中国通信服务
CHINA COMSERVICE

Annual Report **2007**

STRATEGY FOR FUTURE **GROWTH**

CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

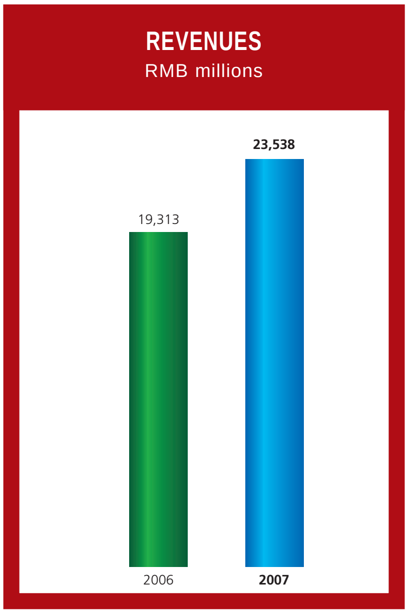
Stock code: 552

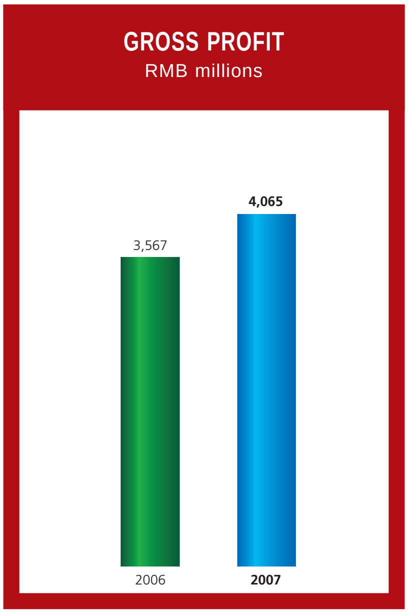
This design is an extension of the design concept of our last year's annual report. The extensive green land implies vigorous growth and infinite development prospect. The prosperous forest inside the frame symbolizes the future of the Company. Through the clear strategic vision and excellent execution capability of the management, we are well placed to capture the future opportunities and create a better prospect.

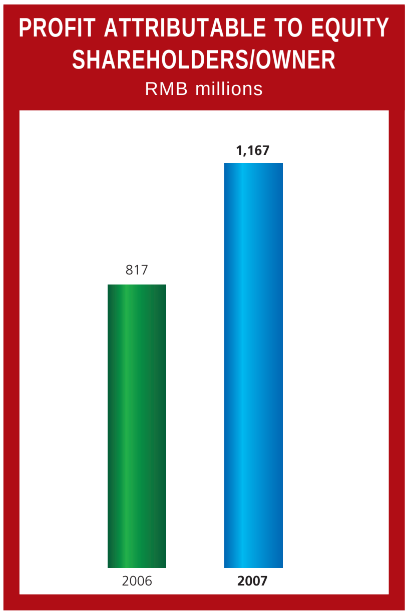
Contents

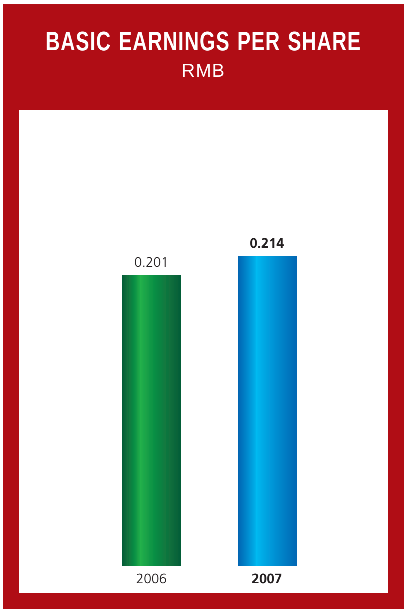
Financial Highlights

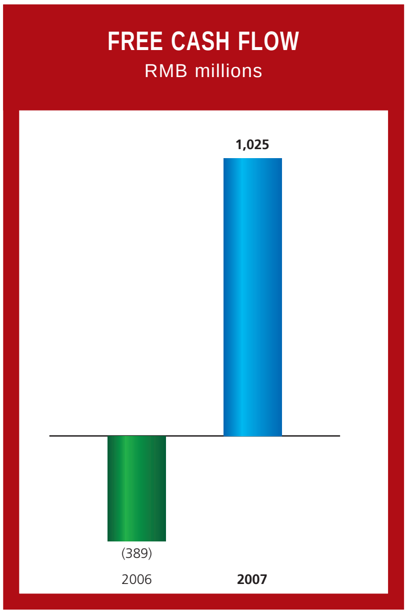
	2006	**2007**	Change
Revenues (RMB millions)	19,313	**23,538**	21.9%
Gross profit (RMB millions)	3,567	**4,065**	14.0%
Profit attributable to equity shareholders/owner (RMB millions)	817	**1,167**	42.9%
Basic earnings per share (RMB)	0.201	**0.214**	6.5%
Free cash flow (RMB millions)	(389)	**1,025**	N/A











(1) The 2006 financial data are restated figures. For basis of preparation, please refer to note 1(c) of "Notes to the Consolidated Financial Statements" of this Annual Report.

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

Company Profile and Corporate Information

The controlling shareholder of China Communications Services Corporation Limited (the "Company") is China Telecommunications Corporation. The Company provides telecommunications infrastructure services, business process outsourcing services and applications, content and other services to telecommunications operators, equipment manufacturers, corporate customers, governmental agencies and public customers in the PRC, and is actively expanding business overseas.

As at 31 December 2007, the aggregate share capital of the Company was 5,444,986,000, of which 1,633,484,600 were H shares, with a par value of RMB1.00 each. The Company announced the completion of the placing of an aggregate of 359,365,600 H shares (including 326,696,000 new H shares and 32,669,600 H shares converted from the existing domestic shares of the Company) on 9 April 2008. Upon completion of the placing, the aggregate share capital of the Company was 5,771,682,000, of which 1,992,850,200 were H shares.

Board of Directors:

Executive directors
Mr. Li Ping (Vice Chairman)
Mr. Zhang Zhiyong
Mr. Yuan Jianxing

Non-executive directors
Mr. Wang Xiaochu (Chairman)
Mr. Liu Aili
Mr. Zhang Junan

Independent non-executive directors
Mr. Wang Jun
Mr. Chan Mo Po, Paul
Mr. Zhao Chunjun
Mr. Wu Shangzhi
Mr. Hao Weimin

Board Committee:

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

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

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

Non-Competition Undertaking Review Committee
Mr. Hao Weimin (Committee Chairman)
Mr. Chan Mo Po, Paul
Mr. Zhao Chunjun

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

Company Profile and Corporate Information

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

Legal Representative
Mr. Li Ping

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

International Auditors
KPMG

Legal Advisors
Freshfields Bruckhaus Deringer
Jingtian & Gongcheng

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

Business Address
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Beidajie Dongcheng District
Beijing, PRC 100010

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

Listing Place
The Stock Exchange of
Hong Kong Limited

Stock Code
00552

Contact Information
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Fascimile: (852) 3699 0120
Address: Room 3203-3205,
32/F, Great Eagle Centre
23 Harbour Road
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Hong Kong
Email: ir@chinaccs.com.hk

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

Website
www.chinaccs.com.hk

Milestones

August 2006

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

December 2006

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

March 2007

12 March 2007: The Company joined the Hang Seng China Enterprises Index ("H-shares Index").

August 2007

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

October 2007

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

December 2007

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

April 2008

3 April 2008: The Company acquired 100% equity interests in China International Telecommunications Construction Corporation at a cash consideration of RMB 505 million.

April 2008

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

April 2008

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

Chairman's Statement

Dear Shareholders,

2007 was the first year after the Company's listing in Hong Kong, and also a year the Company continued its sustained, stable and healthy development. Through effective implementation of established business development strategies, we made notable achievements in our operations and significantly improved our management efficiency during the period under review. We have completed the acquisition of the businesses providing specialized telecommunications support services in 13 provinces (municipality and autonomous regions) from our parent company, and announced the acquisition of China International Telecommunications Construction Corporation ("CITCC") in April 2008, to further enhance our core competitiveness and market leading position as well as lay a solid foundation for maintaining a leadership status in the telecommunications industry that is full of opportunities in future.

Business Review

In 2007, the Company continued to infiltrate the customer-oriented service culture into its operations, and established a customer-focused sales and marketing system, providing neutral, professional and integrated support services to customers. The business revenue recorded rapid growth, and revenue structure was further optimized. In 2007, profit attributable to equity shareholders/owner was RMB1,167.25 million, representing a year-on-year growth of 42.9%, and the earnings per share were RMB0.214. Taking into consideration the Company's financial condition, cash flow and future business development, the Board of Directors (the "Board") proposed to pay a final dividend of RMB0.0682 per share for the financial year ended 31 December 2007.

Acquisition and Integration

Combining organic growth and external expansion is one of our long-term development strategies. In August 2007, the Company completed its acquisition from its parent company, China Telecommunications Corporation, of the businesses of specialized telecommunications support services in 13 provinces (municipality and autonomous regions). This strategic acquisition has extended our primary service area to 19 provinces. After completion of the acquisition, the Company accelerated the internal integration of the newly acquired subsidiaries so as to expedite the realization of synergies and enhancement of operational efficiency. On 3 April 2008, the Company announced the acquisition of CITCC, completion of which is conducive to the realization of a nationwide operational scale. The Company will become the largest enterprise in the domestic telecommunications construction sector, and our leading position in the telecommunications support service industry will be further strengthened.

Corporate Governance

In 2007, the Company further improved its corporate governance structure. With reference to the internationally recognized COSO internal control management framework, the Company further improved its internal control and risk management systems to enable the effective implementation of its existing strategies. Our Board and specialized board committees have strictly complied with the relevant laws, regulations and procedures in the acquisition of businesses from our parent company to ensure major decisions were sound and independent, and thereby effectively protecting the interests of the public shareholders.

Corporate Social Responsibility

As the leader in China telecommunications support services sector, the Company is not only concerned about its business development but also emphasizes the social responsibility of the enterprise. In January 2008, various provinces in Southern China suffered a rare snowstorm. Under coordination of the headquarter, the Company set up cross-regional emergency teams on provincial basis, mobilized the manpower and materials to support telecommunications operators on their emergency repair of network, played a proactive role on the restoration and reconstruction of the communications facilities after the disaster, and established a good corporate image.

Future Outlook

With the development of an information society in the PRC speeding up, the rapid evolvement of communications technology and the trend of telecommunications operators to accelerate their transformation, the Company will be evolving into a "Service Provider for Telecommunications, Media & Technology Companies", focusing on the expanding services area and the changing needs of our customers. We will strive to become a leader in the telecommunications and media support service sector with excellent customer service, and high efficiency on operations and resources allocation, promoting a win-win situation for both the customers and the Company.

In over a year's time, I am very pleased to see that our business development and operations have been running in a more mature way. To further enhance the Company's operational independency and its neutrality on business development, I will resign from my position as the Chairman and non-executive director pursuant to the approval of the Board today, and will be appointed as the Honorary Chairman of the Company. Mr. Li Ping, our Vice Chairman will be appointed as the Chairman.

It's my honor to be the first Chairman of the Company and I would like to express my sincere appreciation to the Board, the management and all staff for their hard work in creating a good performance result in the past year. I firmly believe that Mr. Li Ping, with his extensive industry experiences and excellent leadership, together with the original Board members and newly appointed directors, Mr. Zhang Zhiyong and Mr. Yuan Jianxing, and other members of the management, will continue to lead the Company, as always, and achieve excellent results to maximize return for shareholders!

Finally, on behalf of the Board, I would like to express my gratitude to all shareholders and customers for their unwavering trust and support for the Company.

Wang Xiaochu
Chairman

Beijing, PRC
8 April 2008

Chief Executive Officer's Statement

Dear Shareholders,

I am very pleased to report the robust operating performance of the Company in 2007. During last year, we endeavored to strengthen the development of our core businesses, actively expanded our markets, and thereby achieving good operating results. Since the completion of the acquisition of the businesses of specialized telecommunications support services in 13 provinces (municipality and autonomous regions) from our parent company in August 2007, we also announced the acquisition of China International Telecommunications Construction Corporation ("CITCC") on 3 April 2008, demonstrating the excellent strategic vision and efficient execution capability of the management.

Financial Results

By adhering to the established development strategies, we effectively implemented customer-oriented marketing programs. In 2007, we attained outstanding achievement in market expansion and sound financial results. Our revenue reached RMB23,538.38 million, representing a year-on-year growth of 21.9%. The profit attributable to the equity shareholders/owner was RMB1,167.25 million, representing a year-on-year growth of 42.9%. The basic earnings per share were RMB0.214. By strengthening working capital management and adopting a prudent strategy on capital expenditure, our free cash flow turned positive.

Business Performance

In 2007, we recorded a continued growth in our three main businesses. Of which, telecommunications infrastructure services developed at a steady pace and remained as the Company's major source of revenue, representing 47.1% of our total revenue. The Company captured the opportunities from the telecommunications operators' trend of outsourcing services. It also met the demands of operators as well as government agencies and corporate customers for logistics services relating to procurement of communications accessories. As a result, revenue from our business process outsourcing services grew by

51.8% over the same period of last year, becoming the major driver for revenue growth. During the year, we also strengthened our efforts in business nurturing and cross-regional replication of applications, content and other services. We actively innovated and explored the development of new businesses and products, recording a rapid revenue growth of 39.7% as compared with the same period of last year.

Enhancing Service Capabilities to Accelerate Organic Growth

In 2007, we strengthened our service-oriented culture with emphasis on service quality, efficiency and operating results. Tailoring different needs of different customer classes, we established a three-tier sales and marketing system at head office level, provincial office level and individual subsidiaries level, and initially set up customer-oriented business workflows, operational analysis system and IT system. As a result of the above measures, we achieved remarkable results in market expansion and our customer sources became more diversified. Revenues from customers other than China Telecommunications Corporation grew by 35.4%, in which revenue from China Mobile Communications Corporation and revenue from government agencies and corporate customers increased by 36.2% and 38.7% respectively, and our customer composition was further optimized.

In 2007, the Company actively participated in the expanded TD-SCDMA trial network projects and efficiently completed all construction projects on schedule and in high service standard, gaining extensive management and practical experience. Leveraging our years of experience in GSM and CDMA network projects, our monitoring of the development of different 3G technologies and our resources reserve such as manpower, the Company was well-positioned for 3G roll-out in China.

With a solid foundation in the domestic market, we also actively expanded overseas to seize business opportunities in the emerging telecommunications markets. At the end of 2007, we have established China Communications Services (Hong Kong) International Limited as a platform to unify management coordination and risk control for future expansion in overseas markets. With “Go Abroad” external expansion strategy, the Company will continue to strengthen its efforts in overseas markets expansion, focusing on the development of integrated network outsourcing services for overseas operators, and business development in Hong Kong and Macau, Southeast Asia, Central Asia, Middle East and Africa market. We will enhance our strategic cooperation with the operators and equipment manufacturers and leverage on our complementary advantages to further expand our market share in overseas markets.

Chief Executive Officer's Statement

Focus on Resource Integration and Realize External Growth

On the basis of organic growth, we completed the acquisition from our parent company the businesses of providing the specialized telecommunications services in the 13 provinces (municipality and autonomous regions) during the year. These provinces are located in the central and western parts of China with rapid economic development and greater development potential. After the acquisition, we actively promoted restructuring and initially achieved integration synergies. In 2007, the newly acquired provincial subsidiaries achieved robust operating results. The revenue from the newly acquired provincial subsidiaries was RMB6,242.24 million, up 21.7% year-on-year. The profit attributable to the equity shareholders/owner was RMB284.38 million[(1)], reaching the Company's profit forecast, with increased operational efficiency.

In April 2008, we announced the acquisition of CITCC. The acquisition, conductive to realization of large-scale nationwide operation, will further extend our primary service area in the northern 10 provinces. We expect that CITCC's advantages in high-end business areas and extensive experience in overseas businesses will make sound contribution to the Company's future development. After completion of the acquisition, the Company will apply its successful experience in integrating the 13 provincial subsidiaries to integration of the newly acquired CITCC so as to realize overall efficiency at an early stage.

Strengthen Operational Management and Improve Risk Management

In 2007, the Company further strengthened internal management and improved management standard. During the process of acquisition and restructuring, the Company continued to optimize its organizational structure and effectively conducted business integration. In order to strengthen internal cooperation and communication, we have established three specialized coordination committees on design, construction and supervision businesses respectively so as to maximize the interest of the Company as a whole. We also optimized our organizational hierarchy, rationalized our management process and reduced the number of subsidiaries and management layers, and thereby improving the Company's operational efficiency.

In 2007, the Company initially established a three-tier risk prevention system for head office level, provincial office level and individual subsidiaries level, and implemented a two-tier deployment system for risk management to improve internal control and risk management workflow, and thereby effectively monitoring operational risks. We further formalized our remuneration structure and performance appraisal system to link performance with long-term incentive mechanism. In 2007, the Share Appreciation Rights Scheme of the Company has been approved by the Board and our shareholders, and will be implemented and promoted in the newly acquired subsidiaries in the 13 provinces.

[(1)] Including the relevant financing cost of acquisition.

Seizing Future Opportunities in Our Industry Proactively

As the leader in the telecommunications support service industry, we see clearly the future challenges and opportunities. The Chinese government's strong initiative to accelerate the informatization of the society, and the development of the new generation of information technology will continuously promote the domestic telecommunications industry, creating new markets and new opportunities. At the same time, the growing outsourcing trend in the global telecommunications industry and the upgrading of telecommunications network technology have created new opportunities for the industry. We believe that through the implementation of our existing development strategies, with our specialized one-stop service model and service innovation, we will be able to seize future opportunities in our industry.

Pursuant to the approval of Board resolution today, Mr. Wang Xiaochu will resign from his positions as the Chairman and non-executive director, and he will be appointed as the Honorary Chairman of the Company. Meanwhile, I will be appointed as the Chairman. On behalf of the Board, I would like to express our gratitude and appreciation for the valuable contribution of Mr. Wang Xiaochu to the Company. I will continue to work hard and create greater value for our shareholders!

Finally, I would like to take this opportunity to express my sincere appreciation to all of our shareholders and customers for their care and support, and my gratitude to the Directors and our staff for their hard work!

Li Ping
Vice Chairman and Chief Executive Officer

Beijing, PRC
8 April 2008

Telecommunications Infrastructure (TIS) Services

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

Business Review

Overview

In 2007, our Company actively implemented its innovative customer-oriented service strategy, continuously enhanced its service capability and quality, established an innovative business development model, and thereby realized a rapid revenue growth. In 2007, our revenues amounted to RMB23,538 million, up 21.9% from 2006. In 2007, we achieved notable results in market development and further diversified our revenue sources. Contribution from our largest customer, China Telecom, dropped to 49.0% of the total revenue, which effectively reduced our operational risk.

	2006		**2007**		
	(RMB million, except percentages)				
	Revenues	Contribution to our total revenues	**Revenues**	**Contribution to our total revenues**	**Change over 2006**
China Telecommunications Corporation ("China Telecom")	10,449	54.1%	**11,533**	**49.0%**	**10.4%**
China Mobile Communications Corporation ("China Mobile")	2,099	10.9%	**2,858**	**12.2%**	**36.2%**
China United Telecommunications Corporation ("China Unicom")	597	3.1%	**593**	**2.5%**	**(0.7)%**
Others	6,168	31.9%	**8,554**	**36.3%**	**38.7%**
Total	19,313	100.0%	**23,538**	**100.0%**	**21.9%**

Customer Services and Market Development

In 2007, our Company maintained and further enhanced its close business relationship with major domestic telecommunications operators. China Telecom, China Mobile and China Unicom were still our three largest customers ("Three Major Operator Customers"). In 2007, revenue from the Three Major Operator Customers accounted for 63.7% of our total revenues.

Targeting at the Three Major Operator Customers, we have been gradually shaping our specialized service teams and a three-tier (head office, provincial subsidiaries and specialized subsidiaries) sales and marketing system, and thus improved the customer relationship management and timely responded to the customers' needs. In 2007, the revenue from the Three Major Operator Customers increased by 14.0% from 2006, among which, the revenue from China Mobile was up by 36.2%, reflecting the success in maintaining and strengthening our leading position in operator market.

Leveraging on our close cooperation with telecommunications operators and equipment manufacturers, we continued our efforts in developing the market of government agencies and corporate customers. In 2007, our revenues from customers other than the Three Major Operator Customers increased by RMB2,386 million, representing a 38.7% increase over 2006, to RMB8,554 million. This contribution to our total revenues is comparable to those from the Three Major Operator Customers.

Together with major domestic telecommunications equipment manufacturers, we provided telecommunications infrastructure services to local telecommunications operators in overseas markets, such as Hong Kong, Macau, South East Asia, Middle East, Africa and South America. The relevant revenue grew significantly in 2007, accounting for approximately 1.8% of our total revenues. In 2007, we actively explored market opportunities for the provision of network outsourcing services to the overseas operators and already made some progress.

	2006		**2007**		
	(RMB million, except percentages)				
	Revenues	Contribution to our total revenues	**Revenues**	**Contribution to our total revenues**	**Change over 2006**
Telecommunications infrastructure services	10,941	56.7%	**11,093**	**47.1%**	**1.4%**
Business process outsourcing services	6,168	31.9%	**9,365**	**39.8%**	**51.8%**
Applications, content and other services	2,204	11.4%	**3,080**	**13.1%**	**39.7%**
Total	19,313	100.0%	**23,538**	**100.0%**	**21.9%**

Telecommunications Infrastructure ("TIS") Services

Our Company provides a full range of telecommunications infrastructure services, including telecommunications and IT networks planning and design, construction, and project supervision and management. The major source of income of these services is derived from the capital expenditure ("CAPEX") of the Three Major Operator Customers who have been adopting different CAPEX policies in recent years. In 2007, China Telecom continued to reduce its CAPEX, while China Mobile and China Unicom increased their CAPEX. Under this environment, our TIS revenue maintained a stable growth in 2007, reached RMB11,093 million, up by 1.4% over 2006. Among this, revenue from design and project supervision services, which have relatively higher margin, continued to grow, increased by 4.0% and 13.3% respectively, while revenue from construction services was slightly down by 0.1%.

Business Review

In 2007, we established three specialized coordination committees on design, construction, and project supervision and management services respectively. These committees focus on internal coordination, internal resources allocation, and the development of a sound industrial environment. Initial success has been achieved by these works done.

Construction of mobile base station

In 2007, our Company actively participated in TD-SCDMA trial network projects in many cities, including Baoding (as a "turn-key" project for China Telecom), Shanghai, Guangzhou and Shenzhen. The total number of the base stations we participated are over 4,000. We gained further experience in mobile and 3G technologies through the participation in the construction of TD-SCDMA trial networks. Our capability to provide integrated "one-stop" services (including design, construction, supervision and maintenance) has been fully examined and recognized by our customers.

Apart from telecommunications operators, our Company also provides government agencies and corporate customers with various services such as architectural design, intranet design, IT solutions, integrated wirings for intelligent buildings and construction for municipalities. We believe the markets mentioned above would still have greater growth potential in view of the urbanization and informationization development in China.

Construction works of pipeline cables

Business Process Outsourcing ("BPO") Services

Our Company provides telecommunications operators with comprehensive and high quality BPO services, including a series of network maintenance, distribution of telecommunications services and products and facilities management. Our customers also include government agencies and corporate customers.

In recent years, telecommunication operators have been continuing to outsource their non-core businesses in consideration for strategic transformation, cost saving and enhancement in service quality. In 2007, we continued to capture this opportunity, and also benefited from the network expansion and optimization by mobile operators and the increasing demand for logistics services by government agencies and corporate customers. Our revenues from the BPO services grew rapidly to RMB9,365 million in 2007, representing an increase of 51.8% over 2006. Revenues from network maintenance, distribution of telecommunications services and products and facilities management increased by 117.7%, 51.8% and 18.8% respectively.

Tuning and testing of transmission equipment for the machinery room at Baiyuan Airport, Guangzhou

In our view, the BPO services still have growing potentials. Our Company will strive to upgrade the services standard to support the transformation of the telecommunications operators and satisfy the outsourcing demands from government agencies and corporate customers. We will also strictly manage the working capital so as to maintain healthy development of this business.

Applications, Content and Other (“ACO”) Services

In 2007, the Company’s revenues from ACO services amounted to RMB3,080 million, up 39.7% over 2006. Revenues from the IT applications which mainly comprised system integration, telecommunications network supporting services, and software and hardware development services increased by 53.2%. Revenues from internet services increased by 39.1%, and those from Voice VAS which mainly include call center services, interactive voice response services (“IVR”) and colourful ring tone services were up 13.5%.

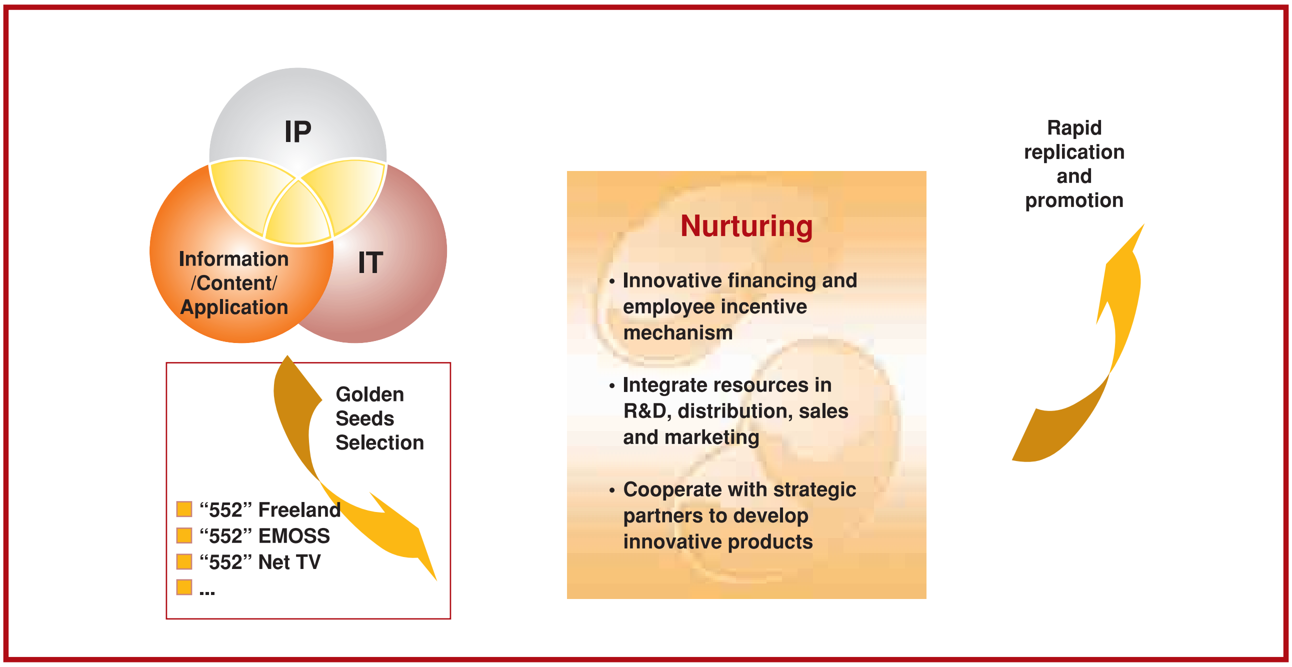
Business Review

In 2007, our Company accelerated the cross-regional replication of high value products, such as "e-touch" city security network platform and "Net CA" certificate authentication platform. We further defined our innovative business development strategy in this business sector. We selected potential "Golden Seeds" projects from the intersection areas of the IP business, IT business and Information/content/application services ("3I Golden Area"). An appropriate mechanism for new businesses development is being established through novelties of financing and staff incentive schemes. We will leverage the Group's technology, talent and distribution channel resources to facilitate their quick replication and marketing. Based on this strategy, our Zhejiang subsidiary had successfully introduced venture capital investment for one of its subsidiaries and established a joint venture to market the "Freeland Box" (網吧百寶箱) product and its supporting services.

Outlook for 2008

We will continue to implement the innovative customer-oriented service strategy in 2008 to support our Company's transformation from a "service provider for telecommunications operators" to a "service provider for telecommunications, media and technology companies", delivering professional services to customers like telecommunications operators, media companies, government agencies and equipment manufacturers.

We will keep enhancing our capabilities in the provision of "one-stop" services and overall network outsourcing services, offering various business combinations to our customers. We will also expand our design services to professional consultancy services and bundle maintenance with construction services. We will further integrate our internal resources, including the integration of advantageous resources of the newly acquired China International Telecommunications Construction Corporation in Northern China and overseas.



Development Strategy of ACO Services

We will continue to improve our customer-oriented sales and marketing system, enhance our professional and neutral sales and marketing teams which will fully support the transformation and non-core business outsourcing of operators. We will maintain our cooperation with telecommunications operators and equipment manufacturers so as to develop the government agencies and corporate customers market. Our operations will continue to focus on customers and we will promote a performance based appraisal and resource allocation system according to different classes of customer. Our newly established subsidiary, China Communications Services (Hong Kong) International Limited, will act as a supporting platform for our overseas business expansion, with a view to provide network outsourcing service for overseas operators.

In 2008, while consolidating our mature businesses, we will be exploring new businesses opportunities in the 3I Golden Area. By cooperation with strategic partners on enhancement of our core capabilities in software technology, services and development, we will do our best to nurture potential products through innovative financing and staff incentive schemes.

With the measures mentioned above, we are confident of further solidifying our position in the domestic market and developing overseas markets in 2008. We will also capture new opportunities in the domestic telecommunications industry's development.

Business Process Outsourcing (BPO) Services

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

Management Discussion & Analysis of Financial Conditions and Results of Operations

Overview

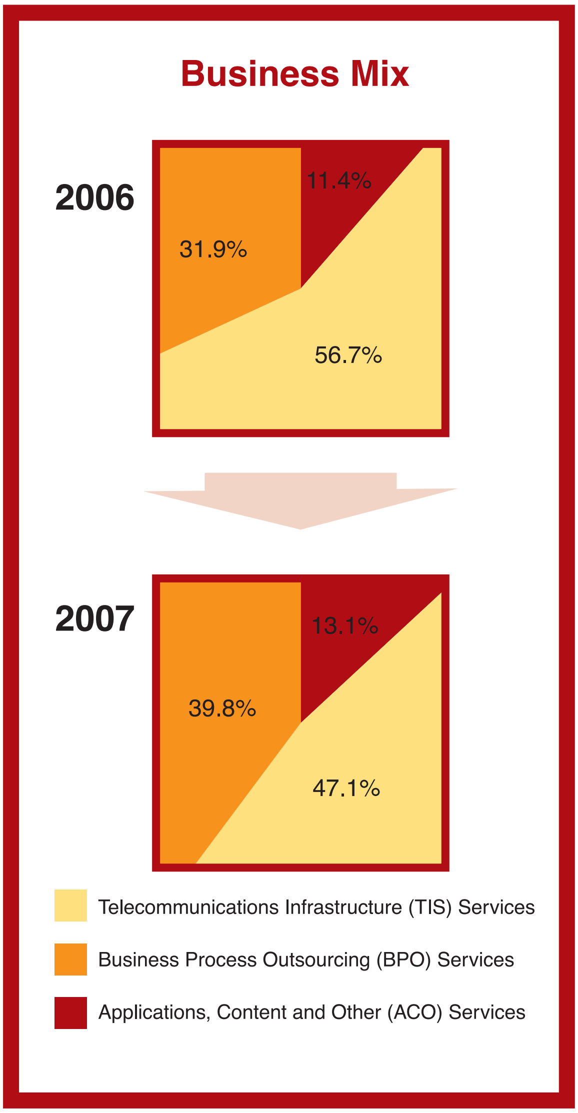
On 31 August 2007, the Company completed the acquisition from China Telecommunications Corporation of the businesses (the "Target Business") which comprise the leading providers of specialized telecommunications support services in 13 provinces (municipality and autonomous regions), including Jiangsu 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 Intellingent Card System Co., Ltd. and Ningbo Public Information Industry Co., Ltd.. As the Target Business was under common control of China Telecommunications Corporation, the acquisition of the Target Business has been reflected in the accompanying consolidated financial statements as a combination of entities under common control and accounted for in a manner similar to pooling-of-interests. Accordingly, the assets and liabilities of the Target Business have been accounted for at historical costs and the consolidated financial statements of the Company prior to the foregoing acquisition have been restated to include the financial conditions and results of operations of the Target Business on a combined basis. Unless otherwise stated in this section, the financial information for the periods prior to the acquisitions was restated.

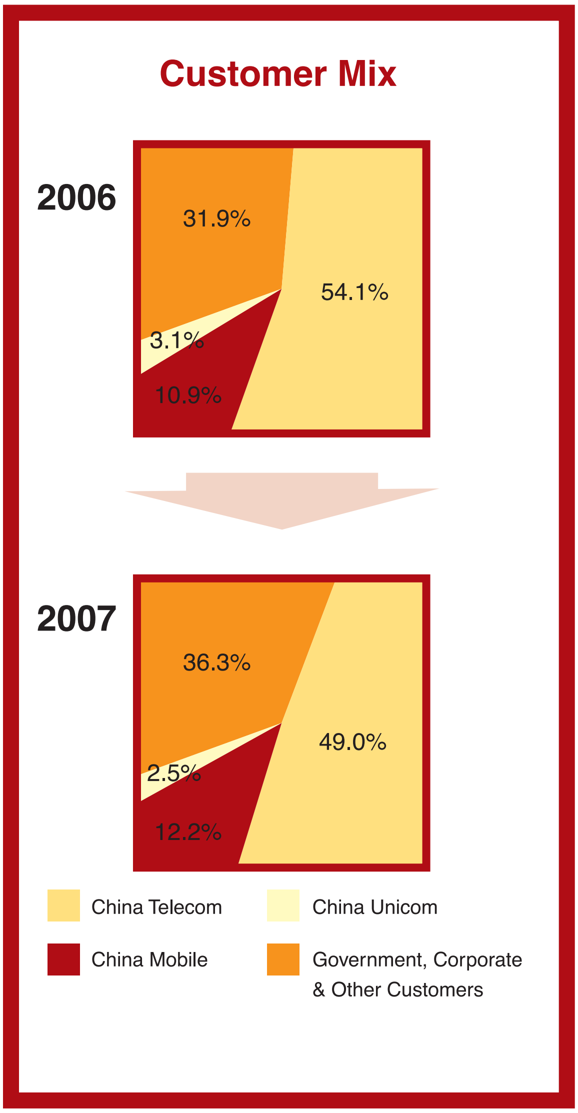
In 2007, the Company continued to adhere to its established development strategies. By pursuing the complementary development strategies of organic and external growth, along with other measures such as the effective sales and marketing strategies and comprehensive budget management, the Company achieved favourable operating results. Our revenues amounted to RMB23,538.38 million, an increase of 21.9% from 2006. Profit attributable to equity shareholders/owner of the Company was RMB1,167.25 million, an increase of 42.9% from 2006. Basic earnings per share were RMB0.214, an increase of 6.5% from 2006. The free cash flow turned positive.

In 2007, the Company successfully completed its acquisitions of the Target Business from its parent company. With the Company's effective integration measures and enhancement in management efficiency, the Target Business achieved satisfactory results and their profits met our expectations, resulting in accretion to our earnings per share. Our leading market position and competitiveness were further strengthened, thereby providing a promising prospect for our further development.

Revenues

Our revenues in 2007 were RMB23,538.38 million, an increase of 21.9% from 2006. Of which, revenue from telecommunications infrastructure services was RMB11,093.01 million, an increase of 1.4% from 2006; revenue from business process outsourcing services was RMB9,365.15 million, an increase of 51.8% from 2006; revenue from applications, content and others was RMB3,080.22 million, an increase of 39.7% from 2006. Business process outsourcing services and applications, content and others were the major sources of our revenues growth in 2007. In terms of customers structure, the Company's revenues from customers other than China Telecommunications Corporation amounted to RMB12,004.84 million, representing 51.0% of the total revenues, an increase of 5.1 percentage points from 45.9% in 2006. Revenues from China Mobile Communications Corporation and government agencies and corporate customers increased significantly when compared with 2006. The Company's composition of revenues was further optimized.





Management Discussion & Analysis of Financial Conditions and Results of Operations

The following table sets forth a breakdown of our revenues for 2006 and 2007, together with their respective rates of change:

	2007	2006	**Percentage change**
	(RMB in thousands, except percentage data)		
Telecommunications Infrastructure Services			
Design services	**2,436,345**	2,341,945	4.0%
Construction services	**8,071,188**	8,082,346	(0.1)%
Project supervision and management services	**585,474**	516,884	13.3%
	11,093,007	10,941,175	1.4%
Business Process Outsourcing Services			
Network maintenance	**1,572,953**	722,646	117.7%
Distribution of telecommunications services and products	**6,097,148**	4,017,846	51.8%
Facilities management	**1,695,051**	1,426,905	18.8%
	9,365,152	6,167,397	51.8%
Applications, Content and Others			
IT applications	**1,546,478**	1,009,513	53.2%
Internet service	**478,022**	343,769	39.1%
Voice VAS	**325,661**	286,990	13.5%
Other	**730,061**	563,888	29.5%
	3,080,222	2,204,160	39.7%
Total	**23,538,381**	19,312,732	21.9%

Telecommunications Infrastructure Services

In 2007, our revenue from telecommunications infrastructure services was RMB11,093.01 million, which was still our primary source of income. This business accounted for 47.1%, representing a decrease of 9.6 percentage points from 56.7% in 2006, due to more rapid development of our business process outsourcing services and applications, content and others. Revenue from this business was mainly related to the capital expenditure of telecommunications operators. In anticipation of the ongoing control over capital expenditure by fixed line operators, we actively explored business opportunities with other telecommunications operators, thereby having successfully maintained the continued stable growth in this business. As a result, the revenue from this business increased by 1.4% in 2007 from RMB10,941.18 million in 2006.

Business Process Outsourcing Services

In 2007, our revenue from business process outsourcing services was RMB9,365.15 million, representing an increase of 51.8% over RMB6,167.40 million for 2006. Business process outsourcing services accounted for 39.8% of our revenues, representing an increase of 7.9 percentage points from 31.9% of 2006. Of which, revenue from distribution of telecommunications services and products was RMB6,097.15 million, representing an increase of 51.8% from 2006. The increase was mainly due to the continuous rapid growth in our sales of mobile handsets and telecommunications terminals, and the further development of our logistics distribution services in 2007. Besides, in 2007, the major telecommunications operators aggressively outsourced its network maintenance with a view to improve its service quality and lower their operating costs. This provided an excellent opportunity for the Company to develop its market in the network maintenance business. In 2007, revenue from the network maintenance business amounted to RMB1,572.95 million, an increase of 117.7% from 2006.

Applications, Content and Others

In 2007, the Company made significant efforts in developing its business in applications, content and others, thereby leading to our business growth. In particular, there was greater business growth in IT applications, which included system integration, telecommunications network support services and software development. As a result of our efforts, this business achieved a rapid revenue growth, amounting to RMB3,080.22 million, representing 13.1% of the total revenues and an increase of 39.7% over RMB2,204.16 million in 2006. Of which, revenue from the IT applications amounted to RMB1,546.48 million, an increase of 53.2% from 2006. The Company expects this business will become the major contributor to our future revenue growth.

Management Discussion & Analysis of Financial Conditions and Results of Operations

Cost of Revenues

Our cost of revenues in 2007 was RMB19,473.63 million, representing an increase of 23.7% from 2006 and accounting for 82.7% of the revenues.

The following table sets out a breakdown of our cost of revenues in 2006 and 2007 and their respective rates of change:

	2007	2006	**Percentage change**
	(RMB in thousands, except percentage data)		
Direct personnel costs	**4,556,857**	3,937,327	15.7%
Depreciation and amortization	**305,205**	326,673	(6.6)%
Purchase of materials and telecommunications products	**7,632,433**	5,712,317	33.6%
Subcontracting charges	**4,577,237**	3,582,311	27.8%
Operating lease charges and others	**2,401,900**	2,187,169	9.8%
Total cost of revenues	**19,473,632**	15,745,797	23.7%

Direct Personnel Costs

In 2007, direct personnel costs were RMB4,556.86 million, which accounted for 19.4% of revenues and an increase of 15.7% over RMB3,937.33 million for 2006. On one hand, the Company effectively controlled the personnel costs through strict control over the total headcounts, ensuring that personnel costs grew at a rate slower than the growth of revenues, while on the other hand, we provided initiatives to different levels of personnel through the establishment of a performance appraisal system, improvement in our remuneration system and staff allocation structure.

Depreciation and Amortization

In 2007, depreciation and amortization amounted to RMB305.21 million, which accounted for 1.3% of the revenues and a decrease of 6.6% over RMB326.67 million for 2006.

Purchase of Materials and Telecommunications Products

In 2007, our business of distribution of telecommunications services and products continued to grow strongly, resulting in a significant increase in revenues. Accordingly, the cost of the purchase of materials and telecommunications products increased significantly, amounting to RMB7,632.43 million, representing 32.4% of revenues and an increase of 33.6% from RMB5,712.32 million for 2006. Of which, the cost of the purchase of construction materials was RMB2,688.26 million, a decrease from RMB3,000.25 million for 2006, and the cost of the purchase of telecommunications products was RMB4,944.18 million, an increase of 82.3% over RMB2,712.07 million for 2006.

Subcontracting Charges

In 2007, subcontracting charges were RMB4,577.24 million, which accounted for 19.4% of revenues and represented an increase of 27.8% over RMB3,582.31 million for 2006. The increase in subcontracting charges was mainly derived from the construction business and network maintenance business. Subcontracting charges of the construction business increased mainly because the Company continued to improve its business subcontracting arrangement. The new subcontracting arrangement required subcontractors to bear the costs of materials. This arrangement resulted in saving of the Company's working capital and minimized its exposure to material price fluctuations. In 2007, as the network maintenance business grew significantly, the Company increased its outsourcing of low-end maintenance business.

Operating Lease Charges and Others

In 2007, operating lease charges and others were RMB2,401.90 million, which accounted for 10.2% of the revenues and represented an increase of 9.8% over RMB2,187.17 million for 2006.

Gross Profit

In 2007, the Company's gross profit amounted to RMB4,064.75 million, representing an increase of RMB497.81 million from RMB3,566.94 million in 2006. The Company's gross profit margin in 2007 was 17.3%, representing a decrease of 1.2 percentage points over 18.5% in 2006. In 2007, the performance of the business of distribution of telecommunications services and products was strong with a significant increase in revenues. However, its gross profit margin was lower than the overall gross profit margin, resulting in a decrease in our gross profit margin. In addition, the Company adopted a more competitive pricing strategy that expanded the business while to certain extent affected the gross profit margin.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses in 2007 were RMB2,794.66 million, representing an increase of 12.8% over RMB2,476.88 million for 2006. Through strengthening of comprehensive budget management, the Company effectively controlled its selling, general and administrative expenses. In 2007, the selling, general and administrative expenses accounted for 11.9% of the revenues, representing a decrease of 0.9 percentage points over 12.8% in 2006.

Management Discussion & Analysis of Financial Conditions and Results of Operations

Net Financing Income

In 2007, our net financing income was RMB41.68 million, a decrease of RMB45.64 million, or 52.3%, over RMB87.32 million for 2006. The net financing income in 2006 included the interest income accrued on the application money during our initial public offering in 2006 (the "IPO").

Income Tax

Except for subsidiaries incorporated in high-technology zone, special economic region or certain subsidiaries operating in western part of China which are subject to a preferential income tax rate of 15%, the Company and other subsidiaries of the Group are subject to an income tax rate of 33%. The income tax in 2007 was RMB461.06 million and our effective tax rate was 28.0%. The difference between our effective tax rate and the statutory tax rate was mainly due to the effect of the aforesaid preferential tax rate of the subsidiaries.

Profit Attributable to Equity Shareholders/Owner

In 2007, profit attributable to equity shareholders/owner of the Company was RMB1,167.25 million, an increase of 42.9% over RMB816.75 million for 2006. Excluding the deficit of RMB135.63 million on revaluation of property, plant and equipment arising pursuant to the restructuring in 2006, profit attributable to equity shareholder of the Company was up by 22.6%.

Capital Expenditure

Our Company implemented strict budget management, and adjusted the capital expenditure plan according to changes in market condition. In 2007, our capital expenditure, excluding those for the acquisition of the Target Business in 2007, amounted to RMB719.54 million, a decrease of 25.9% over RMB971.60 million in 2006, excluding the acquisition of assets relating to our restructuring in 2006. The capital expenditure in 2007 represented 3.1% of our total revenues, a decrease of 1.9 percentage point compared with 2006. Our capital expenditure included the purchase of production equipments, facilities, machineries, vehicles, office equipments, plant and buildings and other operating assets.

Cash Flows and Capital Resources

Cash Flows

In 2007, our net cash outflow was RMB1,530.37 million. In 2006, our net cash inflow was RMB3,207.89 million. By the end of 2007, the amount of our cash and cash equivalents was RMB6,632.25 million, of which 99.7% was accounted for in Renminbi.

The following table sets out our cash flow position in 2006 and 2007, respectively:

	2007	2006
	(RMB in thousands)	
Net cash generated from operating activities	**1,663,776**	424,454
Net cash used in investing activities	**(5,183,186)**	(801,637)
Net cash generated from financing activities	**1,989,038**	3,585,070
Net (decrease)/increase in cash and cash equivalents	**(1,530,372)**	3,207,887

In 2007, our net cash generated from operating activities was RMB1,663.78 million, an increase of RMB1,239.33 million from RMB424.45 million for 2006. The significant increase in net cash inflow from operating activities was mainly due to the rapid development of our operations and the improvement of our working capital management.

In 2007, our net cash used in investing activities was RMB5,183.19 million, an increase of RMB4,381.55 million over RMB801.64 million for 2006, which was mainly due to the successful acquisition of the Target Business from our parent company for a consideration of RMB4.6 billion.

In 2007, our net cash generated from financing activities was RMB1,989.04 million. In 2006, net cash generated from financing activities was RMB3,585.07 million. Our cash generated from financing activities during the year included the debt financing of RMB1.6 billion in respect of the consideration of the acquisition of the Target Business from our parent company. In 2006, our net cash generated from financing activities was mainly due to the proceeds from our IPO.

Working Capital

By the end of 2007, our working capital (i.e. non-cash current assets minus operating current liabilities) was RMB414.10 million, an increase of RMB26.66 million from RMB387.44 million in 2006. While achieving rapidly increase of operating revenues, we strengthened our management of prepayments and obtained more favourable credit terms, and thereby maintained working capital at a stable level.

Management Discussion & Analysis of Financial Conditions and Results of Operations

Indebtedness

By the end of 2007, our total indebtedness was RMB2,561.22 million, the majority of which was fixed interest rate loans, representing an increase of RMB2,390.52 million from RMB170.70 million in 2006. As stated in the circular regarding the acquisitions of the Target Business dated 20 June 2007, we intended to borrow RMB2.0 billion to finance the acquisitions. In its actual operations, through effective cash management, the Company fully utilized its internal funding and only RMB1.6 billion debt financing was materialized. Apart from this, all other new loans were short-term loans borrowed by the subsidiaries as supplement to working capital.

By the end of 2007, our gearing ratio[1] was at a more reasonable level of 21.1%, an increase of 19.7 percentage point from 1.4% in 2006.

Contractual Obligations

The following table sets out our contractual obligations as of 31 December 2007:

	Total	2008	2009	2010	2011	2012	After 2012
	(RMB in thousands)						
Short-term debt	2,560,256	2,560,256	–	–	–	–	–
Long-term debt	960	–	960	–	–	–	–
Operating lease commitments	286,361	119,888	73,898	56,743	26,388	4,326	5,118
Capital commitments	47,368	47,368	–	–	–	–	–
Of which:							
Authorized and contracted	9,714	9,714	–	–	–	–	–
Authorized but not contracted	37,654	37,654	–	–	–	–	–
Total of contractual obligations	2,894,945	2,727,512	74,858	56,743	26,388	4,326	5,118

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

Exchange Rate

Most of our Company's revenues and expenses are settled in Renminbi, therefore the risks associated with foreign currency exchange rate have no significant impact on our business performance. By the end of 2007, the balance of our cash and cash equivalents in foreign currencies only accounted for 0.3% of our total cash and cash equivalents.

Acquisitions and Integration

Our Company completed the acquisition of the Target Business in August 2007. Upon the completion of the acquisition, we reinforced the integration of the Target Business and further enhanced the management efficiency and operational efficiency of these companies. In 2007, the results of the Target Business reached the profit forecast stated in the acquisition circular sent to the shareholders dated 20 June 2007. The revenues of the Target Business amounted to RMB6,242.24 million in 2007, representing an increase of 21.7% over 2006. The profit attributable to the shareholders/owner was RMB284.38 million[2], an increase of 135.7% from 2006. Meanwhile, the operational efficiency of the Target Business has been improved considerably. The account receivable turnover days were 156 days in 2007, 19 days less than that of 2006. The selling, general and administrative expenses accounted for 12.2% of the total revenues, a decrease of 4.6 percentage point over 2006. The favourable performance of the Target Business resulted in significant earnings per share accretion to our Company. In view of the further internal integration in future, we believe that we will create even greater values to the shareholders.

[2] Including the relevant financing cost of acquisition

Applications, Content and Other (ACO) Services

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

Directors, Supervisors and Senior Management

Directors

Mr. WANG Xiaochu[1], age 50, is the Chairman of our Board of Directors and a Non-Executive Director of our Company. Mr. Wang is President of China Telecommunications Corporation ("China Telecom"), and Chairman and Chief Executive Officer of China Telecom Corporation Limited ("China Telecom Listco"). Positions previously held by Mr. Wang include Director General and Deputy Director General of the Hangzhou Telecommunications Bureau in Zhejiang Province, Director General of the Tianjin Posts and Telecommunications Administration, Chairman and Chief Executive Officer of China Mobile Limited (a company whose shares are listed on the Hong Kong Stock Exchange), and Vice President of China Mobile Communications Corporation ("China Mobile"). He has been involved in a number of information technology projects such as the development of telecommunications network management in China, and as a result received the Class Three National Science and Technology Advancement Award and the Class One Science and Technology Advancement Award awarded by the former Ministry of Posts and Telecommunications of the PRC ("MPT"). Mr. Wang graduated from the Beijing Institute of Posts and Telecommunications in 1980 and received a doctorate degree in Business Administration from the Hong Kong Polytechnic University in 2005. Mr. Wang has over 27 years of management experience in the telecommunications industry.

Mr. LI Ping[2], age 54, is the Vice Chairman of our Board of Directors, an Executive Director and Chief Executive Officer of our Company. Mr. Li is Vice President of China Telecom, and Executive Director of China Telecom Listco. Mr. Li was the Joint Company Secretary of China Telecom Listco until 26 October 2006. Mr. Li is a senior engineer. He graduated from the Beijing Institute of Posts and Telecommunications in 1976 with a major in Radio Telecommunications and received an MBA degree from the State University of New York at Buffalo, U.S.A. in 1989. Prior to joining China Telecom in August 2000, Mr. Li served as Chairman and the President of China Telecom (Hong Kong) International Limited, Vice Chairman and Executive Vice President of China Mobile Limited (a company whose shares are listed on the Hong Kong Stock Exchange) and Deputy Director General of the Directorate General of Telecommunications ("DGT") of the MPT. Mr. Li has extensive administrative experience in the management of listed companies and has 32 years of operational and management experience in the telecommunications industry in China.

Mr. ZHANG Zhiyong[3], age 43, is an Executive Director, Executive Vice President and Chief Operating Officer of our Company in charge of operations, business development, mergers and acquisitions. Mr. Zhang is Managing Director of the Sideline Industrial Management Department of China Telecom. Mr. Zhang received a bachelor's degree in Radio Engineering from the Changchun Institute of Posts and Telecommunications in 1986 and received a master's degree in Control Engineering from the Yanshan University in 2002 and an MBA from the BI Norwegian School of Management in 2005. Prior to joining China Telecom in November 2002, Mr. Zhang served as Deputy Director of the Qinhuangdao City Posts and Telecommunications Bureau, Director of the Qinhuangdao City Telecommunications Bureau, General Manager of Hebei Telecom Company Limited, Qinhuangdao Branch, and Deputy General Manager of China Telecom Beijing Telecom Co. Ltd. Mr. Zhang has 22 years of operational and management experience in the telecommunications industry in China.

Mr. YUAN Jianxing, age 53, is an Executive Director, Executive Vice President and Chief Financial Officer of our Company. Mr. Yuan received an MBA degree from the Ukrainian-American Humanitarian Institute "Wisconsin International University (USA) Ukraine" in 2002. Mr. Yuan served as Vice President and General Accountant of Hunan Telecom Company Limited from September 2004 to October 2006. Prior to that, he served as Finance Department Director of the Shanxi Provincial Post and Telecommunications Bureau, General Manager of the Shanxi Provincial Posts and Telecommunications Industrial Company, Director of the Xinzhou Post and Telecommunications Bureau in Shanxi Province, General Manager of Taiyuan Branch of Shanxi Telecom Company Limited, Deputy General Manager of Shanxi Telecom Company Limited and Deputy Managing Director of the Sideline Industrial Management Department of China Telecom. Mr. Yuan has over 30 years' experience in the telecommunications industry.

Directors, Supervisors and Senior Management

Mr. LIU Aili, age 44, is a Non-Executive Director of our Company. Mr. Liu is Executive Director and Vice President of China Mobile Limited, whose shares are listed on the Hong Kong Stock Exchange. He is also Vice President of China Mobile and Chairman of CMPak Limited, Pakistan. Mr. Liu graduated from Heilongjiang Posts and Telecommunications School with an associate degree and completed a post-graduate program in economics at Shandong University. Mr. Liu also received a master of management degree from the Norwegian School of Management BI and a doctoral degree in Business Administration from Hong Kong Polytechnic University. Mr. Liu previously served as Deputy Director General of Shandong Mobile Telecommunications Administration, Director General of Shandong Mobile Telecommunications Administration and General Manager of Shandong Mobile Communications Enterprises, Vice President of Shandong Mobile Communications Company, Director-General of the Network Department of China Mobile, Chairman and President of Shandong Mobile and Zhejiang Mobile. He is a professor-level senior engineer with over 25 years of management experience in the telecommunications industry.

Mr. ZHANG Junan, age 51, is a Non-Executive Director of our Company. Mr. Zhang is an Executive Director and Vice President of China Unicom Limited, whose shares are listed on the Hong Kong Stock Exchange, and Vice President of China United Telecommunications Corporation ("China Unicom"). Mr. Zhang graduated from the Nanjing University of Posts and Telecommunications majoring in carrier communication in 1982, and received a master's degree in Business Administration from the National Australian University in 2002. Prior to joining China Unicom in December 2005, Mr. Zhang served as Deputy General Manager and General Manager of the Anhui Provincial Telecommunication Company, and Chairman and General Manager of Anhui Provincial Telecommunication Co., Ltd. Mr. Zhang had served as Director of the Bengbu Municipal Posts and Telecommunications Bureau in Anhui Province and Deputy Director of the Anhui Provincial Posts and Telecommunications Bureau. Mr. Zhang has long and extensive management experience in the telecommunications industry.

Mr. WANG Jun, age 67, 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, the Chairman and Executive Director of Goldbond Group Holdings Limited, and a Non-Executive Director and Honorary Chairman of HKC (Holdings) Limited. All of these companies are listed on the Stock Exchange of Hong Kong.

Mr. CHAN Mo Po, Paul, age 53, is an Independent Non-Executive Director of our Company. Mr. Chan is the Chairman of PCP CPA Limited. He is also an Independent Non-Executive Director of publicly listed China Resources Land Limited, Kingmaker Footwear Holdings Limited, Hong Kong Economic Times Holdings Limited and The Wharf (Holdings) Limited. Mr. Chan is a graduate of The Chinese University of Hong Kong where he obtained both his bachelor's and master's degrees in Business Administration. Mr. Chan is a Practising Certified Public Accountant in Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the Association of Chartered Certified Accountants ("ACCA"), CPA Australia, the Society of Chinese Accountants and Auditors, the Taxation Institute of Hong Kong and the Hong Kong Institute of Company Secretaries. Mr. Chan has over 30 years' experience in both professional and commercial fields and is a former president of the HKICPA and a former Chairman of the ACCA – Hong Kong. In 2006, he was awarded a Medal of Honour by the Government of HKSAR and in 2007, he was appointed a Justice of the Peace. In 2008, he was appointed a member of Shanghai City's Chinese People's Political Consultative Conference.

Directors, Supervisors and Senior Management

Mr. ZHAO Chunjun, age 67, is an Independent Non-Executive Director of our Company. Mr. Zhao is an Independent Non-Executive Director of Daheng New Epoch Technology, Inc., a company listed in the PRC. Mr. Zhao is also a Supervisor of Tsinghua Tongfang Co., Limited, which is also a company listed in the PRC. Mr. Zhao graduated from Tsinghua University in the PRC. He was Dean of the School of Economics and Management of Tsinghua University between June 2001 and October 2005, having previously served as First Vice Dean between January 1987 and June 2001.

Mr. WU Shangzhi, age 58, is an Independent Non-Executive Director of our Company. Mr. Wu is currently the Chairman and Managing Partner of CDH China Holdings Management Company Limited ("CDH"). Prior to joining CDH, Mr. Wu was a head of the Direct Investment Department, Managing Director and member of the Management Committee of China International Capital Corporation (CICC) and he was also a Director of Focus Media Holdings Limited, a company listed on Nasdaq in the United States. Mr. Wu served as an Officer at the World Bank and the International Finance Corporation from 1984 to 1993. Mr. Wu graduated from the Massachusetts Institute of Technology with a Ph.D. degree in Mechanical Engineering and a M.S. in Management of Technology.

Mr. HAO Weimin, age 73, is an Independent Non-Executive Director of our Company. Mr. Hao graduated from the PLA Zhangjiakou Institute of Communications Engineering, and the Beijing Institute of Posts and Telecommunications in 1953 and 1963 respectively. He is a professor-level senior engineer with over 50 years' experience in the telecommunications industry. Mr. Hao is the Vice Chairman of the China Association of Communications Enterprises and is also a standing committee member of the telecommunication technology committee and the radio frequency planning and consulting committee of the Ministry of Information and Posts. From 1983 to 1986, Mr. Hao was sent to the United States as a visiting scholar to carry out telecommunications research on GTE Network Systems at Stanford University. Mr. Hao has been involved in management and research projects in the fields of management of technology, data communication, satellite communication, network planning and international communication since his return from the United States. Mr. Hao was a Deputy Director-General and Chief Engineer of the DGT of the former MPT and a Vice Chairman and the General Manager of China Orient Telecomm Satellite Co., Limited prior to December 2003.

1 The Board of Directors (the "Board") of the Company has approved the resignation of Mr. Wang Xiaochu as Non-executive Director and Chairman of the Company and the appointment as the Honorary Chairman of the Company on 8 April, 2008. Honorary Chairman is not member of the Board and does not have any power or right to vote on any matters considered by the Board.

2 The Board has approved the resignation of Mr. Li Ping as Vice Chairman and Chief Executive Officer of the Company and the appointment as the Chairman of the Company on 8 April, 2008.

3 The Board has approved the resignation of Mr. Zhang Zhiyong as Executive Vice President of the Company and the appointment as the President of the Company on 8 April, 2008.

Directors, Supervisors and Senior Management

Supervisors

Ms. XIA Jianghua, age 49, is Chairperson of the Supervisory Committee. Ms. Xia is Vice Director of Auditing Office and Division-Director of its Construction Auditing Division of China Telecom. Ms. Xia is also a Supervisor of China Telecom Group North Corporation. Ms. Xia received a postgraduate certificate in Enterprise Management from the University of International Business and Economics in 2004. Prior to joining China Telecom in 2000, Ms. Xia served as Vice-Divisional Director of the Auditing Bureau of MPT, Vice-Divisional Director (standing) of the Auditing Division of DGT, and from 2000 to 2002 Divisional Director of the Auditing Office of China Telecom.

Mr. HAI Liancheng, age 63, is an Independent Supervisor of our Company. Mr. Hai studied at the Civil Aviation College and Chinese Communist Party's (CPC) School, and obtained a college diploma. Mr. Hai has served as Vice-Divisional Director and Divisional Director of the Financial Division of the Financial Department of CAAC, Vice-Director and Director of the Financial Department of CAAC, General Manager of China Aviation Oil Supply Corporation, and Vice General Manager of China Aviation Oil Holding Company. From September 2001 to February 2006, Mr. Hai served as Chairman of South China BlueSky Aviation Oil Co., Ltd and China Aviation Oil Corporation Ltd. Mr. Hai is the Director General of the Civil Aviation Administration of China (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 is employed by PICC Property and Casualty Co. Ltd. as consultant since June 2007. Since October 2007, Mr. Hai is the Chairman of Zhong Peng Certified Public Accountants Ltd.

Mr. YAN Dong, age 36, is an Employee Representative Supervisor of our Company. Mr. Yan is the Divisional Director of the Risk Management Department of the Company. Mr. Yan received an MBA from Shandong University in 2002. Prior to joining China Telecom in 2004, Mr. Yan served as a Project Manager in Shandong International Trust and Investment Corporation, Office Director, Manager of the Investment Department and Secretary of the Board of Directors of Shandong Luxin Investment Corporation, and General Manager of Shandong Luxin Property Investment and Development Co., Ltd. Mr. Yan has served as Director of Shandong Luxin Property Investment and Development Co., Ltd., Shandong International Investment Industries Corporation, and Yantai Zhenghai Electronic Mask Co., Ltd.

1. Mr. WANG Xiaochu
2. Mr. LI Ping
3. Mr. ZHANG Zhiyong
4. Mr. YUAN Jianxing
5. Mr. WANG Qi
6. Mr. LI Jian
7. Mr. LIU Xiaoyi

Directors, Supervisors and Senior Management

Management

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

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

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

Mr. WANG Qi, age 52, is an Executive Vice President of our Company. Mr. Wang is the Chief Executive Officer of Guangdong Communications Services Company Limited and is in charge of our Guangdong operations. Mr. Wang graduated from the Chinese Communist Party's (CPC) School of Guangdong in 1998. Mr. Wang joined Guangdong Telecom Industry Group Corporation as General Manager in November 2000. Prior to that, Mr. Wang had served as General Manager of Guangdong Post and Telecommunications Development Corporation, and Director of the Telecom Engineering Administration Centre of Guangdong Telecommunications Corporation. Mr. Wang was involved in a number of major communications network projects for Guangdong Telecom, and was awarded the Excellent Engineering Project Prize issued by the former Ministry of Posts and Telecommunication. Mr. Wang has 34 years of management experience in the telecommunications industry in China.

Mr. LI Jian, age 46, is an Executive Vice President of our Company. Mr. Li is Deputy Managing Director of the Sideline Industrial Management Department of China Telecom. Mr. Li graduated from Beijing Radio and Television University in 1986 with a major in Accounting and obtained a master's degree in International Management from Australian National University. Prior to joining China Telecom in May 2000, Mr. Li was a Director of the Treasury Division of the Department of Finance of the Ministry of Posts and Telecommunications before moving to China Telecom to take up the post of Director of the Treasury Division and Assets Division, and Director of the General Affairs and Assets Division under the Department of Finance. Mr. Li had also served as Chairman and President of China Telecom (Hong Kong) International Limited and Managing Director of the Investor Relations Department and Supervisor of the Supervisory Committee of China Telecom Listco. Mr. Li is an Accountant and has 26 years of operational and management experience in the telecommunications industry in China.

Mr. LIU Xiaoyi, age 40, is an Executive Vice President of our Company. Mr. Liu received a bachelor's degree in Communications Engineering from the Beijing Institute of Posts and Telecommunications in 1989, a master's degree in Communications Engineering from the Beijing University of Posts and Telecommunications in 1994, and an MBA degree from Tsinghua University in 2001. Mr. Liu joined China Telecom in October 2000 and served as a Director of the Data Business Division and as a Senior Manager of the International Division. From June 2002 to September 2006, Mr. Liu was Vice President of China Telecom (USA) Corporation. Mr. Liu has over 19 years' experience in the telecommunications industry.

Company Secretary

Mr. CHUNG Wai Cheung, Terence, age 34, 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 Listco respectively. Mr. Chung has nearly 12 years of experience in auditing, financial management and company secretarial work with accounting firms and listed companies.

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 2007.

Principal Businesses

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

Results

Results of the Group for the year ended 31 December 2007 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 98 in this Annual Report.

Dividends

The Board proposed a cash dividend of RMB0.0682 per share for the year ended 31 December 2007, which will be subject to approval at the forthcoming 2007 annual general meeting.

In connection with the disclosure in the Prospectus of the Company dated 27 November 2006, for the period from 1 April 2006 to 7 December 2006, the day immediately prior to the listing of the H shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Group has declared and paid to its then shareholders (being China Telecommunications Corporation ("China Telecom") and its relevant subsidiaries) a special dividend amounting to RMB535 million in total.

In connection with the disclosure in the circular of the Company dated 20 June 2007 relating to the acquisition of the specialized telecommunications support business (the "Target Business") from China Telecom in 13 provinces, the changes in net assets between the period from 1 February 2007 to 31 August 2007 of the acquired business, amounting to RMB197 million in total, will be distributed in cash to China Telecom and its relevant subsidiaries.

Further details of dividends and distribution of the Company are set out in note 15 of the audited financial statements on page 133 of this Annual Report.

Directors and Senior Management of the Company

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

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

In July 2007, Mr. Li Zhigang resigned from the position of the Company's Executive Vice President.

On 8 April 2008, the Board approved the resignation of Mr. Wang Xiaochu as Non-executive Director and Chairman of the Company and the appointment of Mr. Wang Xiaochu as Honorary Chairman of the Company, the resignation of Mr. Li Ping as Vice Chairman and Chief Executive Officer of the Company and the appointment of Mr. Li Ping as Chairman of the Company, the resignation of Mr. Zhang Zhiyong as Executive Vice President of the Company and the appointment of Mr. Zhang Zhiyong as President of the Company.

Report of the Directors

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

Name	Position in the Group	Date of appointment
Wang Qi	Executive Vice President of the Company and Chief Executive Officer of Guangdong Communications Services Company Limited	17 August 2006
Yuan Jinling	Chief Executive Officer of Shanghai Communications Services Company Limited	17 August 2006
Shi Yongsheng	Chief Executive Officer of Zhejiang Communications Services Company Limited	17 August 2006
Yang Yonghe	Chief Executive Officer of Fujian Communications Services Company Limited	13 March 2007
Gao Liangping	Chief Executive Officer of Hubei Communications Services Company Limited	17 August 2006
Bao Tiejun	Chief Executive Officer of Hainan Communications Services Company Limited	17 August 2006
Cheng Hongyan	Chief Executive Officer of Jiangsu Communications Services Company Limited	5 April 2007
Gu Ping	Chief Executive Officer of Anhui Communications Services Company Limited	5 April 2007
Chen Biao	Chief Executive Officer of Jiangxi Communications Services Company Limited	5 April 2007
Xiao Yafan	Chief Executive Officer of Hunan Communications Services Company Limited	5 April 2007
Qi Yan	Chief Executive Officer of Guangxi Communications Services Company Limited	5 April 2007
Li Xiulin	Chief Executive Officer of Chongqing Communications Services Company Limited	5 April 2007
Deng Chang	Chief Executive Officer of Sichuan Communications Services Company Limited	5 April 2007
Guo Zhihao	Chief Executive Officer of Guizhou Communications Services Company Limited	5 April 2007
Qing Deming	Chief Executive Officer of Yunnan Communications Services Company Limited	5 April 2007
Yang Changlin	Chief Executive Officer of Shaanxi Communications Services Company Limited	5 April 2007

Name	Position in the Group	Date of appointment
Li Dazhi	Chief Executive Officer of Gansu Communications Services Company Limited	5 April 2007
Deng Xiaohui	Chief Executive Officer of Qinghai Communications Services Company Limited	5 April 2007
Niu Jiangong	Chief Executive Officer of Xinjiang Communications Services Company Limited	5 April 2007
Yang Fan	Chief Executive Officer of China Communications Services (Hong Kong) International Limited	1 November 2007

In March 2007, Mr. Xu Qiude resigned from the position of chief executive officer of Fujian Communications Services Company Limited and the position was taken by Mr. Yang Yonghe.

Supervisors of the Company

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

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

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

Report of the Directors

Share Capital

The Company was incorporated on 30 August 2006. In December 2006, the Company issued 1,484,986,000 H shares with a par value of RMB1.00 each, at a price of HK$2.20 per H share by way of an initial public offering (the "IPO") to Hong Kong and overseas investors. In connection with the IPO, the promoters of the Company converted 148,498,600 domestic state-owned shares of RMB1.00 each into H shares on a one domestic share to one H-share basis and transferred them to the National Council for Social Security Fund of the PRC (the "NSSF"). A total of 1,633,484,600 H shares of the Company were listed on the Stock Exchange during the year 2007. Immediately after the IPO, the registered capital of the company amounted to RMB5,444,986,000. As at 31 December 2007, the share capital of the Company was RMB5,444,986,000, divided into 5,444,986,000 shares of RMB1.00 each, and comprised of:

Shares	Number of Shares	Approximate % of issued share capital
Domestic shares (Total)	3,811,501,400	70%
Domestic shares held by:		
China Telecommunications Corporation[1]	3,487,523,782	64.05%
Guangdong Telecom Industry Group Corporation	236,313,086	4.34%
Zhejiang Telecom Industry Corporation	87,664,532	1.61%
H shares (Total)	1,633,484,600	30%
Total	5,444,986,000[2]	100%

(1) Pursuant to the equity transfer arrangements entered into between China Telecom, and China Mobile Communications Corporation ("China Mobile") and China United Telecommunications Corporation ("China Unicom"), China Telecom agreed to transfer 506,880,000 and 236,300,000 domestic shares to China Mobile and China Unicom respectively. China Telecom will hold the said portion of shares until the date on which the conditions precedent to the equity transfer are met. The equity transfer is conditional upon, amongst others, the lapse of at least one year from the listing date, the transfer having been approved by the State-Owned Assets Supervision and Administration Commission of the PRC and the name of the transferee being registered in the Company's share register. Details of the equity transfer arrangements are disclosed in the Company's prospectus dated 27 November 2006.

(2) The Board announced the completion of a placing of an aggregate of 359,365,600 H shares (including 326,696,000 new H shares and 32,669,600 H shares converted from the existing domestic shares of the Company allocated to and placed on behalf of the NSSF) on 9 April 2008. As a result, the total number of issued shares of the Company has increased from 5,444,986,000 shares to 5,771,682,000 shares, and the total number of H shares held by the public has increased from 1,633,484,600 H shares to 1,992,850,200 H shares. Details of the placing are disclosed in the announcements of the Company dated 28 March 2008 and 9 April 2008 respectively.

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

As at 31 December 2007, the interests or short positions of persons who are entitled to exercise or control the exercise of 5% or more of the voting power at any of the Company's general meetings (excluding the directors and supervisors of the Company) in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be maintained under Section 336 of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) (the "SFO") are as follows:

Name of shareholder	Number of shares held	Type of shares	Percentage of the respective type of shares (%)	Percentage of the total number of shares in issue (%)	Capacity
China Telecommunications Corporation[(1)]	3,811,501,400	Domestic shares	100.00	70.00	Beneficial Owner
China Mobile Communications Corporation[(2)]	506,880,000	Domestic shares	13.30	9.31	Beneficial Owner
China United Telecommunications Corporation[(2)]	236,300,000	Domestic shares	6.20	4.34	Beneficial Owner
Guangdong Telecom Industry Group Corporation[(1)]	236,313,086	Domestic shares	6.20	4.34	Beneficial Owner
Cisco Systems International B.V.	176,676,000 (L)	H shares	10.82	3.24	Beneficial Owner
INVESCO Hong Kong Limited (previously known as INVESCO Asia Limited)	154,479,000 (L)	H shares	9.45	2.84	Investment Manager
Commonwealth Bank of Australia	147,499,100 (L)	H shares	9.03	2.71	Interests in an entity controlled by a significant shareholder
JPMorgan Chase & Co.	99,714,500 (L) 13,986,000 (S) 50,032,000 (P)	H shares H shares H shares	6.10 0.86 3.06	1.83 0.26 0.92	Beneficial Owner, Investment Manager, Custodian – Licensed Corporation/Approved Lending Agent
Fidelity International Limited	88,268,000 (L)	H shares	5.40	1.62	Investment Manager
Atlantis Investment Management Ltd	83,000,000 (L)	H shares	5.08	1.52	Investment Manager

Remarks: (L): Long Position; (S): Short Position; (P): Lending Pool

(1) Since China Telecom indirectly holds 100% of the shares in Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation, the 236,313,086 and 87,664,532 domestic shares held by Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation respectively are considered and aggregated into the equity interest held by China Telecom.

(2) Please refer to the note in the paragraph of this report headed "Share Capital" for details of the equity transfer arrangements entered into between China Telecom and China Mobile and China Unicom, respectively, and the conditions precedents to the equity transfers.

Report of the Directors

Save as stated above, as at 31 December 2007, 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 2007, 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 2007, 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 37 to the audited financial statements for details of the share appreciation rights scheme of the Company and the share appreciation rights granted during the year ended 31 December 2007.

Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained the prescribed public float under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the period from the date of listing to the date of this report.

Directors' and Supervisors' Service Contract

Each of the directors and supervisors has entered into a service contract with the Company. According to the service contract, each of the contracts has an initial term of 3 years and is renewable in accordance with the Articles of Association of the Company when the initial term expires. These contracts are terminable at the option of either party by giving three months' notice in writing or according to the terms of the contract prior to the expiry of the contract.

Directors' and Supervisors' Interests in Contracts

For the year ended 31 December 2007, 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 service contracts.

Emoluments of the Directors and Supervisors

Based on the overall remuneration policy of the Company and with reference to the payroll standard of 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 of the audited financial statements for details of the emoluments of the directors and supervisors of the Company in 2007.

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 187 to 188 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 2007.

Bank Loans and Other Borrowings

Please refer to note 32 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 2007.

Distributable Reserves

Please refer to note 44 to the audited financial statements for details of the movements in the reserves of the Company for 2007.

Report of the Directors

Donations

For the year ended 31 December 2007, the Group made charitable and other donations to a total amount of RMB1.12 million.

Subsidiaries and Associated Companies

Please refer to note 22 and note 23 to the audited financial statements for details of the Company's subsidiaries and the Group's interests in associated companies as at 31 December 2007.

Changes in Equity

Please refer to the consolidated statement of changes in equity contained in the audited financial statements (page 95 of this Annual Report).

Plan of Employees' Retirement Benefits

Please refer to note 36 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 65.5% of the operating revenue of the Group; of which, the sales to the largest customers of the Group represented 49.0% of the operating revenue of the Group. The purchases from the five largest suppliers of the Group accounted for less than 8.7% of the total annual purchases of the Group.

So far as the directors are aware, as disclosed in the paragraph headed "Share Capital" of this report, of the five largest customers of the Group during the reporting period, China Telecom held 70% equity interest of the Company, and has agreed to transfer 506,880,000 and 236,300,000 domestic shares of the Company to China Mobile and China Unicom, respectively. China Telecom will keep holding the aforementioned shares prior to the completion of the transfer. As at 31 December 2007, Mr. Liu Aili, a non-executive director of the Company, held 299,100 share purchase options in China Mobile Limited, a subsidiary of China Mobile, one of our five largest customers, and Mr. Zhang Junan, a non-executive director of the Company, held 500,000 share purchase options in China Unicom Corporation Limited, a subsidiary of China Unicom, one of our five largest customers.

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

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 2007:

Transaction		The Group (RMB million)	Annual cap of continuing connected transaction (RMB million)
Engineering related services provided to China Telecom Group		6,179.59	8,000.00
Ancillary telecommunications services provided to China Telecom Group		3,124.79	3,660.00
Operation support services provided to/by	Revenue	1,528.44	1,750.00
China Telecom Group	Expenditure	245.53	260.00
IT application services provided to/by	Revenue	649.21	700.00
China Telecom Group	Expenditure	181.75	210.00
Property leasing provided to/by	Revenue	51.52	76.00
China Telecom Group	Expenditure	94.33	106.50
Centralized services provided to China Telecom Group		139.25	350.00

Continuing Connected Transactions Agreements Between the Group and China Telecommunications Corporation

The Company and China Telecom entered into six continuing connected transactions agreements on 16 November 2006 to manage the connected transactions between the Group and China Telecom Group. These agreements are the Engineering Framework Agreement, the Ancillary Telecommunications Services Framework Agreement, the Operation Support Services Framework Agreement, the IT Application Services Framework Agreement, the Property Leasing Framework Agreement and the Centralized Services Agreement.

The Company completed its acquisition of the Target Business from China Telecom on 31 August 2007. Accordingly, it entered into a supplementary agreement on 15 June 2007 to the above mentioned six continuing connected transactions agreements with China Telecom (the "Supplementary Agreement") to extend the effective periods of the six continuing connected transactions agreements to 31 December 2009, and to extend the applicable scopes of such agreements to the 19 provinces, being the Group's current primary service areas after completion of the Company's acquisitions of the Target Business as in 13 provinces. The terms of the six agreements (as amended by the Supplementary Agreement) are automatically renewable for further periods of no more than three years subject to shareholders' approval (excluding the Property Leasing Framework Agreement) unless terminated early by either party with three months' written notification. The Company also set new annual caps for transactions under the six continuing agreements (see the above stated table) at the time of the acquisition of the Target Business as in 13 provinces and the new annual caps for the three years ended 31 December 2009 (excluding the new annual caps for transactions under the Property Leasing Framework Agreement, which did not require independent shareholders approval under the Listing Rules) were approved by the independent shareholders of the Company in the extraordinary general meeting on 7 August 2007.

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 for telecommunications infrastructure projects undertaken by 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 would 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, and 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 cafes (the "Ancillary Telecommunications Services"). Pursuant to the Supplementary Agreement, the Company also agreed to provide China Telecom Group with comprehensive logistics services (including purchase agency, warehousing, transportation, delivery, testing and inspection, logistics information management and distribution). The Ancillary Telecommunications Services Framework Agreement stipulates that the Ancillary Telecommunications Services be provided at:

(1) government-prescribed price;

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

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

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

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, and 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.

Report of the Directors

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, labour 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 beverages, educational, hotel and travelling 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, and in return, each of the parties has undertaken to the other that it shall not provide services to the other on terms which are less favourable than those offered to independent third parties. The 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 but not limited to, basic telecommunications services such as 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, and in return, each of the parties has undertaken to the other that it shall not provide services to the other on terms which are less favourable than those offered to independent third parties.

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 of China Telecom Group's retained specialised telecommunications support businesses in the PRC other than the Company's current primary service areas of 19 provinces and any remaining assets resulting from the restructuring of the Company in these 19 provinces, such as hotels, manufacturing plants, schools and hospitals which are not in association with the specialized telecommunications support businesses; and

2. the provincial headquarters management function to manage remaining assets resulting from the restructuring of the Company in the above mentioned current primary service areas of the Company.

Except 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 Group 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.

Report of the Directors

Continuing Connected Transaction Agreement Between the Group and China Telecom Corporation Limited (Our Fellow Subsidiary)

Strategic Cooperation Agreement

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

In connection with the acquisition of the Target Business in 13 provinces from China Telecom, the Company entered into a supplementary agreement to the Strategic Cooperation Agreement (the "Supplementary Strategic Agreement") with China Telecom Corporation Limited to extend the geographic scope of cooperation between the Company and China Telecom Corporation Limited to 19 provinces.

Pursuant to the Strategic Cooperation Agreement (as amended by the Supplementary Strategic Agreement), in relation to the Company's provision of engineering related services in design, construction, project supervision and management businesses, China Telecom Corporation Limited has undertaken that the relevant subsidiaries of China Telecom Corporation Limited in the 19 provinces (municipalities and autonomous regions) shall spend an annual minimum amount of not less than 10.6% of the total annual capital expenditure of the relevant wholly-owned provincial subsidiaries of China Telecom Corporation Limited to purchase such services provided by the Company.

In relation to the Company's provision of maintenance and management services including but not limited to our network maintenance and facilities management businesses, China Telecom Corporation Limited has undertaken that the relevant subsidiaries of China Telecom Corporation Limited in the 19 provinces (municipalities and autonomous regions) shall spend an annual minimum amount of not less than RMB1,780 million to purchase such services provided by the Company.

The Company shall offer at least 5% discount for the engineering-related services to be provided to the relevant wholly-owned provincial subsidiaries of China Telecom Corporation Limited based on the applicable standard prices. Such discount is on normal commercial terms and it is in-line with market practice to give a discount as favourable treatment offered to large enterprise customers which are able to commit to a minimum purchase volume per annum. The percentage discount depends on a number of factors, such as the committed minimum purchase volume, competition and so on.

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

The annual caps for the provision of the relevant services contemplated under the Strategic Cooperation Agreement have already been subsumed respectively under the Engineering Framework Agreement, the Ancillary Telecommunications Services Framework Agreement, the Operation Support Services Framework Agreement and the IT Application Services Framework Agreement referred to above and therefore no separate annual caps shall be applied to the Strategic Cooperation Agreement.

The independent non-executive directors of the Company have confirmed that all continuing connected transactions for the year ended 31 December 2007 to which the Group was a party:

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

2. had been entered into either:

   (i) on normal commercial terms; or

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

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

The independent non-executive directors have further confirmed that:

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

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

(i) the continuing connected transactions entered into between the Group and China Telecom Group during the year ended 31 December 2007 have been approved by the Directors;

(ii) 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 2007 and have not found that the continuing connected transactions were not in accordance with the pricing policies as stated in the relevant agreements;

(iii) 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 2007 and have not found that the continuing connected transactions were not in accordance with the terms of the agreements governing the transactions;

(iv) they note that the continuing connected transactions have not exceeded the 2007 annual caps as disclosed in the circular dated 20 June 2007 of the Company and approved by the independent shareholders of the Company on 7 August 2007.

Employees

As at 31 December 2007, the Group had 106,931 employees as follows:

	Number of staff	Percentage
Management	7,565	7%
Technical and marketing	35,656	33%
Operations	63,710	60%
Total	106,931	100%

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

Compliance with Code on Corporate Governance Practices

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

Material Legal Proceedings

As at 31 December 2007, so far as the directors are aware, the Company was not involved in any material litigation or arbitration and no material litigation claims had been made against, or were pending or threatened against the Company.

Non-adjusting Post Balance Sheet Event

Details of the Company's non-adjusting post balance sheet events are set out on page 186 in this Annual Report.

Report of the Directors

Auditors

KPMG and KPMG Huazhen were engaged respectively as the international and domestic auditors of the Company for the year ended 31 December 2007. KPMG has audited the accompanying financial statements, which have been prepared in accordance with International Financial Reporting Standards. The Company has retained KPMG and KPMG Huazhen since the date of its listing. A resolution for the reappointment of KPMG and KPMG Huazhen as the international and domestic auditors of the Company for the year ending 31 December 2008 will be proposed at the annual general meeting of the Company.

By order of the Board
Wang Xiaochu
Chairman

Beijing, China
8 April 2008

Report of the Supervisory Committee

Dear Shareholders,

During the reporting period, all the members of the Supervisory Committee strengthened professional training, conscientiously performed their supervisory duties and earnestly safeguarded the interests of the shareholders and the Company in accordance with the relevant requirements of the Company Law of the PRC and the Company's articles of association.

During the reporting period, the Supervisory Committee held two meetings. At the second meeting of the first session of the Supervisory Committee held on 10 April 2007, the Company's operating results and financial statements for 2006 were reviewed. In addition, the Supervisory Committee reviewed and approved five agenda items, including financial statements for 2006, profit distribution proposal and dividends distribution plan and external auditors' report on their work for the year ended 2006. At the third meeting of the first session of the Supervisory Committee held on 31 August of the same year, the interim financial statements and the draft external auditor's review report of 2007 were reviewed. During the reporting period, members of the Supervisory Committee supervised the major decision-making processes of the Company and the performance of the members of the Board of Directors (the "Board") and the senior management through their attendance of the general meeting of shareholders of the Company and the meetings of the Board.

At the meeting held on 2 April 2008, the Supervisory Committee carefully reviewed the Company's 2007 financial report, which external auditors did not expect to qualify, and prepared in accordance with PRC accounting principles and International Financial Reporting Standards, together with other related information. The 2007 financial report was proposed to be submitted by the Board to the shareholders' general meeting. The Supervisory Committee believed that the financial report was in conformity with the principle of consistency and reflected the Company's financial position and operating results in a true and complete manner.

The Supervisory Committee believes that with the accelerating marketing development, the Company maintained a favourable operation performance under the adverse market condition. The Company completed the acquisition of the specialized telecommunications support businesses in 13 provinces from the parent company and its operations have been running in a more mature way. The Company thus basically fulfilled its various commitments to the investors. The internal control of the Company was further improved, and various operation and development targets of the Company progressed steadily.

Report of the Supervisory Committee

The Supervisory Committee believes that during 2007, all members of the Board and the senior management were dedicated and conscientious. They complied with the Company's articles of association and earnestly carried out various resolutions of the shareholders' meeting and the Board. With a view to maximise the value of the Company and the interest of shareholders, they had made relentless efforts for the development of the Company. The Supervisory Committee was not aware of any violation of laws, regulations and the Company's Articles of Association during the year.

In 2008, the Supervisory Committee will further broaden its horizon, earnestly perform its supervisory duties and safeguard the interest of the shareholders and the Company, and endeavour to do a good job in accordance with the Company Law of the PRC, the Company's articles of association and relevant requirements.

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

Beijing, PRC
2 April 2008

Corporate Governance Report

We are committed to maintaining sound corporate governance standards and procedures to ensure the completeness, transparency and quality of our information disclosure, and we endeavour to achieve even more regulated procedures of work, effective management, and rational operation, 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 not only has complied with the relevant provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") but also has abided by the PRC Company Law and other applicable laws, regulations and regulatory requirements of Hong Kong and the PRC as basic guidelines for the Company's corporate governance. In 2007, the Company has formulated and implemented the "Code of Ethics for Senior Management" and the "Code of Ethics for Employees", to further standardize the regulations of conduct of the management and employees and maintain our high standard of business ethics and integrity.

For the year ended 31 December 2007, the Company has complied with the Code Provisions in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (the "Code Provisions"). In addition, the Company has complied with certain applicable Recommended Best Practices in the Code on Corporate Governance Practices (the "Recommended Best Practices").

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

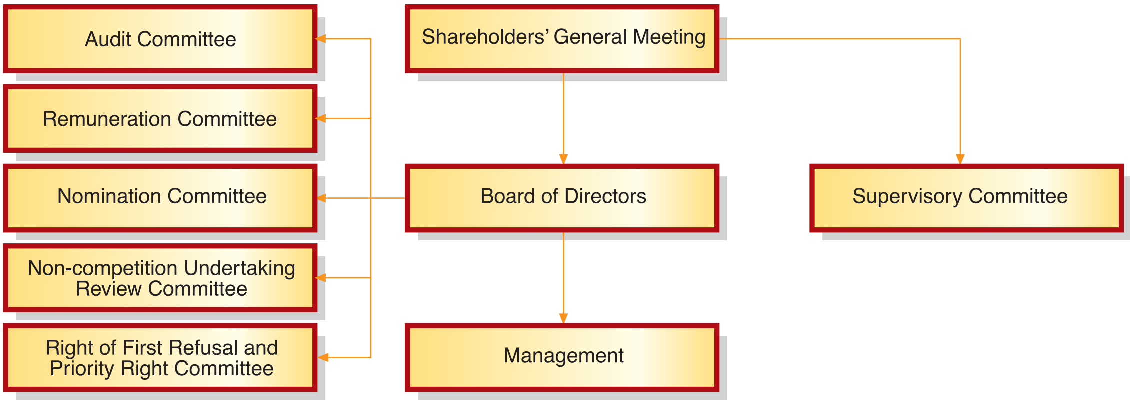
The responsibility statement of KPMG, our external auditors, regarding its report on the financial statements of the Group is set out on pages 89 and 90 of this Annual Report.

Securities Transactions of Directors

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

Corporate Governance Report

Corporate Governance Structure of the Company



Shareholders' General Meeting

Pursuant to the articles of association of the Company, the shareholders' general meetings are classified as annual general meeting (the "AGM") and extraordinary general meeting (the "EGM"). The AGM will be convened once a year and within six months after the end of the previous financial year. In 2007, apart from the AGM, the Company has also convened two EGMs. The details of the voting procedures and the shareholders' right to require voting on the resolutions by poll were set out in the notices of the general meetings in accordance with the provisions under the Articles of Association and the Listing Rules. All resolutions were voted on by poll in all general meetings held in 2007.

In the AGM for 2006 held on 11 June 2007, the resolutions on the 2006 financial statements, appointment of auditors, the report of the directors and the Share Appreciation Rights Scheme were considered and approved by the shareholders.

In the first EGM in 2007 held on 7 August 2007, the independent shareholders considered and approved the resolutions on the connected transactions regarding the acquisition of the specialized telecommunications support businesses (the "Target Business") of 13 provinces from China Telecommunications Corporation, the controlling shareholder of the Company. China Telecommunications Corporation and its associates, being the connected persons, had abstained from voting on the relevant resolutions.

In the second EGM in 2007 held on 12 December 2007, the shareholders considered and approved the resolutions on the appointments of new directors. The nominations of each director were considered and approved by separate resolutions.

Board of Directors

The leadership and supervision of the Company is vested in the Board of Directors (the “Board”), which is responsible for implementing the resolutions passed by the shareholders in general meeting, overseeing the Group’s business and affairs, approving operation plans and investment proposals, reviewing financial policies and performance, and formulating the basic management systems of the Company. The Board has delegated to the senior management, the powers and responsibilities to conduct the day-to-day management and operations of the Group and to organize the implementation of the resolutions of the Board, annual business plans and investment proposals. The senior management must obtain the approval of the Board before entering into any material transactions.

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

In 2007, the Company has provided formal and tailored induction to the newly appointed executive directors, Mr. Zhang Zhiyong and Mr. Yuan Jianxing, to ensure that they have appropriate understanding on their duties under the laws and regulations. The Company has also arranged appropriate insurance cover in respect of legal actions against its directors, supervisors and senior management.

Composition of the Board

Up to 31 December 2007, the Board consists of eleven members, including Mr. Wang Xiaochu as Chairman and non-executive director, Mr. Li Ping as Vice Chairman and executive director, Mr. Zhang Zhiyong and Mr. Yuan Jianxing as executive director, Mr. Liu Aili and Mr. Zhang Junan, as non-executive Director, and Mr. Wang Jun, Mr. Chan Mo Po, Paul, Mr. Zhao Chunjun, Mr. Wu Shangzhi and Mr. Hao Weimin, as independent non-executive directors. Profiles of the directors are set out in the “Profiles of Directors, Supervisors and Senior Management” of this Annual Report.

The Board comprises five independent non-executive directors, constituting more than one-third of the members of the Board, having complied with the Recommended Best Practices in respect of the number of independent non-executive directors, and thereby ensured the independence of the Board. All independent non-executive directors possess considerable experience in their respective industries and professions.

To the best knowledge of the directors, in 2007, the members of the Board do not have any financial, business, family or other material connection with each other, in particular between the Chairman and the Chief Executive Officer, and all of them are free to make independent judgments.

Corporate Governance Report

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

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 financial and operation results, and consider and approve the overall strategy and policies of the Company.

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

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

In 2007, the Board held four meetings and passed two written resolutions. For the resolutions on matters like the Share Appreciation Rights Scheme and the connected transactions regarding the acquisition of the Target Business of 13 provinces from the controlling shareholder of the Company, China Telecommunications Corporation, directors with conflict of interests had abstained from voting.

Individual attendance of each Board meetings and committee meetings in 2007 is as follows (including attendances by written proxies):

	Attendance in 2007/ Meetings convened during period of appointment					
	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	Non-competition Undertaking Review Committee	Right of First Refusal and Priority Right Committee
Executive Directors						
Li Ping *(Vice Chairman)*	4/4					
Zhang Zhiyong (appointed on 12 December 2007)	1/1					
Yuan Jianxing (appointed on 12 December 2007)	1/1					
Non-executive Directors						
Wang Xiaochu *(Chairman)*	4/4					
Liu Aili	4/4					
Zhang Junan	3/4					
Independent Non-executive Directors						
Wang Jun	4/4			1/1		
Chan Mo Po, Paul	4/4	4/4	1/1		3/3	
Zhao Chunjun	4/4		1/1	1/1	3/3	2/2
Wu Shangzhi	4/4	4/4	1/1			2/2
Hao Weimin	4/4	4/4		1/1	3/3	2/2

Corporate Governance Report

Chairman and Chief Executive Officer

In 2007, the roles of the Chairman and the Chief Executive Officer of the Company were segregated and held by Mr. Wang Xiaochu and Mr. Li Ping, respectively. Mr. Wang Xiaochu is responsible for overseeing the operations of the Board and formulating the overall strategies and policies of the Company. Mr. Li Ping, is responsible for the day-to-day management and overall operations of the Group.

Non-executive Directors

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

Board Committees

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

In 2007, the Board approved the respective articles of association for the five Board Committees, and specified their written terms of reference and charters.

Audit Committee

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

In 2007, the Audit Committee mainly approved resolutions on important matters such as the 2006 annual report and 2007 interim report, the report on internal control and risk management, the external audit work plan, the appointment of the independent auditors, connected transactions and the acquisition of the Target Business from the controlling shareholder of the Company, China Telecommunications Corporation. The Audit Committee also met with the external auditors independently 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. Wu Shangzhi (chairman), Mr. Chan Mo Po, Paul and Mr. Zhao Chunjun. The Remuneration Committee is mainly responsible for giving recommendation on the overall remuneration policies and structure of the directors and senior management to the Board.

In 2007, the Remuneration Committee mainly approved the "Share Appreciation Rights Scheme" and has given recommendations to the Board. All members of the Remuneration Committee had declared that they have no conflict of interests with the resolutions during their review.

Nomination Committee

The Nomination Committee consists of three independent non-executive directors: Mr. Zhao Chunjun (chairman), Mr. Wang Jun and Mr. Hao Weimin. The Nomination Committee is mainly responsible for reviewing the structure, size and composition of the Board and the skills, knowledge and experience of members of the Board, and recommending candidates to the Board in the event of Board vacancies and addition of board member. The selection criteria include the candidate's integrity, achievements and experience in the telecom industry, and relevant management skills and professional background, and the time he can dedicate to discharging his duties as a director, and to matters of the Company.

In 2007, the Nomination Committee mainly approved the resolutions on appointing Mr. Zhang Zhiyong and Mr. Yuan Jianxing as our new executive directors, and recommended their appointments to the Board.

Non-competition Undertaking Review Committee

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

In 2007, the Non-competition Undertaking Review Committee mainly reviewed the execution of non-competition undertaking by China Telecommunications Corporation and the supplementary agreement entered into after the acquisition of the Target Business from China Telecommunications Corporation.

The Company has received a letter issued to the Company by China Telecommunications Corporation stating that they were not in breach of any non-competition undertakings in 2007. The letter has been considered by the Non-competition Undertaking Review Committee and approved by the Board.

Right of First Refusal and Priority Right Committee

The Right of First Refusal and Priority Right Committee consists of three independent non-executive directors: Mr. Wu Shangzhi (chairman), Mr. Zhao Chunjun and Mr. Hao Weimin. The Right of First Refusal and Priority Right Committee is mainly responsible for monitoring the enforcement of the right of first refusal and priority right granted by China Telecommunications Corporation and protecting the interest of independent shareholders when such right of first refusal or the priority right is exercised.

In 2007, the Right of First Refusal and Priority Right Committee mainly reviewed and approved the exercise of rights concerning the acquisition of businesses of 13 provinces from China Telecommunications Corporation and has made recommendation to the Board.

Independent Board Committee

Pursuant to the requirements under the Listing Rules, the Board of the Company formed an Independent Board Committee on 22 May 2007, with members including all five independent non-executive directors of the Company. It was formed to provide its view and make a recommendation to the Independent Shareholders on the acquisition of the Target Business of 13 provinces from China Telecommunications Corporation and the related connected transactions.

Supervisory Committee

The Company has established a Supervisory Committee pursuant to the Company Law of the PRC. The Supervisory Committee consists of three members, of which Ms. Xia Jianghua is the chairperson, Mr. Hai Liancheng serves as the external independent supervisor, and Mr. Yan Dong serves as the staff representative supervisor. The supervisors are appointed for a term of three years and may serve consecutive terms if re-elected upon the expiry of the term. The Supervisory Committee is a standing supervisory institution of the Company and is accountable and reports to all the shareholders. The Supervisory Committee normally meets at least twice a year.

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

In 2007, the Supervisory Committee held two meetings, details of which are set out in the "Report of the Supervisory Committee" of this Annual Report.

Remuneration of the Auditors

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

Project	Fees (RMB'000)
Auditing services for the year ended 31 December 2007	30,000
Audit for acquisition of the Target Business of 13 provinces	16,800
Special dividend and profit distribution audit for 6 and 13 provincial subsidiaries	6,000
	52,800

Internal Control

The Board of the Company is granted full authority to maintain the soundness and effectiveness of the internal control system and risk management procedures of the Group, including setting a management structure and its terms of reference 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 against material misrepresentation or loss, and to manage and eliminate as far as possible any defects in the Group's operating system and the risk of failing to achieve its objectives.

Corporate Governance Report

The Group is committed to strengthen its internal control and risk management and has a sound internal control foundation. The Group proceeded to establish an internal control system, introduced the concept of comprehensive risk management pursuant to the requirements of the Stock Exchange on internal control and risk management, rationalized its internal organization structure and management structure. We also deployed officers-in-charge of risk management to our 19 provincial subsidiaries, and our provincial subsidiaries also designated officers-in-charge of risk management to their key professional subsidiaries. The Company paid particular attention to any possible risk exposure in conducting its monthly and quarterly operation analysis, and took corresponding measures and issued timely pre-warnings against certain material risks.

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

The Board considers that the implementation of the above measures is in compliance with the internal control requirements under C.2 of the Code Provisions and the internal control and risk management system was effective. In 2008, the Board intends to further improve and perfect its internal control and risk management with a view to achieve even greater enhancement of the work flow.

Information Disclosure and Investor Relations

The Company considers that timely, fair and accurate information disclosure is the basis for establishing sound investor relations. As such, the Company formulated and implemented the Information Disclosure Management Regulation (Provisional) to further improve the external information dissemination, especially in respect of important information such as price sensitive information and those related to annual reports and interim reports so as to ensure true, accurate, complete and timely information disclosure.

The Company has also established its website, http://www.chinaccs.com.hk, not only as a channel for information disclosure required by the Listing Rules but also as an important platform for investors to acquire information and news of the Company, so as to enhance the capital market's understanding of the Company.

The Company emphasizes establishing a close relationship with the capital market. In 2007, the Company communicated with investors and analysts in various ways. Among which, the Company has held two press conferences on results announcements and one press conference on the acquisition. The Company invited the media, investors and analysts to attend the conferences and answered their enquiries during the conferences. The Company has also arranged webcasting of these press conferences on its website to facilitate the dissemination of the relevant information. The Company has also organized three road shows in total in Hong Kong and Singapore, and participated in the investor conferences organized by major investment banks held in Beijing and Macau. Through two-way interactions such as the above activities and the daily meetings with investors and analysts, the Company is able to update and provide official information to the capital market, which can have a more accurate and comprehensive understanding on the industry environment, development strategies, business, financial and management aspects of the Company. Such interaction also helps the management of the Company to understand the public's views on its business development and strategies so as to improve its operations.

2006 Annual Result Announcement

Analyst Meeting relating to the acquisition of Target Business in 13 Provinces

In 2007, the Company joined the Hang Seng China Enterprises Index and MSCI China Index. In addition, our first annual report, 2006 annual report, also won the Bronze Award in the category of "Annual Report – Overall Presentation: Telecommunications" at the 21st Annual International Mercury 07/08 Awards, an internationally renowned competition. The award was an important recognition of our outstanding performance in corporate communications and our efforts in promoting proactive interactions with the capital market.

Human Resources Development

In 2007, the Company continued its human resources development based on the philosophy of staff welfare should be the concern of an enterprise and talents being essential to the success of an enterprise. We strived on enhancing a “one CCS” human resources management system, focusing on the customer and market, aiming at “controlling total headcounts, optimizing human resources structure, enhancing capability and motivating staff enthusiasm”, the Company advocated customer service culture, integrated its human resources, optimized its organizational structure and provided staff training to nurture talents, in order to provide a strong manpower support to realize its strategies and objectives.

• Basic Information on Employees

In 2007, the Company successfully acquired the specialized telecommunications support businesses of China Telecommunications Corporation in 13 provinces (municipality and autonomous regions) including Jiangsu, Anhui, Hunan, Jiangxi, Sichuan, Chongxing, Guizhou, Yunnan, Guangxi, Shaanxi, Gansu, Qinghai and Xinjiang. After the acquisition, there was an addition of 35,671 employees. By the end of 2007, the Company had a total of 106,931 employees, including 7,565 management staff, 35,656 technical and marketing personnel, and 63,710 operational personnel.

• Strengthened Organizational and Human Resources Integration to Improve Overall Efficiency

According to its overall strategies and objectives, the Company deepened its business reorganization, and further reduced the number of its subsidiaries. The total number of headcount was stringently under control and effective integration of employees from the newly acquired subsidiaries was achieved. The Company focuses on its customers, and established a three-tier customer service and sales and marketing teams, and established an overseas development team to further expand the overseas markets. The Company has perfected its business and management processes which further enhanced the operational efficiency and core competitiveness.

• Controlled Total Headcount and Optimized Human Resources Structure

The Company limited the headcount at its provincial companies and the total headcount has been reduced by 2.5%. On the other hand, the Company recruited approximately 300 marketing, customer services staff and graduates with a master degree or above. This has enriched our personnel resources. The Company has further optimized its human resources structure through strengthening its performance review and appraisal system and establishing an innovative employee utilization and redeployment system.

- ## Enhanced Performance Appraisal System and Established a Sound Remuneration Incentive Mechanism

  The Company has improved its performance appraisal and incentive mechanism based on its key strategies. The Company has set up key performance appraisal indicators and established a performance appraisal system to cater for different levels of positions. The remuneration mechanism and allocation structure have been improved based on the concept "remuneration is based on contribution". The Company has adjusted its remuneration incentives for different level of employees. The management is provided with middle and long-term incentives such as annual incentives and share appreciation rights. The operating results of the management are closely linked to the share appreciation rights so that the Company shares its interests with its shareholders.

- ## Improved Training Program and Enhanced Employees Competence

  The Company has established a three-tier training system, namely trainings at the headquarters, provincial companies and professional companies, offering various training programs to the employees to improve their capabilities, and the Company's management standard and services capability. Management in various provinces has been sent in two batches to Hong Kong for training which mainly includes listing related finance and management. In view of the practical requirements, various provincial companies have respectively organized several training programs for operation and management, 3G knowledge and technology. The Company has fully utilized its parent company's online university to provide self-training for the employees which facilitates the development of both the Company and its employees.

- ## Care for Employees and Develop a Harmonious Environment

  In 2007, the Group attached great importance to safety production environment for the employees. The health and safety of the employees were effectively safeguarded.

Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of China Communications Services Corporation Limited (the "Company") for the year 2007 will be held at 10:00 am on 13 June 2008 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 auditor for the year ended 31 December 2007 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 2008;

2. **THAT** the profit distribution proposal and the declaration and payment of dividend for the year ended 31 December 2007 be considered and approved;

3. **THAT** the reappointment of KPMG and KPMG Huazhen as the international auditor and domestic auditor of the Company, respectively for the year ending 31 December 2008 be considered and approved, and the Board be authorized to fix the remuneration of the auditors;

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

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

SPECIAL RESOLUTIONS

4. **THAT** the Charter for the Supervisory Committee of the Company be considered and approved;

5. **THAT** the articles of association of the Company (the "Articles of Association") be amended as follows:

   (1) Article 1.4 of the Articles of Association shall be deleted in its entirety and be restated as follows:

   "The legal representative of the Company is the Chairman of the board of directors."

(2) Article 8.25 of the Articles of Association shall be deleted in its entirety and be restated as follows:

"Shareholders' general meeting shall be convened and chaired by the Chairman of the board of directors. If the Chairman of the board is unable to attend the meeting for any reason, the board of directors may designate a director to convene and chair the meeting. If no chairman of the meeting has been so designated, shareholders present at the meeting shall choose one person to act as the chairman of the meeting. If for any reason, the shareholders fail to elect a chairman, then the shareholder (including a proxy) holding the greatest number of voting shares carrying the voting right at the meeting shall be the chairman of the meeting."

(3) Article 10.1 of the Articles of Association shall be deleted in its entirety and be restated as follows:

"The Company shall have a board of directors, which is accountable and reports to the shareholders' general meeting. The board of directors shall consist of 11 directors, including 1 Chairman and 5 independent (non-executive) directors.

The Company can have a position of Honorary Chairman, which should be taken up by a famous person with reputation in the industry. Honorary Chairman is not a member of the board of directors and does not have any power or right to vote on any matters considered by the board of directors."

(4) Rule (9) of Article 10.3 of the Articles of Association shall be deleted in its entirety and be restated as follows:

"to appoint or remove the general manager and the chief financial officer of the Company, to appoint or remove the deputy general managers and the finance director of the Company based on the recommendations of the general manager, and to decide their remuneration;"

(5) Article 13.1 of the Articles of Association shall be deleted in its entirety and be restated as follows:

"The Company shall have a general manager (i.e, a president), and a chief financial officer, who shall be appointed or dismissed by the board of directors."

(6) Any one of the Directors of the Company be hereby authorized to take all such actions he deems necessary or appropriate to complete approval and/or registration or filing of the aforesaid amendments to the Articles of Association.

Notice of the Annual General Meeting

6. **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 ("Shares") 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 authorise the Board during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

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

(d) for the purpose of this special resolution 6:

"Relevant Period" means the period from the passing of special resolution 6 until the earliest of:

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

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

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

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

7. **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 6, and to make such appropriate and necessary amendments to the Articles of Association as they think fit to reflect such increases in the registered capital of the Company and to take any other action and complete any formality required to effect such increase of the registered capital of the Company.

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

Beijing, PRC
25 April 2008

Notes:

(1) In relation to resolution 4, the details of the Charter for Supervisory Committee of China Communications Services Corporation Limited are set out in the appendix of the notice. As the Charter only exists in Chinese, the Chinese text of the proposed resolution shall prevail over the English text.

(2) With regards to resolution 5 above, as the corporate governance structure of the Company was changed, Article 1.4, Article 8.25, Article 10.1, Rule (9) of Article 10.3 and Article 13.1 of the Articles of Association have to be restated accordingly. According to the Articles of Association and the relevant rules and regulations, the proposed amendments are subject to the approval of the shareholders by way of special resolutions at the shareholders' general meeting. As the Articles of Association only exist in Chinese, the Chinese text of the proposed resolution shall prevail over the English text.

(3) Buyers who submit the share transfer application forms to the Company's share registrar before 4:30 pm on 13 May 2008 (Tuesday) and then register as shareholders on the register of members of the Company are entitled to attend the annual general meeting.

(4) 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 2007, which is expected to be despatched to shareholders around 25 April 2008 (Friday).

Notice of the Annual General Meeting

(5) To be valid, the form of proxy together with the power of attorney or other authorisation 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
1806-1807, 18/F., Hopewell Centre
183 Queen's Road East, Wanchai, Hong Kong.

(6) A proxy of a shareholder may vote by hand or vote on a poll, but a proxy of a shareholder who has appointed more than one proxy may only vote on a poll.

(7) 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 23 May 2008 (Friday).

(8) Closure of the register of members:

The register of members of the Company will be closed from 14 May 2008 (Wednesday) to 13 June 2008 (Friday) (both days inclusive).

(9) 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.

(10) 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

Appendix

Charter for Supervisory Committee of China Communications Services Corporation Limited (Draft)

Chapter 1 **General Provisions**

Article 1 The Charter for the Supervisory Committee ("the Charter") of China Communications Services Corporation Limited (the "Company") is adopted to protect legitimate interests of the Company and shareholders, and to regulate the structure and behaviors of the Supervisory Committee (the "Committee") pursuant to the Company Law of People's Republic of China (the "Company Law"), and other applicable laws and regulations, as well as the Articles of Association of the Company ("Articles of Association").

Article 2 The Committee shall be responsible to the shareholders, oversee the financial system and oversee the performance of the directors, general managers and other senior officers, and safeguard legitimate interests of the Company and shareholders.

Article 3 The supervisors shall loyally perform the oversight duties pursuant to applicable laws, regulations and the Articles of Association.

Article 4 The Company shall provide the Supervisors with necessary information and materials for supervisors to perform their duties. The supervisors shall independently perform duties set out in applicable laws, regulations and the Articles of Association. The Company shall provide for appropriate funding for the expenses and reasonable costs incurred by the Committee in performing its duties.

Chapter 2 **Supervisors**

Article 5 The supervisors shall, among others, be legally literate and have experience in management, accounting and auditing.

Article 6 The following persons shall not serve as the supervisor of the Company:

(1) a person who does not have or who has limited capacity for civil conduct;

(2) a person who has been sentenced for corruption, bribery, infringement of property or misappropriation of property or other crimes which disrupt the social economic order, in which case less than a term of five years has lapsed since the sentence was served, or a person who has been deprived of his political rights and not more than five years have lapsed since the sentence was served;

(3) a person who was a former director, factory manager or manager of a company or enterprise which became bankrupt and has been liquidated as a result of mismanagement and who was personally liable for such bankruptcy, in which case less than three years have elapsed since the date of completion of such liquidation of the company or enterprise;

(4) a person who was a legal representative of a company or enterprise the business license of which was revoked due to violation of law and who was personally liable therefor, in which case less than three years have elapsed since the date of the revocation of the business license;

(5) a person who has a large amount of debt overdue;

(6) a person who is currently under investigation by judicial body for violation of criminal law;

(7) a person who, according to laws and regulations, cannot act as a leader of an enterprise;

(8) a person other than a natural person;

(9) a person who was convicted by competent authority for violating applicable securities regulations and such conviction involves a finding that such person acted fraudulently or dishonestly, in which case less than five years have elapsed since the date of such conviction.

Article 7 The supervisors shall abide by provisions of applicable laws, regulations and the Articles of Association, and perform the obligations of integrity and diligence.

Article 8 The supervisors shall not disclose the secrets of the Company, unless legally mandated or required by the Articles of Association.

Article 9 The supervisors shall not take the advantage of his or her position in the Company to seek for personal benefits, take bribes or other illegal compensation, and shall not appropriate any property of the Company.

Article 10 Each supervisor shall serve a term of 3 years, which term is renewable upon re-election.

Article 11 Any supervisor causing any loss to the Company as a result of his or her violation of applicable laws, regulations and the Articles of Association when performing duties shall be liable for the Company.

Article 12 The supervisors may resign prior to the expiry of the current term, provided that the resignation of any supervisor elected on the general shareholders meeting is subject to the approval thereof, and the resignation of any supervisor elected by employees shall be approved pursuant to the employee election procedures of the Company. Any supervisor causing any loss to the Company as a result of his or her unapproved resignation shall be liable for the Company.

Article 13 Any supervisor absent on two consecutive Committee meetings shall be deemed as incapable of performing his or her duty, in which case the Committee shall recommend the shareholders' general meeting or employee representative meeting to remove this supervisor.

Chapter 3 Constituents and Functions of Committee

Article 14 The Committee shall comprise 3 supervisors, including 1 external supervisor. Any supervisor elected by the shareholders shall be replaced on the shareholders' general meeting, while any supervisor elected by the employees shall be replaced by employees through election procedure.

Article 15 The Committee shall have 1 chairperson, who shall organize the implementation of the duties of the Committee. The appointment and removal of the chairperson of the Committee shall be determined by two-thirds of the voting rights held by the supervisors.

Article 16 The Committee may set up an office responsible for day-to-day work of the Committee.

Article 17 The Committee shall exercise the following functions and powers in accordance with law:

(1) to review the Company's financial position, to request information from relevant departments and personnel of the Company, and to inspect financial documents and relevant information of subsidiaries of the Company;

(2) to supervise directors, managers and other senior officers who violate laws, regulations and the Articles of Association in performing their duties;

(3) to require directors, managers and other senior officers of the Company to rectify their violations of laws, regulations or the Articles of Association or their behavior which impairs the interests of the Company; to report to the board of directors, shareholders' general meeting, securities regulatory body and other relevant authorities where necessary;

(4) to check the financial information, including report to be submitted by the board of directors to the shareholders' general meeting, business report and profit distribution plan, and retain certified accountant and auditor for review in case of doubt on behalf of the Company;

(5) to propose to convene an extraordinary shareholders' general meeting;

(6) to negotiate with, or bring actions against, a director on behalf of the Company;

(7) Other functions and powers set forth in the Articles of Association.

The supervisors shall attend the board meeting as non-voting representatives.

Article 18 The Committee's oversight records of directors, mangers and other senior officers, as well as the conclusion of financial or other special examination shall constitute major basis for their performance evaluation.

Chapter 4 Convening and Attendance of Committee Meeting

Article 19 The Committee meeting shall be held at least twice a year and shall be convened by the chairperson of the Committee.

Article 20 In case that the chairperson is unable to convene the meeting under specific circumstances, the chairperson shall delegate a supervisor to perform the duty on his or her behalf.

Article 21 The written notice of the Committee meeting shall be distributed to all supervisors 10 days prior to the meeting, and the notice shall include:

(1) the date of the meeting;

(2) the venue of the meeting;

(3) the subject matters of the meeting;

(4) the date of the notice.

Article 22 The Committee shall notify all supervisors of the date of the meeting in accordance with the provisions, and provide them with adequate materials, including background introduction of the subject matters, any information as well as data which can facilitate the supervisors to understand the business development of the Company.

Article 23 Any Committee meeting shall not be valid unless it is attended by more than two-thirds of the supervisors.

Notice of the Annual General Meeting

Article 24 The supervisors are obligated to attend the Committee meeting in person. Where a supervisor is unable to attend a meeting for any reason, he or she may be a written power of attorney appoint another supervisor to attend the meeting on his or her behalf. The power of attorney shall set out the name of the authorized person, the scope and the term of the authorization, and shall be signed or stamped by the authorizing supervisor. The authorized supervisor shall exercise the power as authorized. Any supervisor who failed to attend, and failed to authorize a representative to attend, the meeting, shall be deemed that he or she has abandoned the voting right.

Chapter 5 Agenda and Proposals of Committee Meeting

Article 25 The proposal of the Committee shall:

(1) be in compliance with laws, regulations and the Articles of Association, within the business scope of the Company and functions of the Committee;

(2) be in the interests of the Company and shareholders;

(3) have specific topics and matters;

(4) be submitted in writing.

Article 26 The agenda of the Committee meeting shall be determined by the chairperson. Except for the proposals, the Committee may determine new proposals during the meeting as the case may be. Where any new proposal is determined, the Committee shall provide adequate materials, including background introduction of the proposals, any information and data which can facilitate the supervisors to understand the business development of the Company.

Article 27 The supervisors shall submit to the office of the Committee any proposal or subject matter for discussion on Committee meeting prior to the meeting, and the chairperson shall determine whether to include them in the agenda. If the chairperson determines that some proposal shall not be included, he or she shall provide reasons therefor on the meeting. Any proposal to be included in the agenda shall be subject to procedures prescribed in article 25(2).

Chapter 6 Voting and Resolution of Committee Meeting

Article 28 The voting of the Committee meeting is by show of hands with each supervisor having one vote.

Article 29 The Committee shall vote on the proposals included in the agenda item by item.

Article 30 No resolution of the Committee shall take effect unless approved by two-thirds of the voting rights. The resolution shall be in writing.

Article 31 The Committee may make proposal to the board of directors or the shareholders' general meeting, which shall be implemented by the board of directors via organizing relevant departments. The chairperson of the Committee or the supervisor designated by the Committee shall supervise the implementation of the Committee resolutions. The chairperson of the Committee or the supervisor designated by the Committee shall record the resolution implementation progress, and report to the Committee.

Article 32 The supervisors shall execute the resolutions of the Committee.

Article 33 The supervisors shall be responsible for any resolutions of the Committee.

Article 34 The Committee shall report to the annual general meeting the work performance of the current term, including the number of meetings, meeting themes, and the Committee shall provide independent opinion on the following matters:

(1) Legitimate operation of the Company, including the legality of decision-making procedures, adequacy of internal control procedures, any violations of laws, regulations, the Articles of Association or impairment of corporate interests by directors and managers in performing their duties;

(2) Financial condition of the Company, including the audit opinion issued by the accountant firm and their opinions on relevant matters, and the opinions on whether the financial statements have fairly reflected the financial conditions and results of operation of the Company;

(3) Use of proceeds, including whether the actual use of proceeds is consistent with the committed use of proceeds, and whether the procedure to revise the use of proceeds complies with law;

(4) Major acquisition and assets restructuring projects, including the rationality of the price, any existence of insider trading, or impairment of interests of some shareholders or loss of corporate assets;

(5) Connected party transactions, including whether the price is fair and whether there is any act impairing the corporate interests.

Chapter 7 Minutes of Committee Meeting

Article 35 Minutes shall be kept during the Committee meetings and shall be signed by the attending supervisors and the recorders. The attending supervisor may request descriptive information on his or her speech to be recorded on the minutes.

Article 36 The minutes of the Committee meeting shall state:

(1) Meeting date, venue and the person's name who calls for the meeting;

(2) Names of attending supervisors and proxy supervisors (agent);

(3) Agenda;

(4) Key points of speeches;

(5) Voting manner and result of each voting item (affirmative votes, veto votes or waiving votes).

Article 37 The minutes of Committee meetings shall be true and complete, and be kept properly as important archives of the Company and major basis of supervisor liabilities for future reference.

Article 38 The minutes of the Committee meetings shall be kept by the office of the Committee.

Notice of the Annual General Meeting

Chapter 8	**Supplementary**
Article 39	Any matter not provided herein shall be pursuant to applicable laws and regulations, and the Articles of Association.
Article 40	In case of any inconsistency between this Charter and provisions of the Company Law, other applicable laws and regulations, other regulatory documents and the Articles of Association, the provisions of the latter shall prevail.
Article 41	This Charter, and any amendment thereof, shall take effect upon the approval of the shareholders' general meeting.
Article 42	This Charter shall be interpreted by the Committee of the Company.

Independent Auditor's Report

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

We have audited the consolidated financial statements of China Communications Services Corporation Limited (the "Company") set out on pages 91 to 186, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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

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 2007 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

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

8 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

(Expressed in Renminbi)

	Note	**2007 RMB'000**	2006 RMB'000 (restated – note 1c)
Revenues	4	**23,538,381**	19,312,732
Cost of revenues	5	**(19,473,632)**	(15,745,797)
Gross profit		**4,064,749**	3,566,935
Other operating income	6	**341,485**	196,681
Selling, general and administrative expenses		**(2,794,662)**	(2,476,881)
Other operating expenses	7	**(12,579)**	(28,350)
Deficit on revaluation of property, plant and equipment	17(b)	**–**	(135,629)
Net financing income	8	**41,682**	87,315
Share of profits less (losses) of associates		**3,575**	(14)
Negative goodwill	9	**–**	4,039
Profit before tax	10	**1,644,250**	1,214,096
Income tax	11	**(461,056)**	(374,614)
Profit for the year		**1,183,194**	839,482
Attributable to:			
Equity shareholders/owner		**1,167,247**	816,754
Minority interests		**15,947**	22,728
Profit for the year		**1,183,194**	839,482
Final dividend	15(a)	**371,348**	–
Basic and diluted earnings per share (RMB)	16	**0.214**	0.201

The notes on pages 99 to 186 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2007

(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Non-current assets			
Property, plant and equipment, net	17	**3,371,755**	2,997,587
Investment properties	18	**644,722**	445,518
Construction in progress	19	**228,174**	292,043
Lease prepayments	20	**371,799**	155,411
Intangible assets	21	**80,094**	45,312
Interests in associates	23	**11,064**	9,367
Other investments	24	**307,971**	173,553
Deferred tax assets	25	**96,371**	107,180
Total non-current assets		**5,111,950**	4,225,971
Current assets			
Inventories	26	**1,035,761**	980,230
Accounts and bills receivable, net	27	**6,627,607**	5,804,769
Prepayments and other current assets	29	**2,181,571**	2,116,936
Restricted deposits	30	**251,128**	–
Cash and cash equivalents	31	**6,632,252**	8,163,755
Total current assets		**16,728,319**	17,065,690
Total assets		**21,840,269**	21,291,661
Current liabilities			
Interest-bearing borrowings	32	**2,560,256**	157,700
Accounts and bills payable	33	**4,686,643**	4,182,105
Receipts in advance for contract work		**520,725**	680,048
Accrued expenses and other payables	34	**4,223,476**	3,652,347
Income tax payable		**198,360**	224,166
Total current liabilities		**12,189,460**	8,896,366
Net current assets		**4,538,859**	8,169,324
Total assets less current liabilities		**9,650,809**	12,395,295

	Note	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Non-current liabilities			
Long-term borrowings, less current portion	32	**960**	13,000
Deferred tax liabilities	25	**11,641**	18,473
Non-current liabilities		**12,601**	31,473
Total liabilities		**12,202,061**	8,927,839
Equity			
Share capital	35	**5,444,986**	5,444,986
Reserves		**4,115,792**	6,772,127
Equity attributable to equity shareholders of the Company		**9,560,778**	12,217,113
Minority interests		**77,430**	146,709
Total equity		**9,638,208**	12,363,822
Total liabilities and equity		**21,840,269**	21,291,661

Approved and authorised for issue by the Board of Directors on 8 April 2008

Li Ping
Vice Chairman of the Board
Executive Director and Chief Executive Officer

Yuan Jianxing
Executive Director
Executive Vice President and Chief Financial Officer

The notes on pages 99 to 186 form part of these financial statements.

Balance Sheet

As at 31 December 2007

(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment, net	17	**108**	9
Investments in subsidiaries	22	**9,479,781**	5,373,776
Total non-current assets		**9,479,889**	5,373,785
Current assets			
Prepayments and other current assets	29	**641,481**	2,360
Cash and cash equivalents	31	**156,924**	3,150,555
Total current assets		**798,405**	3,152,915
Total assets		**10,278,294**	8,526,700
Current liabilities			
Interest bearing borrowings	32	**1,600,000**	–
Accrued expenses and other payables	34	**76,942**	54,780
Total current liabilities		**1,676,942**	54,780
Net current (liabilities)/assets		**(878,537)**	3,098,135
Total assets less current liabilities		**8,601,352**	8,471,920
Total liabilities		**1,676,942**	54,780
Equity			
Share capital	35	**5,444,986**	5,444,986
Reserves		**3,156,366**	3,026,934
Total equity		**8,601,352**	8,471,920
Total liabilities and equity		**10,278,294**	8,526,700

Approved and authorised for issue by the Board of Directors on 8 April 2008

Li Ping	**Yuan Jianxing**
Vice Chairman of the Board	*Executive Director*
Executive Director and Chief Executive Officer	*Executive Vice President and Chief Financial Officer*

The notes on pages 99 to 186 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

(Expressed in Renminbi)

		Equity attributable to equity shareholders of the Company											
	Note	Share capital RMB'000	Share premium RMB'000	Capital reserve (note j) RMB'000	Revaluation reserve RMB'000	Statutory surplus reserve (note i) RMB'000	Fair value reserve (note k) RMB'000	Exchange reserve (note l) RMB'000	Other reserve RMB'000	Retained earnings/ shareholder's equity RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
Balance as at 1 January 2006, as previously reported		–	–	–	–	–	–	–	–	6,772,775	6,772,775	520,421	7,293,196
Adjusted for acquisition of Target Business – (as defined in note 1c)	1(c)	–	–	–	–	–	–	–	2,515,137	–	2,515,137	141,219	2,656,356
Balance as at 1 January 2006, restated		–	–	–	–	–	–	–	2,515,137	6,772,775	9,287,912	661,640	9,949,552
Balance as at 1 January 2006		–	–	–	–	–	–	–	2,515,137	6,772,775	9,287,912	661,640	9,949,552
Contributions	(a)	–	–	–	–	–	–	–	–	906,013	906,013	388	906,401
Acquisition of minority interest through acquisition from CTC – (as defined in note 1b)		–	–	–	–	–	–	–	–	413,980	413,980	(413,980)	–
Profit distributions	(b)	–	–	–	–	–	–	–	–	(896,720)	(896,720)	(122,873)	(1,019,593)
Distributions	(c)	–	–	–	–	–	–	–	–	(1,123,087)	(1,123,087)	(1,194)	(1,124,281)
Net assets distributed to CTC (as defined in note 1) in connection of Restructuring	(e)	–	–	–	–	–	–	–	–	(1,660,674)	(1,660,674)	–	(1,660,674)
Recognition of deferred tax assets	25	–	–	–	–	–	–	–	25,824	–	25,824	–	25,824
Revaluation of property, plant and equipment	17(b)	–	–	–	415,557	–	–	–	–	–	415,557	–	415,557
Capitalisation upon legal establishment of the Company	1	3,960,000	–	1,413,776	–	–	–	–	–	(4,384,991)	988,785	–	988,785
Issuance of shares upon public offering	(h)	1,484,986	1,807,727	–	–	–	–	–	–	–	3,292,713	–	3,292,713
Share issue expenses	(h)	–	(249,944)	–	–	–	–	–	–	–	(249,944)	–	(249,944)
Transfer from retained earnings to other reserve		–	–	–	–	–	–	–	116,235	(116,235)	–	–	–
Profit for the year		–	–	–	–	–	–	–	–	816,754	816,754	22,728	839,482
Appropriation	(i)	–	–	–	–	5,538	–	–	–	(5,538)	–	–	–
Balance as at 31 December 2006		5,444,986	1,557,783	1,413,776	415,557	5,538	–	–	2,657,196	722,277	12,217,113	146,709	12,363,822
Balance as at 1 January 2007		**5,444,986**	**1,557,783**	**1,413,776**	**415,557**	**5,538**	**–**	**–**	**2,657,196**	**722,277**	**12,217,113**	**146,709**	**12,363,822**
Consideration for the acquisition of the Target Business (as defined in note 1c)	(1c)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,656,774)**	**–**	**(3,656,774)**	**–**	**(3,656,774)**
Contributions	(a)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**709,540**	**–**	**709,540**	**–**	**709,540**
Acquisition of minority interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**67,723**	**–**	**67,723**	**(67,723)**	**–**
Profit distributions	(b)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(62,680)**	**(62,680)**	**(5,911)**	**(68,591)**
Distributions	(d)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(260,084)**	**–**	**(260,084)**	**–**	**(260,084)**
Recognition of deferred tax assets	25	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**22,454**	**–**	**22,454**	**–**	**22,454**
Transfer from retained earnings to other reserve	(f)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**12,113**	**(12,113)**	**–**	**–**	**–**
Transfer from other reserve to capital reserve	(g)	**–**	**–**	**(496,110)**	**–**	**–**	**–**	**–**	**496,110**	**–**	**–**	**–**	**–**
Distribution of special dividend	15(b) and (c)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(720,247)**	**(720,247)**	**(11,592)**	**(731,839)**
(Recognition)/reversal of deferred tax liabilities	25	**–**	**–**	**–**	**–**	**–**	**(11,641)**	**–**	**18,473**	**–**	**6,832**	**–**	**6,832**
Change in fair value of available-for-sale securities	(k)	**–**	**–**	**–**	**–**	**–**	**72,716**	**–**	**–**	**–**	**72,716**	**–**	**72,716**
Exchange differences on translation of financial statement of a subsidiary in Hong Kong	(l)	**–**	**–**	**–**	**–**	**–**	**–**	**(3,062)**	**–**	**–**	**(3,062)**	**–**	**(3,062)**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,167,247**	**1,167,247**	**15,947**	**1,183,194**
Appropriation	(i)	**–**	**–**	**–**	**–**	**92,288**	**–**	**–**	**–**	**(92,288)**	**–**	**–**	**–**
Balance as at 31 December 2007		**5,444,986**	**1,557,783**	**917,666**	**415,557**	**97,826**	**61,075**	**(3,062)**	**66,751**	**1,002,196**	**9,560,778**	**77,430**	**9,638,208**

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

(Expressed in Renminbi)

Notes:

(a) The capital contributions during the years ended 31 December 2006 and 2007 represent the injection of cash and other assets, including property, plant and equipment and the increase in shareholdings in the subsidiaries.

(b) Profit distributions represent the appropriation made and dividend declared by certain subsidiaries of the Group prior to the establishment of the Company and the acquisition of the Target Business.

(c) The distributions during the years ended 31 December 2006 represent the reduction in capital of certain subsidiaries and distributions of cash and other assets, including property, plant and equipment by certain subsidiaries upon transformation into limited liability companies.

(d) The distributions represent the reduction in capital of certain entities included in the Target Business and distribution of cash and other assets, including property, plant and equipment prior to the completion of the acquisition of the Target Business.

(e) Pursuant to the Restructuring (as defined in note 1(b)), certain assets and liabilities of the Predecessor Operations were not transferred to the Group and were reflected as distributions to the then owner in the consolidated statement of changes in equity for the year ended 31 December 2006.

(f) Transfer from retained earnings to other reserve represents the net profit of the Target Business for the period from 1 January 2007 to 31 January 2007. The net profit of the Target Business for the period from 1 February 2007 to 31 August 2007 has been distributed to CTC and its subsidiaries (see note 15(b)).

(g) Transfer from other reserve to capital reserve represents the difference between the consideration for the acquisition of the Target Business and the net assets value of the Target Business.

(h) 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.

(i) Statutory surplus reserve

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

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

For the year ended 31 December 2007, the Company transferred RMB 92,288,000 being 10% of the current year's net profit as determined in accordance with the PRC Accounting Rules and Regulations, to this reserve.

(j) Capital reserve

The capital reserve represents the difference between the total amount of the par value of shares issued and the amount of the net assets transferred from CTC, Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation upon the formation of the Company. Then, the capital reserve was net off by the difference between the consideration for the acquisition of Target Business and the net assets value of the Target Business (see note (g)).

(k) Fair value reserve

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

(l) Exchange reserve

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

The notes on pages 99 to 186 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Operating activities			
Profit before tax		**1,644,250**	1,214,096
Adjustments for:			
– Depreciation and amortisation		**508,249**	532,155
– (Write back) of/charge for impairment losses for accounts and other receivable		**(11,274)**	28,710
– Impairment losses on property, plant and equipment		**–**	4,800
– Impairment losses on inventories		**1,456**	4,795
– Interest income		**(119,396)**	(123,201)
– Finance costs		**52,792**	27,869
– Share of profits less losses of associates		**(3,575)**	14
– Negative goodwill		**–**	(4,039)
– Dividend income		**(39,629)**	(28,816)
– Gain on disposal of investments and held to maturity investment		**(53,237)**	(31,100)
– Impairment losses on investments		**–**	240
– Gain on disposal of property, plant and equipment and other assets		**(129)**	(3,732)
– Deficit on revaluation of property, plant and equipment		**–**	135,629
– Change in fair value of derivative financial asset		**9,461**	–
– Exchange differences		**15,461**	–
– Write off of non-payable liabilities		**(11,623)**	(6,920)
Operating profit before changes in working capital		**1,992,806**	1,750,500
Increase in inventories		**(59,500)**	(368,445)
Increase in accounts and bills receivable		**(815,941)**	(880,536)
Increase in prepayments and other current assets		**(332,625)**	(307,789)
Increase in accounts and bills payable		**508,569**	1,289,255
Decrease in receipts in advance for contract work		**(159,286)**	(387,653)
Increase/(decrease) in accrued expenses and other payables		**911,699**	(134,210)
Net cash inflow from operations		**2,045,722**	961,122
Interest paid		**(50,258)**	(26,655)
Interest received		**120,337**	69,704
Income tax paid		**(452,025)**	(579,717)
Cash generated from operating activities		**1,663,776**	424,454

Consolidated Cash Flow Statement

For the year ended 31 December 2007

(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Investing activities			
Payments on acquisition of property, plant and equipment and other assets		**(623,564)**	(1,399,087)
Proceeds from disposal of property, plant and equipment and other assets		**73,549**	301,684
Net cash inflow arising from acquisition of subsidiaries	38(a)	**–**	16,139
Payments for acquisition of investments		**(193,188)**	(13,784)
Payments for acquisition of Target Business and assets		**(4,600,200)**	–
Proceeds from disposal of investments		**102,232**	263,441
Dividends received		**57,985**	29,970
Net cash used in investing activities		**(5,183,186)**	(801,637)
Financing activities			
Proceeds from bank and other loans		**4,142,839**	711,100
Repayments of bank and other loans		**(1,752,720)**	(694,445)
Dividends paid		**(643,830)**	(780,366)
Contributions from owner		**514,312**	1,602,420
Distributions to owner		**(53,353)**	(851,547)
Advances from owner and fellow subsidiaries		**–**	3,142,142
Net proceeds from issuance of new shares upon listing and interest income on subscription monies		**–**	455,766
Increase in restricted deposits		**(218,210)**	–
Net cash generated from financing activities		**1,989,038**	3,585,070
Net (decrease)/increase in cash and cash equivalents		**(1,530,372)**	3,207,887
Cash and cash equivalents at the beginning of year		**8,163,755**	4,955,868
Effect of foreign exchanges		**(1,131)**	–
Cash and cash equivalents at the end of year	31	**6,632,252**	8,163,755

For major non-cash transactions, please refer to note 38(b).

The notes on pages 99 to 186 form part of these financial statements.

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

(b) Organisation

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

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

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

1 Principal activities and organisation (Continued)

(b) Organisation (Continued)

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

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

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

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

In December 2006, the Company issued 1,291,293,000 H shares with a par value of RMB1.00 each, at a price of HK$2.20 per H share by way of an initial public offering (the "IPO") to Hong Kong and overseas investors. In connection with the IPO, 129,129,300 domestic state-owned shares of RMB1.00 each owned by CTC and its subsidiaries were converted into H shares and transferred to the National Council for Social Security Fund of the PRC ("SSF"). In December 2006, the Company also issued 193,693,000 H shares with a par value of RMB1.00 each, at a price of HK$2.20 per H share upon the exercise of the over-allotment option. In connection with the exercise of the over-allotment option, 19,369,300 domestic state-owned shares of RMB1.00 each owned by CTC and its subsidiaries were converted into H shares and transferred to SSF. A total of 1,633,484,600 H shares were listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

1 Principal activities and organisation (Continued)

(c) Basis of presentation

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 Intellingent Card System Co., Ltd. and Ningbo Public Information Industry Co., Ltd (the "Target Business") from CTC on 31 August 2007.

As the Target Business was under common control of CTC, the acquisition of the Target Business has been reflected in the accompanying consolidated financial statements as a combination of entities under common control and accounted for in a manner similar to pooling-of-interests. Accordingly, the assets and liabilities of the Target Business have been accounted for at historical costs and the consolidated financial statements of the Company prior to the foregoing acquisition have been restated to include the results of operations and assets and liabilities of the Target Business on a combined basis. The consideration paid by the Company for the acquisition of the Target Business has been accounted for as an equity transaction in the consolidated statement of changes in equity.

1 Principal activities and organisation (Continued)

(c) Basis of presentation (Continued)

The results of operations for the year ended 31 December 2006 and the financial conditions as at 31 December 2006 and the shareholders' equity as at 31 December 2006 and 1 January 2006 and the cashflow effect for the year ended 31 December 2006 previously reported by the Group and the Target Business and the combined amounts presented in the accompanying consolidated financial statements are set out below:

	The Group (as previously reported) RMB'000	Target Business (as previously reported) RMB'000	Combined adjustments RMB'000 (note i)	Combined RMB'000
Results of operations for the year ended 31 December 2006				
Revenues	14,182,800	5,129,932	–	19,312,732
Gross profit	2,759,204	1,105,547	(297,816)	3,566,935
Profit for the year	719,260	122,211	(1,989)	839,482
Basic earnings per share	0.172	–	–	0.201
Financial condition as at 31 December 2006				
Current assets	12,189,055	4,876,635	–	17,065,690
Total assets	15,331,380	5,975,081	(14,800)	21,291,661
Current liabilities	5,748,290	3,148,076	–	8,896,366
Total liabilities	5,748,290	3,179,549	–	8,927,839
Shareholders' equity as at 31 December 2006	9,583,090	2,795,532	(14,800)	12,363,822
Shareholders' equity as at 1 January 2006	7,293,196	2,675,189	(18,833)	9,949,552
Cash flow effect for the year ended 31 December 2006				
Cash generated from/(used in) operating activities	499,471	(75,017)	–	424,454
Net cash used in investing activities	(631,582)	(170,055)	–	(801,637)
Net cash generated from financing activities	3,517,224	67,846	–	3,585,070

1 Principal activities and organisation (Continued)

(c) Basis of presentation (Continued)

Note i:

Pursuant to the acquisition of the Target Business, the Group acquired the remaining equity interests in a non-wholly owned subsidiary held by the Target Business, which was reported as an interest in an associate included in the Target Business. Accordingly, adjustments have been made to take out the share of profit of the associate from the income statement of the Target Business and the interest in an associate from the balance sheet of the Target Business in Combination.

In addition, included in the combined adjustments is an adjustment of RMB297,816,000 in connection with the reclassification of certain personnel costs from selling, general and administrative expenses to cost of revenues to conform to the current year presentation.

2 Significant accounting policies

(a) Statement of compliance

These financial statements of the Company and the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board ("IASB"). IFRSs include all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and related interpretations. The financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. The adoption of these new and revised IFRSs would not result in substantial changes in the Group's accounting policies applied in these financial statements for the two years presented. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

A summary of the significant accounting policies adopted by the Group is set out below.

2 Significant accounting policies (Continued)

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2007 comprise the Group and its interest in associates.

The financial statements are prepared on the historical cost basis, except for the following:

– Property, plant and equipment (see note 17) is stated at its revalued amount (see note 2(g)).

– Derivative financial instruments are measured at fair value.

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

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

The accounting policies have been consistently applied by the Group and are consistent with those used in the previous year.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of 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 estimates with a significant risk of material adjustment in the next year are discussed in note 41.

2 Significant accounting policies (Continued)

(c) Basis of consolidation

(i) Subsidiaries and minority interests

Subsidiaries are those companies controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Group, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders/owner of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders/owner of the Company.

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

2 Significant accounting policies (Continued)

(c) Basis of consolidation (Continued)

(i) Subsidiaries and minority interests (Continued)

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 2(p) or (q) depending on the nature of the liability.

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

(ii) Associates

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

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in associates recognised for the year (see notes 2(d) and 2(l)).

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

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

2 Significant accounting policies (Continued)

(d) Goodwill

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

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2(l)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

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

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

(e) Other investments in debt and equity securities

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

Investments in debt and equity securities are initially stated at cost, 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:

Dated debt securities that the Group have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the consolidated balance sheet at amortised cost less impairment losses (see note 2(l)).

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

2 Significant accounting policies (Continued)

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

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is re-measured, with any resultant gain or loss being recognised directly in equity, 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 previously recognised directly in equity, is recognised in profit or loss.

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

(f) Investment properties

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

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

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

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

2 Significant accounting policies (Continued)

(g) Other property, plant and equipment

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

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

– other items of plant and equipment.

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

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

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

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

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

2 Significant accounting policies (Continued)

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

Subsequent to the revaluation which was required by PRC rules and regulations in connection with the Restructuring and which was based on depreciated replacement costs (note 17), property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation, less subsequent accumulated depreciation and impairment losses and any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. When an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs is revalued simultaneously. When an asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to equity as a component of revaluation reserve. However, a revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised as an expense in the consolidated income statement. However, a revaluation decrease is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation reserve in respect of that same asset. Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date.

(h) Construction in progress

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

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

2 Significant accounting policies (Continued)

(i) Lease prepayments

Lease prepayments represent land use rights paid to the PRC's governmental authorities. Land use rights are carried at cost and are charged to the consolidated income statement on a straight-line basis over the respective periods of the rights.

(j) Intangible assets (other than goodwill)

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

Amortisation of intangible assets with finite useful lives is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Intangible assets are amortised over 5 years to 10 years from the date they are available for use.

(k) Leased assets

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

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

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

2 Significant accounting policies (Continued)

(l) Impairment of assets

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

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

– For trade and other current receivables and other financial assets carried at cost or amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the consolidated income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in the consolidated income statement. The amount of the cumulative loss that is recognised in the consolidated income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the consolidated income statement.

Impairment losses recognised in the consolidated income statement in respect of available-for-sale equity securities are not reversed through the consolidated income statement. Any subsequent increase in the fair value of such assets is recognised directly in equity.

2 Significant accounting policies (Continued)

(l) Impairment of assets (Continued)

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

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

(ii) Impairment of other assets

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

– property, plant and equipment;

– investment properties;

– construction in progress;

– lease prepayments;

– intangible assets;

– investments in subsidiaries and associates;

– other investments stated at cost; and

– goodwill.

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

2 Significant accounting policies (Continued)

(l) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

(m) Inventories

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

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

2 Significant accounting policies (Continued)

(m) Inventories (Continued)

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

The accounting policy for contract revenue is set out in note 2(w)(i). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the consolidated balance sheet as the "Unbilled revenue for contract work" (as an asset) or the "Receipts in advance for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included in the consolidated balance sheet under "Accounts and bills receivable". Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as "Receipts in advance for contract work".

(o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(l)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(l)).

2 Significant accounting policies (Continued)

(p) Interest-bearing borrowings

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

(q) Trade and other payables

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

(r) Cash and cash equivalents

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

(s) Derivative financial instruments

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

(t) Employee benefits

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

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

2 Significant accounting policies (Continued)

(t) Employee benefits (Continued)

(ii) Share appreciation rights scheme

Compensation expense under the Group's share appreciation rights scheme is measured as the amount by which the quoted market price of the Company's H shares exceeds the exercise price. Compensation expense in respect of the share appreciation rights granted is accrued as a charge to the income statement over the applicable vesting period based on the fair value of the share appreciation rights. The liability of the accrued compensation expense is remeasured to fair value at each balance sheet date with the effect of changes in the fair value of the liability is charged or credited to the consolidated income statement. Further details of the Group's share appreciation rights scheme are set out in note 37.

(iii) Termination benefits

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

(u) Income tax

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

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

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

2 Significant accounting policies (Continued)

(u) Income tax (Continued)

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

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

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

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

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

2 Significant accounting policies (Continued)

(u) Income tax (Continued)

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

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

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

  - the same taxable entity; or

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

(v) Provisions and contingent liabilities

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

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

2 Significant accounting policies (Continued)

(w) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated income statement as follows:

(i) Contract revenue

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

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

(ii) Services rendered

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

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

(iii) Sales of goods

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

(iv) Rental income from operating leases

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

2 Significant accounting policies (Continued)

(w) Revenue recognition (Continued)

(v) Dividends

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

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

(vi) Interest income

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

(x) Government grants

Government grants are recognised in the consolidated balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in the consolidated income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted in arriving at the carrying amount of the asset and consequently are recognised in the consolidated income statement over the useful life of the asset.

(y) Translation of foreign currencies

The functional and presentation currency of the Group's is Renminbi ("RMB"). Foreign currency transactions during the year are translated into RMB at the applicable rates of exchange quoted by the People's Bank of China ("PBOC") prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into RMB at the applicable rates ruling at the balance sheet date. Foreign currency differences, other than those capitalised as construction in progress (see note 2(h)), are recognised as income or expense in the consolidated income statement.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into RMB at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which related to that foreign operation is included in the calculation of the profit or loss on disposal.

2 Significant accounting policies (Continued)

(z) Borrowing costs

Borrowing costs are expensed in the consolidated income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

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

(aa) Research and development costs

Research and development costs are recognised as expenses in the period in which they are incurred.

(bb) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group principally has one business segment and hence no segment information is provided (see note 43).

(cc) Dividends or profit distributions

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

(dd) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

2 Significant accounting policies (Continued)

(dd) Related parties (Continued)

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit or employees of the Group or of any entity that is a related party of the Group.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group.

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

3 Adoption of new/revised IFRSs

The IASB has issued a number of new and revised IFRSs and interpretations that are first effective or available for early adoption for the current accounting period of the group and the company.

There have been no significant changes to the accounting policies applied in these financial statements for the year presented as a result of these developments. However, as a result of the adoption of IFRS 7, Financial Instruments: Disclosure and the amendments to IAS 1, Presentations of Financial Statements, there have been some additional disclosures provided as follows:

As a result of the adoption of IFRS 7, the financial statements include expanded disclosure about the significance of the group's financial instruments and the nature and extent of risk arising from those instruments, compared with the information previously required to be disclosed by IAS 32, Financial Instruments: Presentation. These disclosures are provided throughout these financial statements, in particular in note 40.

3 Adoption of new/revised IFRSs (Continued)

The amendment to IAS 1 introduces additional disclosure requirements to provide information about the level of capital and the group's and the company's objectives, policies and processes for managing capital. These new disclosures are set out in note 35.

Both IFRS 7 and the amendment to IAS 1 do not have any material impact of the classification, recognition and the measurement of the amounts recognised in the financial instruments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 45).

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:

	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Revenue from telecommunications infrastructure services	**11,093,007**	10,941,175
Revenue from business process outsourcing services	**9,365,152**	6,167,397
Revenue from applications, content and others	**3,080,222**	2,204,160
	23,538,381	19,312,732

5 Cost of revenues

	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Depreciation and amortisation	**305,205**	326,673
Direct personnel costs	**4,556,857**	3,937,327
Operating lease charges	**359,896**	235,161
Purchase of materials and telecommunications products	**7,632,433**	5,712,317
Subcontracting charges	**4,577,237**	3,582,311
Others	**2,042,004**	1,952,008
	19,473,632	15,745,797

6 Other operating income

	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Dividend income from unlisted securities	**39,629**	28,816
Government grants	**66,914**	50,660
Net gain on disposal of investments	**52,250**	31,100
Net gain on disposal of property, plant and equipment	**129**	6,163
Net gain on disposal of held to maturity investment	**987**	–
Penalty income	**3,122**	3,362
Management fee income	**139,245**	45,104
Write-off of non-payable liabilities	**11,623**	6,920
Others	**27,586**	24,556
	341,485	196,681

7 Other operating expenses

	2007 **RMB'000**	2006 RMB'000 (restated – note 1c)
Impairment losses on other investments	**–**	240
Impairment losses on property, plant and equipment	**–**	4,800
Net loss on disposal of property, plant and equipment	**–**	2,431
Donation	**1,122**	2,008
Penalty charge	**4,399**	5,009
Others	**7,058**	13,862
	12,579	28,350

8 Net financing income

	2007 **RMB'000**	2006 RMB'000 (restated – note 1c)
Interest income	**119,396**	123,201
Net foreign exchange loss	**(15,461)**	(8,017)
Change in fair value of derivative financial asset	**(9,461)**	–
Interest on bank advances and other borrowings wholly repayable within five years	**(52,792)**	(27,869)
	41,682	87,315

For the years ended 31 December 2007 and 2006, no borrowing costs were capitalised in relation to construction in progress.

9 Negative goodwill

	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Negative goodwill arising from acquisition from minority interests	**–**	4,039

Negative goodwill has arisen on the acquisition as a result of gains from bargain purchases.

10 Profit before tax

		2007 RMB'000	2006 RMB'000 (restated – note 1c)
(a)	Staff costs:		
	Salaries, wages and other benefits	**5,522,727**	4,812,438
	Contributions to defined contribution retirement schemes	**509,294**	443,793
		6,032,021	5,256,231
(b)	Other items:		
	Depreciation and amortisation	**508,249**	532,155
	Auditors' remuneration	**30,000**	10,800
	Cost of inventories	**7,632,433**	5,712,317
	Impairment losses on accounts and other receivables	**28,048**	36,179
	Reversal of impairment losses on accounts and other receivables	**(39,322)**	(7,469)
	Operating lease charges	**452,882**	305,689
	Research and development costs	**22,136**	19,802
	Share of associates' taxation	**615**	487

11 Income tax

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

	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Current tax		
PRC enterprise income tax	**427,793**	394,439
Deferred tax		
Origination and reversal of temporary differences (note 25)	**33,263**	(19,825)
Total income tax	**461,056**	374,614

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

	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Profit before tax	**1,644,250**	1,214,096
Expected PRC enterprise income tax expense at a statutory tax rate of 33% (note (i))	**542,603**	400,652
Differential tax rates on subsidiaries' income (note (i))	**(163,010)**	(129,433)
Non-deductible expenses (note (ii))	**44,734**	130,412
Non-taxable income (note (iii))	**(32,328)**	(48,575)
Tax losses not recognised (note (iv))	**41,830**	21,558
Reversal of previously recognised tax losses (note (v))	**18,146**	–
Effect on opening deferred tax resulting from a reduction in PRC statutory tax rate (note (vi))	**9,081**	–
Income tax	**461,056**	374,614

11 Income tax (Continued)

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

Notes:

(i) The provision of PRC income tax of the Group is calculated based on a statutory rate of 33% of the assessable profit of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the years ended 31 December 2007 and 2006, except for certain subsidiaries of the Group, which are tax at preferential rates of 15%.

(ii) The amounts include personnel and other miscellaneous expenses in excess of statutory deductible limits for tax purpose. The amounts for the year ended 31 December 2006 also include the deficit on revaluation of property, plant and equipment.

(iii) Non-taxable income mainly represents dividend income and negative goodwill.

(iv) The amount includes deferred tax assets not recognised amounting to RMB Nil (2006: RMB4.8 million) in respect of the tax losses of the entities distributed to the then owner pursuant to the Restructuring.

(v) The amount represents the reversal of deferred tax assets relating to tax losses previously recognised as the Group reassessed and considered that future taxable income would not be sufficient for those tax losses to be utilised.

(vi) The amount represents tax effect on opening balances of deferred tax assets. On 16 March 2007, the Corporate Income Tax Law of the PRC ("new tax law") was passed by the Fifth Plenary Session of the Tenth National People's Congress and will take effect on 1 January 2008. According to the new tax law, except for certain subsidiaries of the Company which are taxed at preferential taxes, the enterprise income tax rate applicable to the Group is reduced from 33% to 25% from 1 January 2008.

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 2007 are as follows:

	Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000	Pension scheme contribution RMB'000	2007 Total RMB'000
Name of directors and supervisors					
Wang Xiaochu	–	–	–	–	–
Li Ping	–	–	–	–	–
Zhang Zhiyong (appointed on 12 December 2007)	–	–	–	–	–
Yuan Jianxing (appointed on 12 December 2007)	–	–	–	–	–
Liu Aili	–	–	–	–	–
Zhang Junan	–	–	–	–	–
Wang Jun	200	–	–	–	200
Chan Mo Po, Paul	232	–	–	–	232
Zhao Chunjun	150	–	–	–	150
Wu Shangzhi	150	–	–	–	150
Hao Weimin	150	–	–	–	150
Xia Jianghua	–	–	–	–	–
Yan Dong	–	98	237	36	371
Hai Liancheng	75	–	–	–	75
	957	98	237	36	1,328

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 2006 are as follows:

	Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000	Pension scheme contribution RMB'000	2006 Total RMB'000
Name of directors and supervisors					
Wang Xiaochu	–	–	–	–	–
Li Ping	–	–	–	–	–
Liu Aili	–	–	–	–	–
Zhang Junan	–	–	–	–	–
Wang Jun	53	–	–	–	53
Chan Mo Po, Paul	63	–	–	–	63
Zhao Chunjun	40	–	–	–	40
Wu Shangzhi	40	–	–	–	40
Hao Weimin	27	–	–	–	27
Xia Jianghua	–	–	–	–	–
Yan Dong	–	98	192	34	324
Hai Liancheng	31	–	–	–	31
	254	98	192	34	578

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

	2007	2006
HK$ equivalent		
Nil to 1,000,000	**14**	12

13 Individuals with highest emoluments

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

	2007	2006
Directors and supervisors	–	–
Non-director and non-supervisor employees	5	5
	5	5

The remuneration paid to the above non-director, non-supervisor, highest paid employees are as follows:

	2007 RMB'000	2006 RMB'000
Salaries, allowances and other benefits in kind	755	756
Bonuses	2,703	1,955
Pension scheme contributions	249	413
	3,707	3,124

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

	2007	2006
HK$ equivalent		
Nil to 1,000,000	5	5

14 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB450,688,000 (2006: RMB55,375,000) which has been dealt with in the financial statements of the Company.

	2007 **RMB'000**	2006 RMB'000
Amount of consolidated profit attributable to equity shareholders dealt with in the Company's financial statements	**450,688**	55,375
Final dividends from subsidiaries attributable to the profit of the previous financial year, approved and paid during the year	**98,944**	–
Special dividends from subsidiaries attributable to the profit of the previous financial year, approved and paid during the year	**418,460**	–
	968,092	55,375

15 Dividends

(a) Final dividend

	2007 **RMB'000**	2006 RMB'000
Final dividend proposed after the balance sheet date of RMB0.0682 per ordinary share (2006: nil)	**371,348**	–

The above amount of proposed final dividend for 2007 is based on 5,444,986,000 shares issued at 31 December 2007. In connection with the share placement as mentioned in post balance sheet event (see note 47), the total proposed final dividend will be increased by RMB22 million and total proposed final dividend will be RMB394 million when all such new shares are successfully placed.

15 Dividends (Continued)

(b) Special dividend

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 (being the distributable profit of the Group for the period from 1 April 2006 to 7 December 2006), out of which RMB117 million was directly distributed at the subsidiary level.

(c) Profit distribution by Target Business

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 to be distributed in form of cash to CTC and its subsidiaries amounting to RMB197 million in total.

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 2007 of RMB1,167 million (2006: RMB817 million) and the weighted average number of shares in issue during the year ended 31 December 2007 of 5,444,986,000 (2006: 4,057,643,000). The weighted average number of shares in issue during the year ended 31 December 2006 represents the number of shares issued and outstanding upon the legal formation of the Company on 30 August 2006 as if such shares have been outstanding for the above entire year. The weighted average number of shares for the year ended 31 December 2006 also reflects the issuance of 1,484,986,000 shares in 2006 in connection with the Company's initial public offering (see note 35).

The weighted average number of shares in issue is set out below:

	2007 Thousands shares	2006 Thousands shares
Ordinary share issued at 1 January	**5,444,986**	–
Shares issued to CTC upon formation of the Company in 2006 as if such shares have been outstanding for the entire year in 2006 (see note 35)	**–**	3,960,000
Effect of shares issued in December 2006	**–**	97,643
	5,444,986	4,057,643

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

17 Property, plant and equipment, net

The Group

	Buildings RMB'000	Buildings improvements RMB'000	Motor vehicles RMB'000	Furniture, fixtures and other equipment RMB'000	Total RMB'000 (restated – note 1c)
Cost or valuation:					
As at 1 January 2006	2,608,215	211,143	964,476	1,447,036	5,230,870
Through acquisition of subsidiaries	35,536	2,160	8,111	22,214	68,021
Transferred from construction in progress (note 19)	164,095	35,110	3,425	55,265	257,895
Transferred to investment properties (note 18)	(45,244)	–	–	–	(45,244)
Additions	326,671	14,268	159,753	314,145	814,837
Disposals	(275,115)	(34,321)	(149,820)	(186,609)	(645,865)
Distributions in relation to Restructuring and acquisition of Target Business (see note 1)	(937,864)	(12,423)	(180,744)	(185,965)	(1,316,996)
Revaluation	(19,735)	(11,472)	(169,219)	(369,267)	(569,693)
As at 31 December 2006	1,856,559	204,465	635,982	1,096,819	3,793,825
Representing:					
Cost	282,636	31,766	99,668	215,675	629,745
Valuation – 2006 (Note (b))	1,573,923	172,699	536,314	881,144	3,164,080
	1,856,559	204,465	635,982	1,096,819	3,793,825
Accumulated depreciation and impairment losses:					
As at 1 January 2006	481,277	113,392	586,159	728,237	1,909,065
Through acquisition of subsidiaries	6,522	1,284	4,563	13,704	26,073
Depreciation charge	82,240	32,498	145,890	228,303	488,931
Transfer to investment properties (note 18)	(1,695)	–	–	–	(1,695)
Written back on disposal	(98,622)	(23,101)	(118,025)	(144,409)	(384,157)
Impairment losses	–	–	18	4,782	4,800
Distributions in relation to Restructuring and acquisition of Target Business (see note 1)	(192,501)	(8,811)	(109,886)	(84,829)	(396,027)
Revaluation	(187,444)	(17,196)	(290,853)	(355,259)	(850,752)
As at 31 December 2006	89,777	98,066	217,866	390,529	796,238
Net carrying value:					
As at 31 December 2006	1,766,782	106,399	418,116	706,290	2,997,587

17 Property, plant and equipment, net (Continued)

The Group (Continued)

	Buildings RMB'000	Buildings improvements RMB'000	Motor vehicles RMB'000	Furniture, fixtures and other equipment RMB'000	Total RMB'000
Cost or valuation:					
As at 1 January 2007	1,856,559	204,465	635,982	1,096,819	3,793,825
Transferred to investment properties (note 18)	(102,936)	–	–	–	(102,936)
Transferred from investment properties (note 18)	87,767	–	–	–	87,767
Transferred from construction in progress (note 19)	229,225	11,538	2,002	26,541	269,306
Additions	343,193	12,637	119,341	288,969	764,140
Disposals	(105,949)	(17,377)	(64,135)	(73,284)	(260,745)
Distributions in relation to the acquisition of Target Business (see note 1)	(57,681)	(222)	(12,594)	(31,875)	(102,372)
As at 31 December 2007	2,250,178	211,041	680,596	1,307,170	4,448,985
Representing:					
Cost	769,055	55,905	203,212	473,520	1,501,692
Valuation – 2006 (Note (b))	1,481,123	155,136	477,384	833,650	2,947,293
	2,250,178	211,041	680,596	1,307,170	4,448,985
Accumulated depreciation and impairment losses:					
As at 1 January 2007	89,777	98,066	217,866	390,529	796,238
Transferred to investment properties (note 18)	(9,075)	–	–	–	(9,075)
Transferred from investment properties (note 18)	6,370	–	–	–	6,370
Depreciation charge	63,375	35,306	113,487	241,710	453,878
Written back on disposal	(30,123)	(6,680)	(34,916)	(55,550)	(127,269)
Distributions in relation to the acquisition of Target Business (see note 1)	(12,222)	(105)	(9,121)	(21,464)	(42,912)
As at 31 December 2007	108,102	126,587	287,316	555,225	1,077,230
Net carrying value:					
As at 31 December 2007	2,142,076	84,454	393,280	751,945	3,371,755

17 Property, plant and equipment, net (Continued)

The Company

	Furniture, fixtures and other equipment RMB'000
Cost:	
Additions	9
As at 31 December 2006	9
Accumulated depreciation:	
As at 31 December 2006	–
Net carrying value:	
As at 31 December 2006	9
Cost:	
At 1 January 2007	9
Additions	110
As at 31 December 2007	119
Accumulated depreciation:	
At 1 January 2007	–
Charge for the year	11
As at 31 December 2007	11
Net carrying value:	
As at 31 December 2007	108

17 Property, plant and equipment, net (Continued)

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

(b) Valuation pursuant to the Restructuring

As required by the relevant PRC rules and regulations with respect to the Restructuring, all the property, plant and equipment of the Group were valued by China United Assets Appraisal Co., Ltd (the "PRC valuers"), independent valuers registered in the PRC, on a depreciated replacement cost basis.

The surplus arising from the valuation of these assets was credited to owner's equity and minority interests as at 31 March 2006 amounting to RMB294 million and RMB1 million respectively. The deficit arising from the valuation of these assets amounting to RMB105 million, was recognised as an expense in 2006.

The above buildings were also valued separately by Savills Valuation and Professional Services Limited, independent qualified valuers in Hong Kong, as at 30 September 2006. The value arrived at by them was approximately the same as that arrived at by the PRC valuers as adjusted for the depreciation for the period from 1 April 2006 to 30 September 2006.

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

The surplus arising from the valuation of these assets was credited to owner's equity as at 31 December 2006 amounting to RMB121 million. The deficit arising from the valuation of these assets amounting to RMB30 million, was recognised as an expense for the year ended 31 December 2006.

Buildings in connection with the acquisition of Target Business were also valued separately by Savills Valuations and Professional Services Limited, independent qualified valuers in Hong Kong, as at 31 March 2007. The value arrived at by them was approximately the same as that arrived at by PRC valuers as adjusted for the depreciation of the relevant period.

(c) Certain of the Group's bank loans were secured by certain of the Group's property, plant and equipment as described in note 32.

17 Property, plant and equipment, net (Continued)

(d) Up to the date of issue of these financial statements, the Group was in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB258 million as at 31 December 2007. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

(e) Had all property, plant and equipment been carried at cost less accumulated depreciation under the cost model, the carrying amounts of each class of total property, plant and equipment as at 31 December 2007 would have been as follows:

	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Buildings	**1,978,818**	1,600,457
Buildings improvements	**84,016**	101,027
Motor vehicles	**303,329**	300,968
Furniture, fixtures and other equipment	**771,307**	719,867
	3,137,470	2,722,319

18 Investment properties

	The Group	
	2007	2006
	RMB'000	RMB'000 (restated – note 1c)
Cost:		
As at 1 January	**501,647**	1,006,398
Through acquisition of subsidiaries	**–**	10,323
Transferred from property, plant and equipment (note 17)	**102,936**	45,244
Transferred to property, plant and equipment (note 17)	**(87,767)**	–
Transferred from lease prepayments (note 20)	**17,790**	–
Transferred from construction in progress (note 19)	**7,530**	2,109
Additions	**245,106**	207,635
Disposals	**(52,463)**	(103,599)
Distributions in relation to Restructuring and acquisition of Target Business (see note 1)	**(21,494)**	(666,463)
As at 31 December	**713,285**	501,647
Accumulated depreciation:		
As at 1 January	**56,129**	180,642
Transferred from property, plant and equipment (note 17)	**9,075**	1,695
Transferred to property, plant and equipment (note 17)	**(6,370)**	–
Transferred from lease prepayments (note 20)	**1,139**	–
Depreciation charge	**26,073**	25,203
Written back on disposal	**(13,109)**	(33,044)
Distributions in relation to Restructuring and acquisition of Target Business (see note 1)	**(4,374)**	(118,367)
As at 31 December	**68,563**	56,129
Net carrying value:		
As at 31 December	**644,722**	445,518
Fair value	**738,366**	463,666

18 Investment properties (Continued)

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

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

	The Group	
	2007	2006
	RMB'000	RMB'000 (restated – note 1c)
Within 1 year	**34,334**	18,512
After 1 year but within 5 years	**60,313**	39,391
After 5 years	**3,964**	20,352
	98,611	78,255

During the year ended 31 December 2007, RMB95 million (2006: RMB64 million) was recognised as rental income in the consolidated income statement and RMB11 million (2006: RMB7 million) in respect of direct operating expenses relating to investment properties was recognised as expenses in the consolidated income statement.

Up to the date of these financial statements, the Group was in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB154 million as at 31 December 2007. 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	
	2007	2006
	RMB'000	RMB'000 (restated – note 1c)
Cost:		
As at 1 January	**292,043**	402,508
Additions	**212,967**	257,262
Transferred to property, plant and equipment (note 17)	**(269,306)**	(257,895)
Transferred to investment properties (note 18)	**(7,530)**	(2,109)
Distributions in relation to Restructuring and acquisition of Target Business (see note 1)	**–**	(107,723)
As at 31 December	**228,174**	292,043

20 Lease prepayments

	The Group	
	2007	2006
	RMB'000	RMB'000 (restated – note 1c)
Cost:		
As at 1 January	**165,042**	216,084
Through acquisition of subsidiaries	**–**	10,192
Additions	**254,787**	62,553
Disposals	**(14,126)**	(25,514)
Transferred to investment properties (note 18)	**(17,790)**	–
Distributions in relation to Restructuring and acquisition of Target Business (see note 1)	**(4,017)**	(98,273)
As at 31 December	**383,896**	165,042
Accumulated depreciation:		
As at 1 January	**9,631**	12,957
Through acquisition of subsidiaries	**–**	1,501
Amortisation charge	**4,488**	5,098
Written back on disposal	**(793)**	(1,919)
Transferred to investment properties (note 18)	**(1,139)**	–
Distributions in relation to Restructuring and acquisition of Target Business (see note 1)	**(90)**	(8,006)
As at 31 December	**12,097**	9,631
Net carrying value:		
As at 31 December	**371,799**	155,411

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 18 to 56 years as at 31 December 2007.

21 Intangible assets

	The Group	
	2007	2006
	RMB'000	RMB'000 (restated – note 1c)
Cost:		
As at 1 January	**75,868**	60,269
Through acquisition of subsidiaries	**–**	2,609
Additions	**59,246**	28,641
Disposals	**(3,350)**	(5,683)
Distributions in relation to Restructuring and acquisition of Target Business (see note 1)	**–**	(9,968)
As at 31 December	**131,764**	75,868
Accumulated amortisation:		
As at 1 January	**30,556**	26,532
Through acquisition of subsidiaries	**–**	1,382
Amortisation charge	**23,810**	12,923
Written back on disposal	**(2,696)**	(3,913)
Distributions in relation to Restructuring and acquisition of Target Business (see note 1)	**–**	(6,368)
As at 31 December	**51,670**	30,556
Net carrying value:		
As at 31 December	**80,094**	45,312

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

22 Investment in subsidiaries

	The Company 2007 RMB'000	The Company 2006 RMB'000
Unlisted investments, at cost	**9,479,781**	5,373,776

The following list contains only the particulars of subsidiaries at 31 December 2007 which principally affected the results, assets or liabilities of the Group.

Name of company	Type of legal entity	Place of incorporation/ establishment	Held by the Company Directly %	Held by the Company Indirectly %	Issued and fully paid up/ registered capital	Principal activities
Guangdong Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB857 million	Provision of integrated telecommunications support services through its subsidiaries in Guangdong Province
Zhejiang Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB1,098 million	Provision of integrated telecommunications support services through its subsidiaries in Zhejiang Province
Shanghai Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB976 million	Provision of integrated telecommunications support services through its subsidiaries in Shanghai Municipality

22 Investment in subsidiaries (Continued)

Name of company	Type of legal entity	Place of incorporation/ establishment	Held by the Company Directly %	Held by the Company Indirectly %	Issued and fully paid up/ registered capital	Principal activities
Fujian Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB311 million	Provision of Integrated telecommunications support services through its subsidiaries in Fujian Province
Hubei Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB317 million	Provision of integrated telecommunications support services through its subsidiaries in Hubei Province
Hainan Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB79 million	Provision of integrated telecommunications support services through its subsidiaries in Hainan Province
Jiangsu Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB678 million	Provision of integrated telecommunications support services through its subsidiaries in Jiangsu Province

22 Investment in subsidiaries (Continued)

Name of company	Type of legal entity	Place of incorporation/ establishment	Held by the Company Directly %	Held by the Company Indirectly %	Issued and fully paid up/ registered capital	Principal activities
Anhui Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB420 million	Provision of integrated telecommunications support services through its subsidiaries in Anhui Province
Jiangxi Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB200 million	Provision of integrated telecommunications support services through its subsidiaries in Jiangxi Province
Hunan Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB896 million	Provision of integrated telecommunications support services through its subsidiaries in Hunan Province
Guangxi Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB192 million	Provision of integrated telecommunications support services through its subsidiaries in Guangxi Zhuang Autonomous Region

22 Investment in subsidiaries (Continued)

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

22 Investment in subsidiaries (Continued)

Name of company	Type of legal entity	Place of incorporation/ establishment	Held by the Company Directly %	Indirectly %	Issued and fully paid up/ registered capital	Principal activities
Shaanxi Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB145 million	Provision of Integrated telecommunications support services through its subsidiaries in Shaanxi Province
Gansu Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB129 million	Provision of Integrated telecommunications support services through its subsidiaries in Gansu Province
Qinghai Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB68 million	Provision of Integrated telecommunications support services through its subsidiaries in Qinghai Province
Xingjiang Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB179 million	Provision of Integrated telecommunications support services through its subsidiaries in Xinjiang Uygur Autonomous Region

23 Interests in associates

	The Group	
	2007	2006
	RMB'000	RMB'000 (restated – note 1c)
Share of net assets	**11,064**	9,367

As at 31 December 2007, 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.

24 Other investments

	The Group	
	2007	2006
	RMB'000	RMB'000 (restated – note 1c)
At cost/fair value:		
Unlisted equity securities, at cost	**206,303**	136,775
Listed equity securities, at quoted market price	**76,895**	–
Held-to-maturity unlisted debt securities, at amortised cost	**24,773**	36,778
	307,971	173,553

The above investments are individually and in the aggregate not material to the Group's financial condition or results of operations.

25 Deferred tax assets and liabilities

The Group

Deferred tax assets and liabilities attributable to the following:

	Assets		Liabilities		Net balance	
	2007	2006	**2007**	2006	**2007**	2006
	RMB'000	RMB'000 (restated – note 1c)	**RMB'000**	RMB'000 (restated – note 1c)	**RMB'000**	RMB'000 (restated – note 1c)
Impairment losses, primarily for receivables and inventories	**13,089**	21,739	**–**	–	**13,089**	21,739
Pre-operating expenses	**–**	1,562	**–**	–	**–**	1,562
Revaluation of property, plant and equipment	**–**	–	**–**	(18,473)	**–**	(18,473)
Revaluation of lease prepayments (note (iii))	**63,966**	43,124	**–**	–	**63,966**	43,124
Change in fair value (note (ii))	**2,365**	–	**(11,641)**	–	**(9,276)**	–
Unused tax losses (note (i))	**3,372**	26,837	**–**	–	**3,372**	26,837
Unpaid expenses	**13,579**	13,918	**–**	–	**13,579**	13,918
Deferred tax assets and (liabilities)	**96,371**	107,180	**(11,641)**	(18,473)	**84,730**	88,707

Movements in temporary differences for the year ended 31 December 2006 and 2007 are as follows:

	As at 1 January 2007 RMB'000	**Recognised in the consolidated income statement** RMB'000	**Recognised in shareholders' equity** RMB'000	**As at 31 December 2007** RMB'000
Impairment losses primarily for receivables and inventories	21,739	(8,650)	–	13,089
Pre-operating expenses	1,562	(1,562)	–	–
Revaluation of property, plant and equipment	(18,473)	–	18,473	–
Revaluation of lease prepayments (note (iii))	43,124	(1,612)	22,454	63,966
Change in fair value (note (ii))	–	2,365	(11,641)	(9,276)
Unused tax losses (note (i))	26,837	(23,465)	–	3,372
Unpaid expenses	13,918	(339)	–	13,579
Deferred tax assets and (liabilities)	88,707	(33,263)	29,286	84,730
		(note 11(a))		

25 Deferred tax assets and liabilities (Continued)

The Group (Continued)

	As at 1 January 2006 RMB'000 (restated – note 1c)	Recognised in the consolidated income statement RMB'000	Recognised in shareholders' equity RMB'000	As at 31 December 2006 RMB'000 (restated – note 1c)
Impairment losses, primarily for receivables and inventories	18,911	2,828	–	21,739
Pre-operating expenses	2,231	(669)	–	1,562
Revaluation of property, plant and equipment	–	–	(18,473)	(18,473)
Revaluation of lease prepayments (note (iii))	–	(1,173)	44,297	43,124
Unused tax losses (note (i))	9,387	17,450	–	26,837
Unpaid expenses	12,529	1,389	–	13,918
Deferred tax assets and (liabilities)	43,058	19,825	25,824	88,707
		(note 11(a))		

Notes:

(i) Expiry of recognised tax losses

	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Year of expiry		
2008	**–**	2,336
2009	**–**	8,968
2010	**–**	16,978
2011	**7,916**	53,042
2012	**5,436**	–
	13,352	81,324

25 Deferred tax assets and liabilities (Continued)

The Group (Continued)

Notes: (Continued)

(ii) As at 31 December 2007, the Group's derivative financial instruments and available-for-sale investments were recognised in 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 asset of RMB2 million related to the change in fair value of derivative financial instruments and deferred tax liability of RMB12 million related to the change in fair value of available-for-sale investments was recognised in income statement and owner's equity respectively.

(iii) In connection with the Restructuring and the Acquisition of the Target Business, land use rights were revalued. The revalued amount will serve as the tax base for future years. The land use rights were not revalued for financial reporting purposes and accordingly, deferred tax assets of RMB66.8 million is created with a corresponding increase in equity. Based upon the level of historical taxable income and projections for future taxable income, management believes it is probable that the Group will realise the benefits of the deferred tax assets.

(iv) As at 31 December 2007, the Group has not recognised deferred tax assets in respect of tax losses of RMB289.2 million (2006: RMB91.6 million) as it is not probable that future taxable profits against which the losses can be utilised will be available. The tax losses can be carried forward for five years from the year incurred and hence will be expired from 2008 to 2012.

26 Inventories

	The Group	
	2007	2006
	RMB'000	RMB'000 (restated – note 1c)
Construction materials	**407,635**	401,168
Finished goods	**563,125**	517,772
Spare parts and consumables	**65,001**	61,290
	1,035,761	980,230

26 Inventories (Continued)

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

	The Group	
	2007	2006
	RMB'000	RMB'000 (restated – note 1c)
Carrying amount of inventories consumed and sold	**7,632,433**	5,712,317
Reversal of write down of inventories	**(156)**	–
Write down of inventories	**1,612**	4,795
	7,633,889	5,717,112

27 Accounts and bills receivable, net

	The Group	
	2007	2006
	RMB'000	RMB'000 (restated – note 1c)
Bills receivable	**39,228**	96,655
Unbilled revenue for contract work (note 28)	**1,050,796**	1,133,045
Trade receivables	**5,611,097**	4,663,398
	6,701,121	5,893,098
Less: impairment losses	**(73,514)**	(88,329)
	6,627,607	5,804,769

(a) Included in accounts and bills receivable are amounts due from fellow subsidiaries of RMB3,344 million (2006: RMB3,334 million) as at 31 December 2007. The amounts due from fellow subsidiaries are unsecured, interest free and are expected to be recovered within one year.

27 Accounts and bills receivable, net (Continued)

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

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

	The Group	
	2007	2006
	RMB'000	RMB'000 (restated – note 1c)
Current	**3,616,471**	3,925,762
Within 1 year	**2,649,994**	1,522,487
After 1 year but less than 2 years	**309,942**	304,554
After 2 years but less than 3 years	**40,623**	44,657
After 3 years	**10,577**	7,309
Amount past due	**3,011,136**	1,879,007
	6,627,607	5,804,769

(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)).

27 Accounts and bills receivable, net (Continued)

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

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

	The Group	
	2007	2006
	RMB'000	RMB'000 (restated – note 1c)
At 1 January	**88,329**	72,998
Impairment loss recognised	**19,467**	25,576
Reversal of impairment loss previously recognised	**(30,695)**	(7,469)
Uncollectible amounts written off	**(3,587)**	(2,776)
At 31 December	**73,514**	88,329

At 31 December 2007, the Group's accounts and bills receivable of RMB14.4 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 RMB12.5 million were recognised. The Group does not hold any collateral over these balances.

27 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	
	2007	2006
	RMB'000	RMB'000
		(restated – note 1c)
Neither past due nor impaired	**3,487,520**	3,633,117
Within 1 year	**2,555,504**	1,408,994
After 1 year but less than 2 years	**298,891**	281,851
After 2 years but less than 3 years	**39,175**	41,328
After 3 years	**10,200**	6,764
At 31 December	**6,391,290**	5,372,054

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

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

28 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 2007 are RMB1,925 million (2006: RMB2,987 million as restated).

In respect of construction contacts in progress at the balance sheet date, the amounts of retentions receivable from customers, recorded within "Accounts and bills receivable" at 31 December 2007 are RMB22 million (2006: RMB34 million as restated).

29 Prepayments and other current assets

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000 (restated – note 1c)	**RMB'000**	RMB'000
Advances to staff	**219,232**	182,111	**9**	–
Amounts due from fellow subsidiaries	**791,551**	955,688	**8,334**	–
Amounts due from associates	**–**	15,000	**–**	–
Prepayments in connection with construction work and equipment purchases	**732,890**	407,388	**–**	–
Prepaid expenses and deposits	**203,187**	222,987	**606**	–
Dividends receivable	**234**	18,590	**632,532**	–
Others	**234,477**	315,172	**–**	2,360
	2,181,571	2,116,936	**641,481**	2,360

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

30 Restricted deposits

Restricted deposits represent cash pledged as collateral for bank loans and construction projects.

31 Cash and cash equivalents

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000 (restated – note 1c)	**RMB'000**	RMB'000
Cash at bank and in hand	**6,161,208**	7,991,994	**76,924**	3,150,555
Highly liquid investments	**80,000**	–	**80,000**	–
Deposits with banks and other financial institutions	**391,044**	171,761	**–**	–
Cash and cash equivalents	**6,632,252**	8,163,755	**156,924**	3,150,555

Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

The cash and cash equivalents denominated in Renminbi, Hong Kong dollars and United States dollars bear interest at 0.72% to 4.14% (2006: 0.72% to 2.52%), 1.0% to 3.5% (2006: 2.75% to 4.3%) and 1.15% (2006: 0.8% to 1.15%) per annum for the year ended 31 December 2007 respectively.

32 Interest-bearing borrowings

The Group's short-term borrowings are comprised of:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000 (restated – (note 1c)	**RMB'000**	RMB'000
RMB denominated				
Borrowings from banks				
– guaranteed	**5,000**	13,000	**–**	–
– collateralised	**8,000**	72,600	**–**	–
– unsecured	**–**	45,500	**–**	–
Loans from ultimate holding company				
– unsecured	**1,600,000**	–	**1,600,000**	–
Loans from fellow subsidiaries				
– unsecured	**734,000**	20,600	**–**	–
Current portion of long-term borrowings				
– guaranteed	**–**	4,000	**–**	–
– collateralised	**2,020**	2,000	**–**	–
United states dollar denominated				
Borrowings from banks				
– collateralised	**211,236**	–	**–**	–
	2,560,256	157,700	**1,600,000**	–

32 Interest-bearing borrowings (Continued)

The Group's interest rate per annum on short-term borrowings is:

	The Group		The Company	
	2007	2006 (restated – note 1c)	**2007**	2006
RMB denominated				
Borrowings from banks				
– guaranteed	**5.26%**	5.25% – 7.25%	**–**	–
– collateralised	**7.29% – 8.16%**	4.65% – 7.34%	**–**	–
– unsecured	**–**	4.65% – 5.86%	**–**	–
Loans from ultimate holding company				
– unsecured	**5.18%**	–	**5.18%**	–
Loans from fellow subsidiaries				
– unsecured	**3.00% – 6.84%**	5.02% – 5.85%	**–**	–
United States dollar denominated				
Borrowings from banks				
– collateralised	**5.38% – 5.64%**	–	**–**	–

32 Interest-bearing borrowings (Continued)

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

		The Group	
		2007	2006
		RMB'000	RMB'000
			(restated – note 1c)
Borrowings from banks:			
– guaranteed	Interest rates ranging from 6.42% to 6.59% per annum with maturities through 16 February 2007	**–**	4,000
– collateralised	Floating interest rates at ranging from 7.32% – 8.16% per annum with maturities through 3 June 2009	**2,980**	5,000
Loans from fellow subsidiaries:			
– unsecured	Interest rates at 5.02% per annum with maturities through 7 November 2008	**–**	10,000
		2,980	19,000
Less: Current portion of long-term borrowings		**(2,020)**	(6,000)
		960	13,000

32 Interest-bearing borrowings (Continued)

The long-term borrowings were repayable as follows:

	The Group	
	2007	2006
	RMB'000	RMB'000 (restated – note 1c)
Within 1 year or on demand	**2,020**	6,000
After 1 year but within 2 years	**960**	2,000
After 2 years but within 5 years	**–**	11,000
	2,980	19,000

As at 31 December 2007, borrowings from bank amounting to RMB5 million was guaranteed by CTC Group (as defined below) (2006: RMB17 million).

As at 31 December 2007, bank loans amounting to RMB11 million (2006: RMB78 million) and RMB211 million (2006: Nil) were secured by certain property, plant and equipment of the Group with net book value of RMB80 million (2006: RMB124 million) and restricted deposits of RMB218 million (2006: Nil) respectively.

The loan from ultimate holding company is unsecured and repayable on 20 June 2008.

33 Accounts and bills payable

Accounts and bills payable comprise:

	The Group	
	2007	2006
	RMB'000	RMB'000 (restated – note 1c)
Accounts payable	**4,060,211**	4,002,570
Bills payable	**626,432**	179,535
	4,686,643	4,182,105

33 Accounts and bills payable (Continued)

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

	The Group	
	2007	2006
	RMB'000	RMB'000 (restated – note 1c)
Within 1 year	**4,225,513**	3,985,454
After 1 year but less than 2 years	**368,011**	140,398
After 2 years but less than 3 years	**55,060**	33,121
After 3 years	**38,059**	23,132
	4,686,643	4,182,105

Included in accounts and bills payable are amounts due to fellow subsidiaries of RMB205 million (2006: RMB170 million) as at 31 December 2007. The amounts due to fellow subsidiaries are unsecured, interest free and are expected to be settled within one year.

34 Accrued expenses and other payables

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000 (restated – note 1c)	**RMB'000**	RMB'000
Wages and welfare payables	**641,716**	897,791	**3,600**	–
Amounts due to fellow subsidiaries (note i)	**1,156,402**	908,786	**13,837**	1,150
Advances received	**338,598**	199,590	**–**	–
Other taxes payable	**272,405**	216,628	**411**	3,335
Dividends payable to the then owners (note ii)	**535,008**	356,846	**–**	–
Payables for construction and purchase of fixed assets	**95,022**	222,530	**–**	–
Forward foreign exchange contracts	**9,461**	–	**–**	–
Others	**1,174,864**	850,176	**59,094**	50,295
	4,223,476	3,652,347	**76,942**	54,780

Notes:

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

(ii) The balance of 2007 includes Special dividend (note 15(b)) and profit distribution by Target Business (note 15(c)). The balance of 2006 represents dividends declared by certain of the subsidiaries now comprising the Group and payable to the then owners.

35 Share capital

	2007 RMB'000	2006 RMB'000
Registered, issued and fully paid:		
3,811,501,400 (2006: 3,811,501,400) domestic state-owned ordinary shares of RMB1.00 each	**3,811,501**	3,811,501
1,633,484,600 (2006: 1,633,484,600) H shares of RMB1.00 each	**1,633,485**	1,633,485
	5,444,986	5,444,986

	2007 Thousand shares	2006 Thousand shares
At 1 January	**5,444,986**	–
Issuance of domestic state-owned ordinary shares	**–**	3,960,000
Conversion of domestic state-owned ordinary shares into H shares	**–**	(148,499)
Issuance of H shares	**–**	1,633,485
At 31 December	**5,444,986**	5,444,986

The Company was incorporated on 30 August 2006 with a registered share capital of 3,960,000,000 domestic state-owned ordinary shares with a par value of RMB1.00 each. Such shares were issued to CTC, Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation, as a consideration for the transferring of the Predecessor Operations and injection of cash to the Company (see note 1). In December 2006, the Company issued 1,484,986,000 H shares with a par value of RMB1.00, at a price of HK$2.20 per H share and 148,498,600 domestic state-owned shares of RMB1.00 each owned by CTC were converted into H shares in connection with the initial public offering. For more details, please refer to note 1(b).

All shareholders are entitled to receive dividends as declared from time to time except for the special dividends described in note 15(b) 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.

35 Share capital (Continued)

(a) Capital management

The Group's primary objective when managing capital is 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 telecommunication 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 aims to maintain the gearing ratio at a reasonable level. The Group monitors its capital using a gearing ratio which is total debts divided by the sum of total debts and total equity. The Group's gearing ratio as at 31 December 2007 was 21% (2006: 1%). 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 the gearing ratio.

36 Retirement benefit obligations

In accordance with the labour regulations of the PRC, the Group participates in various defined contribution retirement schemes organised by the municipal and provincial governments for its employees. The Group is required to make contributions to the retirement schemes at rates ranging from 16.5% to 20% of the salaries, bonuses and certain allowances of the employees. A member of the scheme is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date.

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

37 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 dollar 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 38.35 million share appreciation right units to eligible employees. Under the terms of this grant, all share appreciation rights had a contractual life of seven years from date of grant and an exercise price of HK$5.25 per unit. A recipient of share appreciation rights may not exercise the rights in the first 24 months after the date of grant. As at each of the second, third and fourth anniversary of the date of grant, the total number of share appreciation rights exercisable may not in aggregate exceed one-third, two-third and 100%, respectively, of the total share appreciation rights granted to such person.

The Group recognised a compensation expense over the applicable vesting period amounted to RMB23 million for the year ended 31 December 2007. As the share appreciation right is not exercisable in the first 24 months, it has not been granted to each eligible employee. As such, compensation expense over the applicable vesting period recognised has not been allocated to each eligible employee.

38 Notes to consolidated cash flow statement

(a) Acquisition of subsidiaries

During the year ended 31 December 2006, the Group acquired several subsidiaries as follows:

	2006 RMB'000
Property, plant and equipment, net	41,948
Investment properties	10,323
Lease prepayments	8,691
Intangible assets	1,227
Inventories	14,068
Accounts and bills receivable, net	46,623
Prepayments and other current assets	31,133
Cash and cash equivalents	16,139
Accounts and bills payable	(39,104)
Accrued expenses and other payables	(25,598)
Income tax payable	(26)
Net identifiable assets and liabilities	105,424
Contributed by owner (note)	(105,424)
Total purchase price paid, satisfied in cash	–
Less: Cash of the subsidiaries acquired	(16,139)
Net cash inflow in respect of the purchase of subsidiaries	(16,139)

Note: These represent the acquisition of subsidiaries made by owner, being transferred to the Group by way of capital contribution.

38 Notes to consolidated cash flow statement (Continued)

(b) Major non-cash transactions

	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Contributions in forms of property, plant and equipment, lease prepayments and other assets	**195,228**	487,293
Distributions in forms of property, plant and equipment, lease prepayments and other assets	**206,731**	502,446
Distribution of net assets to owner pursuant to the Restructuring	**–**	1,430,962

39 Commitments and contingent liabilities

(a) Capital commitments

As at 31 December 2007, the Group has capital commitment for acquisition and construction of property, plant and equipment as follows:

	The Group	
	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Authorised and contracted for	**9,714**	93,966
Authorised but not contracted for	**37,654**	36,969

39 Commitments and contingent liabilities (Continued)

(b) Operating lease commitments

As at 31 December 2007, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group	
	2007	2006
	RMB'000	RMB'000 (restated – note 1c)
Within 1 year	**119,888**	69,084
After 1 year but within 5 years	**161,355**	124,324
After 5 years	**5,118**	9,200
	286,361	202,608

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

(c) Contingent liabilities

The Group had no material contingent liabilities and no financial guarantees issued.

40 Financial instruments

Exposure to credit, interest rate, liquidity and equity price risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

Management has a credit policy in place and the exposure to credit risks is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. Normally, the Group does not obtain collateral from customers.

The Group's major customers are CTC and its subsidiaries (collectively referred to as "CTC Group"), and China Mobile Limited. The Group has a certain concentration of credit risk as the Group's largest customer accounted for 50% of the total accounts and bills receivable as at 31 December 2007 (2006: 57%). The Group has no significant credit risk with any of these customers since the Group maintains long-term and stable business relationships with these large customers in the telecommunications industry.

The credit risk on restricted bank deposits is limited because the counterparties are banks with high credit rankings.

The maximum exposure to credit risk is represented by the carrying amount of each financial assets carry a significant exposure to credit risk.

(b) Interest rate risk

The interest rate risk of the Group is limited because the majority of outstanding loans are fixed interest rate loans.

The interest rates and terms of repayment of outstanding loans and deposits of the Group at balance sheet date are disclosed in notes 30, 31 and 32.

(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 and its compliance with lending covenants, 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.

40 Financial instruments (Continued)

(c) Liquidity risk (Continued)

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

The Group

	2007						2006 (restated – note 1c)					
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
Interest-bearing borrowings	2,560,256	2,629,508	2,629,508	–	–	–	157,700	160,056	160,056	–	–	–
Account and bills payable	4,686,643	4,686,643	4,686,643	–	–	–	4,182,105	4,182,105	4,182,105	–	–	–
Receipt in advance	520,725	520,725	520,725	–	–	–	680,048	680,048	680,048	–	–	–
Accrued expenses and other payable	4,223,476	4,223,476	4,223,476	–	–	–	3,652,347	3,652,347	3,652,347	–	–	–
Long term borrowing, less current portion	960	1,013	–	1,013	–	–	13,000	14,177	–	13,164	1,013	–
	11,992,060	12,061,365	12,060,352	1,013	–	–	8,685,200	8,688,733	8,674,556	13,164	1,013	–

The Company

	2007						2006					
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
Interest-bearing borrowings	1,600,000	1,639,086	1,639,086	–	–	–	–	–	–	–	–	–
Accrued expenses and other payable	76,942	76,942	76,942	–	–	–	54,780	54,780	54,780	–	–	–
	1,676,942	1,716,028	1,716,028	–	–	–	54,780	54,780	54,780	–	–	–

40 Financial instruments (Continued)

(d) Fair value

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

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

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

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.

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

(e) Foreign currency risk

(i) Recognised assets and liabilities

Except for the US dollar loan, all the Group's borrowings are denominated in Renminbi, the functional currency of the Group. Given this, management does not expect that there will be any significant currency risk associated with the Group's borrowings.

(ii) Exposure to currency risk

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

40 Financial instruments (Continued)

(e) Foreign currency risk (Continued)

(ii) Exposure to currency risk (Continued)

The Group

	2007 United States Dollars '000	2007 Hong Kong Dollars '000	2006 United States Dollars '000	2006 Hong Kong Dollars '000
Other investments	**–**	**25,220**	–	25,220
Cash and cash equivalents	**2,190**	**4,404**	561	3,139,190
Interest bearing loan	**(28,924)**	**–**	–	–
Gross balance sheet exposure	**(26,734)**	**29,624**	561	3,164,410
Forward exchange contract	**30,586**	**–**	–	–
Overall net exposure	**3,852**	**29,624**	561	3,164,410

The Company

	2007 United States Dollars '000	2007 Hong Kong Dollars '000	2006 United States Dollars '000	2006 Hong Kong Dollars '000
Cash and cash equivalents	**–**	**–**	–	3,134,926

40 Financial instruments (Continued)

(e) Foreign currency risk (Continued)

(ii) Exposure to currency risk (Continued)

The following significant exchange rates applied during the year:

	Average rate		Spot rate	
	2007	2006	**2007**	2006
United States dollars	**7.60**	7.97	**7.30**	7.81
Hong Kong dollars	**0.97**	1.03	**0.94**	1.00

Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date.

The Group

	The Group					
	2007			2006		
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits '000**	**Effect on other components of equity '000**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits '000	Effect on other components of equity '000
United States dollars	**5%**	**942**	**–**	5%	147	–
	(5)%	**(942)**	**–**	(5)%	(147)	–
Hong Kong dollars	**5 %**	**–**	**1,392**	5 %	105,020	1,474
	(5)%	**–**	**(1,392)**	(5)%	(105,020)	(1,474)

This sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the Group's exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

40 Financial instruments (Continued)

(e) Foreign currency risk (Continued)

(ii) Exposure to currency risk (Continued)

Sensitivity analysis (Continued)

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

(f) Equity price risk

The Group is exposed to equity price risk arising from changes in the stock price of the Group's equity investment listed in Shanghai Stock Exchange and Shenzhen Stock Exchange. For such investment, it is estimated that an increase/decrease of 5% in its share price would increase/decrease the Group's equity by RMB3,844,745 at 31 December 2007.

41 Significant accounting estimates and judgements

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

(a) Construction contracts

As explained in notes 2(n) and 2(w)(i) revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. As a result, until this point is reached the amounts due from customers for contract work as disclosed in note 28 will not include profit which the Group may eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the balance sheet date, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

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

(c) Impairment of long-lived assets

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

42 Related parties

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

(a) Transactions with CTC Group

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

42 Related parties (Continued)

(a) Transactions with CTC Group (Continued)

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

	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Income from related parties:		
Engineering related services (note (i))	**6,179,588**	6,379,788
IT application services (note (ii))	**649,214**	251,909
Provision of ancillary telecommunications services (note (iii))	**3,124,789**	2,466,206
Provision of operation support services (note (iv))	**1,528,435**	1,301,255
Property leasing (note (v))	**51,515**	50,165
Management fee income (note(vi))	**139,245**	45,104
Expenses paid to related parties:		
Property leasing charges (note (vii))	**94,326**	55,665
IT application service charges (note (viii))	**181,752**	182,532
Operation support service charges (note (ix))	**245,526**	190,038
Interest paid (note (x))	**12,262**	2,636

Notes:

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

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

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

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

42 Related parties (Continued)

(a) Transactions with CTC Group (Continued)

Notes: (Continued)

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

(vi) The amounts represent management fee income in respect of centralised services provided to CTC Group.

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

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

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

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

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

	2007 **RMB'000**	2006 RMB'000 (restated – note 1c)
Accounts and bills receivable, net	**3,344,339**	3,334,835
Prepayments and other current assets	**791,550**	955,688
Total amounts due form CTC Group	**4,135,889**	4,290,523
Interest-bearing borrowings	**2,334,000**	30,600
Accounts and bills payable	**205,137**	170,371
Receipts in advance for contact work	**61,039**	93,642
Accrued expenses and other payables	**1,678,088**	1,183,033
Total amounts due to CTC Group	**4,278,264**	1,477,646

As at 31 December 2006 and 2007, no impairment losses for bad and doubtful debts were recorded in respect of amounts due from CTC Group.

42 Related parties (Continued)

(a) Transactions with CTC Group (Continued)

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

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

42 Related parties (Continued)

(a) Transactions with CTC Group (Continued)

- 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.

(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 including Ningxia, Tibet and any assets retained by CTC after the Restructuring. The aggregate administrative costs incurred by the Group for the provision of the centralised services 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 acquired certain property, plant and equipment from CTC Group for a total consideration of RMB119 million in 2007 and RMB295 million in 2006 subsequent to the incorporation of the Company.

(b) Transactions with other state-controlled entities in the PRC

The Group is a state-controlled entity and operates in an economic regime currently predominated by entities directly or indirectly owned or controlled by the PRC government and numerous government authorities and agencies (collectively referred to as "state-controlled entities"). Apart from transactions mentioned in the above, the Group conducts a majority of its business activities with state-controlled entities in the ordinary course of business. These transactions are carried out at terms similar to those that would be entered into with non-state-controlled entities. Transactions with other state-controlled entities in the PRC include but not limited to the following:

- sales and purchase of goods, properties and other assets;

- rendering and receiving services;

- depositing and borrowing money; and

- use of public utilities.

42 Related parties (Continued)

(b) Transactions with other state-controlled entities in the PRC (Continued)

The Group prices its services and products based on guideline ceiling rates prescribed by relevant government agencies, where applicable, or based on the commercial negotiations. The Group has also established its procurement policies and approval processes for purchase of products and services, which do not depend on whether the counter parties are state-controlled entities or not.

Having considered the transactions potentially affected by related party relationships, the entity's pricing strategy, procurement policies and approval processes, and the information that would be necessary for an understanding or the potential effect of the related party relationships on the consolidated financial statements, the directors are of the opinion that the following amounts due from/to state controlled entities in the PRC require disclosure.

Cash deposited with the state-controlled banks in the PRC and the interest income is as follows:

	2007 **RMB'000**	2006 RMB'000 (restated – note 1c)
Cash and cash equivalents	**6,603,444**	4,996,975
Interest income	**86,089**	51,726

42 Related parties (Continued)

(c) Transactions with key management personnel

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

	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Salaries and other emoluments	**2,340**	2,171
Retirement benefits	**1,114**	1,330
Bonuses	**6,041**	4,906
	9,495	8,407

Total remuneration is included in "Staff costs" in note 10 (a).

(d) Contributions to defined contribution retirement plans

The Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff. The details of the Group's employee benefits plan are disclosed in note 36. As at 31 December 2006 and 2007, there was no material outstanding contribution to post-employment benefit plans.

(e) Transactions with ten largest state-controlled customers and suppliers

The directors consider that the transactions with state-controlled entities which require disclosure in the financial statements have been set out above. The following are the additional disclosure in respect of transactions entered into by the Group with its ten largest state-controlled customers and suppliers:

Transactions with the Group's ten largest customers, which are state-controlled entities, amounting to approximately RMB15,704 million for the year ended 31 December 2007 (2006: RMB13,764 million).

Transactions with Group's ten largest suppliers, which are state-controlled entities, amounting to RMB867 million for the year ended 31 December 2007 (2006: RMB544 million).

43 Segment reporting

For the years ended 31 December 2006 and 2007, the Group principally has one business segment, the provision of integrated telecommunications service to the telecommunications industry in the PRC. The Group mainly operates in the PRC. Accordingly, no business and geographical segment information are presented.

44 Distributable reserves

The movement of shareholders' equity of the Company for 2007 is as follows:

	Share capital RMB'000 (note 35)	Share premium RMB'000	Capital reserves RMB'000	Statutory surplus reserves RMB'000	Retained Earnings/ (loss) RMB'000	Total RMB'000
Capitalisation upon legal establishment of the Company (note 1)	3,960,000	–	1,413,776	–	–	5,373,776
Issuance of shares upon public listing	1,484,986	1,807,727	–	–	–	3,292,713
Shares issue expenses	–	(249,944)	–	–	–	(249,944)
Profit for the year	–	–	–	–	55,375	55,375
Appropriation	–	–	–	5,538	(5,538)	–
At 31 December 2006	5,444,986	1,557,783	1,413,776	5,538	49,837	8,471,920
At 1 January 2007	5,444,986	1,557,783	1,413,776	5,538	49,837	8,471,920
Profit for the year	–	–	–	–	968,092	968,092
Acquisition of Target Business	–	–	(374,995)	–	–	(374,995)
Expenses incurred in acquisition of Target Business	–	–	(45,205)	–	–	(45,205)
Distribution of special dividend (see note 15(b))	–	–	–	–	(418,460)	(418,460)
Appropriation	–	–	–	92,288	(92,288)	–
At 31 December 2007	5,444,986	1,557,783	993,576	97,826	507,181	8,601,352

44 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 note (i) to the consolidated statement of changes in equity.

At 31 December 2007, there were no distributable reserves attributable to the equity shareholders of the Company.

45 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ended 31 December 2007

Up to the date of issue of these financial statements, the IASB has issued amendments, new standards and interpretations which are not yet effective for the accounting year ended 31 December 2007 and which have not been adopted in these financial statements. Of these developments, the following relate to matters they may be relevant to the Group's operations and financial statements:

		Effective for accounting periods beginning on or after
Amendment to IFRS 2	Share-based payment	1 January 2009
Revised IFRS 3	Business combination	1 July 2009
IFRS 8	Operating segments	1 January 2009
IAS 23	Borrowing costs	1 January 2009
Amendments to IAS 27	Consolidated and separate financial statements	1 July 2009

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that while the adoption of them may result in new or amended disclosures, it is unlikely to have a significant impact on the Group's results of operations and financial position.

46 Immediate and ultimate controlling party

At 31 December 2007, the directors consider the immediate and ultimate controlling party of the Group to be CTC, a stated-owned enterprise established in the PRC. CTC does not produce financial statements available for public use.

47 Post balance sheet events

(a) On 28 March 2008, the Company entered into a placing and underwriting agreement in relation to the placing (the "Placing") of an aggregate of 359,365,600 new overseas-listed foreign-invested shares at a price of HK$5.25 per share (the "Placing Shares"). The Placing Shares comprise of (1) 326,696,000 new H Shares to be allotted and issued by the Company in connection with the Placing, and (2) 32,669,600 H Shares to be allotted and issued by the Company upon the conversion of the same number of existing domestic legal person shares by the National Council for the Social Security Fund of the PRC. Completion of the Placing is conditional upon the fulfilment of certain conditions as specified in the placing and underwriting agreement and the granting of and permission to deal by the Listing Committee of the Stock Exchange.

Completion of the Placing is expected to take place on or around 9 April 2008 or such other time or date as the Company and the placing agent may agree.

(b) Pursuant to the Equity Transfer Agreement dated 3 April 2008 entered into between the Company and China National Postal and Telecommunications Appliances Corporation (the "vendor"), the Company will acquire 100% equity interest of China International Telecommunications Construction Corporation from the vendor for a consideration of RMB505 million in cash. Completion of the above transaction is conditional upon the fulfilment of certain conditions as specified in the Equity Transfer Agreement.

Financial Summary

(Amounts in thousands, except per share data)

	For the year ended 31 December				
	2007 RMB	2006 RMB (note)	2005 RMB (note)	2004 RMB (note)	2003 RMB (note)
Results					
Revenue from telecommunications infrastructure services	**11,093,007**	10,941,175	10,450,989	10,171,724	6,693,087
Revenue from business process outsourcing services	**9,365,152**	6,167,397	5,328,100	4,493,214	3,157,619
Revenue from applications, content and others	**3,080,222**	2,204,160	2,229,839	1,790,748	1,066,558
Total revenues	**23,538,381**	19,312,732	18,008,928	16,455,686	10,917,264
Depreciation and amortisation	**(305,205)**	(326,673)	(304,441)	(264,240)	(168,268)
Direct personnel costs	**(4,556,857)**	(3,937,327)	(3,448,097)	(2,227,276)	(1,268,439)
Purchase of materials and telecommunications products	**(7,632,433)**	(5,712,317)	(5,746,430)	(5,597,860)	(3,889,030)
Subcontracting charges	**(4,577,237)**	(3,582,311)	(2,782,283)	(3,298,311)	(2,210,650)
Operating lease charges and others	**(2,401,900)**	(2,187,169)	(2,011,648)	(1,737,022)	(1,102,517)
Cost of revenues	**(19,473,632)**	(15,745,797)	(14,292,899)	(13,124,709)	(8,638,904)
Gross profit	**4,064,749**	3,566,935	3,716,029	3,330,977	2,278,360
Other operating income	**341,485**	196,681	140,864	226,395	94,260
Selling, general and administrative expenses	**(2,794,662)**	(2,476,881)	(2,724,744)	(2,485,734)	(1,619,517)
Other operating expenses	**(12,579)**	(28,350)	(33,794)	(43,419)	(24,715)
Deficit on revaluation of property, plant and equipment	**–**	(135,629)	–	–	–
Net financing income	**41,682**	87,315	39,641	44,104	39,311
Share of profits less (losses) of associates	**3,575**	(14)	14,676	7,386	6,508
Negative goodwill	**–**	4,039	159,499	43,299	62,526
Profit before tax	**1,644,250**	1,214,096	1,312,171	1,123,008	836,733
Income tax	**(461,056)**	(374,614)	(348,431)	(347,928)	(262,793)
Profit for the year	**1,183,194**	839,482	963,740	775,080	573,940
Attributable to:					
Equity shareholders/owner	**1,167,247**	816,754	755,496	679,948	458,436
Minority interests	**15,947**	22,728	208,244	95,132	115,504
Profit for the year	**1,183,194**	839,482	963,740	775,080	573,940
Basic and diluted earnings per share (RMB)	**0.214**	0.201	0.191	0.172	0.116

Financial Summary

(Amounts in thousands, except per share data)

	As at 31 December				
	2007 RMB	2006 RMB (note)	2005 RMB (note)	2004 RMB (note)	2003 RMB (note)
Financial condition					
Property, plant and equipment, net	**3,371,755**	2,997,587	3,321,805	3,249,959	2,518,819
Other non-current assets	**1,740,195**	1,228,384	1,965,800	1,864,567	1,583,686
Inventories	**1,035,761**	980,230	646,692	772,598	402,110
Accounts and bills receivable, net	**6,627,607**	5,804,769	5,113,091	4,315,334	2,250,221
Prepayments and other current assets	**2,181,571**	2,116,936	2,879,928	2,471,735	1,341,103
Cash and cash equivalents	**6,632,252**	8,163,755	4,955,868	5,648,870	5,347,013
Restricted Deposits	**251,128**	–	–	–	–
Total assets	**21,840,269**	21,291,661	18,883,184	18,323,063	13,442,952
Interest-bearing borrowings	**2,560,256**	157,700	302,045	289,583	250,116
Accounts and bills payable	**4,686,643**	4,182,105	3,092,209	3,093,906	1,833,419
Receipts in advance for contract work	**520,725**	680,048	1,067,701	1,381,222	1,418,884
Accrued expenses and other payables	**4,223,476**	3,652,347	3,945,826	3,828,160	3,252,620
Income tax payable	**198,360**	224,166	495,018	482,605	304,913
Non-current liabilities	**12,601**	31,473	12,000	22,000	–
Total liabilities	**12,202,061**	8,927,839	8,914,799	9,097,476	7,059,942
Equity attributable to equity shareholders/owner of the Company	**9,560,778**	12,217,113	9,287,912	8,275,614	5,380,526
Minority interests	**77,430**	146,709	680,473	949,973	1,002,484
Total equity	**9,638,208**	12,363,822	9,968,385	9,225,587	6,383,010
Total liabilities and equity	**21,840,269**	21,291,661	18,883,184	18,323,063	13,442,952

Note:

On 31 August 2007, we acquired the Target Business from CTC. As we and Target Business was under common control of CTC, the acquisition of the Target Business has been reflected in the accompanying consolidated financial statements as a combination of entities under common control and accounted for in a manner similar to pooling-of-interests. Accordingly, the assets and liabilities of the Target Business have been accounted for at historical costs and the consolidated financial statements of the Company prior to the foregoing acquisition have been restated to include the results of operations and assets and liabilities of the Target Business on a combined basis. Our financial summary of 2004, 2005 and 2006 have been restated to include the results and financial condition of the Target Business in the relevant period. As the results and financial condition of the Target Business in 2003 was not published, our financial summary of 2003 includes only the results and financial condition stated in the Company's prospectus dated 27 November 2006.

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