included in the Group's financial statements for the year ending December 31, 2006. As such, the net revaluation surplus arising from the valuation of properties has not been included in the unaudited pro forma adjusted net tangible assets statements under the section headed "Financial Information – Unaudited Pro Forma Adjusted Net Tangible Assets" in this prospectus.

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

	RMB'000	RMB'000
Valuation of properties as at September 30, 2006 as set out in the Valuation Report included in Appendix IV		2,178,000
Net book value of the following properties as at June 30, 2006 as set out in the Accountants' Report include in Appendix I		
– Buildings	1,257,052	
– Building improvements	70,243	
– Investment properties	157,981	
– Lease prepayments	74,621	
– Construction in progress (Note)	193,858	
	1,753,755	
Add: Additions of properties during the period from July 1, 2006 to September 30, 2006 (unaudited)	271,987	
Less: Net book value of property in the progress of obtaining title certificate as at June 30, 2006	(179,286)	
Net book value of properties as at September 30, 2006 subject to valuation as set out in the Valuation Report included in Appendix IV (unaudited)		1,846,456
Net revaluation surplus		331,544

Note: Construction in progress amounted to RMB227,406,000 as set out in the Accountants' Report represented properties under construction and equipment pending installation amounting to RMB193,858,000 and RMB33,548,000 respectively.

MARKET RISKS

We are exposed to various types of market risks, including changes in interest rate risks, foreign exchange risks and inflation risks in the normal course of business.

Interest Rate

Our exposure to changes in interest rates relates primarily to the effect of interest rate fluctuations on our short-term debt, which amounted to RMB209.5 million as at December 31, 2005. Interest rate per annum on our outstanding short-term debt in 2005 ranges from 4.25% to 6.42%. We do not have any long-term debt outstanding.

Foreign Exchange

Substantially all of our revenues and expenses are denominated in Renminbi. As a result, foreign currency exchange rate risk has not had a material impact on our performance.

Inflation

In recent years, the PRC has not experienced significant inflation, and thus inflation has not had a significant effect on our business during the past three years. According to the National Bureau of Statistics of China, China's overall national inflation rate, as represented by the general consumer price index, was approximately 1.2%, 3.9% and 1.8% in 2003, 2004 and 2005, respectively.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

We confirm that we are not aware of any circumstances that would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Hong Kong Listing Rules.

PROFIT FORECAST

Forecast profit attributable to shareholders of the Company[2] not less than	RMB650 million
Forecast earnings per Share	
(a) Pro forma fully diluted[3]	RMB0.12 (HK$0.12)
(b) Weighted average[4]	RMB0.16 (HK$0.16)

(1) All statistics in this table are based on the assumption that the Over-Allotment Option is not exercised.

(2) The bases on which the above profit forecast has been prepared are set out in Appendix III and includes a non-recurring deficit on a revaluation of property, plant and equipment of RMB105.3 million. If such deficit has been excluded, the forecast profit attributable to shareholders of the Company will be not less than RMB755 million.

(3) The calculation of the forecast earnings per Share on a pro forma fully diluted basis is based on the forecast profit attributable to shareholders of the Company, including a deficit on a revaluation of property, plant and equipment of RMB105.3 million, for the year ending December 31, 2006, assuming that we had been listed since January 1, 2006 and a total of 5,251,293,000 Shares were issued and outstanding during the entire year. This calculation assumes that the Over-Allotment Option will not be exercised, and the H Shares issued pursuant to the Global Offering were issued on January 1, 2006. If such calculation excludes the aforementioned deficit, the forecast earnings per Share on a pro forma fully diluted basis will be RMB0.14.

(4) The calculation of the forecast earnings per Share on a weighted average basis is based on the forecast profit attributable to shareholders of the Company, including a deficit on a revaluation of property, plant and equipment of RMB105.3 million, for the year ending December 31, 2006 and a weighted average number of 4,044,906,937 Shares issued and outstanding during the year. This calculation assumes that the Over-allotment Option will not be exercised and the H Shares issued pursuant to the Global Offering will be issued on December 8, 2006. If such calculation excludes the aforementioned deficit, the forecast earnings per Share on a weighted average basis will be RMB0.19.

DIVIDENDS

We may distribute dividends by way of cash or by other means that we consider appropriate and are permitted by the relevant PRC regulations. A decision to distribute any dividends would require the approval of our Board and will be at its discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on a number of factors, including our results of operations, cash flows, financial condition, the payment by our subsidiaries of cash dividends to us, future prospects and other factors that our Directors may consider important.

In any case, we will pay dividends out of our after-tax profits only after we have made the following allocations:

- recovery of accumulated losses, if any;
- allocations to the statutory common reserve fund equivalent to 10% of our after-tax profit, as determined under PRC GAAP; and
- allocations, if any, to a discretionary common reserve fund that are approved by the Shareholders in a Shareholders' meeting.

The minimum allocation to the statutory common reserve fund is 10% of our after-tax profit, as determined under PRC GAAP. When the statutory common reserve fund reaches and is maintained at or above 50% of our registered capital, no further allocations to this statutory fund will be required.

Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years. Subject to the considerations and constraints described above, we currently expect to distribute as dividends not less than 40% of our net profit for the years commencing on or after January 1, 2007.

In accordance with the "Provisional Regulations Relating to Corporate Reorganization of Enterprises and Related Management of State-owned Capital and Financial Treatment" issued by the Ministry of Finance (the "**MOF Regulations**"), China Telecom Group shall be entitled to any increase in the net assets of the Company arising from distributable profits attributable to the assets subject to our reorganization during the period from April 1, 2006 to August 29, 2006, being the calendar day immediately preceding the date of incorporation of our Company.

On November 1, 2006, we resolved to distribute to China Telecom Group and its relevant subsidiaries (i) our distributable profit for the period from April 1, 2006 to August 29, 2006 as the mandatory distribution described above; and (ii) our distributable profit for the period from August 30, 2006 to the calendar day immediately preceding the Listing Date (together, the "**2006 Special Dividend**"). The financial statements of the Company and its subsidiaries for the period from April 1, 2006 to the date immediately preceding the Listing Date will be subject to a special audit. Our Company will determine the 2006 Special Dividend with reference to the distributable profit as reflected in the audited financial statements for such period, in accordance with the PRC accounting rules and regulations, being the lower of forecast profit determined in accordance with the PRC accounting rules and regulations or IFRS, less estimated appropriation to the statutory reserve.

Using December 8, 2006 as the proposed Listing Date, we estimate that the 2006 Special Dividend will be approximately RMB600 million, based on (i) an estimate of the actual distributable profit for the period from April 1, 2006 to June 30, 2006, and (ii) an estimate of the distributable profit for the period from July 1, 2006 to the date immediately preceding the Listing Date (calculated as 160 (being the number of days from July 1, 2006 to the date immediately preceding the Listing Date)/184 of the difference between our Company's forecast profit for the year ending December 31, 2006 and actual profit for six months ended June 30, 2006. The declaration of the 2006 Special Dividend will be disclosed through a public announcement. We expect to pay the 2006 Special Dividend to China Telecom Group and its subsidiaries in a series of payments commencing in July 2007 from our cash and cash equivalents.

Investors in the Global Offering should note that they will not be entitled to share in the 2006 Special Dividend and, therefore, any distributable profits for the year ending December 31, 2006 available for distribution to our Company's shareholders after the Global Offering will exclude the amount of the 2006 Special Dividend to be paid to China Telecom Group and its relevant subsidiaries. As described above, the declaration of the dividends with respect to our distributable profit for the period from April 1, 2006 to August 29, 2006 is mandatory under the MOF Regulations. However, the declaration of dividends with respect to our distributable profits for the period from August 30, 2006 to the calendar day immediately preceding the Listing Date is made by us as a commercial decision.

The 2006 Special Dividend is not indicative of the dividends that we may declare or pay in the future.

DISTRIBUTABLE RESERVES

As at June 30, 2006, our Company did not have a reserve available for distribution to shareholders as it had not been incorporated.

UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of the Group as at June 30, 2006 comprises the historical audited combined net tangible assets of the Group as at June 30, 2006, as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus and the adjustments described below.

The unaudited pro forma adjusted net tangible assets has been prepared to show the effect on the audited net tangible assets of the Group as at June 30, 2006 as if the Global Offering had occurred on June 30, 2006.

The unaudited pro forma adjusted net tangible assets of the Group has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial position of the Group.

	Audited combined net tangible assets as at June 30, 2006(1)	Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted combined net tangible assets(3)	Unaudited pro forma adjusted combined net tangible assets per Share	
	RMB'000	RMB'000	RMB'000	RMB	HK$
Based on the Offer Price of HK$1.70 for each Offer Share	4,922,684	2,089,970	7,012,654	1.34	1.30
Based on the Offer Price of HK$2.20 for each Offer Share	4,922,684	2,721,320	7,644,004	1.46	1.41

Notes:

1. The audited combined net tangible assets attributable to the equity owner as of June 30, 2006 is arrived at after deducting the intangible assets of RMB25,076,000 and the minority interests of RMB94,566,000 from the audited combined net assets of RMB5,042,326,000 as of June 30, 2006, as shown in the Accountants' Report set forth in Appendix I to this prospectus.

2. The estimated net proceeds from the Global Offering are based on the Offer Price of HK$1.70 or RMB1.75 per Share to HK$2.20 or RMB2.26 per Share, after deduction of the underwriting fees and other related expenses payable by the Company and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option.

3. The unaudited pro forma adjusted combined net tangible assets per Share is arrived at after the adjustments referred to item 2 above and on the basis that 5,251,293,000 Shares are in issue.

4. Other than the net assets (as included in the combined net assets of the Group as at June 30, 2006 as shown in the Accountants' Report set forth in Appendix I to this prospectus) contributed by China Telecommunications Corporation, each of China Telecommunications Corporation, Guangdong Telecom Industry and Zhejiang Telecom Industry (the Company's Promoters in accordance with the provisions set out in the PRC Company Law) made further cash contributions totalling approximately RMB980 million upon the incorporation of the Company.

   The calculation of the unaudited pro forma adjusted combined net tangible assets per Share has not taken into account of the foregoing cash contributions. If these cash contributions have been included in the above calculation, the unaudited pro forma adjusted combined net tangible asset value per Share would have been increased.

5. The calculation of the unaudited pro forma adjusted combined net tangible assets per Share has not taken into account of the 2006 Special Dividend (see "Summary — Dividend Policy" of the prospectus). The directors have preliminarily estimated that the amount of such distribution would be approximately RMB600 million. If the 2006 Special Dividend has been included in the above calculation, the unaudited pro forma adjusted combined net tangible asset value per Share would have been reduced.

6. There is a net revaluation surplus of approximately RMB331,544,000, mainly relates to the valuation of lease prepayment which should be carried at cost. Accordingly, such surplus will not be included in the Group's financial statements for the year ending December 31, 2006. As such, the net revaluation surplus arising from the valuation of properties has not been included in the unaudited pro forma adjusted net tangible assets.

7. The translation of Renminbi into Hong Kong dollars has been made at the rate of RMB1.02942 to HK$1.00, the PBOC Rate prevailing on June 30, 2006. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or vice versa, at that rate or at any other rate or at all.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that there has been no material adverse change in our financial or trading position since June 30, 2006.

FUTURE PLANS

See the sections headed "Business — Our Strategies" for a detailed description of our future plans.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

We estimate that we will receive net proceeds from the Global Offering of approximately HK$2,337 million (RMB2,406 million), after deducting the estimated underwriting fees and expenses payable by us in the Global Offering, assuming the Over-Allotment Option is not exercised and assuming an Offer Price of HK$1.95 per H Share, the midpoint of the estimated offer price range. We intend to use the net proceeds from the Global Offering for the following purposes:

- up to HK$1,168 million (representing approximately 50% of the net proceeds) for capital expenditure items over the next 24 months, of which:
  - HK$467 million, or approximately 20%, for the purchase of testing and construction equipment for our design, construction and project supervision and management businesses, and large scale maintenance equipment for our network maintenance business;
  - HK$350 million, or approximately 15%, for the purchase, development and/or upgrading of simulation and testing systems and applications development platforms for strategic new products in our information technology and Internet services;
  - HK$234 million, or approximately 10%, for the development of business capabilities associated with 3G technology and applications;
  - HK$117 million, or approximately 5%, for upgrading our existing premises and/or adding new premises to house our production and research and development facilities;
- up to HK$935 million (representing approximately 40% of the net proceeds) for the implementation of our business strategies and funding of business expansion, including potential selective acquisitions from China Telecom Group and other strategic investments, although no acquisitions or strategic investments are pending;
- the remaining amount (representing approximately 10% of the net proceeds) for additional working capital and other general corporate purposes.

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the midpoint of the estimated offer price range.

In the event that the Over-Allotment Option is exercised in full, we estimate that we will receive additional net proceeds from the offering of these additional Offer Shares of approximately HK$359 million, after deducting the estimated underwriting fees and expenses payable by us and assuming the same midpoint of the estimated offer price range. The additional proceeds received from the exercise of the Over-Allotment Option will be applied pro rata to the abovementioned purposes.

To the extent that the net proceeds of the Global Offering are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, the net proceeds will be placed on short term deposits with authorized financial institutions and / or licensed banks in Hong Kong.

The net proceeds from the Global Offering received by us in US dollars and Hong Kong dollars will be accounted for in our financial statements at the exchange rate published by the PBOC in effect at the time the net proceeds are received.

UNDERWRITERS FOR THE HONG KONG PUBLIC OFFERING

Joint Lead Managers

China International Capital Corporation (Hong Kong) Limited

Goldman Sachs (Asia) L.L.C

Co-Lead Managers

CCB International Capital Limited

Guotai Junan Securities (Hong Kong) Limited

Co-Managers

Dao Heng Securities Limited

First Shanghai Securities Limited

Goldbond Securities Limited

Mitsubishi UFJ Securities (HK) Capital, Limited

Taifook Securities Company Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement entered into on November 24, 2006, we are offering initially 129,132,000 Hong Kong Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms. Subject to the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be offered as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Offer Shares now being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement. The Hong Kong Underwriting Agreement is conditional upon and subject to the International Purchase Agreement having been signed and becoming unconditional.

One of the conditions is that the Offer Price must be agreed between us and the Joint Global Coordinators, on behalf of the Underwriters. For applicants applying under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering. The International Offering will be fully underwritten by the International Underwriters. If, for any reason, the Offer Price is not agreed between us and the Joint Global Coordinators, on behalf of the Underwriters, the Global Offering will not proceed.

Grounds for termination

The Joint Global Coordinators (on behalf of themselves and the Hong Kong Underwriters) may terminate the Hong Kong Underwriting Agreement with immediate effect by written notice to our Company at any time at or prior to 8:00 a.m. on the Listing Date if:

(i) there develops, occurs, exists or comes into force:

(a) any change or development involving a prospective change or development, or any event or series of events resulting in or representing a change or development, or prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, currency market, fiscal or regulatory or market conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Renminbi against any foreign currencies) in or affecting Hong Kong, China, the United States, Canada, the United Kingdom or Japan (collectively, the "**Relevant Jurisdictions**"); or

(b) any new law or regulation or any change in existing law or regulation, or any change in the interpretation or application thereof by any court or other competent authority in or affecting any of the Relevant Jurisdictions; or

(c) any event or series of events in the nature of force majeure (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war, acts of terrorism (whether or not responsibility has been claimed), acts of God, accident or interruption or delay in transportation) in or any of the Relevant Jurisdictions; or

(d) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any of the Relevant Jurisdictions; or

(e) (I) any suspension or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the Nasdaq National Market, the London Stock Exchange, the Shanghai Stock Exchange or the Tokyo Stock Exchange or (II) a general moratorium on commercial banking activities in New York, London, Hong Kong, Japan or China declared by the relevant authorities, or a material disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any of the Relevant Jurisdictions; or

(f) any change or prospective change in taxation or exchange controls, currency exchange rates or foreign investment regulations in any of the Relevant Jurisdictions adversely affecting an investment in the H Shares; or

(g) any material litigation or claim being threatened or instigated against the Company or any of its subsidiaries or China Telecom Group,

and which, in any such case and in the sole opinion of the Joint Global Coordinators (for themselves and on behalf of the other Hong Kong Underwriters),

(1) is or may or will be or is likely to be materially adverse to, or materially and prejudicially affect, the business or financial or trading position or prospects of the Company or its subsidiaries as a whole; or

(2) has or may have or will have or is likely to have a material adverse effect on the success of the Global Offering and/or make it impracticable or inadvisable for any material part of this Agreement, or the Global Offering to be performed or implemented as envisaged; or

(3) makes or will or is likely to make it inadvisable or inexpedient to proceed with the the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus; or

(ii) there has come to the notice of the Joint Global Coordinators or any of the Hong Kong Underwriters after the date of the Hong Kong Underwriting Agreement:

(a) that any statement contained in this prospectus, the Application Forms, the formal notice and any announcements in the agreed form issued by our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was or has become untrue, incorrect or misleading in any material respect; or

(b) any matter has arisen or has been discovered which would, had it arisen immediately before the date of this prospectus, not having been disclosed in the prospectus, constitutes a material omission therefrom; or

(c) any of the warranties given by our Company or China Telecom Group in the Hong Kong Underwriting Agreement is (or would when repeated be) untrue or misleading in any material respect; or

(d) any event, act or omission which gives or is likely to give rise to any material liability of the Company, China Telecom Group or any other indemnifying party pursuant to the indemnities given by our Company, China Telecom Group or them under the Hong Kong Underwriting Agreement; or

(e) any breach of any of the obligations of our Company, China Telecom Group or any other indemnifying party under the Hong Kong Underwriting Agreement; or

(f) any material adverse change or prospective material adverse change in the business, results of operations, financial or trading position or prospects of our Company and its subsidiaries as a whole.

Undertakings

Our Company has undertaken to the Hong Kong Stock Exchange that except pursuant to the Global Offering and the Over-allotment Option, at any time during the period of six months from the date on which dealings in the Shares commence on the Hong Kong Stock Exchange (the "**First Six-month Period**"), it will not, without the prior consent of the Hong Kong Stock Exchange and unless in compliance with the requirements of the Hong Kong Listing Rules (a) allot or issue or agree to allot or issue any Shares or other securities of the Company (including warrants or other convertible securities), (b) grant or agree to grant any options or rights over any Shares or other securities of the Company, (c) enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequence of ownership of any Shares or (d) offer to or agree to do any of the foregoing or have any intention to do so.

Our Company has undertaken to the Joint Global Coordinators and the Hong Kong Underwriters (and is expected to undertake to the International Underwriters), and China Telecom Group has undertaken to procure (and is expected to undertake to the International Underwriters to procure) that, except pursuant to the Global Offering (including pursuant to the Over-allotment Option), at any time after the date of the Hong Kong Underwriting Agreement and ending 180 days after the date on which dealings in the Offer Shares commence on the Hong Kong Hong Kong Stock Exchange, the Company will not, and will cause each member of the Group not to, without the Joint Global Coordinators's prior written consent and unless in compliance with the requirements of the Hong Kong Listing Rules:

(i) offer, pledge, charge, allot, issue, sell, contract to allot, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, or repurchase, any of our share capital or any securities convertible into or exercisable or exchangeable for or that represent the right to receive such share capital, or

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital,

whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise, or publicly disclose that the Company will or may enter into any transaction described above.

In the event that any disposal as described in (i) or (ii) above of any Shares or any interest therein or any of the Company's securities within 180 days commencing on the expiry of the above period, the Company will take all steps to ensure that such a disposal will not create a disorderly or false market for the Shares.

Pursuant to Rule 10.07(1) of the Hong Kong Listing Rules, China Telecom Group has undertaken to the Hong Kong Stock Exchange that:

(i) it will not, without the prior written consent of the Hong Kong Stock Exchange and unless in compliance with the requirements of the Listing Rules, during the period commencing from the date of this prospectus and ending on the date which is six months from the date on which dealings in the Offer Shares of the Company commence on the Hong Kong Stock Exchange, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it is shown by this prospectus to be the beneficial owner (the "**Locked-up Shares**"); and

(ii) it will not, without the prior written consent of the Hong Kong Stock Exchange, in the period of six months commencing on the date on which the period referred to above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Locked-up Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, that, the Controlling Shareholder would cease to be a controlling shareholder (as defined in the Hong Kong Listing Rules) of the Company.

China Telecom Group has undertaken to the Joint Global Coordinators, the Hong Kong underwriters and the Company (and is expected to undertake to the International Underwriters) that, except pursuant to the Global Offering or the Over-allotment Option, it shall not at any time after the date of the Hong Kong Underwriting Agreement and ending 180 days after the date of this prospectus:

(i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, or otherwise transfer or dispose of, either directly or indirectly, any share capital or other securities of the Company held by it that are convertible into or exercisable or exchangeable for, or that represent the right to receive such share capital of the Company; or

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of share capital of the Company,

whether any such transaction described in (i) or (ii) above is to be settled by delivery of share capital of the Company or such other securities, in cash or otherwise.

China Telecom Group has further undertaken to the Joint Global Coordinators, the Hong Kong Underwriters, the Company and the Hong Kong Stock Exchange (and is expected to undertake to the International Underwriters) that it will, at any time during the period of 12 months after the date on which dealings in the Offer Shares commence on the Hong Kong Stock Exchange immediately inform us, the Joint Global Coordinators and the Hong Kong Stock Exchange of:

(i) any pledges or charges of any of the Shares or other securities of the Company beneficially owned by it and the number of such Offer Shares or other securities so pledged or charged; and

(ii) any indication received by it, either verbal or written, form any pledgee or chargee of any of our Shares or other securities pledged or charged that any of such Offer Shares or other securities of the Company will be dispose of.

We will inform the Hong Kong Stock Exchange as soon as we have been informed of the above matters (if any) by China Telecom Group and disclose such matters by way of a press notice, if so required by the Listing Rules as soon as possible after being so informed.

The International Offering

In connection with the International Offering, it is expected that the Company and China Telecom Group will enter into the International Purchase Agreement with the International Underwriters. Under the International Purchase Agreement, the International Underwriters will, subject to certain conditions set out therein, severally and not jointly, agree to procure subscribers or purchasers for the International Offer Shares, failing which they agree to subscribe for or purchase their respective proportions of the International Offer Shares which are not taken up under the International Offering.

The Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators on behalf of the International Underwriters at any time from the date of the International Purchase Agreement until 30 days after the last date for the lodging of applications under the Hong Kong Public Offering, to require the Company to allot and issue up to an aggregate of 193,693,000 additional Offer Shares, representing approximately 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering to cover, among other things, over-allocations (if any) in the International Offering.

Total Commission and Expenses

The Hong Kong Underwriters will receive an underwriting commission of 2.5% on the Offer Price of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering, out of which they will pay any sub-underwriting commission. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, the Company will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the Joint Global Coordinators and the relevant International Underwriters (but not the Hong Kong Underwriters).

Assuming an Offer Price of HK$1.95 per Share (being the mid-point of the indicative offer price range of HK$1.70 to HK$2.20 per Share), the aggregate commissions and fees, together with listing fees, SFC transaction levy, Hong Kong Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the Global Offering are estimated to be not more than HK$181 million (assuming the Over-allotment Option is not exercised) in total, payable by the Company.

We and China Telecom Group, our controlling shareholder, have agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by our Company of the Hong Kong Underwriting Agreement.

Hong Kong Underwriters' Interests in the Company

Save as disclosed in this prospectus and save for its obligations under the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding interests in the Group or the right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in any member of the Group.

Following the completion of the Global Offering, the Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Underwriting Agreements.

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

(i) the Hong Kong Public Offering of 129,132,000 Offer Shares (subject to adjustment as mentioned below) in Hong Kong as described below in the section entitled "The Hong Kong Public Offering" below; and

(ii) the International Offering of an aggregate of 1,162,161,000 Offer Shares (subject to adjustment as mentioned below) outside the United States and Canada (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S and in the United States to QIBs in reliance on Rule 144A.

Goldman Sachs (Asia) L.L.C. and China International Capital Corporation Limited are the Joint Global Coordinators for the Global Offering. Of the total 1,291,293,000 Offer Shares comprised in the Global Offering, all the Offer Shares are offered by the Company.

Investors may apply for Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for Offer Shares under the International Offering, but may not do both.

The Offer Shares will represent approximately 24.6% of the enlarged issued share capital of the Company immediately after completion of the Global Offering without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares (including the additional H Shares under the Over-allotment Option) will represent approximately 27.3% of the enlarged issued share capital immediately after completion of the Global Offering and the exercise of the Over-allotment Option as set out in the paragraph headed "Over-allotment Option" below.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering may be subject to reallocation as described in the section headed "Reallocation" below.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

The Company is initially offering 129,132,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing approximately 10.0% of the total number of Offer Shares initially available under the Global Offering.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. The Offer Shares will represent approximately 2.5% of the Company's registered share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the section headed "Conditions of the Hong Kong Public Offering" below.

Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants, but, subject to that, will be made strictly on a pro-rata basis. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of Offer Shares available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) is to be divided into two pools (each comprising 64,566,000 Offer Shares) for allocation purposes: pool A and pool B. The Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of HK$5 million (excluding the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable) or less. The Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of more than HK$5 million (excluding the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable). Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Offer Shares in one (but not both) of the pools are under subscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in this other pool and be allocated accordingly. For the purpose of this paragraph only, the "price" for Offer Shares means the price payable on application therefore (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 64,566,000 Offer Shares are liable to be rejected.

Reallocation

The allocation of the Offer Shares between (i) the Hong Kong Public Offering and (ii) the International Offering is subject to adjustment. If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more of the number of Offer Shares initially available under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 387,388,000 Offer Shares (in the case of (i)), 516,520,000 Offer Shares (in the case of (ii)) and 645,648,000 Offer Shares (in the case of (iii)) representing approximately 30%, 40% and 50% of the Offer Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option). In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Joint Global Coordinators deem appropriate. In addition, the Joint Global Coordinators may allocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed for, the Joint Global Coordinators has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators deems appropriate.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

The listing of the Offer Shares on the Hong Kong Stock Exchange is sponsored by the Joint Sponsors. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK$2.20 per Share in addition to any brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the section headed "Pricing of the Global Offering" below, is less than the maximum price of HK$2.20 per Share, appropriate refund payments (including the brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section entitled "How to Apply For Hong Kong Offer Shares".

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

Number of Offer Shares offered

Subject to reallocation as described above, the International Offering will consist of an aggregate of 1,162,161,000 Offer Shares.

Allocation

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares and professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in the section entitled "Pricing of the Global Offering" below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Hong Kong Stock Exchange. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of the Company and its shareholders as a whole.

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application of Offer Shares under the Hong Kong Public Offering.

Over-allotment Option

In connection with the Global Offering, the Company is expected to grant an Over-allotment Option to the International Underwriters exercisable by the Joint Global Coordinators on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, the Global Bookrunner has the right, exercisable at any time from the date of the International Purchase Agreement until 30 days after the last date for the lodging of applications under the Hong Kong Public Offering, to require the Company to allot and issue up to 193,693,000 additional Offer Shares, representing approximately 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering to cover, among other things, over-allocation in the International Offering, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 3.6% of our Company's enlarged share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a press announcement will be made.

PRICING OF THE GLOBAL OFFERING

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building" is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around December 1, 2006, and in any event on or before December 5, 2006, by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and the Company and the number of Offer Shares to be allocated under various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK$2.20 per Share and is expected to be not less than HK$1.70 per Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this prospectus.**

The Joint Global Coordinators, on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of the Company, reduce the number of Offer Shares offered in the Global Offering and/or the indicative offer price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the *South China Morning Post* and the *Hong Kong Economic Times* notices of the reduction. Upon issue of such a notice, the number of Offer Shares offered in the Global Offering and/or the revised offer price range will be final and conclusive and the offer price, if agreed upon by the Joint Global Coordinators, on behalf of the Underwriters, the Selling Shareholder and the Company, will be fixed within such revised offer price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the profit forecast for the year ending December 31, 2006 and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction. **Applicants under the Hong Kong Public Offering should note that in no circumstances can applications be withdrawn once submitted, even if the number of Offer Shares being offered under the Global Offering and/or the offer price range is so reduced.** In the absence of any such notice so published, the Offer Price, if agreed upon with the Company and the Joint Global Coordinators, will under no circumstances be set outside the offer price range as stated in this prospectus.

In the event of a reduction in the number of Offer Shares being offered under the Global Offering, the Joint Global Coordinators may at its discretion reallocate the number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, provided that the number of H Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares in the Global Offering. The Offer Shares to be offered in the International Offering and the Offer Shares to be offered in the Hong Kong Public Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators.

The net proceeds of the Global Offering accruing to the Company (after deduction of underwriting fees and estimated expenses payable by the Company in relation to the Global Offering, assuming the Over-allotment Option is not exercised) are estimated to be approximately HK$2,030 million, assuming an Offer Price per Share of HK$1.70, or approximately HK$2,644 million, assuming an Offer Price per Share of HK$2.20 (or if the Over-allotment Option is exercised in full, approximately HK$2,343 million, assuming an Offer Price per Share of HK$1.70, or approximately HK$3,048 million, assuming an Offer Price per Share of HK$2.20).

The final Offer Price, the indications of interest in the Global Offering, the results of applications and the basis of allotment of Offer Shares available under the Hong Kong Public Offering, are expected to be announced on December 7, 2006 in the *South China Morning Post* and the *Hong Kong Economic Times*.

HONG KONG UNDERWRITING AGREEMENT

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is conditional upon the International Purchase Agreement being signed and becoming unconditional.

The Company expects to enter into the International Purchase Agreement relating to the International Offering on or around the Price Determination Date.

These underwriting arrangements, and the respective Underwriting Agreements, are summarized in the section entitled "Underwriting".

DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on December 8, 2006, it is expected that dealings in the Offer Shares on the Hong Kong Stock Exchange will commence at 9:30 a.m. on December 8, 2006.

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

(i) the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, the Offer Shares being offered pursuant to the Global Offering (including the additional Offer Shares which may be made available pursuant to the exercise of the Over-allotment Option) (subject only to allotment);

(ii) the Offer Price having been fixed on or around the Price Determination Date;

(iii) the execution and delivery of the International Purchase Agreement on or around the Price Determination Date; and

(iv) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than December 24, 2006.

If, for any reason, the Offer Price is not agreed between the Company and the Joint Global Coordinators (on behalf of the Underwriters), the Global Offering will not proceed.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by the Company in the *South China Morning Post* and the *Hong Kong Economic Times* on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section entitled "How to Apply for Hong Kong Offer Shares". In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving banker or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares are expected to be issued on December 7, 2006 but will only become valid certificates of title at 8:00 a.m. on December 8, 2006 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section entitled "Underwriting — Grounds for termination" has not been exercised.

I. METHODS OF APPLYING FOR THE HONG KONG OFFER SHARES

There are two ways to make an application for the Hong Kong Offer Shares. You may apply for the Hong Kong Offer Shares by either using a **WHITE** or **YELLOW** Application Form or giving **electronic application instructions** to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf. Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC.

II. APPLYING BY USING A WHITE OR YELLOW APPLICATION FORM

1. Which Application Form to Use

(a) Use a **WHITE** Application Form if you want the Offer Shares to be issued in your own name.

(b) Use a **YELLOW** Application Form if you want the Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

Note: The Offer Shares are not available to existing beneficial owners of Shares in the Company, Directors or chief executives of the Company or any of its subsidiaries, or associates of any of them (an "associate" is defined in the Hong Kong Listing Rules) or to legal or natural persons of the PRC (other than Hong Kong, Macau and Taiwan) or United States persons (as defined in Regulation S) or persons who do not have a Hong Kong address.

2. Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus from:

any of the following addresses of the Hong Kong Underwriters:

China International Capital Corporation (Hong Kong) Limited	Suite 2307, 23rd Floor, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
Goldman Sachs (Asia) L.L.C.	68th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong
CCB International Capital Limited	Suites 2815 – 21, 28th Floor, Two Pacific Place, 88 Queensway, Admiralty, Hong Kong
Dao Heng Securities Limited	12/F, The Center, 99 Queen's Road Central, Hong Kong
First Shanghai Securities Limited	19/F, Wing On House, 71 Des Voeux Road Central, Hong Kong
Goldbond Securities Limited	3901B, 39/F, Lippo Centre, Tower One, 89 Queensway, Hong Kong
Guotai Junan Securities (Hong Kong) Limited	27th Floor, Low Block, Grand Millennium Plaza, 181 Queen's Road Central, Hong Kong
Mitsubishi UFJ Securities (HK) Capital, Limited	11/F., AIG Tower, 1 Connaught Road, Central, Hong Kong
Taifook Securities Company Limited	25/F New World Tower, 16 – 18 Queen's Road Central, Hong Kong

or any of the following branches of **Standard Chartered Bank (Hong Kong) Limited**:

	Branch Name	Address
Hong Kong Island:	Central Branch	Shop No.16, G/F and Lower G/F, New World Tower, 16-18 Queen's Road Central, Central
	88 Des Voeux Road Branch	88 Des Voeux Road Central, Central
	Leighton Centre Branch	Shop 12-16, UG/F, Leighton Centre, 77 Leighton Road, Causeway Bay
	Quarry Bay Branch	G/F, Westlands Gardens, 1027 King's Road, Quarry Bay
	North Point Centre Branch	North Point Centre, 284 King's Road, North Point
	Aberdeen Branch	Shop 4A, G/F, Aberdeen Centre Site 5, No. 6 Nam Ning Street, Aberdeen
Kowloon:	Kwun Tong Branch	88-90 Fu Yan Street, Kwun Tong
	Mongkok Branch	Shop B, G/F, 1/F & 2/F, 617-623 Nathan Road, Mongkok
	Cheung Sha Wan Branch	828 Cheung Sha Wan Road, Cheung Sha Wan
	San Po Kong Branch	Shop A, G/F, Perfect Industrial Building, 31 Tai Yau Street, San Po Kong
New Territories:	Metroplaza Branch	Shop Nos. 186-188, Level 1, Metroplaza, 223 Hing Fong Road, Kwai Chung
	Shatin Centre Branch	Shop 32C, Level 3, Shatin Shopping Arcade, Shatin Centre, 2-16 Wang Pok Street, Shatin

or any of the following branches of **Industrial and Commercial Bank of China (Asia) Limited**:

	Branch Name	Address
Hong Kong Island:	Queen's Road Central Branch	122-126 Queen's Road Central, Central
	Wanchai Branch	117-123 Hennessy Road, Wanchai
	Sheung Wan Branch	Shop F, G/F, Kai Tak Commercial Building, 317-319 Des Voeux Road Central, Sheung Wan
Kowloon:	Mongkok Branch	G/F, Belgian Bank Building, 721-725 Nathan Road, Mongkok
	Tsimshatsui East Branch	Shop B, G/F, Railway Plaza, 39 Chatham Road South, Tsimshatsui
	Kwun Tong Branch	G/F, Lemmi Centre, 50 Hoi Yuen Road, Kwun Tong
New Territories:	Tseung Kwan O Branch	Shop Nos. 2011-2012, Level 2, Metro City Plaza II, 8 Yan King Road, Tseung Kwan O
	Sha Tsui Road Branch	Shop 4, G/F, Chung On Building, 297-313 Sha Tsui Road, Tsuen Wan

or any of the following branches of **The Bank of East Asia, Limited**:

	Branch Name	Address
Hong Kong Island:	Queen's Road Central Branch	Shop A-C, G/F., Wah Ying Cheong Central Building, 158-164 Queen's Road Central
	North Point Branch	326-328 King's Road
	Chai Wan Branch	345 Chai Wan Road
Kowloon:	Hoi Yuen Road Branch	Unit 1, G/F, Hewlett Centre, 54 Hoi Yuen Road
	Mongkok Branch	638-640 Nathan Road
New Territories:	Tai Wai Branch	16-18 Tai Wai Road, Cheung Fung Mansion, Shatin

Prospectuses and application forms will be available for collection at the above places during the following times:

Monday, November 27, 2006	9:00 a.m. – 4:30 p.m.
Tuesday, November 28, 2006	9:00 a.m. – 4:30 p.m.
Wednesday, November 29, 2006	9:00 a.m. – 4:30 p.m.
Thursday, November 30, 2006	9:00 a.m. – 12:00 noon

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, November 27, 2006 until 12:00 noon on Thursday, November 30, 2006, from:

- the **Depository Counter of HKSCC** at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong.

Your stockbroker may also have application forms and this prospectus available.

3. How to complete the Application Form and make payment

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions your application may be rejected and returned by ordinary post together with the accompanying cheque or banker's cashier order to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.

You should note that by completing and submitting the Application Form, amongst other things, you:

(i) agree with the Company and each shareholder of the Company, and the Company agrees with each of its shareholders, to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association;

(ii) agree with the Company, and each shareholder, Director, Supervisor, manager and officer of the Company, and the Company acting for itself and for each Director, Supervisor, manager and officer agrees with each shareholder of the Company to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive;

(iii) agree with the Company and each shareholder of the Company that the H Shares in the Company are freely transferable by the holders thereof;

(iv) authorize the Company to enter into a contract on your behalf with each of the Directors and officers of the Company whereby each such Director and officer undertakes to observe and comply with his obligations to shareholders as stipulated in the Articles of Association;

(v) confirm that you have received a copy of this prospectus and have only relied on the information and representations in this prospectus in making your application and will not rely on any other information and representations save as set out in any supplement to this prospectus;

(vi) agree that the Company, the Directors and any person who has authorized this prospectus are liable only for the information and representations contained in this prospectus and any supplement thereto;

(vii) undertake and confirm that, you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;

(viii) agree to disclose to the Company, its registrar, receiving bankers, the Joint Global Coordinators and their respective advisors and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application;

(ix) instruct and authorize the Company and/or the Joint Global Coordinators as agent for the Company (or their respective agents or nominees) to do on your behalf all things necessary to effect registration of any Hong Kong Offer Shares allocated to you in your name(s) or HKSCC Nominees, as the case may be, as required by the Articles of Association and otherwise to give effect to the arrangements described in this prospectus and the Application Form;

(x) represent, warrant and undertake that you are not, and none of the other person(s) for whose benefit you are applying, is a U.S. person (as defined in Regulation S);

(xi) represent and warrant that you understand that the H Shares have not been and will not be registered under the U.S. Securities Act and you are outside the United States (as defined in Regulation S) when completing the Application Form or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xii) agree (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xiii) warrant the truth and accuracy of the information contained in your application;

(xiv) agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;

(xv) confirm that you have read the terms and conditions and application procedures set out in this prospectus and the Application Form and agree to be bound by them;

(xvi) undertake and agree to accept the Shares applied for, or any lesser number allocated to you under the application; and

(xvii) if the laws of any place outside Hong Kong are applicable to your application, agree and warrant that you have complied with all such laws and none of the Company, the Joint Global Coordinators and the Hong Kong Underwriters nor any of their respective officers or advisors will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus.

In order for the **YELLOW** Application Forms to be valid:

(i) If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):

(a) the designated CCASS Participant or its authorized signatories must sign in the appropriate box; and

(b) the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box.

(ii) If the application is made by an individual CCASS Investor Participant:

(a) the Application Form must contain the CCASS Investor Participant's name and Hong Kong Identity Card Number; and

(b) the CCASS Investor Participant must insert its participant I.D. and sign in the appropriate box in the Application Form.

(iii) If the application is made by a joint individual CCASS Investor Participant:

(a) the Application Form must contain all joint CCASS Investor Participants' names and the Hong Kong Identity Card Number of all the joint CCASS Investor Participants; and

(b) the participant I.D. must be inserted and the authorized signatory(ies) of the CCASS Investor Participant's stock account must sign in the appropriate box in the Application Form.

(iv) If the application is made by a corporate CCASS Investor Participant:

(a) the Application Form must contain the CCASS Investor Participant's company name and Hong Kong Business Registration number; and

(b) the participant I.D. and company chop (bearing its company name) endorsed by its authorized signatory(ies) must be inserted in the appropriate box in the Application Form.

Signature(s), number of signatories and form of chop, where appropriate, should match the records kept by HKSCC. Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of authorized signatory(ies) (if applicable), participant I.D. or other similar matters may render the application invalid.

If your application is made through a duly authorized attorney, the Company and the Joint Global Coordinators as its agent may accept it at their discretion, and subject to any conditions they think fit, including evidence of the authority of your attorney. The Company and the Joint Global Coordinators, in the capacity as its agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

4. How to Make Payment for the Application

Each completed **WHITE** or **YELLOW** Application Form must be accompanied by either one cheque or one banker's cashier order, which must be stapled to the top left hand corner of the Application Form.

If you pay by cheque, the cheque must:

- be in Hong Kong dollars;
- be drawn on your Hong Kong dollar bank account in Hong Kong;
- bear an account name (or, in the case of joint applicants, the name of the firstnamed applicant) (either pre-printed on the cheque or endorsed on the reverse of the cheque by an authorized signatory of the bank on which it is drawn), which must be the same as the name on your Application Form (or, in the case of joint applicants, the name of the first-named applicant). If the cheque is drawn on a joint account, one of the joint account names must be the same as the name of the first-named applicant);
- be made payable to "ICBC (Asia) Nominee Limited — China Comservice Public Offer";
- be crossed "Account Payee Only"; and
- not be post dated.

Your application may be rejected if your cheque does not meet all of these requirements or is dishonored on first presentation.

If you pay by banker's cashier order, the banker's cashier order must:

- be in Hong Kong dollars;
- be issued by a licensed bank in Hong Kong and have your name certified on the reverse of the banker's cashier order by an authorized signatory of the bank on which it is drawn. The name on the reverse of the banker's cashier order and the name on the Application Form must be the same. If the application is a joint application, the name on the back of the banker's cashier order must be the same as the name of the first-named applicant;
- be made payable to "ICBC (Asia) Nominee Limited — China Comservice Public Offer";
- be crossed "Account Payee Only"; and
- not be post-dated.

Your application may be rejected if your banker's cashier order does not meet all of these requirements.

The right is reserved to present all or any remittance for payment. However, your cheque or banker's cashier order will not be presented for payment before 12:00 noon on November 30, 2006. The Company will not give you a receipt for your payment. The Company will keep any interest accrued on your application monies (up until, in the case of monies to be refunded, the date of despatch of refund cheques). The right is also reserved to retain any Share certificates and/or any surplus application monies or refunds pending clearance of your cheque or banker's cashier order.

5. Members of the Public — Time for Applying for Hong Kong Offer Shares

Completed **WHITE** or **YELLOW** Application Forms, together with payment attached, must be lodged by 12:00 noon on November 30, 2006, or, if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed "Effect of bad weather on the opening of the application lists" below.

Your completed Application Form, together with payment attached, should be deposited in the special collection boxes provided at any of the branches of Industrial and Commercial Bank of China (Asia) Limited and Standard Chartered Bank (Hong Kong) Limited listed under the section entitled "Where to collect the Application Forms" above at the following times:

Monday, November 27, 2006	9:00 a.m. to 4:30 p.m.
Tuesday, November 28, 2006	9:00 a.m. to 4:30 p.m.
Wednesday, November 29, 2006	9:00 a.m. to 4:30 p.m.
Thursday, November 30, 2006	9:00 a.m. to 12:00 noon

The application lists will be open from **11:45 a.m.** to **12:00 noon** on November 30, 2006.

No proceedings will be taken on applications for the Offer Shares and no allotment of any such Offer Shares will be made until after the closing of the application lists. No allotment of any of the Offer Shares will be made later than December 27, 2006.

6. Effect of Bad Weather on the Opening of the Application Lists

The application lists will not open if there is:

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

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on November 30, 2006. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

Business day means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

7. Publication of Results

The Company expects to announce the basis of allotment, the results of applications and the Hong Kong Identity Card/passport/Hong Kong Business Registration numbers of successful applicants under the Hong Kong Public Offering on December 7, 2006 in the *South China Morning Post* (in English) and the *Hong Kong Economic Times* (in Chinese).

8. Despatch/Collection of Share Certificates and Refund Cheques

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the offer price of HK$2.20 per Share (excluding brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee thereon) initially paid on application, or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section entitled "Structure of the Global Offering — Conditions of the Hong Kong Public Offering" or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

No temporary documents of title will be issued in respect of the Offer Shares. No receipt will be issued for sums paid on application but, subject to personal collection as mentioned below, in due course there will be sent to you (or, in the case of joint applicants, to the firstnamed applicant) by ordinary post, at your own risk, to the address specified on your Application Form:

(a) for applications on **WHITE** Application Forms: (i) Share certificate(s) for all the Hong Kong Offer Shares applied for, if the application is wholly successful; or (ii) Share certificate(s) for the number of Hong Kong Offer Shares successfully applied for, if the application is partially successful (for wholly successful and partially successful applicants on **YELLOW** Application Forms: Share certificates for their Offer Shares successfully applied for will be deposited into CCASS as described below); and/or

(b) for applications on **WHITE** or **YELLOW** Application Forms, refund cheque(s) crossed "Account Payee Only" in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the maximum offer price per Share paid on application in the event that the Offer Price is less than the offer price per Share initially paid on application, in each case including the brokerage of 1%, SFC transaction levy of 0.004% and Hong Kong Stock Exchange trading fee of 0.005%, attributable to such refund/surplus monies but without interest.

Subject to personal collection as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and the difference between the Offer Price and the offer price per Share initially paid on application (if any) under white or yellow Application Forms; and Share certificates for wholly and partially successful applicants under **WHITE** Application Forms are expected to be posted on or around December 7, 2006. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s).

Share certificates will only become valid certificates of title at 8:00 a.m. on December 8, 2006 provided that the Hong Kong Public Offering has become unconditional in all respects and the right of termination described in the section entitled "Underwriting — Grounds for Termination" has not been exercised.

(a) If you apply using a WHITE Application Form:

If you apply for 1,000,000 Hong Kong Offer Shares or more on a white Application Form and have indicated your intention in your Application Form to collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) from Computershare Hong Kong Investor Services Limited and have provided all information required by your Application Form, you may collect your refund cheque(s) (where applicable) and Share certificate(s) (where applicable) from Computershare Hong Kong Investor Services Limited from 9:00 a.m. to 1:00 p.m. on December 7, 2006 or such other place and date as notified by the Company in the newspapers as the place and date of collection/despatch of refund cheques/Share certificates. If you are an individual who opts for personal collection, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. If you do not collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) personally within the time specified for collection, they will be sent to the address as specified in your Application Form promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares or if you apply for 1,000,000 Hong Kong Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) in person, your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) will be sent to the address on your Application Form on December 7, 2006, by ordinary post and at your own risk.

(b) If you apply using a YELLOW Application Form:

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above.

If you apply for less than 1,000,000 Hong Kong Offer Shares or if you apply for 1,000,000 Hong Kong Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) (where applicable) in person, your refund cheque(s) (where applicable) will be sent to the address on your Application Form on December 7, 2006, by ordinary post and at your own risk.

If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form at the close of business on December 7, 2006, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):

- for Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant:

- the Company expects to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the newspapers on December 7, 2006. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on December 7, 2006 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

III. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

1. General

CCASS Participants may give electronic application instructions to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give electronic application instructions through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (https://ip.ccass.com) (using the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
2/F, Vicwood Plaza
199 Des Voeux Road, Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to the Company and its registrars.

2. Giving Electronic Application Instructions to HKSCC to Apply for Hong Kong Offer Shares by HKSCC Nominees On Your Behalf

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares:

(i) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees does the following things on behalf of each such person:

- agrees that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;

- undertakes and agrees to accept the Hong Kong Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;

- undertakes and confirms that that person has not applied for or taken up any Offer Shares under the International Offering nor otherwise participated in the International Offering;

- (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit;

- (if that person is an agent for another person) declares that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorized to give those instructions as that other person's agent;

- understands that the above declaration will be relied upon by the Company, the Directors and the Joint Global Coordinators in deciding whether or not to make any allotment of Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;

- authorizes the Company to place the name of HKSCC Nominees on the register of members of the Company as the holder of the Hong Kong Offer Shares allotted in respect of that person's **electronic application instructions** and to send Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between the Company and HKSCC;

- confirms that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;

- confirms that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf;

- agrees that the Company, the Directors and any person who has authorized this prospectus are liable only for the information and representations contained in this prospectus;

- agrees to disclose that person's personal data to the Company, the Joint Global Coordinators and/or their respective agents and any information which they may require about that person;

- agrees (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;

- agrees that any application made by HKSCC Nominees on behalf of that person pursuant to **electronic application instructions** given by that person is irrevocable before December 27, 2006, such agreement to take effect as a collateral contract with the Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before December 27, 2006, except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before December 27, 2006 if a person responsible for this prospectus under Section 40 of the Hong Kong Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

- agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by the Company;

- agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares;

- agrees with the Company, for itself and for the benefit of each of the shareholders of the Company (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the shareholders of the Company, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association;

- agrees with the Company (for the Company itself and for the benefit of each of the shareholders of the Company) that the H Shares in the Company are freely transferable by the holders thereof;

- authorizes the Company to enter into a contract on its behalf with each of the Directors and officers of the Company whereby each such Director and officer undertakes to observe and comply with his obligations to shareholders stipulated in the Articles of Association;

- agrees that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong; and

- agrees with the Company, for itself and for the benefit of each shareholder of the Company and each director, supervisor, manager and other senior officer of the Company (and so that the Company will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each shareholder of the Company and each director, supervisor, manager and other senior officer of the Company, with each CCASS Participant giving **electronic application instructions**):

  (a) to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association;

  (b) that any award made in such arbitration shall be final and conclusive; and

  (c) that the arbitration tribunal may conduct hearing in open sessions and publish its award.

3. Effect of Giving Electronic Application Instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

- instructed and authorized HKSCC to arrange payment of the maximum offer price, brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the offer price per Share initially paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee, by crediting your designated bank account; and

- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

4. Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instruction** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

5. Minimum Subscription Amount and Permitted Multiples

You may give or cause your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 2,000 Hong Kong Offer Shares. Such instructions in respect of more than 2,000 Hong Kong Offer Shares must be in one of the numbers or multiples set out in the table in the Application Forms.

6. Time for Inputting Electronic Application Instructions

CCASS Broker/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Monday, November 27, 2006	9:00 a.m. to 8:30 p.m.[1]
Tuesday, November 28, 2006	8:00 a.m. to 8:30 p.m.[1]
Wednesday, November 29, 2006	8:00 a.m. to 8:30 p.m.[1]
Thursday, November 30, 2006	8:00 a.m.[1] to 12:00 noon

1 These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Broker/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, November 27, 2006 until 12:00 noon on Thursday, November 30, 2006 (24 hours daily, except the last application day).

7. Effect of Bad Weather on the Opening of the Application Lists

The latest time for inputting your electronic application instructions will be 12:00 noon on Thursday, November 30, 2006, the last application day. If:

- a tropical cyclone warning signal number 8 or above; or

- a “black” rainstorm warning signal,

is in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, November 30, 2006, the last application day will be postponed to the next business day which does not have either of those warning signals in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on such day.

Business day means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

8. Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions is given will be treated as an applicant.

9. Deposit of Share Certificates into CCASS and Refund of Application Monies

- No temporary document of title will be issued. No receipt will be issued for application monies received.

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account at the close of business on December 7, 2006, or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.

- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner, if supplied), your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the newspapers on December 7, 2006. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on December 7, 2006 or such other date as shall be determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on December 7, 2006. Immediately after the credit of the Hong Kong Offer Shares to your CCASS Investor Participant stock account and the credit of refund monies to your designated bank account), HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the offer price per Share initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.004% and Hong Kong Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on December 7, 2006. No interest will be paid thereon.

10. Section 40 of the Companies Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Hong Kong Companies Ordinance.

11. Personal Data

The section of the Application Form entitled "Personal Data" applies to any personal data held by the Company and the Offer Share registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

12. Warning

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. The Company, the Directors, the Joint Global Coordinators and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either: (i) submit a white or yellow Application Form; or (ii) go to HKSCC's Customer Service Center to complete an input request form for **electronic application instructions** before 12:00 noon on November 30, 2006.

IV. HOW MANY APPLICATIONS YOU MAY MAKE

1. You may make more than one application for Hong Kong Offer Shares if and only if

You are a nominee, in which case you may both give electronic application instructions to HKSCC (if you are a CCASS Participant) and lodge more than one Application Form in your own name if each application is made on behalf of different owners. In the box on the Application Form marked "For nominees" you must include:

- an account number; or

- some other identification code

for each beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

Otherwise, multiple applications are not allowed.

It will be a term and condition of all applications that by completing and delivering an Application Form, you:

- (if the application is made for your own benefit) warrant that this is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC;

- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC and that you are duly authorized to sign the Application Form as that other person's agent.

Except where you are a nominee and provide the information required to be provided in your application, all of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC;

- both apply (whether individually or jointly) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC;

- apply on one **WHITE** or **YELLOW** Application Form (whether individually or jointly) or by giving **electronic application instructions** to HKSCC for more than 1,000,000 Offer Shares, as more particularly described in the section entitled "Structure of the Global Offering — The Hong Kong Public Offering;" or

- have applied for or taken up, or indicated an interest for, or have been or will be placed (including conditionally and/or provisionally) Offer Shares under the International Offering.

All of your applications will also be rejected as multiple applications if more than one application is made for **your benefit** (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and

- the principal business of that company is dealing in securities; and

- you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

Unlisted company *means a company with no equity securities listed on the Hong Kong Stock Exchange.*

Statutory control *means you:*

- *control the composition of the board of directors of the company; or*
- *control more than half of the voting power of the company; or*
- *hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).*

V. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

Full details of the circumstances in which you will not be allotted the Hong Kong Offer Shares are set out in the notes attached to the Application Forms (whether you are making your application by an Application Form or electronically instructing HKSCC to cause HKSCC Nominees to apply on your behalf), and you should read them carefully. You should note in particular the following

- **If your application is revoked:**

  By completing and submitting an Application Form or electronic application instructions to HKSCC, you agree that your application or the application made by HKSCC Nominees on your behalf may not be revoked on or before December 27, 2006. This agreement will take effect as a collateral contract with the Company, and will become binding when you lodge your Application Form or submit your electronic application instructions to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly. This collateral contract will be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before December 27, 2006 except by means of one of the procedures referred to in this prospectus.

  Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before December 27, 2006 if a person responsible for this prospectus under Section 40 of the Hong Kong Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

  If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

  If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the announcement of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

- **Full discretion of the Company or its agents to reject or accept your application:**

The Company and the Joint Global Coordinators (as agent for the Company), or their respective agents and nominees, have full discretion to reject or accept any application, or to accept only part of any application.

The Company, the Joint Global Coordinators and the Hong Kong Underwriter(s), in their capacity as the Company's agents, and their agents and nominees do not have to give any reason for any rejection or acceptance.

- **If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** or apply by a **YELLOW** Application Form) will be void if the Listing Committee of the Hong Kong Stock Exchange does not grant permission to list the Offer Shares either:

  - within three weeks from the closing of the application lists; or

  - within a longer period of up to six weeks if the Listing Committee of the Hong Kong Stock Exchange notifies the Company of that longer period within three weeks of the closing date of the application lists.

- **You will not receive any allotment if:**

  - you make multiple applications or suspected multiple applications;

  - you or the person for whose benefits you apply for have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and/or Offer Shares in the International Offering. By filling in any of the Application Forms or apply by giving **electronic application instructions** to HKSCC, you agree not to apply for Hong Kong Offer Shares as well as Offer Shares in the International Offering. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received Offer Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offering;

  - your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonored upon its first presentation;

  - your Application Form is not completed in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);

  - our Company believes that by accepting your application, this would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is completed and/or signed;

- if you apply for more than 50% of the Hong Kong Public Offer Shares initially being offered in the Hong Kong Public Offering for subscription (that is 70,000,000 H Shares);

- the Underwriting Agreements do not become unconditional; or

- the Underwriting Agreements are terminated in accordance with their respective terms.

You should also note that you may apply for Offer Shares under the Hong Kong Public Offering or indicate an interest for Offer Shares under the International Offering, but may not do both.

VI. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum offer price is HK$2.20 per Share. You must also pay brokerage of 1%, SFC transaction levy of 0.004% and Hong Kong Stock Exchange trading fee of 0.005% in full. This means that for every board lot of 2,000 Offer Shares you will pay approximately HK$4,444.40. The Application Forms have tables showing the exact amount payable for certain multiples of Offer Shares up to 64,566,000 Offer Shares.

You must pay the amount payable upon application for the Offer Shares by one cheque or one banker's cashier order in accordance with the terms set out in the Application Form (if you apply by an Application Form).

If your application is successful, brokerage is paid to participants of the Hong Kong Stock Exchange or the Hong Kong Stock Exchange (as the case may be), the SFC transaction levy and the Hong Kong Stock Exchange trading fee are paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy collected on behalf of the SFC).

VII. REFUND OF APPLICATION MONIES

If you do not receive any Hong Kong Offer Shares for any reason, the Company will refund your application monies, including brokerage of 1%, SFC transaction levy of 0.004% and Hong Kong Stock Exchange trading fee of 0.005%. No interest will be paid thereon. All interest accrued on such monies prior to the date of despatch of refund cheques will be retained for the benefit of the Company.

If your application is accepted only in part, the Company will refund the appropriate portion of your application monies, including the related brokerage of 1%, SFC transaction levy of 0.004% and Hong Kong Stock Exchange trading fee of 0.005%, without interest.

If the Offer Price as finally determined is less than the offer price per Share (excluding brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee thereon) initially paid on application, the Company will refund the surplus application monies, together with the related brokerage of 1%, SFC transaction levy of 0.004% and Hong Kong Stock Exchange trading fee of 0.005%, without interest.

In a contingency situation involving a substantial over-subscription, at the discretion of the Company and the Joint Global Coordinators, cheques for applications for certain small denominations of Hong Kong Offer Shares (apart from successful applications) may not be cleared.

Refund of your application monies (if any) will be made on December 7, 2006 in accordance with the various arrangements as described above.

All refunds by cheque will be crossed "Account Payee Only", and made out to you (or in case of joint applicants, the first-named applicant on the Application Form). Part of your Hong Kong identity card number/passport number, (or in case of joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant) provided by you may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purpose. A banker may require verification of your Hong Kong identity card number/ passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

VIII. DEALINGS AND SETTLEMENT

1. Commencement of Dealings in the Shares

Dealings in the Shares on the Hong Kong Stock Exchange are expected to commence on December 8, 2006.

The Shares will be traded in board lots of 2,000 Shares each. The stock code of the Shares is 552.

2. Offer Shares will be Eligible for Admission into CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, the Shares and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Hong Kong Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong. As described in "Appendix IX — Documents Delivered to the Registrar of Companies and Available for Inspection", a copy of the accountants' report is available for inspection.

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

November 27, 2006

The Directors
China Communications Services Corporation Limited
China International Capital Corporation (Hong Kong) Limited
Goldman Sachs (Asia) L.L.C.

Dear Sirs,

INTRODUCTION

We set out below our report on the combined financial information relating to China Communications Services Corporation Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), in Sections I to X below, including the combined balance sheets of the Group as at December 31, 2003, 2004 and 2005 and June 30, 2006, the combined income statements, the combined statements of changes in equity and the combined statements of cash flows of the Group for each of the years ended December 31, 2003, 2004 and 2005 and for the six months ended June 30, 2006 (the "relevant periods"), and the notes thereto (collectively the "Financial Information"), together with the unaudited financial information of the Group including the combined income statement, the combined statement of changes in equity and the combined statement of cash flows for the six months ended June 30, 2005 and the notes thereto (the "June 30, 2005 Corresponding Information") for inclusion in the prospectus of the Company dated November 27, 2006 (the "Prospectus").

The Company was established as a joint stock company with limited liability in the People's Republic of China (the "PRC") on August 30, 2006 as part of the restructuring (the "Restructuring") of China Telecommunications Corporation ("CTC"), a state-owned enterprise, as described in Section V Note 1(b) below. The registered office of the Company is located at Level 5, No. 2 and B, Fuxingmen South Avenue, Xicheng District, Beijing, PRC.

During the relevant periods, the annual financial statements of the entities now comprising the Group were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the PRC ("PRC accounting rules and regulations") and were audited by certified accountants registered in the PRC. No financial statements have been prepared by the Company since the date of its establishment. Please refer to Section V Note 1(b) for details of auditors' information.

The auditors' opinions to the 2003 and 2004 annual financial statements of certain subsidiaries of the Group were qualified mainly relating to the non-compliance with the accounting treatment in respect of the recognition of revenues and expenses under the PRC accounting rules and regulations. As a basis for forming an opinion on the Financial Information of the Group for the purpose of this report, we have carried out appropriate audit procedures and made all adjustments considered necessary in respect of the 2003 and 2004 annual financial statements of those subsidiaries.

BASIS OF PREPARATION

The Financial Information, together with the June 30, 2005 Corresponding Information, has been prepared by the directors of the Company based on the management accounts, or where appropriate, audited financial statements of the entities included in the preparation of the Financial Information, on the basis set out in Section V Note 1 below after making such adjustments as are appropriate. Adjustments have been made, for the purpose of this report, to restate those financial statements to conform with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB") and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors are responsible for the preparation of the Financial Information which gives a true and fair view. In preparing the Financial Information which gives a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the management accounts, or where appropriate, audited financial statements of the entities included in the preparation of the Financial Information for the relevant periods in accordance with Statements of Auditing Standards and Guidelines issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and we have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the reporting accountant" issued by the HKICPA. We have not audited any financial statements of the entities now comprising the Group in respect of any period subsequent to June 30, 2006.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Financial Information, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Financial Information is free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of the Financial Information. We believe that our audit provides a reasonable basis for our opinion.

REVIEW WORK PERFORMED

For the purpose of this report, we have also reviewed the June 30, 2005 Corresponding Information, for which the directors are responsible, in accordance with Statement of Auditing Standard 700 "Engagements to review interim financial reports" issued by the HKICPA.

A review consists principally of making enquires of directors and management, and applying analytical procedures to the June 30, 2005 Corresponding Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the June 30, 2005 Corresponding Information.

OPINION

In our opinion, for the purpose of this report, all adjustments considered necessary have been made and the Financial Information, on the basis of presentation set out in Section V Note 1(c) below, gives a true and fair view of the Group's state of affairs as at December 31, 2003, 2004 and 2005 and June 30, 2006, and of the Group's combined results and combined cash flows for each of the years ended December 31, 2003, 2004 and 2005 and for the six months ended June 30, 2006, and has been properly prepared in accordance with IFRS.

REVIEW CONCLUSION

On the basis of our review of the June 30, 2005 Corresponding Information which does not constitute an audit, for the purpose of this report, we are not aware of any material modifications that should be made to the unaudited financial information presented for the six months ended June 30, 2005.

I COMBINED INCOME STATEMENTS

	Note	Years ended December 31, 2003 RMB'000	2004 RMB'000	2005 RMB'000	Six months ended June 30, 2005 RMB'000 (unaudited)	2006 RMB'000
Revenues	3	10,917,264	12,248,828	13,232,291	5,770,191	6,372,225
Cost of revenues	4	(8,638,904)	(9,874,637)	(10,544,380)	(4,628,677)	(5,207,579)
Gross profit		2,278,360	2,374,191	2,687,911	1,141,514	1,164,646
Other operating income	5	94,260	164,494	115,672	74,482	81,290
Selling, general and administrative expenses		(1,619,517)	(1,733,861)	(1,951,122)	(827,193)	(791,252)
Other operating expenses	6	(24,715)	(31,751)	(21,066)	(10,026)	(2,976)
Deficit on revaluation of property, plant and equipment	14(b)	—	—	—	—	(105,299)
Net financing income	7	39,311	42,643	38,403	16,155	7,657
Share of profits less (losses) of associates		6,508	5,442	11,687	6,759	(1,085)
Negative goodwill	8	62,526	43,299	159,499	159,378	4,039
Profit before tax	9	836,733	864,457	1,040,984	561,069	357,020
Income tax	10	(262,793)	(273,960)	(260,482)	(157,483)	(147,197)
Profit for the year/period		573,940	590,497	780,502	403,586	209,823
Attributable to:						
Equity owner		458,436	525,619	597,556	273,204	194,083
Minority interests		115,504	64,878	182,946	130,382	15,740
Profit for the year/period		573,940	590,497	780,502	403,586	209,823
Basic and diluted earnings per share (RMB)	13	0.116	0.133	0.151	0.069	0.049

II COMBINED BALANCE SHEETS

	Note	December 31, 2003 RMB'000	December 31, 2004 RMB'000	December 31, 2005 RMB'000	June 30, 2006 RMB'000
Non-current assets					
Property, plant and equipment, net	14	2,518,819	2,617,316	2,567,336	2,049,687
Investment properties	15	623,174	648,175	675,863	157,981
Construction in progress	16	207,136	185,546	396,124	227,406
Lease prepayments	17	146,166	142,974	145,050	74,621
Intangible assets	18	25,138	22,790	25,596	25,076
Interests in associates	19	186,067	156,481	180,749	8,020
Other investments	20	387,341	347,374	208,605	129,632
Deferred tax assets	21	8,664	14,744	18,803	66,243
Total non-current assets		4,102,505	4,135,400	4,218,126	2,738,666
Current assets					
Inventories	22	402,110	631,239	524,096	531,686
Accounts and bills receivable, net	23	2,250,221	2,393,410	2,995,507	3,539,164
Prepayments and other current assets	25	1,341,103	1,800,643	2,086,453	1,451,354
Cash and cash equivalents	26	5,347,013	4,516,021	3,685,916	2,444,849
Total current assets		9,340,447	9,341,313	9,291,972	7,967,053
Total assets		13,442,952	13,476,713	13,510,098	10,705,719
Current liabilities					
Interest-bearing borrowings	27	250,116	184,383	209,545	431,400
Accounts and bills payable	28	1,833,419	1,996,561	1,947,466	1,976,471
Receipts in advance for contract work		1,418,884	1,202,994	880,638	627,276
Accrued expenses and other payables	29	3,252,610	2,872,115	2,808,127	2,439,491
Income tax payable		304,913	367,872	371,126	188,755
Total current liabilities		7,059,942	6,623,925	6,216,902	5,663,393
Net current assets		2,280,505	2,717,388	3,075,070	2,303,660
Total assets less current liabilities		6,383,010	6,852,788	7,293,196	5,042,326
Total liabilities		7,059,942	6,623,925	6,216,902	5,663,393
Owner's equity	30	5,380,526	6,138,601	6,772,775	4,947,760
Minority interests		1,002,484	714,187	520,421	94,566
Total equity		6,383,010	6,852,788	7,293,196	5,042,326
Total liabilities and equity		13,442,952	13,476,713	13,510,098	10,705,719

III COMBINED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Capital reserve	Revaluation reserve	Other reserve	Retained earnings/ owner's capital	Total owner's equity	Minority interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at January 1, 2003	—	—	—	—	4,367,189	4,367,189	871,789	5,238,978
Profit for the year	—	—	—	—	458,436	458,436	115,504	573,940
Contributions (Note i)	—	—	—	—	820,582	820,582	88,498	909,080
Profit distributions (Note ii)	—	—	—	—	(272,150)	(272,150)	(66,838)	(338,988)
Acquisition of minority interests through contributions from owner	—	—	—	—	6,469	6,469	(6,469)	—
As at December 31, 2003	—	—	—	—	5,380,526	5,380,526	1,002,484	6,383,010
As at January 1, 2004	—	—	—	—	5,380,526	5,380,526	1,002,484	6,383,010
Profit for the year	—	—	—	—	525,619	525,619	64,878	590,497
Contributions (Note i)	—	—	—	—	459,123	459,123	13,210	472,333
Profit distributions (Note ii)	—	—	—	—	(474,669)	(474,669)	(118,383)	(593,052)
Acquisition of minority interests through contributions from owner	—	—	—	—	248,002	248,002	(248,002)	—
As at December 31, 2004	—	—	—	—	6,138,601	6,138,601	714,187	6,852,788
As at January 1, 2005	—	—	—	—	6,138,601	6,138,601	714,187	6,852,788
Profit for the year	—	—	—	—	597,556	597,556	182,946	780,502
Contributions (Note i)	—	—	—	—	835,836	835,836	23,085	858,921
Profit distributions (Note ii)	—	—	—	—	(226,477)	(226,477)	(81,948)	(308,425)
Acquisition of minority interests through contributions from owner	—	—	—	—	317,849	317,849	(317,849)	—
Distributions (Note iii)	—	—	—	—	(890,590)	(890,590)	—	(890,590)
As at December 31, 2005	—	—	—	—	6,772,775	6,772,775	520,421	7,293,196
As at January 1, 2006	—	—	—	—	6,772,775	6,772,775	520,421	7,293,196
Profit for the period	—	—	—	—	194,083	194,083	15,740	209,823
Contributions (Note i)	—	—	—	—	478,335	478,335	—	478,335
Profit distributions (Note ii)	—	—	—	—	(655,027)	(655,027)	(126,769)	(781,796)
Acquisition of minority interests through contributions from owner	—	—	—	—	315,957	315,957	(315,957)	—
Distributions (Note iii)	—	—	—	—	(834,638)	(834,638)	—	(834,638)
Net assets distributed to owner in connection with the Restructuring (Note iv)	—	—	—	—	(1,660,674)	(1,660,674)	—	(1,660,674)
Recognition of deferred tax assets (Note 21)	—	—	—	42,507	—	42,507	—	42,507
Revaluation of property, plant and equipment (Note 14(b))	—	—	294,442	—	—	294,442	1,131	295,573
As at June 30, 2006	—	—	294,442	42,507	4,610,811	4,947,760	94,566	5,042,326
As at January 1, 2005	—	—	—	—	6,138,601	6,138,601	714,187	6,852,788
Profit for the period (unaudited)	—	—	—	—	273,204	273,204	130,382	403,586
Contributions (unaudited) (Note i)	—	—	—	—	524,011	524,011	23,085	547,096
Profit distributions (unaudited) (Note ii)	—	—	—	—	(49,805)	(49,805)	(54,207)	(104,012)
Acquisition of minority interests through contributions from owner (unaudited)	—	—	—	—	315,853	315,853	(315,853)	—
Distributions (unaudited) (Note iii)	—	—	—	—	(151,124)	(151,124)	—	(151,124)
As at June 30, 2005 (unaudited)	—	—	—	—	7,050,740	7,050,740	497,594	7,548,334

Notes:

(i) The capital contributions during the relevant periods represent the injection of cash and other assets, including property, plant and equipment, and the increase in shareholdings in the subsidiaries.

(ii) Profit distributions represented the appropriation made and dividend declared by certain of the subsidiaries now comprising the Group.

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

(iv) Pursuant to the Restructuring (as defined in Section V Note 1(b)), certain assets and liabilities of the Predecessor Operations were not transferred to the Group and were reflected as distributions to the then owner in the combined statement of changes in equity for the six months ended June 30, 2006.

IV COMBINED STATEMENTS OF CASH FLOWS

		Years ended December 31,			Six months ended June 30,	
		2003	2004	2005	2005	2006
	Note	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Operating activities						
Profit before tax		836,733	864,457	1,040,984	561,069	357,020
Adjustments for:						
Depreciation and amortisation		335,716	384,800	401,579	210,642	186,910
Impairment losses on property, plant and equipment and lease prepayments		3,461	5,612	2,079	2,079	—
Interest income		(51,148)	(57,318)	(59,982)	(27,969)	(16,974)
Finance costs		12,627	15,113	22,081	11,701	10,400
Share of profits less losses of associates		(6,508)	(5,442)	(11,687)	(6,759)	1,085
Negative goodwill		(62,526)	(43,299)	(159,499)	(159,378)	(4,039)
Dividend income		(43,239)	(43,638)	(30,198)	(25,193)	(20,993)
Loss/(gain) on disposal of investments		3,535	(48,493)	(4,327)	(6,056)	(20,809)
Impairment losses on investments		9,207	1,309	2,177	—	—
Loss/(gain) on disposal of property, plant and equipment and other assets		239	5,337	(3,576)	(559)	(7,139)
Deficit on revaluation of property, plant and equipment		—	—	—	—	105,299
Write off of non-payable liabilities		(2,709)	(4,387)	(18,783)	(16,270)	(268)
Tax refund		(4,746)	—	—	—	—
Operating profit before changes in working capital		1,030,642	1,074,051	1,180,848	543,307	590,492
Decrease/(increase) in inventories		111,073	(200,744)	107,536	50,583	(37,592)
(Increase)/decrease in accounts and bills receivable		(234,392)	(134,885)	(399,156)	47,732	(703,429)
Decrease/(increase) in prepayments and other current assets		184,128	49,776	243,183	148,472	(192,114)
Increase/(decrease) in accounts and bills payable		310,259	142,086	(54,065)	(769,609)	219,118
Decrease in receipts in advance for contract work		(89,684)	(215,890)	(322,356)	(144,382)	(253,362)
(Decrease)/increase in accrued expenses and other payables		(292,608)	(361,899)	(187,826)	137,650	(209,194)
		1,019,418	352,495	568,164	13,753	(586,081)
Interest paid		(11,665)	(13,470)	(17,514)	(10,058)	(10,400)
Interest received		48,365	56,789	54,728	24,141	25,822
Income tax paid		(385,458)	(217,081)	(330,208)	(143,258)	(256,616)
Cash generated from/(used in) operating activities		670,660	178,733	275,170	(115,422)	(827,275)

	Note	Years ended December 31, 2003 RMB'000	2004 RMB'000	2005 RMB'000	Six months ended June 30, 2005 RMB'000 (unaudited)	2006 RMB'000
Investing activities						
Payments on acquisition of property, plant and equipment and other assets		(899,401)	(579,063)	(583,499)	(338,446)	(474,257)
Proceeds from disposal of property, plant and equipment and other assets		137,760	148,675	125,194	29,535	208,421
Net cash inflow arising from acquisition of subsidiaries	32(a)	114,725	16,538	13,849	13,849	16,139
Payments on acquisition of investments		(13,901)	(10,678)	(18,145)	(16,094)	(13,162)
Proceeds from disposal of investments		218,452	159,457	140,221	51,864	239,680
Dividends received		55,356	43,638	45,787	27,508	19,183
Net cash used in investing activities		(387,009)	(221,433)	(276,593)	(231,784)	(3,996)
Financing activities						
Proceeds from bank and other loans		46,116	194,000	214,000	98,500	550,900
Repayments of bank and other loans		(112,500)	(259,733)	(188,838)	(50,838)	(169,045)
Dividends paid		(334,409)	(772,220)	(316,582)	(156,883)	(618,651)
Contributions from owner		170,378	345,253	391,059	329,254	275,207
Distributions to owner		—	—	(523,495)	(42,666)	(841,544)
Advances from/(to) owner and fellow subsidiaries		395,088	(295,592)	(404,826)	(124,569)	393,337
Net cash generated from/(used in) financing activities		164,673	(788,292)	(828,682)	52,798	(409,796)
Net increase/(decrease) in cash and cash equivalents		448,324	(830,992)	(830,105)	(294,408)	(1,241,067)
Cash and cash equivalents at the beginning of year/period		4,898,689	5,347,013	4,516,021	4,516,021	3,685,916
Cash and cash equivalents at the end of year/period	26	5,347,013	4,516,021	3,685,916	4,221,613	2,444,849

For major non-cash transactions, please refer to Note 32(b).

V NOTES TO THE FINANCIAL INFORMATION

1 PRINCIPAL ACTIVITIES AND ORGANISATION AND RESTRUCTURING

(a) Principal activities

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

(b) Organisation and Restructuring

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

The financial statements for the years ended December 31, 2003, 2004 and 2005 of those major subsidiaries now comprising the Group were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the PRC and were audited by the following auditors:

Name of company	2003	2004	2005
Guangdong Planning and Designing Institute of Telecommunication Co., Ltd. 廣東省電信規劃設計院有限公司	Pan-China Certified Public Accountants	Pan-China Certified Public Accountants	KPMG Huazhen
Guangzhou Telecom Design Co., Ltd 廣州市電信設計有限公司	Guangdong Guang Xin Certified Public Accountants	Guangdong Guang Xin Certified Public Accountants	KPMG Huazhen
Guangdong Southern Planning & Designing Institute of Telecom Consultation Co., Ltd. 廣東南方電信規劃諮詢設計院有限公司	Pan-China Certified Public Accountants	Guangdong Zheng DE Certified Public Accountants Co., Ltd	KPMG Huazhen
Guangdong Telecommunications Engineering Co., Ltd. 廣東省電信工程有限公司	Pan-China Certified Public Accountants	Pan-China Certified Public Accountants	KPMG Huazhen
Guangdong Chang Xun Industry Co., Ltd. 廣東省長訊實業有限公司	Pan-China Certified Public Accountants	Pan-China Certified Public Accountants	KPMG Huazhen
Guangdong Nanfang Communication Construction Limited Company 廣東南方通信建設有限公司	Guangdong Kang Yuan Certified Public Accountants, Ltd	Pan-China Certified Public Accountants	KPMG Huazhen
Guangzhou Telecommunications Construction Corporation 廣州市通信建設有限公司	Guangdong Guang Xin Certified Public Accountants	Guangzhou Fu Yang Jian Da Certified Public Accountants, Ltd	KPMG Huazhen

Name of company	2003	2004	2005
Shenzhen Telecom Engineering Co., Ltd. 深圳市電信工程有限公司	Pan-China Certified Public Accountants	Guangdong Zheng DE Certified Public Accountants Co., Ltd	KPMG Huazhen
Guangdong Wellcomm Communication Engineering Co., Ltd. 廣東惠訊通信工程有限公司	Guangdong Kang Yuan Certified Public Accounting Ltd	Guangdong Kang Yuan Certified Public Accountants, Ltd	KPMG Huazhen
Guangdong Telecommunications Construction & Development Co., Ltd. 廣東電信建設開發有限公司	Guangdong Zheng De Certified Public Accountants Co., Ltd	Pan-China Certified Public Accountants	KPMG Huazhen
Guangdong Gongcheng Telecommunication Project Management Co., Ltd. 廣東公誠通信建設監理有限公司	Tin Wha Hua Yue CPAS. Guangdong	Pan-China Certified Public Accountants	KPMG Huazhen
Guangzhou HuiYuan Communication Construction Supervision Co., Ltd. 廣州市滙源通信建設監理有限公司	Guangdong Guang Xin Certified Public Accountants	Guangzhou Fu Yang Jian Da Certified Public Accountants, Ltd	KPMG Huazhen
Shenzhen Duxin Supervision & Management Co., Ltd. 深圳市都信建設監理有限公司	Beijing Yongtuo Certified Public Accountants Co., Ltd. Guangzhou Branch	Guangdong Zheng De Certified Public Accountants Co., Ltd	KPMG Huazhen
Guangdong Trustel Communications Technology Co., Ltd. 廣東中實通信技術有限公司	Guangdong Shu Cheng Certified Public Accountants Co., Ltd.	Pan-China Certified Public Accountants	KPMG Huazhen
Guangdong Data Communication Network Co., Ltd. 廣東數據通信網絡有限公司	Guangdong Shu Cheng Certified Public Accountants Co., Ltd.	Pan-China Certified Public Accountants	KPMG Huazhen
Guangdong Electronic Certification Authority Co., Ltd. 廣東省電子商務認證有限公司	Guangdong Kang Yuan Certified Public Accounting Ltd	Guangzhou Fu Yang Jian Da Certified Public Accountants, Ltd	KPMG Huazhen
Guangzhou Regaltec Communications Technology Co., Ltd. 廣州瑞達通信技術有限公司	Guangzhou Yangcheng Certified Public Accountants Co., Ltd	Tin Wha Hua Yue CPAS. Guangdong	KPMG Huazhen
Guangdong Tisson Technologies Development Co., Ltd. 廣東天訊電信科技有限公司	Guangdong Guang Xin Certified Public Accountants	Guangzhou Fu Yang Jian Da Certified Public Accountants, Ltd	KPMG Huazhen
Shenzhen Hongbo Information Technology Co., Ltd. 深圳市鴻波信息技術有限公司	Beijing Yongtuo Certified Public Accountants Co., Ltd. Guangzhou Branch	Guangdong Zheng DE Certified Public Accountants Co., Ltd	KPMG Huazhen
Guangdong Star Net Chain-store Co., Ltd 廣東星盟網絡連鎖經營有限公司	Not applicable (Note i)	Pan-China Certified Public Accountants	KPMG Huazhen
Guangdong Gongcheng Property Management Co., Ltd. 廣東公誠物業管理有限公司	Guangdong Guang Xin Certified Public Accountants	Pan-China Certified Public Accountants	KPMG Huazhen
Guangzhou Shou Xin Property Management Co., Ltd. 廣州市守信物業有限公司	Guangdong Guang Xin Certified Public Accountants	Guangzhou Fu Yang Jian Da Certified Public Accountants, Ltd	KPMG Huazhen
Shenzhen Gongcheng Property Management Co., Ltd. 深圳市公誠物業管理有限公司	Beijing Yongtuo Certified Public Accountants Co., Ltd. Guangzhou Branch	Guangzhou Zheng De Certified Public Accountants Co., Ltd	KPMG Huazhen

Name of company	2003	2004	2005
Guangdong Netstar Film & TV Culture Media Co., Ltd. 廣東網星影視文化傳播有限公司	Guangzhou Xin Rui Certified Public Accountants Ltd	Guangzhou Xin Rui Certified Public Accountants Ltd	KPMG Huazhen
Guangdong Telecom Industry Group Guangzhou Limited Corporation 廣東省電信實業集團廣州市有限公司	Pan-China Certified Public Accountants	Pan-China Certified Public Accountants	KPMG Huazhen
Guangdong Telecom Industry Group Shenzhen Limited Corporation 廣東省電信實業集團深圳市有限公司	Pan-China Certified Public Accountants	Pan-China Certified Public Accountants	KPMG Huazhen
Guangdong Hongbo Communications Investment and Holding Co., Ltd 廣東鴻波通信投資控股有限公司	Pan-China Certified Public Accountants	Guangzhou Zheng De Certified Public Accountants Co., Ltd	KPMG Huazhen
Guangdong Great Southern Information Technology Co., Ltd. 廣東大南方信息科技有限公司	Shenzhen Yexin Certified Public Accountants	Guangdong Shu Cheng Certified Public Accountants Co., Ltd	KPMG Huazhen
Guangdong Huanan Communication Technology Co., Ltd. 廣東華南通信技術有限公司	Not applicable (Note ii)	Not applicable (Note ii)	Not applicable (Note ii)
Lintech Telecom (International) Limited 科聯電信(國際)有限公司	Not applicable (Note iii)	Not applicable (Note iii)	So & Wong CPA
Shanghai Telecom Science & Technology Development Co., Ltd. 上海電信科技發展有限公司	Zhongxing-New Century Certified Public Accountants Co., Ltd	Zhongxing-New Century Certified Public Accountants Co., Ltd	KPMG Huazhen
Shanghai Communications Equipment Bidding Co., Ltd. 上海通信設備招標有限公司	Shanghai Zhonghui Certified Public Accountants Co., Ltd	Shanghai Zhonghui Certified Public Accountants Co., Ltd	KPMG Huazhen
Shanghai Orient Telephone Equipment Co., Ltd. 上海東方電話設備有限公司	Shanghai Zhonghui Certified Public Accountants Co., Ltd	Shanghai Zhonghui Certified Public Accountants Co., Ltd	KPMG Huazhen
Shanghai Gonglian Communication Information Development Co., Ltd. 上海共聯通信信息發展有限公司	Zhongxing-New Century Certified Public Accountants Co., Ltd	Zhongxing-New Century Certified Public Accountants Co., Ltd	KPMG Huazhen
Shanghai Telecom Engineering Co., Ltd. 上海電信工程有限公司	Zhongxing-New Century Certified Public Accountants Co., Ltd	Zhongxing-New Century Certified Public Accountants Co., Ltd	KPMG Huazhen
Shanghai Telephone Property Co., Ltd. 上海德律風物業有限公司	Zhongxing-New Century Certified Public Accountants Co., Ltd	Zhongxing-New Century Certified Public Accountants Co., Ltd	KPMG Huazhen
Shanghai P&T Design Institute Co., Ltd. 上海郵電設計院有限公司	Zhongxing-New Century Certified Public Accountants Co., Ltd	Zhongxing-New Century Certified Public Accountants Co., Ltd	KPMG Huazhen
Shanghai Tele-Communication Engineering Construction & Supervision Co., Ltd. 上海電話通信工程建設監理有限公司	Shanghai Zhonghui Certified Public Accountants Co., Ltd	Shanghai Wanlong Certified Public Accountants Co., Ltd	KPMG Huazhen
Shanghai Telecom Communications Equipment Co., Ltd. 上海電信通信設備有限公司	Shanghai Zhonghui Certified Public Accountants Co., Ltd	Zhongxing-New Century Certified Public Accountants Co., Ltd	KPMG Huazhen
Shanghai New Epoch Information Industry Co., Ltd. 上海世紀新元信息產業有限公司	Shanghai Wanlong Certified Public Accountants Co., Ltd	Zhongxing-New Century Certified Public Accountants Co., Ltd	KPMG Huazhen
Zhejiang Quintessence Ground Realty Management Co., Ltd. 浙江錢塘大地物業管理有限公司	Zhe Jiang Zhong Xin Certified Public Accountants Co., Ltd	China Rightson Certified Public Accountants Co., Ltd	KPMG Huazhen

Name of company	2003	2004	2005
Zhejiang Devo Network Technology Co., Ltd. 浙江迪佛網絡科技有限公司	Zhe Jiang Zhong Xin Certified Public Accountants Co., Ltd	China Rightson Certified Public Accountants Co., Ltd	KPMG Huazhen
Zhejiang Post & Telecommunication Construction Co., Ltd. 浙江省郵電工程建設有限公司	Zhe Jiang Zhong Xin Certified Public Accountants Co., Ltd	China Rightson Certified Public Accountants Co., Ltd	KPMG Huazhen
Huaxin Consulting Co., Ltd. 華信郵電諮詢設計研究院有限公司	Zhe Jiang Zhong Rui Wei Si Da Certified Public Accountants Co., Ltd	Zhe Jiang Zhong Hao Hua Tian Certified Public Accountants Co., Ltd	KPMG Huazhen
Zhejiang Nan Tian P&T Co., Ltd. 浙江南天郵電通訊技術有限公司	Pan-China Certified Public Accountants	China Rightson Certified Public Accountants Co., Ltd	KPMG Huazhen
Zhejiang Telecommunication Construction Co., Ltd. 浙江省電信線路建設有限公司	Zhe Jiang Zhong Xin Certified Public Accountants Co., Ltd.	China Rightson Certified Public Accountants Co., Ltd	KPMG Huazhen
Zhejiang Telecom Science & Technology Research Institute Co., Ltd. 浙江省電信科學技術研究所有限公司	Zhe Jiang Zhong Xin Certified Public Accountants Co., Ltd.	China Rightson Certified Public Accountants Co., Ltd	KPMG Huazhen
Zhejiang Feilan Communication Engineering Inspection Co., Ltd. 浙江沸藍通信工程監理有限公司	Not applicable (Note i)	China Rightson Certified Public Accountants Co., Ltd	KPMG Huazhen
Zhejiang Difo Communication Operating Co., Ltd. 浙江迪佛通信經營有限公司	Not applicable (Note i)	Zhe Jiang Zhong Xin Certified Public Accountants Co., Ltd	KPMG Huazhen
Hangzhou Bell Telecommunication System Co., Ltd. 杭州貝爾通訊系統有限公司	Pan-China Certified Public Accountants	Jiang Zhong Hao Hua Tian Certified Public Accountants Co., Ltd.	KPMG Huazhen
Hubei Post & Telecom Planning and Designing Co., Ltd. 湖北郵電規劃設計有限公司	Hu Bei Tong Xing Certified Public Accountants Co., Ltd	Zhong Xi Certified Public Accountants Co., Ltd	KPMG Huazhen
Wuhan Telecom Planning and Designing Co., Ltd. 武漢電信規劃設計有限公司	Hu Bei Tong Xing Certified Public Accountants Co., Ltd	Zhong Xi Certified Public Accountants Co., Ltd	KPMG Huazhen
Hubei Telecom Engineering Co., Ltd. 湖北電信工程有限公司	Hu Bei Tong Xing Certified Public Accountants Co., Ltd	Zhong Xi Certified Public Accountants Co., Ltd	KPMG Huazhen
Wuhan Telecommunication Engineering Co., Ltd. 武漢電信工程有限責任公司	Hu Bei Tong Xing Certified Public Accountants Co., Ltd	Zhong Xi Certified Public Accountants Co., Ltd	KPMG Huazhen
Hubei Guanda Communication Science and Technology Network Consultation Co., Ltd. 湖北冠達通信科技網絡諮詢有限公司	Hu Bei Tong Xing Certified Public Accountants Co., Ltd	Zhong Xi Certified Public Accountants Co., Ltd	KPMG Huazhen
Wuhan Greenpower Telecom Network Co., Ltd. 武漢綠色動力電信網絡有限公司	Not applicable (Note iv)	Hu Bei Tong Xing Certified Public Accountants Co., Ltd	KPMG Huazhen
Wuhan Luohua Intelligence Technology Co., Ltd. 武漢絡華智能技術有限責任公司	Hu Bei Tong Xing Certified Public Accountants Co., Ltd	Hu Bei Tong Xing Certified Public Accountants Co., Ltd	KPMG Huazhen
Fujian Post & Telecom Planning and Designing Institute Co., Ltd. 福建省郵電規劃設計院有限公司	Pan-China Certified Public Accountants Co., Ltd	Pan-China Certified Public Accountants Co., Ltd	KPMG Huazhen

Name of company	2003	2004	2005
Fujian Post & Telecom Engineering Co., Ltd. 福建省郵電工程有限公司	Pan-China Certified Public Accountants Co., Ltd	Pan-China Certified Public Accountants Co., Ltd	KPMG Huazhen
Fujian Youke Communications Technology Co., Ltd. 福建郵科通信技術有限公司	Yongtuo (Fujian) Certified Public Accountants Co., Ltd	Zhong Xing Certified Public Accountants' Company Ltd	KPMG Huazhen
Fujian Post & Telecom Property Co., Ltd. 福建省郵電物業管理有限公司	Fu Jian Hong Shen Certified Public Accountants Co., Ltd	Pan-China Certified Public Accountants Co., Ltd	KPMG Huazhen
Hainan Dayou Computer Co., Ltd. 海南大有計算機有限公司	Pan-China Certified Public Accountants	China Rightson Certified Public Accountants Co., Ltd	KPMG Huazhen
Hainan Telecom Engineering Co., Ltd. 海南電信工程有限公司	Hai Nan Zhong Zhou Certified Public Accountants Co., Ltd	China Rightson Certified Public Accountants Co., Ltd	KPMG Huazhen
Hainan Telecom Planning and Designing Institute Co., Ltd. 海南電信規劃設計院有限公司	Pan-China Certified Public Accountants	China Rightson Certified Public Accountants Co., Ltd	KPMG Huazhen
Hainan Telecom Property Management Co., Ltd. 海南電信物業管理有限公司	Pan-China Certified Public Accountants	China Rightson Certified Public Accountants Co., Ltd	KPMG Huazhen
Hainan Telecommunication Project Management Co., Ltd. 海南通信工程監理有限公司	Pan-China Certified Public Accountants	China Rightson Certified Public Accountants Co., Ltd	KPMG Huazhen
Hainan Dayou Telecom Marketing Co., Ltd 海南大有電信營銷有限公司	Pan-China Certified Public Accountants	China Rightson Certified Public Accountants Co., Ltd	KPMG Huazhen
Hainan Telecom Information Network Co., Ltd. 海南電信信息網絡有限公司	Pan-China Certified Public Accountants	China Rightson Certified Public Accountants Co., Ltd	KPMG Huazhen

Notes:

(i) These subsidiaries were established in 2003 and commenced operations in 2004.

(ii) This subsidiary was established in 2005 and commenced operations in 2006.

(iii) This subsidiary was established in 2004 and commenced operations in 2005.

(iv) This subsidiary was established and commenced operations in 2004.

(v) All the above auditors are certified accountants registered in the PRC, other than So & Wong CPA (auditors of Lintech Telecom (International) Limited) who is a firm of certified public accountants registered in Hong Kong.

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

(vii) The English translation of the company names is for reference only. The official names of the companies are in Chinese, other than Lintech Telecom (International) Limited.

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 March 31, 2006 (the "Restructuring"). The Restructuring undertaken in anticipation of the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited comprised the following:

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

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

(iii) The Group, immediately after the Restructuring, contains substantially all of the operating assets and liabilities relating to the Predecessor Operations, comprising (1) telecommunications infrastructure design, construction and supervision and management; (2) business process outsourcing (including network maintenance, facilities management, distribution of telecommunications services and products); and (3) a variety of other services including applications, content and others.

(iv) In connection with the Restructuring, certain assets and liabilities historically associated with the Predecessor Operations were not transferred to the Company and were retained by CTC.

The above Restructuring procedures primarily resulted in an effect of the transfer from CTC to the Company of the operating assets and liabilities relating to the telecommunications related services carried on by the Predecessor Operations, which were previously owned or controlled by CTC prior to the Restructuring.

CTC has agreed to indemnify the Company against any claims, including tax liabilities and other contingent liabilities, incurred in connection with or arising from assets, liabilities and results of the Predecessor Operations prior to the completion of the Restructuring.

(c) Basis of presentation

As CTC owned or controlled Predecessor Operations that were transferred to the Company before the Restructuring and continues to control the Company after the effective date of the Restructuring and that control is not transitory; therefore, the Restructuring is considered as a business combination under common control. The Restructuring is for the purpose of setting up the Company under the PRC rules and regulations in anticipation of the listing of the Company. As there was no change of controlling shareholders in the business combination, the Financial Information has been prepared as a combination of businesses under common control in a manner similar to pooling-of-interests.

The Financial Information presents the results of operations of the Group as if the Group had been in existence throughout the relevant periods and as if the Predecessor Operations were injected into the Company from CTC at the beginning of the earliest periods presented or, when the relevant businesses were acquired or the subsidiaries were setup by CTC. The assets and liabilities transferred to the Company have been stated at historical carrying amounts as modified by the revaluation of property, plant and equipment (see Note 14).

Certain assets and liabilities previously associated with the Predecessor Operations that were retained by CTC as they were not considered strategically complementary to the foregoing telecommunications related services have been reflected as a distribution to owner in the combined statements of changes in equity. Management is of the view that the assets and liabilities retained by CTC were not crucial to the

Predecessor Operations. A summary of the assets and liabilities previously associated with the Predecessor Operations that were retained by CTC is as follows:

	March 31, 2006
	RMB'000
Property, plant and equipment, net	803,131
Investment properties	261,858
Other non-current assets	203,740
Cash and cash equivalents	229,712
Other current assets	519,183
Current liabilities	(356,950)
	1,660,674

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

As at the date of this report, the Company had interests in the following subsidiaries, all of which are private companies. The particulars of these subsidiaries are set out below:

Name of company	Place and date of incorporation/ establishment	Attributable equity interest held by the Group	Issued and fully paid up/ registered capital	Principal activities
		%		
Guangdong Planning and Designing Institute of Telecommunication Co., Ltd. 廣東省電信規劃設計院有限公司	The PRC April 13, 1992	100	RMB204,102,117	Provision of telecommunications design service
Guangzhou Telecom Design Co., Ltd. 廣州市電信設計有限公司	The PRC July 24, 1986	100	RMB12,006,328	Provision of telecommunications design service
Guangdong Southern Planning & Designing Institute of Telecom Consultation Co., Ltd. 廣東南方電信規劃諮詢設計院有限公司	The PRC August 19, 1992	100	RMB15,000,000	Provision of telecommunications design service
Guangdong Telecommunications Engineering Co., Ltd. 廣東省電信工程有限公司	The PRC December 5, 1986	100	RMB116,753,536	Provision of telecommunications construction and engineering services
Guangdong Chang Xun Industry Co., Ltd. 廣東省長訊實業有限公司	The PRC January 14, 1993	100	RMB155,719,653	Provision of telecommunications construction and engineering services
Guangdong Nanfang Communication Construction Limited Company 廣東南方通信建設有限公司	The PRC October 9, 1993	100	RMB34,147,400	Provision of telecommunications construction and engineering services
Guangzhou Telecommunications Construction Corporation 廣州市通信建設有限公司	The PRC June 30, 1998	100	RMB59,623,217	Provision of telecommunications construction and engineering services
Shenzhen Telecom Engineering Co., Ltd. 深圳市電信工程有限公司	The PRC January 28, 1988	60	RMB16,000,000	Provision of telecommunications construction and engineering services

Name of company	Place and date of incorporation/ establishment	Attributable equity interest held by the Group	Issued and fully paid up/ registered capital	Principal activities
		%		
Guangdong Wellcomm Communication Engineering Co., Ltd. 廣東惠訊通信工程有限公司	The PRC July 24, 1989	100	RMB50,000,000	Provision of telecommunications construction and engineering services
Guangdong Telecommunications Construction & Development Co., Ltd. 廣東電信建設開發有限公司	The PRC August 5, 1994	100	RMB32,315,237	Provision of project supervision and management and distribution of telecommunications services
Guangdong Gongcheng Telecommunication Project Management Co., Ltd. 廣東公誠通信建設監理有限公司	The PRC March 1, 2000	100	RMB20,000,000	Provision of project supervision and management service
Guangzhou HuiYuan Communication Construction Supervision Co., Ltd. 廣州市滙源通信建設監理有限公司	The PRC March 13, 2001	100	RMB6,538,004	Provision of project supervision and management service
Shenzhen Duxin Supervision & Management Co., Ltd. 深圳市都信建設監理有限公司	The PRC May 15, 1995	100	RMB7,780,436	Provision of project supervision and management service
Guangdong Trustel Communications Technology Co., Ltd. 廣東中實通信技術有限公司	The PRC May 21, 2001	100	RMB10,600,000	Provision of value added telecommunications and information technology services
Guangdong Data Communication Network Co., Ltd. 廣東數據通信網絡有限公司	The PRC December 23, 1997	100	RMB50,000,000	Provision of value added telecommunications and information technology services
Guangdong Electronic Certification Authority Co., Ltd. 廣東省電子商務認證有限公司	The PRC August 17, 2000	90	RMB30,000,000	Provision of value added telecommunications and information technology services
Guangzhou Regaltec Communications Technology Co., Ltd. 廣州瑞達通信技術有限公司	The PRC March 6, 1995	40	USD2,100,000	Provision of value added telecommunications and information technology services
Guangdong Tisson Technologies Development Co., Ltd. 廣東天訊電信科技有限公司	The PRC March 5, 1997	100	RMB19,152,304	Provision of value added telecommunications and information technology services
Shenzhen Hongbo Information Technology Co., Ltd. 深圳市鴻波信息技術有限公司	The PRC June 14, 1994	100	RMB10,000,000	Provision of distribution of telecommunications services
Guangdong Star Net Chain-store Co., Ltd. 廣東星盟網絡連鎖經營有限公司	The PRC December 3, 2003	100	RMB150,000,000	Provision of Internet service
Guangdong Gongcheng Property Management Co., Ltd. 廣東公誠物業管理有限公司	The PRC March 1, 2000	100	RMB8,269,900	Provision of facilities management service
Guangzhou Shou Xin Property Management Co., Ltd. 廣州市守信物業有限公司	The PRC November 26, 1997	100	RMB8,945,937	Provision of facilities management service
Shenzhen Gongcheng Property Management Co., Ltd. 深圳市公誠物業管理有限公司	The PRC July 30, 2001	100	RMB5,000,000	Provision of facilities management service

Name of company	Place and date of incorporation/ establishment	Attributable equity interest held by the Group	Issued and fully paid up/ registered capital	Principal activities
		%		
Guangdong Netstar Film & TV Culture Media Co., Ltd. 廣東網星影視文化傳播有限公司	The PRC June 5, 2000	100	RMB3,000,000	Film and program production and publication
Guangdong Telecom Industry Group Guangzhou Limited Corporation 廣東省電信實業集團廣州市有限公司	The PRC December 27, 2000	100	RMB158,874,530	Provision of distribution of telecommunications services and products and value added telecommunications services
Guangdong Telecom Industry Group Shenzhen Limited Corporation 廣東省電信實業集團深圳市有限公司	The PRC December 25, 2000	100	RMB309,271,276	Provision of network maintenance and distribution of telecommunication services
Guangdong Hongbo Communications Investment and Holding Co., Ltd 廣東鴻波通信投資控股有限公司	The PRC June 15, 1993	100	RMB30,000,000	Investment holding
Guangdong Great Southern Information Technology Co., Ltd. 廣東大南方信息科技有限公司	The PRC December 3, 1993	100	RMB10,000,000	Provision of value added telecommunications and information technology services
Guangdong Huanan Communication Technology Co., Ltd. 廣東華南通信技術有限公司	The PRC December 31, 2005	100	RMB10,000,000	Provision of distribution of telecommunication services
Lintech Telecom (International) Limited 科聯電信(國際)有限公司	Hong Kong December 30, 2004	100	HKD35,000,000	Provision of value added telecommunications and information technology services
Shanghai Telecom Science & Technology Development Co., Ltd. 上海電信科技發展有限公司	The PRC August 13, 1992	100	RMB65,000,000	Provision of IT applications and construction and engineering services
Shanghai Communications Equipment Bidding Co., Ltd. 上海通信設備招標有限公司	The PRC December 5, 2002	100	RMB5,000,000	Provision of distribution of telecommunication services
Shanghai Orient Telephone Equipment Co., Ltd. 上海東方電話設備有限公司	The PRC November 10, 1989	100	RMB12,000,000	Manufacture and distribution of telecommunication products
Shanghai Gonglian Communication Information Development Co., Ltd. 上海共聯通信信息發展有限公司	The PRC September 12, 1997	77.5	RMB30,000,000	Provision of IT applications and construction and engineering services and distribution of telecommunication products
Shanghai Telecom Engineering Co., Ltd. 上海電信工程有限公司	The PRC September 28, 1989	100	RMB60,000,000	Provision of telecommunications construction and engineering services
Shanghai Telephone Property Co., Ltd. 上海德律風物業有限公司	The PRC July 24, 1996	90	RMB20,000,000	Provision of facilities management service

Name of company	Place and date of incorporation/ establishment	Attributable equity interest held by the Group	Issued and fully paid up/ registered capital	Principal activities
		%		
Shanghai P&T Design Institute Co., Ltd. 上海郵電設計院有限公司	The PRC October 28, 1993	100	RMB30,000,000	Provision of telecommunications design service
Shanghai Tele-Communication Engineering Construction & Supervision Co., Ltd. 上海電話通信工程建設監理有限公司	The PRC January 27, 2000	90	RMB5,000,000	Provision of facilities management service
Shanghai Telecom Communications Equipment Co., Ltd. 上海電信通信設備有限公司	The PRC May 16, 2003	100	RMB12,822,000	Distribution of telecommunications products
Shanghai New Epoch Information Industry Co., Ltd. 上海世紀新元信息產業有限公司	The PRC July 13, 2000	100	RMB30,000,000	Distribution of telecommunications services and products
Zhejiang Quintessence Ground Realty Management Co., Ltd. 浙江錢塘大地物業管理有限公司	The PRC August 10, 2001	100	RMB8,000,000	Provision of facilities management service
Zhejiang Devo Network Technology Co., Ltd. 浙江迪佛網絡科技有限公司	The PRC June 7, 2001	100	RMB15,000,000	Distribution of telecommunications and electronic products
Zhejiang Post & Telecommunication Construction Co., Ltd. 浙江省郵電工程建設有限公司	The PRC April 2, 1982	100	RMB62,625,800	Provision of telecommunications design service
Huaxin Consulting Co., Ltd. 華信郵電諮詢設計研究院有限公司	The PRC September 21, 1989	100	RMB82,000,000	Provision of telecommunications design service
Zhejiang Nan Tian P&T Co., Ltd. 浙江南天郵電通訊技術有限公司	The PRC December 25, 1992	100	RMB100,000,000	Provision of network construction and maintenance services and system integration service
Zhejiang Telecommunication Construction Co., Ltd. 浙江省電信線路建設有限公司	The PRC July 8, 1994	100	RMB13,312,700	Provision of telecommunications construction and engineering services
Zhejiang Telecom Science & Technology Research Institute Co., Ltd. 浙江省電信科學技術研究所有限公司	The PRC December 24, 2003	100	RMB5,795,000	Provision of system integration and other value added services
Zhejiang Feilan Communication Engineering Inspection Co., Ltd. 浙江沸藍通信工程監理有限公司	The PRC June 18, 2003	100	RMB5,000,000	Provision of project supervision and management service
Zhejiang Difo Communication Operating Co., Ltd. 浙江迪佛通信經營有限公司	The PRC November 20, 2003	100	RMB600,000	Distribution of telecommunications and electronic products
Hangzhou Bell Telecommunication System Co., Ltd. 杭州貝爾通訊系統有限公司	The PRC April 15, 1997	60	RMB8,000,000	Provision of network maintenance service
Hangzhou Telecommunication Planning & Designing Institute Co., Ltd. 杭州市電信規劃設計院有限公司	The PRC March 25, 1999	100	RMB6,000,000	Provision of telecommunications design service

Name of company	Place and date of incorporation/ establishment	Attributable equity interest held by the Group	Issued and fully paid up/ registered capital	Principal activities
		%		
Zhejiang Feilan Telecommunication Technology Co., Ltd. 浙江沸藍通信科技有限公司	The PRC June 6, 2003	80	RMB12,500,000	Provision of facilities management service
Zhejiang Zhongtong Real Estate Development Co., Ltd. 浙江中通物業發展有限公司	The PRC April 26, 2006	100	RMB12,000,000	Provision of facilities management service
Yiwu Inter E-business Limited Company 義烏市因特電子商務有限公司	The PRC August 23, 2000	100	RMB15,000,000	Provision of IT applications service
Zhejiang Zhongtong Communications Co., Ltd. 浙江中通通信有限公司	The PRC April 25, 2006	100	RMB50,000,000	Distribution of telecommunications and electronic products
Alcatel Hangzhou Communication Systems Co., Ltd. 杭州阿爾卡特通訊系統有限公司	The PRC September 22, 1994	60	RMB36,180,000	Provision of network maintenance service
Huaxun Communication Technology Co., Ltd. 華訊通信科技有限公司	The PRC April 21, 1999	100	RMB43,000,000	Provision of telecommunications design and system design services
Hubei Post & Telecom Planning and Designing Co., Ltd. 湖北郵電規劃設計有限公司	The PRC March 29, 2001	100	RMB20,000,000	Provision of telecommunications design service
Wuhan Telecom Planning and Designing Co., Ltd. 武漢電信規劃設計有限公司	The PRC August 10, 1990	100	RMB20,000,000	Provision of telecommunications design service
Hubei Telecom Engineering Co., Ltd. 湖北電信工程有限公司	The PRC May 20, 1992	100	RMB39,000,000	Provision of telecommunications construction and engineering services
Wuhan Telecommunication Engineering Co., Ltd. 武漢電信工程有限責任公司	The PRC August 10, 1990	100	RMB40,000,000	Provision of telecommunications construction and engineering services
Hubei Guanda Communication Science and Technology Network Consultation Co., Ltd. 湖北冠達通信科技網絡諮詢有限公司	The PRC March 26, 2002	100	RMB18,000,000	Provision of project supervision and management service and distribution of telecommunications equipment
Wuhan Greenpower Telecom Network Co., Ltd. 武漢綠色動力電信網絡有限公司	The PRC August 5, 2004	100	RMB25,000,000	Provision of project supervision and management service and distribution of telecommunications equipment
Wuhan Luohua Intelligence Technology Co., Ltd. 武漢絡華智能技術有限責任公司	The PRC August 15, 2000	100	RMB10,000,000	Provision of facilities management service
Fujian Post & Telecom Planning and Designing Institute Co., Ltd. 福建省郵電規劃設計院有限公司	The PRC September 7, 2001	100	RMB15,000,000	Provision of telecommunications design service
Fujian Post & Telecom Engineering Co., Ltd. 福建省郵電工程有限公司	The PRC September 11, 2001	100	RMB31,000,000	Provision of telecommunications design service

Name of company	Place and date of incorporation/ establishment	Attributable equity interest held by the Group	Issued and fully paid up/ registered capital	Principal activities
		%		
Fujian Youke Communications Technology Co., Ltd. 福建郵科通信技術有限公司	The PRC July 29, 1996	100	RMB50,000,000	Provision of IT applications and other value added services
Fujian Post & Telecom Property Co., Ltd. 福建省郵電物業管理有限公司	The PRC April 22, 1994	100	RMB10,000,000	Provision of facilities management service
Fujian Telecom Technology Development Co., Ltd. 福建省電信技術發展有限公司	The PRC March 29, 2006	100	RMB8,000,000	Provision of distribution of telecommunications services and products
Hainan Dayou Computer Co., Ltd. 海南大有計算機有限公司	The PRC August 6, 1996	100	RMB5,000,000	Provision of system integration and other value added services
Hainan Telecom Engineering Co., Ltd. 海南電信工程有限公司	The PRC September 10, 1999	100	RMB15,000,000	Provision of telecommunications construction and engineering services
Hainan Telecom Planning and Designing Institute Co., Ltd. 海南電信規劃設計院有限公司	The PRC December 28, 1992	100	RMB3,000,000	Provision of telecommunications design service
Hainan Telecom Property Management Co., Ltd. 海南電信物業管理有限公司	The PRC August 6, 1999	100	RMB5,300,000	Provision of facilities management service
Hainan Telecommunication Project Management Co., Ltd. 海南通信工程監理有限公司	The PRC May 16, 2002	100	RMB2,000,000	Provision of project supervision and management service
Hainan Dayou Telecom Marketing Co., Ltd. 海南大有電信營銷有限公司	The PRC August 21, 2002	100	RMB1,000,000	Provision of distribution of telecommunications services
Hainan Telecom Information Network Co., Ltd. 海南電信信息網絡有限公司	The PRC August 6, 1996	100	RMB5,000,000	Provision of system integration and other value added telecommunications services

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The Group did not prepare any combined financial statements previously. These are the Group's first IFRS combined Financial Information and IFRS 1 has been applied.

The IASB has issued a number of new IFRS and revised a number of existing IFRSs that are effective for accounting periods beginning on or after January 1, 2007. The Group has not early applied any new standards or interpretation that is not yet effective for the current accounting period (see Note 38).

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

(b) Basis of preparation of the Financial Information

The Financial Information includes the financial statements of the Company and its subsidiaries.

The Financial Information is presented in Renminbi ("RMB") which is the Group's functional and presentation currency, rounded to the nearest thousand.

The Financial Information is prepared on the historical cost basis, except that property, plant and equipment (Note 14) is stated at its revalued amount as explained in the accounting policies set out below.

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

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

Judgements made by management in the application of IFRS that have significant effect on the Financial Information and estimates with a significant risk of material adjustment in the subsequent period are discussed in Note 35.

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

(c) Basis of consolidation

(i) Subsidiaries

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

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

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Group, whether directly or indirectly through subsidiaries, are presented in the combined balance sheets and combined statements of changes in equity within equity, separately from equity attributable to the equity holder of the Company. Minority interests in the results of the Group are presented on the face of the combined income statements as an allocation of the total profit or loss for the year/period between minority interests and the equity owner.

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

(ii) Associates

Associates are those entities in which the entities now comprising the Group has significant influence, but not control, over the financial and operating policies.

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

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

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

(d) Goodwill

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

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

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

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

(e) Other investments in debt and equity securities

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

Dated debt securities that the Group have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are initially recognised in the combined balance sheets at fair value plus transaction costs. Subsequently, they are stated in the combined balance sheets at amortised cost less impairment losses (see Note 2(l)).

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

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

(f) Investment properties

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

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

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

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

(g) Other property, plant and equipment

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

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

— other items of plant and equipment.

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

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

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

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

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

Subsequent to the revaluation which was required by PRC rules and regulations in connection with the Restructuring and which was based on depreciated replacement costs (Note 14), property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation, less subsequent accumulated depreciation and impairment losses and any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. When an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs is revalued simultaneously. When an asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to owner's equity as a component of revaluation reserve. However, a revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised as an expense in the combined income statements.

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

(h) Construction in progress

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

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

(i) Lease prepayments

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

(j) Intangible assets (other than goodwill)

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

Amortisation of intangible assets is charged to the combined income statements on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Intangible assets are amortised over 5 years to 10 years from the date they are available for use.

(k) Leased assets

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

(l) Impairment of assets

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

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

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

— For financial assets carried at 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).

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

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

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

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 combined income statements.

(ii) Impairment of other assets

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

— property, plant and equipment;

— investment properties;

— construction in progress;

— lease prepayments;

— intangible assets;

— investments in associates; and

— goodwill.

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

— Calculation of recoverable amount

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

— Recognition of impairment losses

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

— Reversals of impairment losses

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

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

(m) Inventories

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

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

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

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

(n) Construction contracts

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

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

(o) Trade and other receivables

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

(p) Interest-bearing borrowings

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

(q) Trade and other payables

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

(r) Cash and cash equivalents

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

(s) Employee benefits

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

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

(ii) Termination benefits

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

(t) Income tax

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

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

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

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

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

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

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

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

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

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

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

— the same taxable entity; or

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

(u) Provisions and contingent liabilities

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

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

(v) Revenue recognition

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

(i) Contract revenue

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

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

(ii) Services rendered

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

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

(iii) Sales of goods

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

(iv) Rental income from operating leases

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

(v) Dividends

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

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

(vi) Interest income

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

(w) Government grants

Government grants are recognised in the combined balance sheets initially as deferred income 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 combined income statements 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 combined income statements as revenue on a systematic basis over the useful life of the asset.

(x) Translation of foreign currencies

Foreign currency transactions during the relevant periods are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the combined income statements.

(y) Borrowing costs

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

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

(z) Research and development costs

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

(aa) Segment reporting

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

(bb) Dividends or profit distributions

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

(cc) Related parties

For the purposes of the Financial Information, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/ or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

3 REVENUES

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

	Years ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue from telecommunications infrastructure services	6,693,087	7,241,852	7,199,590	2,977,129	3,145,606
Revenue from business process outsourcing services	3,157,619	3,637,461	4,363,152	2,111,072	2,457,462
Revenue from applications, content and others	1,066,558	1,369,515	1,669,549	681,990	769,157
	10,917,264	12,248,828	13,232,291	5,770,191	6,372,225

4 COST OF REVENUES

	Years ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Depreciation and amortisation	168,268	206,567	239,300	134,423	119,399
Direct personnel costs	1,268,439	1,423,520	2,023,144	927,354	936,641
Operating lease charges	90,028	135,234	138,022	51,100	87,269
Purchase of materials and telecommunications products	3,889,030	4,386,627	4,337,923	1,982,039	2,170,256
Subcontracting charges	2,210,650	2,665,201	2,527,912	1,067,809	1,347,970
Others	1,012,489	1,057,488	1,278,079	465,952	546,044
	8,638,904	9,874,637	10,544,380	4,628,677	5,207,579

5 OTHER OPERATING INCOME

	Years ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Dividend income from unlisted securities	43,239	43,638	30,198	25,193	20,993
Government grants	16,378	37,323	27,444	16,005	19,173
Net gain on disposal of investments	—	48,493	4,327	6,056	20,809
Net gain on disposal of property, plant and equipment	—	—	3,576	559	7,139
Penalty income	1,223	4,156	1,458	837	851
Tax refund	4,746	—	—	—	—
Write-off of non-payable liabilities	2,709	4,387	18,783	16,270	268
Others	25,965	26,497	29,886	9,562	12,057
	94,260	164,494	115,672	74,482	81,290

6 OTHER OPERATING EXPENSES

	Years ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Impairment losses on other investments	9,207	1,309	2,177	—	—
Impairment losses on property, plant and equipment	1,284	5,612	2,079	2,079	—
Impairment losses on lease prepayments	2,177	—	—	—	—
Net loss on disposal of property, plant and equipment	239	5,337	—	—	—
Net loss on disposal of investments	3,535	—	—	—	—
Donation	1,139	2,635	2,998	201	226
Penalty charge	1,956	3,562	5,917	1,540	903
Others	5,178	13,296	7,895	6,206	1,847
	24,715	31,751	21,066	10,026	2,976

7 NET FINANCING INCOME

	Years ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Interest income	51,148	57,318	59,982	27,969	16,974
Net foreign exchange gain/(loss)	790	438	502	(113)	1,083
Interest on bank advances and other borrowings wholly repayable within five years	(12,627)	(15,113)	(22,081)	(11,701)	(10,400)
	39,311	42,643	38,403	16,155	7,657

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

8 NEGATIVE GOODWILL

	Years ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Negative goodwill arising from acquisition of subsidiaries (notes 32(a))	11,292	39,370	158,813	158,813	—
Negative goodwill arising from acquisition from minority interests	51,234	3,929	686	565	4,039
	62,526	43,299	159,499	159,378	4,039

Negative goodwill has arisen on the acquisitions as a result of gains from bargain purchases.

9 PROFIT BEFORE TAX

	Years ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
(i) Staff costs:					
— Salaries, wages and other benefits	1,893,562	2,086,835	2,772,047	1,238,661	1,253,535
— Contributions to defined contribution retirement schemes	231,233	240,238	302,863	134,851	138,963
	2,124,795	2,327,073	3,074,910	1,373,512	1,392,498

	Years ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
(ii) Other items:					
Depreciation and amortisation . .	335,716	384,800	401,579	210,642	186,910
Auditors' remuneration	5,019	5,700	7,912	3,286	3,727
Cost of inventories	3,889,030	4,386,627	4,337,923	1,982,039	2,170,256
Impairment losses on trade and other receivables	10,673	28,869	38,400	23,662	2,045
Operating lease charges	149,749	193,440	190,478	75,282	114,760
Research and development costs	8,383	13,025	53,353	13,587	5,625
Share of associates' taxation . . .	4,039	6,199	4,428	3,181	—

10 INCOME TAX

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

	Years ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Current tax					
— PRC	260,821	280,040	264,541	165,462	152,130
Deferred tax					
Origination and reversal of temporary differences . .	1,972	(6,080)	(4,059)	(7,979)	(4,933)
Total income tax	262,793	273,960	260,482	157,483	147,197

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

	Years ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before tax	836,733	864,457	1,040,984	561,069	357,020
Expected PRC income tax expense at a statutory tax rate of 33% (note i)	276,122	285,271	343,525	185,153	117,817
Differential tax rates on subsidiaries' income (note i)	(81,836)	(92,709)	(147,088)	(73,001)	(40,081)
Non-deductible expenses (note ii)	87,686	81,132	84,606	66,567	77,637
Non-taxable income (note iii)	(40,651)	(20,280)	(46,666)	(34,199)	(15,450)
Tax losses not recognised	21,472	20,546	26,105	12,963	7,274
Income tax	262,793	273,960	260,482	157,483	147,197

Notes:

(i) The provision of PRC income tax of the Group is calculated based on a statutory rate of 33% of the assessable profit of the Group as determined in accordance with the relevant PRC income tax rules and regulations for all periods presented, except for certain subsidiaries of the Group, which are exempted or taxed at preferential rates of 7.5% or 15%.

(ii) Amounts represent personnel and other miscellaneous expenses in excess of statutory deductible limits for tax purpose. Amounts for the six months ended June 30, 2006 include the deficit on revaluation of property, plant and equipment.

(iii) Non-taxable income mainly represents dividend income, investment income under equity method and negative goodwill.

11 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Details of directors' and supervisors' remuneration of the Company are as follows:

	Years ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Fees	—	—	—	—	—
Other emoluments:					
Salaries, allowances and benefits in kind	—	—	—	—	—
Pension scheme contribution	—	—	—	—	—
	—	—	—	—	—

The names of the directors and the supervisors of the Company and their remuneration for the relevant periods and the six months ended June 30, 2005 (unaudited) are as follows:

	Years ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Name of directors and supervisors					
Wang Xiaochu	—	—	—	—	—
Li Ping	—	—	—	—	—
Liu Aili	—	—	—	—	—
Zhang Junan	—	—	—	—	—
Wang Jun	—	—	—	—	—
Chan Mo Po, Paul	—	—	—	—	—
Zhao Chunjun	—	—	—	—	—
Wu Shangzhi	—	—	—	—	—
Hao Weimin	—	—	—	—	—
Xia Jianghua	—	—	—	—	—
Yan Dong	—	—	—	—	—
Hai Liancheng	—	—	—	—	—
	—	—	—	—	—

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

	Years ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
				(unaudited)	
HK$ equivalent					
Nil to 1,000,000	12	12	12	12	12

12 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid employees of the Group during the relevant periods and the six months ended June 30, 2005 (unaudited) are as follows:

	Years ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
				(unaudited)	
Directors and supervisors	—	—	—	—	—
Non-director and non-supervisor employees	5	5	5	5	5
	5	5	5	5	5

The remuneration paid to the above non-director, non-supervisor, highest paid employees are as follows:

	Years ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries, allowances and benefits in kind	515	671	705	296	331
Bonuses	1,513	1,782	1,886	890	790
Pension scheme contributions	338	420	484	225	271
	2,366	2,873	3,075	1,411	1,392

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

	Years ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
				(unaudited)	
HK$ equivalent					
Nil to 1,000,000	5	5	5	5	5

During the relevant periods, no emoluments were paid by the Group to any of the persons who are directors of the Company, or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the persons who are directors of the Company waived or agreed to waive any emoluments during the relevant periods.

13 EARNINGS PER SHARE

Upon incorporation on August 30, 2006, the Company issued 3,960,000,000 shares at par value RMB1 each to CTC, Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation.

Basic earnings per share for each of the years ended December 31, 2003, 2004 and 2005 and for each of the six months ended June 30, 2005 (unaudited) and 2006 have been computed by dividing the net profit attributable to equity owner by 3,960,000,000 shares at par value RMB1 each, as if these shares had been issued as at January 1, 2003.

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

14 PROPERTY, PLANT AND EQUIPMENT, NET

	Buildings	Buildings improvements	Motor vehicles	Furniture, fixtures and other equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:					
As at January 1, 2003	1,544,385	44,236	468,241	591,046	2,647,908
Through acquisition of subsidiaries	24,619	2,547	28,019	86,937	142,122
Transferred from construction in progress	115,038	2,852	319	31,671	149,880
Additions	433,836	80,444	149,491	256,668	920,439
Disposals	(225,631)	(6,268)	(28,148)	(96,779)	(356,826)
As at December 31, 2003	1,892,247	123,811	617,922	869,543	3,503,523
Accumulated depreciation and impairment losses:					
As at January 1, 2003	240,949	34,029	229,617	231,001	735,596
Through acquisition of subsidiaries	7,804	665	14,682	47,705	70,856
Depreciation charge	73,896	23,436	85,058	118,975	301,365
Written back on disposal	(39,100)	(476)	(20,758)	(64,063)	(124,397)
Impairment losses	1,121	—	21	142	1,284
As at December 31, 2003	284,670	57,654	308,620	333,760	984,704
Net carrying value:					
As at December 31, 2003	1,607,577	66,157	309,302	535,783	2,518,819

	Buildings	Buildings improvements	Motor vehicles	Furniture, fixtures and other equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:					
As at January 1, 2004	1,892,247	123,811	617,922	869,543	3,503,523
Through acquisition of subsidiaries	154	—	8,445	3,851	12,450
Transferred from construction in progress	39,152	16,377	—	50,602	106,131
Additions	174,858	32,675	99,746	181,656	488,935
Disposals	(86,411)	(14,265)	(83,088)	(107,231)	(290,995)
As at December 31, 2004	2,020,000	158,598	643,025	998,421	3,820,044
Accumulated depreciation and impairment losses:					
As at January 1, 2004	284,670	57,654	308,620	333,760	984,704
Through acquisition of subsidiaries	—	—	1,988	691	2,679
Depreciation charge	70,635	34,025	96,158	144,021	344,839
Written back on disposal	(7,216)	(9,651)	(56,167)	(62,072)	(135,106)
Impairment losses	7	592	755	4,258	5,612
As at December 31, 2004	348,096	82,620	351,354	420,658	1,202,728
Net carrying value:					
As at December 31, 2004	1,671,904	75,978	291,671	577,763	2,617,316

	Buildings	Buildings improvements	Motor vehicles	Furniture, fixtures and other equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:					
As at January 1, 2005	2,020,000	158,598	643,025	998,421	3,820,044
Through acquisition of subsidiaries	16,572	—	15,582	27,338	59,492
Transferred from construction in progress	123,778	21,519	5,515	57,426	208,238
Additions	63,263	17,274	61,099	126,551	268,187
Disposals	(35,823)	(14,228)	(33,178)	(118,395)	(201,624)
Distributions	(143,127)	(2,479)	(886)	(74)	(146,566)
As at December 31, 2005	2,044,663	180,684	691,157	1,091,267	4,007,771
Accumulated depreciation and impairment losses:					
As at January 1, 2005	348,096	82,620	351,354	420,658	1,202,728
Through acquisition of subsidiaries	3,291	—	6,935	15,021	25,247
Depreciation charge	76,947	26,792	81,975	166,417	352,131
Written back on disposal	(9,309)	(9,907)	(20,124)	(54,896)	(94,236)
Impairment losses	2,024	—	—	55	2,079
Distributions	(44,859)	(1,890)	(694)	(71)	(47,514)
As at December 31, 2005	376,190	97,615	419,446	547,184	1,440,435
Net carrying value:					
As at December 31, 2005	1,668,473	83,069	271,711	544,083	2,567,336

	Buildings	Buildings improvements	Motor vehicles	Furniture, fixtures and other equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost or valuation:					
As at January 1, 2006	2,044,663	180,684	691,157	1,091,267	4,007,771
Through acquisition of subsidiaries	35,536	2,160	8,111	22,214	68,021
Transferred from construction in progress	125,100	7,808	—	17,295	150,203
Additions	169,696	—	26,295	104,706	300,697
Disposals	(200,932)	(17,562)	(94,839)	(96,498)	(409,831)
Distributions	(839,671)	(11,423)	(178,800)	(178,731)	(1,208,625)
Revaluation	(42,490)	(11,341)	(108,655)	(259,486)	(421,972)
As at June 30, 2006	1,291,902	150,326	343,269	700,767	2,486,264
Representing:					
Cost	143,817	2,874	6,841	58,303	211,835
Valuation (on a depreciated replacement cost basis as at March 31, 2006)	1,148,085	147,452	336,428	642,464	2,274,429
	1,291,902	150,326	343,269	700,767	2,486,264
Accumulated depreciation and impairment losses:					
As at January 1, 2006	376,190	97,615	419,446	547,184	1,440,435
Through acquisition of subsidiaries	6,522	1,284	4,563	13,704	26,073
Depreciation charge	27,936	10,832	45,815	85,446	170,029
Written back on disposal	(63,972)	(3,837)	(72,777)	(87,820)	(228,406)
Distributions	(162,069)	(8,808)	(108,500)	(79,931)	(359,308)
Revaluation	(149,757)	(17,003)	(191,501)	(253,985)	(612,246)
As at June 30, 2006	34,850	80,083	97,046	224,598	436,577
Net carrying value:					
As at June 30, 2006	1,257,052	70,243	246,223	476,169	2,049,687

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

(b) Valuation pursuant to the Restructuring

As required by the relevant PRC rules and regulations with respect to the Restructuring, all the property, plant and equipment of the Group were valued by China United Assets Appraisal Co., Ltd (the "PRC valuers"), independent valuers registered in the PRC, on a depreciated replacement cost basis.

The surplus arising from the valuation of these assets has been credited to owner's equity and minority interests as at March 31, 2006 amounting to RMB294 million and RMB1 million respectively. The deficit arising from the valuation of these assets amounting to RMB105 million, has been recognised as an expense for the six months ended June 30, 2006.

The revaluation did not have an impact on depreciation expenses for each of the years ended December 31, 2003, 2004 and 2005 as the revaluation was performed and recorded as at March 31, 2006.

The above buildings were also valued separately by Savills Valuation and Professional Services Limited, independent qualified valuers in Hong Kong, as at September 30, 2006. The value arrived at by them was approximately the same as that arrived at by the PRC valuers as adjusted for the depreciation for the period from April 1, 2006 and September 30, 2006.

(c) Certain of the Group's bank loans were secured by certain of the Group's property, plant and equipment as described in Note 27.

(d) Up to the date of this report, the Group was in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB175 million as at June 30, 2006. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

(e) Had property, plant and equipment been carried at cost less accumulated depreciation, the historical carrying amounts as at June 30, 2006 would have been as follows:

	RMB'000
Buildings	1,151,169
Buildings improvements	64,933
Motor vehicles	167,863
Furniture, fixtures and other equipment	481,239
	1,865,204

15 INVESTMENT PROPERTIES

	Years ended December 31,			Six months ended June 30,
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
As at January 1,	345,332	709,385	766,517	835,588
Through acquisition of subsidiaries	290,058	—	18,770	10,323
Transferred from construction in progress	32,102	2,017	4,266	—
Additions	41,893	55,115	46,035	32,057
Disposals	—	—	—	(56,422)
Distributions	—	—	—	(616,363)
As at December 31,/June 30,	709,385	766,517	835,588	205,183
Accumulated depreciation and impairment losses:				
As at January 1,	41,702	86,211	118,342	159,725
Through acquisition of subsidiaries	16,412	—	2,933	—
Depreciation charge	28,097	32,131	38,450	11,222
Written back on disposal	—	—	—	(11,624)
Distributions	—	—	—	(112,121)
As at December 31,/June 30,	86,211	118,342	159,725	47,202
Net carrying value:				
As at December 31,/June 30,	623,174	648,175	675,863	157,981
Fair value	702,156	764,870	798,853	204,501

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

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

	December 31,			June 30,
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	25,484	35,762	31,371	16,609
After 1 year but within 5 years	34,508	34,290	28,769	16,087
After 5 years	3,565	6,750	4,876	2,976
	63,557	76,802	65,016	35,672

During the years ended December 31, 2003, 2004 and 2005, and the six month periods ended June 30, 2005 (unaudited) and 2006, RMB40 million, RMB53 million, RMB59 million, RMB29 million and RMB20 million were recognised as rental income in the combined income statements respectively and RMB4 million, RMB7 million, RMB9 million, RMB4 million and RMB2 million in respect of direct operating expenses relating to investment properties were recognised as expenses in the combined income statements respectively.

Up to the date of this report, the Group was in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB4.4 million as at June 30, 2006. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

16 CONSTRUCTION IN PROGRESS

	Years ended December 31,			Six months ended June 30,
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
As at January 1,	263,466	207,136	185,546	396,124
Through acquisition of subsidiaries	—	—	26,004	—
Additions	125,652	86,558	417,190	88,304
Transferred to property, plant and equipment	(149,880)	(106,131)	(208,238)	(150,203)
Transferred to investment properties	(32,102)	(2,017)	(4,266)	—
Distributions	—	—	(20,112)	(106,819)
As at December 31,/June 30,	207,136	185,546	396,124	227,406

17 LEASE PREPAYMENTS

	Years ended December 31,			Six months ended June 30,
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
As at January 1,	120,505	153,206	151,781	155,522
Through acquisition of subsidiaries	—	—	6,681	10,192
Additions	34,289	3,895	5,619	18,460
Disposals	(1,588)	(5,320)	(8,559)	(23,203)
Distributions	—	—	—	(81,865)
As at December 31,/June 30,	153,206	151,781	155,522	79,106
Accumulated amortisation and impairment losses:				
As at January 1,	3,755	7,040	8,807	10,472
Through acquisition of subsidiaries	—	—	—	1,501
Amortisation charge	2,369	2,223	2,363	1,044
Impairment losses	2,177	—	—	—
Written back on disposal	(1,261)	(456)	(698)	(1,812)
Distributions	—	—	—	(6,720)
As at December 31,/June 30,	7,040	8,807	10,472	4,485
Net carrying value:				
As at December 31,/June 30,	146,166	142,974	145,050	74,621

Lease prepayments represent payments for land use rights paid to the PRC authorities. All of the Group's lease prepayments are located in the PRC. The Group's land use rights have remaining terms ranging from 38 to 57 years as at June 30, 2006.

18 INTANGIBLE ASSETS

	Years ended December 31,			Six months ended June 30,
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
As at January 1,	12,540	31,025	33,893	45,171
Through acquisition of subsidiaries	—	—	216	2,609
Additions	20,559	4,880	13,921	8,141
Disposals	(2,074)	(2,012)	(2,859)	(2,345)
Distributions	—	—	—	(9,926)
As at December 31,/June 30,	31,025	33,893	45,171	43,650
Accumulated amortisation and impairment losses:				
As at January 1,	2,385	5,887	11,103	19,575
Through acquisition of subsidiaries	—	—	139	1,382
Amortisation charge	3,885	5,607	8,635	4,615
Written back on disposal	(383)	(391)	(302)	(644)
Distributions	—	—	—	(6,354)
As at December 31,/June 30,	5,887	11,103	19,575	18,574
Net carrying value:				
As at December 31,/June 30,	25,138	22,790	25,596	25,076

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

19 INTERESTS IN ASSOCIATES

	December 31,			June 30,
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Share of net assets	186,067	156,481	180,749	8,020

As at June 30, 2006, the Group's associates are unlisted, established and operated in the PRC.

20 OTHER INVESTMENTS

	December 31,			June 30,
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
At cost:				
Unlisted equity securities	363,413	323,376	208,069	102,860
Held to maturity unlisted debt securities	23,928	23,998	536	26,772
	387,341	347,374	208,605	129,632

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

21 DEFERRED TAX ASSETS

Deferred tax assets are attributable to the following:

	December 31,			June 30,
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Impairment losses, primarily for receivables and inventories	3,795	4,972	8,016	5,568
Pre-operating expenses	—	2,900	2,231	1,896
Revaluation of lease prepayments	—	—	—	42,022
Unused tax losses (note (i))	4,869	6,872	8,556	16,757
Deferred tax assets	8,664	14,744	18,803	66,243

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

	As at January 1, 2003	Recognised in combined income statement	As at December 31, 2003
	RMB'000	RMB'000	RMB'000
Impairment losses, primarily for receivables and inventories	3,519	276	3,795
Unused tax losses	7,117	(2,248)	4,869
Deferred tax assets	10,636	(1,972)	8,664

	As at January 1, 2004	Recognised in combined income statement	As at December 31, 2004
	RMB'000	RMB'000	RMB'000
Impairment losses, primarily for receivables and inventories	3,795	1,177	4,972
Pre-operating expenses	—	2,900	2,900
Unused tax losses	4,869	2,003	6,872
Deferred tax assets	8,664	6,080	14,744

	As at January 1, 2005	Recognised in combined income statement	As at December 31, 2005
	RMB'000	RMB'000	RMB'000
Impairment losses, primarily for receivables and inventories	4,972	3,044	8,016
Pre-operating expenses	2,900	(669)	2,231
Unused tax losses	6,872	1,684	8,556
Deferred tax assets	14,744	4,059	18,803

	As at January 1, 2006	Recognised in combined income statement	Recognised in owner's equity	As at June 30, 2006
	RMB'000	RMB'000	RMB'000	RMB'000
Impairment losses, primarily for receivables and inventories	8,016	(2,448)	—	5,568
Pre-operating expenses	2,231	(335)	—	1,896
Revaluation of lease prepayments	—	(485)	42,507	42,022
Unused tax losses	8,556	8,201	—	16,757
Deferred tax assets	18,803	4,933	42,507	66,243

Note:

(i) Expiry of tax losses

	June 30, 2006
	RMB'000
Year of expiry	
– 2008	130
– 2009	8,968
– 2010	16,978
– 2011	24,853
	50,929

(ii) In connection with the Restructuring, the Group's land use rights were revalued as required by the relevant PRC rules and regulations as at March 31, 2006. The revalued amount will serve as the tax base for future years. The land use rights were not revalued for financial reporting purposes and accordingly, deferred tax assets of RMB42.5 million is created with a corresponding increase in owner's equity. Based upon the level of historical taxable income and projections for future taxable income, management believes it is probable that the Group will realise the benefits of the deferred tax assets.

(iii) There was no material unprovided deferred tax during the relevant periods.

22 INVENTORIES

	December 31,			June 30,
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Construction materials	170,222	363,092	127,539	232,755
Finished goods	206,248	220,430	346,566	258,794
Spare parts and consumables	25,640	47,717	49,991	40,137
	402,110	631,239	524,096	531,686

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

	December 31,			June 30,
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount of inventories consumed and sold	3,889,030	4,386,627	4,337,923	2,170,256
Write down of inventories	2,083	448	2,304	500
	3,891,113	4,387,075	4,340,227	2,170,756

23 ACCOUNTS AND BILLS RECEIVABLE, NET

	December 31,			June 30,
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Bills receivable	1,717	4,970	10,071	27,382
Unbilled revenue for contract work (Note 24)	351,917	300,068	242,930	257,265
Other trade receivables	1,896,587	2,088,372	2,742,506	3,254,517
	2,250,221	2,393,410	2,995,507	3,539,164

(a) Included in accounts and bills receivable are amounts due from fellow subsidiaries of RMB1,416 million, RMB1,324 million, RMB1,728 million and RMB1,903 million as at December 31, 2003, 2004 and 2005 and June 30, 2006 respectively. Amounts due from fellow subsidiaries are unsecured, interest free and are expected to be recovered within one year.

(b) In general, debts are due for payment upon billing. Subject to negotiation, credit terms within a range of one to 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:

	December 31,			June 30,
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	2,132,899	2,164,277	2,782,245	3,343,462
After 1 year but less than 2 years	85,795	193,664	155,258	138,849
After 2 years but less than 3 years	22,253	28,475	47,570	45,040
After 3 years	9,274	6,994	10,434	11,813
	2,250,221	2,393,410	2,995,507	3,539,164

24 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 December 31, 2003, 2004 and 2005 and June 30, 2006 are RMB1,246 million, RMB1,158 million, RMB1,276 million and RMB1,094 million respectively.

In respect of construction contracts in progress at the balance sheet date, the amounts of retentions receivable from customers, recorded within "Accounts and bills receivable" at December 31, 2003, 2004 and 2005 and June 30, 2006 are RMB7 million, RMB10 million, RMB19 million and RMB4 million respectively.

25 PREPAYMENTS AND OTHER CURRENT ASSETS

	December 31,			June 30,
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Advances to staff	40,854	52,873	64,848	88,686
Amounts due from fellow subsidiaries	453,371	888,726	1,320,403	782,032
Amounts due from associates	68,690	74,333	—	—
Prepayments in connection with construction work and equipment purchases	307,755	283,133	285,081	230,807
Prepaid expenses and deposits	112,552	206,102	152,608	168,410
Others	357,881	295,476	263,513	181,419
	1,341,103	1,800,643	2,086,453	1,451,354

Amounts due from fellow subsidiaries are unsecured, interest free and are expected to be recovered within one year. The directors have confirmed that amounts due from fellow subsidiaries, which are of non-trade nature, will be settled prior to the listing of the Company.

26 CASH AND CASH EQUIVALENTS

	December 31,			June 30,
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and in hand	4,794,253	3,787,897	3,024,172	2,337,414
Deposits with banks and other financial institutions	552,760	728,124	661,744	107,435
Cash and cash equivalent in the combined statements of cash flows	5,347,013	4,516,021	3,685,916	2,444,849

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

27 INTEREST-BEARING BORROWINGS

The Group's short-term borrowings comprise:

	December 31,			June 30,
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Borrowings from banks				
— secured	6,116	—	—	95,000
— unsecured	98,000	121,838	151,500	15,500
Loans from fellow subsidiaries (unsecured)	146,000	62,545	58,045	320,900
	250,116	184,383	209,545	431,400

The Group's interest rate per annum on short-term borrowings was:

	December 31,			June 30,
	2003	2004	2005	2006
Borrowings from banks	2.16%-5.31%	4.25%-5.84%	4.96%-6.42%	4.65%-6.42%
Loans from fellow subsidiaries	2.01%-5.31%	2.01%-5.58%	4.25%-5.58%	2.5%-5.85%

Included in interest-bearing borrowings are the following amounts denominated in a currency other than the functional currency of the Group:

	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
US dollars	739	—	—	—

As at June 30, 2006, bank loans amounting to RMB95 million were secured by certain of the Group's property, plant and equipment with net book value of RMB30 million.

The directors have confirmed that the loans from fellow subsidiaries will be settled prior to the listing of the Company.

28 ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	December 31,			June 30,
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Accounts payable	1,833,027	1,996,273	1,908,436	1,938,811
Bills payable	392	288	39,030	37,660
	1,833,419	1,996,561	1,947,466	1,976,471

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

	December 31,			June 30,
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	1,819,007	1,952,750	1,929,576	1,923,204
After 1 year but less than 2 years	10,392	38,108	13,790	43,573
After 2 years but less than 3 years	3,921	3,712	3,139	7,126
After 3 years	99	1,991	961	2,568
	1,833,419	1,996,561	1,947,466	1,976,471

Included in accounts and bills payable are amounts due to fellow subsidiaries of RMB156 million, RMB188 million, RMB121 million and RMB159 million as at December 31, 2003, 2004 and 2005 and June 30, 2006 respectively. Amounts due to fellow subsidiaries are unsecured, interest free and are expected to be settled within one year.

29 ACCRUED EXPENSES AND OTHER PAYABLES

	December 31,			June 30,
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Wages and welfare payables	1,049,117	898,965	783,407	608,694
Amounts due to fellow subsidiaries	548,714	688,477	715,328	721,948
Advances received	313,575	189,074	98,623	46,008
Other taxes payable	173,255	141,829	188,814	79,548
Dividends payable	267,883	88,715	82,142	245,289
Payables for construction and purchase of fixed assets	206,498	257,534	236,463	207,463
Others	693,568	607,521	703,350	530,541
	3,252,610	2,872,115	2,808,127	2,439,491

Amounts due to fellow subsidiaries are unsecured, interest free and are expected to be settled within one year. The directors have confirmed that amounts due to fellow subsidiaries, which are of non-trade nature, will be settled prior to the Listing of the Company.

Dividends payable represent dividends declared by certain of the subsidiaries now comprising the Group and payable to the then owners.

30 OWNER'S EQUITY

The Group's owner's equity prior to establishment of the Company mainly represents the then capital and retained earnings/accumulated losses of the entities now comprising the Group and the equity contributions from or distributions to owner.

31 RETIREMENT BENEFIT OBLIGATIONS

In accordance with the labour regulations of the PRC, the Group participates in various defined contribution retirement schemes organised by the municipal and provincial governments for its employees. The Group is required to make contributions to the retirement schemes at rates ranging from 16.5% to 20% of the salaries, bonuses and certain allowances of the employees. A member of the scheme is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date.

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

32 NOTES TO COMBINED STATEMENTS OF CASH FLOWS

(a) Acquisition of subsidiaries

During the relevant periods, the Group acquired several subsidiaries as follows:

	Years ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Property, plant and equipment, net	71,266	9,771	34,245	34,245	41,948
Investment properties	273,646	—	15,837	15,837	10,323
Construction in progress	—	—	26,004	26,004	—
Lease prepayments	—	—	6,681	6,681	8,691
Intangible assets	—	—	77	77	1,227
Other investments	160,521	—	—	—	—
Inventories	53,625	28,385	393	393	14,068
Accounts and bills receivable, net	53,931	8,304	202,941	202,941	46,623
Prepayments and other current assets	366,441	48,617	116,220	116,220	31,133
Cash and cash equivalents	121,705	20,434	64,913	64,913	16,139
Interest-bearing borrowings	(185,000)	—	—	—	—
Accounts and bills payable	(61,700)	(21,056)	(4,970)	(4,970)	(39,104)
Accrued expenses and other payables	(383,198)	(12,709)	(94,015)	(94,015)	(25,598)
Income tax payable	(91,115)	—	(68,921)	(68,921)	(26)
Net identifiable assets and liabilities	380,122	81,746	299,405	299,405	105,424
Contributed by owner *(Note)*	(361,850)	(38,480)	(89,528)	(89,528)	(105,424)
Negative goodwill arising on consolidation	(11,292)	(39,370)	(158,813)	(158,813)	—
Total purchase price paid, satisfied in cash	6,980	3,896	51,064	51,064	—
Less: cash of the subsidiaries acquired	(121,705)	(20,434)	(64,913)	(64,913)	(16,139)
Net cash inflow in respect of the purchase of subsidiaries	(114,725)	(16,538)	(13,849)	(13,849)	(16,139)

Note:

These represent the acquisition of subsidiaries made by owner, being transferred to the Group by way of capital contribution.

(b) Major non-cash transactions

	Years ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Contributions in forms of property, plant and equipment, lease prepayments and other assets	738,702	127,080	467,862	217,842	203,128
Distributions in forms of property, plant and equipment, lease prepayments and other assets	—	—	367,095	108,458	222,806
Distribution of net assets to owner pursuant to the Restructuring (as described in Note 1(c))	—	—	—	—	1,430,962

33 COMMITMENTS AND CONTINGENT LIABILITIES

(i) Capital commitments

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

	December 31,			June 30,
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
— Authorised and contracted for	6,719	64,967	129,649	112,809
— Authorised but not contracted for	61,022	65,919	62,020	2,000

(ii) Operating lease commitments

At the balance sheet date, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	December 31,			June 30,
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	16,543	39,629	46,783	54,923
After 1 year but within 5 years	19,529	52,761	129,844	133,221
After 5 years	—	85	11	3,678
	36,072	92,475	176,638	191,822

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

(iii) Contingent liabilities

The Group had no contingent liabilities.

34 FINANCIAL INSTRUMENTS

Exposure to credit, interest and liquidity risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

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

The Group's major customers are CTC and its subsidiaries (collectively referred to as "CTC Group"), and China Mobile Limited. The Group has a certain concentration of credit risk as the Group's largest customer accounted for 63%, 55%, 58% and 54% of the total accounts and bills receivable as at December 31, 2003, 2004, 2005 and June 30, 2006. The Group has no significant credit risk with any of these customers since the Group maintains long-term and stable business relationships with these large customers in the telecommunications industry.

(b) Interest rate risk

The interest rates and terms of repayment of outstanding loans of the Group at balance sheet date are disclosed in Note 27.

(c) Liquidity risk

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

(d) Fair value

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

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

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

(e) Foreign currency risk

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

35 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.

(i) Construction contracts

As explained in Notes 2(n) and 2(v)(i) revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the 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 24 will not include profit which the Group may eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the balance sheet date, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

(ii) Impairment for bad and doubtful debts

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

(iii) Impairment on long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of long-lived assets as described in Note 2(l). The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of revenue and amount of operating costs. The 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.

36 RELATED PARTIES

The Group is part of a large group of companies under CTC and has significant transactions and relationships with members of CTC.

(a) Transactions with CTC

The Company has undergone a restructuring as described in Note 1(b).

(b) Transactions with CTC Group

The Group is part of a large group of companies under CTC, and has significant transactions and relationships with members of CTC. Because of these relationships, it is possible that the terms of those transactions are not the same as those that would result from transactions among unrelated parties.

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

		Years ended December 31,			Six months ended June 30,	
		2003	2004	2005	2005	2006
	Note	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Income from related parties:						
Engineering related services	(i)	3,387,771	3,468,660	3,326,337	1,712,591	1,730,638
IT application services	(ii)	110,662	133,439	106,422	17,031	40,421
Provision of ancillary telecommunications services	(iii)	948,604	1,380,071	1,496,072	649,961	1,029,468
Provision of operation support services	(iv)	877,841	895,585	1,015,466	440,454	443,961
Property leasing	(v)	32,637	38,311	38,783	24,533	17,889
Expenses paid to related parties:						
Property leasing charges	(vi)	23,523	27,331	35,962	16,390	22,498
IT application service charges	(vii)	93,892	101,391	176,796	69,547	82,824
Operation support service charges	(viii)	84,695	77,544	101,722	19,569	53,712
Interest paid	(ix)	4,864	2,947	2,954	1,353	2,116

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

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

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

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

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

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

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

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

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

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

	December 31,			June 30,
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Accounts and bills receivable, net	1,415,528	1,323,507	1,728,006	1,903,180
Prepayments and other current assets	453,371	888,726	1,320,403	782,032
Total amounts due from CTC Group	1,868,899	2,212,233	3,048,409	2,685,212
Interest-bearing borrowings	146,000	62,545	58,045	320,900
Accounts and bills payable	156,066	187,851	121,293	159,407
Receipts in advance for contract work	682,462	479,825	429,144	309,312
Accrued expenses and other payables	751,844	735,180	773,610	860,560
Total amounts due to CTC Group	1,736,372	1,465,401	1,382,092	1,650,179

Amounts due from/to CTC Group are unsecured, interest free and are expected to be recovered within one year (except for interest-bearing borrowings which is mentioned in Note 27). As at December 31, 2003, 2004 and 2005 and June 30, 2006, no impairment losses for bad and doubtful debts were recorded in respect of amounts due from CTC Group. The directors have confirmed that amounts due to/from CTC Group, which are of non-trade nature, will be settled prior to the listing of the Company.

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). The terms of the principal agreements impacting the results of operations of the Group are summarised as follow:

(1) The Group has entered into agreements with CTC pursuant to which the Group will provide 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 will provide CTC Group with telecommunications network support service, software and hardware development and other IT related services. The amounts to be charged for these services will be 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 will lease certain premises and other facilities to CTC Group, and vice versa. The rental charges will be based on market rate, with reference to amounts stipulated by local price bureau.

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

— government prescribed price;

— where there is no government prescribed prices but where there is a government guided price, the government guided price will apply;

— where there is neither a government prescribed price nor a government guided price, the market price will apply;

— where none of the above is available, the price is to be agreed between the relevant parties, which shall be based on the cost incurred in providing the services plus a reasonable profit margin.

(4) The Group has entered into agreement with CTC pursuant to which the Group will take the role as headquarter management function to manage assets of the telecommunications support business of provinces, municipalities and autonomous regions including Jiangsu, Anhui, Jiangxi, Sichuan, Chongqing, Hunan, Guizhou, Yunan, Guangxi, Shaanxi, Ningxia, Gansu, Qinghai, Xingjiang, Tibet and any assets retained by CTC after the Restructuring. The aggregate administrative costs incurred by the Group for the provision of the centralised services will be apportioned pro rata between the Group and CTC Group according to the net asset ratio of each of the relevant party.

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

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

— sales and purchase of goods, properties and other assets

— rendering and receiving services

— depositing and borrowing money

— use of public utilities

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

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

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

	December 31,			June 30,
	2003	2004	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and cash equivalents	5,342,938	4,511,617	3,682,502	2,439,000

	Years ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Interest income	51,148	57,318	59,982	27,969	16,974

(d) Transactions with key management personnel

Remuneration for key management personnel, including amounts paid to the Company's directors and supervisors as disclosed in Note 11 and certain of the highest paid employees as disclosed in Note 12, is as follows:

	Years ended December 31,			Six months ended June 30,	
	2003	2004	2005	2005	2006
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries and other emoluments	560	728	820	353	376
Retirement benefits	369	472	556	251	307
Bonuses	1,697	2,014	2,183	977	888
	2,626	3,214	3,559	1,581	1,571

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

(e) Contributions to defined contribution retirement plans

The Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff. The details of the Group's employee benefits plan are disclosed in Note 31. As at June 30, 2006, there was no material outstanding contribution to post-employment benefit plans.

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

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

Transactions with the Group's ten largest customers, which are state-controlled entities, amounting to approximately RMB6,718 million, RMB7,742 million, RMB8,756 million, RMB3,836 million and RMB4,407 million during the years ended December 31, 2003, 2004 and 2005 and the six months ended June 30, 2005 (unaudited) and 2006, respectively.

Transactions with the Group's ten largest suppliers, which are state-controlled entities, amounting to RMB226 million, RMB397 million, RMB289 million, RMB205 million and RMB278 million during the years ended December 31, 2003, 2004 and 2005 and the six months ended June 30, 2005 (unaudited) and 2006, respectively.

37 SEGMENTAL REPORTING

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

38 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ACCOUNTING PERIOD BEGINNING JANUARY 1, 2006

Up to the date of issue of these Financial Information, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period beginning January 1, 2006 and which have not been adopted in these Financial Information. Of these developments, the following relate to matters they may be relevant to the Group's operations and Financial Information:

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

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 amend disclosures, it is unlikely to have a significant impact on the Group's results of operations and financial position.

VI IMMEDIATE AND ULTIMATE HOLDING COMPANY

At June 30, 2006, the directors consider the immediate and ultimate holding company of the Group to be CTC, a stated-owned enterprise established in the PRC.

VII DIRECTORS' AND SUPERVISORS' REMUNERATION

Save as disclosed in Section V Note 11 above, no remuneration has been paid or is payable in respect of the relevant periods by the Company to the directors and supervisors of the Company. Under the arrangement presently in force, the estimated aggregate amount of directors' and supervisors' remuneration payable for the year ending December 31, 2006 is approximately RMB250,000, excluding management bonuses which are payable at the Company's discretion.

VIII SUBSEQUENT EVENTS

The Company was established in the PRC on August 30, 2006 as a joint stock limited company as part of the Restructuring of CTC, a state-owned enterprise under the direct supervision of the State Council of the PRC. Since the Company had not been legally incorporated as at June 30, 2006, there were no distributable reserves attributable to the equity owners as at June 30, 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 November 1, 2006, the directors have proposed and the shareholders have approved to distribute profit of the Group for the period from April 1, 2006 to August 29, 2006, being the calendar day immediately preceding of the date of incorporation of the Company.

In the same resolution, the directors have proposed and the shareholders have approved to distribute profit of the Group for the period from August 30, 2006 to the calendar day immediately preceding the Listing Date.

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 Group, together with a new agreement governing the provision of headquarter management function by the Company. Details are described in Note 36.

After incorporation of the Company, the Company acquired certain property, plant and equipment from CTC Group for a total consideration of RMB295 million.

IX BALANCE SHEET OF THE COMPANY

The Company was incorporated on August 30, 2006 with an authorised share capital of RMB3,960 million divided into 3,960 million shares of RMB1 each. The Company issued 3,623.4 million, 245.5 million and 91.1 million shares at par value RMB1 each to CTC, Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation, respectively, as a consideration for the transferring of the Predecessor Operations and injection of cash to the Company. All shares rank pari passu.

X SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to June 30, 2006.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong, China

The information set forth in this appendix does not form part of the Accountants' Report received from KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this prospectus, and is included herein for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set forth in Appendix I to this prospectus.

(A) UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted combined net tangible assets of the Group as at June 30, 2006 comprises the historical audited combined net tangible assets of the Group as at June 30, 2006, as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus and the adjustments described below.

The unaudited pro forma adjusted combined net tangible assets has been prepared to show the effect on the audited combined net tangible assets of the Group as at June 30, 2006 as if the Global Offering had occurred on June 30, 2006.

The unaudited pro forma adjusted combined net tangible assets of the Group has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial position of the Group.

	Audited combined net tangible assets as at June 30, 2006[1]	Estimated net proceeds from the Global Offering[2]	Unaudited pro forma adjusted combined net tangible assets[3]	Unaudited pro forma adjusted combined net tangible assets per Share	
	RMB'000	RMB'000	RMB'000	RMB	HK$
Based on the Offer Price of HK$1.70 for each Offer Share	4,922,684	2,089,970	7,012,654	1.34	1.30
Based on the Offer Price of HK$2.20 for each Offer Share	4,922,684	2,721,320	7,644,004	1.46	1.41

Notes:

1. The audited combined net tangible assets attributable to the equity owner as of June 30, 2006 is arrived at after deducting the intangible assets of RMB25,076,000 and the minority interests of RMB94,566,000 from the audited combined net assets of RMB5,042,326,000 as of June 30, 2006, as shown in the Accountants' Report set forth in Appendix I to this prospectus.

2. The estimated net proceeds from the Global Offering are based on the Offer Price of HK$1.70 or RMB1.75 per Share to HK$2.20 or RMB2.26 per Share, after deduction of the underwriting fees and other related expenses payable by the Company and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option.

3. The unaudited pro forma adjusted combined net tangible assets per Share is arrived at after the adjustments referred to item 2 above and on the basis that 5,251,293,000 Shares are in issue.

4. Other than the net assets (as included in the combined net assets of the Group as at June 30, 2006 as shown in the Accountants' Report set forth in Appendix I to this prospectus) contributed by China Telecommunications Corporation, China Telecommunications Corporation, Guangdong Telecom Industry and Zhejiang Telecom Industry (the Company's Promoters in accordance with the provisions set out in the PRC Company Law) made further cash contributions totalling approximately RMB980 million upon the incorporation of the Company.

   The calculation of the unaudited pro forma adjusted combined net tangible assets per Share has not taken into account of the foregoing cash contributions. If these cash contributions have been included in the above calculation, the unaudited pro forma adjusted combined net tangible asset value per Share would have been increased.

5. The calculation of the unaudited pro forma adjusted combined net tangible assets per Share has not taken into account of the 2006 Special Dividend (see "Financial Information — Dividend Policy" of the Prospectus). The directors have preliminarily estimated that the amount of such distribution would be approximately RMB600 million. If the 2006 Special Dividend has been included in the above calculation, the unaudited pro forma adjusted combined net tangible asset value per Share would have been reduced.

6. There is a net revaluation surplus of approximately RMB331,544,000, mainly relates to the valuation of lease prepayment which should be carried at cost. Accordingly, such surplus will not be included in the Group's financial statements for the year ending December 31, 2006. As such, the net revaluation surplus arising from the valuation of properties has not been included in the unaudited pro forma adjusted net tangible assets.

7. The translation of Renminbi into Hong Kong dollars has been made at the rate of RMB1.02942 to HK$1.00, the PBOC Rate prevailing on June 30, 2006. No representation is made that the Hong Kong dollar amounts have been, could have been or could be converted to Renminbi, or vice versa, at that rate or at any other rate or at all.

(B) UNAUDITED PRO FORMA FULLY DILUTED FORECAST EARNINGS PER SHARE

The following unaudited pro forma fully diluted forecast earnings per Share for the year ending December 31, 2006 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on January 1, 2006. This unaudited pro forma fully diluted forecast earnings per Share has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial results of the Group following the Global Offering.

Forecast profit attributable to shareholders of the Company for the year ending December 31, 2006[(1)]	not less than RMB650 million
Pro forma forecast earnings per Share — fully diluted[(2)]	RMB0.12 (HK$0.12)

Notes:

1. The forecast profit attributable to shareholders for the year ending December 31, 2006 is extracted from the section headed “Profit Forecast” in this prospectus set forth in Appendix III. The bases and assumptions on which the above profit forecast has been prepared are summarised in Appendix III to this prospectus.

   The forecast profit attributable to shareholders for the year ending December 31, 2006 is based on the audited combined financial statements for the six months ended June 30, 2006, the unaudited results for the three months ended September 30, 2006 and a forecast of our results for the three months ending December 31, 2006. The accounting policies adopted in the forecast are based on the International Financial Reporting Standards (“IFRS”) which are effective prior to the accounting periods beginning on or after January 1, 2007. The adoption of the new IFRSs does not have a significant impact on the Group’s results of operations and financial position compared to the significant accounting policies previously adopted in the preparation of the Group’s audited financial statements for each of the years ended December 31, 2003, 2004 and 2005 and for the six months period ended June 30, 2006. Such forecast profit attributable to shareholders of the Company for the year ending December 31, 2006 includes a deficit on a revaluation of property, plant and equipment of RMB105.3 million. If such deficit has been excluded, the forecast profit attributable to shareholders of the Company for the year ending December 31, 2006 will be not less than RMB755 million.

2. The calculation of the forecast earnings per Share on a pro forma fully diluted basis is based on the forecast profit attributable to shareholders for the year ending December 31, 2006 assuming that the Global Offering was completed on January 1, 2006 and a total of 5,251,293,000 shares were in issue during the entire year. This calculation assumes the Over-allotment Option is not exercised and 1,291,293,000 Offer Shares were issued by the Company on January 1, 2006. If such calculation excludes the aforementioned revaluation deficit, the forecast earnings per Share on a pro forma fully diluted basis will be RMB0.14 (HK$0.14).

(C) COMFORT LETTER ON UNAUDITED PRO FORMA FINANCIAL INFORMATION RELATING TO THE COMBINED ADJUSTED NET TANGIBLE ASSETS AND PRO FORMA FULLY DILUTED FORECAST EARNINGS PER SHARE

The following is the text of a report received from the reporting accountants of the Company, KPMG, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this prospectus, in respect of the unaudited pro forma financial information of the Group.

KPMG

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

November 27, 2006

The Directors
China Communications Services Corporation Limited
China International Capital Corporation (Hong Kong) Limited
Goldman Sachs (Asia) L.L.C.

Dear Sirs,

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of the Group set out in parts A and B of Appendix II to the prospectus dated November 27, 2006 (the "Prospectus"), which has been prepared by the directors of the Company solely for illustrative purposes to provide information about how the Global Offering might have affected the financial information presented. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in parts A and B of Appendix II to the Prospectus.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements ("HKSIR") 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at June 30, 2006 or any future date; or
- the earnings per share of the Group for the year ending December 31, 2006 or any future periods.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described under "Future Plans and Use of Proceeds" set out in the Prospectus.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group, and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong, China

Our forecast net profit attributable to shareholders of the Group for the year ending December 31, 2006 is set forth in the section headed “Financial Information — Profit Forecast”.

A. BASES AND ASSUMPTIONS

Our Directors have prepared the forecast net profit attributable to shareholders of the Group for the year ending December 31, 2006 on the basis of the audited combined results of the Group for the six months ended June 30, 2006, its unaudited results for the three months ended September 30, 2006 and a forecast results for the remaining three months to December 31, 2006. The forecast has been prepared based on the following principal assumptions:

- there will be no material change in existing political, legal, fiscal, market or economic conditions in the PRC or any other country or territory in which we currently operate or which are otherwise material to our revenues;

- there will be no changes in legislation, regulations or rules in the PRC or any other country or territory in which we operate or with which we have arrangements or agreements, which materially adversely affect our business;

- there will be no material change in the bases or rates of taxation in the PRC or any country or territory in which we operate, except as otherwise disclosed in this prospectus;

- there will be no material changes in inflation rates, interest rates or foreign currency exchange rates from those currently prevailing;

- there will be no material changes in tariffs setting that will have a material adverse effect on our business; and

- the Group’s operations will not be adversely affected by occurrences such as labor shortages and disputes, or any other factors outside the control of its management. In addition, the Group will be able to recruit enough employees to meet its operating requirements during the forecast period.

The accounting policies adopted in the profit forecast are based on the International Financial Reporting Standards (“IFRS”) which are effective prior to the accounting periods beginning on or after January 1, 2007.

B. LETTER FROM THE REPORTING ACCOUNTANTS

The following is the text of a letter received from the reporting accountants of the Company, KPMG, Certified Public Accountants, Hong Kong for the purpose of incorporation in this prospectus in connection with the profit forecast for the year ending December 31, 2006.

KPMG

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

November 27, 2006

The Directors
China Communications Services Corporation Limited
China International Capital Corporation (Hong Kong) Limited
Goldman Sachs (Asia) L.L.C.

Dear Sirs,

We have reviewed the accounting policies and calculations adopted in arriving at the forecast net profit attributable to shareholders of China Communications Services Corporation Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ending December 31, 2006 (the "Forecast"), for which the Directors of the Company are solely responsible, as set out in the prospectus dated November 27, 2006 issued by the Company (the "Prospectus").

The Forecast has been prepared by the Directors based on the audited combined results of the Group for the six months ended June 30, 2006, its unaudited results for the three months ended September 30, 2006 and a forecast results for the remaining three months ending December 31, 2006.

In our opinion, so far as the accounting policies and calculations are concerned, the Forecast has been properly compiled on the bases and assumptions made by the Directors as set out in Part A of Appendix III to the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies currently adopted by the Group as set out in our Accountants' Report dated November 27, 2006, the text of which is set out in Appendix I to the Prospectus.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong, China

C. LETTER FROM THE JOINT SPONSORS

Set out below is the texts of a letter received from the Joint Sponsors for the purpose of incorporation in this prospectus in connection with the profit forecast for the year ending December 31, 2006.

China International Capital Corporation (Hong Kong) Limited
Suite 2307, 23rd Floor
One International Finance Centre
1 Harbour View Street, Central
Hong Kong

Goldman Sachs (Asia) L.L.C.
68th Floor
Cheung Kong Center
2 Queen's Road Central
Hong Kong

November 27, 2006

The Directors
China Communications Services Corporation Limited

Dear Sirs,

We refer to the forecast net profit attributable to shareholders of China Communications Services Corporation Limited (the "Company") and its subsidiaries (the "Group") for the year ending December 31, 2006 (the "Forecast") as set out in the section headed "Financial Information — Profit forecast for the financial year ending December 31, 2006" in the prospectus of the Company dated November 27, 2006 (the "Prospectus").

We have discussed with you the bases and assumptions made by the Directors of the Company as set out in Section (A) of Appendix III to the Prospectus upon which the Forecast has been made. We have also considered the letter dated November 27, 2006 addressed to yourselves and ourselves from KPMG regarding the accounting policies and calculations upon which the Forecast has been made.

On the basis of the information comprising the Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by KPMG, we are of the opinion that the Forecast, for which you as Directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,

For and on behalf of
China International Capital Corporation (Hong Kong) Limited
Jiang Yong
Managing Director

For and on behalf of
Goldman Sachs (Asia) L.L.C.
Hsueh Ming Wang
Managing Director

The following is the text of a letter, summary of values and valuation certificate, prepared for the purpose of incorporation in this prospectus received from Savills Valuation and Professional Services Limited, an independent property valuer, in connection with their valuation as at September 30, 2006 of our property interests of the Group. A copy of the full valuation report will be made available for public inspection.

savills
第一太平戴維斯

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

23/F Two Exchange Square
Central, Hong Kong

EA LICENCE: C-023750
savills.com

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

November 27, 2006

Dear Sirs

In accordance with your instructions for us to value the property interests held by China Communications Services Corporation Limited (中國通信服務股份有限公司) (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") in the People's Republic of China ("the PRC") and Hong Kong, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property interests as at September 30, 2006.

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

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

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

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

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

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

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

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

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

In preparing our valuation report, we have complied with the requirements contained within the provisions of Chapter 5, Practice Notes 12 and 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except for those in respect of Rules 5.01, 5.06 and 5.07, paragraph 5(2)(a) of Practice Note 12, paragraphs 3(b)(1), 3(b)(3) and 3(c) of Practice Note 16 Wavier applications were being made to the Stock Exchange in respect of the aforesaid specific sections of the rules and relevant requirements in the announcement.

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

Our summary of values and valuation certificate are attached herewith.

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

Note: Charles C K Chan, Chartered Estate Surveyor, MSc, FRICS, FHKIS, MCIArb, RPS(GP), has about 18 years' experience in the valuation of properties in the PRC and about 21 year's experience in the valuation of properties in Hong Kong.

SUMMARY OF VALUES

No.	Property	Market Value in existing state as at September 30, 2006
		RMB
	Group I — Property interests held by the Group in the PRC	
1.	Properties in Shanghai Municipality, the PRC	256,900,000
2.	Properties in Guangdong Province, the PRC	931,600,000
3.	Properties in Zhejiang Province, the PRC	516,100,000
4.	Properties in Hubei Province, the PRC	135,200,000
5.	Properties in Fujian Province, the PRC	128,100,000
	Sub-total:	1,967,900,000
	Group II — Property interests held by the Group under development in the PRC	
6.	Properties in Guangdong Province, the PRC	168,300,000
7.	Properties in Zhejiang Province, the PRC	41,800,000
	Sub-total:	210,100,000
	Group III — Property interests rented by the Group in the PRC and Hong Kong	
8.	Properties in Shanghai Municipality, the PRC	No commercial value
9.	Properties in Guangdong Province, the PRC and Hong Kong	No commercial value
10.	Properties in Zhejiang Province, the PRC	No commercial value
11.	Properties in Hainan Province, the PRC	No commercial value
12.	Properties in Hubei Province, the PRC	No commercial value
13.	Properties in Fujian Province, the PRC	No commercial value
	Grand-total:	**2,178,000,000**

VALUATION CERTIFICATE

Group I — Property interests held by the Group in the PRC

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at September 30, 2006
1.	Properties in Shanghai Municipality, the PRC	The properties comprise 10 parcels of land with a total site area of approximately 15,273.96 sq. m. (164,409 sq. ft.), 10 commercial buildings and units, and 2 other buildings and units with a total gross floor area of approximately 25,516.58 sq. m. (274,600 sq. ft.), mainly completed between 1984 and 2006. Details of types of land and the approximate site areas are shown as follows: **Type** / **Site Area (sq. m.)** Granted Lands: 5,571.96 Authorized Lands: 9,702.00 Total: 15,273.96 (Please see note 1 for the definition of Granted Lands and Authorized Lands) Details of the uses and the approximate gross floor areas of the building portion of the properties are shown as follows: **Type** / **Approximate Gross Floor Area (sq. m.)** Commercial: 25,474.58 Others: 42.00 Total: 25,516.58	The properties are occupied by the Group for office and other ancillary uses.	RMB256,900,000 (Interest attributable to the Group: RMB253,640,000)

Notes:

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

2. The properties comprise 3 parcels of Authorized Lands with a total site area of approximately 9,702 sq. m. and 7 parcels of Granted Lands with a total site area of approximately 5,571.96 sq. m.

3. Among the buildings and units of the properties, 5 buildings and units with a total gross floor area of approximately 12,432.02 sq. m. were erected on Authorized Lands and 7 buildings and units with a total gross floor area of approximately 13,084.56 sq. m. were erected on Granted Lands.

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

   Land Use Rights

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

   (ii) Authorized Lands — after China Telecom Group has obtained the land use rights of the Authorized Lands. China Telecom Group is entitled to dispose of the Authorized Lands by means of capital contribution or lease to its directly held enterprises, subsidiaries and associated enterprises. After the capital contribution from China Telecom Group, the Group will apply for the change of the names of registered owner of the Land Use Rights Certificates of the Authorized Lands to the name of the Group. There should be no legal impediment for such application. After the change of the names of registered owner, the Group is entitled to transfer, lease, mortgage or dispose of the Authorised Land by other means.

   Buildings

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

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

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at September 30, 2006
2.	Properties in Guangdong Province, The PRC	The properties comprise 202 parcels of land with a total site area of approximately 109,878.53 sq. m. (1,182,732 sq. ft.), 113 commercial buildings and units, 14 warehouse and 97 other buildings and units with a total gross floor area of approximately 263,341.54 sq. m. (2,834,608 sq. ft.), mainly completed between 1976 and 2006.	Portion of the properties are leased to other parties. Please refer to note (4) for details. The remaining portion of the properties are occupied by the Group for office, retail outlets, warehouse and other ancillary uses.	RMB931,600,000 (Interest attributable to the Group: RMB925,007,017)

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

Type	Site Area (sq. m.)
Granted Lands	98,557.53
Authorized Lands	11,145.30
Allocated Land	175.70
Total	109,878.53

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

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

Type	Approximate Gross Floor Area (sq. m.)
Commercial	229,300.97
Warehouse	3,822.41
Others	30,218.16
Total	263,341.54

Notes:

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

2. The properties comprise 16 parcels of Authorized Lands with a total site area of approximately 11,145.30 sq. m., 2 parcels of Allocated Lands with a total site area of approximately 175.70 sq. m. and 184 parcels of Granted Lands with a total site area of approximately 98,557.53 sq. m. We have not included the values of the Allocated Lands and the buildings erected on Allocated Lands in our valuation.

3. Among the buildings and units of the properties, 25 buildings and units with a total gross floor area of approximately 44,770.27 sq. m. were erected on Authorized Lands, 2 buildings and units with a total gross floor area of approximately 1,432.17 sq. m. were erected on Allocated Lands and 197 buildings and units with a total gross floor area of approximately 217,139.10 sq. m. were erected on Granted Lands. We have not included the values of various portion of Nanfang Communication Building in Guangzhou with a gross floor area of approximately 27,734.51 sq. m. in our valuation.

4. According to the information provided, 111 buildings and units of the properties with a total gross floor area of approximately 43,625.74 sq. m. are subject to various tenancies at a total annual rental of about RMB15,902,000.

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

   Land Use Rights

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

   (ii) Authorized Lands — after China Telecom Group has obtained the land use rights of the Authorized Lands. China Telecom Group is entitled to dispose of the Authorized Lands by means of capital contribution or lease to its directly held enterprises, subsidiaries and associated enterprises. After the capital contribution from China Telecom Group, the Group will apply for the change of the names of registered owner of the Land Use Rights Certificates of the Authorized Lands to the name of the Group. There should be no legal impediment for such application. After the change of the names of registered owner, the Group is entitled to transfer, lease, mortgage or dispose of the Authorised Land by other means.

   (iii) Allocated Lands — the nature of the lands is allocative land and the uses of the lands are for civil-protection, car park, facilities room and residential. As confirmed by the Group, the Group will apply for the grant of the land use rights of these lands.

   Buildings

   (iv) Buildings erected on Granted Lands — the Group has acquired the building ownership of these buildings and is entitled to transfer, lease, mortgage or dispose of these buildings by other means.

   (v) Buildings erected on Authorized Lands and Allocated Lands — the Group has acquired the building ownership of these buildings and is entitled to transfer, lease, mortgage or dispose of these buildings by other means under relevant laws and regulations.

   (vi) The Building Ownership Certificates for various portions of Nanfang Communication Building in Guangzhou with a total gross floor area of 27,734.51 sq. m. have not been issued and the Group has not acquired the ownership of these portions. China Telecom Group has undertaken to the Group to obtain the relevant Building Ownership Certificates before the listing of the Company. China Telecom Group has agreed to responsible for any costs, expenses and loss arising from the application of the relevant Building Ownership Certificate.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at September 30, 2006
3.	Properties in Zhejiang Province, The PRC	The properties comprise 19 parcels of land with a total site area of approximately 68,394.66 sq. m. (736,200 sq. ft.), 40 commercial buildings and units, 5 warehouse and 11 other buildings and units with a total gross floor area of approximately 92,500.30 sq. m. (995,673 sq. ft.), mainly completed between 1961 and 2005.	Portion of the properties are leased to other parties. Please refer to note (4) for details. The remaining portion of the properties are occupied by the Group for office, warehouse and other ancillary uses.	RMB516,100,000 (Interest attributable to the Group: RMB471,500,000)

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

Type	Site Area (sq. m.)
Granted Lands	41,859.29
Authorized Lands	26,535.37
Total	68,394.66

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

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

Type	Approximate Gross Floor Area (sq. m.)
Commercial	69,766.26
Warehouse	1,521.40
Others	21,212.64
Total	92,500.30

Notes:

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

2. The properties comprise 5 parcels of Authorized Lands with a total site area of approximately 26,565.37 sq. m. and 14 parcels of Granted Lands with a total site area of approximately 41,859.29 sq. m.

3. Among the buildings and units of the properties, 17 buildings and units with a total gross floor area of approximately 21,826.36 sq. m. were erected on Authorized Lands and 39 buildings and units with a total gross floor area of approximately 70,673.94 sq. m. were erected on Granted Lands.

4. According to the information provided, 5 buildings and units of the properties with a total gross floor area of approximately 12,261.47 sq. m. are subject to various tenancies at a total annual rental of about RMB1,815,000.

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

   Land Use Rights

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

   (ii) Authorized Lands — after China Telecom Group has obtained the land use rights of the Authorized Lands. China Telecom Group is entitled to dispose of the Authorized Lands by means of capital contribution or lease to its directly held enterprises, subsidiaries and associated enterprises. After the capital contribution from China Telecom Group, the Group will apply for the change of the names of registered owner of the Land Use Rights Certificates of the Authorized Lands to the name of the Group. There should be no legal impediment for such application. After the change of the names of registered owner, the Group is entitled to transfer, lease, mortgage or dispose of the Authorised Land by other means.

   Buildings

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

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

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at September 30, 2006
4.	Properties in Hubei Province, The PRC	The properties comprise 6 parcels of land with a total site area of approximately 27,131.76 sq. m. (292,046 sq. ft.), 25 commercial buildings and units and another unit with a total gross floor area of approximately 38,155.11 sq. m. (410,702 sq. ft.), mainly completed between 1955 and 2003.	Portion of the properties are leased to other parties. Please refer to note (4) for details. The remaining portion of the properties are occupied by the Group for office, operation and other ancillary uses.	RMB135,200,000 (Interest attributable to the Group: RMB135,200,000)

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

Type	Site Area (sq. m.)
Granted Lands	11,660.05
Authorized Lands	15,471.71
Total	27,131.76

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

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

Type	Approximate Gross Floor Area (sq. m.)
Commercial	38,088.25
Others	66.86
Total	38,155.11

Notes:

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

2. The properties comprise 4 parcels of Authorized Lands with a total site area of approximately 15,471.71 sq. m. and 2 parcels of Granted Lands with a total site area of approximately 11,660.05 sq. m.

3. Among the buildings and units of the properties, 22 buildings and units with a total gross floor area of approximately 26,578.11 sq. m. were erected on Authorized Lands and 4 buildings and units with a total gross floor area of approximately 11,577.00 sq. m. were erected on Granted Lands.

4. According to the information provided, 2 buildings and units of the properties with a total gross floor area of approximately 4,576.77 sq. m. are subject to various tenancies at a total annual rental of about RMB4,330,000.

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

   Land Use Rights

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

   (ii) Authorized Lands — after China Telecom Group has obtained the land use rights of the Authorized Lands. China Telecom Group is entitled to dispose of the Authorized Lands by means of capital contribution or lease to its directly held enterprises, subsidiaries and associated enterprises. After the capital contribution from China Telecom Group, the Group will apply for the change of the names of registered owner of the Land Use Rights Certificates of the Authorized Lands to the name of the Group. There should be no legal impediment for such application. After the change of the names of registered owner, the Group is entitled to transfer, lease, mortgage or dispose of the Authorised Land by other means.

   Buildings

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

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

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at September 30, 2006
5. Properties in Fujian Province, The PRC	The properties comprise 8 parcels of land with a total site area of approximately 21,182.47 sq. m. (228,008 sq. ft.), 10 commercial buildings and units, 6 warehouses and 2 other buildings and units with a total gross floor area of approximately 38,643.85 sq. m. (415,962 sq. ft.), mainly completed between 1964 and 2002.	Portion of the properties are leased to other parties. Please refer to note (4) for details. The remaining portion of the properties are occupied by the Group for office, retail outlets, warehouse and other ancillary uses.	RMB128,100,000 (Interest attributable to the Group: RMB128,100,000)

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

Type	Site Area (sq. m.)
Granted Lands	2,768.80
Authorized Lands	18,413.67
Total	21,182.47

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

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

Type	Approximate Gross Floor Area (sq. m.)
Commercial	36,884.15
Warehouse	1,189.40
Others	570.30
Total	38,643.85

Notes:

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

2. The properties comprise 3 parcels of Authorized Lands with a total site area of approximately 18,413.67 sq. m. and 5 parcels of Granted Lands with a total site area of approximately 2,768.80 sq. m.

3. Among the buildings and units of the properties, 12 buildings and units with a total gross floor area of approximately 12,200.16 sq. m. were erected on Authorized Lands and 6 buildings and units with a total gross floor area of approximately 26,443.69 sq. m. were erected on Granted Lands.

4. According to the information provided, portion of one of the buildings and units of the properties with a total gross floor area of approximately 16,212.14 sq. m. are subject to various tenancies at a total annual rental of about RMB402,000.

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

   Land Use Rights

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

   (ii) Authorized Lands — after China Telecom Group has obtained the land use rights of the Authorized Lands. China Telecom Group is entitled to dispose of the Authorized Lands by means of capital contribution or lease to its directly held enterprises, subsidiaries and associated enterprises. After the capital contribution from China Telecom Group, the Group will apply for the change of the names of registered owner of the Land Use Rights Certificates of the Authorized Lands to the name of the Group. There should be no legal impediment for such application. After the change of the names of registered owner, the Group is entitled to transfer, lease, mortgage or dispose of the Authorised Land by other means.

   Buildings

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

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

VALUATION CERTIFICATE

Group II – Property interests held by the Group under development in the PRC

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at September 30, 2006
6.	Properties in Guangdong Province, The PRC	The properties comprise two projects or units under construction. Upon completion, the total gross floor area of the buildings will be approximately 60,862.00 sq. m. (655,118.57 sq. ft.). The projects will be erected on a parcel of Granted Lands with a site area of approximately 45,461.00 sq. m. (489,342 sq. ft.) and a parcel of Authorized Lands with a site area of approximately 4,660.69 sq. m. (50,168 sq. ft.) (Please see note 1 for the definition of Granted Lands and Authorized Lands).	The properties are currently under construction. Upon completion, the properties will be occupied by the Group for office, retail outlets and other ancillary uses.	RMB168,300,000 (Interest attributable to the Group: RMB168,185,161)

Notes:

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

2. The properties comprise a parcel of Granted Lands with a site area of approximately 45,461.00 sq. m. and a parcel of Authorized Lands with site area of approximately 4,660.69 sq. m.

3. As at the date of valuation, a total construction cost of approximately RMB168,204,000 has been incurred and the properties are scheduled to be completed in 2006 and 2007.

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

   Land Use Rights

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

   (ii) Authorized Lands — after China Telecom Group has obtained the land use rights of the Authorized Lands. China Telecom Group is entitled to dispose of the Authorized Lands by means of capital contribution or lease to its directly held enterprises, subsidiaries and associated enterprises. After the capital contribution from China Telecom Group, the Group will apply for the change of the names of registered owner of the Land Use Rights Certificates of the Authorized Lands to the name of the Group. There should be no legal impediment for such application. After the change of the names of registered owner, the Group is entitled to transfer, lease, mortgage or dispose of the Authorised Land by other means.

   Buildings under construction

   (iii) The Group has obtained the approval and permits for the development of the properties.

   (iv) The Group can apply for the relevant Building Ownership Certificates for the construction works upon completion.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at September 30, 2006
7.	Property in Zhejiang Province, The PRC	The property comprises an office building which is under construction. Upon completion, the total gross floor area of the building will be approximately 17,000 sq. m. (182,988 sq. ft.). The land of the property is a Granted Land with a site area of approximately 4,273 sq. m. (45,995 sq. ft.). (Please see note 1 for the definition of Granted Lands) The land use rights of the property are granted for a term of 50 years fro composite uses.	The property is currently under construction. Upon completion, the property will be occupied by the Group for office and other ancillary uses.	RMB41,800,000 (Interest attributable to the Group: RMB41,800,000)

Notes:

1. The land use rights of the property is held by the Group with granted land use rights certificate ("Granted Land").

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

Land Use Rights

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

Buildings under construction

(ii) The Group has obtained the approval and permits for the development of the property.

(iii) The Group can apply for the relevant Building Ownership Certificate for the construction works upon completion.

VALUATION CERTIFICATE

Group III – Property interests rented by the Group in the PRC

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at September 30, 2006
8.	Properties in Shanghai Municipality, The PRC	The properties comprise 88 various operational and ancillary buildings and units with a total gross floor area of approximately 60,670.91 sq. m. (653,062 sq. ft.) mainly completed between 1936 and 2004. Details of the approximate gross floor areas of the properties are shown as follows: **Type** / **Gross Floor Area (sq. m.)** Commercial 43,704.98 Warehouse 2,210.00 Others 14,755.93 Total 60,670.91 The properties are subject to various tenancy agreements for respective terms at a total annual rental of approximately RMB25,345,000.	The properties are currently occupied by the Group for office, retail outlets, production and other ancillary uses.	No commercial value

Notes:

1. 88 various operational and ancillary buildings and units of the properties with a total gross floor area of approximately 60,670.91 sq. m. are leased to the Group for various terms at a total annual rental equivalent to RMB25,345,000. The tenancies are due to expire between 2006 and 2010.

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

   (i) The Group leased 88 buildings and units with a total floor area of 60,670.91 sq. m.

   (ii) The landlords of 77 buildings and units of the properties have acquired the relevant building ownership certificates and is entitled to lease their properties.

   (iii) The lessors of the remaining 11 buildings and units of the properties do not have ownership to these properties and as such the relevant tenancy agreement are not strict enforcement right at law. The Group therefore is not lawful in occupying these properties.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at September 30, 2006
9.	Properties in Guangdong Province, The PRC and Hong Kong	The properties comprise 547 various operational and ancillary buildings and units with a total gross floor area of approximately 286,459.70 sq. m. (3,083,452 sq. ft.) mainly completed between 1936 and 2006. Details of the approximate gross floor areas of the properties are shown as follows:	The properties are currently occupied by the Group for office, retail outlets, dormitory and other ancillary uses.	No commercial value

Type	Approximate Gross Floor Area (sq. m.)
Commercial	220,071.49
Warehouse	23,076.87
Others	43,311.35
Total	286,459.71

The properties are subject to various tenancy agreements for various terms at a total annual rental of approximately RMB58,603,900.

Notes:

1. 547 various operational and ancillary buildings and units of the properties with a total gross floor area of approximately 286,459.71 sq. m. are leased to the Group for various terms at a total annual rental equivalent to RMB58,603,900. The tenancies are due to expire between 2010 and 2050.

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

   (i) The Group leased 547 buildings and units with a total floor area of 286,459.71 sq. m.

   (ii) The landlords of 228 buildings and units of the property have acquired the relevant building ownership certificates and is entitled to lease their properties.

   (iii) The lessors of the remaining 319 buildings and units of the properties do not have ownership to these properties and as such the relevant tenancy agreement are not strict enforcement right at law. The Group therefore is not lawful in occupying these properties.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at September 30, 2006
10. Properties in Zhejiang Province, The PRC	The properties comprise 81 various operational and ancillary buildings and units with a total gross floor area of approximately 81,211.04 sq. m. (874,156 sq. ft.) mainly completed between 1960 and 2004.	The properties are currently occupied by the Group for office, retail outlets, dormitory and other ancillary uses.	No commercial value
	Details of the approximate gross floor areas of the properties are shown as follows:		

Type	Approximate Gross Floor Area (sq. m.)
Commercial	77,242.64
Warehouse	2,800.00
Others	1,168.40
Total	81,211.04

The properties are subject to various tenancy agreements for respective terms at a total annual rental of approximately RMB15,800,000.

Notes:

1. 81 various operational and ancillary buildings and units of the properties with a total gross floor area of approximately 81,211.04 sq. m. are leased to the Group for various terms at a total annual rental equivalent to RMB15,800,000. The tenancies are due to expire between 2007 and 2008.

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

   (i) The Group leased 81 buildings and units with a total floor area of 81,211.04 sq. m.

   (ii) The landlords of 79 buildings and units of the property have acquired the relevant building ownership certificates and is entitled to lease their properties.

   (iii) The lessors of the remaining 2 buildings and units of the properties do not have ownership to these properties and as such the relevant tenancy agreement are not strict enforcement right at law. The Group therefore is not lawful in occupying these properties.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at September 30, 2006
11.	Properties in Hainan Province, The PRC	The properties comprise 25 various operational and ancillary buildings and units with a total gross floor area of approximately 6,238.93 sq. m. (67,156 sq. ft.) mainly completed in 1980's and 1990's. Details of the approximate gross floor areas of the properties are shown as follows: **Type** / **Approximate Gross Floor Area (sq. m.)** Commercial: 5,946.93 Others: 292.00 Total: 6,238.93 The properties are subject to various tenancy agreements for respective terms at a total annual rental of approximately RMB1,096,000.	The properties are currently occupied by the Group for office and dormitory and uses.	No commercial value

Notes:

1. 25 various operational and ancillary buildings and units of the properties with a total gross floor area of approximately 6,238.93 sq. m. are leased to the Group for various terms at a total annual rental equivalent to RMB1,096,000. Majority of the tenancies are due to expire between 2006 and 2009.

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

   (i) The Group leased 25 buildings and units with a total floor area of 6,238.93 sq. m.

   (ii) The landlords of 17 buildings and units of the property have acquired the relevant building ownership certificates and is entitled to lease their properties.

   (iii) The lessors of the remaining 8 buildings and units of the properties do not have ownership to these properties and as such the relevant tenancy agreement are not strict enforcement right at law. The Group therefore is not lawful in occupying these properties.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at September 30, 2006
12.	Properties in Hubei Province, The PRC	The properties comprise 12 various operational and ancillary buildings and units with a total gross floor area of approximately 21,719.97 sq. m. (233,794 sq. ft.) mainly completed between 1956 and 2005. Details of the approximate gross floor areas of the properties are shown as follows: **Type** / **Approximate Gross Floor Area (sq. m.)** Commercial: 21,719.97 Total: 21,719.97 The properties are subject to various tenancy agreements for respective terms at a total annual rental of approximately RMB6,870,000.	The properties are currently occupied by the Group for office, retail outlets and other ancillary uses.	No commercial value

Notes:

1. 12 various operational and ancillary buildings and units of the properties with a total gross floor area of approximately 21,719.97 sq. m. are leased to the Group for various terms at a total annual rental equivalent to RMB6,870,000. The tenancies are due to expire between 2007 and 2010.

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

   (i) The Group leased 12 buildings and units with a total floor area of 21,719.97 sq. m.

   (ii) The landlords of 8 buildings and units of the property have acquired the relevant building ownership certificates and is entitled to lease their properties.

   (iii) The lessors of the remaining 4 buildings and units of the properties do not have ownership to these properties and as such the relevant tenancy agreement are not strict enforcement right at law. The Group therefore is not lawful in occupying these properties.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at September 30, 2006
13.	Properties in Fujian Province, The PRC	The properties comprise 98 various operational and ancillary buildings and units with a total gross floor area of approximately 29,186.55 sq. m. (314,164 sq. ft.) mainly completed between 1989 and 2003. Details of the approximate gross floor areas of the properties are shown as follows:	The properties are currently occupied by the Group for office, retail outlets and other ancillary uses.	No commercial value

Type	Approximate Gross Floor Area (sq. m.)
Commercial	28,076.55
Others	1,110.00
Total	29,186.55

The properties are subject to various tenancy agreements for respective terms at a total annual rental of approximately RMB2,880,000.

Notes:

1. 98 various operational and ancillary buildings and units of the properties with a total gross floor area of approximately 29,186.55 sq. m. are leased to the Group for various terms at a total annual rental equivalent to RMB2,880,000. The tenancies are due to expire between 2007 and 2011.

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

   (i) The Group leased 98 buildings and units with a total floor area of 29,186.55 sq. m.

   (ii) The landlords of 43 buildings and units of the property have acquired the relevant building ownership certificates and is entitled to lease their properties.

   (iii) The lessors of the remaining 55 buildings and units of the properties do not have ownership to these properties and as such the relevant tenancy agreement are not strict enforcement right at law. The Group therefore is not lawful in occupying these properties.

TAXATION OF SECURITY HOLDERS

The taxation of income and capital gains of holders of H Shares is subject to the laws and practices of the PRC and of jurisdictions in which holders of H Shares are resident or otherwise subject to tax. The following summary of certain relevant taxation provisions is based on current law and practice, is subject to change and does not constitute legal or tax advice. The discussion does not deal with all possible tax consequences relating to an investment in the H Shares. Accordingly, you should consult your own tax adviser regarding the tax consequences of an investment in the H Shares. The discussion is based upon laws and relevant interpretations in effect as of the date of this prospectus, all of which are subject to change.

THE PRC

The following is a summary of certain PRC tax provisions relating to the ownership and disposition of H Shares purchased in connection with the Global Offering and held by the investors as capital assets. This summary does not purport to address all material tax consequences of the ownership of H Shares, and does not take into account the specific circumstances of any particular investor. This summary is based on the tax laws of the PRC as in effect on the date of this prospectus, all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

This discussion does not address any aspects of PRC taxation other than income taxation, capital taxation, stamp taxation and estate taxation. Prospective investors are urged to consult their tax advisors regarding PRC, Hong Kong and other tax consequences of owning and disposing of H Shares.

Taxation of dividends

Individual investors. According to the Provisional Regulations of the PRC Concerning Questions of Taxation on Enterprises Experimenting with the Share System, or the Provisional Regulations, and the Individual Income Tax Law of the PRC, as amended on October 31, 1993 and effective January 1, 1994, amended on August 30, 1999 and further amended on October 27, 2005 and effective on January 1, 2006, dividends paid by PRC companies are ordinarily subject to a PRC withholding tax levied at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, the receipt of dividends from a company in the PRC is normally subject to a withholding tax of 20% unless reduced by an applicable tax treaty. However, the State Administration of Taxation, or the SAT, the PRC central government tax authority which succeeded the State Tax Bureau, issued, on July 21, 1993, a Notice of the State Administration of Taxation Concerning the Taxation of Gains on Transfer and Dividends from Share (Equities) Received by Foreign Investment Enterprises, Foreign Enterprises and Foreign Individuals, or the Tax Notice, which states that dividends paid by a PRC company to individuals with respect to shares listed on an overseas stock exchange, or overseas shares, such as our H Shares, are not subject, to PRC withholding tax. The relevant tax authority has not collected withholding tax on dividend payments on overseas shares, including H Shares.

The Amendments to the Individual Income Tax Law of the PRC, or the Amendments, were promulgated on October 31, 1993 and became effective on January 1, 1994. The Amendments state that they shall supersede the provisions of any contradictory prior administrative regulations concerning individual income tax. Under the requirements of the Amendments and the amended

Individual Income Tax Law, foreign individuals are subject to withholding tax on dividends paid by a PRC company at a rate of 20% unless specifically exempted by the tax authority of the State Council. However, in a letter dated July 26, 1994 to the former State Commission for Restructuring the Economic System, the former State Council Securities Commission and the China Securities Regulatory Commission, the SAT reiterated the temporary tax exemption stated in the Tax Notice for dividends received from a PRC company listed overseas. In the event that this letter is withdrawn, a 20% tax may be withheld on dividends in accordance with the Provisional Regulations, the Amendments and the Individual Income Tax Law. The withholding tax may be reduced under an applicable double taxation treaty. To date, the relevant tax authorities have not collected withholding tax from dividend payments on the shares exempted under the Tax Notice.

Enterprises. According to the Income Tax Law of the PRC Concerning Foreign Investment Enterprises and Foreign Enterprises, dividends paid by PRC companies to enterprises are ordinarily subject to a PRC withholding tax levied at a flat rate of 20%. However, according to the Tax Notice, a foreign enterprise with no permanent establishment in the PRC receiving dividends paid with respect to a PRC company's Overseas Shares will temporarily not be subject to the 20% withholding tax. If the withholding tax becomes applicable in the future, the rate could be reduced under an applicable double-taxation treaty.

Tax treaties. Investors who do not reside in the PRC and reside in countries that have entered into treaties for the avoidance of double-taxation with the PRC may be entitled to a reduction of the withholding tax imposed on the payment of dividends to investors of the Company who do not reside in the PRC. The PRC currently has treaties for the avoidance of double-taxation with a number of other countries, which include Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States.

Taxation of capital gains

The Tax Notice provides that gains realized by enterprises that are holders of Overseas Shares would, temporarily, not be subject to capital gains taxes. With respect to individual holders of H Shares, the Provisions for Implementation of Individual Income Tax Law of the PRC, or the Provisions, issued on January 28, 1994, as amended on December 19, 2005 stipulated that gains realized on the sale of equity shares would be subject to income tax at a rate of 20% on the gains, and empowered the Ministry of Finance to draft and implement after approval of the State Council detailed tax rules on the mechanism for collecting such tax. However, no income tax on gains realized on the sale of equity shares has been collected. Gains on the sale of shares by individuals were temporarily exempted from individual income tax pursuant to notices issued by the SAT dated February 9, 1996 and March 30, 1998. In the event this temporary exemption is withdrawn or ceases to be effective, individual holders of H Shares may be subject to capital gains tax at the rate of 20% unless such tax is reduced or eliminated by an applicable double taxation treaty.

On November 18, 2000, the State Council issued a notice entitled "State Council Notice on the Income Tax Reduction for Interest and Other Income that Foreign Enterprises Derive in the PRC", or the Tax Reduction Notice. Under the Tax Reduction Notice, beginning January 1, 2000, enterprise income tax at a reduced 10% rate has applied to interest, rental, license fees and other income obtained in the PRC by foreign enterprises without agencies or establishment in the PRC, or by foreign enterprises without any substantive relationship with their agency or establishment in the PRC.

Therefore, if the exemption as described in the preceding paragraph does not apply or is not renewed, and the Tax Reduction Notice is found not to apply, a foreign enterprise shareholder may be subject to a 20% tax on capital gains, unless reduced by an applicable double-taxation treaty.

Additional PRC tax considerations

PRC stamp duty. PRC stamp duty imposed on the transfer of shares of PRC publicly traded companies under the Provisional Regulations should not apply to the acquisition and disposal by non-PRC investors of H Shares outside of the PRC by virtue of the Provisional Regulations of the PRC Concerning Stamp Duty, which became effective on October 1, 1988 and which provide that PRC stamp duty is imposed only on documents executed or received within the PRC that are legally binding in the PRC and are protected under PRC law.

Estate tax. No liability for estate tax under PRC law will arise from non-PRC nationals holding H Shares.

HONG KONG

Tax on dividends

Under current practice, no tax is payable in Hong Kong in respect of dividends paid by us.

Tax on gains from sale

No tax is imposed in Hong Kong in respect of capital gains. However, trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where the gains are derived from or arise in Hong Kong from the trade, profession or business will be chargeable to Hong Kong profits tax, which is currently imposed at the rate of 17.5% on corporations and at a maximum rate of 16% on individuals. Certain categories of taxpayers are likely to be regarded as deriving trading gains rather than capital gains (for example, financial institutions, insurance companies and securities dealers) unless these taxpayers could prove that the investment securities are held for long-term investment purpose.

Trading gains from sales of H Shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arising in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H Shares effected on the Hong Kong Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp duty

Hong Kong stamp duty, currently charged at the ad valorem rate of 0.1% on the higher of the consideration for or the market value of the H Shares, will be payable by the purchaser on every purchase and by the seller on every sale of H Shares (in other words, a total of 0.2% is currently payable on a typical sale and purchase transaction involving H Shares). In addition, a fixed duty of HK$5.00 is currently payable on any instrument of transfer of H Shares. Where one of the parties is resident outside Hong Kong and does not pay the ad valorem duty due by it, the duty not paid will be assessed on the instrument of transfer (if any) and will be payable by the transferee. If stamp duty is not paid on or before the due date, a penalty of up to ten times the duty payable may be imposed.

Estate duty

There is no longer taxation in the nature of estate duty or inheritance tax in Hong Kong.

FOREIGN EXCHANGE CONTROLS

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange controls and is not freely convertible into foreign exchange. The SAFE, under the authority of the PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

In 1994, the conditional convertibility of Renminbi in current account items was implemented and the official Renminbi exchange rate and the market rate for Renminbi was unified. On January 29, 1996, the State Council promulgated new Regulations of the People's Republic of China for the Control of Foreign Exchange ("**Control of Foreign Exchange Regulations**") which became effective from April 1, 1996. The Control of Foreign Exchange Regulations classify all international payments and transfers into current account items and capital account items. Current account items are not subject to SAFE approval while capital account items are. The Control of Foreign Exchange Regulations were subsequently amended on January 14, 1997, to affirmatively state that the State shall not restrict international current account payments and transfers.

On June 20, 1996, the PBOC promulgated the Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange (the "**Settlement Regulations**") which became effective on July 1, 1996. The Settlement Regulations abolish the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items.

On January 1, 1994, the former dual exchange rate system for Renminbi was abolished and replaced by a controlled floating exchange rate system, which was determined by demand and supply. The PBOC set and published daily the Renminbi-US dollar base exchange rate. This exchange rate was determined with reference to the transaction price for Renminbi-US dollar in the inter-bank foreign exchange market on the previous day. The PBOC also, with reference to exchange rates in the international foreign exchange market, announced the exchange rates of Renminbi against other major currencies. In foreign exchange transactions, designated foreign exchange banks could, within a specified range, freely determine the applicable exchange rate in accordance with the exchange rate announced by the PBOC.

The PBOC recently announced that, beginning from July 21, 2005, the PRC will implement a regulated and managed floating exchange rate system based on market supply and demand and by reference to a basket of currencies. The Renminbi exchange rate is no longer pegged to the US dollar. The PBOC will announce the closing price of a foreign currency such as the US dollar traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day, setting the central parity for trading of the Renminbi on the following working day.

Since January 4, 2006, the PBOC improved the method to generate the central parity of Renminbi exchange rate by introducing an enquiry system while keep the match-making system in the interbank spot foreign exchange market. In addition, the PBOC provided liquidity in the market by introducing a market maker system in the interbank foreign exchange market.

After the introduction of the enquiry system, the formation of the central parity of the Renminbi against the US dollar was transformed from the previous arrangement based on the closing price determined by price matching transactions in the inter-bank foreign exchange market to a mechanism under which the PBOC authorized the China Foreign Exchange Trading Center to announce the central parity of the Renminbi against the US dollar at 9:15 a.m. of each business day.

All foreign exchange income (except such amount of foreign exchange income which is permitted to be retained and deposited into foreign exchange accounts at the designated foreign exchange banks) generated from current account transactions of PRC enterprises (including foreign-invested enterprises) should be sold to designated foreign exchange banks. Foreign exchange income from loans issued by organizations outside the territory or from the issuance of bonds and shares (for example foreign exchange income received by us from the sale of shares overseas) is not required to be sold to designated foreign exchange banks, but may be deposited into foreign exchange accounts at the designated foreign exchange banks.

PRC enterprises (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items, may, without the approval of SAFE, effect payment from their foreign exchange accounts at the designated foreign exchange banks, on the strength of valid receipts and proof. Foreign-invested enterprises which need foreign exchange for the distribution of profits to their shareholders, and PRC enterprises which in accordance with regulations are required to pay dividends to shareholders in foreign exchange (like us), may on the strength of board resolutions on the distribution of profits, effect payment from their foreign exchange accounts or convert and pay at the designated foreign exchange banks.

Convertibility of foreign exchange in respect of capital account items, including direct investments and capital contributions, is still subject to restrictions, and prior approval from SAFE must be obtained.

Dividends to holders of H Shares are declared in Renminbi but must be paid in Hong Kong dollars.

This Appendix contains a summary of PRC company and securities laws and regulations, certain material differences between the PRC Company Law and Hong Kong Companies Ordinance and additional regulatory provisions introduced by the Hong Kong Stock Exchange in relation to PRC joint stock limited companies. The principal objective is to provide potential investors with an overview of the principal legal and regulatory provisions applicable to us. As the information contained below is a summary form, it does not contain all the information that may be important to potential investors.

PRC LEGAL SYSTEM

The PRC legal system is based on the PRC Constitution and comprises of laws, regulations, rules, directives, laws of the Special Administrative Regions and laws resulting from international treaties entered into by the PRC government. Court case verdicts do not constitute binding precedents. However, they may be used for the purposes of judicial reference and guidance.

The National People's Congress (the "**NPC**") is the highest organ of state power. Its permanent body is the Standing Committee of NPC. The NPC and its Standing Committee exercise the legislative power of the state. The NPC has the power to amend the PRC Constitution and enact and amend basic laws governing civil and criminal matters, State agencies and other matters. The Standing Committee of the NPC is empowered to enact and amend all laws except for the laws that are required to be enacted and amended by the NPC.

The State Council is the highest organ of the State administration and has the power to enact administrative rules and regulations. The ministries and commissions under the State Council are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. All administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must be consistent with the PRC Constitution and the national laws enacted by the NPC. In the event that a conflict arises, the Standing Committee of the NPC has the power to annul administrative rules, regulations, directives and orders.

At the regional level, the congress of provinces, autonomous regions and municipality directly under the central government and their respective standing committees may enact local rules and regulations and the people's governments may promulgate administrative rules and directives applicable to their own administrative areas. These local laws and regulations must be consistent with the PRC Constitution, the national laws and the administrative rules and regulations promulgated by the State Council.

The State Council may also enact or issue rules, regulations or directives within authorization by the NPC and the Standing Committee of the NPC for experimental purposes. After gaining sufficient experience with experimental measures, the State Council shall submit legislative proposals to be considered by the NPC and the Standing Committee of the NPC for enactment at the national level.

The PRC Constitution vests the power to interpret laws in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws passed on June 10, 1981, the Supreme People's Court has the power to give general interpretation on the application of laws in judicial proceedings. The State Council and its ministries and commissions are also vested with the power to interpret rules and regulations that they have promulgated. At the regional level, the power to interpret local laws is vested in the regional legislative and administrative bodies which promulgate such laws.

PRC JUDICIAL SYSTEM

Under the PRC Constitution and the Law of Organization of the People's Courts, the judicial system is made up of the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are comprised of the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are generally organized into civil, criminal and administrative divisions. The intermediate people's courts are organized into divisions similar to those of the basic people's courts, and are further organized into other special divisions, such as the intellectual property division. The higher level people's courts supervise the basic and intermediate people's courts. The Supreme People's Court is the highest judicial body in the PRC. It supervises the administration of justice by the local people's courts and special people's courts.

The people's courts employ a "second instance as final" appellate system regarding disputes. A party may appeal against a judgment or order of the people's court of first instance to the people's court at the next higher level. Second judgments or orders given at the same level and at the next higher level are final. First judgments or orders of the Supreme People's Court are also final. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a judgment which has been given in any people's court at a lower level, or the presiding judge of a people's court finds an error in a judgment which has been given in the court over which he presides, the case may then be retried according to the judicial supervision procedures.

The Civil Procedure Law of the PRC (the "PRC Civil Procedure Law"), which was adopted on April 9, 1991, sets forth the criteria for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. Generally, a civil case is initially heard by a local court of the place where the defendant resides. The parties to a contract may, by express agreement, select a jurisdiction where civil actions may be brought, provided that the jurisdiction is either the plaintiff's or the defendant's place of residence, the place of execution or implementation of the contract or the object of the action.

However, such selection cannot violate the stipulations of grade jurisdiction and exclusive jurisdiction in any case.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgment or order made by a people's court or an award granted by an arbitration panel in the PRC, the aggrieved party may apply to the people's court to request for enforcement of the judgment, order or award. There are time limits imposed on the right to apply for such enforcement.

If at least one of the parties to the dispute is an individual, the time limit is one year. If both parties to the dispute are legal persons or other institutions, the time limit is six months.

A party seeking to enforce a judgment or order of a people's court against a party who is not located within the PRC and does not own any property in the PRC, may apply to a foreign court with proper jurisdiction for recognition and enforcement of the judgment or order. A foreign judgment or ruling may also be recognized and enforced by the people's court according to the PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country, which provides for such recognition and enforcement, or if the judgment or ruling satisfies the court's examination according to the principle of reciprocity, unless the people's court finds that the recognition or enforcement of such judgment or ruling will result in a violation of the sovereignty of the PRC, or security, or for reasons of social and public interests.

THE PRC COMPANY LAW, SPECIAL REGULATIONS AND MANDATORY PROVISIONS

As a joint stock limited liability company incorporated in the PRC, and seeking a listing on the Hong Kong Stock Exchange, we are primarily subject to the following three PRC laws and regulations:

- The PRC Company Law, which was promulgated by the Standing Committee of the NPC on December 29, 1993, took effect on July 1, 1994 and was revised as of December 25, 1999, August 28, 2004 and October 27, 2005;
- The Special Regulations Regarding Stock Companies Publicly Listing Overseas (the "**Special Regulations**"), which were passed by the State Council on August 4, 1994; and
- The Mandatory Provisions Regarding Companies Listing Overseas (the "**Mandatory Provisions**"), which were jointly promulgated by the Securities Committee and the State Restructuring Commission on August 27, 1994, and which we, as a joint stock limited liability company seeking an overseas listing, must incorporate into our Articles of Association.

Set out below is a summary of the provisions of the PRC Company Law, the Special Regulations and the Mandatory Provisions applicable to us.

Incorporation

A company limited by shares may be incorporated by a minimum of two and a maximum of two hundred promoters, and at least half of the promoters must have domicile within the PRC. According to the Special Regulations, State-owned enterprises or enterprises with the majority of their assets owned by the PRC government can be restructured in accordance with the relevant regulations to become joint stock limited companies which may issue shares to overseas investors by less than five promoters. We are incorporated under the PRC Company Law as a joint stock limited liability company. This means that we are a legal entity and that our registered capital is divided into Shares of equal par value. The liability of our shareholders is limited to the amount of Shares held by them and we are liable to our creditors for an amount equal to the total value of our assets.

Under the PRC Company Law, we may invest in other enterprises in the PRC pursuant to law and our articles of association, but shall not be jointly and severally liable for our investments.

The promoters shall convene an inaugural general meeting within 30 days after the issued shares have been fully paid up, and shall give notice to all subscribers or make an announcement of the date of the inaugural general meeting 15 days before the meeting. The inaugural general meeting may be convened only with the presence of shareholders holding shares representing more than 50% of the total shared issued by the company. At the inaugural meeting, matters including the adoption of draft articles of association proposed by the promoter(s) and the election of the board of directors and the supervisory committee of the company will be dealt with. All resolutions of the meeting require the approval of subscribers with more than half of the voting rights present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors shall apply to the registration authority for registration of the establishment of the company. A company is formally established, and has the status of a legal person, after the business license has been issued by the relevant administration bureau for industry and commerce.

A company's promoters shall be liable for: (i) the payment of all expenses and liabilities incurred in the incorporation process jointly and severally if the company cannot be incorporated; (ii) the repayment of subscription monies to the subscribers, together with interest, at bank rates for a deposit of the same term jointly and severally if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company. According to the Provisional Regulations Concerning the Issuance and Trading of Shares promulgated by the State Council on April 22, 1993 (which is only applicable to issuance and trading of shares in the PRC and their related activities) (the "Securities Provisional Regulations"), if a company is established by means of public subscription, the promoters of such company are required to assume joint responsibility for the accuracy of the contents of the prospectus and to ensure that the prospectus does not contain any misleading statement or omit any material information.

Registered Capital

Our registered capital is equal to the amount of our paid-in capital as recorded at the State Administration of Industry and Commerce. According to PRC Company Law, where a joint stock limited company is established by promotion, its registered capital equals to the total capital stock subscribed by all promoters as registered in the company registration authority. The minimum amount of initial capital contributions to be made by all promoters shall be not less than 20% of the total registered capital, while the remaining amount shall be paid off by the promoters within 2 years from the day when the company is established. The minimum registered capital of a joint stock limited liability company is RMB5,000,000.

Allotment and Issue of Shares

All of our Share issues are based on the principles of equality and fairness. The same class of shares must carry equal rights. For each Share issue of the same class, the terms and the subscription price must be identical. We may issue Shares at par value or at a premium, but we may not issue Shares below the par value.

We must obtain the approval of the CSRC to offer our Shares to the overseas public. Under the Special Regulations, upon approval of the CSRC the company may agree, in the underwriting agreement with respect to an issue of overseas listed foreign invested shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares.

Registered or Bearer Shares

The promoters may make capital contributions in cash, in kind or by way of injection of assets, intellectual property rights, land use rights or any other properties which could be legally transferred and be appraised in cash based on their appraised value. The amount of investment made in cash may not be less than 30% of the registered capital of the company. Shares that we issue to foreign investors and Shares that are listed overseas must be in registered form, denominated in Renminbi and subscribed for in a foreign currency. Shares that are purchased by investors from the territories of Hong Kong, Macau and Taiwan and listed in Hong Kong are known as "overseas listed foreign shares". Within the PRC, all Shares that we issue to a Promoter or legal person must be in registered form. Shares that we issue to the public in China, however, may be in either registered or bearer form.

We are required to maintain a register of shareholders for all Shares issued in registered form. Information such as our shareholders' particulars, number of Shares held by each shareholder and the dates on which the shareholders became holders of the relevant Shares are required to be entered into the register.

We are also required to record the amount of bearer shares issued, the number designated to each bearer share and the date of issue of each bearer share.

Increase of Share Capital

We may increase our Share capital by issuing new Shares with approval of our shareholders' general meeting on the following things:

- number and types of the new shares;
- offering price;
- commencing and ending date of the new offering; and
- number and types of new shares to be offered to existing shareholders.

If we carry out a public offering of shares as approved by the relevant securities administrative authority of State Council, we must publish a prospectus and financial report, and made a subscription book. After we complete a subscription of new Shares, we must register the increase in registered capital with the State Administration of Industry and Commerce and issue a public notice.

Reduction of Share Capital

Subject to minimum registered capital requirements under the PRC Company Law and Mandatory Provisions, we may reduce our registered capital in accordance with the following procedures:

- we must prepare a current balance sheet and a list of its assets;
- our shareholders must approve the reduction of registered capital in a general meeting;

- once the resolution approving the reduction has been passed, we must inform our creditors of the reduction in capital within 10 days and publish an announcement of the reduction in a newspaper at least three times within 30 days;

- our creditors may, within 90 days upon the first announcement, require us to pay our debts or provide guarantees covering such debts;

- we must register the reduction in registered capital with the State Administration of Industry and Commerce; and we must obtain necessary approvals from all relevant supervisory authorities.

Repurchase of Shares

We may only repurchase our Shares to (i) reduce our registered share capital, (ii) to merge with another company that holds our Shares, (iii) to grant our shares to employees as an encouragement or (iv) shareholders require us to do so, if they vote against a resolution approving our merger or division. The Mandatory Provisions stipulate that we must act in accordance with our Articles of Association and that we must obtain necessary approvals from any relevant supervisory authorities. We may repurchase our Shares by making a general offer to our shareholders, by purchasing our Shares on a stock exchange or by purchasing our Shares through an off-market contract.

If the repurchase of our Shares is carried out as a result of the above (i), we are required to cancel the portion of our Shares that have been repurchased within ten days; if the repurchase is caused by reason of above (ii) or (iv), we are required to transfer or cancel the portion of our Shares within six months. When we repurchase our shares for the reason of above (iii), the Shares bought back by us shall not exceed 5% of our total issued shares and shall be transferred to employees within one year.

Transfer of Shares

Our Shares may be transferred in accordance with any applicable laws and regulations, such as the PRC Company Law, the PRC Securities Laws and the Special Regulations.

The Shares we issued to our promoters upon our incorporation may not be transferred for a one year period, and the Shares issued by us prior to the public offering shall not be transferred within a period of one year from the date of listing.

Our Directors, Supervisors and senior officers must declare to us the Shares held by them and the changes thereof. During the term of office, the shares transferred by any of them each year shall not exceed 25% of total shares they hold. Any Shares that are held by the aforesaid persons shall not be transferred within one year from the day when the Shares are listed and traded on a stock exchange. Within half year after any of the aforesaid persons is removed from his or her post, he or she shall not transfer the Shares.

The PRC Company Law does not limit the shareholding percentage of an individual shareholder.

Transfers of Shares may not be entered in the register of shareholders within 20 days before the date of a shareholders' general meeting or within five days before the record date set for the purpose of distribution of dividends according to the PRC Company Law.

Shareholders

Under the PRC Company Law and the Mandatory Provisions, our shareholders are entitled to the following rights:

- to attend and vote in person or to appoint a proxy to attend and vote on his or her behalf at a general meeting;
- to receive dividends and distributable benefits in other forms in proportion to his or her shareholding;
- to inspect our Articles of Association, minutes of shareholders' general meetings and financial reports and to put forward proposals and to ask questions relating to our operations;
- to transfer our Shares on the Hong Kong Stock Exchange in accordance with any applicable laws;
- to receive surplus assets of the company upon its termination or liquidation in proportion to his or her shareholding; and
- any other shareholders' rights specified in the company's articles of association.

The obligations of a shareholder include (i) the obligation to abide by the company's articles of association, (ii) to pay the subscription monies in respect of the shares subscribed for, (iii) to be liable for the company's debts and liabilities to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up by such shareholder and (iv) any of the shareholders' obligations specified in the company's articles of association.

Our shareholder's liability is limited to the amount of Shares each shareholder holds.

Shareholders' General Meetings

Under the PRC Company Law, our shareholders may exercise the following powers in a general meeting:

- determine our business policies and investment plans;
- elect or remove our Directors who are not employee representatives and fix the remuneration of our Directors;
- elect or remove our Supervisors who are not employee representatives and fix the remuneration of our Supervisors;
- consider and approve the reports of our Board and our Supervisory Committee;
- consider and approve our proposed annual financial budget and final accounts;
- consider and approve our profit distribution plan and plans for recovery of losses;
- approve an increase or reduction in our share capital;

- approve an issue of bonds;
- approve a merger, division, dissolution, liquidation or transformation;
- approve the appointment and removal of our auditors;
- consider and approve resolutions submitted by shareholders holding 3% or more of our shares;
- approve amendments to our Articles of Association.

Shareholders' general meetings are divided into annual general meetings and extraordinary shareholders' general meetings. An annual general meeting must be held once every year. Our Board is required to convene an extraordinary shareholders' general meeting within two months after the occurrence of any of the following circumstances:

- the number of Directors on our Board is less than two-thirds of the number required under the PRC Company Law or our Articles of Association;
- our accumulated losses amount to one-third of the total paid-up share capital;
- upon a request by holders of not less than 10% of our Shares separately or aggregately;
- the Board or the Supervisory Committee considers such a meeting necessary; or
- other circumstances stipulated in our Article of Association.

A shareholders' general meeting is convened by the Board and presided over by the chairman of the Board. Under the Special Regulations and the Mandatory Provisions, we are required to give 45 days' notice of a shareholders' general meeting and this notice must specify the matters to be considered and the date and place of the meeting. If we have bearer Shares in issue, we must make a public announcement of the shareholders' general meeting at least 45 days prior to the meeting being held. Under the Special Regulations and the Mandatory Provisions, shareholders who plan to attend a shareholders' general meeting are required to provide us with a written confirmation of their intentions 20 days prior to the meeting. Shareholders holding 3% or more of our total shares separately or aggregately are entitled, under the PRC Company Law, to submit written resolutions to be considered at the shareholders' general meeting. Any proposed resolutions that can be decided at a shareholders' general meeting must be included in the agenda of that meeting.

The Special Regulations and the Mandatory Provisions provide that a general meeting of our shareholders may be held if shareholders holding 50% or more of the voting rights in respect of all of our Shares have confirmed in writing 20 days prior to the proposed date of the meeting that they intend to attend the meeting. If this 50% minimum is not attained, a shareholders' general meeting may only be held if, within five days after the deadline for confirming attendance, we notify the shareholders by public announcement of the matters to be considered and the date and place of the meeting.

Each shareholder present at a shareholders' general meeting is entitled to one vote for each Share held. A shareholder may appoint a proxy to attend and vote on his behalf at a shareholders' general meeting. Ordinary resolutions proposed at a shareholders' general meeting generally must be passed by more than half of the affirmative votes cast by shareholders present in person or by proxy.

However, special resolutions and the following actions must be approved by no less than two-thirds of the votes cast by shareholders present in person or by proxy: (i) amendments to our Articles of Association; (ii) a merger, division dissolution liquidation or transformation; (iii) an increase or reduction of capital; (iv) the issue of any class of Shares, bonds and securities; (v) repurchase of our shares; and (vi) other matters which the shareholders' general meeting has resolved by way of ordinary resolution as having a potential material effect on us as a company and should be approved by special resolution.

In the event of a variation or abrogation of the rights of a particular class of shareholders, the Mandatory Provisions require us to hold a special class meeting. Holders of our Domestic Shares and holders of our H Shares are deemed to be different classes of shareholders.

Board

A joint stock limited company shall have a board of directors, which shall consist of 5 to 19 members. Under the PRC Company Law, the term of office of a director shall not exceed three years. A director may serve consecutive terms if re-elected. Under the PRC Company Law, the board of directors may exercise the following powers:

- convene shareholders' general meetings and report to the shareholders;
- implement resolutions passed by the shareholders' general meetings;
- decide on our business plans and investment plans;
- formulate proposed annual budgets and final accounts;
- formulate profit distribution plans and plans for recovery of losses;
- formulate plans for a merger, demerger, transformation or dissolution;
- formulate plans for the increase or decrease in our registered capital or plans for the issue of bonds;
- decide on our internal management structure;
- appoint or dismiss our managers, and at the recommendation of a manager, employ or dismiss deputy managers and financial controllers and to fix their remuneration; and decide on a management control system.

In addition, the Mandatory Provisions provide that our Board is also responsible for formulating proposals for amending our Articles of Association.

Board Meetings

Under PRC Company Law, our Board is required to hold regular meetings at least twice every year. Notice of the regular board meetings is given at least 10 days before the date of the meeting. Our Board may determine the notice period and manner for extraordinary Board meetings.

Our Articles of Association require that more than half of our Directors must be present to convene a meeting. A Director may attend a Board meeting personally or may appoint another Director to attend on his behalf. All Board resolutions must be passed by the affirmative votes of more than half of the Directors. All resolutions passed at a board meeting must be recorded in the minutes of the relevant meeting and the minutes must be signed by the Directors in attendance at the meeting and the person who recorded the minutes. If a Board resolution contravenes any applicable laws or regulations or our Articles of Association or resolutions of shareholders' general meeting and results in substantial damages to us as a company, the Directors who participated in passing the resolution (except those who voted against the resolution and whose dissenting vote was recorded in the relevant minutes) are personally liable to us.

Chairman of Our Board

Our chairman is elected by a vote of our Board and must be approved by more than half of the Directors. Under the Mandatory Provisions, the chairman may exercise the following powers:

- preside over shareholders' general meetings and convene and preside over the Board meetings;
- examine the implementation of resolutions of the Board; and
- sign Share certificates and bonds issued by us.

Qualification of Directors

The PRC Company Law provides that the following persons may not serve as one of our Directors:

- a person who is unable or has limited ability to undertake any civil liability;
- a person who has been convicted of an offence relating to bribery, corruption, appropriation of property, or the destruction of social economic order, where less than five years have elapsed since the date of completion of the sentence;
- a person who has been deprived of his political rights, where less than five years have elapsed since the completion of such deprivation;
- a person who is a Director, factory manager or manager of a company or enterprise that has become bankrupt and has been liquidated due to mismanagement, and who is personally liable for the bankruptcy or liquidation of such company or enterprise, where less than three years have elapsed since the date of the completion of the liquidation of the company or enterprise;

- a person who has been a legal representative of an enterprise that has had its business license revoked because of unlawful operations and who is personally responsible, where less than three years has elapsed since the date of such revocation; or

- a person who is liable for a relatively large amount of debt which has not been repaid when due.

Other circumstances under which a person is disqualified from acting as a Director are set out in our Articles of Association and the Mandatory Provisions.

Supervisory Committee

We are required to establish a Supervisory Committee comprised of at least three members. The Supervisory Committee is responsible for the following matters:

- examining our financial affairs;

- supervising our Directors and management personnel to ensure that they carry out their duties in compliance with the relevant laws and regulations and our Articles of Association and proposing to dismiss Directors and management personnel in violation of the relevant laws and regulations, our Articles of Association and resolutions passed by the shareholders' general meeting;

- requiring our Directors and senior officers to rectify any action which adversely affects our interests;

- proposing the convening of extraordinary shareholders' general meetings;

- submitting proposals to the shareholders' general meeting;

- filing a lawsuit against Directors or senior officers if the acts of the Directors or senior officers are in violation of laws, regulations or our Articles of Association; and

- carrying out other duties as specified in our Articles of Association.

Members of the Supervisory Committee include representatives elected by our workers and representatives elected by our shareholders in a general meeting. Our Directors and management personnel may not serve as a Supervisor. The term of office for our Supervisors is three years and a Supervisor may serve consecutive terms if re-elected. The circumstances under which a person is disqualified from acting as a Director under the PRC Company Law and the Mandatory Provisions also apply to a Supervisor.

Manager and Officers

The company is required to have a manager who is appointed, and may be removed, by the Board. Our manager is our legal representative and is accountable to the Board and may exercise the following powers:

- supervise production, business and administration of the company and implement resolutions of the Board;

- organize the implementation of our annual business and investment plans;
- formulate plans for the establishment of the internal management structure;
- formulate the basic administration system;
- formulate the internal rules;
- recommend the appointment and dismissal of deputy managers and the financial controller and appoint or dismiss other administrative officers (other than those required to be appointed or dismissed by the Board); and
- other powers conferred by the Board or the Articles of Association.

The Special Regulations require the company to employ other corporate officers, including a financial controller and company secretary.

The circumstances under which a person is disqualified from acting as a Director under the PRC Company Law and the Mandatory Provisions also apply to our manager and other management personnel.

The articles of association of a company shall have binding effect on the company, shareholders, directors, supervisors, managers and other management personnel of the company. Such persons shall be entitled to make claims regarding our Company according to the articles of association of the company. The provisions of the Mandatory Provisions regarding the management personnel of a company have been incorporated in our Articles of Association (a summary of which is set out in Appendix VII).

Duties of Directors, Supervisors and Management Personnel

Our Directors, Supervisors, managers and other management personnel are required under the PRC Company Law to comply with the relevant laws and regulations, to comply with our Articles of Association, and to bear duty of loyalty and duty of care to us. The Special Regulations and the Mandatory Provisions provide that our Directors, Supervisors, managers and other management personnel owe a fiduciary duty and a due diligence duty to us. Our Directors, Supervisors and management personnel are also under a duty of confidentiality and are prohibited from divulging certain information unless required by applicable laws or regulations or by our shareholders.

If a Director, Supervisor, management personnel contravenes any law, regulation or our Articles of Association in the performance of his duties and such contravention results in a loss to us, the respective individual will be held personally liable to us for such loss.

Finance and Accounting

We are required to establish a financial and accounting system which must comply with relevant laws and regulations as well as rules stipulated by the State Council and the Ministry of Finance.

We are also required to prepare financial statements at the end of each financial year. We are required to make our financial statements available for inspection by our shareholders at least 20 days prior to our annual general meeting. We must also publish our financial statements by way of public announcement.

We are required by PRC law and regulations to make the following transfers from our after-tax profit before we distribute any profits to our shareholders:

- 10% of our after-tax profit must be transferred to our statutory common reserve fund, provided that no transfer is required if our accumulated statutory common reserve fund exceeds 50% of our registered capital;

- subject to our shareholders' approval in a general meeting and after transfer of the requisite amount to the statutory common reserve fund, a discretionary amount from our after-tax profit may be transferred to the discretionary common reserve.

Any balance of the after-tax profit after making-up losses and transfers to the statutory common reserve and discretionary common reserves may be distributed to our shareholders in proportion to their respective shareholdings.

If the amount in our statutory common reserve fund is insufficient to make up for losses from the previous years, our profits in the current year must be applied to make up for such losses before we make allocations to the statutory common reserve fund.

Our common reserve consists of the statutory common reserve fund, discretionary common reserve fund and the capital common reserve fund. Our capital common reserve fund is made up of the premium over the nominal value of our Shares. Other amounts required by the relevant governmental financial authority are to be treated as the capital common reserve fund.

Our common reserve must be applied for the following purposes:

- to make up for any losses (except capital common reserve);

- to expand our business operations; and

- to pay up our registered share capital by new Share, provided that if the statutory common reserve is converted into registered capital, the balance of the statutory common reserve after such conversion may not be less than 25% of our registered capital before such conversion.

Appointment and Retirement of Auditors

The Special Regulations require us to employ an independent PRC qualified firm of accountants to audit our annual financial statements and review certain other financial reports.

The auditors are to be appointed for a term commencing from their appointment at an annual general meeting to the close of the next annual general meeting.

If we remove or fail to renew the appointment of our existing auditors, we are required by the Special Regulations to give prior notice to the auditors and the auditors are entitled to make representations before our shareholders in a general meeting. If our auditors resign, they are obligated to make a statement to the shareholders stating whether or not we have undertaken any inappropriate transactions. The appointment, removal or nonrenewal of appointment of auditors is decided by our shareholders' general meeting and must be recorded with the CSRC.

Distribution of Profits

The Special Regulations provide that dividends and other distributions payable to holders of our H Shares must be declared and calculated in Renminbi and paid in a foreign currency. Under the Mandatory Provisions, the payment of dividends and other distributions in foreign currency to these shareholders must be made through a receiving agent appointed by us for holders of H Shares.

Amendments to Articles of Association

Our Articles of Association may only be amended by an affirmative vote of not less than two-thirds of our shareholders at a general meeting. An amendment to our Articles of Association will only take effect after we have obtained any necessary approvals from relevant regulatory and administrative agencies. If an amendment to our Articles of Association affects the information in our business registration, we must apply to the related government department to change the relevant details in the license.

Merger and Division

All mergers and divisions must be approved by an affirmative vote of not less than two-thirds of our shareholders at a general meeting. We may also need to seek government approval for a merger or division. In the PRC, a merger may be effected either by way of absorption followed by the dissolution of the company being absorbed or by the establishment of a new entity followed by the dissolution of the original entities.

If our shareholders' general meeting approves a proposed merger, we are required to sign a merger agreement and to prepare our balance sheet and an inventory of assets under the PRC Company Law and Mandatory Provisions. We must notify our creditors of the merger within 10 days after the resolution approving the merger has been passed and publicly announce the merger in newspapers at least three times within 30 days after the resolution approving the merger has been passed. Our creditors are allowed, within a certain time period, to request us to repay any outstanding indebtedness or provide guarantees covering such indebtedness.

In the case of a division, we are likewise required to prepare our balance sheet and an inventory of assets, to notify our creditors and make a pubic announcement.

Dissolution and Liquidation

Under the PRC Company Law and Mandatory Provisions, we will be dissolved and liquidated if any of the following events occur:

(i) our term of operations as stipulated in our Articles of Association has expired;

(ii) the occurrence of any event in our Articles of Association which specifically triggers our dissolution;

(iii) our shareholders in a general meeting agree to our dissolution by special resolution;

(iv) a merger or division that requires our dissolution;

(v) the people's court rules to dissolve our Company pursuant to application of shareholders holding 10% or more of voting rights when we experience any serious difficulty in the operations or management so that the interests of the shareholders will face heavy loss if our Company continues to exist and such difficulty cannot be resolved by any other means; and

(vi) we have been ordered to close down as a result of a violation of the law or administrative regulations.

If we are dissolved in the circumstances referred to in (i), (ii), (iii), (v) and (vi) above, a liquidation committee must be organized within 15 days of the occurrence of the event, If the liquidation committee is not established within the specified time, our creditors may apply to the people's court to appoint the members of the liquidation committee.

The people's court will then organize a liquidation committee to conduct the liquidation.

A liquidation committee is required to notify our creditors of our dissolution within 10 days after its establishment and issue a public announcement of our dissolution at least three times within 60 days after its establishment. A creditor is required to lodge its claim with the liquidation committee within the statutory time limit.

Under the PRC Company Law, the liquidation committee shall exercise the following powers during the liquidation period:

- sort out the company's assets and to prepare a balance sheet and an inventory of the assets;

- notify creditors or issue public notices;

- dispose of and liquidate any unfinished businesses of the company;

- pay all outstanding taxes and taxes arising from liquidation;

- settle the company's financial claims and liabilities;

- deal with the surplus assets of the company after its debts have been paid off; and

- represent the company in civil lawsuits.

In the event of a dissolution, our assets will be applied to pay all expenses incurred in connection with the liquidation, employee wages, employees' insurance and statutory compensation, principals and interests of individual deposits, tax overdue and our general indebtedness. Any surplus assets will be distributed to our shareholders in proportion to their respective shareholdings. If our assets are insufficient to repay or discharge our indebtedness, the liquidation committee will apply to the people's court for a declaration of insolvency and will transfer the liquidation proceedings to the people's court.

During liquidation, we will not be allowed to engage in any business operations irrelevant to liquidation.

Upon completion of the liquidation process, the liquidation committee is required to submit a liquidation report to our shareholders in a general meeting or to the people's court for confirmation. The liquidation committee is also required to apply to the Administration of Industry and Commerce for the cancellation of our registration and to make a public announcement of our dissolution following such cancellation.

Members of the liquidation committee are required to discharge their duties honestly and in compliance with laws. A member of the liquidation committee is liable to us and our creditors in respect of any loss arising from his deliberate intention or gross negligence.

Overseas Listing

We must obtain the approval of the CSRC to list our Shares overseas. An overseas listing of our Shares must comply with the Special Regulations.

According to the Special Regulations and the Mandatory Provisions, our Board must implement our plan to issue the H Shares and Domestic Shares within 15 months after the CSRC has approved our application.

Loss of Share Certificates

If a Share certificate in registered form of our domestic shares is either lost, stolen or destroyed, the respective shareholder may apply, in accordance with the relevant provisions set out in the PRC Civil Procedure Law, to a people's court for a declaration that such certificate will no longer be valid. After obtaining the declaration, the shareholder may apply to us for a replacement certificate.

A separate procedure regarding the loss of H Share certificates is provided for in the Mandatory Provisions, which has been incorporated into our Articles of Association, a summary of which is set out in Appendix VII to this prospectus.

In order to further promote strict compliance of "companies listed outside China" ("**Listed Companies**") with the relevant domestic and foreign laws and regulations, the conscientious performance of their continuing obligations toward investors and the establishment of a good corporate image on domestic and foreign capital markets, the State Economic and Trade Commission and the CSRC jointly issued "Further Standardizing Operations and Reform of Companies Listed Outside China Opinion" ("**Standardizing Opinion**") on March 29, 1999. The Standardizing Opinion sets out regulations governing the relationship between the Listed Companies and their controlling entities (hereafter "controlling entities" refers to companies or enterprises with legal person status that have a controlling interest in a Listed Company) and the operations of the administrative organizations of the Listed Companies.

Restrictions imposed by the Standardizing Opinion to ensure the independence of the Listed Company from its controlling entity include:

- no more than two members of the senior management of the controlling entity may serve as chairman, vice chairman or executive director of the Listed Company, no member of the executive management of the controlling entity may serve as the listed company's manager, deputy manager, chief financial officer, chief marketing officer or board secretary;

- the Listed Company must terminate any relationship with government authorities in assets, financial affairs and personnel;

- the supervisory board of the Listed Company must have at least two independent supervisors.

The Standardizing Opinion, although is not law in its strict sense, nonetheless have binding effect on all overseas listed companies in China, as the PRC Government must be satisfied with the compliance with the Standardizing Opinion before it approves the application for overseas listing by any PRC company.

SECURITIES LAW AND REGULATIONS

The PRC has promulgated a number of regulations that relate to the issue and trading of our Shares and disclosure of information by us. In October 1992, the State Council established the Securities Committee and the CSRC. The Securities Committee is responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC. The CSRC is the regulatory arm of the Securities Committee and is responsible for the drafting of regulatory provisions of securities markets, supervising securities companies, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities-related statistics and undertaking research and analysis. On March 29, 1998, the State Council announced that the Securities Committee was dismissed and the function of the State Committee was assumed by CSRC.

On April 22, 1993, the State Council promulgated the Securities Provisional Regulations. These regulations deal with the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, settlement, clearing and transfer of listed equity securities, the disclosure of information with respect to a listed company, investigation and penalties and dispute settlement. According to these regulations, we must obtain the approval of the Securities Committee to offer our Shares outside the PRC. In addition, if we propose to issue Renminbi denominated ordinary shares as well as special Renminbi denominated shares, we must comply with the Securities Provisional Regulations. Provisions of these regulations in relation to acquisitions of listed companies and disclosure of information expressly apply to listed companies in general without being confined to listed companies on any particular stock exchange.

On September 2, 1993, the Securities Committee promulgated the Provisional Measures Prohibiting Fraudulent Conduct Relating to Securities. The prohibitions imposed by these measures include the use of insider information in connection with the issuance of, or trading in, securities (insider information being defined to include undisclosed material information known to any insider, which may affect the market price of securities); the use of funds or information or through an abuse of power in creating a false or disorderly market or influencing the market price of securities or inducing investors to make investment decisions without knowledge of actual circumstances; and the making of any statement in connection with the issue of, and trading in, securities which is false or materially misleading, or in respect of which there is any material omission. Penalties imposed for contravening any of the provisions of the measures include fines, confiscation of profits and suspension of trading. In serious cases, criminal liability may be imposed.

On December 25, 1995, the State Council promulgated the Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Liability Companies. These regulations deal mainly with the issue, subscription, trading and declaration of dividends and other distributions of domestic listed foreign shares and disclosure of information of joint stock limited liability companies having domestic listed foreign shares.

On March 29, 1998 the State Council announced that the Securities Committee was dismissed and the function of the Securities Committee should be operated by CSRC.

The Securities Law took effect on July 1, 1999 and was revised as of August 28, 2004 and October 27, 2005, respectively. This is the first national securities law in the PRC, and it is divided into 12 chapters and 240 articles regulating, among other things, the issue and trading of securities, takeovers by listed companies, securities exchanges, securities companies and the duties and responsibilities of the State Council's securities regulatory authorities. The Securities Law comprehensively regulates activities in the PRC securities market. Article 238 of the Securities Law provides that we must obtain prior approval from the State Council's regulatory authorities to issue or list our Shares outside the PRC. Currently, the issue and trading of foreign issued shares (including H Shares) are mainly governed by the rules and regulations promulgated by the State Council and the CSRC.

ARBITRATION AND ENFORCEMENT OF ARBITRAL AWARDS

The Arbitration Law of the People's Republic of China (the "**Arbitration Law**") was enacted by the Standing Committee of the NPC on August 31, 1994 and became effective on September 1, 1995. It is applicable to contract disputes and other property disputes between natural person, legal person and other organizations where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the people's court will refuse to handle the case except when the arbitration agreement is void.

The Hong Kong Listing Rules and the Mandatory Provisions require an arbitration clause to be included in our Articles of Association and, in the case of the Hong Kong Listing Rules, also in contracts with each of our Directors and Supervisors, to the effect that whenever any disputes or claims arise between holders of our H Shares and us; holders of our H Shares and our Directors, Supervisors, manager or other senior officers; or holders of our H Shares and holders of Domestic Shares, in respect of any disputes or claims in relation to our affairs or as a result of any rights or obligations arising under our Articles of Association, the PRC Company Law or other relevant laws and administrative regulations, such disputes or claims shall be referred to arbitration.

Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall comply with the arbitration. Disputes in respect of the definition of shareholders and disputes in relation to our register of shareholders need not be resolved by arbitration.

A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission in accordance with its Rules or the Hong Kong International Arbitration Center in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. If the claimant elects for arbitration to be carried out at the Hong Kong International Arbitration Center, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Center.

Under the Arbitration Law and PRC Civil Procedure Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration commission if there is any procedural or membership irregularity specified by law or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration commission.

A party seeking to enforce an arbitral award of PRC arbitration panel against a party who, or whose property, is not within the PRC, may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**") adopted on June 10, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on December 2, 1986.

The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by other parties to the New York Convention, subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (i) the PRC will only recognize and enforce foreign arbitral awards on the principle of reciprocity and (ii) the PRC will only apply the New York Convention in disputes considered under PRC laws to arise from contractual and non-contractual mercantile legal relations. On June 18, 1999, an arrangement was made between Hong Kong and the Supreme People's Court of the PRC for the mutual enforcement of arbitral awards. This new arrangement was approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council, and became effective on February 1, 2000. The arrangement is made in accordance with the spirit of the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958. Under the arrangement, awards made by PRC arbitral authorities recognized under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong. Hong Kong arbitration awards are also enforceable in China.

SUMMARY OF MATERIAL DIFFERENCES BETWEEN HONG KONG AND PRC COMPANY LAW

The Hong Kong law applicable to a company incorporated in Hong Kong is based on the Hong Kong Companies Ordinance and supplemented by common law and the rules of equity that apply to Hong Kong. As a joint stock limited liability company established in the PRC that is seeking a listing of H Shares on the Hong Kong Stock Exchange, we are governed by the PRC Company Law and all other rules and regulations promulgated pursuant to the PRC Company Law.

In the following sections, we summarize certain material differences between Hong Kong company law applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited liability company incorporated and existing under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison.

Share Capital

Under Hong Kong law, the authorized share capital of a Hong Kong company is the amount of share capital that the company is authorized to issue. A company is not bound to issue the entire amount of its authorized share capital. The authorized share capital of a Hong Kong company may be larger than the issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders if required, cause the company to issue new shares. The PRC Company Law does not provide for authorized share capital. Our registered capital is the amount of our issued share capital. Any increase in our registered capital must be approved by our shareholders in a general meeting and the relevant PRC governmental and regulatory authorities.

Under the PRC Company Law, the shares subscribed for in the form of currency may not less than 30% of a joint stock limited company's registered capital. There is no such restriction on a Hong Kong company under Hong Kong law.

Restrictions on Shareholding and Transfer of Shares

Under PRC law, our Domestic Shares, which are denominated and subscribed for in Renminbi, may only be subscribed for or traded by the State, PRC legal persons and natural persons. Our overseas listed H Shares, which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC.

Under the PRC Company Law, our promoter is not allowed to transfer the Shares they hold for a period of one year after the date of our establishment. Similarly, our Directors, Supervisors and management personnel cannot transfer their Shares within one year from the day when the Shares are listed and traded on a stock exchange. There are no such restrictions on shareholdings and transfer of shares under Hong Kong law.

Financial Assistance for Acquisition of Shares

Although the PRC Company Law does not prohibit or restrict us or our subsidiaries from providing financial assistance for the purpose of an acquisition of our Shares, the Mandatory Provisions contain restrictions on a company and its subsidiaries providing such financial assistance similar to those under the Hong Kong company law.

Variation of Class Rights

The PRC Company Law makes no specific provision relating to variation of class rights. However, the PRC Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in our Articles of Association, which are summarized in Appendix VII.

Under the Hong Kong Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question, (iii) by agreement of all the members of the Company or (iv) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

We (as required by the Hong Kong Listing Rules and the Mandatory Provisions) have adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed foreign invested shares and domestic invested shares are defined in the Articles of Association as different classes, except where (i) the Company issues and allots, in any 12-month period, pursuant to a shareholders' special resolution, not more than 20% of each of the issued overseas listed foreign invested shares and the issued domestic invested shares existing as at the date of the shareholders' special resolution; and (ii) the plan for the issue of domestic invested shares and listed foreign invested shares upon its establishment is implemented within 15 months following the date of approval by the CSRC. The Mandatory Provisions contain detailed provisions relating to circumstances which are deemed to constitute a variation of class rights.

Directors

The PRC Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of directors' interests in material contracts, restrictions on directors' authority in making major dispositions, restrictions on companies providing certain benefits, to directors and guarantees in respect of directors' liability and prohibitions against compensation for loss of office without shareholders' approval. The Mandatory Provisions, however, contain certain restrictions on major dispositions and specify the circumstances under which a director may receive compensation for loss of office, all of which provisions have been incorporated in our Articles of Association, a summary of which is set out in Appendix VII.

Supervisory Committee

Under the PRC Company Law, our Directors and managers are subject to the supervision of a Supervisory Committee. There is no mandatory requirement for the establishment of a supervisory committee for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be our best interests and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Derivative Action by Minority Shareholders

Hong Kong law permits minority shareholders to start a derivative action on behalf of all shareholders against directors who have committed a breach of their fiduciary duties to the company if the directors control a majority of votes at a general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name. Although the PRC Company Law gives our shareholders the right to initiate proceedings in the people's court to restrain the implementation of any resolution passed by our shareholders in a general meeting, or by the Board, that violates any law, administrative rules or articles of association or if the directors or management personnel violate laws, administrative rules or articles of association when performing their duties and cause losses to the company, there is no form of proceedings equal to a derivative action. The Mandatory Provisions, however, provide us with certain remedies against the Directors, Supervisors and officers who breach their duties to us. In addition, as a condition to the listing of our H Shares on the Hong Kong Stock Exchange and in accordance with our Articles of Association, each of our Directors and Supervisors is required to give an undertaking in favor of us acting as agent for each of our shareholders. This allows minority shareholders to act against our Directors and Supervisors in default.

Protection of Minorities

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to the court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. There is no specific provision in the PRC Company Law to guard against oppression by the majority shareholders of minority shareholders' but the Company, as required by the Mandatory Provisions, has adopted in its Articles of Association minority protection provisions similar to (though not as comprehensive as) those available under the Hong Kong law.

These provisions state that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of our shareholders, may not relieve a Director or Supervisor of his duty to act honestly in our best interests or may not approve the expropriation by a Director or Supervisor of our assets or the individual rights of other shareholders.

Notice of Shareholders' General Meetings

Under the PRC Company Law, notice of a shareholders' annual general meeting must be given not less than 20 days before the meeting. Under the Special Regulations and the Mandatory Provisions, 45 days' written notice must be given to all our shareholders and shareholders who wish to attend the meeting must reply in writing 20 days before the date of the meeting. For a Hong Kong limited company, the minimum period of notice of a general meeting where convened for the purpose of considering ordinary resolutions is 14 days and where convened for the purpose of considering special resolutions, is 21 days. The notice period for an annual general meeting is also 21 days.

Quorum for Shareholders' General Meetings

Under Hong Kong law, the quorum for a meeting of a company is provided for in the articles of association of a company, but must be at least two members. The PRC Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Provisions provide that our general meeting may only be convened when replies to the notice of that meeting have been received from shareholders whose Shares represent 50% of the voting rights at least 20 days before the proposed date of the meeting, or if that 50% level is not achieved, we must within five days notify our shareholders by way of a public announcement and we may hold the shareholders' general meeting thereafter.

Voting

Under Hong Kong law, an ordinary resolution is passed by a simple majority of affirmative votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three quarters of votes cast by members present in person or by proxy at a general meeting. Under the PRC Company Law, the passing of any resolution requires more than one-half of the affirmative votes held by our shareholders present in person or by proxy at a shareholders' general meeting except in cases such as proposed amendments to our Articles of Association, merger, division, dissolution or transformation, which require no less than two-thirds of the affirmative votes held by shareholders present in person or by proxy at a shareholders' general meeting.

Financial Disclosure

We are required under the PRC Company Law to make available at our office for inspection by shareholders our annual balance sheet, profit and loss account, statement of changes in financial position and other relevant annexes 20 days before our shareholders' annual general meeting. In addition, we must publish our financial statements and our annual balance sheet must be verified by registered accountants. The Companies Ordinance requires a company incorporated in Hong Kong to send to every shareholder a copy of its balance sheet, auditors' report and directors' report, which are to be laid before the company in its annual general meeting, not less than 21 days before such meeting.

We are required under PRC law to prepare our financial statements in accordance with PRC accounting standards. The Mandatory Provisions require that we must, in addition to preparing our accounts according to PRC standards, have our accounts prepared and audited in accordance with international or Hong Kong accounting standards and our financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC accounting standards. The Company is required to publish its interim and annual accounts within 60 days from the end of the first six months of a financial year and within 120 days from the end of a financial year, respectively.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously in the relevant stock exchanges.

Information on Directors and Shareholders

The PRC Company Law gives shareholders the right to inspect the Articles of Association, minutes of the shareholders' general meetings and financial and accounting reports. Under our Articles of Association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

Receiving Agent

Under the PRC Company Law and Hong Kong law, dividends once declared are debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while under the PRC law this limitation period is two years. The Mandatory Provisions require us to appoint a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of H Shares dividends declared and all other monies owed by us in respect of our Shares.

Corporate Reorganization

Corporate reorganizations involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company to another company in the course of being wound up voluntarily, pursuant to section 237 of the Companies Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to section 166 of the Companies Ordinance, which requires the sanction of the court. For PRC companies, such reorganizations are administratively considered and sanctioned under the PRC Company Law.

Dispute Arbitration

In Hong Kong, disputes between shareholders on the one hand, and a company incorporated in Hong Kong or its directors on the other, may be resolved through the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the Hong Kong International Arbitration Centre ("**HKIAC**") or the China International Economic and Trade Arbitration Commission ("**CIETAC**"), at the claimant's choice.

Mandatory Deductions

Under the PRC Company Law, after tax profits of a company are subject to deductions of contributions to the statutory common reserve fund of a company before they can be distributed to shareholders. There are prescribed limits under the PRC Company Law for such deductions. There are no corresponding provisions under the Hong Kong Companies Ordinance.

Remedies of the Company

Under the PRC Company Law, if a director, supervisor or manager in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or manager should be responsible to the company for such damages. In addition, in compliance with the Hong Kong Listing Rules, remedies of the Company similar to those available under the Hong Kong law (including rescission of the relevant contract and recovery of profits made by a Director, Supervisor or officer) have been set out in the Articles of Association.

Dividends

The Articles of Association empower the Company to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. The Company shall not exercise its powers to forfeit any unclaimed dividend in respect of H Shares until after the expiry of the applicable limitation period.

Fiduciary Duties

Hong Kong law recognizes the common law concept of the fiduciary duty of directors. Under the PRC Company Law and the Special Regulations, directors, supervisors, managers and other management personnel owe a fiduciary duty and a due diligence duty towards their company and are not permitted to engage in any activities which compete with or damage the interests of their company.

Closure of Register of Shareholders

The Hong Kong Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas the Company's Articles of Association provide, as required by the Mandatory Provisions, that share transfers may not be registered within 20 days before the date of a shareholders' general meeting or within five days before the record date set for the purpose of distribution of dividends.

HONG KONG LISTING RULES

The Hong Kong Listing Rules provide additional requirements which apply to us as an issuer incorporated in the PRC as a joint stock limited liability company and seeking a primary listing or whose primary listing is on the Hong Kong Stock Exchange. Set out below is a summary of the principal provisions containing the additional requirements which apply to us.

Compliance adviser

We are required to retain for at least one year following our listing, or such shorter period as the Hong Kong Stock Exchange may in its absolute discretion permit, the services of a compliance adviser which is acceptable to the Hong Kong Stock Exchange, to provide us with professional advice on continuous compliance with the Hong Kong Listing Rules, and to act at all times, in addition to our two authorized representatives, as our principal channel of communication with the Hong Kong Stock Exchange. The appointment of the compliance adviser may not be terminated until a replacement acceptable to the Hong Kong Stock Exchange has been appointed.

If the Hong Kong Stock Exchange is not satisfied that the compliance adviser is fulfilling its responsibilities adequately, it may require us to terminate the compliance adviser's appointment and appoint a replacement.

The compliance adviser must keep the Company informed on a timely basis of changes in the Hong Kong Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the Company. It must act as the Company's principal channel of communication with the Hong Kong Stock Exchange if the authorized representatives of the Company are expected to be frequently outside Hong Kong.

Accountants' Report

An accountants' report will not normally be regarded as acceptable by the Hong Kong Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong. Such a report will normally be required to conform to either Hong Kong accounting standards or the International Financial Reporting Standards.

Process Agent

We are required to appoint and maintain a person authorized to accept service of process and notices on our behalf in Hong Kong throughout the period during which our securities are listed on the Hong Kong Stock Exchange and must notify the Hong Kong Stock Exchange of his, her or its appointment, the termination of his, her or its appointment and his, her or its contact particulars.

Public Shareholding

If at any time we issue securities other than the H Shares which are listed on the Hong Kong Stock Exchange, the Hong Kong Listing Rules require that all of our H Shares must be held by the public, the H Shares must represent not less than 10% of our issued share capital and the aggregate number of our H Shares and other securities held by the public must constitute not less than 25% of our issued share capital.

Independent Non-Executive Directors and Supervisors

Independent non-executive Directors are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of our general body of shareholders will be adequately represented. Supervisors must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as Supervisors.

Restrictions on Purchase of its Own Securities

Subject to governmental approvals and the Articles of Association, we may repurchase our own H Shares on the Hong Kong Stock Exchange in accordance with the provisions of the Hong Kong Listing Rules. Approval by way of special resolution of the holders of Domestic Shares and the holders of H Shares at separate class meetings conducted in accordance with the Articles of Association is required for share repurchases. In seeking approvals, we are required to provide information on any proposed or actual purchases of all or any of our equity securities, whether or not listed or traded on the Hong Kong Stock Exchange. We must also state the consequences of any purchases which will arise under either or both of the Hong Kong Takeovers Code and any similar PRC law of which Directors are aware, if any. Any general mandate given to Directors to repurchase H Shares must not exceed 10% of the total number of our existing issued H Shares.

Redeemable Shares

We must not issue any redeemable shares unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of our H Shares are adequately protected.

Pre-emptive Rights

Except in the circumstances mentioned below, Directors are required to obtain the approval by a special resolution of shareholders in general meeting, and the approvals by special resolutions of the holders of Domestic Shares and H Shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the Articles of Association, prior to:

(i) authorizing, allotting, issuing or granting Shares or securities convertible into Shares, options, warrants or similar rights to subscribe for any Shares or such convertible securities; or

(ii) any major subsidiary making any such authorization, allotment, issue or grant so as materially to dilute the percentage of our equity interest in such subsidiary.

No such approval will be required, except to the extent that our existing shareholders have by special resolution in general meeting given a mandate to Directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorize, allot or issue, either separately or concurrently once every 12 months, not more than 20% of each of the existing issued Domestic Shares and H Shares as at the date of the passing of the relevant special resolution or, such Shares as are part of our plan at the time of our establishment, to issue Domestic Shares and H Shares and which plan is implemented within 15 months from the date of approval by the Securities Committee.

Amendment to Articles of Association

We may not permit or cause any amendment to our Articles of Association which would cause them to cease to comply with the PRC Company Law, the Mandatory Provisions or the Hong Kong Listing Rules.

Documents for Inspection

We are required to make available at a place in Hong Kong for inspection by the public and our shareholders free of charge, and for copying by our shareholders at reasonable charges the following:

- complete duplicate register of shareholders;
- report showing the state of our issued share capital;
- our latest audited financial statements and the reports of the Directors, auditors and (if any) Supervisors, if any, thereon;
- special resolutions;
- reports showing the number and nominal value of securities repurchased by us since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);

- copy of the latest annual return filed with the PRC State Administration for Industry and Commerce or other competent PRC authority; and

- for shareholders only, copies of minutes of meetings of shareholders.

Receiving Agents

Under Hong Kong law, we are required to appoint one or more receiving agents in Hong Kong and pay to such agents dividends declared and other monies owed in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.

Statements in Share Certificates

We are required to ensure that all our listing documents and share certificates include the statements stipulated below and to instruct and cause each of our share registrars not to register the subscription, purchase or transfer of any of our Shares in the name of any particular holder unless and until such holder delivers to the share registrar a signed form in respect of those Shares bearing statements to the following effect, that the acquirer of Shares:

- agrees with us and each shareholder, and we agree with each shareholder, to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association;

- agrees with us, each shareholder, Director, Supervisor, manager and other officer and we acting both for the company and for each Director, Supervisor, manager and other officer, agree with each shareholder to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with the Articles of Association. Any reference to arbitration will be deemed to authorize the arbitration tribunal to conduct its hearing in open session and to publish its award. Such arbitration will be final and conclusive;

- agrees with us and each shareholder that Shares are freely transferable by the holder thereof; and

- authorizes us to enter into a contract on his behalf with each Director and officer whereby such Directors and officers undertake to observe and comply with their obligations to shareholders as stipulated in the Articles of Association.

COMPLIANCE WITH THE PRC COMPANY LAW, THE SPECIAL REGULATIONS AND THE ARTICLES OF ASSOCIATION

We are required to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association.

Contract between Us and Directors, Officers and Supervisors

We are required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- an undertaking by the Director or officer to us to observe and comply with the PRC Company Law, the Special Regulations, the Articles of Association, the Hong Kong Takeovers Code and an agreement that we shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;

- an undertaking by the Director or officer to us acting as agent for each shareholder to observe and comply with his obligations to our shareholders as stipulated in the Articles of Association; and

- an arbitration clause which provides that whenever any differences or claims arise from the contract, our Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant law and administrative regulations concerning affairs between us and our Directors or officers and between a holder of H Shares and a Director or officer, such differences or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive.

We are also required to enter into a contract in writing with every Supervisor containing terms substantially similar to those for Directors.

If the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen, according to the Securities Arbitration Rules of HKIAC.

PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations.

The award of the arbitral body is final and shall be binding on the parties thereto.

Disputes over who is a shareholder and over the share register do not have to be resolved through arbitration.

Subsequent Listing

We must not apply for the listing of our H Shares on a PRC stock exchange unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of our H Shares are adequately protected.

GENERAL

If any change in the PRC law or market practices materially alters the validity or accuracy of any basis upon which the additional requirements have been prepared, the Hong Kong Stock Exchange may impose additional requirements or make listing of our H Shares subject to special conditions as the Hong Kong Stock Exchange may consider appropriate. Whether or not any such changes in the PRC law or market practices occur, the Hong Kong Stock Exchange retains its general power under the Hong Kong Listing Rules to impose additional requirements and make special conditions in respect of our listing. Upon our listing on the Hong Kong Stock Exchange, the provisions of the Hong Kong Securities and Futures Ordinance, the Hong Kong Takeovers Code and such other relevant ordinances and regulations as may be applicable to companies listed on the Hong Kong Stock Exchange will apply to us.

SECURITIES ARBITRATION RULES

The Articles of Association provide that certain claims arising from the Articles of Association or the PRC Company Law shall be arbitrated at either the CIETAC or the HKIAC in accordance with their respective rules.

The Securities Arbitration Rules of the HKIAC contain provisions allowing, upon application by any party, an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Hong Kong Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties, including witnesses and the arbitrators, being permitted to enter Shenzhen for the purpose of the hearing. Where a party, other than a PRC party or any of its witnesses or any arbitrator, is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

PRC LEGAL MATTERS

Jingtian & Gongcheng Attorneys at Law, our legal adviser on PRC law, has sent to us a legal opinion dated November 27, 2006 confirming that it has reviewed the summaries of PRC laws and regulations as contained in this Appendix and that, in its opinion, such summaries are correct summaries relevant to PRC laws and regulations. This legal opinion is available for inspection as referred to in the Section headed “Documents Delivered to the Registrar of Companies and Available for Inspection” in Appendix IX to this prospectus.

Any person wishing to have detailed advice on PRC law and the laws of any jurisdiction is recommended to seek independent legal advice.

This Appendix contains a summary of our Articles of Association. The principal objective is to provide potential investors with an overview of our Articles of Association. As the information contained below is a summary form, it does not contain all the information that may be important to potential investors. As stated in the paragraph headed "Documents Available for Inspection" in Appendix IX, a copy of the Articles of Association, together with an English translation, is available for inspection.

Our Articles of Association were adopted by a special resolution of our shareholders' general meeting on November 1, 2006, and shall enter into force on the day on which our H Shares listed on Hong Kong Stock Exchange.

DIRECTORS, THE GENERAL MANAGER AND OTHER SENIOR MANAGEMENT PERSONNEL

Power to allot and issue shares

There is no provision in the Articles of Association empowering the directors, the general manager and other senior management personnel to allot and issue shares.

Proposals to increase the registered capital of the Company must be submitted for approval by a special resolution of the shareholders' general meeting.

Power to dispose of fixed assets of the Company

Regarding the disposal of fixed assets, without the prior approval of the shareholders' general meeting, the board of directors may not dispose or agree to dispose the fixed assets where the sum of the expected value of the consideration for the proposed disposal and the value of the consideration for disposed fixed assets in the four months period immediately preceding the proposed disposal exceeds 33% of the value of the fixed assets shown in the last balance sheet presented at the shareholders' general meeting.

A disposal of fixed assets referred to in this provision shall include the assignment of certain interest in assets other than by way of providing security interest by using fixed assets as collaterals.

The validity of transactions whereby the Company disposes of fixed assets shall not be affected by the breach of the above paragraph hereof.

Emoluments, Compensation or payments for loss of office

The Company shall execute a written contract with each director and supervisor of the Company concerning his/her emoluments. Such a contract shall be approved by the shareholders' general meeting before it is entered into. The above-mentioned emoluments shall include:

- emoluments in respect of his/her service as a director, supervisor or senior management personnel of the Company;
- emoluments in respect of his/her service as a director, supervisor or senior management personnel of a subsidiary of the Company;

- emoluments otherwise in connection with the provision of other services to the management of the Company or any subsidiary of the Company thereof;

- funds as compensation for his/her loss of office or retirement to the aforementioned directors and supervisors.

A director or supervisor may not sue the Company for his/her benefits due to him/her on the basis of the above-mentioned matters, except under a contract as mentioned above.

The contract concerning the emoluments between the Company and each director or supervisor of the Company should provide that in the event of a takeover of the Company, a director or supervisor of the Company shall, subject to prior approval of the shareholders' general meeting, have the right to receive the compensation or other funds obtainable for loss of office or retirement.

A takeover of the Company mentioned above shall refer to any of the following circumstances:

- anyone makes a tender offer to all the shareholders;

- anyone makes a tender offer so that the offeror becomes a controlling shareholder as defined in the Articles of Association (see the definition of controlling shareholder(s) as referred to in the section headed "Rights of minority shareholders in relation to fraud or oppression").

If the relevant director or supervisor has failed to comply with this Article of Association, any fund received by him/her shall belong to those persons that have sold their shares as a result of their acceptance of the above-mentioned offer, and the expenses incurred in distribution of such fund on a pro rata basis shall be borne by the relevant director or supervisor and may not be paid out of such fund.

Loans to Directors, Supervisors, the general manager and other senior management personnel

The Company shall not directly or indirectly make a loan to, or provide any guarantee in connection with the making of a loan to a director, supervisor, general manager or other senior management personnel of the Company and its holding company; the Company shall not make a loan to, or provide any guarantee in connection with the making of a loan to the connected persons of the abovementioned persons.

The following situations are not subject to the above prohibition:

- the provision by the Company of a loan or a guarantee in connection with the making of a loan to our subsidiary;

- the provision by the Company of a loan or a guarantee in connection with the making of a loan or any other funds to our directors, supervisors, general manager and other senior management personnel to meet expenditure incurred by him/her for the purposes of the Company or for the purpose of enabling him to perform his duties properly, in accordance with the terms of a service contract approved by the shareholders' general meeting;

- the provision by the Company of a loan or a guarantee in connection with the making of a loan to any of the relevant directors, supervisors, general manager and other senior management personnel and their connected persons on normal commercial terms, provided that the ordinary course of business of the Company includes lending of money or giving of guarantees.

Financial assistance for the acquisition of our shares

The Company or its subsidiaries shall not at any time provide any financial assistance in any form to purchasers or prospective purchasers of the shares in the Company. Such purchasers of the Company's shares referred to above shall include persons that directly or indirectly undertake obligations for the purpose of purchasing shares in the Company.

The Company or its subsidiaries shall not at any time provide any financial assistance in any form to the above obligators in order to reduce or discharge their obligations.

The acts listed below are not prohibited:

- where the Company provides the relevant financial assistance truthfully for the benefit of the Company and the main purpose of the financial assistance is not to purchase shares in the Company, or the financial assistance is an incidental part of an overall plan of the Company;
- lawful distribution of the Company's property in the form of dividends;
- distribution of dividends in the form of shares;
- reduction of registered capital, buy-back of shares, shareholding structure adjustment, etc., in accordance with the Articles of Association;
- provision of a loan by the Company within the scope of business and in the ordinary course of its business (provided that the same does not lead to a reduction in the net assets of the Company or that if the same constitutes a reduction, the financial assistance is paid out of the Company's distributable profits);
- the provision of funds by the Company for an employee shareholding plan (provided that the same does not lead to a reduction in the net assets of the Company or that if the same constitutes a reduction, the financial assistance is paid out of the Company's distributable profits).

For these purposes, financial assistance shall include but not be limited to:

- gift;
- guarantee (including the undertaking of liability or provisions of property by the guarantor in order to secure the performance of the obligation by the obligator), indemnity (not including, however, indemnity arising from the Company's own fault) and release or waiver of rights;

- provision of a loan or conclusion of a contract under which the obligations of the Company are to be fulfilled prior to the obligation of performance by the other party to the contract, or a change in the party to such loan or contract as well as the assignment of rights under such loan or contract;

- financial assistance in any other form when the Company is insolvent or has no net assets or when such assistance would lead to a major reduction in the Company's net assets; and

undertake obligations shall include the undertaking of an obligation by the obligator by concluding a contract or making an arrangement (whether or not such contract or arrangement is enforceable and whether or not such obligation is undertaken by the obligator individually or jointly with any other person) or by changing its financial position in any other way.

Disclosure of contractual interests with the Company

In cases where a director of the Company, a supervisor, the general manager and other senior management personnel has directly or indirectly vested a material interest in any contract, transaction, arrangement concluded or planned by the Company (except his/her engagement contract with the Company), he/she shall disclose the nature and extent of his/her interest to the board of directors at the earliest opportunity, whether or not the matter is normally subject to the approval of the board of directors.

As to the contract, transaction, arrangement or any proposal in which a director or has vested material interest, the director shall be abstained from voting and not be counted in the quorum of the meeting (this limitation is not applicable under the circumstances that the Listing Rules or Hong Kong Stock Exchange approve). Unless the interested director, supervisor, general manager or other senior management personnel of the Company has disclosed such interest to the board of directors as required by the Articles of Association and the matter has been approved by the board of directors at a meeting in which he/she was not counted in the quorum and was abstained from voting, the Company shall have the right to revoke the contract, transaction or arrangement, except the other party is a bona fide party acting without knowledge of the breach of obligation by the director, supervisor, general manager or other senior management personnel concerned.

If a director, a supervisor, general manager or other senior management personnel of the Company gives a written notice to the board of directors before the conclusion of the contract, transaction or arrangement is first considered by the Company, stating that due to the contents of the notice, he/she has an interest in the contract, transaction, arrangement that may subsequently be made by the Company, such director, supervisor, general manager or other senior management personnel shall be deemed for the purposes of the Articles of Association to have declared his/her interest, insofar as attributable to the scope stated in the notice.

A director, supervisor, the general manager and other senior management personnel of the Company is deemed to have an interest vested in a contract, transaction or arrangement in which the connected person of the above mentioned persons have an interest vested.

Remuneration

The remuneration of Directors shall subject to the prior approval of the shareholders' general meeting, as referred to under the paragraph headed "Emoluments, Compensation or Payments for loss of office" above.

Retirement, appointment and removal

The Company shall establish a board of directors. The Board shall be composed of nine directors, where five of the directors shall be independent non-executive directors. The Board shall have one chairman of the Board and one vice chairman.

The minimum term that a written notice of the intention to propose a person for election as director and a notice in writing by that person indicating his acceptance of such election is required to be 7 days.

Directors shall be elected or replaced by the shareholders' general meeting and serve a term of office of three years. A director may serve consecutive terms if re-elected upon the expiration of his/her term. Directors are not required to hold shares of the Company.

None of the following persons may serve as a director, supervisor, general manager or other senior management personnel of the Company:

- persons without capacity or with limited capacity for civil acts;
- persons who have been sentenced for crimes for corruption, bribery, encroachment or embezzlement of property or disruption of the social or economic order where five years have not lapsed following the serving of the sentence, or persons who were deprived of their political rights for committing a crime where five years have not lapsed following the serving of the sentence;
- directors, or factory directors or managers who bear personal liability for the bankruptcy or liquidation of their companies or enterprises due to mismanagement where three years have not lapse of following the date of completion of such bankruptcy or liquidation;
- the legal representatives of companies or enterprises that had their business licenses revoked for breaking the law, where such representatives bear individual liability and three years have not lapsed following the date of revocation of such business licenses;
- persons with relatively heavy individual debts that have not been settled upon maturity;
- persons whose cases have been established for investigation by the judicial authorities as a result of violation of the criminal law, and have not been closed;
- persons who may not act as leaders of enterprises by virtue of laws and administrative regulations;
- non-natural persons;

- persons who have been ruled by relevant competent authority as having violated securities-related regulations, where such violation involved fraudulent or dishonest acts and five years have not lapsed following the date of the ruling.

The validity of an act of a director, general manager or other senior management personnel of the Company on behalf of the Company towards a bona fide third party shall not be affected by any irregularity in his/her current position, election or qualifications.

There is no provision in the Articles of Association regarding retirement or non-retirement of directors under an age limit.

Duties

In addition to obligations imposed by laws, administrative regulations or listing rules of the stock exchange(s) on which shares of the Company are listed, the Company's directors, supervisors, general manager and other senior management personnel shall have the following obligations to each shareholder in the exercise of the functions and powers granted to them by the Company:

- not to cause the Company to act beyond the scope of business stipulated in its business license;
- to act honestly in the best interests of the Company;
- not to deprive the Company of its property in any way, including but not limited to any opportunities that are favorable to the Company;
- not to deprive any shareholders of their individual rights or interests, including (but not limited to) rights to distributions and voting rights, unless pursuant to a restructuring of the Company submitted to and adopted by the shareholders' general meeting in accordance with the Articles of Association.

The Company's directors, supervisors, general manager and other senior management personnel shall have an obligation, in the exercise of their rights or discharge of their obligations, to perform their acts with due care, diligence and skills as a reasonable and prudent person should do under similar circumstances.

The Company's directors, supervisors, general manager and other senior management personnel must, in the exercise of their duties, abide by the principles of honesty and credibility and shall not place themselves in a position where there is a conflict between their personal interests and their duties. This principle shall include (but not limited to) the fulfillment of the following obligations:

- to act honestly in the best interests of the Company;
- to exercise powers within the scope of their functions and powers and not to act beyond such powers;

- to personally exercise the discretion invested to him/her, not to allow himself/herself to be manipulated by another person and, not to delegate the exercise of his/her discretion to another party unless permitted by laws and administrative regulations or with the consent of the shareholders' general meeting that has been informed;
- to be impartial to shareholders of the same category and fair to shareholders of different categories;
- not to conclude a contract or enter into a transaction or arrangement with the Company except as otherwise provided in the Articles of Association or with the consent of the shareholders' general meeting that has been informed;
- not to use the Company's property for his/her own benefit in any way without the consent of the shareholders' general meeting that has been informed;
- not to use his/her functions and powers as a means to accept bribes or other forms of illegal income, and not to illegally appropriate the Company's property in any way, including but not limited to any opportunities that are favorable to the Company;
- not to accept commissions in connection with the Company's transactions without the consent of the shareholders' general meeting that has been informed;
- to abide by the Articles of Association, perform his/her duties faithfully, protect the interests of the Company and not to seek personal gain with his position, functions and powers in the Company;
- not to compete with the Company in any way without the consent of the shareholders' general meeting that has been informed;
- not to embezzle the Company's funds or lend them to others in violation of applicable regulations, not to deposit the Company's assets in accounts opened in his/her own or in another's name, not to use the Company's assets to provide security interest for the debts of the Company shareholders or other individuals;
- not to disclose confidential information relating to the Company that was acquired by him/her during his/her term of office without the consent of the shareholders' general meeting that has been informed, and not to use such information except for the interests of the Company; however, such information may be disclosed to the court or other government authorities if;
- required by law;
- required in the public interest;
- required in the own interest of such director, supervisor, general manager or other senior management personnel.

A director, a supervisor, the general manager or other senior management personnel of the Company may not procure the following persons or organizations ("Connected Persons") to do what such director, supervisor, general manager or other senior management personnel may not do:

- the spouse or minor children of such director, supervisor, general manager or other senior management personnel of the Company;
- the trustee of a director, supervisor, general manager or other senior management personnel of the Company or of any person referred in the aforesaid item hereof;
- the partner of a director, supervisor, general manager or other senior management personnel of the Company or of any person referred in aforesaid two items hereof;
- a company over which a director, supervisor, general manager or other senior management personnel of the Company, individually or jointly with any person referred to in aforesaid three items hereof or any other director, supervisor, general manager or other senior management personnel of the Company, has actual control;
- a director, a supervisor, a manager or other senior management personnel of the company being controlled as referred to in aforesaid item hereof.

The obligation and credibility of the Company's directors, supervisors, general manager and other senior management personnel does not necessarily cease with the termination of their term of office. Their confidentiality obligation in relation to the Company's trade secrets shall remain upon termination of their term of office. The term for continuance of other obligations shall be decided upon in accordance with the principle of fairness, depending on the time lapse between the termination and the occurrence of the matter as well as the circumstances and conditions under which the relationship with the Company terminates.

If a director, a supervisor, the general manager or other senior management personnel of the Company breaches his/her obligations to the Company, the Company shall, in addition to any rights and remedies provided by laws and administrative regulations, have a right to:

- require the relevant director, supervisor, general manager or other senior management personnel to compensate for the losses sustained by the Company as a consequence of his/her dereliction of duty;
- rescind any contract or transaction concluded by the Company with the relevant director, supervisor, general manager or other senior management personnel and contracts or transactions contracts with a third party (where such third party is aware or should be aware that the director, supervisor, general manager or other senior management personnel representing the Company was in breach of his/her obligations to the Company);
- require the relevant director, supervisor, general manager or other senior management personnel to surrender the gains derived from the breach of his/her obligations;

- recover any funds received by the relevant director, supervisor, general manager or other senior management personnel that should have been received by the Company, including but not limited to commissions;

- require the relevant director, supervisor, general manager or other senior management personnel to return the interest earned, or possibly earned on the funds that should have been given to the Company.

A director, a supervisor, general manager or other senior management personnel of the Company may be relieved from liability for a specific breach of obligations by the shareholders' general meeting which has been fully informed, except the circumstances as specified in the Articles of Association.

Borrowing powers

The Articles of Association do not specifically provide for the manner in which borrowing powers may be exercised nor do they contain any specific provision in respect of the manner in which such borrowing powers may be amended, except for:

- provisions which authorize directors to formulate proposals for the issuance and listing of debentures by the Company;

- provisions which provide that the issuance and listing debentures shall be approved by the shareholders' general meeting by a special resolution.

AMENDMENT OF CONSTITUTIONAL DOCUMENTS

The Company may make amendments to the Articles of Association in accordance with laws, administrative regulations and the rules and the Articles of Association.

Amendments to the Articles of Association involving the contents of the Mandatory Provisions shall become effective upon approvals by companies approving department authorised by State Council and CSRC. If there is any change relating to the registered particulars of the Company, application shall be made for registration of the changes in accordance with law.

VARIATION OF RIGHTS OF EXISTING SHAREHOLDERS OF DIFFERENT CATEGORIES

Any proposal by us to change or abrogate the rights of shareholders of different categories, shall be approved by the shareholders' general meeting by a special resolution and by a separate shareholders' general meeting convened by the affected shareholders of different categories in accordance with the Articles of Association.

The rights of shareholders of a certain category shall be deemed to have been changed or abrogated in the following conditions:

- an increase or decrease in the number of shares of such category or an increase or decease in the number of shares of a category having voting rights, distribution rights or other privileges equal or superior to those of the shares of such category;

- a change of all or part of the shares of such category into shares of another category, a conversion of all or part of the shares of another category into shares of such category or the grant of the right to such change;
- a removal or reduction of rights to accrued dividends or cumulative dividends attached to shares of such category;
- a reduction or removal of a dividend preference or property distribution preference during liquidation of the Company, attached to shares of such category;
- an addition, removal or reduction of share conversion rights, options, voting rights, transfer rights, preemptive rights to rights issues, rights to acquire securities of the Company attached to shares of such category;
- a removal or reduction of rights to receive amounts payable by the Company in a particular currency attached to shares of such category;
- a creation of a new category with voting rights, distribution rights or other privileges equal or superior to those of the shares of that category;
- an imposition of restrictions or additional restrictions on the transfer or ownership of shares of such category;
- an issuance of rights to subscribe for, or convert into, shares of such category or another categories;
- an increase in the rights and privileges of shares of other categories;
- restructuring of the Company causes shareholders of different categories to bear liability to different extents during the restructuring; or
- an amendment or cancellation of the terms provided in the Articles of Association.

Interested shareholders shall not have voting rights at meeting of shareholders of different categories. Interested shareholders shall have the following meanings:

- if the Company has made a buy-back offer to all shareholders pro rata or has bought back its own shares through open transactions on a stock exchange in accordance with the Articles of Association, the controlling shareholders as defined in the Articles shall be "interested shareholders";
- if the Company has bought back its own shares by an agreement outside a stock exchange in accordance with the Articles of Association, shareholders of share in relation to such agreement shall be "interested shareholders";
- under a restructuring proposal of the Company, shareholders who will bear liability in a proportion smaller than that of the liability borne by other shareholders of the same category, or shareholders who have an interest that is different from the interest of other shareholders of the same category shall be "interested shareholders".

Resolutions of a meeting of shareholders of different categories may be passed only by more than two-thirds of the shareholders with voting rights of that category represented at the meeting who are entitled to vote at meetings of shareholders of different categories.

When the Company is to convene a meeting of shareholders of different categories, it shall issue a written notice 45 days prior to the meeting informing all the registered shareholders of that category of the matters to be examined at the meeting as well as the date and place of the meeting. Shareholders that intend to attend the meeting shall, within 20 days prior to the day of the meeting, deliver a written reply to the Company on meeting attendance.

The notice of a meeting of shareholders of different categories needs to be delivered only to the shareholders entitled to vote thereat.

The procedures according to which a meeting of shareholders of different categories is held shall, to the extent possible, be identical to the procedures according to which a shareholders' general meeting is held. Provisions of the Articles of Association relevant to procedures for the holding of a shareholders' general meeting shall be applicable to meetings of shareholders of different categories. Holders of domestic-invested shares and foreign-invested shares are deemed to be shareholders of different classes.

The special voting procedures for shareholders of different categories shall not apply in the following circumstances:

- where, as approved by way of a special resolution of the shareholders' general meeting, the Company issues, either separately or concurrently, domestic investment shares and foreign investment shares listed outside the PRC every 12 months, and the number of the domestic investment shares and foreign investment shares listed outside the PRC intended to be issued does not exceed 20% of the issued and outstanding shares of the respective categories; or

- where the plan for issuance of domestic investment shares and foreign investment shares listed outside the PRC during the time of establishment is completed within 15 months since being approved by the securities regulatory authorities of the State Council.

- when a holder of our Domestic Shares transfers its Shares to overseas investors which will be listed or traded on an overseas stock exchange, upon approval by the securities supervisory and administrative authorities of the State Council.

RESOLUTIONS — MAJORITY REQUIRED

Resolutions of shareholders' general meeting are divided into ordinary resolutions and special resolutions.

Ordinary resolutions made by shareholders' general meeting shall be adopted by no less than half of voting shares represented by the shareholders attending the shareholders' general meeting (including their proxies).

Special resolutions made by shareholders' general meeting shall be adopted by no less than two-thirds of voting shares represented by the shareholders attending the shareholders' general meeting (including their proxies).

VOTING RIGHTS (GENERALLY, ON A POLL AND RIGHT TO DEMAND A POLL)

When shareholders (including their proxies) exercise voting rights, each share shall have one voting right.

The shares of the Company held by the Company shall not carry voting right and such shares are not accounted for in the total number of voting shares represented in the shareholders' general meeting.

Votes of the shareholders' general meeting shall be taken by raising hands for resolutions, unless the following persons require voting by poll before or after any vote by raising hands for resolutions:

- the chairman of the meeting;
- at least two shareholders with voting rights or their proxies;
- one or several shareholders (including proxies) holding jointly or separately over 10% (representing 10%) of the shares carrying the right to vote at the meeting.

Unless somebody proposes voting by ballot, the chairman of the meeting shall declare whether the proposal has been adopted according to the results of the vote by raising hands, and shall record the same in the minutes of the meeting, which shall serve as the final evidence without having to state the number or proportion of the votes for or against resolution adopted at the meeting.

The demand for a vote by ballot may be withdrawn by the person who made it.

If the matter demanded to be voted by ballot is the election of the chairman or the adjournment of the meeting, a ballot shall be taken immediately. If a ballot is demanded for any other matters, such ballot shall be taken at the time decided upon by the chairman and the meeting may proceed with the discussion of other matters; the result of the ballot shall still be regarded as a resolution passed at that meeting.

When a ballot is held, shareholders (including proxies) having the right to two or more votes need not use all of their voting rights in the same way.

When the number of votes against and for a resolution is equal, regardless whether the vote is taken by raising hands or by ballot, the chairman of the meeting shall be entitled to one additional vote.

REQUIREMENTS FOR ANNUAL SHAREHOLDERS' GENERAL MEETING

Annual shareholders' general meeting shall be held once a year within six months after the end of the last fiscal year and shall be convened by the Board of Directors.

DISTRIBUTION OF PROFITS

The Company's after-tax profits shall be distributed in the following order of priority:

- making up for losses;
- contributing to its statutory reserve fund;
- contributing to its discretionary reserve fund; and
- paying dividends to its shareholders of ordinary shares.

As to the proportion of discretionary reserve fund and dividends to its shareholders of ordinary shares, the board of directors may make a proposal which should be decided on in the shareholders' general meeting. The Company shall not distribute any of its profits to any of its shareholders before offsetting our losses and contributing to the statutory reserve fund.

ACCOUNTS AND AUDIT

The Company shall formulate its accounting system in compliance with laws, administrative regulations and stipulations in the generally accepted accounting principles of China formulated by the financial regulatory authorities.

The board of directors of the Company shall submit to the shareholders at each annual shareholders' general meeting such financial reports as relevant laws, administrative regulations and rules require the Company to prepare.

The financial reports of the Company shall be made available for inspection by shareholders 20 days prior to an annual shareholders' general meeting. Each shareholder of the Company shall have the right to obtain a copy of the financial reports referred to in this appendix.

The financial statements of the Company shall be prepared not only in accordance with the PRC generally accepted accounting principles (the GAAP), laws and regulations but also in accordance with international accounting standards or the accounting standards of the place(s) outside the PRC where shares of the Company are listed. If there are major differences in the financial statements prepared in accordance with these two sets of accounting principles, such differences shall be stated in the notes appended to such financial statements. For purposes of the Company's distribution of after-tax profits in a given fiscal year, the smaller amount of after-tax profits shown in the above-mentioned two kinds of financial statements shall govern.

Interim results or financial information published or disclosed by the Company shall be prepared in accordance with PRC GAAP, laws and regulations as well as international accounting standards or the accounting standards of the place(s) outside the PRC where shares of the Company are listed.

The Company shall publish two financial reports each fiscal year, namely an interim financial report within 60 days after the end of the first six months of the fiscal year and an annual financial report within 120 days after the end of the fiscal year.

NOTICE OF MEETINGS AND BUSINESS TO BE CONDUCTED THEREAT

There are two types of shareholders' general meetings: the annual shareholders' general meetings and the extraordinary shareholders' general meetings.

Annual shareholders' general meetings shall be held once a year within six months from the close of each fiscal year.

A extraordinary shareholders' general meeting shall be held within two months from the occurrence of any of the following circumstances:

- If the number of directors is less than two-thirds of the number of directors of the Company or not up to the statutory minimum quorum stipulated by the Company Law;
- If the amount of the Company's losses that have not been made up reaches one-third of its total share capital;
- If a shareholder(s) holding over 10% (representing 10%) of the issued shares with voting rights make such a request in writing;
- If the board of directors deems it necessary;
- If the supervisory board makes such a request.

A shareholder(s) holding over 5% (representing 5%) of the voting shares of the Company shall have the right to propose or submit in writing to the Company new proposals when an annual shareholders' general meeting is held, and the Company shall put the matters that mentioned in the above proposals on the meeting agenda, if the matters are charge by the shareholders' general meeting.

Written notice of a shareholders' general meeting stating the place, date and time of and matters to be considered at the meeting shall be given to each shareholders 45 days before the meeting. Each shareholder who is to attend the meeting shall send a written reply to that effect to the Company 20 days before the meeting.

The notice of a shareholders' general meeting shall be delivered to the shareholders (whether or not entitled to vote on the shareholders' general meeting) by courier or pre-paid mail to the recipient's address shown in the register of shareholders at least 45 days before the commencement of the meeting. For shareholders of domestic investment shares, the notice of a shareholders' general meeting may also be given by public announcement. The public announcement referred to in the preceding paragraph shall be published in one or more newspapers or periodicals designated by the securities regulatory authorities of the State Council during the period between 45 and 50 days before the meeting is held. Once the announcement is made, all shareholders of domestic investment shares shall be deemed to have received the notice of the relevant shareholders' general meeting.

A meeting and the resolutions adopted to thereof shall not be invalidated as a result of accidental omission to give notice of the meeting to, or the failure of receiving such notice by, a person entitled to receive such notice.

The notice of a shareholders' general meeting shall meet the following requirements:

- it shall be made in writing;

- it shall specify the place, date and time of the meeting;

- it shall describe the matters to be discussed at the meeting;

- it shall provide such information and explanation as are necessary for the shareholders to make informed decisions on the proposals put before them. This principal shall apply (but not limited to) when the Company proposes a merger, buy-back of shares, reorganization of share capital or other restructuring, it shall provide the specific conditions and contracts (if any) of the transaction under discussions and earnestly explain the cause and result of the transaction;

- it shall disclose the nature and extent of material conflict of interests, if any, of any director, supervisor, general manager or other senior management personnel in any matter to be discussed; and provide an explanation of the differences, if any, between the way in which the matter to be discussed would affect such director, supervisor, general manager or other senior management members in his/her capacity as shareholders and the way in which such matter would affect other shareholders of the same category;

- it shall contain the full text of any special resolutions proposed to be adopted at the meeting;

- it shall contain a conspicuous statement that shareholders entitled to attend and vote have the right to entrust one or more proxies to attend and vote on their behalf and that such proxy need not be a shareholder;

- it shall state the time and place for the delivery of the meeting's proxy's forms.

Based on the written replies received 20 days prior to a shareholders' general meeting, the Company shall calculate the number of voting shares represented by the shareholders intending to attend the meeting. If the number of voting shares represented by the shareholders intending to attend the meeting is less than half of the total number of the Company's voting shares, the Company shall within five days inform the shareholders once again of the matters to be examined at the meeting as well as the date and place of the meeting in the form of a public announcement. Upon notification by public announcement, the Company may convene the shareholders' general meeting.

For proposals not stated in the notice of a shareholders' general meeting, no voting shall be carried out and decision shall not be made for such proposal in the extraordinary shareholders' general meeting.

Without the prior approval of the shareholders' general meeting, the Company may not conclude any contract with any person other than a director, supervisor, general manager or other senior management personnel of the Company for the delegation of the whole business management or part of the important business management of the Company to such person.

Resolutions on the following items shall be adopted in the form of ordinary resolutions by a shareholders' general meeting:

- removal of directors, supervisors, their remuneration;
- working report of the board of directors and the board of supervisors;
- the Company's annual financial budgets, final accounts, balance sheet, profit statement and other financial statements;
- profit distribution and loss make-up plans of the Company;
- items other than those stipulated by laws, administrative regulations or regulatory documents to be adopted by special resolutions.

The following items shall be adopted in the form -of special resolutions:

- increase or reduction of the Company's registered capital and the issue of shares of any class, warrants and other similar securities;
- merger, division, change of organizational form, dissolution and liquidation of the Company, etc;
- plans of issuance;
- amendment to the Articles of Association;
- other matters adopted by the shareholders' general meeting as having significant impact on the Company by way of ordinary resolutions and requiring adoption by way of special resolutions.

TRANSFER OF SHARES

Unless otherwise provided by laws and administrative regulations, or overseas listed foreign-invested shares have obtained the approval of the Stock Exchange on which the Company listed, the Company's fully-paid shares may be freely transferred according to law free of any liens. All fully-paid overseas listed foreign-invested shares listed on the Hong Kong Stock Exchange could freely transfer in accordance with the Articles of Association, if the conditions stipulated in the Articles of Association are not met, the board of directors may refuse to accept any transfer instrument without stating any reasons.

All transfer of overseas listed foreign-invested shares listed in Hong Kong shall use any written transfer instrument signed by hand in general or normal formats or otherwise accepted by the board of directors. If any shareholder is a recognized clearing house (herein referred to as the "Recognized Clearing House") or its agent as defined in the Hong Kong Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the written transfer instrument may be signed in a printed form.

Any changes to or correction of any parts of the register of shareholders shall be conducted in accordance with the laws of the place where such parts of the register of shareholders are kept.

No changes resulting from share transfers may be made to the register of shareholders within 30 days prior to a shareholders' general meeting or 5 days prior to the date of deciding the basis set by the Company for the purpose of distribution of dividends.

POWER OF THE COMPANY TO PURCHASE OUR OWN SHARES

After being approved under the procedures stipulated by the Articles of Association and obtaining approvals from the State's relevant regulatory authorities, the Company may repurchase its issued shares of the Company in the following circumstances:

- To cancel the shares for the purpose of reducing the registered capital of the Company;
- To merge with other companies holding the shares of the Company;
- To grant our shares to employees as an encouragement;
- Our shareholders require us to do so, if they vote against a resolution approving our merger or division;
- Other circumstances where laws, administrative regulations and rules so permit.

The repurchase of the Company's shares, upon the approval by relevant State authorities, may be conducted in any of the following manners:

- making a buy-back offer pro rata to all shareholders;
- buy-back through open transactions in a stock exchange;
- buy-back through contractual arrangements outside a stock exchange;

When the Company is to buy back shares through contractual arrangements outside a stock exchange, prior approval shall be obtained from the shareholders' general meeting in accordance with the procedures provided in the Articles of Association. Upon prior approval of the shareholders' general meeting obtained in the same manner, the Company may rescind or change contracts concluded in the manner set forth above or waive any of its rights under such contracts.

For the purposes of the above contracts for the buy-back of shares, they shall include (but not limited to) agreements whereby buy-back obligations are undertaken and buy-back rights are acquired.

The Company may not assign contracts for the buy-back of its own shares or any of its rights thereunder.

The amount of the Company's registered capital shall be reduced by the total par value of the shares so cancelled.

Unless the Company has already entered the liquidation stage, it must comply with the following provisions in buying back its issued and outstanding shares:

- where the Company buys back shares at their par value, the amount thereof shall be deducted from the book balance of distributable profit, from the proceeds of a new share issuance made to buy back the old shares;

- where the Company buy backs shares at a price higher than their par value, the portion corresponding to their par value shall be deducted from the book balance of distributable profit, from the proceeds of a new share issuance made to buy back the old shares; and the portion in excess of the par value shall be handled according to the following methods:

  (1) where the shares bought back were issued at their par value, the amount shall be deducted from the book balance of distributable profit;

  (2) where the shares bought back were issued at a price higher than their par value, the amount shall be deducted from the book balance of distributable profit, from the proceeds of a new share issuance made to buy back the old shares; however, the amount deducted from the proceeds of the new share issuance may not exceed the total premium obtained at the time of issuance of the old shares nor may it exceed the amount in the Company's capital reserve funds account (including the premiums from the new share issuance) at the time of buy-back;

- the amount paid by the Company for the purposes set forth below shall be paid out of the Company's distributable profits:

  (1) acquisition of the right to buy back its own shares;

  (2) modification of any contract for buy-back of its own shares;

  (3) release from any of its obligations under any buy-back contracts;

- After the par value of the cancelled shares has been deducted from the registered capital of the Company in accordance with relevant regulations, that portion of the amount deducted from the distributable profit and used to buy back shares at the par value shall be included in the Company's share premium account or capital reserve account.

POWER FOR OUR SUBSIDIARIES TO OWN SHARES IN THE COMPANY

There are no provisions in the Articles of Association restricting the ownership of shares in us by any of our subsidiaries.

DIVIDENDS AND OTHER METHODS OF PROFITS DISTRIBUTION

The Company may distribute the dividends in the following forms of:

- cash

- shares

The Company shall appoint recipient agents for shareholders of foreign investment shares listed outside the PRC to collect on behalf of the relevant shareholders the dividends distributed and other funds payable in respect of foreign investment shares listed outside the PRC.

The recipient agents appointed by the Company shall comply with the laws of or the requirements of the stock exchange in the listing place.

The recipient agents appointed by the Company for shareholders of foreign investment shares listed in Hong Kong shall be a company which is registered as a trust company under the Trustee Ordinance of Hong Kong.

For the purpose of joint shareholders in respect of any shares, if the Company pay any allocations or distributions (including any dividends, bonus or returns of capital) to any of the joint shareholders, such payment shall be deemed as the payment of the above allocations or distributions to all of the joint shareholders.

PROXIES

Any shareholders entitled to attend and vote at a shareholders' general meeting shall have the right to appoint one or more persons (who need not be shareholders) as his/her proxies to attend and vote on his/her behalf. Such proxy may exercise the following rights according to his/her entrustment by the shareholder:

- the shareholder's right to speak at the shareholders' general meeting;
- the right to demand a ballot by himself/herself or in conjunction with others; and
- the right to vote by hand or by ballot, except that if a shareholder has appointed more than one proxy, the proxies may only exercise the voting rights by ballot.

Shareholders shall entrust the proxy in writing, which shall be signed by the entrusting party or the agent authorized by the shareholders in writing. If the entrusting party is a legal person or any other institute, the instrument shall be sealed with the legal person's stamp or signed by its director or legal representative or formally authorized agent.

Legal person or other institute shareholders shall be represented by its legal representative or proxy entrusted by its legal representative, the board of directors or authorized person decided by other decisive institutes to attend the general meeting of the Company.

The instrument appointing a proxy and, if such instrument is signed by a person under a power of attorney on behalf of the appointor, a notarially certified copy of that power of attorney or other authority, shall be deposited at our headquarters or at some other place specified for that purpose in the notice of meeting, not less than 24 hours before the time for holding the meeting at which the proxy proposes to vote or the time appointed for the passing of the resolution.

Any form issued by the board of directors of the Company to the shareholders for the appointment of proxies shall give the shareholders free choice to instruct their proxies to cast an affirmative or negative vote and enable the shareholders to give separate instructions on each matter to be voted during discussions at the meeting. The proxy letter shall specify that in the absence of instructions from the shareholder, the proxy may vote as he/she thinks fit.

When the entrusting party has died, lost capacity for acts, revocated the proxy or the signed instrument of appointment prior to the voting, or the relevant shares have been transferred prior to the voting, a vote given in accordance with the terms of proxy letter shall remain valid as long as the Company did not receive a written notice of the event before the commencement of the relevant meeting.

CALLS ON SHARES AND FORFEITURE OF SHARES

There are no provisions in our Articles of Association relating to the making of calls on or the forfeit of shares.

RIGHTS OF SHAREHOLDERS (INCLUDING INSPECTION OF REGISTER)

Shareholders of ordinary shares of the Company shall enjoy rights as follows:

- Collect dividends and other kinds of interests distributed based on the number of shares held by them;
- Attend or entrust a proxy to attend shareholders' general meetings and exercise voting rights;
- Supervise and manage the business operation of the Company, and make suggestions and enquiries accordingly;
- Transfer shares in compliance with laws, administrative regulations and the Articles of Association;
- Obtain relevant information in accordance with the Articles of Association, including:
    - obtaining the Articles of Association after paying relevant cost;
    - inspecting and making copies of the following documents after paying reasonable costs:
        1. all parts of the register of shareholders;
        2. the personal information of directors, supervisors, general manager and other senior management personnel of the Company;
        3. Status of share capital of the Company;
        4. reports of the aggregate par value, number of shares, and highest and lowest prices of each category of shares bought back by the Company since the last fiscal year as well as all the expenses paid by the Company therefor;
        5. Minutes of shareholders' general meetings.
- Participate in the distribution of the Company's remaining assets based on the number of shares held by the shareholders when the Company is terminated or liquidated;
- Other rights permitted by laws, administrative regulations and the Articles of Association.

QUORUM FOR MEETINGS AND SEPARATE CATEGORY MEETINGS

Based on the written replies received 20 days prior to a shareholders' general meeting, the Company shall calculate the number of voting shares represented by the shareholders intending to attend the meeting. If the number of voting shares represented by the shareholders intending to attend the meeting is not more than half of the total number of the Company's voting shares, the Company shall within five days inform the shareholders once again of the matters to be examined at the meeting as well as the date and place of the meeting in the form of a public announcement. Upon notification by public announcement, the Company may convene the shareholders' general meeting.

If the number of share carrying the right to vote at the meeting represented by the shareholders intending to attend the meeting is no less than half of the total number of shares of that category carrying the right to vote at the meeting, the Company may hold the meeting of shareholders of different categories. If not, the Company shall within five days inform the shareholders once again of the matters to be examined at the meeting and the date and place of the meeting in the form of a public announcement. Upon notification by public announcement, the Company may hold the meeting of shareholders of different categories.

RIGHTS OF MINORITY SHAREHOLDERS IN RELATION TO FRAUD OR OPPRESSION

In addition to obligations imposed by laws, administrative regulations or the listing rules of the stock exchange(s) on which the shares of the Company are listed, while exercising voting rights, the controlling shareholders shall not make such decisions to the detriment of all or part of the shareholders' interests as below:

- relieving a director or supervisor of the responsibility to act honestly in the best interest of the Company;
- approving a director or a supervisor (for his/her own or other person's benefit) to deprive the Company of its property in any form, including (but not limited to) any opportunities that are favorable to the Company;
- approving a director or a supervisor (for his/her own or other person's benefit) to deprive other shareholders of their rights or interests, including (but not limited to) rights to distributions and voting rights, unless pursuant to a restructuring of the Company submitted to and adopted by the shareholders' general meeting in accordance with the Articles of Association.

The term "controlling shareholder(s)" used in the Articles shall refer to the person(s) satisfying any of the following conditions:

- Acting alone or in concert with others, has the power to elect half or more number of the directors;
- Acting alone or in concert with others, has the power to exercise or control the exercise of 30% or more of the Company's voting rights;
- Acting alone or in concert with others, hold 30% or more of shares of the Company; or

- Acting alone or in concert with others, can obtain actual control of the Company in any other manner.

PROCEDURES ON LIQUIDATION

Should any of the following circumstances occur, the Company shall be dissolved and liquidated pursuant to law:

- if the shareholders' general meeting resolves to dissolve the Company;
- if a dissolution is necessary as a result of the merger or division of the Company;
- if the Company is declared bankruptcy pursuant to law because it is unable to pay off matured debts;
- if the business license of the Company is invalidated or the Company is enforced to close or dismiss because of violation of law and administrative regulations;
- the people's court rules to dissolve the Company pursuant to application of shareholders holding 10% or more of voting rights when we experience any serious difficulty in the operations or management so that the interests of the shareholders will face heavy loss if the Company continues to exist and such difficulty cannot be resolved by any other means.

If the board of directors decides that the Company should be liquidated (except the liquidation as a result of the Company's declaration of bankruptcy), the notice of the shareholders' general meeting convened for such purpose shall include a statement to the effect that the board of directors has made full investigation into the position of the Company and that the board holds the opinion that the Company can pay its debts in full within 12 months after the announcement of liquidation.

The functions and powers of the board of directors shall terminate immediately after the shareholders' general meeting has adopted a resolution to carry out liquidation.

The Company shall not engage in any business operations irrelevant to liquidation during the period of liquidation.

The liquidation committee shall follow the instructions from the shareholders' general meeting, and report to the shareholders' general meeting at least once a year on the committee's income and expenditure, the business of the Company and the progress of the liquidation. It shall make a final report to the shareholders' general meeting when the liquidation is completed.

The liquidation committee shall notify creditors within a period of 10 days from the date of its establishment and make at least three newspaper announcements of the liquidation within 60 days of that date. Claims shall be registered by the liquidation committee.

OTHER PROVISIONS MATERIAL TO THE COMPANY OR OUR SHAREHOLDERS

General provisions

The Company is a joint stock limited company having perpetual existence.

The General Manager shall be the authorized representative of the Company.

From the date on which the Articles of Association came into effect, the Articles of Association constitute a legally binding public document regulating our organization and activities, and the rights and obligations between us and each shareholder and among the shareholders themselves.

The Company may invest in other limited liability companies and joint stock companies in accordance with law and shall be held responsible for the invested corporate within the limitation of the amount of the Company's capital contribution or the shares subscribed.

Upon the demands of operation and development and in accordance with the Articles of Association, the Company may increase its capital through the following ways:

- issuing shares publicly;
- allotting new shares to existing shareholders;
- distributing new shares to existing shareholders;
- other methods permitted by laws, administrative regulations.

The Company's increase of its capital by issuing new shares shall be handled in accordance with the procedures provided for in relevant State laws and administrative regulations after having been approved in accordance with the Articles of Association.

The Company may reduce its registered capital in accordance with the provisions of the Articles of Association.

When the Company is to reduce its registered capital, it must prepare a balance sheet and an inventory of assets.

The Company shall notify its creditors within 10 days of adopting the resolution to reduce its registered capital and shall publish a public announcement of the resolution in newspapers at least three times within 30 days of the said date. Creditors shall, within 30 days since receiving a written notice or within 90 days since the date of the first public announcement for those who have not received a written notice, be entitled to require the Company to pay off its debts in full or to provide a corresponding guarantee for repayment.

The reduced registered capital of the Company may not be less than the statutory minimum.

Shareholders of ordinary shares of the Company shall undertake the following obligations:

- Abide by the Articles of Association;

- Contribute share capital according to the number of shares subscribed by them and the methods of capital contribution;
- Other obligations imposed by laws, administrative regulations and regulatory documents and the Articles of Association.

Other than the conditions agreed by the subscribers of shares at the time of subscription, shareholders shall not be liable to subscribe for any additional share capitals subsequently.

Secretary of the Board

The Secretary of the Board shall be appointed by the Board. The secretary of the board of directors shall be senior management personnel of the Company.

The secretary of the Board shall be a natural person with necessary professional knowledge and experience and his/her main duties shall be:

- ensure that the Company keeps complete organizational documents and records;
- ensure that the Company prepares and submits according to the law the reports and documents required by relevant authorities;
- ensure that the Company's register of shareholders is properly established and be responsible for keeping the register of shareholders;

The Supervisory Board

The supervisory board of the Company shall be composed of three supervisors. The supervisory board shall have a chief supervisor. The chief supervisor shall be elected and replaced by no less than two thirds of all the supervisors. The term of office of each supervisor shall be 3 years. A supervisor may serve consecutive terms if reelected upon the expiration of his/her term.

Directors, general manager, financial controller and other senior management personnel may not serve as supervisors concurrently.

The supervisory board shall be accountable to the shareholders' general meeting and perform the following duties:

- to report on its work to the shareholders' general meeting;
- to supervise the performance in violation of law, administrative regulations and the Articles of Association by directors, general manager and other senior management of their duties;
- supervise the fulfillment by directors, the general manager and other senior management members of their respective duties;

- to require a director, the chairman of the board of directors, the general manager or any other senior management members to redress his act detrimental to the interest of the Company;

- inspect and supervise the Company's financial activities;

- to check such financial information as financial reports, business reports and profit distribution plan to be submitted to the shareholders' general meeting by the board of directors, and in case of doubt may entrust certificated public accountants and practicing auditors in the name of the Company to help re-check the information;

- to represent the Company in negotiation with or bringing an action-against a director;

- propose a extraordinary shareholders' general meeting;

- other duties provided for in the Articles of Association.

Supervisors shall be present at meetings of the board.

General manager of the Company

The general manager shall be accountable to the board of directors and shall perform the following functions and powers:

- take charge of the operation and management of the Company and organize the implementation of resolutions of the board of directors;

- organize the implementation of the Company's annual operation and investment plans after they are approved by the board of directors;

- prepare plans for the establishment of the Company's internal management bodies;

- formulate the Company's basic management system;

- formulate the Company's branches;

- formulate basic rules and regulations of the Company;

- propose the appointment and removal of vice general managers and financial controller;

- appoint and remove management personnel other than those required to be appointed and removed by the board of directors;

- other functions and powers that should be exercised by the general manager according to the Articles of Association, and decisions of the board of directors.

The Board of Directors

The Board of Directors shall be accountable to the shareholders' general meeting and exercise the following functions and powers according to the law:

- be responsible for convening a shareholders' general meeting and to report on its work to the shareholders' general meeting;
- implement the resolutions of the shareholders' general meeting;
- decide on the business plans, and investment plans of the Company;
- discuss and approve plans for annual financial budgets and final accounts of the Company;
- discuss and approve plans for profit distributions and (including dividend distribution at the end of a year) for making up losses of the Company;
- discuss and approve policies for debts and finance, plans for the increase or decrease of the registered capital of the Company, plan for issue of corporate debentures;
- prepare plans for the major acquisition or sale, merger, division, dissolution, or change the company form of the Company;
- prepare amendments to these Articles of Association;
- appoint or remove the general manager, based on nominations by the general manager, appoint or remove vice general managers and financial controller and decide on matters concerning their remuneration and the rewards and punishments to them;
- discuss and approve the basic management systems;
- discuss and approve the structures of internal management;
- proposing the appointment or change of an accounting firm to the shareholders' general meeting;
- decide on important business and administrative business of the Company and sign other important agreements other than business decided by the shareholders' general meeting in accordance with the PRC Company Law and the Articles of Association;
- exercising other powers vested by the Articles of Association as well as authorized by the shareholders' general meeting.

Except for the resolutions of the board of directors in respect of the matters in the above 6th, 7th and 8th item, which shall be passed by two-thirds or more of the directors, the resolutions of the board of directors in respect of all other matters may be passed by no less than one-half of the directors.

Meetings of the board of directors include regular meetings and extraordinary meetings of the board of directors. The board of directors shall regularly meet at least twice a year. Notice of the meeting shall be served on all of the directors 10 days before the date of the meeting. The chairman shall convene and preside a meeting of the board of directors. In case of any matters, upon requisition by a shareholder(s) holding over 10% of the voting shares, the supervisory board, more than one third of the directors (representing 1/3) or the general manager, a extraordinary meeting of the board may be held. A meeting of the board of directors is duly convened only if no less than one half of all the directors (including proxies) attend. A resolution of the board of directors needs to be passed by more than one half of all the directors.

Each director shall have one vote. The Chairman shall have a casting vote in case of an equality of votes.

Appointment of an accounting firm

The Company shall retain an independent accounting firm that comply with the relevant State provisions to make audits of the annual financial reports and other financial reports of the Company.

The first independent accounting firm of the Company may be inaugural appointed by general meeting of the Company before the first annual general meeting and the independent accounting firm so appointed shall hold office until the conclusion of the first annual general meeting.

If the inaugural general meeting fails to exercise its powers under the preceding paragraph, those powers shall be exercised by the board of directors.

The shareholders' general meeting shall decide on the retaining of an accounting firm. The term of engagement of the accounting firm shall be one year, beginning from the date of the close of the current annual shareholders' general meeting and ending on the date of the close of the next annual shareholders' general meeting. The accounting firm may serve a consecutive term if re-appointed at the expiry of its term.

Before the convening of the shareholders' general meeting, the board of directors may fill any vacancy in the office of the accounting firm, but while any such vacancy continues, the surviving or continuing firm, if any, may act.

The shareholders' general meeting may, by means of an ordinary resolution, dismiss any accounting firm prior to the expiration of its term of engagement, notwithstanding any provisions in the contract between the accounting firm and the Company, without prejudice to such accounting firm's right, if any, to claim damages from the Company in respect of such dismissal.

The remuneration or method of remuneration of an accounting firm shall be decided upon by the shareholders' general meeting. The remuneration of an accounting firm appointed by the board of directors shall be determined by the board of directors.

The engagement, dismissal or refusal of the renewal of the engagement of an accounting firm shall be decided upon by the shareholders' general meeting and reported to the securities regulatory authorities of the State Council.

Dispute resolution

If any disputes or claims related to the Company's business based on the rights or obligations provided in the Articles of Association, the PRC Company Law and other relevant laws or administrative regulations arise between the shareholders of foreign investment shares listed outside the PRC and the Company, between the shareholders of foreign investment shares listed outside the PRC and the directors, supervisors and other senior management personnel of the Company or between the shareholders of foreign investment shares listed outside the PRC and other shareholders, the parties concerned may submit such dispute or claim for arbitration.

When such disputes or claims as described above are submitted for arbitration, they shall be submitted in their entirety, and all persons that have a cause of action due to the same events or whose participation is necessary for the settlement of such disputes or claims, and if such persons being the Company or shareholders of the Company, directors, supervisors, the general manager or other senior management personnel of the Company, shall abide by the arbitration result.

Disputes concerning the definition of shareholders and the register of shareholders shall not be required to be settled by means of arbitration.

A dispute or claim submitted for arbitration may be arbitrated, at the option of the arbitration applicant, by either the China International Economic and Trade Arbitration Commission in accordance with its arbitration rules or the Hong Kong International Arbitration Centre in accordance with its securities arbitration rules. After the arbitration applicant has submitted the dispute or claim for arbitration, the other party must carry out arbitration in the arbitration institution selected by the applicant.

If the arbitration applicant opts for arbitration by the Hong Kong International Arbitration Centre, either party may request arbitration to be conducted in Shenzhen in accordance with the securities arbitration rules of the Hong Kong International Arbitration Centre.

Unless otherwise provided by laws or administrative regulations, the laws of the People's Republic of China shall apply to the settlement by means of arbitration of disputes or claims referred in the above paragraph.

The award of the arbitration institution shall be final and binding upon each party.

A. FURTHER INFORMATION ABOUT THE COMPANY

1. Incorporation

We were established as a joint stock limited company in the PRC on August 30, 2006 by China Telecom Group, Guangdong Telecom Industry and Zhejiang Telecom Industry, as the Promoters in accordance with the provisions set out in the PRC Company Law under the name of China Communications Services Corporation Ltd..

We have established a place of business at Room 3203-3205, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong and has been registered with the Registrar of Companies as an oversea company under Part XI of the Hong Kong Companies Ordinance on November 14, 2006. Chung Wai Cheung, Terence has been appointed as our agent for the acceptance of service of process in Hong Kong.

As we are incorporated in the PRC, we are subject to the relevant laws, rules and regulations of the PRC. A summary of certain relevant aspects of PRC laws and principal regulatory provisions is set out in Appendix VI. A summary of various provisions of our articles of association is set out in Appendix VII.

2. Changes in our share capital

(a) As at the date of establishment of the Company, its initial registered capital was RMB3,960,000,000 divided into 3,960,000,000 Domestic Shares of par value RMB1.00 each, all of which were held and fully paid up as follows:

Promoter	No. of Domestic Shares Held	% of shareholding
China Telecom Group	3,623,400,000	91.5%
Guangdong Telecom Industry	245,520,000	6.2%
Zhejiang Telecom Industry	91,080,000	2.3%
	3,960,000,000	100.0%

(b) Immediately after the Global Offering, our registered share capital will be RMB5,251,293,000, made up of 3,830,870,700 Domestic Shares and 1,420,422,300 H Shares, fully paid up or credited as fully paid up, representing approximately 72.95% and 27.05% of the registered capital, respectively (assuming the Over-allotment Option is not exercised).

(c) Save as aforesaid, there has been no alteration in the share capital of our Company since the date of its incorporation.

3. Written resolutions of our shareholders passed on September 26, 2006

Resolutions were passed by our shareholders on September 26, 2006 pursuant to which we approved, among other things:

(a) conditional upon, amongst others, (i) the Listing Committee of the Hong Kong Stock Exchange granting the listing of, and permission to deal in, the H Shares to be issued as mentioned herein; and (ii) the Hong Kong Underwriting Agreement and International Underwriting Agreement becoming unconditional and not being terminated in accordance with their terms or otherwise, our Company approved:

(i) the issue of H Shares and the granting of the Over-allotment Option;

(ii) the listing of the H Shares on the Hong Kong Stock Exchange; and

(b) our Articles of Association were adopted and our Directors were authorised to amend our Articles of Association in accordance with any comments from the relevant governing authorities in the PRC and the Hong Kong Stock Exchange.

4. Our Subsidiaries

(a) Our subsidiaries are listed in the Accountants' Report set out in Appendix 1 to this prospectus.

(b) The following sets out the changes to the share capital of the subsidiaries of our Company within the two years preceding the date of this prospectus:

Shanghai

Shanghai P & T Design Institute Co., Ltd. (上海郵電設計院有限公司)

On May 23, 2005, Shanghai P & T Design Institute Co., Ltd. (上海郵電設計院有限公司) merged with Shanghai Telecommunication P&D Institute Co., Ltd. (上海電信規劃設計院有限公司) and increased its registered share capital from RMB15 million to RMB30 million.

According to the capital verification report dated October 14, 2005 issued by Shanghai Zhonghui Certified Public Accountants Co., Ltd. (上海中惠會計師事務所有限公司), the increased share capital was paid in full.

Shanghai Communications Equipment Bidding Co., Ltd. (上海通信設備招標有限公司)

On August 2, 2004, Shanghai Communications Equipment Bidding Co., Ltd. (上海通信設備招標有限公司) passed a resolution to increase its registered share capital from RMB0.5 million to RMB1 million.

On April 20, 2006, Shanghai Communications Equipment Tendering Co., Ltd. (上海通信設備招標有限公司) passed a resolution to increase its registered share capital from RMB1 million to RMB5 million.

According to the capital verification report dated April 17, 2006 issued by Shanghai Zhonghui Certified Public Accountants Co., Ltd. (上海中惠會計師事務所有限公司), the increased share capital was paid in full.

Shanghai New Epoch Information Industry Co., Ltd (上海世紀新元信息產業有限公司)

On April 20, 2006, Shanghai New Epoch Information Industry Co., Ltd (上海世紀新元信息產業有限公司) passed a resolution to reduce its registered share capital from RMB40 million to RMB30 million.

According to the capital verification report dated April 26, 2006 issued by Shanghai Zhonghui Certified Public Accountants Co., Ltd. (上海中惠會計師事務所有限公司), all the registered share capital was paid in full.

Shanghai Telecom Science & Technology Development Co., Ltd. (上海電信科技發展有限公司)

On March 13, 2006, Shanghai Telecom Science & Technology Development Co., Ltd. (上海電信科技發展有限公司) passed a resolution to reduce its registered share capital from RMB100 million to RMB65 million.

According to the capital verification report dated April 27, 2006 issued by Shanghai Gongxinzhongnan Certified Public Accountants Co., Ltd. (上海公信中南會計師事務所有限公司), all the registered share capital was paid in full.

Shanghai Telecom Engineering Co., Ltd. (上海電信工程有限公司)

On January 26, 2006, Shanghai Telecom Engineering Co., Ltd. (上海電信工程有限公司) passed a resolution to increase its registered share capital from RMB30 million to RMB80 million.

On April 20, 2006, Shanghai Telecom Engineering Co., Ltd. (上海電信工程有限公司) passed a resolution to reduce its registered share capital from RMB80 million to RMB60 million.

According to the capital verification report dated April 17, 2006 issued by Shanghai Zhonghui Certified Public Accountants Co., Ltd. (上海中惠會計師事務所有限公司), all the registered share capital was paid in full.

Shanghai Tele-communication Engineering Construction & Supervision Co., Ltd. (上海電話通信工程建設監理有限公司)

On March 28, 2006, Shanghai Tele-communication Engineering Construction & Supervision Co., Ltd. (上海電話通信工程建設監理有限公司) passed a resolution to increase its registered share capital from RMB2.5 million to RMB5 million.

According to the capital verification report dated April 19, 2006 issued by Shanghai Zhonghui Certified Public Accountants Co., Ltd. (上海中惠會計師事務所有限公司), the increased share capital was paid in full.

Shanghai Telephone Property Co., Ltd. (上海德律風物業有限公司)

On January 5, 2006, Shanghai Telephone Property Co., Ltd. (上海德律風物業有限公司) passed a resolution to transfer funds from its reserve account to registered share capital, thereby increasing its registered share capital from RMB58 million to RMB69 million.

On March 14, 2006, Shanghai Delvfeng Property Co., Ltd. (上海德律風物業有限公司) passed a resolution to reduce its registered share capital from RMB69 million to RMB20 million.

According to the capital verification report dated April 15, 2006 issued by Shanghai Zhonghui Certified Public Accountants Co., Ltd. (上海中惠會計師事務所有限公司), the registered share capital after the reduction was paid in full.

Zhejiang

Zhejiang Post & Telecommunication Construction Co., Ltd. (浙江省郵電工程建設有限公司)

On March 26, 2006, Zhejiang Post & Telecommunication Construction Co., Ltd. (浙江省郵電工程建設有限公司) became a limited liability company. Its registered share capital is RMB62,625,800.

According to the capital verification report dated March 29, 2006 issued by Hangzhou Ruixin Certified Public Accountants (杭州瑞信會計師事務所), the registered share capital was paid in full.

Zhejiang Telecommunication Construction Co., Ltd. (浙江省電信綫路建設有限公司)

On March 26, 2006, Zhejiang Telecommunication Construction Co., Ltd. (浙江省電信綫路建設有限公司) became a limited liability company. Its registered share capital is RMB13,312,700.

According to the capital verification report dated March 29, 2006 issued by Hangzhou Ruixin Certified Public Accountants (杭州瑞信會計師事務所), the registered share capital was paid in full.

Zhejiang Telecom Science & Technology Research Institute Co., Ltd. (浙江省電信科學技術研究所有限公司)

On March 26, 2006, Zhejiang Telecom Science & Technology Research Institute Co., Ltd. (浙江省電信科學技術研究所有限公司) became a limited liability company. Its registered share capital is RMB5,795,900.

According to the capital verification report dated March 29, 2006 issued by Hangzhou Ruixin Certified Public Accountants (杭州瑞信會計師事務所), the registered share capital was paid in full.

Huaxin Consulting Co., Ltd. (華信郵電咨詢設計研究院有限公司)

On January 14, 2005, Huaxin Consulting Co., Ltd. (華信郵電咨詢設計研究院有限公司) passed a resolution to increase its registered share capital from RMB68 million to RMB82 million.

According to the capital verification report dated February 1, 2005 issued by Zhejiang Huatian Certified Public Accountants Co., Ltd. (浙江華天會計師事務所有限公司), the increased share capital was paid in full.

Fujian

Fujian Post & Telecom Engineering Co., Ltd. (福建省郵電工程有限公司)

On June 28, 2005, Fujian Post & Telecom Engineering Co., Ltd. (福建省郵電工程有限公司) passed a resolution to increase its registered share capital from RMB21 million to RMB31 million.

According to the capital verification report dated July 6, 2005 issued by Fujian Zhongxing Certified Public Accountants Co., Ltd. (福建中興有限責任會計師事務所), all the registered share capital was paid in full.

Fujian Youke Communications Technology Co., Ltd. (福建郵科通信技術有限公司)

On March 23, 2006, Fujian Youke Communications Technology Co., Ltd. (福建郵科通信技術有限公司) passed a resolution to increase its registered share capital from RMB10 million to RMB50 million.

According to the capital verification report dated April 3, 2006 issued by Fujian Hongshen Certified Public Accountants Co., Ltd. (福建弘審有限責任會計師事務所), all the registered share capital was paid in full.

Fujian Post & Telecom Property Co., Ltd. (福建省郵電物業管理有限公司)

On March 8, 2006, Fujian Post & Telecom Property Co., Ltd. (福建省郵電物業管理有限公司) passed a resolution to increase its registered share capital from RMB5 million to RMB10 million.

According to the capital verification report dated March 28, 2006 issued by Fujian Hongshen Certified Public Accountants Co., Ltd. (福建弘審有限責任會計師事務所), all the registered share capital was paid in full.

Hubei

Hubei Telecom Engineering Co., Ltd. (湖北電信工程有限公司)

On April 10, 2006, Hubei Telecom Engineering Co., Ltd. (湖北電信工程有限公司) passed a resolution to increase its registered share capital from RMB30 million to RMB40 million.

On May 8, 2006, Hubei Telecom Engineering Co., Ltd. (湖北電信工程有限公司) passed a resolution to reduce its registered share capital from RMB40 million to RMB39 million.

According to the capital verification report dated June 14, 2006 issued by Hubei Tongxing Certified Public Accountants Co., Ltd. (湖北同興會計師事務所有限公司), all the registered share capital was paid in full.

Hubei Guanda Communication Science and Technology Network Consultation Co., Ltd. (湖北冠達通信科技網絡咨詢有限公司)

On April 17, 2005, Hubei Guanda Communication Science and Technology Network Consultation Co., Ltd. (湖北冠達通信科技網絡咨詢有限公司) passed a resolution to increase its registered share capital from RMB1 million to RMB3 million.

On March 20, 2006, Hubei Guanda Communication Science and Technology Network Consultation Co., Ltd. (湖北冠達通信科技網絡咨詢有限公司) passed a resolution to further increase its registered share capital from RMB3 million to RMB18 million.

According to the capital verification report dated April 18, 2006 issued by Hubei Tongxing Certified Public Accountants Co., Ltd. (湖北同興會計師事務所有限公司), the increased share capital was paid in full.

Hubei Post & Telecom Planning & Designing Co., Ltd. (湖北郵電規劃設計有限公司)

On November 20, 2004, Hubei Post & Telecom Planning & Designing Co., Ltd. (湖北郵電規劃設計有限公司) passed a resolution to increase its registered share capital from RMB10.1 million to RMB20 million.

According to the capital verification report dated December 28, 2004 issued by Hubei Tongxing Certified Public Accountants Co., Ltd. (湖北同興會計師事務所有限公司), the increased registered share capital was paid in full.

Wuhan Telecom Engineering Co., Ltd (武漢電信工程有限責任公司)

On March 20, 2006, Wuhan Telecom Engineering Co., Ltd (武漢電信工程有限責任公司) passed a resolution to increase its registered share capital from RMB30 million to RMB40 million.

According to the capital verification report dated April 20, 2006 issued by Hubei Tongxing Certified Public Accountants Co., Ltd. (湖北同興會計師事務所有限公司), all the registered share capital was paid in full.

Wuhan Telecom Planning and Designing Co., Ltd. (武漢電信規劃設計有限公司)

On March 20, 2006, Wuhan Telecom Planning and Designing Co., Ltd. (武漢電信規劃設計有限公司) passed a resolution to increase its registered share capital from RMB10 million to RMB20 million.

According to the capital verification report dated April 20, 2006 issued by Hubei Tongxing Certified Public Accountants Co., Ltd. (湖北同興會計師事務所有限公司), all the registered share capital was paid in full.

Wuhan Greenpower Telecom Network Co., Ltd. (武漢綠色動力電信網絡有限公司)

On March 20, 2006, Wuhan Greenpower Telecom Network Co., Ltd. (武漢綠色動力電信網絡有限公司) passed a resolution and amended the articles of association to increase its registered share capital from RMB5 million to RMB25 million.

According to the capital verification report dated April 18, 2006 issued by Hubei Tongxing Certified Public Accountants Co., Ltd. (湖北同興會計師事務所有限公司), all the registered share capital was paid in full.

Wuhan Luohua Intelligence Technology Co., Ltd (武漢絡華智能技術有限責任公司)

On April 20, 2006, Wuhan Luohua Intelligence Technology Co., Ltd (武漢絡華智能技術有限責任公司) passed a resolution to increase its registered share capital from RMB3 million to RMB10 million.

According to the capital verification report dated April 24, 2006 issued by Hubei Tongxing Certified Public Accountants Co., Ltd. (湖北同興會計師事務所有限公司), all the registered share capital was paid in full.

Guangdong

Guangdong Hongbo Communications Investment and Holding Co., Ltd. (廣東鴻波通信投資控股有限公司)

On December 31, 2005, Guangdong Hongbo Communication Investment and Holding Co., Ltd. (廣東鴻波通信投資控股有限公司) passed a resolution to increase its registered share capital from RMB100 million to RMB149,539,006.48.

On March 14, 2006, Guangdong Hongbo Communication and Investment Holding Co., Ltd. (廣東鴻波通信投資控股有限公司) passed a resolution to reduce its registered share capital from RMB149,539,006.48 to RMB30 million.

According to the capital verification report dated April 29, 2006 issued by KPMG Huazhen, all the registered share capital was paid in full.

Shenzhen Duxin Supervision & Management Co., Ltd. (深圳市都信建設監理有限公司)

On October 20, 2005, Shenzhen Duxin Supervision & Management Co., Ltd. (深圳市都信建設監理有限公司) passed a resolution to increase its registered share capital from RMB7 million to RMB7,780,436.

According to the capital verification report dated November 30, 2005 issued by KPMG Huazhen, all the registered share capital was paid in full.

Guangzhou Telecommunications Construction Corporation (廣州市通信建設有限公司)

On October 20, 2005, Guangzhou Telecommunications Construction Corporation (廣州市通信建設有限公司) passed a resolution to increase its registered share capital from RMB51 million to RMB59,623,217.

According to the capital verification report dated November 30, 2005 issued by KPMG Huazhen, all the registered share capital was paid in full.

Guangzhou Shou Xin Property Management Co., Ltd. (廣州市守信物業有限公司)

On August 15, 2005, Guangzhou Shou Xin Property Management Co., Ltd. (廣州市守信物業有限公司) passed a resolution to increase its registered share capital from RMB3.9 million to RMB5 million.

On October 20, 2005, Guangzhou Shou Xin Property Co., Ltd. (廣州市守信物業有限公司) passed a resolution to further increase its registered share capital from RMB5 million to RMB8,945,937.28.

According to the capital verification report dated November 30, 2005 issued by KPMG Huazhen, all the registered share capital was paid in full.

Guangzhou Huiyuan Communication Construction Supervision Co., Ltd. (廣州市滙源通信建設監理有限公司)

On October 20, 2005, Guangzhou Huiyuan Communication Construction Supervision Co., Ltd. (廣州市滙源通信建設監理有限公司) passed a resolution to increase its registered share capital from RMB5 million to RMB6,538,004.

According to the capital verification report dated November 30, 2005 issued by KPMG Huazhen, all the registered share capital was paid in full.

Guangdong Tisson Technologies Development Co., Ltd. (廣東天訊電信科技有限公司)

On October 20, 2005, Guangdong Tisson Technologies Development Co., Ltd. (廣東天訊電信科技有限公司) passed a resolution to increase its registered share capital from RMB13.65 million to RMB19,152,304.

According to the capital verification report dated November 30, 2005 issued by KPMG Huazhen, all the registered share capital was paid in full.

Lintech Telecom (International) Limited (科聯電信(國際)有限公司)

On April 28, 2006, Lintech Telecom (International) Limited (科聯電信(國際)有限公司) passed a resolution to increase its authorised share capital from HK$0.1 million to HK$35 million.

All the authorised share capital was paid in full.

Guangdong Electronic Certification Authority Co., Ltd. (廣東省電子商務認證有限公司)

On July 28, 2005, Guangdong Electronic Certification Authority Co., Ltd. (廣東省電子商務認證有限公司) passed a resolution to increase its registered share capital from RMB10 million to RMB30 million.

According to the capital verification report dated August 1, 2005 issued by Guangdong Xinhua Certified Public Accountants Co., Ltd. (廣東新華會計師事務所有限公司), all the registered share capital was paid in full.

Guangdong Planning and Designing Institute of Telecommunications Co., Ltd. (廣東省電信規劃設計院有限公司)

On March 28, 2006, Guangdong Planning and Designing Institute of Telecommunications Co., Ltd. (廣東省電信規劃設計院有限公司) was converted into a limited liability company pursuant to an approval of China Telecom Group and its registered share capital was increased from RMB30 million to RMB204,102,116.69.

According to the capital verification report dated March 29, 2006 issued by KPMG Huazhen, all the registered share capital was paid in full.

Guangdong Chang Xun Industry Co., Ltd. (廣東省長訊實業有限公司)

On March 28, 2006, Guangdong Chang Xun Industry Co., Ltd. (廣東省長訊實業有限公司) was converted into a limited liability company pursuant to an approval of China Telecom Group and its registered share capital was reduced from RMB196,485,000 to RMB155,719,653.14.

According to the capital verification report dated March 29, 2006 issued by KPMG Huazhen, all the registered share capital was paid in full.

Guangdong Trustel Communications Technology Co., Ltd. (廣東中實通信技術有限公司)

On January 10, 2006, Guangdong Trustel Communications Technology Co., Ltd. (廣東中實通信技術有限公司) passed a resolution to increase its registered share capital from RMB5.1 million to RMB10.6 million.

According to the capital verification report dated January 27, 2006 issued by Guangdong Xinhua Certified Public Accountants Co., Ltd. (廣東新華會計師事務所有限公司), all the registered share capital was paid in full.

Guangdong Star Net Chain-store Co., Ltd. (廣東星盟網絡連鎖經營有限公司)

On December 28, 2004, Guangdong Star Net Chain-store Co., Ltd. (廣東星盟網絡連鎖經營有限公司) passed a resolution to increase its registered share capital from RMB50 million to RMB150 million.

According to the capital verification report dated January 10, 2005 issued by Guangdong Tin Wah Certified Public Accountants Co., Ltd. (廣東天華華粵會計師事務所有限公司), all the registered share capital was paid in full.

Guangdong Data Communication Network Co., Ltd. (廣東數據通信網絡有限公司)

On November 16, 2004, Guangdong Data Communication Network Co., Ltd. (廣東數據通信網絡有限公司) passed a resolution to increase its registered share capital from RMB8 million to RMB50 million.

According to the capital verification report dated November 26, 2004 issued by Guangdong Kangyuan Certified Public Accountants Ltd. (廣東康元會計師事務所), all the registered share capital was paid in full.

Guangdong Telecommunications Construction & Development Co., Ltd. (廣東電信建設開發有限公司)

On March 28, 2006, Guangdong Telecommunications Construction & Development Co., Ltd. (廣東電信建設開發有限公司) was converted into a limited liability company pursuant to an approval of China Telecom Group and its registered share capital was reduced from RMB50 million to RMB32,315,237.

According to the capital verification report dated March 29, 2006 issued by KPMG Huazhen, all the registered share capital was paid in full.

Guangzhou Telecom Design Co., Ltd. (廣州市電信設計有限公司)

On October 20, 2005, Guangzhou Telecom Design Co., Ltd. (廣州市電信設計有限公司) passed a resolution to transfer the remaining sum in its reserve account to registered capital, thereby increasing its registered share capital from RMB8 million to RMB12,006,327.56.

According to the capital verification report dated November 30, 2005 issued by KPMG Huazhen, all the registered share capital was paid in full.

Guangdong Nanfang Communication Construction Limited Company (廣東南方通信建設有限公司)

On October 20, 2005, Guangdong Nanfang Communication Construction Limited Company (廣東南方通信建設有限公司) passed a resolution to transfer the remaining sum in its reserve account to registered capital, thereby increasing its registered share capital from RMB31.2 million to RMB34,147,399.92.

According to the capital verification report dated November 30, 2005 issued by KPMG Huazhen, all the registered share capital was paid in full.

Guangdong Telecommunications Engineering Co., Ltd. (廣東省電信工程有限公司)

On March 28, 2006, Guangdong Telecommunications Engineering Co., Ltd. (廣東省電信工程有限公司) was converted into a limited liability company pursuant to an approval of China Telecom Group and its registered share capital was increased from RMB34,502,000 to RMB116,753,536.

According to the capital verification report dated March 29, 2006 issued by KPMG Huazhen, all the registered share capital was paid in full.

Hainan

Hainan Telecom Property Management Co., Ltd. (海南電信物業管理有限公司)

On March 14, 2006, Hainan Telecom Property Management Co., Ltd. (海南電信物業管理有限公司) passed a resolution to reduce its registered share capital from RMB13 million to RMB5.3 million.

According to the capital verification report dated April 27, 2006 issued by Hainan Zhongzhou Certified Public Accountants Co., Ltd. (海南中洲會計師事務所有限公司), all the registered share capital was paid in full.

B. FURTHER INFORMATION ABOUT THE BUSINESS

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this prospectus and are, or may be, material:

(a) the restructuring agreement dated November 16, 2006 entered into between our Company and China Telecom Group regarding the Restructuring referred to in the Section headed "Our History and Restructuring" on pages 51 to 54 of this prospectus;

(b) the Strategic Cooperation Agreement dated August 30, 2006 entered into between our Company and China Telecom Listco in relation to the formation of a strategic partnership in certain areas referred to in the Section headed "Relationship with China Telecom" on pages 81 to 102 of this prospectus;

(c) the Non-Competition Undertaking dated November 16, 2006 entered into between our Company and China Telecom Group regarding the regulation of competition issues between us and China Telecom Group referred to in the Section headed "Relationship with China Telecom" on pages 81 to 102 of this prospectus;

(d) the Operation Support Services Framework Agreements dated November 16, 2006 entered into between our Company and China Telecom Group regarding mutual provision of community services referred to in the Section headed "Relationship with China Telecom" on pages 81 to 102 of this prospectus;

(e) a strategic placing agreement dated November 3, 2006 entered into between our Company, Cisco BV and Joint Global Coordinators in relation to Cisco BV's equity investment in our Company referred to in the Section headed "Our Strategic and Corporate Investors" on pages 55 to 59 of this prospectus;

(f) a cooperation agreement dated November 3, 2006 entered into between our Company and Cisco BV regarding cooperation through our resale of Cisco products and services referred to in the Section headed "Our Strategic and Corporate Investors" on pages 55 to 59 of this prospectus;

(g) a strategic investment agreement dated October 31, 2006 entered into between our Company, IDGIMS and Joint Global Coordinators in relation to IDGIMS's equity investment in our Company referred to in the Section headed "Our Strategic and Corporate Investors" on pages 55 to 59 of this prospectus;

(h) The Hong Kong Underwriting Agreement dated November 24, 2006 entered into between our Company, China Telecom Group, the Joint Global Coordinators, the Joint Sponsors and the Hong Kong Underwriters referred to in the Section headed "Underwriting" on pages 152 to 157 of this prospectus;

(i) the equity transfer agreement dated May 23, 2005 entered into between our Company and Chinese Telecommunication Group Shanghai Telecommunications Industry (Group) Company Labor Union Committee (中國電信集團工會上海電信實業(集團)有限公司委員會) in respect of the transfer by our Company of 10% of the equity capital of Shanghai Telecommunication P&D Institute Co., Ltd. (上海電信規劃設計院有限公司) to Chinese Telecommunication Group Shanghai Telecommunications Industry (Group) Company Labor Union Committee (中國電信集團工會上海電信實業(集團)有限公司委員會) for the transfer price of RMB5,211,650;

(j) the equity transfer agreement dated January 6, 2006 entered into between our Company and Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) in respect of the transfer by our Company of 33.33% of the equity capital of Hua Li Communication Information Co., Ltd. (上海華立通信信息有限公司) to Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) for the transfer price of RMB2,615,009;

(k) the equity transfer agreement dated January 6, 2006 entered into between our Company and Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) in respect of the transfer by our Company of 90% of the equity capital of Shanghai Lingyun Communication Network Co., Ltd. (上海凌雲通信網絡有限公司) to Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) for the transfer price of RMB33,370,796;

(l) the equity transfer agreement dated January 6, 2006 entered into between our Company and Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) in respect of the transfer by our Company of 78% of the equity capital of Shanghai Telecommunication Engineering New Technological Development Co., Ltd. (上海電信工程新技術發展有限公司) to Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) for the transfer price of RMB25,677,823;

(m) the equity transfer agreement dated January 6, 2006 entered into between our Company and Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) in respect of the transfer by our Company of 6% of the equity capital of Shanghai P&T Equipment Industry Co., Ltd. (上海市郵電器材工業有限公司) to Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) for the transfer price of RMB13,790,312;

(n) the equity transfer agreement dated January 6, 2006 entered into between our Company and Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) in respect of the transfer by our Company of 68% of the equity capital of Shanghai Tele-communication Engineering Construction & Supervision Co., Ltd. (上海電話通信工程建設監理有限公司) to Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) for the transfer price of RMB4,758,355;

(o) the equity transfer agreement dated January 6, 2006 entered into between our Company and Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) in respect of the transfer by our Company 12% of the equity capital of Shanghai Tele-communication Engineering Construction & Supervision Co., Ltd. (上海電話通信工程建設監理有限公司) to Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) for the transfer price of RMB839,710;

(p) the equity transfer agreement dated January 6, 2006 entered into between our Company and Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) in respect of the transfer by our Company of 9.8% of the equity capital of Shanghai Data Information Technology Co., Ltd. (上海數訊信息技術有限公司) to Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) for the transfer price of RMB5,270,040;

(q) the equity transfer agreement dated January 6, 2006 entered into between our Company and Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) in respect of the transfer by our Company of 9.72% of the equity capital of Shanghai Telecommunication Real Estate Co., Ltd. (上海電信房地產有限公司) to Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) for the transfer price of RMB2,783,426;

(r) the equity transfer agreement dated January 6, 2006 entered into between our Company and Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) in respect of the transfer by our Company of 3% of the equity capital of Suzhou Hailong Data Electric Cable Co., Ltd. (蘇州海龍數據電纜有限公司) to Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) for the transfer price of RMB1,333,974;

(s) the equity transfer agreement dated January 6, 2006 entered into between our Company and Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) in respect of the transfer by our Company of 43.33% of the equity capital of Shanghai International Bowling Hall Co., Ltd. (上海國際保齡球館有限公司) to Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) for the transfer price of RMB27,941,061;

(t) the equity transfer agreement dated January 6, 2006 entered into between our Company and Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) in respect of the transfer by our Company of 45% of the equity capital of Shanghai Telephone Property Advertisement Co., Ltd. (上海德律風廣告有限公司) to Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) for the transfer price of RMB1,347,652;

(u) the equity transfer agreement dated January 6, 2006 entered into between our Company and Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) in respect of the transfer by our Company of 2.5% of the equity capital of Shanghai Gonglian Communication Information Development Co., Ltd. (上海共聯通信信息發展有限公司) to Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) for the transfer price of RMB1,956,968;

(v) the equity transfer agreement dated January 19, 2006 entered into between our Company and Shanghai Hongkou Information Processing Center (上海市虹口區信息處理中心) in respect of the transfer by our Company of 2.5% of the equity capital of Shanghai Gonglian Communication Information Development Co., Ltd. (上海共聯通信信息發展有限公司) to Shanghai Hongkou Information Processing Center (上海市虹口區信息處理中心) for the transfer price of RMB1,956,968;

(w) the equity transfer agreement dated January 19, 2006 entered into between our Company and Shanghai Changning Real Estate Management Co., Ltd. (上海長寧房地產經營有限公司) in respect of the transfer by our Company of 5% of the equity capital of Shanghai Gonglian Communication Information Development Co., Ltd. (上海共聯通信信息發展有限公司) to Shanghai Changning Real Estate Management Co., Ltd. (上海長寧房地產經營有限公司) for the transfer price of RMB3,913,937;

(x) the equity transfer agreement dated January 19, 2006 entered into between our Company and Shanghai Jingan City Construction Development Co., Ltd. (上海靜安城建配套發展公司) in respect of the transfer by our Company of 5% of the equity capital of Shanghai Gonglian Communication Information Development Co., Ltd. (上海共聯通信信息發展有限公司) to Shanghai Jingan City Construction Development Co., Ltd. (上海靜安城建配套發展公司) for the transfer price of RMB3,913,937;

(y) the equity transfer agreement dated January 19, 2006 entered into between our Company and Shanghai New Scenery Information Industries Co., Ltd. (上海新景信息產業有限公司) in respect of the transfer by our Company of 2.5% of the equity capital of Shanghai Gonglian Communication Information Development Co., Ltd. (上海共聯通信信息發展有限公司) to Shanghai New Scenery Information Industries Co., Ltd. (上海新景信息產業有限公司) for the transfer price of RMB1,956,968;

(z) the equity transfer agreement dated January 19, 2006 entered into between our Company and Shanghai Zhabei Industrial Supply and Sales Company Co., Ltd. (上海市閘北區工業供銷公司) in respect of the transfer by our Company of 2.5% of the equity capital of Shanghai Gonglian Communication Information Development Co., Ltd. (上海共聯通信信息發展有限公司) to Shanghai Zhabei Industrial Supply and Sales Company Co., Ltd. (上海市閘北區工業供銷公司) for the transfer price of RMB1,956,968;

(aa) the equity transfer agreement dated March 30, 2006 entered into between our Company and Shanghai Shengqin (Group) Co., Ltd. (上海盛勤(集團)有限公司) in respect of the transfer by our Company of 5% of the equity capital of Shanghai Gonglian Communication Development Co., Ltd. (上海共聯通信信息發展有限公司) to Shanghai Shengqin (Group) Co., Ltd. (上海盛勤(集團)有限公司) for the transfer price of RMB3,913,937;

(bb) the equity transfer agreement dated January 6, 2006 entered into between our Company and Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) in respect of the transfer by our Company of 10% of the equity capital of Shanghai Huidi Telecommunication Development Co., Ltd. (上海慧迪電信發展有限公司) to Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) for the transfer price of RMB957,867;

(cc) the equity transfer agreement dated January 6, 2006 entered into between our Company and Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) in respect of the transfer by our Company of 10% of the equity capital of Shanghai Songdi Telecommunication Development Co., Ltd. (上海松迪電信發展有限公司) to Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) for the transfer price of RMB1,384,648;

(dd) the equity transfer agreement dated January 6, 2006 entered into between our Company and Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) in respect of the transfer by our Company of 10% of the equity capital of Shanghai Jindi Telecommunication Development Co., Ltd. (上海金迪電信發展有限公司) to Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) for the transfer price of RMB823,982;

(ee) the equity transfer agreement dated January 6, 2006 entered into between our Company and Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) in respect of the transfer by our Company of 10% of the equity capital of Shanghai Nandi Telecommunication Development Co., Ltd. (上海南迪電信發展有限公司) to Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) for the transfer price of RMB905,762;

(ff) the equity transfer agreement dated January 6, 2006 entered into between our Company and Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) in respect of the transfer by our Company of 15% of the equity capital of Shanghai P&T Mobile Communication Co., Ltd. (上海郵通移動通信科技有限公司) to Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) for the transfer price of RMB3,722,975;

(gg) the equity transfer agreement dated January 6, 2006 entered into between our Company and Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) in respect of the transfer by our Company of 80% of the equity capital of Shanghai Telephone Property Co., Ltd. (上海德律風房屋置換有限公司) to Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) for the transfer price of RMB18,054,474;

(hh) the equity transfer agreement dated January 6, 2006 entered into between our Company and Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) in respect of the transfer by our Company of 55% of the equity capital of Shanghai Telephone Property Advertisement Co., Ltd. (上海德律風廣告有限公司) to Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) for the transfer price of RMB1,647,130;

(ii) the equity transfer agreement dated January 6, 2006 entered into between our Company and Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) in respect of the transfer by our Company of 15.98% of the equity capital of Shanghai Telecommunication Real Estate Co., Ltd. (上海電信房地產有限公司) to Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) for the transfer price of RMB4,574,362;

(jj) the equity transfer agreement dated January 6, 2006 entered into between our Company and Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) in respect of the transfer by our Company of 90% of the equity capital of Shanghai Telephone Taxi Service Co., Ltd. (上海電話出租汽車服務有限公司) to Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) for the transfer price of RMB5,146,883;

(kk) the equity transfer agreement dated January 6, 2006 entered into between our Company and Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) in respect of the transfer by our Company of 60% of the equity capital of Shanghai Telephone Automobile Service Co., Ltd. (上海德律風汽車服務有限公司) to Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) for the transfer price of RMB3,255,251;

(ll) the equity transfer agreement dated January 6, 2006 entered into between our Company and Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) in respect of the transfer by our Company of 65% of the equity capital of Shanghai Jingan Vehicle Maintenance Service Co., Ltd. (上海靜安機動車檢測維修有限公司) to Shanghai Telecommunications Industry (Group) Company (上海電信實業(集團)有限公司) for the transfer price of RMB642,277;

(mm) the asset transfer agreement dated July 11, 2006 entered into between our Company and Zhejiang Telecom Industry Group Corporation (浙江省電信實業集團公司) in respect of the transfer by our Company of certain assets in the PRC to Zhejiang Telecom Industry Group Corporation (浙江省電信實業集團公司) for the transfer price of RMB32,613,715;

(nn) the equity transfer agreement dated June 6, 2006 entered into between our Company and Zhejiang Telecom Industry Group Corporation (浙江省電信實業集團公司) in respect of the transfer by our Company of 10% of the equity capital of Zhejiang Quintessence Tourism Assets Management Administration Co., Ltd. (浙江錢塘旅業資產經營管理有限公司) to Zhejiang Telecom Industry Group Corporation (浙江省電信實業集團公司) for the transfer price of RMB26,917,865.51;

(oo) the assets transfer agreement dated April 30, 2006 entered into between our Company and Fujian Telecom Industry Group Co., Ltd. (福建省電信實業集團有限公司) in respect of the transfer by our Company of certain assets to Fujian Telecom Industry Group Co., Ltd. (福建省電信實業集團有限公司) for the transfer price of RMB16,148,794.35;

(pp) the equity transfer agreement dated January 16, 2006 entered into between our Company and Hubei Telecom Industry Co., Ltd. (湖北電信實業有限責任公司) in respect of the transfer by our Company of 30.02% of the equity capital of Hubei Xingyu Communications Co., Ltd. (湖北星宇通信有限公司) to Hubei Telecom Industry Co., Ltd. (湖北電信實業有限責任公司) for the transfer price of RMB502,825.14;

(qq) the equity transfer agreement dated January 16, 2006 entered into between our Company and Hubei Telecom Industry Co., Ltd. (湖北電信實業有限責任公司) in respect of the transfer by our Company of 5% of the equity capital of Wuhan Wudian Technological Development Co., Ltd. (武漢武電科技開發有限責任公司) to Hubei Telecom Industry Co., Ltd. (湖北電信實業有限責任公司) for the transfer price of RMB634,130.17;

(rr) the equity transfer agreement dated April 24, 2006 entered into between our Company and Hubei Telecom Industry Co., Ltd. (湖北電信實業有限責任公司) in respect of the transfer by our Company of 10% of the equity capital of Wuhan Telecommunications Planning & Designing Co., Ltd. (武漢電信規劃設計有限公司) to Hubei Telecom Industry Co., Ltd. (湖北電信實業有限責任公司) for the transfer price of RMB1,225,500; and

(ss) the equity transfer agreement dated April 24, 2006 entered into between our Company and Hubei Telecom Industry Co., Ltd. (湖北電信實業有限責任公司) in respect of the transfer by our Company of 5% of the equity capital of Wuhan Telecom Engineering Co., Ltd. (武漢電信工程有限責任公司) to Hubei Telecom Industry Co., Ltd. (湖北電信實業有限責任公司) for the transfer price of RMB1,580,000.

2. Our intellectual property rights

(a) As at the Latest Practicable Date, we have applied for the registration of the following trademarks:

No.	Trademark	Place of Application	Type	Application Date	Application No.
1.	中国通信服务 CHINA COMSERVICE	PRC	9, 16, 35, 36, 37, 39, 41, 42	August 11, 2006	pending
2.	生活彩页	PRC	16	July 4, 2005	4756417
3.	城市彩页	PRC	16	July 4, 2005	4756350
4.	网络百事通	PRC	38	February 27, 2006	5178652

(b) As at the Latest Practicable Date, we are the registered owner of the following trademarks:

No.	Trademark	Place of Application	Type	Validity Date	Registration No.
1.		PRC	36	January 14, 2003 to January 13, 2013	1955107
2.		PRC	36	January 14, 2003 to January 13, 2013	1955106
3.		PRC	35	August 21, 2004 to August 20, 2014	3441191
4.	sunbu	PRC	9	December 7, 2001 to December 6, 2011	1678204

(c) As at the Latest Practicable Date, we are the registered owner of the following patents:

No.	Patent	Place of Application	Type	Validity Date	Certificate No.
1.	Case cover bump locating device (箱蓋凸塊定位裝置)	PRC	(實用新型) Utility model	June 8, 2004	2004200235314
2.	Junction box cable coaming (分綫箱穿綫環)	PRC	(實用新型) Utility model	June 8, 2004	200420023530X
3.	Assembly type junction box (組合式分綫箱)	PRC	(實用新型) Utility model	June 8, 2004	2004200235282
4.	Rotary connector (旋轉式連接端子)	PRC	(實用新型) Utility model	June 8, 2004	2004200235333
5.	Case cover built-in locating devices (箱蓋嵌入式定位裝置)	PRC	(實用新型) Utility model	June 8, 2004	2004200235329
6.	Junction box cable lead and slack up winding device (分綫箱內綫纜導引和餘長收容裝置)	PRC	(實用新型) Utility model	June 8, 2004	2004200235297
7.	Cable shielded layer lead out structure and its application (電纜屏蔽層引出結構及其應用)	PRC	(發明) Invention	June 8, 2004	2004100249947

(d) As at the Latest Practicable Date, we are the registered owner of the following copyrights:

No.	Copyright	Place of Application	Type	Validity Date	Serial Number	Certificate No.
1.	New Epoch IVR Software V1.0 (世紀新元交互式語音應答軟件V1.0)	PRC	(計算機軟件) Computer software	February 28, 2002	014805	2003SR9714
2.	New Epoch On-Line Business Back-end Processing System (世紀新元網上營業廳後台處理系統V1.0)	PRC	(計算機軟件) Computer software	March 21, 2004	029104	2004SR10703
3.	Hubei Telecom & Post Planning and Designing Co., Ltd. Office Automation System V1.0 (湖北郵電規劃辦公自動化系統V1.0)	PRC	(計算機軟件) Computer software	December 5, 2005	048568	2006SR00902

(e) As at the Latest Practicable Date, we are the registered owner with automatic rights to renewal of the following domain name(s):

No.	Domain Name	Period of Registration
1.	深圳黃頁.中國	July 28, 2003 to July 28, 2008
2.	深圳黃頁(通用網址)	January 8, 2006 to January 8, 2008
3.	南方信息網(通用網址)	September 23, 2005 to September 23, 2008

The contents of the website(s), registered or licensed, do not form part of this prospectus.

Save as aforesaid, there are no other trade or service marks, patents, other intellectual or industrial property rights which are or may be material in relation to our Group's business.

C. FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF

1. Particulars of Directors' and Supervisors' service agreements

Each of the Directors has entered into a service contract with us for an initial term of three years commencing from either August, September or October 2006 and expiring on August 2, 2009. The contracts may be renewed upon expiry in accordance with our Articles of Association. The contracts may be terminated by either party by giving three months' notice in accordance with other terms provided in the service contracts.

2. Directors' remuneration

There was no compensation (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) which was paid to the Directors and Supervisors during the three years ended December 31, 2003, 2004 and 2005.

Save as disclosed in this prospectus, no other emoluments have been paid or are payable, in respect of the three years ended December 31, 2003, 2004 and 2005 and the six months ended June 30, 2006 by us to our Directors and Supervisors.

3. Disclosure of interests in Shares

Save as disclosed herein, but not taking into account any Shares which may be taken up under the Global Offering, our Directors are not aware of any legal person or individual (not being a Director or chief executive of our Company) who will, immediately following the completion of the Global Offering, be directly or indirectly interested in 10% or more of the Shares then in issue, or an equity interest in any subsidiaries of our Company.

4. Substantial shareholders

So far as our Directors are aware, the following persons will, immediately following completion of the Global Offering and assuming the Over-allotment Option is not exercised, be interested in the following Domestic Shares or H Shares carrying rights to vote in all circumstances at our shareholders' general meeting:

Name of interested party	Number of Shares	Approximate percentage of shareholding (%)
China Telecom Group	3,505,246,691	66.75%

Information on the person, not being our Director or Supervisor, who has an interest or short position in our Shares and underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO or who is, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at our general meetings is set out in the section headed "Substantial Shareholders" of this prospectus.

5. Personal guarantees

Our Directors and Supervisors have not provided personal guarantees in favour of lenders in connection with banking facilities granted to us.

6. Agency fees or commissions received

Information on the agency fees or commissions received by the Underwriters is set out in the section headed "Underwriting" of this prospectus.

Save as disclosed in this prospectus; none of the Directors, the promoter(s) of our Company or the experts named in the paragraph headed "Consents of experts" in this Appendix have received any agency fees, commissions, discounts, brokerages, or been granted any other special terms, in connection with the issue or sale of our capital, within the two years preceding the date of this prospectus.

7. Related party transactions

Save as disclosed in the accountants' report set out in Appendix 1 to this prospectus, and in the paragraph headed "Our relationship with China Telecom Group", no other material related party transactions have been entered into by us during the two years preceding the date of this prospectus.

8. Disclaimers

Save as disclosed in this prospectus:

(a) none of our Directors or chief executive has any interest or short position in any of our Shares, underlying Shares or debentures or any shares, underlying shares or debentures of any associated corporation (within the meaning of Part XV of the SFO which will be required to be notified to us and the Hong Kong Stock Exchange in accordance with Division 7 and 8 of Part XV of the SFO (including interests and short positions which he is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required to be notified to us and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, in each case once the H Shares are listed. For this purpose, the relevant provisions of the SFO will be interpreted as if they applied to our Supervisors;

(b) none of our Directors or Supervisors or any of the experts referred to in the paragraph headed "Consents of experts" in this Appendix has any direct or indirect interest in the our promotion, or in any assets which have been within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to us, or are proposed to be so acquired, disposed of or leased;

(c) none of our Directors or Supervisors or any of the experts referred to in the paragraph headed "Consents of experts" in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business taken as a whole;

(d) save as referred to in the paragraph headed "Particulars of Directors' service agreements" in this Appendix, none of the Directors has any existing or proposed service contracts with us, excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation);

(e) taking no account of any Shares which may be taken up under the Global Offering and issued pursuant to exercise of the Over-allotment Option, the Directors are not aware of any person, not being a Director or chief executive, who will, immediately following completion of the Global Offering, be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at our general meetings;

(f) none of the experts referred to in the paragraph headed "Consents of experts" in this Appendix has any shareholding in us or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities, save in connection with the Hong Kong Underwriting Agreement and the International Purchase Agreement, nor is in the employment of our officer or servant; and

(g) none of the Directors is a director or employee of a company which has an interest in our share capital which, once the Shares are listed on the Stock Exchange, would fall to be disclosed to us under the provisions of Part II of the SDI Ordinance.

D. OTHER INFORMATION

1. Estate Duty

We have been advised that no material liability for estate duty under PRC law is likely to fall on us, on the basis that there is no estate duty under PRC law.

2. Litigation

No member of our Group is engaged in any litigation or arbitration of material importance and, so far as our Directors are aware, no litigation, arbitration or claim of material importance is pending or threatened by or against any member of our Group.

3. Joint Sponsors

The Joint Sponsors have made an application on behalf of us to the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, and any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option.

4. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately RMB300,000 and are payable by us.

5. Promoters

Our promoters are China Telecom Group, Guangdong Telecom Industry and Zhejiang Telecom Industry. Save as disclosed in this prospectus, no cash, securities or other benefit has been paid, allotted or given or is proposed to be paid, allotted or given to the promoters in connection with the Global Offering or the related transactions described in this prospectus within the two years immediately preceding the date of this prospectus.

6. Qualifications of experts

The following are the qualifications of the experts which have given their opinions or advice which are contained, or referred to, in this prospectus:

Expert	Qualification
China International Capital Corporation (Hong Kong) Limited	Licensed under the SFO for type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance) and type 9 (asset management) as defined under the SFO
Goldman Sachs (Asia) L.L.C.	Licensed under the SFO for type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance) and type 9 (asset management) as defined under the SFO
KPMG	Certified public accountants
Savills Valuation and Professional Services Limited	Professional surveyors and valuers
Jingtian & Gongcheng	Qualified PRC lawyers

7. Consents of experts

Each of the Joint Sponsors, KPMG, Savills Valuation and Professional Services Limited and Jingtian & Gongcheng Attorneys at Law has given and has not withdrawn its written consent to the issue of this prospectus with inclusion of its report and/or letter and/or valuation certificate(s) and/or the references to its name in the form and context in which they are respectively included.

8. Compliance Adviser

We will appoint China International Capital Corporation (Hong Kong) Limited as our compliance adviser (the "**Compliance Adviser**") upon listing in compliance with Rule 3A.19 of the Hong Kong Listing Rules.

We expect to enter into a compliance adviser's agreement with the Compliance Adviser, the material terms of which we expect to be as follows:

(a) we will appoint the Compliance Adviser as our compliance adviser for the purpose of Rule 3A.19 of the Hong Kong Listing Rules for a period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Hong Kong Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is earlier;

(b) the Compliance Adviser shall provide us with services, including guidance and advice as to compliance with the requirements under the Hong Kong Listing Rules and other applicable laws, regulations and codes, and to act as one of our principal channels of communication with the Hong Kong Stock Exchange;

(c) we will agree to indemnify the Compliance Adviser for certain actions against and losses incurred by the Compliance Adviser arising out of or in connection with the performance by the Compliance Adviser of its duties under the agreement, or any material breach or alleged breach by us of the provisions of the agreement; and

(d) we may terminate the appointment of any Compliance Adviser if the Compliance Adviser's work is of an unacceptable standard as permitted by Rule 3A.26 of the Hong Kong Listing Rules. The Compliance Adviser may resign or terminate its appointment by service of three months' notice to us.

9. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Hong Kong Companies Ordinance so far as applicable.

10. Miscellaneous

Save as disclosed in this prospectus:

(a) within the two years preceding the date of this prospectus, none of our share or loan capital has been issued or agreed to be issued fully or partly paid for either cash or a consideration other than cash;

(b) none of our share or loan capital is under option or is agreed conditionally or unconditionally to be put under option;

(c) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of our Share or loan capital;

(d) since June 30, 2006 (being the date to which our latest audited financial statements were made up) there has not been any material adverse effect in our financial or trading position;

(e) none of our founders, management or deferred shares have been issued or agreed to be issued;

(f) there have been no interruptions in our business which may have or have had a significant effect on our financial position in the last 12 months; and

(g) all necessary arrangements have been made to enable our H Shares to be admitted into CCASS for clearing and settlement.

11. Exemptions from Hong Kong Companies Ordinance Provisions and Parallel Rules under the Hong Kong Listing Rules

According to the valuation report set out in Appendix IV to this prospectus, we owned 248 parcels of land with an aggregate area of approximately 296,256 square meters and 338 buildings with an aggregate gross floor area of approximately 458,157 square meters. We also leased approximately 851 properties with an aggregate gross floor area of approximately 582,457 square meters. All of these properties are located in the PRC.

Owing to the number of properties involved, we have applied to the SFC for an exemption from strict compliance with certain of the valuation report requirements contained in paragraph 34(2) of the Third Schedule to the Hong Kong Companies Ordinance on the ground that it would be unduly burdensome to include a fully compliant valuation report in this prospectus and the inclusion of such detailed information would be irrelevant to potential investors in a company which provides specialized telecommunications support services and would not be material to a potential investor's investment decision.

We have also applied to the Hong Kong Stock Exchange for a waiver from strict compliance with Rules 5.01, 5.06 and 19A.27(4) and paragraph 3(b) of Practice Note 16 of the Hong Kong Listing Rules, on the grounds that:

(i) it would be unduly burdensome to include a fully compliant valuation report in this prospectus and the inclusion of such detailed information would be irrelevant to potential investors in a company which provides specialized telecommunications support services and would not be material to a potential investor's investment decision; and

(ii) and it would be unduly burdensome to prepare an English translation of the report, as all of the properties are located in the PRC and consequently the underlying valuation and title information is in Chinese.

We have also applied to the Hong Kong Stock Exchange for a waiver from strict compliance with certain of the valuation report requirements contained in Rule 5.01 and paragraph 3(b) of Practice Note 16 of the Hong Kong Listing Rules, respectively, on the grounds that (i) although no formal valuation has been made by an independent qualified valuer in respect of the leased properties, Savills Valuation and Professional Services Limited is of the opinion that the leases have no commercial value; (ii) the valuation of the leased properties has not been used to form a computation of our net tangible assets; and (iii) China Telecom Group will undertake to indemnify the Group against any loss or damage suffered by us caused by or arising from any challenge to, or interference with, our rights in the leased properties. In addition to the summary valuation report which is reproduced in this prospectus, a full valuation report will be made available for public inspection.

The exemption has been granted by the SFC under section 342A(1) of the Hong Kong Companies Ordinance, subject to the following conditions:

(i) a valuation report in the Chinese language complying with all the requirements of paragraph 34 of the Third Schedule to the Companies Ordinance will be made available for inspection accordance with Appendix IX — "Documents Delivered to the Registrar of Companies and Available for Inspection";

(ii) the valuer's letter and the valuer's certificate containing a summary valuation of all the Group's property interests be included in this prospectus in the form set out in Appendix IV to this prospectus; and

(iii) this prospectus shall set out particulars of this exemption.

The waiver has been granted by the Hong Kong Stock Exchange from Rules 5.01, 5.06 and 19A.27(4) and paragraph 3(b) of Practice Note 16 of the Hong Kong Listing Rules, subject to the following conditions:

(i) a full valuation report in the Chinese language complying with all the requirements under the Listing Rules and paragraph 34 of the Third Schedule to the Companies Ordinance will be made available for inspection accordance with Appendix IX — "Documents Delivered to the Registrar of Companies and Available for Inspection";

(ii) a summary valuation report of all property interests of us and our subsidiaries, as set out in Appendix IV to this prospectus, has been included in this prospectus; and

(iii) we obtain a Certificate of Exemption from the SFC in relation to compliance with relevant requirements under the Companies Ordinance.

We are of the view that the exemption from the SFC and the waiver from the Hong Kong Stock Exchange would not prejudice the interests of potential investors on the grounds mentioned above.

12. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Hong Kong Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

(a) a copy of the **WHITE** and **YELLOW** Application Forms;

(b) the written consents referred to in paragraph D.7 of Appendix VIII;

(c) a copy of each of the material contracts referred to in paragraph B.1 of Appendix VIII; and

(d) a copy of the Statement of Adjustments to the accountants' report set forth in Appendix I.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Simmons & Simmons at 35th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of the prospectus:

(a) our Company's Articles of Association;

(b) the accountants' report received from KPMG, the text of which is set out in Appendix I together with the statement of adjustment;

(c) the letter relating to the unaudited pro forma financial information, the text of which is set out in Appendix II;

(d) the letters relating to the profit forecast of our Company, the texts of which are set out in Appendix III;

(e) the letter and valuation certificates relating to our property interests prepared by Savills Valuation and Professional Services Limited, the texts of which are set out in Appendix IV, and the full valuation report (with addresses in the Chinese language only) of Savills Valuation and Professional Services Limited referred to in Appendix IV;

(f) the material contracts referred to in paragraph B.1 of Appendix VIII;

(g) the service contracts referred to in paragraph C.1 of Appendix VIII;

(h) the written consents referred to in paragraph D.7 of Appendix VIII;

(i) the PRC Company Law, together with an unofficial English translation;

(j) the Mandatory Provisions, together with an unofficial English translation;

(k) the Special Regulations, together with an unofficial English translation;

(l) the Provisional Regulations Concerning the Issue and Trading of Shares (April 22, 1993), together with an unofficial English translation;

(m) the Implementation Measures (Provisional) on Disclosure of Information (June 12, 1993);

(n) the Provisional Measures Prohibiting Fraudulent Conduct Relating to Securities (September 2, 1993), together with an unofficial English translation;

(o) the Regulations of the State Council Concerning the Domestic Listed Shares of Joint Stock Limited Companies (December 25, 1995), together with an unofficial English translation;

(p) the Securities Law of the PRC, together with an unofficial English translation;

(q) the Opinion on the Further Promotion of the Regular Operation and In-Depth Reform of Companies Listed Overseas issued by the State Economic and Trade Commission and the CSRC on March 29, 1999;

(r) the Arbitration Law of the PRC promulgated by the Standing Committee of the NPC on August 31, 1994 and effective on September 1, 1995, together with an unofficial English translation;

(s) the Civil Procedure Law of the PRC adopted at the fourth meeting of the seventh NPC, promulgated by the president of the PRC on April 9, 1991, together with an unofficial English translation; and

(t) the PRC legal opinion issued by Jingtian & Gongcheng Attorneys at Law, the legal advisers to the Company on PRC law as described in Appendix VI.