Network Builder for the World-Class Communications Infrastructure

ANNUAL REPORT 2013

中国通信服务
CHINA COMSERVICE

CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

Stock Code: 552


HYDRAMARINE

CONTENTS

2 Financial Highlights

4 Company Profile and Corporate Information

6 Milestones

10 Chairman's Statement

14 President's Statement

20 Business Overview

30 Management Discussion and Analysis of Financial Conditions and Results of Operations

38 Profiles of Directors, Supervisors and Senior Management

48 Report of the Directors

63 Report of the Supervisory Committee

66 Corporate Governance Report

76 Investor Relations

84 Human Resources Development

85 Notice of Annual General Meeting

89 Independent Auditor's Report

91 Consolidated Statement of Profit or Loss

92 Consolidated Statement of Profit or Loss and Other Comprehensive Income

93 Consolidated Statement of Financial Position

95 Statement of Financial Position

96 Consolidated Statement of Changes in Equity

98 Consolidated Statement of Cash Flows

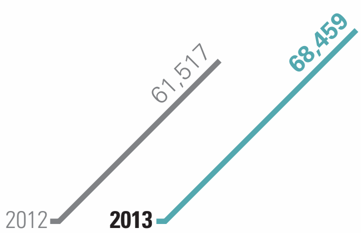
100 Notes to the Consolidated Financial Statements

171 Financial Summary

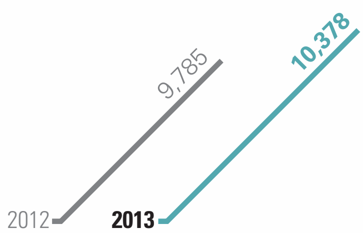
FINANCIAL HIGHLIGHTS

	2012	2013	Change
Revenues (RMB million)	61,517	**68,459**	11.3%
Gross profit (RMB million)	9,785	**10,378**	6.1%
Profit attributable to equity shareholders (RMB million)	2,407	**2,238**	-7.0%
Basic earnings per share (RMB)	0.353	**0.323**	-8.4%
Free cash flow[1] (RMB million)	166	**-324**	–

Revenues
(RMB million)



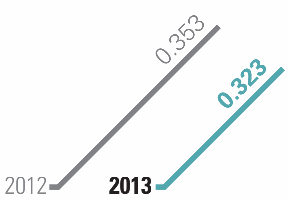
Gross Profit
(RMB million)



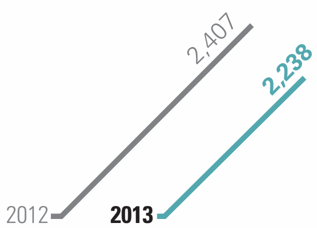
[1] Free cash flow = Profit for the year + Depreciation and amortization – Changes in working capital – Capital expenditure

FINANCIAL HIGHLIGHTS

Basic Earnings Per Share
(RMB)



Profit Attributable to Equity Shareholders
(RMB million)



COMPANY PROFILE AND CORPORATE INFORMATION

China Communications Services Corporation Limited (the "Company") is a leading service provider in the informatization sector in the PRC, in commitment of "building world-class networks for the informatization services", providing integrated support services in the informatization sector, including telecommunications infrastructure services, business process outsourcing services and applications, content and other services. Our shareholders include China Telecommunications Corporation, China Mobile Communications Corporation, China United Network Communications Group Company Limited and China National Postal and Telecommunications Appliances Corporation. Meanwhile all three telecommunications operators in the PRC are our customers. We also provide services to domestic non-operator customers like government agencies, industrial customers and small and medium enterprises as well as overseas customers. Our service coverage is spread across the nation and we have also extended our business to over 50 countries and regions globally.

On 8 December 2006, the H shares issued by the Company were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited. As at 31 December 2013, the aggregate share capital of the Company was 6,926,018,400, of which 2,391,420,240 were H shares.

In 2013, the Company ranked 82th on the "2013 FORTUNE China 500" released by *Fortune China*, and was granted many international awards, including No. 1 on the "Best Managed Company in China" by *Euromoney*, and No. 3 on the "Best Managed Company In China" by *FinanceAsia*.

HONORARY CHAIRMAN
Mr. Wang Xiaochu

BOARD OF DIRECTORS
Executive directors
Mr. Li Ping (Chairman)
Mr. Si Furong
Ms. Hou Rui

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

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

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

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

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

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

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

SUPERVISORY COMMITTEE
Ms. Xia Jianghua (Committee Chairperson)
Mr. Hai Liancheng (Independent Supervisor)
Mr. Si Jianfei (Employee Representative Supervisor)

LEGAL NAME (IN CHINESE)
中國通信服務股份有限公司

LEGAL NAME (IN ENGLISH)
China Communications Services Corporation Limited

LEGAL REPRESENTATIVE
Mr. Li Ping

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT
Mr. Chung Wai Cheung, Terence

INTERNATIONAL AUDITORS
Deloitte Touche Tohmatsu

LEGAL ADVISORS
Freshfields Bruckhaus Deringer
King & Wood Mallesons Lawyers

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H SHARE REGISTRAR
Computershare Hong Kong Investor Services Limited
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Hopewell Centre
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Hong Kong

LISTING PLACE
The Stock Exchange of Hong Kong Limited

STOCK CODE
00552

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MILESTONES

2006

August

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

December

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited. Gross proceeds from the IPO was approximately HK$3.3 billion.

2007

August

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

2008

April

Mr. Wang Xiaochu resigned as Non-Executive Director and Chairman of the Company, and was re-designated as the Honorary Chairman. On the same date, Mr. Li Ping was appointed as Chairman of the Company.

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

May

The Company completed the acquisition of the 100% equity interests in China International Telecommunications Construction Corporation for a consideration of RMB505 million.

2009

March

China Telecommunications Corporation completed the transfer of 506,880,000 and 236,300,000 domestic shares of the Company to China Mobile Communications Corporation and China United Network Communications Group Company Limited respectively.

May

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

November

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

2010

April

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

2011

March

The Company proposed rights issue of domestic shares and H shares.

June

The Company and Sybase, Inc. announced to establish a joint venture.

October

The Group and Bytemobile, Inc. announced to establish a joint venture.

2012

February

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

June

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

2013

August

The Company officially implemented the operation outsourcing project in Congo (K).

November

The Company announced jointly with China UnionPay and Bank of Changsha the launch of "Gripay", a mobile finance platform.

The Company announced jointly with China Telecom and SAP to offer SAP's cloud solution to the enterprises in China. The services will be offered by the joint venture of the Company with SAP.

December

Mr. Si Furong was appointed as the President of the Company and appointed as Executive Director of the Company on 21 February 2014.

REACHING SKYHIGH

Satellite communications system construction project in Chang Cheng Station, South Pole

CHAIRMAN'S STATEMENT

Li Ping
Chairman

Dear Shareholders,

The Group has maintained a steady and favourable development since its listing by continuously enhancing its operating and management capabilities. In 2013, the fundamentals of the Group remained solid although the Group recorded a negative profit growth for the first time due to various factors, including changes in our industry environment. During the year, the expansion into the two new markets that the Group has strived to explore and the development of our innovative businesses have gradually shown positive results, signifying its right strategic positioning and development direction. Our operating environment will still be challenging in the future, however, we believe that the national policies on comprehensive and in-depth reforms, information consumption and 4G licensing will continue to create new opportunities for the long-term development of the Group. The Group remains confident in its future development, and will adhere to its "Five Development Strategies"[1] so as to facilitate a sustainable growth in the future.

OPERATING RESULTS

In 2013, the Group achieved a stable business growth and recorded total revenues of RMB68,459 million, representing a year-on-year growth of 11.3%. Profit attributable to equity shareholders was RMB2,238 million, representing a year-on-year decrease of 7.0%. Having considered the interests of and returns to our shareholders, the Board proposed to maintain a 40% dividend payout ratio and pay a final dividend of RMB0.1293 per share for the financial year ended 31 December 2013. Total dividend amount is approximately RMB896 million.

The changes of our operating results in 2013 were attributable to various factors, mainly including the slowdown in revenue growth and decrease in gross profit margin. In 2013, the issuance of 4G licenses in China and the new industry regulatory policies affected our operating environment and imposed greater pressure on the Group. The report herein as well as the President's Statement will elaborate on details of the above-mentioned issues.

1 Strategy of Maintaining a Leading Position in the Domestic Telecommunications Operator Market, Strategy of Differentiation and Cooperation in the Domestic Non-operator Market, Strategy of Overseas Market-Focused and Four-Step Approach, Strategy of Talents Management and Strategy of Synergistic Operation.

The Group has maintained a steady and favourable development since its listing by continuously enhancing its operating and management capabilities. Our operating environment will still be challenging in the future, however, we believe that the national policies on comprehensive and in-depth reforms, information consumption and 4G licensing will continue to create new opportunities for the long-term development of the Group.

MAINTAINED LEADING POSITION IN THE DOMESTIC TELECOMMUNICATIONS OPERATOR MARKET

In 2013, in light of the progress of 4G license issuance in China, the domestic telecommunications operators were overall more prudent in network construction investment. In addition, the industry landscape was also affected by the structural changes in capital expenditures of the domestic telecommunications operators and the implementation of new industry regulatory policies, which accelerated the openness and competition in the communications market. Near the end of 2013, the Group gradually undertook more 4G-related network construction projects which have begun to drive the revenue growth of the Group. In 2013, the revenue of the Group from domestic telecommunications operators increased by 9.0% compared to that of last year, representing 63.3% of the total revenues.

EXPANDED STEADILY INTO THE TWO NEW MARKETS WITH FAVOURABLE DEVELOPMENT MOMENTUM

In 2013, the Group effectively implemented the "Strategy of Differentiation and Cooperation in the Domestic Non-operator Market" and "Strategy of Overseas Market-Focused and Four-Step Approach"[2]. The favourable development by the Group in the two new markets made important contribution to the growth of revenue, and the aggregate revenues from such markets increased by 15.4% over the last year.

In 2013, the progress of new urbanization and informatization in China continued to accelerate, and the construction of "Smart City" was also burgeoning. Driven by strong domestic demands in information consumption, the Group proactively explored governmental customers and participated in "Smart City" projects by offering high-end consulting services, which achieved satisfactory results. Furthermore, the Group endeavoured to solicit customers from real estate construction and transportation industries, and steadily promote small and medium-sized enterprises ("SME") customers, which showed a favourable development momentum. In 2013, the revenue from domestic non-operator customers increased by 16.1% compared to that of last year, representing 31.1% of the total revenues.

2 The "Strategy of Overseas Market-Focused and Four-Step Approach" involves sub-contracting projects, turnkey projects, operation outsourcing and equity acquisition.

In 2013, demands for communications network construction in the overseas market remained strong. The Group further optimized its overseas revenue structure and vigorously developed large turnkey projects, increasing revenue contribution from overseas turnkey projects remarkably. In addition, the Group started to implement the third step of its "Strategy of Overseas Market-Focused and Four-Step Approach" by undertaking an operation and management outsourcing project for an overseas operator. In 2013, the revenue from overseas customers increased by 11.8% compared to that of last year, representing 5.6% of the total revenues.

BREAKTHROUGHS IN EXTERNAL COOPERATION AND MECHANISM INNOVATION

In 2013, the Group made breakthroughs in business development of applications, content and other ("ACO") services with the benefits of robust development of and demands for Big Data, cloud computing and mobile Internet applications. In 2013, the Group implemented core staff share participation in its key subsidiaries engaging in ACO services. In addition, the Group successfully established cooperation with SAP in the area of cloud computing to jointly promote the application of cloud products in SMEs in China. During the year, "Gripay (掌錢)", the mobile financial services platform developed by the Group was officially launched. Through the introduction of the above-mentioned products and services, the Group further strengthened its service capability and competitive edges.

CORPORATE SOCIAL RESPONSIBILITY

The Group has always been committed to corporate social responsibility. During the year, the Group kept abreast with latest labour policies and continued to regulate its employment management. In addition, the Group strengthened its supervision and inspection and enhanced the safety awareness of its front-line employees to prevent production safety risk. During the year, the Group continued to establish an all-round emergency and rescue mechanism and actively participated in post-disaster maintenance and repairing of communication facilities after the Sichuan Ya'an earthquake. Moreover, the Group actively explored and promoted products and services related to energy-saving and emission reduction, making contributions to promote energy-saving and environmental protection in the society.

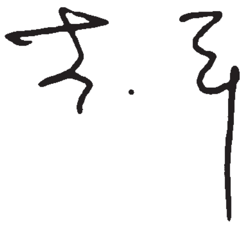
CORPORATE GOVERNANCE

In 2013, the Group continued to strengthen corporate governance and enhance risk management. Mr. Si Furong, who has extensive experience in operation and management in telecommunications industry, has been recently appointed as the president and executive director of the Company. We believe his appointment will help the Company maintaining a high-level of corporate operation and management. During the year, the Group received many recognitions in the capital market for its achievement in corporate governance. The Group was awarded as No. 3 of the "Best Managed Companies in China", No. 2 of the "Best CEO in China" and No. 2 of the "Best CFO in China" by *FinanceAsia*. The Group was also awarded as "The Best of Asia – Icon on Corporate Governance" by *Corporate Governance Asia*, and the Gold Award by *The Asset* for four consecutive years.

PROSPECTS

Although the challenges currently faced by the Group will continue to weigh in its operation and management, the comprehensive and deepened reforms promoted by the government have further motivated social and economic development and brought new opportunities for long-term growth in all businesses of the Group. Domestic telecommunications operators will accelerate the strategic transformation. Their demands for the infrastructures of 4G, cloud valley and data centre, their continuous operation and maintenance outsourcing, the implementation of the "Broadband China" strategy and issuance of virtual operator licenses by the government will bring various opportunities to the Group. Meanwhile, the government is promoting new urbanization and information consumption, and devoting more efforts to develop the information industry as a new driver of economic growth, all of which brought opportunities for the Group to accelerate the expansion into the domestic non-operator market. Regarding the overseas market, emerging regions saw a continuous increase in the demand for establishing "Broadband Countries, Smart Capitals and Regional Hubs". The Group will also speed up its expansion into the overseas market with the support of national policies. Looking forward, the Group will continue to firmly implement the "Five Development Strategies", deepen its innovation and transformation, and strive to improve its synergistic operation and management, so as to create greater value for customers and shareholders.

Finally, on behalf of the Board, I would like to express my sincere gratitude to Mr. Zheng Qibao, who resigned as the president and executive director of the Company in December 2013, for his outstanding contributions to the Group. I would also like to take this opportunity to welcome Mr. Si Furong to join the Board. Furthermore, I would like to express my sincere gratitude to shareholders and customers of the Group and all sectors of society for their long-standing care and support to the Group.



Li Ping
Chairman

Beijing, PRC
26 March 2014

PRESIDENT'S STATEMENT

Si Furong
President

Dear Shareholders,

I am very pleased to present the operating results of the Group in 2013.

FINANCIAL PERFORMANCE

In 2013, the Group recorded total revenues of RMB68,459 million, representing a year-on-year growth of 11.3%. The sustained growth of total revenues was mainly attributable to the Group's focus on three major markets. While maintaining the steady business growth in the domestic telecommunications operator market, the Group also actively expanded into the domestic non-operator market and the overseas market, which achieved relatively rapid growth. However, the operating result of the Group was affected by various factors, including those factors discussed in the Chairman's Statement and other impacts brought by changes in revenue composition and new regulatory policies such as the replacement of business tax with value added tax and the amendments to the PRC tender regulations. In 2013, profit attributable to equity shareholders of the Company amounted to RMB2,238 million, representing a year-on-year decrease of 7.0%. Gross and net profit margins were 15.2% and 3.3%, respectively. Basic earnings per share amounted to RMB0.323.

Near the end of 2013, the Group devoted more resources to undertake more 4G network construction projects, also affecting its operating results to certain extent. In addition, due to the lengthened repayment cycle of its major customers, free cash flow[1] of the Group decreased as compared with the same period last year. In 2013, the free cash flow of the Group was RMB-324 million, and the net cash inflow from operating activities was RMB321 million.

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

The sustained growth of total revenues was mainly attributable to the Group's focus on three major markets. While maintaining the steady business growth in the domestic telecommunications operator market, the Group also actively expanded into the domestic non-operator market and the overseas market, which achieved relatively rapid growth.

BUSINESS DEVELOPMENT

In 2013, the revenue from telecommunications infrastructure ("TIS") services sustained relatively rapid growth, representing a year-on-year increase of 12.8% and accounting for 46.8% of total revenues. During the year, the Group's TIS business was impacted by the back-end loaded capital expenditure ("CAPEX") of domestic telecommunications operators and the change in CAPEX structure due to 4G development. Nonetheless, attributable to our continuous business development efforts and breakthroughs achieved in the domestic non-operator market and overseas market, aggregate TIS revenues from such markets recorded a year-on-year growth of 18.1% and accounted for 22.3% of the total revenue of TIS services, leading to a relatively rapid growth of overall TIS business.

In 2013, the growth of revenue from business process outsourcing ("BPO") services moderated with a growth rate of 10.3% over the last year, accounting for 42.4% of total revenues. The Group firmly adhered to the principle of efficient development and prudently managed certain businesses with relatively low or decreasing operating efficiency. Therefore, growth of revenue from the distribution of telecommunications services and products, as well as the network maintenance businesses decreased to 11.7% and 7.3%, respectively.

In 2013, the revenue from applications, content and other ("ACO") services achieved a year-on-year increase of 9.0%, accounting for 10.8% of total revenues. The Group strived to enhance openness and innovation, as well as optimize business structure. The revenue from the core ACO services[2] grew by 14.1%, with its proportion to the total revenue from ACO services increased by 3.6 percentage points to 79.7%. Moreover, the Group proactively grasped the opportunities brought by the society and industry informatization in China and further explored system integration projects in the domestic non-operator market, making such market as an important driver for the healthy and steady growth of the revenue from ACO services.

[2] Core ACO services include system integration, software development and system support, and value added services.

MARKET EXPANSION

The Group has been focusing on three major markets. While reinforcing its leading position in the domestic telecommunications operator market, the Group also actively expanded into the domestic non-operator market and maintained favourable development momentum in the overseas market. In 2013, due to the factors mentioned above including the back-end loaded CAPEX, the revenue from the domestic telecommunications operator market amounted to RMB43,326 million, representing a year-on-year growth of 9.0%, which became moderate as compared with the same period last year. Aggregate revenues from China Mobile and China Unicom achieved a year-on-year growth of 3.1%, accounting for 20.6% of the total revenues. Nevertheless, the issuance of 4G licenses near the end of the year also increased the number of network construction projects undertaken by the Group, driving the revenue from China Telecom to achieve a year-on-year increase of 12.1%, accounting for 42.7% of the total revenues. During the year, the Group strategically exerted more efforts to develop the two new markets. The revenue from the domestic non-operator market showed a favourable growth momentum and reached RMB21,321 million, representing a year-on-year growth of 16.1% and accounting for 31.1% of the total revenues. The revenue from the overseas market amounted to RMB3,812 million, representing a year-on-year growth of 11.8% and accounting for 5.6% of the total revenues.

ENHANCING FOUR MAJOR CAPABILITIES AND FOCUSING ON "SWEET SPOT" TO INNOVATE AND TRANSFORM

In addition to steadily improving the effectiveness of synergistic operation and management, the Group strives to enhance its four major capabilities. Firstly, the Group improves its innovation capability by motivating innovation in products and services, business model, human resources management and operation systems. Secondly, the Group enhances its implementation capability by strengthening the management of projects, subcontracting and resources. Thirdly, the Group reinforces its marketing capability by promoting marketing collaboration, turnkey projects and brand building. Lastly, the Group boosts its operation and management capability by strengthening its financial, risk and human resources management. Moreover, the Group proactively focuses on the "Sweet Spot" of communications, finance and mobile Internet, pursuing innovation in products, services and business model to strengthen its innovation and transformation.

PROSPECT FOR 2014

The Group has determined to focus on the following tasks during 2014 so as to create greater value for both its customers and shareholders:

- Entrench our leading position in the domestic telecommunications operator market by seizing business opportunities arising from 4G development: the Group will monitor the changes in CAPEX structure and demands of operators, and firmly seize the opportunities from CAPEX for 4G, "Broadband China" and network upgrade and optimization. The Group will also seize the development opportunities arising from the continuing expenditure in network operation and maintenance outsourcing by the operators, and focus on exploring business opportunities on high-end network maintenance, virtual operation, data centre and cloud services.

- Pursue scale development in the domestic non-operator market by capturing opportunities driven by informatization: the Group will actively participate in the governmental "Smart City" projects by providing high-end consulting services. Meanwhile, leveraging its ACO products, the Group targets to serve key industry customers and aims to achieve breakthroughs in business scale by providing professional integrated services covering design, construction, supervision and maintenance. Besides, the Group will develop IT outsourcing services for SMEs by utilizing the operation of SAP public cloud services.

- Expand overseas turnkey projects synergistically: the Group will expand its overseas business by effective use of financial tools, capitalise on opportunities arising from the construction demands for "Broadband Countries, Smart Capitals and Regional Hubs" in Asia, Africa and Middle East regions, and strengthen resource allocation in key projects and regions.

- Strengthen external cooperation and innovation in ACO business: while strengthening our own research and development capability, the Group will establish strategic cooperation with partners possessing brand and technology advantages by leveraging its domestic channels and service edges, so as to develop competitive products and leading companies, and support the expansion into the three major markets.

- Enhance effectiveness of synergistic operation and management: the Group will strengthen its project management, account receivables management and risk management, as well as further enhance synergistic operation capability, so as to reinforce its management foundation to provide strong and reliable support for the future development of the Group.

Si Furong
President

Beijing, the PRC
26 March 2014

Submarine cable construction

EXPANDING UNDERSEA

BUSINESS OVERVIEW

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

The Group's business covers China and over 50 countries and regions globally. Its overseas expansion is mainly focused on markets in Africa, Middle East and Asia.

CUSTOMER SERVICES AND MARKET EXPANSION

In 2013, the Group overcame the operating pressure caused by the changing market conditions and further consolidated its leading position in the domestic telecommunications operator market through enhanced marketing activities. On the other hand, the Group also actively expanded into the domestic non-operator market and overseas market. The fundamentals of the Group remained strong. Near the end of 2013, the issuance of 4G licenses also created new business opportunities for the business expansion of the Group. During the year, the overall development of the Group remained sound and continued its stable growth in its total revenues. The Group realized total revenues of RMB68,459 million in 2013, representing a year-on-year growth of 11.3%.

Meeting with Tanzania Minister of Communications

The Company participated in overseas exhibitions

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

Network Construction

Network Operation

Content, Value Adding to Products

Operators' Value Chain

Our Services

Design | Construction | Project Supervision and Management | Network Maintenance | Distribution | Facilities Management | System Integration | Software Development and System Support | Value-added Service | Others

In 2013, the Group maintained favourable business development in the three major markets and its efforts in innovation and transformation achieved initial success. Incremental revenues from domestic non-operators and overseas customers accounted for almost half of the total incremental revenues and their proportion to total revenues also increased. In 2013, revenue from domestic telecommunications operator customers increased by 9.0% to RMB43,326 million, accounting for 63.3% of the total revenues; revenue from domestic non-operator customer increased to RMB21,321 million, accounting for 31.1% of the total revenues, representing a growth rate of 16.1%, which was higher than that of last year and the second consecutive year recording a growth rate of over 15%. Revenue from overseas customers increased by 11.8% to RMB3,812 million, accounting for 5.6% of the total revenues.

Overseas Construction Sites in Desert Area

(In RMB million except percentages)	**2013** Revenue	Percentage to total revenues	2012 Revenue	Percentage to total revenues	Changes over 2012
Domestic telecommunications operator customers	**43,326**	**63.3%**	39,745	64.6%	9.0%
Of which: China Telecom	**29,231**	**42.7%**	26,080	42.4%	12.1%
China Mobile and China Unicom	**14,095**	**20.6%**	13,665	22.2%	3.1%
Domestic non-operator customers	**21,321**	**31.1%**	18,361	29.9%	16.1%
Overseas customers	**3,812**	**5.6%**	3,411	5.5%	11.8%
Total	**68,459**	**100.0%**	61,517	100.0%	11.3%

BUSINESS OVERVIEW

In 2013, the Group maintained its leading position in the industry in terms of telecommunications network building capacity. The projects undertaken by the Group was awarded the "National Prime-Quality Project Gold Award" for three consecutive years. The Group is the only company in the industry granted such award for three consecutive years.

In 2013, the domestic telecommunications operators were prudent in their network investment due to the progress of 4G licenses issuance. In addition, the industry landscape was also affected by the structural changes in capital expenditures of the domestic telecommunications operators and the implementation of new industry regulatory policies, which accelerated the openness and competition in the communications market. All the above affected the Group's development in the domestic telecommunications operator market. Near the end of 2013, the Group gradually undertook more 4G related network construction projects, which have begun to drive the revenue growth of the Group. Based on the understanding of the development trend of the telecommunications industry in China and experiences in serving customers over the past years, the Group believes that there is still new room of market development for domestic telecommunications operators. Firstly, the capital expenditure, as well as the investment in the network optimization and maintenance of domestic telecommunications operators will maintain steady growth. Secondly, the PRC government has implemented the policy of "Broadband China", issued virtual operator licenses, promoted the new type of urbanization and information consumption, thus increasing its investments in the information industry. Thirdly, industry development including big data, cloud computing, platform, mobile Internet and customer premises network have generated huge demands for business support and customer service systems.

The Group regards the domestic non-operator market as one of the two new growth drivers, and it strives to expand into the market proactively and grow its business systematically. Through its own research and development efforts and the external cooperation, the Group provides government agencies, industrial customers and SMEs with Smart City integrated solutions, industrial application solutions and IT outsourcing projects, respectively. In addition, the Group also provides city pipelines engineering, intelligence building, video surveillance and construction of cloud


Smart Nanjing Project

China Comservice Smart City Engineering Institute was officially established

Cloud Computing Center in Inner Mongolia

computing center to key industrial customers, such as customers in construction, property and transportation industries, as well as SMEs. In 2013, the Group achieved breakthroughs in various sectors by strengthening the external cooperation. For instance, the Group entered into strategic cooperation agreements with a number of well-known enterprises and cooperated with SAP in cloud computing. Such cooperation not only enriched the products and services of the Group, but also raised the brand awareness of the Group, promoting the rapid growth in domestic non-operator market.

In 2013, the Group continued to adhere to its "Strategy of Overseas Market-Focused and Four-Step Approach" by focusing on developing turnkey projects, undertaking operation and management outsourcing projects, strengthening overseas risk management, increasing revenue portion of overseas market and refining overseas business structure. In 2013, the Group focused on its development of turnkey projects with telecommunications operators, government agencies and large enterprises and achieved breakthroughs. These projects included Niger project, Congo (K) phase II project and Brunei telecom projects. Revenue from turnkey projects accounted for 42% of the total revenue of the overseas market, representing a year-on-year increase of 9 percentage points. In addition, the Group strengthened its cooperation with China Telecom to jointly undertake the operation and management outsourcing project in Congo (K), representing a step forward to the third stage in the "Four-Step" Strategy. In addition, by strengthening the cooperation with commercial banks, the Group utilised financial tools effectively to enhance the cash cycle of overseas projects. The Group also proactively controlled overseas risks by various measures, including arranging

Overseas Submarine Cable Projects

insurance for major projects. The capability of the Group in overseas telecommunications infrastructure construction was widely recognized by the industry and there were several quality overseas projects, including the "National Prime-Quality Project Gold Award" for the Phase I of the Tanzania Project and the "National Prime-Quality Project Award" for the Phase I of Congo (K) Project in 2013. The Group believes that the demand for establishing "Broadband Countries, Smart Capitals and Regional Hubs" in emerging regions will continue to increase. Overseas business will continue to be regarded as the other new growth driver of the Group in the future.

TELECOMMUNICATIONS INFRASTRUCTURE SERVICES

As the largest telecommunications infrastructure service provider in China, the Group possesses all the highest grade qualifications in the communications construction industry in China. It is also able to provide worldwide operators with comprehensive telecommunications infrastructure services including planning, design, construction and project supervision for fixed-line, mobile, broadband networks and supporting systems. In 2013, the Group's revenue from telecommunications infrastructure services amounted to RMB32,036 million, representing a year-on-year growth of 12.8%.

Infrastructure Projects for
Domestic Telecommunications Operators

Base Station Installation &
Supervision for Domestic Telecommunications Operators

In 2013, the Group fully supported the network construction of three major telecommunications operators in China, and revenue of telecommunications infrastructure services of the Group from domestic telecommunications operators amounted to RMB24,903 million, representing a year-on-year growth of 11.3%, which demonstrated the Group's solid leading position in the market.

The Group also provides integrated solutions for ancillary communication networks, informatization and intelligent buildings to domestic non-operators, such as government agencies, financial institutions, broadcasting and television enterprises and construction enterprises as well as overseas customers. In 2013, the Group achieved remarkable results in the expansion of governmental customers. Its major projects, including Smart Nanjing and Safe Xinjiang, became model examples in the industry. The Group also steadily developed industrial customers, SMEs and overseas customers and achieved satisfactory results. In 2013, revenue of telecommunications infrastructure services of the Group from domestic non-operator customers and overseas customers reached RMB7,133 million, representing a year-on-year growth of 18.1%, which supported the growth of the revenue of the Group from telecommunications infrastructure services.

Jiangsu-Huning Highway Informatization Projects

BUSINESS OVERVIEW

Smart Information System in the 2nd Asian Youth Games

The Group believes that there is ample potential for development of telecommunications infrastructures services. Firstly, as domestic telecommunications operators will put more efforts in 4G construction, their capital expenditure will show a steady growth. Secondly, pan-operators[1] will have a great demand for data centers, customer premises network and virtual operation. Thirdly, the further development of urbanization and informatization in China will bring huge opportunities for the development of infrastructure such as fibre optic broadband and cloud valley. Fourthly, as there are still booming demands for telecommunications infrastructure network and informatization construction from many countries and regions, the potential for development of overseas market is huge.

BUSINESS PROCESS OUTSOURCING SERVICES

The Group is a leading provider of business process outsourcing services for the communications industry in China. Extending the telecommunications infrastructure services along the value chain of the communications industry, the Group mainly provides services including network maintenance, distribution of telecommunications services and products ("Distribution") and facilities management. The target customers include domestic and overseas telecommunications operators, government agencies and enterprise customers. In 2013, revenue of business process outsourcing services amounted to RMB29,012 million, representing a year-on-year growth of 10.3%.

The Group provides network maintenance services to telecommunications operators in relation to fiber optic cables, electric cables, base stations, network equipments and user terminals. In response to the increase in telecommunications equipments, our addressable market has been expanding, which facilitated the development of network maintenance business of the Group. In 2013, the Group's revenue of network maintenance business amounted to RMB6,884 million, representing a year-on-year growth of 7.3%.

The Distribution services of the Group include the wholesale and distribution of communications machineries and handsets, logistics, procurement agency services. Our major customers are telecommunications operators, telecommunications equipment manufacturers, government agencies and medium to large-sized enterprises. In 2013, the revenue of the Distribution services of the Group amounted to RMB18,934 million, representing a year-on-year growth of 11.7%. The Group will continue to strengthen distribution services management, centralize resources, develop high-end customer base, promote innovations in service model, and strive for efficient development of its Distribution services on the premise that risks are controllable.

The Group provides facilities management services on machinery buildings and high-end office buildings for domestic telecommunications operators and non-operator customers, respectively. In 2013, revenue of the facilities management services amounted to RMB3,194 million, representing a year-on-year growth of 8.4%.

[1] "Pan-operators" means companies including but not limited to internet companies and virtual operators.

The Company, SAP and China Telecom jointly launched the SAP Cloud products in China

APPLICATIONS, CONTENT AND OTHER SERVICES

The Group provides system integration, software development and system support, and value-added services to telecommunications operators, industrial customers and SMEs. In 2013, revenue of applications, content and other services amounted to RMB7,411 million, representing a year-on-year growth of 9.0%, among which, system integration business demonstrated a rapid year-on-year growth of 17.3%.

In 2013, the Group actively promoted cross-sector innovation of products and services, and introduced SAP as its strategic cooperation partner by successfully entering into a cooperation agreement regarding "virtual cloud" with SAP to jointly offer the first public cloud service in China. The Group focused on the "Sweet Spot" of communication, finance and mobile Internet to develop a mobile finance service platform. "Gripay (掌錢)", the Group's first mobile financial services solution, was jointly launched by the Group and commercial banks. During the year, the Group has further carried out mechanism innovation. Certain subsidiaries have completed their shareholding reforms and implemented employee share participation, which stimulated the innovation capability and facilitated the rapid business growth.

The Group will further consolidate and expand the scope of cooperation, accelerate its innovation and transformation, adopt diversified ownership structure in subsidiaries focusing on knowledge and technology, launch the pilot accountability system for project manager and establish a sharing system of resources and talents, with an aim to boost the Group's vitality and impetus for sustainable development.

The Company launched Mobile Finance Service Platform – Gripay (掌錢)

CLIMBING THE PEAK

Communication base station at Mount Everest, the highest mountain in the world

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

OVERVIEW

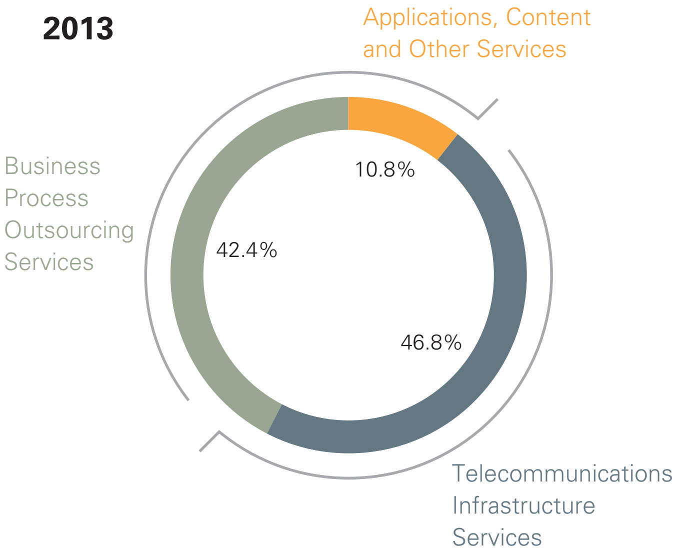
In 2013, the Group persisted to focus on the development in three major markets. Its total revenues reached RMB68,459.10 million, representing an increase of 11.3% from 2012. However, operating performance of the Group was affected by various factors, such as slowdown of revenue growth, decrease in gross profit margin, changes in revenue composition and the implementation of new regulatory policies including the replacement of business tax with value added tax ("VAT Reform") and the amendments to the PRC tender regulations. Profit attributable to equity shareholders of the Company amounted to RMB2,238.35 million, representing a decrease of 7.0% from RMB2,406.79 million in 2012. Basic earnings per share were RMB0.323. Free cash flow was RMB-323.58 million and net cash inflow from operating activities amounted to RMB320.94 million.

TOTAL REVENUES

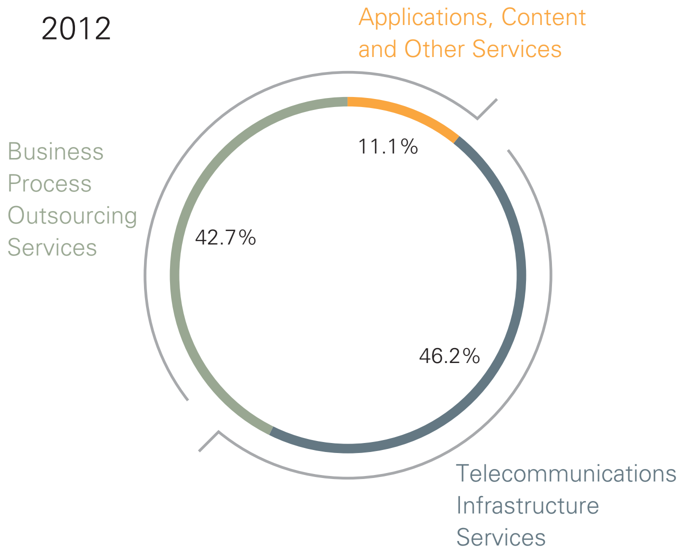
Our total revenues in 2013 were RMB68,459.10 million, representing an increase of 11.3% from 2012. Among our businesses, the revenue from telecommunications infrastructure ("TIS") services was RMB32,036.24 million, representing an increase of 12.8% from 2012; the revenue from business process outsourcing ("BPO") services was RMB29,011.58 million, representing an increase of 10.3% from 2012; the revenue from applications, content and other ("ACO") services was RMB7,411.28 million, representing an increase of 9.0% from 2012. As to business structure, construction services and distribution of telecommunications services and products were the two major businesses that contributed to the Group's overall incremental revenues. As to customer structure, the revenue from the domestic telecommunications operators in 2013 amounted to RMB43,325.98 million, representing 63.3% of the total revenues, an increase of 9.0% from 2012; aggregate revenues from the domestic non-operator customers and overseas customers amounted to RMB25,133.12 million, representing an increase of 15.4% from 2012 and its proportion to total revenues increased to 36.7%. In 2013, the Group saw favourable business development in the domestic non-operator market and overseas market, and the incremental revenues from these two new major markets accounted for 48.4% of the total incremental revenues. These two markets have become a major driving force of the Group's total revenue growth.

BUSINESS MIX

2013

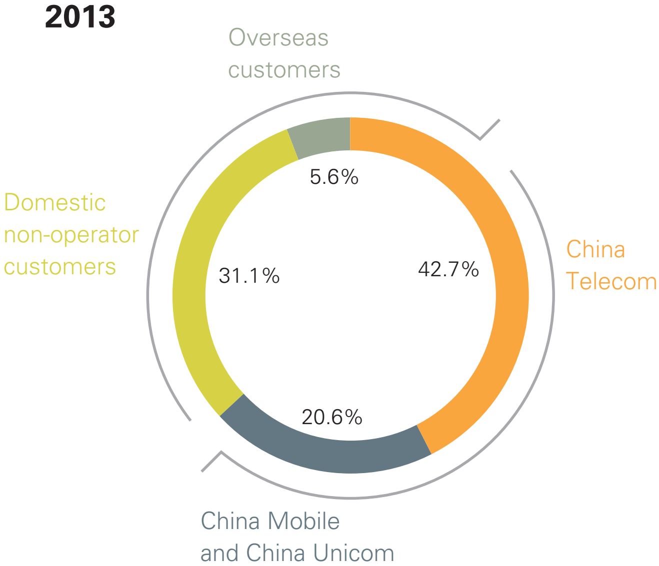


2012

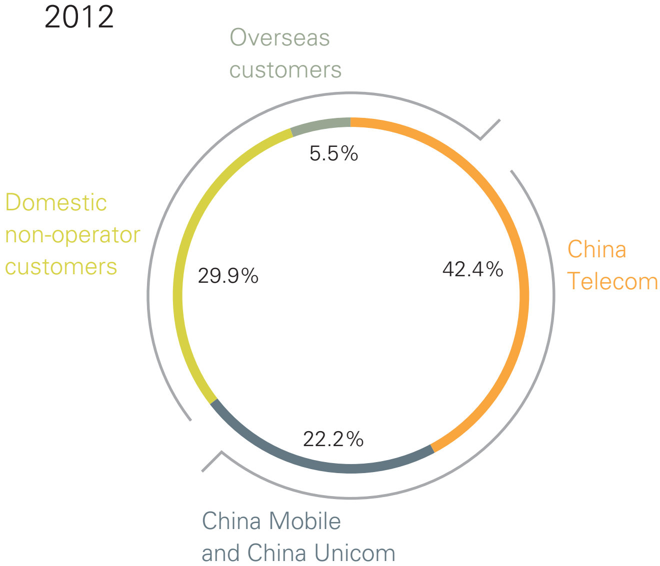


CUSTOMER MIX

2013



2012



MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

The following table sets forth a breakdown of our total revenues for 2012 and 2013, together with their respective changes:

	2013 RMB'000	2012 RMB'000	Percentage Change
Telecommunications Infrastructure Services			
Design services	**6,325,767**	5,788,005	9.3%
Construction services	**23,426,702**	20,638,017	13.5%
Project supervision and management services	**2,283,772**	1,987,338	14.9%
	32,036,241	28,413,360	12.8%
Business Process Outsourcing Services			
Network maintenance	**6,884,291**	6,414,319	7.3%
Distribution of telecommunications services and products	**18,933,812**	16,944,175	11.7%
Facilities management	**3,193,474**	2,945,643	8.4%
	29,011,577	26,304,137	10.3%
Applications, Content and Other Services[1]			
System Integration	**3,355,792**	2,861,045	17.3%
Software development and system support	**1,378,348**	1,294,274	6.5%
Value Added Services	**1,170,597**	1,018,977	14.9%
Others	**1,506,541**	1,625,582	–7.3%
	7,411,278	6,799,878	9.0%
Total	**68,459,096**	61,517,375	11.3%

(1) In response to the business development needs of the Group, businesses under applications, content and other services were reclassified starting from 1 January 2013, and historical data for 2012 was restated accordingly. The reclassification has no impact on the total revenue of applications, content and other services.

Telecommunications Infrastructure Services

In 2013, the revenue from TIS services of the Group was RMB32,036.24 million, representing an increase of 12.8% over RMB28,413.36 million in 2012. It was our primary source of revenues and accounted for 46.8% of our total revenues, representing an increase of 0.6 percentage points from 46.2% in 2012. During the year, TIS revenue from domestic telecommunications operators amounted to RMB24,903.22 million, representing an increase of 11.3% over RMB22,375.06 million in 2012. The slowdown of growth from last year was mainly attributable to the back-end loaded capital expenditure ("CAPEX") of domestic telecommunications operators and the change in CAPEX structure due to 4G development, thereby affecting the growth of the Group's TIS business to certain extent. Nevertheless, the Group achieved new breakthroughs in the TIS business development in the domestic non-operator market and overseas market, and TIS revenue from these markets amounted to RMB7,133.02 million, representing an increase of 18.1% over RMB6,038.30 million in 2012. Aggregate revenues from the domestic non-operator market and overseas market as a percentage of the total TIS revenue increased to 22.3%, driving the rapid growth of TIS business.

Business Process Outsourcing Services

In 2013, the revenue from BPO services of the Group was RMB29,011.58 million, representing an increase of 10.3% over RMB26,304.14 million in 2012. The revenue from BPO services accounted for 42.4% of our total revenues, representing a decrease of 0.3 percentage points from 42.7% in 2012. Among BPO services, the revenue from distribution of telecommunications services and products ("Distribution Business") was RMB18,933.81 million, representing an increase of 11.7% over 2012. The growth rate was lower than that of the previous year because the Group adhered to the principle of efficient development and effectively controlled the development of certain Distribution Businesses with relatively low operating efficiency. Moreover, the promulgation of new regulatory policies made certain network maintenance business becoming increasingly competitive. As such, the Group proactively exited from certain businesses with decreasing operating efficiency, and the revenue from network maintenance was RMB6,884.29 million with its growth rate moderated to 7.3%.

Applications, Content and Other Services

In 2013, the revenue from ACO services of the Group was RMB7,411.28 million, representing an increase of 9.0% over RMB6,799.88 million in 2012. The revenue from ACO services accounted for 10.8% of our total revenues, representing a decrease of 0.3 percentage points from 11.1% in 2012. During the year, the Group pursued openness and innovation, and strived to grasp opportunities brought by the informatization in China. The Group continued to develop the business of system integration projects for domestic non-operators customers. The revenue from system integration reached RMB3,355.79 million, representing an increase of 17.3% over 2012, which was the major driving force for the revenue growth of ACO services.

COST OF REVENUES

Our cost of revenues in 2013 was RMB58,081.11 million, representing an increase of 12.3% from 2012 and accounting for 84.8% of our total revenues.

The following table sets out a breakdown of our cost of revenues in 2012 and 2013 and their respective changes:

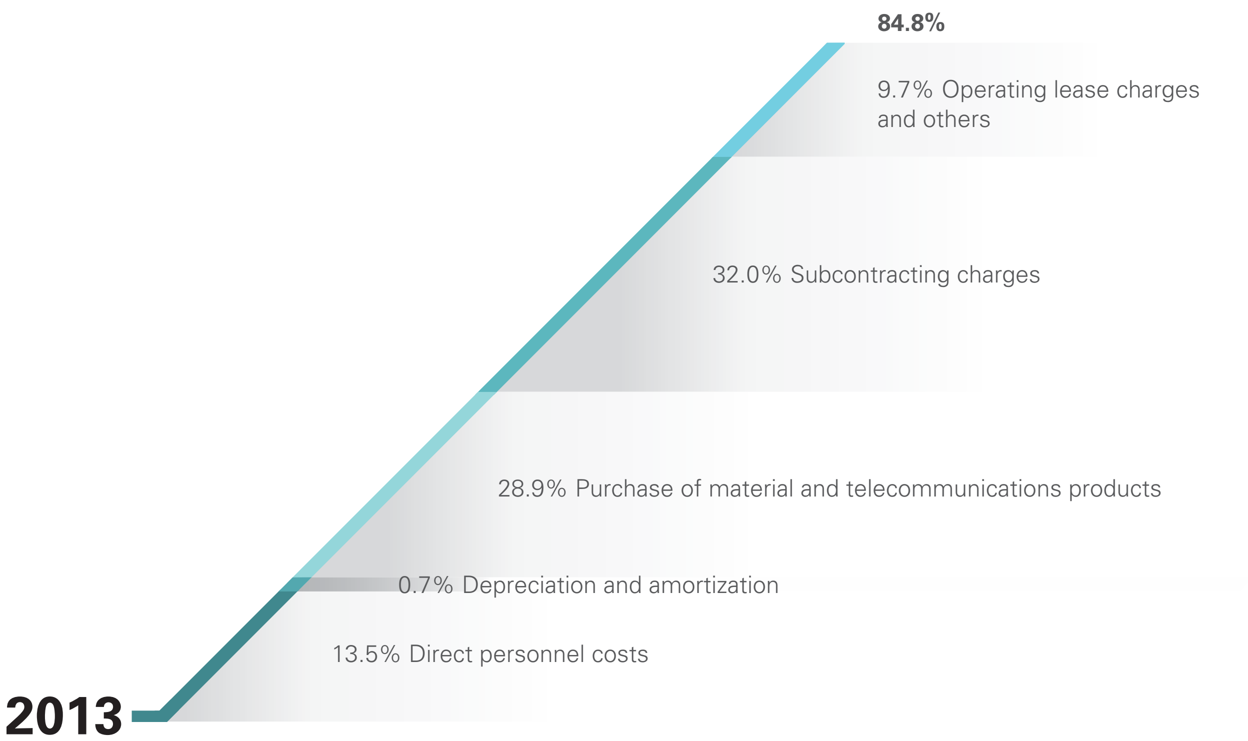
	2013 RMB'000	2012 RMB'000	Percentage Change
Direct personnel costs	**9,251,872**	9,229,460	0.2%
Depreciation and amortisation	**462,103**	439,095	5.2%
Purchase of material and telecommunications products	**19,804,087**	17,645,654	12.2%
Subcontracting charges	**21,873,785**	18,447,867	18.6%
Operating lease charges and others	**6,689,260**	5,969,932	12.0%
Total cost of revenues	**58,081,107**	51,732,008	12.3%

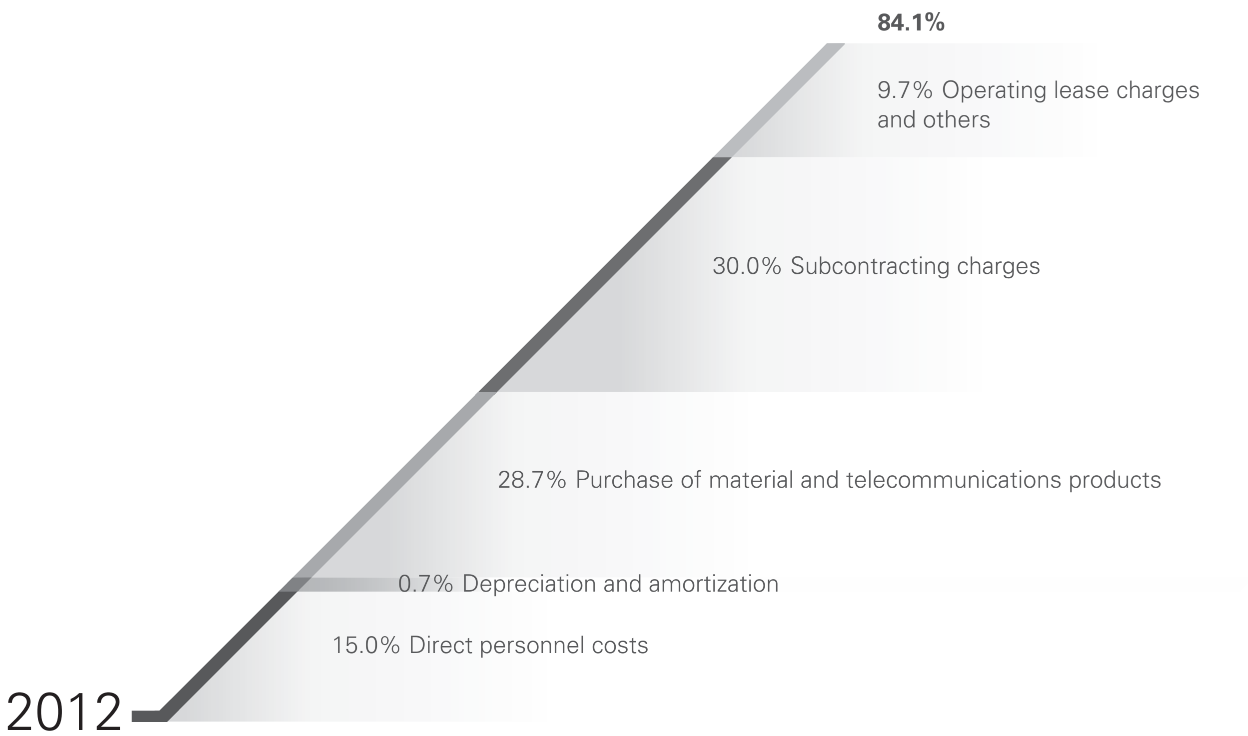
Direct Personnel Costs

In 2013, direct personnel costs were RMB9,251.87 million, representing an increase of 0.2% over RMB9,229.46 million in 2012. With the growth in business volume in 2013, the Group consistently applied reasonable control over its total headcount and subcontracted its low-end tasks, thereby minimizing the staff costs. The Group also strictly complied with the amended PRC Labour Contract Law, and employed dispatch workers in accordance with the relevant regulations to avoid related risks. Direct personnel costs as a proportion to our total revenues was 13.5%, representing a decrease of 1.5 percentage points compared to 2012.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

COST OF REVENUES AS A % OF TOTAL REVENUES





Depreciation and Amortisation

In 2013, depreciation and amortisation were RMB462.10 million, representing an increase of 5.2% over RMB439.10 million in 2012. Depreciation and amortisation as a proportion to our total revenues was 0.7%, which remained stable as compared with 2012.

Purchase of Materials and Telecommunications Products

In 2013, the costs of materials and telecommunications products purchase were RMB19,804.09 million, representing an increase of 12.2% over RMB17,645.65 million in 2012. The increase in costs of materials and telecommunications products was mainly attributable to the growth of Distribution Business of the Group, which drove a corresponding increase in the cost of telecommunications products purchase, including the telecommunications machineries and handsets. Cost of materials and telecommunications products as a proportion to our total revenues was 28.9%, representing an increase of 0.2 percentage points compared to 2012.

Subcontracting Charges

In 2013, subcontracting charges were RMB21,873.79 million, representing an increase of 18.6% over RMB18,447.87 million in 2012. Such increase was mainly resulted from our TIS services and network maintenance services. Having considered its strategic development, effectiveness and efficiency, the Group continued to focus on high-value businesses and outsource certain low-end tasks, resulting in a rapid growth in subcontracting charges. Subcontracting charges as a proportion to our total revenues was 32.0%, representing an increase of 2.0 percentage points compared to 2012.

Operating Lease Charges and Others

In 2013, operating lease charges and others were RMB6,689.26 million, representing an increase of 12.0% over RMB5,969.93 million in 2012. Operating lease charges and others as a proportion to our total revenues was 9.7%, which remained stable as compared with 2012.

GROSS PROFIT

In 2013, the Group's gross profit amounted to RMB10,377.99 million, representing an increase of 6.1% over RMB9,785.37 million in 2012. The Group's gross profit margin in 2013 was 15.2%, representing a decrease of 0.7 percentage points from 15.9% in 2012. The decrease in gross profit margin was due to various factors, including the slowdown of revenue growth, the decrease in price tariff in the domestic telecommunications operator market, the changes in revenue composition of the Group and the implementation of new regulatory policies such as the VAT Reform and the amendments to the PRC tender regulations.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Our selling, general and administrative expenses in 2013 were RMB8,288.16 million, representing an increase of 10.3% over RMB7,514.88 million in 2012. In 2013, the Group strengthened cost control on selling and administrative expense. Selling, general and administrative expenses as a proportion to our total revenues was 12.1%, representing a decrease of 0.1 percentage point compared to 2012.

FINANCE COSTS

In 2013, the Group's finance costs were RMB11.23 million and decreased by 56.8% over RMB26.03 million in 2012. In 2013, the Group reduced finance costs by implementing effective centralized fund management and repaying interest-bearing borrowings.

INCOME TAX

The income tax of the Group in 2013 was RMB493.12 million and our effective tax rate was 17.8%, representing a decrease of 1.5 percentage points compared to 19.3% in 2012. The difference between our effective tax rate and the statutory tax rate was mainly due to the preferential income tax rate treatment enjoyed by certain subsidiaries, which are classified as key software enterprises and new and high-technology enterprises the preferential policy of tax deduction before income tax for research and development expenses. In 2013, certain subsidiaries of us were newly recognized as key software enterprises and were entitled to a preferential income tax rate of 10%. Certain subsidiaries of us were recognized as new and high-technology enterprises and were entitled to a preferential income tax rate of 15%. Certain enterprises of us in Western China could also enjoy the preferential policies for Western Development Program. Apart from these subsidiaries, the Company and other domestic subsidiaries of the Group were mainly subject to an income tax rate of 25%. The overseas subsidiaries of the Group were subject to different tax rates in various countries.

PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY AND BASIC EARNINGS PER SHARE

In 2013, profit attributable to equity shareholders of the Company was RMB2,238.35 million, representing a decrease of 7.0% over RMB2,406.79 million in 2012. Profit attributable to equity shareholders of the Company accounted for 3.3% of our total revenues, representing a decrease of 0.6 percentage points as compared with 2012. Basic earnings per share of the Company were RMB0.323.

CAPITAL EXPENDITURE

We implement stringent budget management over capital expenditure, and adjust our capital expenditure plan according to changes in market condition. In 2013, our capital expenditure amounted to RMB705.23 million, representing a decrease of 24.1% from RMB929.05 million in 2012. The capital expenditure in 2013 accounted for 1.0% of our total revenues. Our capital expenditure included the purchases of production facilities and equipments, machinery and meters, plant and office buildings, intangible assets and other operating assets.

CASH FLOW

Our net cash outflow in 2013 amounted to RMB2,086.36 million as compared to the net cash inflow of RMB1,507.10 million in 2012. As at the end of 2013, our cash and cash equivalents amounted to RMB6,760.24 million, of which 93.4% was denominated in Renminbi.

The following table sets out our cash flow positions in 2012 and 2013, respectively:

	2013 **RMB'000**	2012 RMB'000
Net cash generated from operating activities	**320,943**	952,233
Net cash used in investing activities	**(1,009,334)**	(1,046,434)
Net cash (used in)/generated from financing activities	**(1,397,967)**	1,601,298
Net (decrease)/increase in cash and cash equivalents	**(2,086,358)**	1,507,097

In 2013, net cash generated from operating activities was RMB320.94 million, representing a decrease of RMB631.29 million from RMB952.23 million in 2012. The decrease in net cash generated from operating activities was mainly caused by the prolonged repayment cycle by major customers of the Group.

In 2013, net cash used in investing activities was RMB1,009.33 million, representing a decrease of RMB37.10 million from RMB1,046.43 million in 2012. Cash used in investing activities mainly comprised capital expenditure such as equipments purchases.

In 2013, net cash used in financing activities was RMB1,397.97 million as compared with the net cash generated from financing activities of RMB1,601.30 million in 2012. The change in cash flow from financing activities was mainly due to the completion of the Group's rights issue in 2012.

WORKING CAPITAL

As at the end of 2013, working capital (i.e. current assets minus current liabilities) was RMB14,415.74 million, representing an increase of RMB992.58 million from RMB13,423.16 million in 2012. The increase in working capital was mainly due to the expansion of our business and the prolonged repayment cycle by major customers of the Group.

INDEBTEDNESS

As at the end of 2013, total indebtedness of the Group was RMB105.48 million, representing a decrease of RMB394.21 million from RMB499.69 million at the year end of 2012. Indebtedness of the Group were mainly denominated in US dollar, of which Renminbi loan accounted for 12.6% and US dollar loan accounted for 87.4%, and of which 34.7% was fixed interest rate loans and 65.3% was floating interest rate loans.

As at the end of 2013, our gearing ratio[1] was 0.5%, representing a decrease of 1.9 percentage points from 2.4% in 2012.

CONTRACTUAL OBLIGATIONS

The following table sets out our contractual obligations as at 31 December 2013:

	Total RMB'000	**2014** RMB'000	**2015** RMB'000	**2016** RMB'000	**2017** RMB'000	**2018 and after** RMB'000
Short-term debt	53,901	53,901	–	–	–	–
Long-term debt	51,580	–	17,315	17,315	16,950	–
Operating lease commitments	689,093	276,463	144,204	91,711	45,995	130,720
Capital commitments	618,461	618,461	–	–	–	–
Of which:						
Authorized and contracted for	283,654	283,654	–	–	–	–
Authorized but not contracted for	334,807	334,807	–	–	–	–
Total of contractual obligations	1,413,035	948,825	161,519	109,026	62,945	130,720

EXCHANGE RATE

Most of our revenues and expenses are settled in Renminbi. As at the end of 2013, the balance of our cash and cash equivalents in foreign currencies accounted for 6.6% of our total cash and cash equivalents, of which 2.4% and 0.4% were denominated in US dollars and Hong Kong dollars, respectively.

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

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

HONORARY CHAIRMAN

Mr. WANG Xiaochu

age 56, is the Honorary Chairman[(1)] of our Company. Mr. Wang is also the Chairman of China Telecommunications Corporation, and Chairman and Chief Executive Officer of China Telecom Corporation Limited. Until 8 April 2008, Mr. Wang was the Chairman and Non-Executive Director of the Company.

EXECUTIVE DIRECTORS

Mr. LI Ping

age 60, is the Chairman of our Board of Directors and an Executive Director of our Company in charge of our overall management. Until June 2013, Mr. Li was a Vice President of China Telecommunications Corporation and Executive Vice President of China Telecom Corporation Limited. Prior to that, Mr. Li served as the Chairman and Chief Executive Officer of China Telecom (Hong Kong) International Limited, Vice Chairman and Chief Operating Officer of China Mobile Limited and Deputy Director General of the Directorate General of Telecommunications (the "DGT") of the former Ministry of Posts and Telecommunications (the "MPT") of the PRC. Mr. Li graduated from the Beijing Institute of Posts and Telecommunications in 1976 with a major in Radio Telecommunications. He also received an MBA degree from the State University of New York at Buffalo, U.S.A. in 1989. Mr. Li has extensive administrative experience in the management of listed companies and has 38 years of operational and managerial experience in the telecommunications industry in China.

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

Mr. SI Furong

age 53, is the President and an Executive Director of our Company, responsible for our daily operations and management. Mr. Si is also the Managing Director of the Sideline Industrial Management Department of China Telecommunications Corporation. Mr. Si graduated from Information Engineering University in 1982 with a bachelor degree in wireless telecommunications. He also received an EMBA degree from Peking University Guanghua School of Management in 2006. Mr. Si previously served as the Director of the Corporate Affairs Department of China Telecommunications Corporation, the Director of the Corporate Affairs Department of China Telecom Corporation Limited, the General Manager of Shaanxi Telecom Company Limited of China Telecommunications Corporation, the General Manager of Shaanxi branch of China Telecom Corporation Limited, the General Manager of China Telecommunications Corporation Shaanxi network asset branch and Chairman of Shaanxi Communication Services Company Limited. Prior to joining China Telecommunications Corporation, Mr. Si was the Deputy Director of the Personnel Department of the Ministry of Information Industry. Mr. Si has 29 years of operational and managerial experience in the telecommunications industry in China.

Ms. HOU Rui

age 44, is an Executive Director, Executive Vice President and Chief Financial Officer of our Company. Ms. Hou received a master degree in Management Engineering from Beijing University of Posts and Telecommunications in 1995 and a master degree in International Commercial Accounting from The University of New South Wales in 2002. Prior to joining the Company, Ms. Hou was Deputy Managing Director of the Finance Department in China Telecommunications Corporation. Prior to that, Ms. Hou served as Divisional Director of General Finance Division and Budgeting Division of China Telecommunications Corporation's Finance Department and the Director and the Chief Accountant of Guangxi Telecom Company. Ms. Hou has over 19 years experience in telecommunications industry and financial management.

NON-EXECUTIVE DIRECTORS

Mr. LI Zhengmao

age 52, is a Non-Executive Director of the Company. Mr. Li is the Vice President of China Mobile Communications Corporation, and the Director and Deputy General Manager of China Mobile Communication Company Limited. Mr. Li received a doctor's degree of radio engineering from the Southeast University. Mr. Li previously served as a professor of radio engineering, the Deputy Director of the Science and Technology Institute for the University of Electronic Science and Technology of China and the Director of national key laboratory. Mr. Li has held various positions in the China United Telecommunications Corporation, including the Deputy Head of the Network Technology Department, the Head of the Wireless Communication Department, the Head of the Technology Department and the Deputy Chief Engineer. He was also the Executive Director and Vice President of China Unicom Limited, the General Manager of the Yunnan branch of China United Telecommunications Corporation, and the Director and Deputy General Manager of China United Telecommunications Corporation. Mr. Li has extensive experience in telecommunications technology and business operations.

Mr. ZHANG Junan

age 57, is a Non-Executive Director of our Company. Mr. Zhang is a Vice President of China United Network Communications Group Company Limited, a Senior Vice President of China Unicom (Hong Kong) Limited and a Director and Senior Vice President of China United Network Communications Corporation Limited. Mr. Zhang graduated from the Nanjing University of Posts and Telecommunications majoring in carrier communication in 1982, received a master degree in Business Administration from the National Australian University in 2002 and received a Doctor of Business Administration from Hong Kong Polytechnic University in October 2008. Mr. Zhang previously served as Executive Director of China Unicom (Hong Kong) Limited, Deputy General Manager and General Manager of the Anhui Provincial Telecommunications Company, Chairman and General Manager of Anhui Provincial Telecommunications Co., Ltd., Director of Bengbu Municipal Posts and Telecommunications Bureau in Anhui Province and Deputy Director of Anhui Provincial Posts and Telecommunications Bureau. Mr. Zhang has long and extensive management experience in the telecommunications industry.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WANG Jun

age 73, is an Independent Non-Executive Director of our Company. Mr. Wang graduated from the Harbin Engineering Institute in the PRC. Mr. Wang was the former Chairman of China International Trust and Investment Corporation ("CITIC"). After his retirement in July 2006, he became the Executive Director and Chairman of the Board of Directors of CITIC 21CN Company Limited and the Chairman and Executive Director of Goldbond Group Holdings Limited. Until 17 April 2008, Mr. Wang was a Non-Executive Director and Honorary Chairman of HKC (Holdings) Limited.

Mr. ZHAO Chunjun

age 73, is an Independent Non-Executive Director of our Company. Mr. Zhao is the committee member of Degree Committee and the Academic Council of Tsinghua University, the Chairman of Chinese Society for Management Modernization, an Independent Non-Executive Director of Dongfang Electric Corporation Limited and an Independent Director of China United Network Communications Limited. Mr. Zhao was the Chairman of the Supervisory Committee of Tongfang Co., Limited, an Independent Director of Daheng New Epoch Technology, Inc. and Bank of China Investment Management Company Limited. Mr. Zhao graduated from Tsinghua University in the PRC. He was Dean of the School of Economics and Management of Tsinghua University between June 2001 and October 2005, having previously served as Executive/First Vice Dean between January 1987 and June 2001.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. WEI Leping

age 68, is an Independent Non-Executive Director of our Company. Mr. Wei is the Executive Vice Chairman of Science and Technology Committee of the Ministry of Industry and Information Technology of the PRC and the Chairman of Science and Technology Advisory Committee of China Telecommunications Corporation, mainly responsible for the high-level technical advisory work for the telecommunications industry of China and China Telecommunications Corporation. Mr. Wei is a professor level Senior Engineer. He graduated in 1970 from Tsinghua University with a major in radio engineering and received a master degree in communication and information systems engineering from the Research Institute of Telecommunications and Technology. Mr. Wei previously served as Executive Director and Executive Vice President of China Telecom Corporation Limited, Chief Engineer of China Telecommunications Corporation, Deputy Director of the Telecommunications Research Institute of the Ministry of Information Industry of the PRC, Deputy Director of the Telecommunications Science Planning and Research Institute of the MPT and Deputy Director and Chief Engineer of the Telecommunications Transmissions Research Center of the MPT. Mr. Wei has 36 years of experience in research and development for technologies in the telecommunications industry in China and has been involved in research and decision making on major technology strategic development and projects for the nation, industry and enterprise for a long time.

Mr. SIU Wai Keung, Francis

age 60, is an Independent Non-Executive Director of our Company. Mr. Siu is currently an Independent Non-Executive Director of GuocoLand Limited (listed on the Singapore Exchange), Beijing Hualian Hypermarket Company Limited (listed on the Shanghai Stock Exchange) and CITIC Pacific Limited, Hop Hing Group Holdings Limited, Shunfeng Photovoltaic International Limited and China Huishan Dairy Holdings Co. Ltd (listed on the Hong Kong Stock Exchange). Until February 2014, Mr. Siu was an Independent Non-Executive Director of Hua Xia Bank Co., Limited (listed on the Shanghai Stock Exchange). Mr. Siu graduated from the University of Sheffield, United Kingdom, with a Bachelor of Arts in Economics and Accounting and Financial Management in 1979. He is also a fellow member of the Institute of Chartered Accountants in England and Wales, and a fellow member of the Hong Kong Institute of Certified Public Accountants. He joined KPMG Manchester, UK in 1979 and returned to Hong Kong in 1986 and became a partner of KPMG Hong Kong in 1993. From 2000 to 2002, he was a Senior Partner of KPMG Shanghai Office. From 2002 to March 2010, he was a Senior Partner of KPMG Beijing Office as well as a Senior Partner of Northern Region, KPMG China. Mr. Siu was also appointed to be the deputy head of the Technical Advisory Board of the Chinese Institute of Certified Public Accountants in 1997 and was the team leader of the Foreign Advisory Panel of the Independent Auditing Standards Consultation Committee commissioned by the Ministry of Finance, PRC. Mr. Siu has been in the accounting profession for 33 years.

SUPERVISORS

Ms. XIA Jianghua

age 55, is the Chairperson of our Supervisory Committee. Ms. Xia is Vice General Manager of Auditing Office of China Telecommunications Corporation. Ms. Xia is a senior auditor. Prior to joining China Telecommunications Corporation, she served as Vice-Divisional Director of the Auditing Bureau of MPT, Vice Divisional Director (standing) of the Auditing Division of DGT. Ms. Xia has 29 years management and auditing experience in the telecommunications industry.

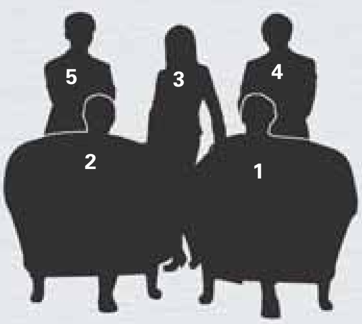
Mr. HAI Liancheng

age 69, is an Independent Supervisor of our Company. Mr. Hai studied at the Civil Aviation College and Chinese Communist Party's (CPC) School, and obtained a college diploma. Mr. Hai served as Vice-Divisional Director and Divisional Director of the Financial Division of the Financial Department of Civil Aviation Administration of China ("CAAC"), Vice-Director and Director of the Financial Department of CAAC, General Manager of China Aviation Oil Supply Corporation and Vice General Manager of China Aviation Oil Holding Company. From September 2001 to February 2006, Mr. Hai served as the Chairman of South China BlueSky Aviation Oil Co., Ltd. and China Aviation Oil Corporation Ltd.. Mr. Hai has been the Director General of the CAAC Sub-association of the China Association of Chief Financial Officers and Chairman of the CAAC Training Centre for Accounting and Auditing since January 2006. Mr. Hai was employed by PICC Property and Casualty Co. Ltd. as consultant from June 2007 to June 2009. From October 2007 to March 2011, Mr. Hai was the Chairman of Zhong Peng Certified Public Accountants Ltd.. Since March 2011, Mr. Hai has served as senior advisor of China PnR Co., Ltd..

Mr. SI Jianfei

age 51, is an Employee Representative Supervisor and the Deputy Director of the Work Committee Office of the Union of the Company. Prior to that, Mr. Si was the Director of the General Manager's Office and Office of Board of Directors of the Company and concurrently served as the General Manager of Beijing Hongxiang Hotel. Mr. Si graduated from University of International Business and Economics in 2002 with an MBA degree. Mr. Si joined the Sideline Industrial Management Department of China Telecommunications Corporation in 2003 and served as the Divisional Director of the General Management Division. Prior to that, Mr. Si was the Deputy Director of Corporate Affairs Department of China Telecom Corporation Limited Xinjiang Branch. Mr. Si has 22 years working experiences in the telecommunications industry.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT



1. Mr. LI Ping
2. Mr. SI Furong
3. Ms. HOU Rui
4. Mr. LIANG Shiping
5. Mr. YAN Dong

MANAGEMENT

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

Mr. SI Furong
(Please refer to the "Executive Directors" section)

Ms. HOU Rui
(Please refer to the "Executive Directors" section)

Mr. LIANG Shiping
age 44, is an Executive Vice President of our Company. Mr. Liang joined the Company in August 2008 as Director of the Marketing Department of the Company. Mr. Liang received a bachelor's degree in Computer Engineering from the Computer Science Department of Jilin University in 1992 and master's degree in Computer Application from the Sixth Research Institute of the Ministry of Machinery and Electronics Industry in 1996. Prior to joining the Company, Mr. Liang served at the Data Communication Bureau of the Ministry of Posts and Telecommunications, the Multimedia Bureau of the Telecom Administration of the Ministry of Posts and Telecommunications and the Technology Development Department of China Telecom Data Communication Bureau. From October 2000 to August 2008, Mr. Liang served as a Divisional Director of the Planning Division of the Data Communication Bureau and the Application Development Division of the Corporate Informatization Department. Mr. Liang has over 22 years' experience in telecommunications and IT industry.

Mr. YAN Dong
age 42, is an Executive Vice President and Chief Risk Officer of our Company. Mr. Yan is also the Deputy Managing Director of the Sideline Industrial Management Department of China Telecommunications Corporation. Prior to that, Mr. Yan was the Director of the Corporate Affairs Department of the Company, the Employee Representative Supervisor of the Company, the Director of the Risk Management Department of the Company and the Deputy General Manager and Chief Financial Officer of China International Telecommunications Construction Corporation. Mr. Yan graduated from Shandong University in 2002 with an MBA degree. Prior to joining the Company in 2006, Mr. Yan served as a Project Manager in Shandong International Trust and Investment Corporation, Office Director and Manager of the Investment Department of Shandong Luxin Investment Corporation, General Manager of Shandong Luxin Property Investment and Development Co., Ltd. and Divisional Director of Coordinated Development Division and Sideline Industrial Restructuring Division of the Sideline Industrial Management Department of China Telecommunications Corporation. Mr. Yan has extensive experience in financial management, business administration and operation of listed companies.

COMPANY SECRETARY

Mr. CHUNG Wai Cheung, Terence
age 40, has been our Company Secretary, Assistant Chief Financial Officer and Qualified Accountant since 16 October 2006. Mr. Chung graduated from Melbourne University, Australia, with a bachelor of commerce degree in 1996 and received a master's degree in Business Administration from the Australian Graduate School of Management in 2005. Mr. Chung is a member of the Hong Kong Institute of Certified Public Accountants and the CPA Australia. Between March 2001 and October 2006, Mr. Chung worked as Finance Manager and Senior Finance Manager with China Mobile Limited and China Telecom Corporation Limited, respectively. Mr. Chung has nearly 18 years of experience in auditing, financial management and company secretarial work with accounting firm and listed companies.

ACROSS THE BORDER

Overseas construction site

REPORT OF THE DIRECTORS

The board of directors (the "Board") of China Communications Services Corporation Limited (the "Company") is pleased to present the Report of the Directors of the Company, together with the audited financial statements of the Company and its subsidiaries (the"Group") prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2013.

PRINCIPAL BUSINESSES

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

RESULTS

Results of the Group for the year ended 31 December 2013 and the financial position of the Company and the Group as at that date are set out in the audited financial statements on page 91 to page 170 in this annual report.

DIVIDENDS

The Board proposed a cash dividend of RMB0.1293 per share for the year ended 31 December 2013 based on dividend payout ratio of 40% over the profit attributable to equity shareholders of the Company, and total dividend amounted to approximately RMB895.53 million. The proposed dividends will be submitted for consideration and approval at the 2013 annual general meeting to be held on 27 June 2014. The Company proposed to distribute the dividends on the basis of the total share capital as at the close of trading on the record date for dividend distribution. Dividends will be denominated and declared in RMB. Dividends of domestic shares will be paid in RMB, where as dividends of H shares will be paid in Hong Kong dollars. The relevant exchange rate will be the average of the mid-point rates of RMB to Hong Kong dollars as announced by the People's Bank of China for the week prior to the date of approval of declaration of dividends at the 2013 annual general meeting.

Further details in respect of the dividends and distribution by the Company are set out in note 15 of the audited financial statements on page 126 of this annual report.

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

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

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

DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY

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

Name	Position in the Company	Date of the first appointment
Wang Xiaochu	Honorary Chairman[1]	8 April 2008
Li Ping	Chairman Executive Director	8 April 2008 3 August 2006
Si Furong	Executive Director President	21 February 2014 19 December 2013
Hou Rui	Executive Director Chief Financial Officer Executive Vice President	23 February 2011 30 December 2010 27 October 2010
Li Zhengmao	Non-executive Director	27 November 2012
Zhang Junan	Non-executive Director	12 October 2006
Wang Jun	Independent Non-executive Director	26 September 2006
Zhao Chunjun	Independent Non-executive Director	26 September 2006
Wei Leping	Independent Non-executive Director	28 June 2012
Siu Wai Keung, Francis	Independent Non-executive Director	28 June 2012
Liang Shiping	Executive Vice President	3 March 2010
Yan Dong	Executive Vice President Chief Risk Officer	18 June 2013
Chung Wai Cheung, Terence	Company Secretary, Assistant Chief Financial Officer and Qualified Accountant	16 October 2006

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

Mr. Yan Dong was appointed as an executive vice president of the Company on 18 June 2013. Mr. Yuan Jianxing resigned as an executive director and an executive vice president of the Company on 8 August 2013. Mr. Wang Qi resigned as an executive vice president of the Company on 2 December 2013. Mr. Zheng Qibao resigned as an executive director and president of the Company on 19 December 2013. Mr. Si Furong was appointed as president on 19 December 2013 and an executive director of the Company on 21 February 2014.

SUPERVISORS OF THE COMPANY

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

Name	Position in the Company	Date of the first appointment
Xia Jianghua	Chairperson of the Supervisory Committee	3 August 2006
Hai Liancheng	Independent Supervisor	3 August 2006
Si Jianfei	Employee Representative Supervisor	18 June 2013

Mr. Yan Dong resigned as the Employee Representative Supervisor on 18 June 2013. One the same day, the employees' congress of the Company elected Mr. Si Jianfei as the Employee Representative Supervisor.

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

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers all of the independent non-executive directors are independent.

SHARE CAPITAL

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

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

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

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

Pursuant to the resolutions passed at the extraordinary general meeting, H shareholders class meeting and the domestic shareholders class meeting of the Company held on 28 June 2011 and as approved by domestic and overseas regulatory authorities, the Company announced the launch of H share and domestic share rights issue plan of an aggregate of 1,154,336,400 new shares, including 398,570,040 H rights shares and 755,766,360 domestic rights shares on the basis of 2 rights shares for every 10 existing shares on 30 December 2011 at the price of HK$3.19 per H rights share and RMB2.59 per domestic rights share, respectively. On 10 February 2012, the H rights shares were traded on the Stock Exchange. After completion of the rights issue, the total number of issued shares of the Company was increased to 6,926,018,400 shares, including 2,391,420,240 H shares and 4,534,598,160 domestic shares.

As at 31 December 2013, the share capital of the Company was RMB6,926,018,400 divided into 6,926,018,400 shares of RMB1.00 each. The share capital of the Company was comprised of the following as at the 31 December 2013:

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

MATERIAL INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2013, the interests or short positions of persons who at any of the Company's general meetings (excluding the directors and supervisors of the Company) are entitled to exercise or control the exercise of 5% or more of the voting power in the shares and underlying shares of equity derivatives of the Company in each class as recorded in the register required to be maintained under Section 336 of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) (the"SFO") were as follows:

Name of shareholder	Type of shares	Capacity	Number of shares held	Percentage of the respective type of share (%)	Percentage of the total number of shares in issue (%)
China Telecommunications Corporation	Domestic shares	Beneficial owner	3,559,362,496 (L)	78.49	51.39
China Mobile Communications Corporation	Domestic shares	Beneficial owner	608,256,000 (L)	13.41	8.78
China United Network Communications Group Company Limited	Domestic shares	Beneficial owner	236,300,000 (L)	5.21	3.41
Commonwealth Bank of Australia	H Shares	Interest of corporation controlled by the substantial shareholder	213,332,842 (L)	8.92	3.08
Blackrock, Inc.	H Shares	Interest of corporation controlled by the substantial shareholder	122,669,167 (L)	5.13	1.77
		Interest of corporation controlled by the substantial shareholder	2,158,000 (S)	0.09	0.03

Note: (L)-Long Position
(S)-Short Position

Save as stated above, as at 31 December 2013, in the register required to be maintained under Section 336 of the SFO, no other persons were recorded as holding any interests or short positions in the shares or underlying shares of the equity derivatives of the Company.

DIRECTORS' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2013, none of the directors and supervisors of the Company had any interests or short positions in the shares, underlying shares of equity derivatives or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be maintained under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers. As at 31 December 2013, the Company had not granted its directors or supervisors, or their respective spouses or children below the age of 18 any rights to subscribe for the shares or debentures of the Company or any of its associated corporations and none of them has ever exercised any such right to subscribe for shares or debentures.

SHARE APPRECIATION RIGHTS

Please refer to note 40 to the audited financial statements for details of the share appreciation rights scheme of the Company and the share appreciation rights granted during they year ended 31 December 2013.

PUBLIC FLOAT

As at the date of this annual report, based on information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained the prescribed public float under the Listing Rules.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the directors and supervisors has entered into a service contract with the Company. According to the service contract, each of the contracts has an initial term of three years and is renewable in accordance with the Articles of Association of the Company when the initial term expires except for Mr. Si Furong, Mr. Li Zhengmao and Mr. Si Jianfei. These contracts are terminable at the option of either party by giving three months' notice in writing or according to the terms of the contract prior to the expiry of the contract. No such service contract is not determinable by the Company within one year without payment of compensation (other than statutory compensation). Mr. Li Zhengmao was appointed for a term commencing from the date of the extraordinary general meeting approving his appointment on 27 November 2012 to the date of annual general meeting of the Company for the year 2014 to be held in 2015. Mr. Si Jianfei was elected for a term commencing from 18 June 2013 to the date of annual general meeting of the Company for the year 2014 to be held in 2015. Mr. Si Furong was appointed for a term commencing from the date of the extraordinary general meeting approving his appointment on 21 February 2014 to the date of annual general meeting of the Company for the year 2014 to be held in 2015.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

For the year ended 31 December 2013, no director or supervisor of the Company had any material interest, whether direct or indirect, in any contract of significance entered into by the Company, any of its holding companies or subsidiaries or fellow subsidiaries, apart from the service contracts mentioned above.

EMOLUMENTS OF THE DIRECTORS AND SUPERVISORS

Based on the overall remuneration policy of the Company and with reference to the payroll standard of the same industry companies in the market, the remuneration of directors and supervisors is determined after taking into account the scope and complexities of their duties. Please refer to note 12 to the audited financial statements for details of the emoluments of the directors and supervisors of the Company in 2013.

PURCHASE, SALE AND REDEMPTION OF SHARES

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

SUMMARY OF FINANCIAL INFORMATION

Please refer to pages 171 to 172 of this annual report for a summary of the operating results, assets and liabilities of the Group for each of the years in the five-year period ended 31 December 2013.

BANK LOANS AND OTHER BORROWINGS

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

PROPERTY, PLANT AND EQUIPMENT

Please refer to note 17 to the audited financial statements for movements in the fixed assets of the Group for the year ended 31 December 2013.

DISTRIBUTABLE RESERVES

Please refer to note 47 to the audited financial statements for details of the movements in the reserves of the Group for the year ended 31 December 2013.

DONATIONS

For the year ended 31 December 2013, the Group made charitable and other donations of a total amount of RMB0.44 million.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Please refer to note 23 and note 24 to the audited financial statements for details of the Company's subsidiaries and the Company's associated companies as at 31 December 2013.

CHANGES IN EQUITY

Please refer to the consolidated statement of changes in equity contained in the audited financial statements (pages 96 to 97 of this annual report).

PLAN OF EMPLOYEES' RETIREMENT BENEFITS

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

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

For the reporting period, the sales to the five largest customers of the Group represented 64.0% of the total revenues of the Group; of which, the sales to the largest customer of the Group represented 42.7% of the total revenues of the Group. The purchases from the five largest suppliers of the Group accounted for less than 4.7% of the total annual purchases of the Group.

To the knowledge of the Board, other than China Telecom and China Mobile (both of them being the shareholders holding more than 5% of the issued share capital of the Company), none of the directors of the Group, their associates, and any person (holding more than 5% of the issued share capital of the Company) has any interests in such suppliers or customers.

CONTINUING CONNECTED TRANSACTIONS

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

The following table sets out the amounts of continuing connected transactions of the Group during the year ended 31 December 2013:

Unit: RMB million

	Year ended 31 December 2013		Year ending 31 December 2014	Year ending 31 December 2015
	Annual Caps	Actual Amounts	Annual Caps	Annual Caps
Engineering related services provided to China Telecom Group	17,000	14,436	17,000	17,000
Ancillary telecommunications services provided to China Telecom Group	9,000	6,640	10,000	11,000
Operations support services provided to/by China Telecom Group				
Revenue	2,800	2,271	2,900	3,000
Expenditure	650	598	650	650
IT application services provided to/by China Telecom Group				
Revenue	2,000	1,637	2,100	2,300
Expenditure	430	248	460	490
Centralized services provided to China Telecom Group	400	320	410	420
Property leasing provided to/by China Telecom Group				
Revenue	166	84	166	166
Expenditure	160	149	170	180
Supplies procurement services provided to/by China Telecom Group				
Revenue	4,600	4,163	5,100	5,600
Expenditure	3,100	2,996	3,600	4,100

CONTINUING CONNECTED TRANSACTIONS AGREEMENTS BETWEEN THE COMPANY AND CHINA TELECOM

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

The Company announced on 15 June 2007, and completed on 31 August 2007, its acquisition of China Telecom's specialized telecommunications support business ("Target Business") located in 13 provinces (municipalities and autonomous regions). In connection with the acquisition of the Target Business, a supplemental agreement in respect of the aforementioned six continuing connected transactions agreements was entered into between the Company and China Telecom on 15 June 2007 (the "2007 Supplemental Agreement"). The 2007 Supplemental Agreement extended the validity period of the six continuing connected transactions agreements to 31 December 2009, and extended the coverage of those agreements to 19 provinces (municipalities and autonomous regions), being the Group's primary service regions immediately after the completion of the acquisition of the Target Business. On 19 September 2008, the Company entered into a supplementary agreement with China Telecom in respect of the aforementioned six agreements (the"2008 Supplementary Agreement") and extended the term of the six continuing connected transactions agreements to 31 December 2010. On 29 October 2009, the Company entered into a Supplies Procurement Service Framework Agreement with China Telecom effective from 1 January 2009 to 31 December 2010. On 9 November 2010, the Company entered into another supplemental agreement with China Telecom in respect of the aforementioned seven agreements (the "2010 Supplementary Agreement") and extended the term of the seven continuing connected transactions agreements to 31 December 2012 with other terms unchanged. On 20 September 2012, the Company entered into another supplemental agreement with China Telecom in respect of the aforementioned seven agreements (the"2012 Supplementary Agreement") and extended the term of the seven continuing connected transactions agreements to 31 December 2015 with other terms generally remained unchanged.

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

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

ENGINEERING FRAMEWORK AGREEMENT

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

ANCILLARY TELECOMMUNICATIONS SERVICES FRAMEWORK AGREEMENT

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

(1) government-prescribed price;

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

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

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

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

OPERATION SUPPORT SERVICES FRAMEWORK AGREEMENT

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

IT APPLICATION SERVICES FRAMEWORK AGREEMENT

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

CENTRALIZED SERVICES AGREEMENT

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

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

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

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

PROPERTY LEASING FRAMEWORK AGREEMENT

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

SUPPLIES PROCUREMENT SERVICES FRAMEWORK AGREEMENT

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

The independent non-executive directors of the Company have confirmed that all continuing connected transactions for the year ended 31 December 2013 to which the Group was a party:

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

2. had been entered into either:

   (i) on normal commercial terms; or

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

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

The independent non-executive directors have further confirmed that:

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

The auditors of the Company have performed procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants on the continuing connected transactions and issued a letter to the Board to advise that:

1. none of the continuing connected transactions entered into between the Group and China Telecom Group during the year ended 31 December 2013 have not been approved by the Directors;

2. they have performed sample checks on the continuing connected transactions entered into between the Group and China Telecom Group during the year ended 31 December 2013 and have not found that the continuing connected transactions were not in accordance with the pricing policies as stated in the relevant agreements;

3. they have performed sample checks on the continuing connected transactions entered into between the Group and China Telecom Group during the year ended 31 December 2013 and have not found that the continuing connected transactions were not in accordance with the terms of the agreements governing the transactions; and

4. they have not noted that the continuing connected transactions exceeded the 2013 annual caps as disclosed in the announcement dated 20 September 2012 of the Company and approved by the independent shareholders of the Company on 27 November 2012.

EMPLOYEES

As at 31 December 2013, the Group had 128 thousand employees as follows:

	Number of Staff (thousand)	Percentage (%)
Management	9	7.0
Technical and marketing	59	46.1
Operations	60	46.9
Total	128	100.0

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

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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

MATERIAL LEGAL PROCEEDINGS

As at 31 December 2013, so far as the directors are aware, the Company was not involved in any material litigation or arbitration and no material litigation or claims had been made against, or were pending or threatened against the Company.

AUDITORS

The Company is a subsidiary of China Telecommunications Corporation, which is a state-owned enterprise under the supervision of the State-owned Assets Supervision and Administration Commission of the State Council (the "SASAC"). Pursuant to the relevant regulations issued by the Ministry of Finance of the People's Republic of China and the SASAC, there are restrictions in respect of the years of audit services that an accounting firm can continuously provide to a state-owned enterprise and its subsidiaries. Pursuant to the relevant regulations, the former auditors of the Company, KPMG and KPMG Huazhen (SGP), retired as the international auditors and domestic auditors of the Company respectively effective upon the close of the 2012 annual general meeting of the Company. On the same general meeting, the shareholders of the Company approved the appointment of Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the international auditors and domestic auditors of the Company, respectively, for the year ended 31 December 2013. Deloitte Touche Tohmatsu has audited the accompanying financial statements, which were prepared in accordance with International Financial Reporting Standards. A resolution for the appointment of Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the international and domestic auditors of the Company for the year ending 31 December 2014 will be proposed at the upcoming 2013 annual general meeting of the Company.

By order of the Board
Li Ping
Chairman

Beijing, PRC
26 March 2014

REPORT OF THE SUPERVISORY COMMITTEE

Dear Shareholders,

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

During the reporting period, the Supervisory Committee held two meetings. At the third meeting of the third session of the Supervisory Committee held on 22 March 2013, the Supervisory Committee reviewed and approved six resolutions on the financial statements of the Company for 2012, the profit distribution proposal and dividends distribution plan, external auditors' report, work report of risk management for 2012 and its work plan for 2013, the work report of the Supervisory Committee for 2012 and the work plan of the Supervisory Committee for 2013. At the fourth meeting of the third session of the Supervisory Committee held on 23 August 2013, the Supervisory Committee reviewed and approved the unaudited interim financial statements for 2013, review report of interim financial statements for 2013 by external auditors and work report on internal control and risk management of the Company in the first half of 2013 and the work plan for the second half of 2013. During the reporting period, members of the Supervisory Committee attended the meetings of the Board of Directors, a general meeting and the meetings of the Audit Committee held in 2013, and supervised the major decisions of the Company and the performance of the members of the Board of Directors and senior management, and made relevant management recommendations with a serious and responsible attitude.

The Supervisory Committee is of the opinion that, during the reporting period, the Company persistently implement the "Five Development Strategies" and strived to expand into two new markets, namely domestic non-operator market and overseas market, and develop innovative businesses, and further enhanced its internal control and risk prevention. As such, the total revenues of the Company persistently increased to RMB68,459 million, representing a year-on-year growth of 11.3%. The Supervisory Committee also noted that although the profit attributable to equity shareholders of the Company decreased for the first time to RMB2,238 million due to various factors, such as the changes in industrial condition, the fundamentals of the Company remained solid.

The Supervisory Committee is of the opinion that, all members of the Board of Directors and senior management of the Company have complied with the laws and regulations, and performed their duties in accordance with the Articles of Association of the Company in 2013. In addition, they have also safeguarded the interests of the shareholders, earnestly carried out various resolutions of the general meetings and the board meetings, and operated strictly in accordance with the regulatory requirements for a listed company. The Supervisory Committee was not aware of any violation of relevant national laws and regulations and the Articles of Association, or any acts which would violate the interests of the Company.

The Supervisory Committee carefully reviewed the financial statements of the Company for 2013 which were audited by external auditors who have issued an unqualified opinion, and is intended to be submitted by the Board of Directors to the general meeting, and other relevant information. The Supervisory Committee is of the opinion that the financial statements give an objective and true view of the Company's financial position and operating results.

In 2014, to safeguard the interests of the shareholders and the interests of the Company and emphasize the fulfillment of the promises made to the shareholders, the Supervisory Committee will continue to perform its supervisory duties diligently over the major decisions and key operating activities in accordance with the PRC Company Law and the Articles of Association of the Company.

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

Beijing, PRC
20 March 2014

CONQUERING CHALLENGES

Restoring telecommunications facilities on disaster site

CORPORATE GOVERNANCE REPORT

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

CORPORATE GOVERNANCE PRACTICES

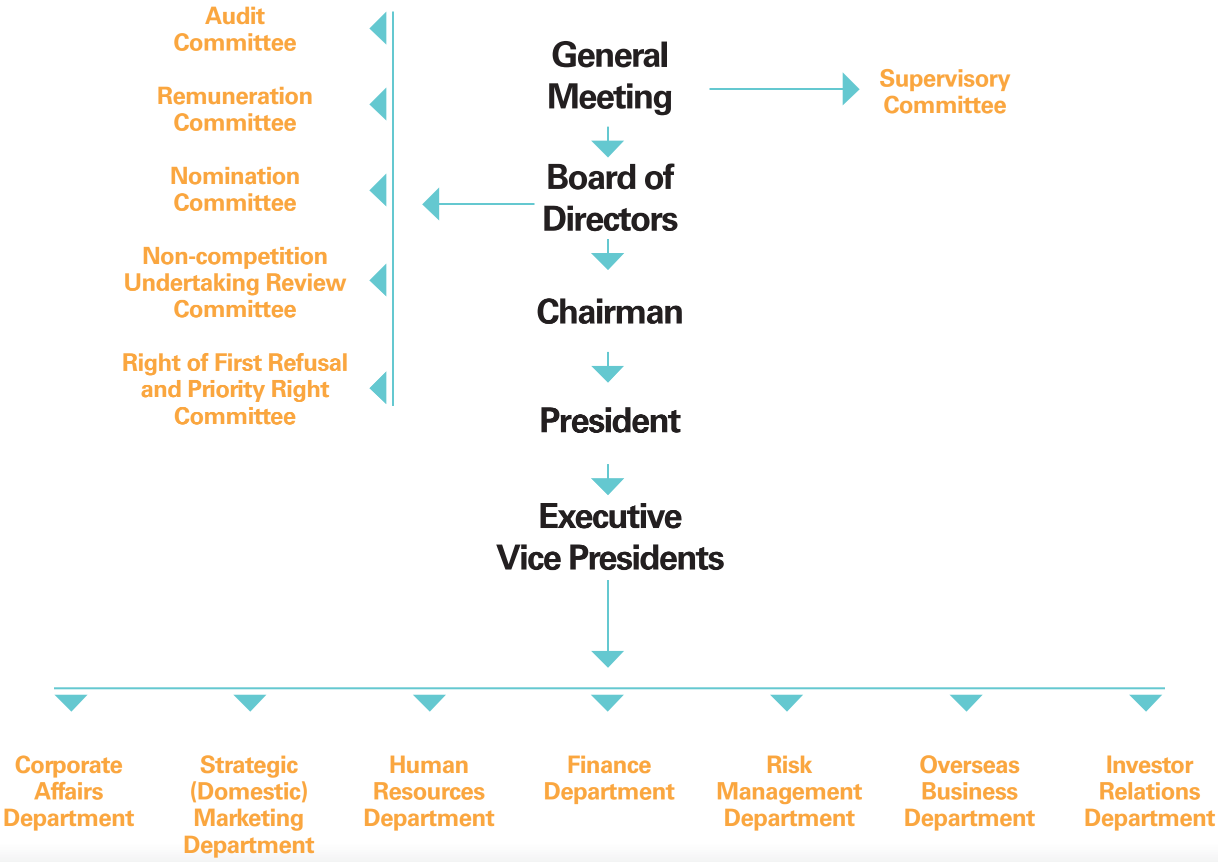
As a company incorporated in the PRC and listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company has not only complied with the relevant provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), but also abided by the PRC Company Law and other applicable laws, regulations and regulatory requirements of Hong Kong and the PRC as fundamental guidelines for the Company's corporate governance. While strictly complying with relevant laws and regulations, the Group is continually striving to further strengthen its internal control and risk management procedures in order to improve its corporate governance standards and transparency.

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

In 2013, the Company's persistent efforts in fostering sound corporate governance have been recognized by the capital market: the Group was awarded No. 1 on the "Best Managed Company in China" by *Euromoney*, No. 3 on the "The Best Managed Company in China" by *FinanceAsia*, and "The Best of Asia – Icon on Corporate Governance" by *Corporate Governance Asia*. Moreover, the Company was awarded again a Gold Award in "Financial Performance, Corporate Governance and Investor Relations" by *The Asset*.

Throughout the year ended 31 December 2013, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules except for Mr. Li Ping, the Chairman of the Company, was unable to attend the 2012 annual general meeting due to his business trip.

CORPORATE STRUCTURE OF THE COMPANY



GENERAL MEETING

Pursuant to the Company's Articles of Association, the general meetings are classified as annual general meeting (the "AGM") and extraordinary general meeting (the "EGM"). The AGM is convened once a year and within six months after the end of a financial year. A resolution was separately put forward in respect of each independent matter. The details of the voting procedures and voting by poll at the request of shareholders were set out in the notices of the general meetings in accordance with the provisions under the Articles of Association and the Listing Rules. In accordance with the Listing Rules, all the resolutions were voted by poll in all general meetings held in 2013.

For the 2012 AGM, a physical meeting was held in Beijing on 27 June 2013, at which the resolutions, including the 2012 financial statements, profit distribution proposal and dividend declaration proposal, appointment of auditors, report of the Directors, and report of the Supervisory Committee were considered and approved by shareholders.

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

SHAREHOLDERS' RIGHTS

Convening General Meeting and Submitting Proposals at General Meetings by Shareholders

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

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

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

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

SHAREHOLDERS' ENQUIRIES

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

COMMUNICATION WITH SHAREHOLDERS

The Board adopted the shareholders communication policy, which regulates the Company's various regular and irregular daily communication channels with shareholders, including general meeting(s), road shows and daily meetings. The above arrangements enable shareholders and investors keep abreast of the latest operating status and development prospects of the Company, and also enable the Company to get different opinions from the market in an effective and timely way. The details of the communication with the shareholders are set out in the section of "Investor Relations" of this annual report and the website of the Company.

BOARD OF DIRECTORS

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

CHAIRMAN AND PRESIDENT

Mr. Li Ping and Mr. Si Furong take up the position of Chairman and President of the Company, respectively. Our Chairman, Mr. Li Ping is responsible for overseeing the operation of the Board and in charge of the Company's overall management. Our President, Mr. Si Furong is responsible for the Company's daily operation and management.

COMPOSITION OF THE BOARD

As of the date of this report, the Board comprised nine directors, including three executive directors (Mr. Li Ping, Mr. Si Furong and Ms. Hou Rui), two non-executive directors (Mr. Li Zhengmao and Mr. Zhang Junan) and four independent non-executive directors (Mr. Wang Jun, Mr. Zhao Chunjun, Mr. Wei Leping and Mr. Siu Wai Keung, Francis). The Company has adopted a board diversity policy, which sets out the approach to achieve diversity on the Board. The Company's board diversity policy gives a number of considerations in aspects including skill, knowledge, experience, gender and age. The board members comprise professionals with diversified backgrounds including telecommunications industry, finance, management and academics. The Board has four independent non-executive directors, constituting over 1/3 of the Board members, of which an independent non-executive director (Mr. Siu Wai Keung, Francis) possess accounting professional qualification in compliance with Rules 3.10 and 3.10A of Chapter 3 of the Listing Rules. The profiles of the directors are set out in the "Profiles of Directors, Supervisors and Senior Management" section of this annual report and the Company's website.

In 2013, to the best knowledge of the directors, the members of the Board did not have any financial, business, family or other material connection with each other, in particular between the Chairman and the President, and all of them are free to make independent judgments.

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

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

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

SECURITIES TRANSACTIONS BY DIRECTORS

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

APPOINTMENT OF DIRECTORS

The Company follows a formal, considered and transparent procedure for the appointments of new directors. The Nomination Committee first considers and discusses the nomination and appointment of a new director and then makes recommendations to the Board for decision. The Board shall recommend the candidate(s) at the general meeting and the candidate(s) shall be elected at the general meeting each for a term of three years, effective from the date of election.

Among the board members of the Company, except for Mr. Li Zhengmao and Mr. Si Furong, the term of office of other directors, including two executive directors, one non-executive director and four non-executive independent directors are all three years, commencing from the AGM on 28 June 2012 approving the third session of the Board to the 2014 AGM to be held in 2015. The directors of the Company are all eligible for re-election at the expiration of the term. The term of office of Mr. Li Zhengmao commenced from 27 November 2012 (the date of the EGM approving his appointment) to the 2014 AGM to be held in 2015. The term of office of Mr. Si Furong commenced from 21 February 2014 (the date of the EGM approving his appointment) to the 2014 AGM to be held in 2015.

MEETINGS OF THE BOARD

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

The Company Secretary assists the Chairman in preparing the agenda for Board meetings. Unless stipulated otherwise by the Board in advance, the time and place for any Board meeting shall be notified to all directors at least 14 days prior to the date of the meeting. The agenda and related documents of the Board meetings will be delivered to all directors at least 3 days prior to the date of the meeting. The Board and each of the directors may contact the senior management independently if necessary and obtain additional information from the Company so that the directors can make informed decisions with relevant information.

All minutes of the Board meetings record the details of resolutions considered and decisions made, and were kept by meeting secretary and open for inspection by the directors. In 2013, the Board held four meetings and passed two written resolutions. In addition to general matters such as review of the annual and interim financial statements, dividend distribution, corporate governance and budget, the Board also considered the resolutions including appointment of directors and board diversity policy.

Mr. Li Ping, the Chairman of the Company, had a meeting with the non-executive directors (including independent non-executive directors) without the presence of the executive directors in 2013.

The attendance record of the Company's directors in Board meetings, board committee meetings and general meeting(s) in 2013 are as follows:

	Attendance in 2013/Meeting convened during period of appointment					
	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	Non-competition Undertaking Review Committee	AGM
Executive Directors						
Li Ping (Chairman)	4/4					0/1
Zheng Qibao[(1)]	3/4					1/1
Yuan Jianxing[(2)]	1/1					1/1
Hou Rui	4/4					1/1
Non-executive Directors						
Li Zhengmao	4/4[(3)]					0/1
Zhang Junan	4/4[(4)]					1/1
Independent Non-executive Directors						
Wang Jun	4/4[(5)]			1/1		0/1
Zhao Chunjun	4/4	2/2	1/1	1/1	2/2	0/1
Wei Leping	4/4	2/2[(6)]	1/1	1/1	2/2[(7)]	0/1
Siu Wai Keung, Francis	4/4	2/2	1/1		2/2	1/1

(1) Mr. Zheng Qibao resigned as an executive director of the Company on 19 December 2013.
(2) Mr. Yuan Jianxing resigned as an executive director of the Company on 8 August 2013.
(3) Mr. Li Zhengmao appointed other directors to attend two meetings.
(4) Mr. Zhang Junan appointed other directors to attend three meetings.
(5) Mr. Wang Jun appointed other directors to attend two meetings.
(6) Mr. Wei Leping appointed other director to attend one meeting.
(7) Mr. Wei Leping appointed other director to attend one meeting.

DIRECTOR'S TRAINING

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

The Company distributed board memorandum to directors each month, setting out updates on major business and financial position of the Company to facilitate the directors to discharge their duties. In addition, the Company also issued latest information regarding corporate governance and directors' responsibilities under the Listing Rules and other applicable laws and regulations to the directors, ensuring their awareness of their responsibilities under the laws and regulations. The directors were also encouraged to participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contributions to the Board remain informed and relevant.

The following were the training record of the directors of the Company as at 31 December 2013:

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

BOARD COMMITTEES

As an important part of a sound corporate governance practice, as well as for supervision of the overall affairs of the Company in various areas and assistance of discharging its responsibilities, the Board has set up five board committees: the Audit Committee, the Remuneration Committee, the Nomination Committee, the Non-competition Undertaking Review Committee and the Right of First Refusal and Priority Right Committee. All the five board committees comprise of independent non-executive directors to ensure full expression of independent and objective views and to fulfill each of its responsibilities of the overall safeguard and supervision. The list of members of these committees was published on the websites of the Company and the Stock Exchange.

Audit Committee

The Audit Committee consists of three independent non-executive directors: Mr. Siu Wai Keung, Francis (Chairman), who has accounting or related financial management expertise, Mr. Zhao Chunjun and Mr. Wei Leping. The Audit Committee is mainly responsible for reviewing the interim and annual financial statements of the Company to ensure a true and fair view of the state of affairs, reviewing interim and annual results of the Company after consulting with external auditors, and making recommendations to the Board. In addition, the Audit Committee is also responsible for examining the appointment of external auditors, considering and supervising the financial reporting procedures and the internal control systems of the Company, and overseeing the execution of the connected transactions. The Audit Committee makes an assessment of the effectiveness of the Group's internal control at least once a year. In addition, the Audit Committee is also responsible for reviewing the adequacy of resources of the Group's accounting and financial reporting function.

In 2013, the Audit Committee held two meetings, mainly reviewing the resolutions of the Company for its audited financial report of 2012, interim report of 2013, report on connected transactions, report on internal control and risk management and appointment of independent auditors. The Audit Committee also met with the external auditors separately to discuss the matters found during the audit and other issues that might be raised by the auditors.

Remuneration Committee

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

In 2013, the Remuneration Committee held one meeting, mainly reviewing the resolutions of adjusting the exercise price of share appreciation rights scheme of the Company.

Nomination Committee

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

In 2013, the Nomination Committee held one meeting and also passed one written resolution, mainly reviewing the resolutions including the review of the Board structure and composition, board diversity policy of the Company, amendments to the Nomination Committee Charter and recommending Mr. Si Furong as an executive director of the Company, and making their recommendations to the Board.

The Company amended the Nomination Committee Charter in respect of the adoption of the board diversity policy. The amended Nomination Committee Charter was published on the websites of the Company and the Stock Exchange.

Non-Competition Undertaking Review Committee

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

In 2013, the Non-competition Undertaking Review Committee held two meetings, mainly reviewing the implementation of the non-competition undertakings by China Telecom and made their recommendations to the Board.

The Company has received a letter issued to the Company by China Telecom stating that they were not in breach of any non-competition undertakings in 2013. The letter has been reviewed by the Non-competition Undertaking Review Committee and the Board.

Right of First Refusal and Priority Right Committee

The Right of First Refusal and Priority Right Committee consists of three independent non-executive directors: Mr. Wei Leping (Chairman), Mr. Zhao Chunjun and Mr. Siu Wai Keung, Francis. The Right of First Refusal and Priority Right Committee is mainly responsible for monitoring the enforcement of the right of first refusal and priority right granted by China Telecom since the Company was listed and protecting the interests of independent shareholders when such right of first refusal or priority right is exercised. Meeting(s) are held when necessary according to the Right of First Refusal and Priority Right Committee Charter. In 2013, the Right of First Refusal and Priority Right Committee did not hold any meeting.

Independent Board Committee

Pursuant to the relevant requirements under the Listing Rules, a listed company shall establish an Independent Board Committee (which shall consist only of independent non-executive directors) to advise shareholders in relation to transactions that are subject to independent shareholder's approval (such as connected transactions) as to whether the terms of the relevant transaction or arrangement are fair and reasonable and whether such a transaction or arrangement is in the interests of the Company and its shareholders as a whole. In 2013, the Company did not have any transaction requiring independent shareholder's approving and therefore the Independent Board Committee did not hold any meeting.

Supervisory Committee

The Company established a Supervisory Committee pursuant to the PRC Company Law. The Supervisory Committee consists of three members: Ms. Xia Jianghua (the chairperson), Mr. Hai Liancheng (the external independent supervisor) and Mr. Si Jianfei (the employee representative supervisor). On 18 June 2013, Mr. Yan Dong resigned as the Employee Representative Supervisor of the Company. The employees' congress of the Company has elected Mr. Si Jianfei as the Employee Representative Supervisor. Except for Mr. Si Jianfei, the term of service of the supervisors are three years, commencing from the AGM on 28 June 2012 approving the third session of the Supervisory Committee to the 2014 AGM to be held in 2015, and the supervisors may serve consecutive terms if re-elected upon the expiry of their terms of service. The term of service of Mr. Si Jianfei commenced from 18 June 2013 (the date of the election) to the 2014 AGM to be held in 2015. The Supervisory Committee is a standing supervisory institution of the Company and is accountable and reports to all the shareholders. The Supervisory Committee normally meets at least twice a year.

The primary duties of the Supervisory Committee are to supervise the financial activities of the Group, to review the financial statements and other financial information prepared and presented by the Board at the general meeting(s); to supervise the performance of duties of the directors and other senior management; to prevent them from abusing power; and to deal with the directors or to initiate legal actions against the directors on behalf of the Company. In 2013, the Supervisory Committee held two meetings, details of which are set out in the "Report of the Supervisory Committee" of this annual report.

AMENDMENT(S) TO THE ARTICLES OF ASSOCIATION

The Articles of Association of the Company do not have any material changes during 2013.

COMPANY SECRETARY

The Company Secretary, Mr. Chung Wai Cheung, Terence, is an employee of the Company and has appropriate understanding of the Company's business. The Company Secretary is responsible for supporting the daily operation of the Board and ensuring the compliance with the policies and procedures of the Board. All of the directors can access to opinions of the Company Secretary to ensure that the procedures of the Board conform to the applicable laws and regulations. The profile of the Company Secretary is set out in the section of "Profiles of Directors, Supervisors and Senior Management" in this annual report. The Company Secretary met the requirement on professional training under the Rule 3.29 of the Listing Rules in 2013.

REMUNERATION OF THE AUDITORS

The international and domestic auditors of the Company are Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP, respectively. The remuneration received by the external auditors for the audit services provided to the Company during the year amounted to RMB32,320,000. No non-audit services were provided to the Company by the external auditors during the year.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The directors are responsible for the preparation of financial statements. The directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern, therefore the directors continue to adopt the going concern approach in preparing financial statements.

The responsibility statement of Deloitte Touche Tohmatsu, our external auditors, regarding its Independent Auditor's Report on the financial statements of the Group is set out on pages 89 to 90 of this annual report.

INTERNAL CONTROL

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

The Group is committed to strengthening its internal control and risk management and has established a sound internal control foundation. The major control measures of the Group in 2013 are summarized as follows:

- Reinforcing internal audit to identify and fix the loopholes in management: The Company focused on unexpected cases in operation and management activities, operation procedures and business structure to strengthen internal audit. It also placed emphasis on the application and conversion of audit results to improve management and to fix loopholes in management.

- Conducting a special audit and inspection on trade business and issuing relevant policies: The Company issued relevant requirements on trade business management based on the latest business development and management needs, which further regulate the scope of trade business, enhance risk control and promote sustainability of trade business for its healthy development.

- Strengthening internal control assessment: The Group organized subsidiaries of various levels to carry out an assessment on the effectiveness of the design and implementation of internal control system, which focus on the key businesses cycles such as contract management, cash management, business subcontracting, procurement management, inventory management, sales and material delivery etc., revealing deficiencies on the design and implementation of internal control procedures and providing suggestions and recommendations so as to prevent material risks on internal control.

- Persistently advancing construction on internal control information management system: The Company utilized integrated accounting system and contract management system of EMOSS (Enterprise Management Operation Support System), effectively strengthening control procedures and orderly promoting overall control on business contracts. The Company also improved the functions of project management system to reinforce project control and to enhance the profitability and delivery capability of project. Risk management information network was further improved to promote communication among various internal departments, so as to increase the ability to prevent the risks.

The Board considers the Company was in compliance with the internal control requirements under C.2 of the Code Provisions and the internal control and risk management system of the Company was effective. The Board intends to continue to further improve and enhance its internal control and risk management in 2014.

INVESTOR RELATIONS

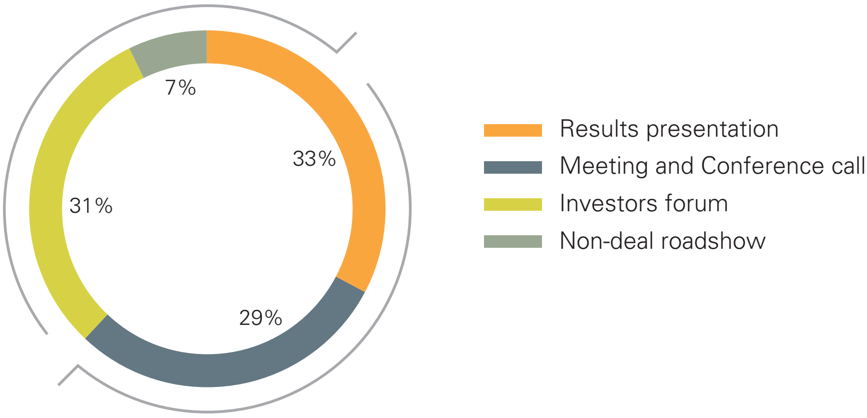
The Company always places a great emphasis on investor relations. In addition to maintaining sound corporate governance, the Company adheres to the principle of effective, timely and fair information disclosure. Through prompt and interactive communication with the capital market, investors can have comprehensive and in-depth understanding of the Company. We also actively listen to suggestions and comments on our operation and management from the capital market and persist in enhancing the value of the Company. Over the years, the Company's continuous effort in investor relations has received high recognitions and compliments from the capital market.

INVESTOR RELATIONS ACTIVITIES

The Company strives to communicate with the capital market through its multi-channel interactive communication mechanism, including investor and press conferences, non-deal roadshows, investor forums held by investment banks, one-on-one meetings, teleconferences and video conferences, emails, press releases as well as investor relations website. In 2013, the senior management and the investor relations department of the Company held meetings and communicated with over 500 analysts and investors through the above channels.

2012 Annual Results Presentation

Attendance Analysis of Investor Relations Activities in 2013



LIST OF INVESTOR RELATIONS ACTIVITIES OF THE COMPANY CONDUCTED IN 2013

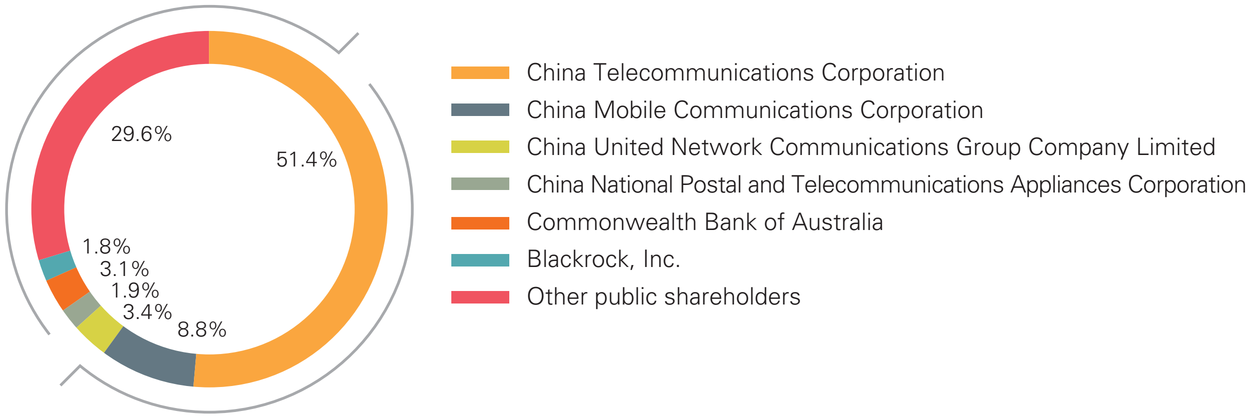
Period	Activities	Venue
1/2013	DB Access China Conference 2013	Beijing
3/2013	2012 Annual Results Announcement – Analysts Briefing – Press Conference	Hong Kong
3/2013	Non-deal Roadshow	Hong Kong
5/2013	Macquarie Greater China Conference	Hong Kong
5/2013	BNP Paribas 4th Annual Asia Pacific TMT Conference	Hong Kong
5/2013	Goldman Sachs Asia Telecom & Internet Corporate Day	Hong Kong
7/2013	DBS Vickers Pulse of Asia Conference	Singapore
8/2013	2013 Interim Results Announcement – Analysts Briefing – Press Conference	Hong Kong
8/2013	Non-deal Roadshow	Hong Kong
9/2013	Nomura China Investor Forum 2013	Shanghai
9/2013	CITIC Securities International Corporate Day 2013	Hong Kong
10/2013	Jefferies 3rd Annual Asia Summit	Hong Kong
11/2013	Goldman Sachs Greater China CEO Summit 2013	Hong Kong
12/2013	BOCI Mobile Internet Outlook 2014 Forum	Hong Kong

INVESTOR RELATIONS

SHAREHOLDING STRUCTURE

In 2013, the Company continued to appoint an international survey company and conducted three investigations on the shareholding of the Company. With a better understanding of its shareholding structure, geographical locations of shareholders, investment styles and position changes in shareholdings, the Company was able to understand the shareholding structure and investment characteristics of the capital market in the Company, and pertinently developed potential investors and expanded investor base in an active and strategic manner.

Shareholding Structure as of 31 December 2013



INFORMATION DISCLOSURE

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

Since its listing, the Company has strictly complied with the information disclosure requirements for listed companies and made information disclosure in a timely, just, fair and accurate manner. In 2013, the Company published more than ten corporate communications such as announcements and circulars. Such publications have objectively and comprehensively disclosed information regarding the Company's results, operating performance, financial information, dividend payment, poll results of general meetings, and certain other voluntary disclosures as well as awards received from the capital market.

In 2013, the Company published the following information on the websites of the Stock Exchange and the Company pursuant to the Listing Rules:

14-Mar-13	Announcement relating to the date of board meeting to approve the 2012 annual results
27-Mar-13	Announcement of annual results for the year ended 31 December 2012
27-Mar-13	Announcement of proposed change of auditors
22-Apr-13	2012 annual report
22-Apr-13	Notice of the annual general meeting to be held on 27 June 2013, reply slip and proxy form
18-Jun-13	Announcement of appointment of executive vice president and change of employee representative supervisor
27-Jun-13	Poll results of the annual general meeting held on 27 June 2013 and payment of final dividend
26-Jul-13	Announcement in relation to the operating performance updates for the first half of 2013
8-Aug-13	Announcement of resignation of executive director
15-Aug-13	Announcement relating to the date of board meeting to approve the 2013 interim results
28-Aug-13	Announcement of interim results for the six months ended 30 June 2013
12-Sep-13	2013 interim report
29-Nov-13	Announcement relating to updates on nomination committee charter
19-Dec-13	Announcement of resignation of director and change of important executive positions, proposed appointment of director
27-Dec-13	Notice of the extraordinary general meeting to be held on 21 February 2014, reply slip and proxy form

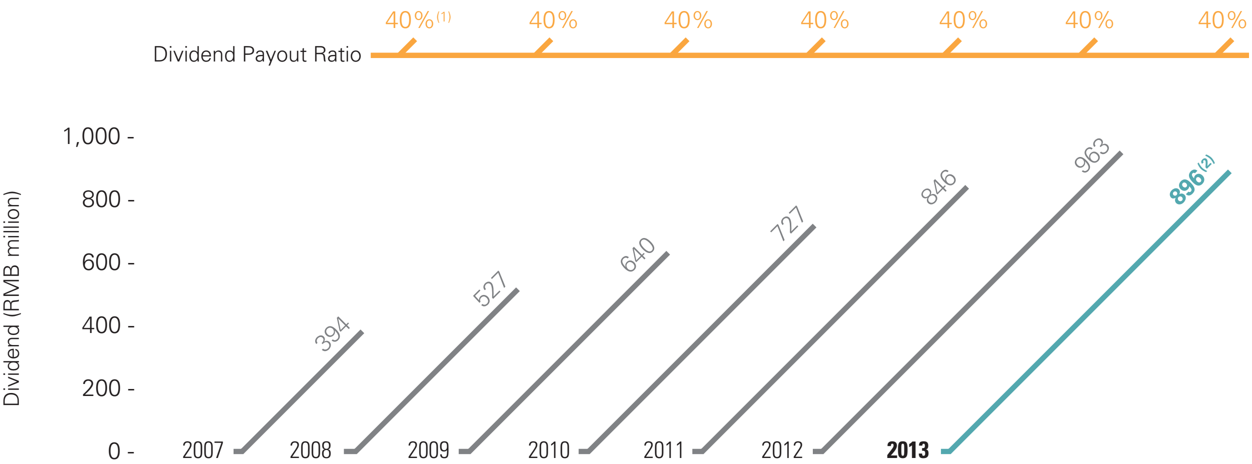
The Company's website (http://www.chinaccs.com.hk) is also one of the important distribution channels for corporate information dissemination. In 2013, in response to latest trend of the Internet, the Company revamped its website with the application of latest network technology to upgrade the functions and interactivity of the website. This enabled the capital market to keep abreast of the Company's development in a more convenient, timely and comprehensive way.

INVESTOR RELATIONS

Annual report is an important document for information disclosure of a listed company. The Company always attaches high importance to the preparation of annual reports to enable investors to have a full understanding of our operation philosophy, strategies, current operation and development trends. In 2013, the 2012 annual report of the Company once again won the Grand Award of the "Best of Traditional Annual Reports – Hong Kong" at the "2013 International ARC Awards". Our annual report also received the Platinum Award and achieved high global ranking in the annual report competition in the League of American Communications Professionals (LACP), with outstanding results among numerous company candidates.

DIVIDENDS

The Company attaches great importance to the shareholders' views on its dividends, and determines its dividends with reference to the Company's financial status, cash flow, long-term development needs and potential investment opportunities. Dividend distribution of the Company since its listing is set out in the below table.



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

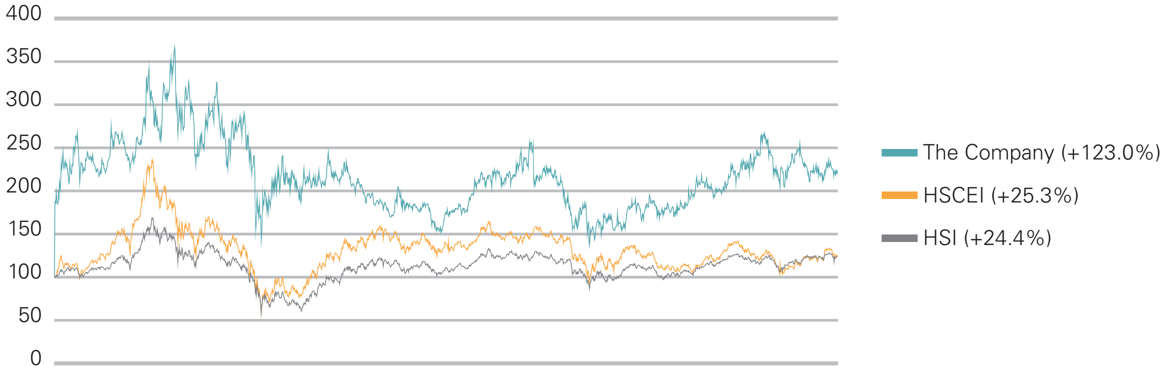
(2) Subject to the approval at the 2013 annual general meeting to be held on 27 June 2014.

SHARE PRICE PERFORMANCE

The Company's H shares were listed on the Stock Exchange on 8 December 2006 at an offer price of HK$2.2 per share. Over the years since its listing, the Company has grasped various favourable opportunities arising from the industry development, and achieved steady business growth through effective implementation of strategies and sound corporate governance. Leveraging its pragmatic and efficient investor relations practices, the Company has been maintaining a favourable share price performance since its listing. The price of the Company's H shares as at 31 December 2013 was doubled when compared to its offer price.

Share Price Performance Since Listing

From 8 December 2006 to 31 December 2013

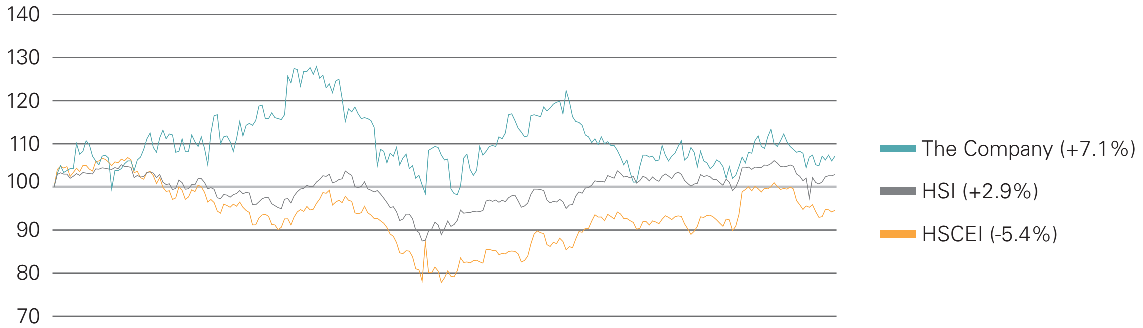


In 2013, due to certain changes in its market environment, the Group faced greater challenges in its business operations, and its performance fell short of the expectation by the capital market. As such, the Company adopted a proactive investor relations strategy in consideration of the relevant information disclosure regulations and issued voluntary announcements in relation to its operating performance, with an aim to provide the capital market with sufficient information about the difficulties and prospects of the Group, and share price of the Company remained fairly stable in 2013. The Company's share price recorded a steady growth of 7%, which was better than the performance of Hang Seng Index and Hang Seng China Enterprises Index.

2013	Highest	Lowest	Closing
Price per H share of the Company (HK$)	5.82	4.34	4.80

Share Price Performance in 2013

From 1 January 2013 to 31 December 2013



As of 31 December 2013, the total number of shares for the Company was 6,926,018,400 shares, of which, 4,534,598,160 shares were domestic shares and 2,391,420,240 shares were H shares, both with par value of RMB1.00 each. All the H shares of the Company are listed at the Stock Exchange, representing approximately 34.5% of the total shares of the Company. Based on the closing price as of 31 December 2013, the Company's market capitalization was about HK$33.2 billion.

MAJOR AWARDS AND RECOGNITIONS IN 2013

1. **"Best Managed Company in Asia 2013" by *Euromoney***
   — China – Rank 1st
   — Asia – Rank 6th

2. **"2013 Asia's Best Managed Company" by *FinanceAsia***
   — Best Managed Company in China – Rank 3rd
   — Best CEO in China – Rank 2nd
   — Best CFO in China – Rank 2nd
   — Best Investor Relations in China – Rank 3rd
   — Best Committed to a Strong Dividend Policy – Rank 3rd

3. **"Corporate Governance Asia Recognition Award 2013 – The Best of Asia" by *Corporate Governance Asia***
   — Icon on Corporate Governance

4. **"Asian Excellence Recognition Awards 2013" by *Corporate Governance Asia***
   — Best Investor Relations by a China Company

5. **"The Asset Corporate Awards 2013" by *the Asset***
   — Gold Award – Financial Performance, Corporate Governance and Investor Relations

6. **"2013 Golden Bauhinia Awards" *by Tai Kung Pao***
   — The Best Investment Value Listed Company

7. **"2013 International ARC Awards"**
   — Grand Award – "Best of Traditional Annual Reports – Hong Kong

8. **"2012 Vision Awards" published by *LACP***
   — Worldwide Top 100 – Rank 15th
   — Regional Top 50 (Asia-Pacific) – Rank 6th
   — Platinum

9. **"2013 FORTUNE China 500" published by *Fortune China***
   — Rank 82th

RECOGNITIONS AND HONORS IN THE CAPITAL MARKET

In 2013, the Company was elected as a constituent stock of "Hang Seng Corporate Sustainability Benchmark Index". The Company is also the constituent stocks of Hang Seng Composite Index and Hang Seng Composite MidCap Index.

In 2013, there were more than 10 international research institutions covering and regularly publishing research reports on the Company. Since its listing, the Company's investment value has been highly recognized by the capital market and as of 31 December 2013, most of the major research institutions maintained positive investment ratings such as "Buy" or "Hold" on the Company.

In 2013, the Company continued to be highly recognized by the capital market in respect of investor relations, and was awarded over 10 major international awards or recognitions. During the year, the Company was voted for the first time as the No.1 "Best Managed Company in China" in *Euromoney's* "2013 Best Managed Company in Asia" and ranked the sixth of the "Overall Performance in Best Managed Company in Asia" at the beginning of the year. The Company was also ranked the 3rd in the "Best Managed Company in China" in the "2013 Asia's Best Managed Company" organized by *FinanceAsia* and was honoured with several other major awards. During the year, the Company also won various major prizes from several capital market awards organized by magazines including *The Asset, Corporate Governance Asia*. The awards won by the Company not only demonstrated its continuous hard work and excellent performance in corporate governance over the years, but also an evidence that the capital market highly recognized the Company's adherence to strive for best corporate governance practice.

OTHER NECESSARY INFORMATION FOR SHAREHOLDERS

Shareholder services

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

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

Shareholder enquiries

Enquiry hotline during normal office hours:
(Office hours: 9:00–18:00)
Telephone: (852) 3699 0000

Investor relations

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

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

HUMAN RESOURCES DEVELOPMENT

In 2013, the Group has strictly adhered to the "Strategy of Talents Management" and focused on implementing the "Talents Project". Through "controlling total headcounts, optimizing employment structure, strengthening staff team, enhancing capability, reforming mechanism, pursuing harmony", the Group strived to provide continuous support for innovation, transformation, and sustainable and healthy development.

In 2013, adhering to the guidance of human resources plan, the Group improved allocation of human resources, directed the budget of labour expenses and tilted human resources allocation towards provincial subsidiaries with satisfactory efficiency and rapid development, as well as key business, quality business, and core talents teams. The Group strictly complied with the amended PRC Labour Contract Law, employed dispatch workers in accordance with relevant regulations and further refined its staff structure. As at the end of 2013, the Group had a total of 128 thousand staff. Revenue per headcount amounted to RMB535 thousand per year.

In 2013, the Group put a great emphasis on human resources management and was devoted to promoting the "Talents Project", so as to cultivate a team of managers with entrepreneurial spirit. The Group carried out the building of "four channels" for market-oriented talents, expanding their career development. Strategies were systematically deployed in the selection, appointment, appraisal, cultivation and motivation of high-end talents, by which core talents were effectively motivated and retained, and the core competitive edge of the Group was enhanced.

In 2013, the Group highly emphasized the cultivation of talents. Comprehensive on-the-job trainings on leadership, professional skill and competency were orderly facilitated by allocating the internal and external resources of the Group, which effectively enhanced the work capability of staff. Teaching resources of the Group were integrated and in-house trainer team was set up. There have been more than 7,400 certified project managers and certified marketing managers who had completed the training programs, strongly supporting the development of the Group.

In 2013, the Group has continued to promote the informatization, scientification and preciseness of human resources management. The Group also improved the information system for human resources management to enhance the capabilities of comprehensive analysis and human resources management.

In 2013, the Group kept on with its "people-oriented" philosophy and aimed to create a caring working environment for its staff. The Group also shared the achievements of business development with its staff. The Group abided the relevant national laws and regulations, improved its enterprise pension system and established a healthy and harmonious work environment for its staff as well as built stable labor relationship with its employees.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of China Communications Services Corporation Limited (the "Company") for the year 2013 will be held at 10:00 a.m. on 27 June 2014 at No. 19, Chaoyangmen Beidajie, Dongcheng District, Beijing, PRC, to consider and, if thought fit, pass the following businesses:

ORDINARY RESOLUTIONS

1 **THAT** the consolidated financial statements of the Company, the report of the Directors, the report of the Supervisory Committee and the report of the international auditors for the year ended 31 December 2013 be considered and approved, and the board of directors of the Company (the"Board") be authorized to prepare the budget of the Company for the year 2014;

2 **THAT** the profit distribution proposal and the declaration and payment of a final dividend for the year ended 31 December 2013 be considered and approved;

3 **THAT** the appointment of Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the international auditors and domestic auditors of the Company, respectively, for the year ending 31 December 2014 be considered and approved, and the Board be authorized to fix the remuneration of the auditors;

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

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

SPECIAL RESOLUTIONS

4 To consider and approve, by way of special resolutions, each of the following resolutions in relation to the granting of a general mandate to the Board to issue debentures:

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

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

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

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

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

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

5 **THAT**:

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

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

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

d) for the purpose of this special resolution 5:

"Relevant Period" means the period from the passing of special resolution 5 until the earliest of:

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

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

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

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

By Order of the Board
China Communications Services Corporation Limited
Chung Wai Cheung, Terence
Company Secretary

Beijing, PRC

15 April 2014

Notes:

(1) Buyers who submit the share transfer application forms to the Company's share registrar before 4:30 p.m. on 27 May 2014 (Tuesday) and then register as shareholders on the register of members of the Company are entitled to attend the annual general meeting.

(2) Each shareholder entitled to attend and vote at the annual general meeting may appoint one or more proxies to attend and vote on his behalf at the annual general meeting. A proxy need not be a shareholder. Each shareholder who wishes to appoint one or more proxies should first review the annual report of the Company for the year 2013, which is expected to be despatched to shareholders on around 15 April 2014 (Tuesday).

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

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

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

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

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

(b) Shareholders intending to attend the annual general meeting shall return the attendance slip via hand delivery, mail or fax to the Office of the Board of the Company on or before 6 June 2014 (Friday).

(6) Closure of the register of members:

(a) Annual General Meeting

The H share register of members of the Company will be closed, for the purpose of determining shareholders' entitlement to attend the annual general meeting, from Wednesday, 28 May 2014 to Friday, 27 June 2014 (both days inclusive), during which period no transfer of H shares will be registered. In order to attend the annual general meeting, all share transfers, accompanied by the relevant share certificates, must be lodged for registration with Computershare Hong Kong Investor Services Limited at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Tuesday, 27 May 2014. H share shareholders who are registered with Computershare Hong Kong Investor Services Limited on 27 June 2014 are entitled to attend the annual general meeting.

(b) Proposed Final Dividend

The Board proposes a final dividend of RMB0.1293 per share (pre-tax) for the year ended 31 December 2013. The dividend proposal will be submitted for consideration at the annual general meeting to be held on 27 June 2014. If such proposed dividend distribution is approved by the shareholders, the final dividend will be distributed to those shareholders whose names appear on the register of members of the Company on Tuesday, 15 July 2014. The register of members will be closed from Thursday, 10 July 2014 to Tuesday, 15 July 2014 (both days inclusive). In order to be entitled to the final dividend, H shares shareholders who have not registered the transfer documents are required to deposit the transfer documents together with the relevant share certificates at Computershare Hong Kong Investor Services Limited, at Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong at or before 4:30 p.m. on Wednesday, 9 July 2014. Dividends will be denominated and declared in Renminbi. Dividends on domestic shares will be paid in Renminbi, whereas dividends on H shares will be paid in Hong Kong dollars. The relevant exchange rate will be the average of the mid-point rates of Renminbi to Hong Kong dollars as announced by the People's Bank of China for the week prior to the date of the approval of declaration of dividends at the annual general meeting.

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

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

No. 19, Chaoyangmen Beidajie
Dongcheng District
Beijing 100010
PRC

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

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

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED
(Established in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of China Communications Services Corporation Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 91 to 170, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

26 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2013

	Notes	**2013 RMB'000**	2012 RMB'000
Revenues	4	**68,459,096**	61,517,375
Cost of revenues	5	**(58,081,107)**	(51,732,008)
Gross profit		**10,377,989**	9,785,367
Other operating income	6	**802,216**	851,336
Selling, general and administrative expenses		**(8,288,163)**	(7,514,881)
Other operating expenses	7	**(116,624)**	(69,258)
Finance costs	8	**(11,232)**	(26,030)
Share of profits of associates		**14,315**	4,844
Profit before tax	9	**2,778,501**	3,031,378
Income tax	10	**(493,121)**	(585,514)
Profit for the year		**2,285,380**	2,445,864
Attributable to:			
Equity shareholders of the Company		**2,238,351**	2,406,792
Non-controlling interests		**47,029**	39,072
Profit for the year		**2,285,380**	2,445,864
Basic and diluted earnings per share (RMB)	16	**0.323**	0.353

The notes on pages 100 to 170 form part of these financial statements. Details of dividend payable to equity shareholders of the Company attributable to the profit for the year are set out in note 15.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
Profit for the year		**2,285,380**	2,445,864
Other comprehensive income for the year (after tax)			
Items that may be subsequently reclassified to profit or loss (after tax):			
Exchange differences on translation of financial statements of subsidiaries outside of Mainland China		**(14,057)**	(4,308)
Available-for-sale securities: net movement in the fair value reserve	11	**8,307**	(100)
		(5,750)	(4,408)
Total comprehensive income for the year		**2,279,630**	2,441,456
Attributable to:			
Equity shareholders of the Company		**2,232,601**	2,402,384
Non-controlling interests		**47,029**	39,072
Total comprehensive income for the year		**2,279,630**	2,441,456

The notes on pages 100 to 170 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Notes	**31 December 2013 RMB'000**	31 December 2012 RMB'000
Non-current assets			
Property, plant and equipment, net	17	**4,686,953**	4,517,754
Investment properties	18	**734,121**	765,075
Construction in progress	19	**207,111**	387,190
Lease prepayments	20	**897,827**	933,697
Goodwill	21	**103,005**	103,005
Other intangible assets	22	**200,093**	170,105
Interests in associates	24	**71,581**	52,106
Other investments	25	**661,359**	662,300
Deferred tax assets	26	**291,778**	204,803
Other non-current assets	27	**241,308**	27,880
Total non-current assets		**8,095,136**	7,823,915
Current assets			
Inventories	28	**2,228,214**	1,894,825
Accounts and bills receivable, net	29	**25,428,055**	21,321,955
Prepayments and other current assets	31	**5,027,405**	4,773,469
Restricted deposits	32	**712,259**	266,979
Cash and cash equivalents	33	**6,760,237**	8,879,491
Total current assets		**40,156,170**	37,136,719
Total assets		**48,251,306**	44,960,634
Current liabilities			
Interest-bearing borrowings	34	**53,901**	409,805
Accounts and bills payable	35	**17,080,784**	14,843,934
Receipts in advance for contract work		**1,164,029**	1,386,805
Accrued expenses and other payables	36	**7,126,497**	6,763,252
Income tax payable		**315,222**	309,761
Total current liabilities		**25,740,433**	23,713,557
Net current assets		**14,415,737**	13,423,162
Total assets less current liabilities		**22,510,873**	21,247,077
Non-current liabilities			
Interest-bearing borrowings	34	**51,580**	89,883
Other non-current liabilities	37	**154,379**	134,105
Deferred tax liabilities	26	**16,892**	20,930
Total non-current liabilities		**222,851**	244,918
Total liabilities		**25,963,284**	23,958,475

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Notes	**31 December 2013 RMB'000**	31 December 2012 RMB'000
Equity			
Share capital	38	**6,926,018**	6,926,018
Reserves		**14,846,745**	13,576,721
Equity attributable to equity shareholders of the Company		**21,772,763**	20,502,739
Non-controlling interests		**515,259**	499,420
Total equity		**22,288,022**	21,002,159
Total liabilities and equity		**48,251,306**	44,960,634

The notes on pages 100 to 170 form part of these financial statements.

Approved and authorised for issue by the board of directors on 26 March 2014.

Li Ping
Chairman

Hou Rui
Executive Vice President and Chief Finance Officer, Director

STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Notes	**31 December 2013 RMB'000**	31 December 2012 RMB'000
Non-current assets			
Property, plant and equipment, net	17	**7,451**	10,041
Construction in progress	19	**5,794**	3,503
Other intangible assets	22	**8,313**	9,856
Investments in subsidiaries	23	**12,617,534**	12,017,339
Total non-current assets		**12,639,092**	12,040,739
Current assets			
Prepayments and other current assets	31	**1,948,230**	1,360,620
Restricted deposits	32	**370,390**	–
Cash and cash equivalents	33	**672,799**	2,023,065
Total current assets		**2,991,419**	3,383,685
Total assets		**15,630,511**	15,424,424
Current liabilities			
Accrued expenses and other payables	36	**26,842**	94,318
Income tax payable		**4,119**	–
Total current liabilities		**30,961**	94,318
Net current assets		**2,960,458**	3,289,367
Total assets less current liabilities		**15,599,550**	15,330,106
Total liabilities		**30,961**	94,318
Equity			
Share capital	38	**6,926,018**	6,926,018
Reserves	47	**8,673,532**	8,404,088
Total equity		**15,599,550**	15,330,106
Total liabilities and equity		**15,630,511**	15,424,424

The notes on pages 100 to 170 form part of these financial statements.

Approved and authorised for issue by the board of directors on 26 March 2014.

Li Ping
Chairman

Hou Rui
Executive Vice President and
Chief Finance Officer, Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

		Equity attributable to equity shareholders of the Company											
	Notes	Share capital RMB'000	Share premium RMB'000 (note a)	Capital reserve RMB'000 (note b)	Statutory surplus reserve RMB'000 (note c)	Specific reserve RMB'000 (note d)	Fair value reserve RMB'000 (note e)	Exchange reserve RMB'000 (note f)	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance as at 1 January 2013		**6,926,018**	**4,529,310**	**1,846,468**	**541,379**	**38,216**	**22,554**	**(13,813)**	**(68,310)**	**6,680,917**	**20,502,739**	**499,420**	**21,002,159**
Changes in equity for the year ended 31 December 2013													
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,238,351**	**2,238,351**	**47,029**	**2,285,380**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**8,307**	**(14,057)**	**–**	**–**	**(5,750)**	**–**	**(5,750)**
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**8,307**	**(14,057)**	**–**	**2,238,351**	**2,232,601**	**47,029**	**2,279,630**
Dividend declared	15(b)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(962,717)**	**(962,717)**	**–**	**(962,717)**
Distribution to non-controlling owners		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(31,190)**	**(31,190)**
Appropriation		**–**	**–**	**–**	**123,422**	**–**	**–**	**–**	**–**	**(123,422)**	**–**	**–**	**–**
Appropriation of maintenance and production funds		**–**	**–**	**–**	**–**	**322,342**	**–**	**–**	**–**	**(322,342)**	**–**	**–**	**–**
Utilisation of maintenance and production funds		**–**	**–**	**–**	**–**	**(288,416)**	**–**	**–**	**–**	**288,416**	**–**	**–**	**–**
Others		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**140**	**140**	**–**	**140**
Balance as at 31 December 2013		**6,926,018**	**4,529,310**	**1,846,468**	**664,801**	**72,142**	**30,861**	**(27,870)**	**(68,310)**	**7,799,343**	**21,772,763**	**515,259**	**22,288,022**
Balance as at 1 January 2012		5,771,682	2,727,647	1,846,468	428,707	–	22,654	(9,505)	200,344	5,296,111	16,284,108	352,116	16,636,224
Changes in equity for the year ended 31 December 2012													
Profit for the year		–	–	–	–	–	–	–	24,739	2,382,053	2,406,792	39,072	2,445,864
Other comprehensive income		–	–	–	–	–	(100)	(4,308)	–	–	(4,408)	–	(4,408)
Total comprehensive income		–	–	–	–	–	(100)	(4,308)	24,739	2,382,053	2,402,384	39,072	2,441,456
Consideration for the acquisitions of the Target Interests and SBSS (as defined in note 1)		–	–	–	–	–	–	–	(340,701)	–	(340,701)	–	(340,701)
Issuance of shares	38	1,154,336	1,801,663	–	–	–	–	–	–	–	2,955,999	–	2,955,999
Capital injection by non-controlling owners to subsidiaries		–	–	–	–	–	–	–	47,261	–	47,261	124,538	171,799
Dividend declared	15(b)	–	–	–	–	–	–	–	–	(846,359)	(846,359)	–	(846,359)
Distribution to non-controlling owners		–	–	–	–	–	–	–	–	–	–	(16,306)	(16,306)
Appropriation		–	–	–	112,672	–	–	–	–	(112,672)	–	–	–
Appropriation of maintenance and production funds		–	–	–	–	271,340	–	–	–	(271,340)	–	–	–
Utilisation of maintenance and production funds		–	–	–	–	(233,124)	–	–	–	233,124	–	–	–
Others		–	–	–	–	–	–	–	47	–	47	–	47
Balance as at 31 December 2012		6,926,018	4,529,310	1,846,468	541,379	38,216	22,554	(13,813)	(68,310)	6,680,917	20,502,739	499,420	21,002,159

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

Notes:

(a) Share premium

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

(b) Capital reserve

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

(c) Statutory surplus reserve

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

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

For the year ended 31 December 2013, the Company transferred RMB123 million being 10% of the profit for the current year as determined in accordance with the PRC Accounting Rules and Regulations to this reserve.

(d) Specific reserve for maintenance and production funds

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

(e) Fair value reserve

The fair value reserve represents the net change in the fair value of available-for-sale securities in other investments held at the end of the reporting period.

(f) Exchange reserve

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

The notes on pages 100 to 170 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
Operating activities			
Profit before tax		**2,778,501**	3,031,378
Adjustments for:			
– Depreciation and amortisation		**798,698**	758,788
– Impairment losses on accounts and bills and other receivables		**120,589**	53,708
– Impairment losses on property, plant and equipment and other intangible assets		**1,563**	7,067
– Impairment losses on inventories		**10,410**	14,726
– Interest income		**(90,435)**	(104,699)
– Finance costs		**11,232**	26,030
– Share of profits of associates		**(14,315)**	(4,844)
– Dividend income		**(54,890)**	(69,346)
– Changes in fair value of financial derivatives		**(154)**	–
– Gain on disposal of investments		**(50,090)**	(20,309)
– Net losses/(gain) on disposal of property, plant and equipment and other intangible assets		**1,678**	(90,850)
– Impairment loss on other investments		**–**	517
– Exchange differences		**29,941**	8,041
– Write-back of non-payable liabilities		**(17,232)**	(21,138)
Operating profit before changes in working capital		**3,525,496**	3,589,069
Increase in inventories		**(351,876)**	(203,910)
Increase in accounts and bills receivable		**(4,401,093)**	(4,042,384)
(Increase)/decrease in prepayments and other current assets		**(375,100)**	27,698
Increase in accounts and bills payable		**2,248,580**	2,077,320
(Decrease)/increase in receipts in advance for contract work		**(222,775)**	220,520
Increase/(decrease) in accrued expenses and other payables		**399,844**	(189,250)
Net cash inflow from operations		**823,076**	1,479,063
Interest paid		**(12,366)**	(26,977)
Interest received		**91,929**	97,259
Income tax paid		**(581,696)**	(597,112)
Net cash generated from operating activities		**320,943**	952,233

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
Investing activities			
Payments for purchase of property, plant and equipment and other intangible assets		**(809,032)**	(972,830)
Proceeds from disposal of property, plant and equipment and other intangible assets		**69,054**	91,642
Restricted bank deposits (paid)/received		**(395,113)**	100,000
Dividends received		**61,915**	69,346
Proceeds from disposal of investments		**67,237**	338
Payments for acquisition of investments		**(3,395)**	(20,000)
Payments for the acquisitions of the Target Interests and SBSS	41	**–**	(314,930)
Net cash used in investing activities		**(1,009,334)**	(1,046,434)
Financing activities			
Proceeds from bank and other loans		**976,505**	645,272
Repayments of bank and other loans		**(1,367,118)**	(1,301,470)
Dividends paid		**(1,007,354)**	(878,092)
Proceeds from issuance of shares		**–**	2,963,789
Contribution from non-controlling owners to subsidiaries		**–**	171,799
Net cash (used in)/generated from financing activities		**(1,397,967)**	1,601,298
(Decrease)/increase in cash and cash equivalents		**(2,086,358)**	1,507,097
Cash and cash equivalents at beginning of year		**8,879,491**	7,380,435
Effect of foreign exchange rate changes		**(32,896)**	(8,041)
Cash and cash equivalents at end of the year	33	**6,760,237**	8,879,491

The notes on pages 100 to 170 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. PRINCIPAL ACTIVITIES AND ORGANISATION

(a) Principal activities

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

(b) Organisation

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

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

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

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

(iii) The Group, immediately after the Restructuring, contains substantially all of the operating assets and liabilities relating to the Predecessor Operations, comprising (1) telecommunications infrastructure design, construction and project supervision and management; (2) business process outsourcing (including network maintenance, facilities management, distribution of telecommunications services and products); and (3) a variety of other services including applications, content and others.

(iv) In connection with the Restructuring, certain assets and liabilities historically associated with the Predecessor Operations were not transferred to the Company and were retained by CTC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. PRINCIPAL ACTIVITIES AND ORGANISATION (continued)

(b) Organisation (continued)

The above Restructuring procedures primarily resulted in an effect of the transfer from CTC to the Company of the operating assets and liabilities relating to the telecommunications related services carried on by the Predecessor Operations, which were previously owned or controlled by CTC prior to the Restructuring.

In December 2006, the Company issued 1,291,293,000 H shares with a par value of RMB1.00 each, at a price of HKD2.20 per H share by way of an initial public offering (the "IPO") to Hong Kong and overseas investors. In connection with the IPO, 129,129,300 domestic state-owned shares of RMB1.00 each owned by CTC and its subsidiaries were converted into H shares and transferred to the National Council for Social Security Fund of the PRC ("SSF"). In December 2006, the Company also issued 193,693,000 H shares with a par value of RMB1.00 each, at a price of HKD2.20 per H share upon the exercise of the overallotment option. In connection with the exercise of the over-allotment option, 19,369,300 domestic state owned shares of RMB1.00 each owned by CTC and its subsidiaries were converted into H shares and transferred to SSF. In April 2008, the Company completed the placing of 326,696,000 H shares with a par value of RMB1.00 each at a price of RMB5.25 (the "Placing"). In connection with the Placing, 32,669,600 domestic legal person shares of RMB1.00 each owned by SSF was converted into H shares. On 8 February 2012, the Company issued 398,570,040 H shares on the basis of 2 H rights shares for every 10 existing H shares at a price of HKD3.19 per H rights share, and issued 755,766,360 domestic shares on the basis of 2 domestic rights shares for every 10 existing domestic shares at a price of RMB2.59 per domestic rights share. A total of 2,391,420,240 H shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Pursuant to the acquisition agreement dated 15 June 2007, the Company acquired the telecommunications infrastructure services, business process outsourcing services and applications, content and other services located in Jiangsu Province, Anhui Province, Jiangxi Province, Hunan Province, Guangxi Zhuang Autonomous Region, Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province and Xinjiang Uygur Autonomous Region, together with the equity interests in Guangdong Nanfang Communication GSM Intelligent Card System Co., Ltd and Ningbo Public Information Industry Co., Ltd (the "Target Business") from CTC. Such acquisition was completed on 31 August 2007.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2013 comprise the Group and its interests in associates.

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

– Financial derivatives and other investments listed in active market are measured at fair value.

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

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

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 44.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation

(i) Business combinations involving enterprises under common control

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

(ii) Business combinations involving entities not under common control

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

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

(iii) Subsidiaries and non-controlling interests

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

a. has power over the investee;

b. is exposed, or has rights, to variable returns from its involvement with the investee; and

c. has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another IFRS.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

(iii) Subsidiaries and non-controlling interests (continued)

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses (see note 2(l)).

(iv) Associates

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

(iv) Associates (continued)

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

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

In the Company's statement of financial position, investments in associates are stated at cost less impairment losses (see note 2(l)).

(d) Goodwill

Goodwill represents the excess of

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

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

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

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

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

(e) Other investments in debt and equity securities

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

(f) Investment properties

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

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

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

When an item of property, plant and equipment is transferred to investment property evidenced by end of owner-occupation or when an investment property commencement of owner-occupation and reclassified as property, plant and equipment, its costs at the date of reclassification becomes its cost for accounting purposes.

(g) Property, plant and equipment

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment (continued)

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

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

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

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

(h) Construction in progress

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

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

(i) Lease prepayments

Lease prepayments represent land use rights paid to the PRC's government authorities. Land use rights are carried at cost and are charged to profit or loss on a straight-line basis over the respective periods of the rights.

(j) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

a. the technical feasibility of completing the intangible asset so that it will be available for use or sale;

b. the intention to complete the intangible asset and use or sell it;

c. the ability to use or sell the intangible asset;

d. how the intangible asset will generate probable future economic benefits;

e. the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

f. the ability to measure reliably the expenditure attributable to the intangible asset during its development.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Intangible assets (other than goodwill) (continued)

The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads and borrowing costs, where applicable (see note 2(z)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(l)). Other development expenditure is recognised as an expense in the period in which it is incurred.

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

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

Both the period and method of amortisation are reviewed annually.

(k) Leased assets

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

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

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal installments 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 profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(l) Impairment of assets

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

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

- Significant financial difficulty of the debtor;
- A breach of contract, such as default or delinquency in interest or principal payments;
- It becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of assets (continued)

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

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

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

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

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

- For unquoted equity securities carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

- For trade receivables and other financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

  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 profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss 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 profit or loss.

  Impairment losses recognised in profit or loss in respect of available for – sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

  Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of assets (continued)

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade debtors and bills receivable, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade debtors and bills receivable are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

(ii) Impairment of other assets

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

- property, plant and equipment;
- investment properties;
- construction in progress;
- lease prepayments;
- goodwill;
- other intangible assets; and
- investments in subsidiaries.

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

- *Calculation of recoverable amount*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal, or value in use, if determinable.

– *Reversals of impairment losses*

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

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

(m) Inventories

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

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

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

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

(n) Construction contracts

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

The accounting policy for contract revenue is set out in note 2(w)(i). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the end of the reporting period. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Construction contracts (continued)

Construction contracts in progress at the end of the reporting period are recorded at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the statement of financial position as the "Unbilled revenues for contract work" under "Accounts and bills receivable, net" (as an asset) or the "Amounts due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included under " Accounts and bills receivable, net". Amounts received before the related work is performed are presented 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 amortized cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(l)).

(p) Interest-bearing borrowings

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

(q) Trade and other payables

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

(r) Cash and cash equivalents

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

(s) Derivative financial instruments

Derivative financial instruments are initially recognised at fair value. At each end of the reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss, except where the derivative qualify for cash flow hedge accounting or hedge the net investment in a foreign operation.

(t) Employee benefits

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Employee benefits (continued)

(ii) Share appreciation rights scheme

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

(iii) Termination benefits

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognised any related restructuring costs.

(u) Income tax

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Income tax (continued)

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 end of the reporting period. Deferred tax assets and liabilities are not discounted.

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

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

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

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

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

  - the same taxable entity; or

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

(v) Provisions and contingent liabilities

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Revenue recognition

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

(i) Contract revenue

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

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

(ii) Services rendered

Revenue from design services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the end of the reporting period.

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 profit or loss in equal installments 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 profit or loss 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Government grants

Government grants are recognised in the consolidated statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss 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 profit or loss over the useful life of the asset by way of reduced depreciation expenses.

(y) Translation of foreign currencies

The functional and presentation currency of the Group's is Renminbi ("RMB"). Foreign currency transactions during the year are translated into RMB at the applicable rates of exchange quoted by the People's Bank of China ("PBOC") prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into RMB at the applicable rates ruling at the end of the reporting period. Foreign currency differences, other than those capitalised as construction in progress (see note 2(h)), are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

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

(z) Borrowing costs

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Segment reporting

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

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

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

(bb) Dividends or profit distributions

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

(cc) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. CHANGES IN ACCOUNTING POLICIES

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

IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
IFRS 13	Fair Value Measurement
IAS 19 (Revised 2011)	Employee Benefits
IAS 27 (Revised 2011)	Separate Financial Statements
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures
Amendments to IFRS 7	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 1	Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income
Amendments to IFRSs	Annual Improvements to IFRSs 2009-2011 Cycle

IFRS 13 Fair Value Measurement

The Group has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements.

The scope of IFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. Except for the disclosures of fair value information set out in the notes to the financial statements, the application of IFRS 13 has no significant impact on the Group's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. CHANGES IN ACCOUNTING POLICIES (continued)

Amendments to IAS 1 Presentation of Financial Statements – Presentation of items of Other Comprehensive Income

The Group has applied the amendments to IAS 1 Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income for the first time in the current year. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the "statement of comprehensive income" is renamed as the "statement of profit or loss and other comprehensive income" and the "income statement" is renamed as the "statement of profit or loss". The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Except for the impact on the application of IFRS 13 and Amendments to IAS 1, the application of the other new or revised IFRSs as mentioned above in the current year has had no material effect on the amounts reported and/or disclosures set out in the financial statements.

The Group has not applied any new or revised IFRSs that is not yet effective for the current year.

4. REVENUES

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

	2013 **RMB'000**	2012 RMB'000
Revenue from telecommunications infrastructure services	**32,036,241**	28,413,360
Revenue from business process outsourcing services	**29,011,577**	26,304,137
Revenue from applications, content and other services	**7,411,278**	6,799,878
	68,459,096	61,517,375

The Group's major customers are telecommunications operators which include CTC and its subsidiaries ("CTC Group") and China Mobile Communications Corporation and its subsidiaries ("CM Group"), each contributing a revenue exceeding 10% of the Group's total revenues. Revenues from the provision of integrated telecommunications support services to CTC Group and CM Group for the year ended 31 December 2013 amount to RMB29,231 million and RMB11,906 million respectively (2012: RMB26,080 million and RMB11,222 million respectively), being 42.7% and 17.4% of the Group's total revenues respectively (2012: 42.4% and 18.2% respectively). In addition, the revenues derived from areas outside of Mainland China for the year ended 31 December 2013 amounts to RMB3,812 million (2012: RMB3,411 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

5. COST OF REVENUES

	2013 RMB'000	2012 RMB'000
Depreciation and amortisation	**462,103**	439,095
Direct personnel costs	**9,251,872**	9,229,460
Operating lease charges	**1,103,242**	928,795
Purchase of materials and telecommunications products	**19,804,087**	17,645,654
Subcontracting charges	**21,873,785**	18,447,867
Others	**5,586,018**	5,041,137
	58,081,107	51,732,008

6. OTHER OPERATING INCOME

	2013 RMB'000	2012 RMB'000
Interest income	**90,435**	104,699
Dividend income from listed securities	**848**	1,217
Dividend income from unlisted securities	**54,042**	68,129
Government grants	**227,066**	187,995
Gain on disposal of other investments and partial disposal of an associate	**50,090**	20,309
Gain on disposal of property, plant and equipment and other intangible assets	**8,957**	97,477
Penalty income	**3,717**	1,565
Management fee income	**319,701**	315,634
Write-back of non-payable liabilities	**17,232**	21,138
Others	**30,128**	33,173
	802,216	851,336

7. OTHER OPERATING EXPENSES

	2013 RMB'000	2012 RMB'000
Impairment losses on property, plant and equipment	**1,563**	7,067
Impairment loss on other investments	**–**	517
Loss on disposal of property, plant and equipment and other intangible assets	**10,635**	6,627
Donations	**439**	373
Penalty charge	**20,100**	9,616
Net foreign exchange loss	**38,845**	6,720
Others	**45,042**	38,338
	116,624	69,258

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

8. FINANCE COSTS

	2013 **RMB'000**	2012 RMB'000
Interest on bank and other borrowings wholly repayable within five years	**11,232**	26,030

For the years ended 31 December 2013 and 2012, no borrowing costs were capitalised in relation to construction in progress.

9. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging (crediting) the following items:

		2013 **RMB'000**	2012 RMB'000
(a)	Staff costs:		
	Salaries, wages and other benefits	**13,404,619**	12,805,944
	Contributions to defined contribution retirement schemes	**1,087,269**	1,006,851
		14,491,888	13,812,795
(b)	Other items:		
	Depreciation		
	– Property, plant and equipment	**677,116**	644,561
	– Investment properties (note 18)	**42,431**	40,890
	Amortisation		
	– Lease prepayments (note 20)	**28,517**	28,613
	– Other intangible assets (note 22)	**50,634**	44,724
	Auditors' remuneration	**32,320**	40,085
	Cost of inventories (note 28)	**19,804,087**	17,645,654
	Write-down of inventories (note 28)	**13,847**	17,843
	Reversal of write-down of inventories (note 28)	**(3,437)**	(3,117)
	Impairment losses on accounts and bills and other receivables	**157,963**	108,087
	Reversal of impairment losses on accounts and bills and other receivables	**(37,374)**	(54,379)
	Changes in fair value of financial derivatives	**(154)**	–
	Operating lease charges	**1,367,171**	1,137,790
	Research and development costs	**1,517,739**	1,193,138
	Share of associates' taxation	**5,061**	1,274

Research and development costs include RMB1,201 million (2012: RMB930 million) relating to staff costs, amount of which is also included in the staff cost disclosed in note 9(a).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

10. INCOME TAX

(a) Income tax in the consolidated statement of profit or loss represents:

	2013 RMB'000	2012 RMB'000
Current tax		
PRC enterprise income tax	**563,337**	575,697
Overseas enterprise income tax	**19,559**	19,580
Deferred tax		
Origination and reversal of temporary differences (note 26)	**(89,775)**	(9,763)
Total income tax	**493,121**	585,514

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

	2013 RMB'000	2012 RMB'000
Profit before tax	**2,778,501**	3,031,378
Expected income tax expense at a statutory tax rate of 25% (2012: 25%) (note (i))	**694,625**	757,845
Differential tax rates on subsidiaries' income (note (i))	**(223,815)**	(221,631)
Non-deductible expenses (note (ii))	**47,452**	77,434
Non-taxable income	**(31,740)**	(37,375)
Tax losses not recognised	**22,826**	29,671
Utilisation of previously unrecognised tax losses	**(10,425)**	(23,365)
Others	**(5,802)**	2,935
Income tax	**493,121**	585,514

Notes:

(i) The provision for income tax of the Group is calculated based on a statutory rate of 25% of the assessable profit of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the years ended 31 December 2013 and 2012, except for certain domestic subsidiaries of the Group, which are taxed at preferential rates of 20%, 15% and 10%, where applicable; and for certain overseas subsidiaries of the Group, which are taxed at respective statutory rates.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

11. OTHER COMPREHENSIVE INCOME

Available-for-sale securities

	2013 RMB'000	2012 RMB'000
Changes in fair value recognised during the year	**7,069**	(303)
Net deferred tax credited to other comprehensive income	**1,238**	203
Net movement in the fair value reserve during the year recognised in other comprehensive income	**8,307**	(100)

12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The names of the directors and the supervisors of the Company and their remuneration for the year ended 31 December 2013 are as follows:

	Fee RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000	Pension scheme contribution RMB'000	Share appreciation rights RMB'000	2013 Total RMB'000
Directors and supervisors						
Li Ping	–	–	–	–	–	–
Zheng Qibao (resigned on 19 December 2013)	–	198	541	67	938	1,744
Yuan Jianxing (resigned on 8 August 2013)	–	180	703	63	613	1,559
Hou Rui	–	139	487	61	813	1,500
Li Zhengmao	–	–	–	–	–	–
Zhang Junan	–	–	–	–	–	–
Wang Jun	200	–	–	–	–	200
Zhao Chunjun	150	–	–	–	–	150
Wei Leping	150	–	–	–	–	150
Siu Wai Keung, Francis	240	–	–	–	–	240
Xia Jianghua	–	–	–	–	–	–
Hai Liancheng	75	–	–	–	–	75
Yan Dong (resigned on 18 June 2013)	–	116	478	55	349	998
Si Jianfei (appointed on 18 June 2013)	–	119	450	55	349	973
	815	752	2,659	301	3,062	7,589

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

The names of the directors and the supervisors of the Company and their remuneration for the year ended 31 December 2012 are as follows:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

13. INDIVIDUALS WITH HIGHEST EMOLUMENTS AND SENIOR MANAGEMENT'S REMUNERATION

(a) The five highest paid employees of the Group

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

	2013	2012
Directors and supervisors	**1**	–
Non-director and non-supervisor employees	**4**	5
	5	5

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

	2013 **RMB'000**	2012 RMB'000
Salaries, allowances and other benefits in kind	**897**	680
Bonuses	**3,353**	3,946
Pension scheme contributions	**506**	437
	4,756	5,063
Share appreciation rights	**3,440**	–
	8,196	5,063

The number of these highest paid employees whose remuneration fell within the following bands:

	2013	2012
RMB equivalent		
Nil to 1,000,000	**–**	2
1,000,001 to 1,500,000	**–**	3
1,500,001 to 2,000,000	**5**	–

(b) Senior management's remuneration

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

	2013	2012
RMB equivalent		
Nil to 1,000,000	**4**	18
1,000,001 to 1,500,000	**14**	2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

14. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB1,234 million (2012: RMB1,127 million) which has been dealt with in the financial statements of the Company.

15. DIVIDENDS

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

	2013 RMB'000	2012 RMB'000
Final dividend proposed after the end of the reporting period RMB0.1293 per share (2012: RMB0.1390 per share)	**895,534**	962,717

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

	2013 RMB'000	2012 RMB'000
Final dividend in respect of the financial year ended 31 December 2012, approved during the year, of RMB0.1390 per share (2011: RMB0.1222[i] per share)	**962,717**	846,359

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

16. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the year ended 31 December 2013 of RMB2,238,351 thousand (2012: RMB2,406,792 thousand) and number of shares in issue during the year ended 31 December 2013 of 6,926,018 thousand shares (2012: the weighted average of 6,821,990 thousand shares).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

17. PROPERTY, PLANT AND EQUIPMENT, NET

The Group

	Buildings RMB'000	Building improvements RMB'000	Motor vehicles RMB'000	Furniture, fixtures and other equipment RMB'000	Total RMB'000
Cost:					
As at 1 January 2013	2,857,147	370,536	1,514,847	3,324,542	8,067,072
Transfer to investment properties (note 18)	(26,057)	–	–	–	(26,057)
Transfer from investment properties (note 18)	10,864	–	–	–	10,864
Transfer from construction in progress (note 19)	290,609	44,062	765	18,526	353,962
Additions	29,504	55,113	167,906	276,838	529,361
Disposals	(3,025)	(3,413)	(89,875)	(219,672)	(315,985)
As at 31 December 2013	3,159,042	466,298	1,593,643	3,400,234	8,619,217
Accumulated depreciation and impairment losses:					
As at 1 January 2013	729,446	247,195	779,294	1,793,383	3,549,318
Transfer to investment properties (note 18)	(5,263)	–	–	–	(5,263)
Transfer from investment properties (note 18)	1,376	–	–	–	1,376
Depreciation charge	121,983	46,333	148,208	360,592	677,116
Written back on disposals	(1,924)	(2,228)	(80,155)	(207,407)	(291,714)
Impairment loss	–	–	–	1,563	1,563
Eliminated on disposals	–	–	–	(132)	(132)
As at 31 December 2013	845,618	291,300	847,347	1,947,999	3,932,264
Net carrying value:					
As at 31 December 2013	2,313,424	174,998	746,296	1,452,235	4,686,953
As at 1 January 2013	2,127,701	123,341	735,553	1,531,159	4,517,754

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

17. PROPERTY, PLANT AND EQUIPMENT, NET (continued)

The Group (continued)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

17. PROPERTY, PLANT AND EQUIPMENT, NET (continued)

The Company

	Furniture, fixtures and other equipment RMB'000
Cost:	
As at 1 January 2013	15,556
Additions	307
As at 31 December 2013	15,863
Accumulated depreciation:	
As at 1 January 2013	5,515
Charge for the year	2,897
As at 31 December 2013	8,412
Cost:	
As at 1 January 2012	14,393
Additions	483
Transfer from construction in progress (note 19)	680
As at 31 December 2012	15,556
Accumulated depreciation:	
As at 1 January 2012	2,760
Charge for the year	2,755
As at 31 December 2012	5,515
Net carrying value:	
As at 31 December 2013	7,451
As at 31 December 2012	10,041
As at 1 January 2012	11,633

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

(b) As at 31 December 2013, certain banking facilities and borrowings from banks of the Group were secured by property, plant and equipment with carrying amount of RMB385 million (2012: RMB408 million).

(c) Up to the date of issue of these financial statements, the Group is still in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB507 million as at 31 December 2013 (2012: RMB377 million). The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

18. INVESTMENT PROPERTIES

	The Group	
	2013 RMB'000	2012 RMB'000
COST:		
As at 1 January	**1,065,649**	976,476
Transfer from property, plant and equipment (note 17)	**26,057**	44,729
Transfer to property, plant and equipment (note 17)	**(10,864)**	(487)
Additions	**171**	45,354
Disposals	**–**	(423)
As at 31 December	**1,081,013**	1,065,649
ACCUMULATED DEPRECIATION:		
As at 1 January	**300,574**	247,431
Transfer from property, plant and equipment (note 17)	**5,263**	12,387
Transfer to property, plant and equipment (note 17)	**(1,376)**	(134)
Depreciation charge	**42,431**	40,890
As at 31 December	**346,892**	300,574
NET CARRYING VALUE:		
As at 31 December	**734,121**	765,075
As at 1 January	**765,075**	729,045
Fair value	**2,022,296**	1,508,792

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

The fair value of all the Group's investment properties derives from prices for similar assets in active markets. So the fair value measurement of the Group's investment properties is categorized into Level 2 of fair value measurement.

The current use of the investment properties is their highest and best use.

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 end of the reporting period, the Group's total future minimum lease payments under non-cancellable operating leases were receivable as follows:

	The Group	
	2013 RMB'000	2012 RMB'000
Within 1 year	**111,141**	97,183
After 1 year but within 5 years	**157,232**	139,801
After 5 years	**17,710**	13,886
As at 31 December	**286,083**	250,870

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

18. INVESTMENT PROPERTIES (continued)

During the year ended 31 December 2013, RMB132 million (2012: RMB109 million) has been recognised as rental income in the consolidated statement of profit or loss and RMB31 million (2012: RMB28 million) in respect of direct operating expenses relating to investment properties has been recognised as expenses in the consolidated statement of profit or loss.

Up to the date of these financial statements, the Group is still in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB54 million as at 31 December 2013 (2012: RMB60 million). The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

19. CONSTRUCTION IN PROGRESS

	The Group		**The Company**	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Cost:				
As at 1 January	**387,190**	229,348	**3,503**	5,489
Additions	**188,133**	263,812	**3,491**	2,623
Disposals	**(512)**	(581)	**–**	–
Transfer to other intangible assets (note 22)	**(13,738)**	(12,550)	**(1,200)**	(3,929)
Transfer to property, plant and equipment (note 17)	**(353,962)**	(92,839)	**–**	(680)
As at 31 December	**207,111**	387,190	**5,794**	3,503

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

20. LEASE PREPAYMENTS

	The Group	
	2013	2012
	RMB'000	RMB'000
Cost:		
As at 1 January	**1,091,554**	1,064,958
Additions	**5,400**	27,286
Disposals	**(13,957)**	(690)
As at 31 December	**1,082,997**	1,091,554
Accumulated depreciation:		
As at 1 January	**157,857**	129,299
Amortisation charge	**28,517**	28,613
Written back on disposals	**(1,204)**	(55)
As at 31 December	**185,170**	157,857
Net carrying value:		
As at 31 December	**897,827**	933,697
As at 1 January	**933,697**	935,659

Lease prepayments represent payments for land use rights paid to the PRC authorities. The Group's lease prepayments are located in the PRC and are with remaining terms ranging from 14 to 66 years as at 31 December 2013.

The Group's prepaid lease payments comprise:

	2013	2012
	RMB'000	RMB'000
Long lease	**55,415**	57,222
Medium-term lease	**842,412**	876,475
	897,827	933,697

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

21. GOODWILL

	2013 **RMB'000**	2012 RMB'000
Cost and carrying amount	**103,005**	103,005

	2013 **RMB'000**	2012 RMB'000
Impairment tests for cash-generating units containing goodwill		
China International Telecommunications Construction Corporation ("CITCC")	**103,005**	103,005

The recoverable amounts of goodwill arising from the acquisition of CITCC are determined based on value in use calculation. The calculation use cash flow projection based on financial budget approved by management covering a one-year period and pre-tax discount rates is 14.79% (2012: 12.66%).

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

22. OTHER INTANGIBLE ASSETS

	The Group		The Company	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Cost:				
As at 1 January	**380,435**	342,111	**17,706**	13,754
Additions	**66,993**	65,773	**–**	23
Transfer from construction in progress (note 19)	**13,738**	12,550	**1,200**	3,929
Disposals	**(2,310)**	(39,999)	**–**	–
As at 31 December	**458,856**	380,435	**18,906**	17,706
Accumulated amortisation:				
As at 1 January	**210,330**	197,672	**7,850**	5,481
Amortisation charge	**50,634**	44,724	**2,743**	2,369
Written back on disposals	**(2,201)**	(32,066)	**–**	–
As at 31 December	**258,763**	210,330	**10,593**	7,850
Net carrying value:				
As at 31 December	**200,093**	170,105	**8,313**	9,856
As at 1 January	**170,105**	144,439	**9,856**	8,273

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

23. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2013 RMB'000	2012 RMB'000
Unlisted investments, at cost	**12,617,534**	12,017,339

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

23. INVESTMENTS IN SUBSIDIARIES (continued)

The following list contains only the particulars of subsidiaries at 31 December 2013 which principally affected the results, assets or liabilities of the Group.

Name of company	Type of legal entity	Place of incorporation/ establishment	Proportion of ownership interest and voting rights held by the Company				Issued and fully paid up/ registered capital	Principal activities
			31 December 2013		31 December 2012			
			Directly %	**Indirectly %**	Directly %	Indirectly %		
Guangdong Communications Services Company Limited	Limited Liability Company	The PRC	**100**	**–**	100	–	RMB2,808 million	Provision of integrated telecommunications support services through its subsidiaries in Guangdong Province
Zhejiang Communications Services Company Limited	Limited Liability Company	The PRC	**100**	**–**	100	–	RMB1,098 million	Provision of integrated telecommunications support services through its subsidiaries in Zhejiang Province
Shanghai Communications Services Company Limited	Limited Liability Company	The PRC	**100**	**–**	100	–	RMB976 million	Provision of integrated telecommunications support services through its subsidiaries in Shanghai Municipality
Fujian Communications Services Company Limited	Limited Liability Company	The PRC	**100**	**–**	100	–	RMB311 million	Provision of integrated telecommunications support services through its subsidiaries in Fujian Province
Hubei Communications Services Company Limited	Limited Liability Company	The PRC	**100**	**–**	100	–	RMB317 million	Provision of integrated telecommunications support services through its subsidiaries in Hubei Province
Jiangsu Communications Services Company Limited	Limited Liability Company	The PRC	**100**	**–**	100	–	RMB678 million	Provision of integrated telecommunications support services through its subsidiaries in Jiangsu Province
Anhui Communications Services Company Limited	Limited Liability Company	The PRC	**100**	**–**	100	–	RMB420 million	Provision of integrated telecommunications support services through its subsidiaries in Anhui Province

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

23. INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Type of legal entity	Place of incorporation/ establishment	Proportion of ownership interest and voting rights held by the Company 31 December 2013 Directly %	Indirectly %	31 December 2012 Directly %	Indirectly %	Issued and fully paid up/ registered capital	Principal activities
Jiangxi Communications Services Company Limited	Limited Liability Company	The PRC	**100**	**–**	100	–	RMB200 million	Provision of integrated telecommunications support services through its subsidiaries in Jiangxi Province
Hunan Communications Services Company Limited	Limited Liability Company	The PRC	**100**	**–**	100	–	RMB886 million	Provision of integrated telecommunications support services through its subsidiaries in Hunan Province
Guangxi Communications Services Company Limited	Limited Liability Company	The PRC	**100**	**–**	100	–	RMB192 million	Provision of integrated telecommunications support services through its subsidiaries in Guangxi Zhuang Autonomous Region
Chongqing Communications Services Company Limited	Limited Liability Company	The PRC	**100**	**–**	100	–	RMB209 million	Provision of integrated telecommunications support services through its subsidiaries in Chongqing Municipality
Sichuan Communications Services Company Limited	Limited Liability Company	The PRC	**100**	**–**	100	–	RMB798 million	Provision of integrated telecommunications support services through its subsidiaries in Sichuan Province
Guizhou Communications Services Company Limited	Limited Liability Company	The PRC	**100**	**–**	100	–	RMB139 million	Provision of integrated telecommunications support services through its subsidiaries in Guizhou Province
Yunnan Communications Services Company Limited	Limited Liability Company	The PRC	**100**	**–**	100	–	RMB238 million	Provision of integrated telecommunications support services through its subsidiaries in Yunnan Province
Shaanxi Communications Services Company Limited	Limited Liability Company	The PRC	**100**	**–**	100	–	RMB145 million	Provision of integrated telecommunications support services through its subsidiaries in Shaanxi Province

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

23. INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Type of legal entity	Place of incorporation/ establishment	Proportion of ownership interest and voting rights held by the Company 31 December 2013 Directly %	31 December 2013 Indirectly %	31 December 2012 Directly %	31 December 2012 Indirectly %	Issued and fully paid up/ registered capital	Principal activities
Gansu Communications Services Company Limited	Limited Liability Company	The PRC	**100**	**–**	100	–	RMB129 million	Provision of integrated telecommunications support services through its subsidiaries in Gansu Province
Qinghai Communications Services Company Limited	Limited Liability Company	The PRC	**100**	**–**	100	–	RMB68 million	Provision of integrated telecommunications support services through its subsidiaries in Qinghai Province
Xinjiang Communications Services Company Limited	Limited Liability Company	The PRC	**100**	**–**	100	–	RMB195 million	Provision of integrated telecommunications support services through its subsidiaries in Xinjiang Uygur Autonomous Region
China International Telecommunication Construction Corporation	Limited Liability Company	The PRC	**100**	**–**	100	–	RMB550 million	Provision of integrated telecommunications support services through its subsidiaries in Northern China Provinces
China Communications Services (Hong Kong) International Limited	Limited Liability Company	Hong Kong	**100**	**–**	100	–	HKD846.87 million	Provision of integrated telecommunications support services through its subsidiaries in Hong Kong
Zhongshutong Information Co., Ltd.	Limited Liability Company	The PRC	**60.38**	**–**	60.38	–	RMB120 million	Provision of integrated telecommunications support services
China Comservice Software Tech. Co., Ltd	Limited Liability Company	The PRC	**60**	**–**	60	–	USD25 million	Provision of integrated telecommunications support services
Ningxia Hui Autonomous Region Communications Industrial Services Company Limited	Limited Liability Company	The PRC	**100**	**–**	100	–	RMB106 million	Provision of integrated telecommunications support services through its subsidiaries in Ningxia Hui Autonomous Region

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

23. INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Type of legal entity	Place of incorporation/ establishment	Proportion of ownership interest and voting rights held by the Company 31 December 2013 Directly %	31 December 2013 Indirectly %	31 December 2012 Directly %	31 December 2012 Indirectly %	Issued and fully paid up/ registered capital	Principal activities
Shandong Communications Services Company Limited	Limited Liability Company	The PRC	**100**	**–**	100	–	RMB100 million	Provision of integrated telecommunications support services in Shandong Province
Sino-British Submarine System Co., Ltd.	Limited Liability Company	The PRC	**51**	**–**	51	–	RMB327 million	Provision of submarine cable installation and other related services
Hainan Communications Services Company Limited	Limited Liability Company	The PRC	**100**	**–**	–	100	RMB141 million	Provision of integrated telecommunications support services through its subsidiaries in Hainan Province

Sino-British Submarine System Co., Ltd., China Comservice Software Tech. Co., Ltd., and Zhongshutong Information Co., Ltd. are non-wholly owned subsidiaries of the Group. The Group's cumulative non-controlling interest is RMB515 million as at 31 December 2013 (2012: RMB499 million). The non-controlling interests are individually and in aggregate not material to the Group's financial condition or results of operation for the current year.

24. INTERESTS IN ASSOCIATES

	The Group 2013 RMB'000	The Group 2012 RMB'000	The Company 2013 RMB'000	The Company 2012 RMB'000
Share of net assets	**71,581**	52,106	**–**	–

As at 31 December 2013, the Group's associates are unlisted, established and operated in the PRC. The Group's interests in associates are individually and in aggregate not material to the Group's financial condition or results of operation for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

25. OTHER INVESTMENTS

	The Group	
	2013	2012
	RMB'000	RMB'000
At cost/fair value:		
Unlisted equity securities, at cost	**619,920**	627,930
Listed equity securities, at quoted market price	**41,439**	34,370
	661,359	662,300

26. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net balance	
	31 December 2013	31 December 2012	**31 December 2013**	31 December 2012	**31 December 2013**	31 December 2012
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Impairment losses, primarily receivables and inventories	**94,008**	80,406	**–**	–	**94,008**	80,406
Revaluation of other investments	**–**	–	**–**	(1,058)	**–**	(1,058)
Revaluation of property, plant and equipment	**–**	–	**(12,195)**	(13,937)	**(12,195)**	(13,937)
Unused tax losses (note (i))	**28,015**	13,818	**–**	–	**28,015**	13,818
Change in fair value (note (ii))	**–**	–	**(4,697)**	(5,935)	**(4,697)**	(5,935)
Unpaid expenses	**169,755**	110,579	**–**	–	**169,755**	110,579
Deferred tax assets and (liabilities)	**291,778**	204,803	**(16,892)**	(20,930)	**274,886**	183,873

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

26. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Movements in deferred tax assets and liabilities for the year ended 31 December 2013 and 2012 are as follows:

The Group

	As at 1 January 2013 RMB'000	**Recognised in profit or loss RMB'000 (note 10(a))**	**Recognised in other comprehensive income RMB'000**	**As at 31 December 2013 RMB'000**
Impairment losses, primarily for receivables and inventories	**80,406**	**13,602**	**–**	**94,008**
Revaluation of other investments	**(1,058)**	**1,058**	**–**	**–**
Revaluation of property, plant and equipment	**(13,937)**	**1,742**	**–**	**(12,195)**
Unused tax losses (note (i))	**13,818**	**14,197**	**–**	**28,015**
Change in fair value (note (ii))	**(5,935)**	**–**	**1,238**	**(4,697)**
Unpaid expenses	**110,579**	**59,176**	**–**	**169,755**
Deferred tax assets and (liabilities)	**183,873**	**89,775**	**1,238**	**274,886**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

26. DEFERRED TAX ASSETS AND LIABILITIES (continued)

The Group (continued)

Notes:

(i) Expiry of recognised tax losses

	2013 RMB'000	2012 RMB'000
Year of expiry		
2013	**–**	–
2014	**–**	–
2015	**–**	–
2016	**–**	9,152
2017	**88,731**	46,118
2018	**74,681**	–
	163,412	55,270

(ii) As at 31 December 2013, the Group's listed available-for-sale investments were recognised at fair value as in accordance with the accounting policy of the Group. The tax bases of these assets were not adjusted to fair value and accordingly, a deferred tax liability of RMB1.2 million (2012: RMB0.20 million) related to the change in fair value of available-for-sale investments was recognised in other comprehensive income.

(iii) As at 31 December 2013, the Group has not recognised deferred tax assets in respect of tax losses of RMB358.5 million (2012: RMB361.1 million) as it is not probable that future taxable profits against which the losses can be utilised will be available. The tax losses can be carried forward for five years from the year incurred and hence will be expired from 2014 to 2018.

27. OTHER NON-CURRENT ASSETS

Other non-current assets mainly represent the long-term receivables arising from provision of telecommunications infrastructure services and prepaid rent for buildings and equipment.

28. INVENTORIES

	The Group	
	2013 RMB'000	2012 RMB'000
Construction materials	**286,154**	259,219
Finished goods	**1,879,266**	1,603,775
Spare parts and consumables	**62,794**	31,831
	2,228,214	1,894,825

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

28. INVENTORIES (continued)

The analysis of the amount of inventories recognised as costs and expenses is as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Carrying amount of inventories consumed and sold	**19,804,087**	17,645,654
Reversal of write-down of inventories	**(3,437)**	(3,117)
Write-down of inventories	**13,847**	17,843
	19,814,497	17,660,380

29. ACCOUNTS AND BILLS RECEIVABLE, NET

	The Group	
	2013	2012
	RMB'000	RMB'000
Bills receivable	**747,894**	610,038
Unbilled revenues for contract work	**6,980,370**	6,264,423
Trade receivables	**18,072,367**	14,922,933
	25,800,631	21,797,394
Less: impairment losses	**(372,576)**	(475,439)
	25,428,055	21,321,955

(a) Included in accounts and bills receivable are amounts due from fellow subsidiaries of RMB11,749 million (2012: RMB9,599 million) as at 31 December 2013. The amounts due from fellow subsidiaries are unsecured, interest-free and are expected to be recovered within one year.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

29. ACCOUNTS AND BILLS RECEIVABLE, NET (continued)

(c) The ageing analysis of accounts and bills receivable (net of impairment losses) based on the invoice date is as follows:

	The Group	
	2013 RMB'000	2012 RMB'000
Current (note)	**11,130,426**	10,142,555
Within 1 year	**12,144,551**	9,119,059
After 1 year but less than 2 years	**1,682,667**	1,567,009
After 2 years but less than 3 years	**384,019**	400,854
After 3 years	**86,392**	92,478
Amount past due	**14,297,629**	11,179,400
	25,428,055	21,321,955

Note: Including unbilled revenues for contract work.

(d) Impairment of accounts and bills receivable

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

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

	The Group	
	2013 RMB'000	2012 RMB'000
At 1 January	**475,439**	437,149
Impairment loss recognised	**132,457**	94,323
Reversal of impairment loss previously recognised	**(36,432)**	(50,683)
Uncollectible amounts written off	**(198,888)**	(5,350)
At 31 December	**372,576**	475,439

At 31 December 2013, the Group's accounts and bills receivable of RMB2,169 million (2012: RMB427 million) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific impairment losses of RMB164 million (2012: RMB320 million) were recognised. The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

29. ACCOUNTS AND BILLS RECEIVABLE, NET (continued)

(e) Accounts and bills receivable that is not impaired

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

	The Group	
	2013	2012
	RMB'000	RMB'000
Neither past due nor impaired	**11,130,426**	10,142,555
Within 1 year	**10,467,514**	9,102,624
After 1 year but less than 2 years	**956,992**	1,184,804
After 2 years but less than 3 years	**208,349**	329,012
After 3 years	**67,372**	80,462
At 31 December	**22,830,653**	20,839,457

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

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

30. CONSTRUCTION CONTRACTS

The aggregate amounts of costs incurred plus recognised profit less recognised losses to date, included in the gross amount due from/to customers for contract work at 31 December 2013 are RMB10,757 million (2012: RMB10,093 million).

In respect of construction contacts in progress at the end of the reporting period, the amounts of retentions held by customers for contract work, recorded within "Accounts and bills receivable, net" at 31 December 2013 are RMB26 million (2012: RMB24 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

31. PREPAYMENTS AND OTHER CURRENT ASSETS

	The Group		The Company	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Advances to staff	**227,837**	210,911	**–**	83
Amounts due from CTC Group and an associate of the Group	**1,600,326**	1,316,856	**37,158**	96,591
Amounts due from subsidiaries	**–**	–	**710,443**	165,603
Prepayments in connection with construction work and equipment purchases	**1,861,759**	2,149,850	**–**	–
Prepaid expenses and deposits	**447,342**	292,107	**455**	1,011
Dividends receivable	**–**	–	**1,196,773**	1,088,732
Others	**890,141**	803,745	**3,401**	8,600
	5,027,405	4,773,469	**1,948,230**	1,360,620

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

32. RESTRICTED DEPOSITS

Restricted deposits represent cash pledged as deposits for bills payable and cash held in dedicated bank accounts for certain construction projects, and deposits with maturity over three months.

33. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Cash at bank and in hand	**6,027,934**	6,046,031	**387,674**	382,455
Deposits with banks and other financial institutions	**732,303**	2,833,460	**285,125**	1,640,610
Cash and cash equivalents	**6,760,237**	8,879,491	**672,799**	2,023,065

RMB 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

34. INTEREST-BEARING BORROWINGS

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

	2013 RMB'000	2012 RMB'000
RMB denominated		
Loan from a fellow subsidiary		
– unsecured	**13,280**	13,280
HKD denominated		
Borrowings from banks		
– unsecured	**–**	185,684
USD denominated		
Borrowings from banks		
– secured	**17,315**	17,851
– unsecured	**23,306**	192,990
	53,901	409,805

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

	2013	2012
RMB denominated		
Loan from a fellow subsidiary		
– unsecured	**2.39%**	2.39%
HKD denominated		
Borrowings from banks		
– unsecured	**1.45%–1.95%**	1.95%
USD denominated		
Borrowings from banks		
– secured	**5.30%**	5.30%
– unsecured	**1.77%–3.80%**	2.24%–2.46%

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

	2013 RMB'000	2012 RMB'000
USD denominated		
Borrowings from banks		
– secured	**51,580**	89,883

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

34. INTEREST-BEARING BORROWINGS (continued)

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

	2013	2012
USD denominated		
Borrowings from banks		
– secured	**5.30%**	5.30%

The Group's borrowings were repayable as follows:

	2013 RMB'000	2012 RMB'000
Within 1 year	**53,901**	409,805
After 1 year but within 2 years	**17,315**	17,851
After 2 years but within 5 years	**34,265**	53,553
After 5 years	**–**	18,479
	105,481	499,688

As at 31 December 2013, certain borrowings from banks of the Group were secured by property, plant and equipment with carrying amount of RMB379 million (2012: RMB402 million). Such banking facilities amounted to RMB131 million (2012: RMB131 million). The facilities were utilised to the extent of RMB69 million (2012: RMB131 million).

As at 31 December 2013, no borrowings from bank were subject to financial covenants.

35. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	The Group	
	2013 RMB'000	2012 RMB'000
Accounts payable	**14,651,217**	12,439,999
Bills payable	**2,429,567**	2,403,935
	17,080,784	14,843,934

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

35. ACCOUNTS AND BILLS PAYABLE (continued)

The ageing analysis of accounts and bills payable based on the invoice date is as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Within 1 year	**15,862,539**	13,686,729
After 1 year but less than 2 years	**793,208**	724,781
After 2 years but less than 3 years	**214,060**	197,282
After 3 years	**210,977**	235,142
	17,080,784	14,843,934

Included in accounts and bills payable are amounts due to CTC Group and an associate of the Group of RMB1,794 million (2012: RMB1,245 million) as at 31 December 2013. The amounts due to CTC Group and an associate of the Group are unsecured, interest-free and are expected to be settled within one year.

36. ACCRUED EXPENSES AND OTHER PAYABLES

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Wages and welfare payable	**1,482,876**	1,480,656	**20,905**	17,951
Amounts due to CTC Group and an associate of the Group (note i)	**692,804**	770,720	**280**	62,772
Advances received	**715,214**	570,401	**–**	–
Other taxes payable	**715,852**	613,507	**4,064**	3,589
Special dividend and profit distribution payable to CTC Group (note ii)	**110,062**	136,365	**–**	–
Dividend payable	**39,578**	30,293	**–**	–
Payables for construction and purchase of fixed assets	**202,465**	204,067	**–**	–
Others	**3,167,646**	2,957,243	**1,593**	10,006
	7,126,497	6,763,252	**26,842**	94,318

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

36. ACCRUED EXPENSES AND OTHER PAYABLES (continued)

Notes:

(i) The amounts due to CTC group and an associate of the Group are unsecured, interest-free and are expected to be settled within one year.

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

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

Pursuant to a resolution passed at directors' meeting on 17 April 2007, the directors resolved to pay the 2006 special dividend to CTC and its subsidiaries amounting to RMB535 million in total, out of which RMB117 million was directly distributed at the subsidiary level. The Group has paid RMB520 million special dividend to CTC and its subsidiaries by 31 December 2013.

As disclosed in the Circular of the Company dated 20 June 2007, in line with the principles set out in the "Notice of the Forwarding the Implementation Opinions of the state-owned Assets Supervision and Administration Commission about Further Standardisation of the Work Relating to the Reconstruction of State-owned Enterprise" issued by the General Office of the State Council of the PRC, the changes in net assets between the period from 1 February 2007 to 31 August 2007 of the Target Business should be distributed in form of cash to CTC and its subsidiaries amounting to RMB197 million in total, of which RMB122 million has been paid to CTC and its subsidiaries by 31 December 2013.

Pursuant to the Equity Transfer Agreements entered into by the Group and CTC and its subsidiaries on 20 June 2012 in relation to the acquisitions of the Target Interests and SBSS, the net profit or loss made by the Target Interests and SBSS between the period from the respective valuation dates (31 October 2011 for Ningxia Construction and Ningxia Supervision and 30 June 2011 for Xinjiang Planning & Designing and SBSS) to 30 June 2012 (for the Target Interests) and 26 July 2012 (for SBSS) should be distributed in form of cash to CTC and its subsidiaries amounting to RMB26 million in total, of which RMB6 million has been paid to CTC and its subsidiaries by 31 December 2013.

37. OTHER NON-CURRENT LIABILITIES

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

38. SHARE CAPITAL

	2013 RMB'000	2012 RMB'000
Registered, issued and fully paid:		
4,534,598,160 (31 December 2012: 4,534,598,160) domestic shares of RMB1.00 each	**4,534,598**	4,534,598
2,391,420,240 (31 December 2012: 2,391,420,240) H shares of RMB1.00 each	**2,391,420**	2,391,420
	6,926,018	6,926,018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

38. SHARE CAPITAL (continued)

	2013 Thousand shares	2012 Thousand shares
At 1 January	**6,926,018**	5,771,682
Issue of domestic shares	**–**	755,766
Issue of H shares	**–**	398,570
At 31 December	**6,926,018**	6,926,018

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

All shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

(a) Capital management

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

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

The Group monitors its capital using a gearing ratio which is total debts divided by the sum of total debts and total equity. For this purpose, the Group defines total debt as the sum of short-term interest bearing borrowings and long-term interest bearing borrowings. The Group aims to maintain the gearing ratio at a reasonable level. The Group's ratio as at 31 December 2013 was 0.5% (2012: 2.4%). In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

39. RETIREMENT BENEFIT OBLIGATIONS

In accordance with the labour regulations of the PRC, the Group participates in various defined contribution retirement schemes organised by the municipal and provincial governments for its employees. The Group is required to make contributions to the retirement schemes at rates ranging from 20% to 22% (2012: 20% to 22%) of the salaries, bonuses and certain allowances of the employees.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

40. SHARE APPRECIATION RIGHTS SCHEME

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

In April 2007, the Company's remuneration committee approved the granting of 38.3 million share appreciation right units to eligible employees (first batch of first phase share appreciation rights). Under the terms of this grant, all share appreciation rights had a contractual life of seven years from date of grant and an exercise price of HKD4.92 per unit.

In April 2009, the Company's remuneration committee approved the granting of 49.8 million share appreciation right units to eligible employees (second batch of first phase share appreciation rights). Under the terms of this grant, all share appreciation rights had a contractual life of five years from date of grant and an exercise price of HKD4.53 per unit.

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

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

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

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

During the year ended 31 December 2013, RMB131 million was charged (2012: RMB102 million charged) to profit or loss arising from the fair value remeasurement of the accrued compensation liability at the end of the reporting period. At 31 December 2013, the Group has recorded liabilities of RMB140 million (2012: RMB133 million).

During the year ended 31 December 2013, the total of 113.4 million share appreciation right units of the first phase share appreciation rights have been exercised in 2013, and the second phase share appreciation rights are not vested and have not been fully granted to each eligible employee. As such, compensation expense of the second phase share appreciation rights over the applicable vesting period recognised has not been fully allocated to each eligible employees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

41. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

Acquisitions of the Target Interests and SBSS in 2012

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

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

42. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

As at 31 December 2013, the Group and the Company had capital commitments for acquisition and construction of property, plant and equipment and other assets as follows:

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Authorised and contracted for	**283,654**	96,168	**4,851**	2,804
Authorised but not contracted for	**334,807**	94,489	**–**	–

(b) Operating lease commitments

As at 31 December 2013, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Within 1 year	**276,463**	233,698
After 1 year but within 5 years	**317,779**	345,111
After 5 years	**94,851**	90,758
	689,093	669,567

The Group leases a number of properties under operating leases. The leases typically run for period of 1 year to 20 years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

(c) Contingent liabilities

As at 31 December 2013, the Group had no material contingent liabilities and no material financial guarantees issued.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

The Group's exposure to these risks and the financial risk management policies and practices used by the group to manage these risks are described below.

(a) Credit risk

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

The Group's major customers are CTC Group and CM Group. The Group has a certain concentration of credit risk as the Group's major customers accounted for 66% of the total accounts and bills receivable as at 31 December 2013 (2012: 64%). The Group has no significant credit risk with any of these customers since the Group maintains long-term and stable business relationships with these large customers in the telecommunications industry.

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

The credit risk on available-for-sale investments arises from loss in value through corporate failure. The Group mitigate the credit risk on available-for-sale investments by closely monitor its portfolio and minimize investments on these assets. The Group's available-for-sale investments are less than 2% of its total assets for both 2013 and 2012.

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

(b) Interest rate risk

The Group's interest rate risk exposure primarily from its short-term and long-term debts carrying interests at fixed rates exposed the Group to fair value interest rate risk. The Group manages its exposure to interest rate risk by maintaining high proportion of fixed rate debts with maturity within one year. Details of the interest rates are disclosed in note 34.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(c) Liquidity risk

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

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

The Group

	2013		2012	
	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	**Statement of financial position carrying amount RMB'000**	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	Statement of financial position carrying amount RMB'000
Short-term interest-bearing borrowings (note 34)	**57,636**	**53,901**	412,145	409,805
Account and bills payable (note 35)	**17,080,784**	**17,080,784**	14,843,934	14,843,934
Receipt in advance for contract work	**1,164,029**	**1,164,029**	1,386,805	1,386,805
Accrued expenses and other payables (note 36)	**7,126,497**	**7,126,497**	6,763,252	6,763,252
	25,428,946	**25,425,211**	23,406,136	23,403,796

The Company

	2013		2012	
	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	**Statement of financial position carrying amount RMB'000**	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	Statement of financial position carrying amount RMB'000
Accrued expenses and other payables (note 36)	**26,482**	**26,482**	94,318	94,318

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk

Foreign currency exchange rate risk arises on financial instruments that are denominated in a currency other than the respective functional currencies of Group entities. The Group's foreign currency risk exposure relates to the bank deposits and borrowings denominated primarily in United States dollars, Hong Kong dollars, Nigerian Naria, Saudi Arabian Riyal and Ethiopian Birr. 93.4% (2012: 89.3%) of the Group's cash and cash equivalents and 12.6% (2012: 2.7%) of the Group's short-term debt and long-term debt as at 31 December 2013 are denominated in RMB.

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

Exposure to currency risk

The Group

	Exposure to foreign currencies (expressed in RMB) 2013					
	United States dollars RMB'000	**Hong Kong dollars RMB'000**	**Nigerian Naira RMB'000**	**Saudi Arabian Riyal RMB'000**	**Ethiopian Birr RMB'000**	**Others RMB'000**
Cash and cash equivalents	**165,371**	**29,924**	**69,938**	**24,711**	**4,988**	**151,957**
Accounts receivable	**388,265**	**58,657**	**49,007**	**166,127**	**76,451**	**726,394**
Accounts payable	**(161,406)**	**(30,673)**	**(37,827)**	**(45,943)**	**(22,073)**	**(457,609)**
Short-term interest-bearing borrowings	**(40,621)**	**–**	**–**	**–**	**–**	**–**
Long-term interest-bearing borrowings	**(51,580)**	**–**	**–**	**–**	**–**	**–**
Overall net exposure	**300,029**	**57,908**	**81,118**	**144,895**	**59,366**	**420,742**

	Exposure to foreign currencies (expressed in RMB) 2012					
	United States dollars RMB'000	Hong Kong dollars RMB'000	Nigerian Naira RMB'000	Saudi Arabian Riyal RMB'000	Ethiopian Birr RMB'000	Others RMB'000
Cash and cash equivalents	206,503	560,110	31,797	–	–	1,421
Accounts receivable	329,119	6,455	–	–	9	139,044
Accounts payable	(105,913)	(4,692)	–	–	–	(79)
Short-term interest-bearing borrowings	(210,841)	(185,684)	–	–	–	–
Long-term interest-bearing borrowings	(89,883)	–	–	–	–	–
Overall net exposure	128,985	376,189	31,797	–	9	140,386

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

Exposure to currency risk (continued)

The Company

	Exposure to foreign currencies (expressed in RMB)			
	2013		2012	
	United States dollars RMB'000	**Hong Kong dollars RMB'000**	United States dollars RMB'000	Hong Kong dollars RMB'000
Cash and cash equivalents	**11**	**1,229**	13	528,000

The following significant exchange rates applied during the year:

The Group

	Average rate		Spot rate	
	2013	2012	**2013**	2012
United States dollars	**6.19**	6.29	**6.10**	6.29
Hong Kong dollars	**0.80**	0.81	**0.79**	0.81
Nigerian Naira	**0.04**	0.04	**0.04**	0.04
Ethiopian Birr	**1.65**	0.35	**1.62**	0.34
Saudi Arabian Riyal	**0.33**	1.67	**0.32**	1.66

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

Sensitivity analysis

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

The Group

	2013			2012		
	Increase/ (decrease) in foreign exchange rate	**Effect on profit after tax and retained profits RMB'000**	**Effect on other components of equity RMB'000**	Increase/ (decrease) in foreign exchange rate	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
United States dollars	**5%**	**11,251**	**–**	5%	4,837	–
	(5)%	**(11,251)**	**–**	(5)%	(4,837)	–
Hong Kong dollars	**5%**	**2,172**	**–**	5%	14,107	–
	(5)%	**(2,172)**	**–**	(5)%	(14,107)	–
Nigerian Naira	**5%**	**3,042**	**–**	5%	1,192	–
	(5)%	**(3,042)**	**–**	(5)%	(1,192)	–
Ethiopian Birr	**5%**	**2,226**	**–**	5%	–	–
	(5)%	**(2,226)**	**–**	(5)%	–	–
Saudi Arabian Riyal	**5%**	**5,434**	**–**	5%	–	–
	(5)%	**(5,434)**	**–**	(5)%	–	–

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

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, include inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(e) Equity price risk

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

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

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

At 31 December 2013, it is estimated that an increase/(decrease) of 5% (2012: 5%) in the relevant share price (for listed investments) or the Company's own share price (for the share appreciation rights scheme) as applicable, with all other variables held constant, would have (decreased)/increased the Group's profit after tax (and retained profits) and other components of consolidated equity as follows:

The Group

	2013			2012		
	Increase/ (decrease) in equity price	**Effect on profit after tax and retained profits RMB'000**	**Effect on other components of equity RMB'000**	Increase/ (decrease) in equity price	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
Changes in the relevant equity price risk variable:						
Increase	**5%**	**(13,333)**	**1,554**	5%	(14,250)	1,289
Decrease	**(5)%**	**12,852**	**(1,554)**	(5)%	14,250	(1,289)

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the changes in the share price or other relevant risk variables had occurred at the end of the reporting period and had been applied to remeasure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant risk variables, that none of the Group's available-for-sale investments would be considered impaired as a result of the decrease in the share price or other relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(f) Fair value

(i) Financial instruments carried at fair value

Some of the Group's financial instruments are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial instruments are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

- Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	The Group			
	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Assets				
Available-for-sale securities				
– Listed equity securities	**41,439**	–	–	**41,439**
Trading financial assets				
– Foreign currency forward contract	–	**85**	–	**85**

(ii) Fair values of financial instruments carried at other than fair value

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(g) Estimation of fair values

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

(i) Other investments

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

(ii) Interest-bearing borrowings

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

(iii) Share appreciation rights

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

44. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies. In addition to those disclosed in note 21, other significant accounting estimates and judgements were summarised as follows:

(a) Construction contracts

As explained in notes 2(n) and 2(w)(i) revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. As a result, until this point is reached the amounts due from customers for contract work as disclosed in note 30 will not include profit which the Group may eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than that estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

44. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(b) Impairment for trade and other receivables

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

(c) Impairment of long-lived assets other than good will

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 fair value less costs of disposal and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

(d) Depreciation and amortisation

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

(e) Deferred tax assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

45. RELATED PARTIES

The Group is part of a larger group of companies under CTC and has significant transactions and relationships with members of CTC. Apart from the transactions and balances disclosed in the financial statements set out above, there are the following related party transactions:

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

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

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

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

	2013 RMB'000	2012 RMB'000
Income from related parties:		
Engineering related services (note (i))	**14,436,240**	12,431,287
IT application services (note (ii))	**1,637,462**	1,400,908
Provision of ancillary telecommunications services (note (iii))	**6,639,560**	6,151,153
Provision of operation support services (note (iv))	**2,271,582**	2,134,579
Supplies procurement service (note (v))	**4,162,827**	3,898,977
Property leasing (note (vi))	**83,858**	62,695
Management fee income (note (vii))	**319,701**	315,634
Expenses paid to related parties:		
Property leasing charges (note (viii))	**148,867**	141,543
IT application service charges (note (ix))	**247,582**	197,471
Operation support service charges (note (x))	**614,845**	571,426
Supplies procurement service charges (note (xi))	**2,995,688**	2,535,073
Interest paid (note (xii))	**147**	849

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

45. RELATED PARTIES (continued)

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

Notes:

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

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

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

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

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

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

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

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

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

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

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

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

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

	2013 RMB'000	2012 RMB'000
Accounts and bills receivable, net	**11,748,984**	9,599,241
Prepayments and other current assets	**1,600,326**	1,316,856
Total amounts due from CTC Group and the Group's associates	**13,349,310**	10,916,097
Interest-bearing borrowings	**13,280**	13,280
Accounts and bills payable	**1,793,968**	1,244,697
Receipts in advance for contract work	**42,612**	61,446
Accrued expenses and other payables	**802,866**	907,085
Total amounts due to CTC Group and the Group's associates	**2,652,726**	2,226,508

As at 31 December 2013, the Group has recognised impairment losses of RMB8 million (2012: RMB8 million) for bad and doubtful debts in respect of amounts due from CTC Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

45. RELATED PARTIES (continued)

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

As at 31 December 2013, the Group has capital commitments to CTC Group for acquisition and construction of property, plant and equipment and other assets as follows:

	2013 RMB'000	2012 RMB'000
Authorised and contracted for	**5,032**	2,804

As at 31 December 2013, the Group total future minimum lease payments to CTC Group under non-cancellable operating leases were payable as follows:

	2013 RMB'000	2012 RMB'000
Within 1 year	**58,618**	69,847
After 1 year but within 5 years	**101,576**	143,119
After 5 year	**70,504**	74,595
	230,698	287,561

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 (i), (ii) and (iii) below, together with a new agreement governing the provision of headquarter management function by the Company as set out in item (iv). After the Company acquired the Target Business in 2007, these agreements were amended by way of the 2008 Supplemental Agreement, pursuant to which the terms of the Agreements were renewed to 31 December 2010. On 29 October 2009, the Company entered into the Supplies Procurement Services Framework Agreement as set out in item (v) below. On 9 November 2010, these agreements were amended by way of 2010 Supplement Agreement, pursuant to which the terms of the Agreements were renewed to 31 December 2012. On 14 November 2011, the Company announced to propose the increase of annual caps for service charges payable to CTC Group under the Supplies Procurement Services Framework Agreement to RMB2,100 million and RMB2,600 million respectively, for the two years ending 31 December 2011 and 2012. On 20 September 2012, the Company announced to propose the increase of annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under Operation Support Services Framework Agreement for the year ending 31 December 2012 to RMB2,300 million and to RMB600 million, respectively, and the annual cap for the service charges receivable by the Company from CTC Group under the Supplies Procurement Services Framework Agreement for the year ending 31 December 2012 to RMB4,400 million, and signed Supplement Agreements which extended the expiry date of all agreements to 31 December 2015 and increased annual caps of several framework agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

45. RELATED PARTIES (continued)

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

According to these Supplement Agreements for the year ended 31 December 2013, (i) the annual cap for the service charges receivable by the Company from CTC Group under the Engineering Related Services Framework Agreement was RMB17,000 million; (ii) the annual cap for the service charges receivable by the Company from CTC Group under the Ancillary Telecommunications Services Framework Agreement was RMB9,000 million; (iii) the annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under the Operation Support Services Framework Agreement wear RMB2,800 million and RMB650 million; (iv) the annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under the IT Application Services Framework Agreement wear RMB2,000 million and RMB430 million; (v) the annual cap for the service charges receivable by the Company from CTC Group under the Centralised Services Framework Agreement was RMB400 million; (vi) the annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under the Property Leasing Services Framework Agreement wear RMB166 million and RMB160 million; (vii) the annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under the Supplies Procurement Services Framework Agreement wear RMB4,600 million and RMB3,100 million. The terms of the principal agreements impacting the results of operations of the Group are summarised as follows:

(1) The Group has entered into agreements with CTC pursuant to which the Group provides CTC Group with construction, design and project supervision and management for telecommunications infrastructure projects. In addition, the Group has entered into information technology service agreements with CTC pursuant to which the Group provides CTC Group with telecommunications network support service, software and hardware development and other IT related services. The amounts charged for these services are determined by reference to market rates as reflected in prices obtained through a tender.

(2) The Group has entered into facilities leasing agreements with CTC pursuant to which the Group leases certain premises and other facilities to CTC Group, and vice versa. The rental charges are based on market rate, with reference to amounts stipulated by local price bureau.

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

- government prescribed price;
- where there is no government prescribed prices but where there is a government guided price, the government guided price will apply;
- where there is neither a government prescribed price nor a government guided price, the market price will apply; and
- where none of the above is available, the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

45. RELATED PARTIES (continued)

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

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

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

- maximum 1% of the contract value for procurement services on imported telecommunication supplies;
- maximum 3% of the contract value for procurement services on domestic telecommunication and non-telecommunication supplies and materials;
- government prescribed price;
- where there is no government prescribed prices but where there is a government guided price, the government guided price will apply;
- where there is neither a government prescribed price nor a government guided price, the market price will apply; and
- where none of the above is available, the 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

45. RELATED PARTIES (continued)

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

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

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

– Rendering and receiving services, including but not limited to telecommunications services

– Sales and purchases of goods, properties and other assets

– Lease of assets

– Depositing and borrowing money

– Use of public utilities

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

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

(c) Transactions with key management personnel

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

	2013 **RMB'000**	2012 RMB'000
Salaries and other emoluments	**5,325**	5,265
Retirement benefits	**3,111**	2,183
Bonuses	**16,373**	14,596
Share appreciation rights	**16,804**	–
	41,613	22,044

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

45. RELATED PARTIES (continued)

(d) Contributions to defined contribution retirement plans

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

As at 31 December 2013 and 2012, there was no material outstanding contribution to post-employment benefit plans.

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

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

The related party transactions with CTC Group disclosed in note 45(a) above constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. The applicable disclosures required by Chapter 14A of the Listing Rules are provided in the "Continuing Connected Transactions" section of the report of the directors on pages 55 to 60.

46. SEGMENT REPORTING

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

47. DISTRIBUTABLE RESERVES

The movements of shareholders' equity of the Company for 2013 are as follows:

	Share capital RMB'000 (note 38)	**Share premium** RMB'000 (note i)	**Capital reserve** RMB'000 (note ii)	**Statutory surplus reserve** RMB'000 (note iii)	**Retained earnings** RMB'000	**Total** RMB'000
At 1 January 2013	6,926,018	4,529,310	1,968,351	541,379	1,365,048	15,330,106
Price paid in the acquisition of Hainan Communications Services Company Limited	–	–	(2,058)	–	–	(2,058)
Profit for the year	–	–	–	–	1,234,219	1,234,219
Distribution of dividend (see note 15(b))	–	–	–	–	(962,717)	(962,717)
Appropriation	–	–	–	123,422	(123,422)	–
At 31 December 2013	6,926,018	4,529,310	1,966,293	664,801	1,513,128	15,599,550

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

47. DISTRIBUTABLE RESERVES (continued)

According to the Company's Articles of Association, the amount of retained earnings available for distribution to equity shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with IFRSs after the appropriation to statutory surplus reserve as detailed in notes to the consolidated statement of changes in equity.

	2013 **RMB'000**	2012 RMB'000
At 31 December	**572,401**	357,138

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

Notes:

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

(ii) The capital reserve mainly represents the difference between the total amount of the par value of shares issued and the amount of the net assets transferred from CTC, Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation upon the formation of the Company.

(iii) According to the Company's Article of Association, the Company is required to transfer 10% of its net profit as determined in accordance with the PRC Accounting Rules and Regulations to its statutory surplus reserve until the reserve balance reaches 50% of the registered capital.

The transfer to this reserve must be made before distribution of a dividend to shareholders. Statutory surplus reserve can be used to make good previous years' losses, if any, or to expand the Company's business, and may be converted into share capital by the issuance or by increasing the par value of the share currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

48. POSSIBLE IMPACT OF AMENDMENT TO STANDARDS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2013

Up to the date of issue of these financial statements, the IASB has issued a number of amendments to standards, new standards and interpretation which are not yet effective for the year ended 31 December 2013 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[1]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle[2]
IFRS 9	Financial Instruments[3]
IFRS 14	Regulatory Deferral Accounts[5]
IFRIC 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Available for application – the mandatory effective date will be determined when the outstanding phases of IFRS 9 are finalised
4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions
5 Effective for first annual IFRS financial statements beginning on or after 1 January 2016

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

49. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2013, the directors of the Company consider the immediate and ultimate controlling party of the Group to be CTC, a stated-owned enterprise established in the PRC. CTC does not produce financial statements available for public use.

FINANCIAL SUMMARY

(Amounts in thousands, except per share data)

	For the five years ended 31 December				
	2013 RMB	2012 RMB	2011 RMB (Note2)	2010 RMB (Note1&2)	2009 RMB (Note1&2)
Results					
Revenue from telecommunications infrastructure services	**32,036,241**	28,413,360	25,377,847	21,881,864	19,762,362
Revenue from business process outsourcing services	**29,011,577**	26,304,137	22,325,184	18,508,424	15,954,982
Revenue from applications,content and other services	**7,411,278**	6,799,878	6,077,096	5,272,263	4,266,546
Total Revenues	**68,459,096**	61,517,375	53,780,127	45,662,551	39,983,890
Depreciation and amortization	**(462,103)**	(439,095)	(430,290)	(397,591)	(388,110)
Direct personnel costs	**(9,251,872)**	(9,229,460)	(8,517,004)	(7,502,935)	(7,115,485)
Purchase of materials and telecommunications products	**(19,804,087)**	(17,645,654	(16,253,237)	(13,560,958)	(12,393,848)
Subcontracting charges	**(21,873,785)**	(18,447,867)	(14,528,052)	(11,887,623)	(9,311,553)
Operating lease charges and others	**(6,689,260)**	(5,969,932)	(5,470,054)	(4,854,272)	(4,312,924)
Cost of revenues	**(58,081,107)**	(51,732,008)	(45,198,637)	(38,203,379)	(33,521,920)
Gross profit	**10,377,989**	9,785,367	8,581,490	7,459,172	6,461,970
Other operating income	**802,216**	851,336	684,821	631,825	525,582
Selling, general and administrative expenses	**(8,288,163)**	(7,514,881)	(6,464,571)	(5,674,824)	(4,738,380)
Other operating expenses	**(116,624)**	(69,258)	(64,408)	(71,983)	(77,806)
Finance costs	**(11,232)**	(26,030)	(64,556)	(57,803)	(92,097)
Share of profits of associates	**14,315**	4,844	(2,600)	3,126	1,571
Profit before tax	**2,778,501**	3,031,378	2,670,176	2,289,513	2,080,840
Income tax	**(493,121)**	(585,514)	(538,778)	(461,750)	(432,778)
Profit for the year	**2,285,380**	2,445,864	2,131,398	1,827,763	1,648,062
Attributable to:					
Equity shareholders of the Company	**2,238,351**	2,406,792	2,129,212	1,820,506	1,616,447
Non-controlling interests	**47,029**	39,072	2,186	7,257	31,615
Profit for the year	**2,285,380**	2,445,864	2,131,398	1,827,763	1,648,062
Basic and diluted earnings per share (RMB)	**0.323**	0.353	0.358	0.306	0.272

FINANCIAL SUMMARY

(Amounts in thousands, except per share data)

	At 31 December				
	2013 RMB	2012 RMB	2011 RMB (Note2)	2010 RMB (Note1&2)	2009 RMB (Note1&2)
Financial position					
Property, plant and equipment, net	**4,686,953**	4,517,754	4,495,582	4,223,420	4,071,432
Other non-current assets	**3,408,183**	3,306,161	3,093,541	3,012,928	2,534,419
Inventories	**2,228,214**	1,894,825	1,705,641	1,839,009	1,665,474
Accounts and bills receivable, net	**25,428,055**	21,321,955	17,323,211	12,943,390	10,513,532
Prepayments and other current assets	**5,027,405**	4,773,469	4,636,968	3,975,362	3,148,469
Cash and cash equivalents	**6,760,237**	8,879,491	7,380,435	8,570,349	9,051,954
Restricted deposits	**712,259**	266,979	320,039	269,099	160,526
Total assets	**48,251,306**	44,960,634	38,955,417	34,833,557	31,145,806
Interest-bearing borrowings	**53,901**	409,805	998,335	1,780,523	1,268,280
Accounts and bills payable	**17,080,784**	14,843,934	12,780,549	9,809,836	8,918,367
Receipts in advance for contract work	**1,164,029**	1,386,805	1,166,285	1,089,174	1,091,715
Accrued expenses and other payables	**7,126,497**	6,763,252	6,853,292	6,597,266	5,582,089
Income tax payable	**315,222**	309,761	305,717	285,618	195,563
Non-current liabilities	**222,851**	244,918	215,015	54,333	60,768
Total liabilities	**25,963,284**	23,958,475	22,319,193	19,616,750	17,116,782
Equity attributable to equity shareholders of the Company	**21,772,763**	20,502,739	16,284,108	14,864,494	13,709,638
Non-controlling interests	**515,259**	499,420	352,116	352,313	319,386
Total equity	**22,288,022**	21,002,159	16,636,224	15,216,807	14,029,024
Total liabilities and equity	**48,251,306**	44,960,634	38,955,417	34,833,557	31,145,806

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

Note 2: On 30 June 2012 and 26 July 2012, the Group acquired the Target Interests and SBSS from CTC. Since the Group, the Target Interests and SBSS are under common control of CTC, the Target Interests and SBSS have been accounted for as a combination of entities under common control in manner similar to pooling-of-interests. Accordingly, the assets and liabilities of the Target Interests and SBSS have been accounted for at historical costs and the consolidated financial statements of the Company prior to the acquisition of the Target Interests and SBSS have been restated to include the results of operations and assets and liabilities of the Target Interests and SBSS on a combined basis. Our financial summary from 2009 to 2011 have been restated to include the results and financial condition of the Target Interests and SBSS in the relevant period.

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