中国通信服务
CHINA COMSERVICE

CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

Stock code: 552

Annual Report 2010

"The Highest Excellence Is Like That of Water."

– Extracted from "Tao Te Ching"

"The highest excellence is like that of water, which serves all without ever asking for a return." Good deeds at the highest level share the same features as that of water, which nourishes all lives and does not contend with them.

Soft Power of China Comservice's Strategies

Customer-oriented Culture Embedded in the Philosophy of "The Highest Excellence Is Like That of Water".

– Value the trust,
respect the wisdom,
benefit all

Respect the wisdom

A spirit of innovation, that is, always keep changing to adapt to the customer's changing needs.

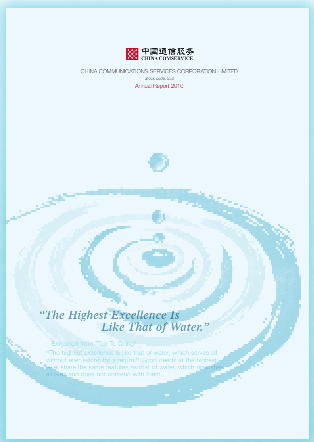
Value the trust

To achieve success of its own through assisting the customers to succeed.

Benefit all

A kind of corporate culture, that is, always people-oriented, pursue excellent performance and be beneficial to all.

Customer-oriented Culture Embedded in the Philosophy of "The Highest Excellence Is Like That of Water."



With our beliefs in the cultural connotation as "value the trust, respect the wisdom and benefit all" and the cultural essence of "innovation, compatibility, perseverance, reliability and partnership", we incorporate the unique features of water into our corporate culture, operations and business development. We aim to provide customers with integrated solutions of information network construction built on our integrated turnkey service capabilities in the informatization sector. Therefore, we are able to realize the values of shareholders, employees, industry, customers and the society, thus achieving our own success through helping others to succeed.

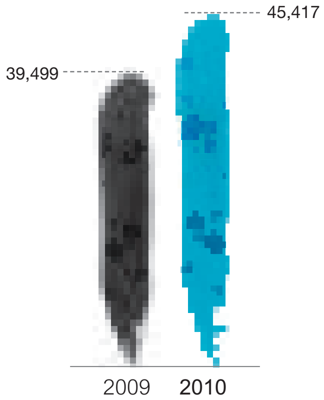
Contents

Financial Highlights

	2009	2010	Change
Revenues (RMB million)	39,499	**45,417**	15.0%
Gross profit (RMB million)	6,372	**7,399**	16.1%
Profit attributable to equity shareholders (RMB million)	1,599	**1,818**	13.7%
Basic earnings per share (RMB)	0.277	**0.315**	13.7%
Free cash flow[1] (RMB million)	1,207	**628**	-48.0%

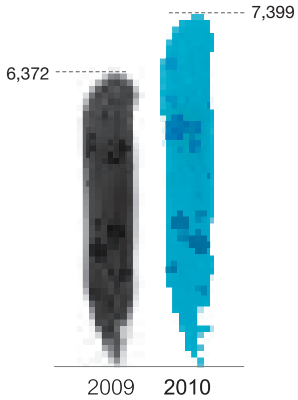
Revenues

(RMB million)



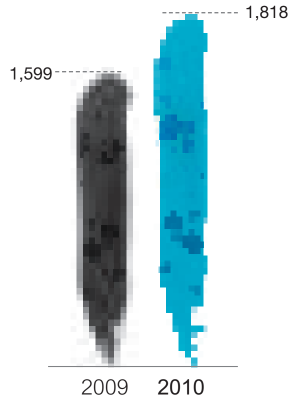
Gross profit

(RMB million)



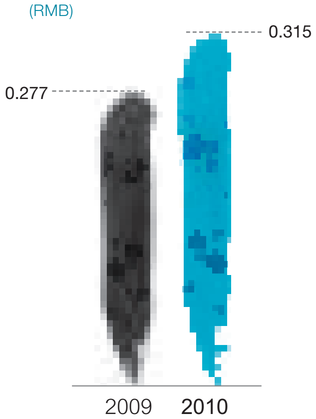
Profit attributable to equity shareholders

(RMB million)



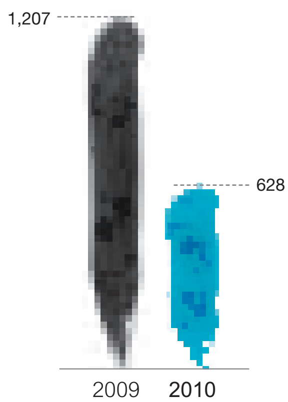
Basic earnings per share

(RMB)



Free cash flow[1]

(RMB million)



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

Company Profile and Corporate Information

China Communications Services Corporation Limited ("the Company") is a leading service provider in the PRC, in commitment of "building world-class networks for the informatization services", providing integrated support services in the informatization sector, including telecommunications infrastructure ("TIS") services, business process outsourcing ("BPO") services and applications, content and other ("ACO") services. All the major telecommunications operators in the PRC, namely, China Telecommunications Corporation ("China Telecom"), China Mobile Communications Corporation ("China Mobile") and China United Network Communications Group Company Limited ("China Unicom") are our customers and also our shareholders. We also provide services to government agencies, telecommunications equipment manufacturers, corporate customers and public customers. Our service coverage is spread across the nation and we have also extended our business to over 50 countries and regions globally.

On 8 December 2006, the H shares issued by the Company were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited. As at 31 December 2010, the aggregate share capital of the Company was 5,771,682,000, of which 1,992,850,200 were H shares.

HONORARY CHAIRMAN

Mr. Wang Xiaochu

BOARD OF DIRECTORS

Executive directors

Mr. Li Ping (Chairman)
Mr. Zheng Qibao
Mr. Yuan Jianxing
Ms. Hou Rui

Non-executive directors

Mr. Liu Aili
Mr. Zhang Junan

Independent non-executive directors

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

BOARD COMMITTEE

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Non-Competition Undertaking Review Committee

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

Right of First Refusal and Priority Right Committee

Mr. Wu Shangzhi (Committee Chairman)
Mr. Zhao Chunjun
Mr. Hao Weimin

SUPERVISORY COMMITTEE

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

LEGAL NAME (IN CHINESE)

中國通信服務股份有限公司

LEGAL NAME (IN ENGLISH)

China Communications Services Corporation Limited

LEGAL REPRESENTATIVE

Mr. Li Ping

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Chung Wai Cheung, Terence

INTERNATIONAL AUDITORS

KPMG

LEGAL ADVISORS

Freshfields Bruckhaus Deringer
King & Wood PRC Lawyers

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Xicheng District
Beijing, PRC 100032

BUSINESS ADDRESS

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Dongcheng District
Beijing, PRC 100010

H SHARE REGISTRAR

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

LISTING PLACE

The Stock Exchange of Hong Kong Limited

STOCK CODE

00552

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Office of Board of Directors:

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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.

AUGUST 2007

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

OCTOBER 2007

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

DECEMBER 2007

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

APRIL 2008

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

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

MAY 2008

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

MARCH 2009

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

Milestones

MAY 2009

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

JULY 2009

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

OCTOBER 2009

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

NOVEMBER 2009

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

MARCH 2010

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

APRIL 2010

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

JUNE 2010

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

AUGUST 2010

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

OCTOBER 2010

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

DECEMBER 2010

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

Chairman's Statement

Dear Shareholders,

In 2010, the Group recorded remarkable operating results. Total revenues of the Group reached RMB45,417 million, representing a year-on-year growth of 15.0%. Profit attributable to equity shareholders was RMB1,818 million, representing a year-on-year growth of 13.7%. Return on equity further increased and reached 12.8%. Having considered the interests of and returns to our shareholders, the Board has proposed to pay a final dividend of RMB0.1260 per share for the financial year ended 31 December 2010, representing a year-on-year growth of 13.7%.

STEADY GROWTH IN DOMESTIC OPERATOR MARKET

In 2010, capital expenditures of domestic telecommunications operators decreased significantly. With focus on the operators' full-service operations by providing integrated services covering their value chain, the Group's revenues from domestic operators sustained continuous growth and reached RMB29,464 million, representing a year-on-year growth of 7.2% and accounting for 64.9% of its revenues.

RAPID GROWTH IN DOMESTIC NON-OPERATOR MARKET AND OVERSEAS MARKET

In 2010, the Group benefited from the accelerated development in the domestic informatization and the strong demands from overseas telecommunications markets. The combined revenues from the domestic non-operator market and the overseas market increased by 32.6% compared to the same period last year and reached RMB15,953 million in 2010, and its proportion of revenues of the Group increased notably to 35.1% from 30.4% last year.

CONTINUOUSLY GENERATING FAVORABLE RETURNS FOR SHAREHOLDERS

Since the listing on 8 December 2006, the Group has been adhering to its corporate philosophy of "running a promising and meaningful business". During these years, the Group managed its business in an organized and efficient way and achieved a healthy and rapid development. The compound annual growth rates of our revenues and net profit both exceeded 20%, realizing a sustainable growth of our shareholders value. In the period between 2007 and 2010, the Group has been increasing its dividend per share and the compound annual growth rate exceeded 20%, thereby generating stable returns for shareholders over the past 4 years.

SETTING ENLIGHTENED GOALS, GRASPING STRATEGIC OPPORTUNITIES

Looking ahead to the "12th Five-Year Plan" period, the Group has promptly set its strategic goal of developing itself as a "hundred-billion enterprise" with excellent performance, and this means that, by the end of the "12th Five-Year Plan" period or longer, the Group will develop strong capabilities to grasp market opportunities, build outstanding core competences, enhance intensive high-efficiency operations and realize stable growth in enterprise value, with a goal of becoming a "world-class information network builder". Meanwhile, responding to the new circumstances and new opportunities, the Group has extended its positioning from a "service provider for telecommunications, media and technology companies" to a "leading provider of producer services in the informatization sector".

In the "12th Five-Year Plan" period, the Group will firmly grasp the following six major development opportunities: (1) various demands resulting from the full-service operation adopted by the telecommunications operators and continuously growing demands of recurring businesses including network optimization and maintenance; (2) large scale investments in the two-way upgrading of broadcast and television networks in the future; (3) significant annual informatization investments from several industries driven by policies, technologies and social development; (4) the continuous and vigorous demand of the telecommunications network construction in overseas emerging markets such as Africa, the Middle East, Latin America and the Asian Pacific region; (5) new opportunities stimulated by new markets and new businesses as a result of the change in industrial landscape and models, including the Three Networks Convergence, the joint construction and sharing of telecommunications infrastructure, energy saving and emission reduction; and (6) greater potentials in respect of the Group's external growth assisted by the recovery of the capital market among the TMT[1] sector in the "post-crisis era", to achieve the significant development of the Group.

AGGRESSIVE EXPANSIONS OF DOMESTIC NON-OPERATOR MARKET AND OVERSEAS MARKET

The expansions in the domestic non-operator market and the overseas market are the necessary choice for the Group to diversify its sources of revenues from its customers and achieve its sustainable development. The Group has served domestic telecommunications operators for many years, and thus is equipped with important expertise, resources and experience. These successful factors can also be applied easily to the non-operator customers for their integrated telecommunications support services. By utilizing our expertise and experience to broader markets, the Group is able to maintain a long-term growth momentum.

(1) TMT means telecommunications, media and technology.

Chairman's Statement

The Group continued to optimize its overseas expansion plans based on its extensive experience in overseas expansion over the past years. The Group strengthened its cooperation with telecommunications equipment manufacturers, financial institutions and state-owned enterprises, and established strategic partnerships with them to jointly explore overseas markets. As a result, the Group not only achieved a stable and rapid growth for overseas subcontracted engineering businesses, but also made breakthroughs in winning more EPC (engineering, procurement and construction) businesses. With further business penetration into more countries and regions, the business from overseas market will become a strong driver for our future growth.

ENDEAVORING TO INNOVATE DEVELOPMENT MODELS, ENHANCING FUNCTIONAL MANAGEMENT

To seize development opportunities, the Group focused on innovation in five areas to drive business growth, including marketing and services, businesses and products, corporatization of operation and management, human resources management and incentive mechanism, as well as external growth. In addition, the Group also focused on strengthening management along six functions, including corporate affairs, finance, human resources, risk management, strategic marketing and overseas market. Therefore, the Group was able to build an effective, flexible and synergistic organization structure and obtain a pool of high-calibre management and professionals, thus resulting in a highly efficient enterprise with outstanding performance.

STRENGTHENING CORPORATE GOVERNANCE

Amid its rapid business growth, the Group continued to strengthen its internal control and risk management, so as to fully enhance its corporate governance. During the year, following the appointment of Mr. Zheng Qibao with extensive experience in the telecommunications industry, as the president of the Company, Ms. Hou Rui joined the Company as its chief financial officer. Mr. Yuan Jianxing, the former chief financial officer, continues to serve as an executive director and an executive vice president of the Company and is responsible for other important issues of the Group, including business development. In addition, upon the approval of Ms. Hou as an executive director of the Company at the extraordinary general meeting held on 23 February 2011, the number of directors of the Board increased from 10 to 11, thus having further enhanced the competence of the Board and the management structure of the Group. Our effort in fostering sound corporate governance was recognized by the capital market, as evidenced by the gold award granted to the Company in "The Asset Corporate Awards 2010" election organized by "The Asset", an authoritative international financial magazine.

PROMOTING THE CUSTOMER-ORIENTED CORPORATE CULTURE EMBODYING THE PHILOSOPHY OF "THE HIGHEST EXCELLENCE IS LIKE THAT OF WATER", IMPLEMENTING CORPORATE SOCIAL RESPONSIBILITIES

The Group made great efforts in promoting the customer-oriented culture embodying the philosophy of "the highest excellence is like that of water" and advocating the core value of "benefit all". Through these efforts, the Group helped its staff to thoroughly understand the culture's essence of "innovation, compatibility, perseverance, reliability and partnership", raised the Group's cohesion and strength, and thus provided a strong cultural support to achieve its strategic goals.

Chairman's Statement

In 2010, the Group proactively participated in several rescue and relief work and provided strong support to the operators to resume the normal operation of their telecommunications services, including the earthquake relief efforts in Yushu of Qinghai province, the flood relief efforts in Jiangxi province and the rescuing efforts during the destructive mudslide in Zhouqu of Gansu province. All these disaster relief work demonstrated our strong sense of social responsibilities. In addition, the Group successfully supported the operators with its quality communications services for high-profile events, including the Shanghai World Expo and the Guangzhou Asian Games. Our efforts were highly recognized by relevant government departments and the public media.

Finally, on behalf of the Board, I would like to take this opportunity to welcome Mr. Zheng Qibao and Ms. Hou Rui to join the Board, and express my sincere gratitude to all our shareholders, customers and friends for their long-term care and support to the Group!

Li Ping
Chairman

Beijing, PRC
30 March 2011

President's Statement

Dear Shareholders,

I am very pleased to present the operating results of the Group in 2010.

In 2010, the Group recorded total revenues of RMB45,417 million, representing a year-on-year growth of 15.0%. Profit attributable to equity shareholders amounted to RMB1,818 million, representing a year-on-year growth of 13.7%. The sustained and healthy growth of our operating results was mainly attributable to the successful expansions by the Group in the domestic non-operator market and overseas market, as well as the prompt response to the demands for support services from domestic telecommunications operators.

President's Statement

In 2010, costs of revenues of the Group amounted to RMB38,018 million, representing a year-on-year growth of 14.8%, which was slightly lower than its revenue growth. The Group was committed to developing businesses with relatively higher profit margin and strengthening cost control, and its gross profit margin and net profit margin were 16.3% and 4.0%, respectively, remaining stable over the past three years. As a result of increasing requirement for working capital driven by the rapid growth of businesses, its free cash flow for the year declined on a year-on-year basis, but remained at a healthy level of RMB628 million.

In 2010, the Group achieved a continuous and stable growth in all of its three main businesses. The Group's revenues from telecommunications infrastructure ("TIS") services saw a year-on-year increase of 12.2%, accounting for 47.6% of revenues. Among which, TIS revenues from domestic operators grew by 3.7%, as the Group continued to provide domestic operators with capacity expansion services for mobile, wireline and data networks and seized the business opportunities triggered by broadband network upgrading. In addition, TIS revenues from domestic non-operator and overseas customers increased significantly by 50.9%, accounting for 24.2% of total TIS revenue, as the Group vigorously expanded such markets, fully demonstrated its integrated service capability in the informatization sector and focused on leading companies of the industry and key projects.

In 2010, revenues from business process outsourcing services achieved a year-on-year increase of 16.1%, accounting for 40.8% of revenues. In particular, maintenance service, being one of the key development focuses, sustained rapid growth and recorded a growth rate of 22.6% over the previous year. The rapid growth in revenue was mainly due to the Group's prompt response to the increasing demand from domestic operators for network optimization and maintenance. Moreover, distribution of telecommunications services and products business grew steadily under the Group's effective control and management.

In 2010, applications, content and other ("ACO") services grew rapidly and increased by 23.6% over the same period last year, and its proportion of revenues further increased to 11.6%. Driven by the industrial opportunities emerging from the informatization of society and the development of mobile Internet business, the revenues from IT applications and Internet services achieved rapid growth of 26.5% and 68.8%, respectively. After a period of incubation, the revenue growth from ACO business started to accelerate, and this would be beneficial to the enhancement of the overall profitability of the Group.

President's Statement

While providing in-depth services to the domestic telecommunications operators in all aspects, the Group made great efforts to expand the domestic non-operator market and the overseas market and achieved remarkable results with the further optimized customer structure. In 2010, the revenues from domestic telecommunications operators amounted to RMB29,464 million, representing a year-on-year growth of 7.2% and accounting for 64.9% of revenues. The revenues from domestic non-operator customers amounted to RMB13,728 million, representing a year-on-year growth of 27.8% and accounting for 30.2% of revenues, which has become an important driving force of the Group's revenues. The overseas business maintained a high-speed growth, and the revenues from overseas market amounted to RMB2,225 million, representing a year-on-year growth of 73.0%, and its proportion of revenues increased to 4.9%. The Group's further expansions of domestic non-operator customers and overseas customers not only helped optimize the customers revenue structure, but also provided a strong guarantee for the rapid development of the Group.

To achieve successful market expansion, the Group continued to optimize its business management model and internal resource allocation. On the one hand, the Group coordinated its resources to enhance operational efficiency, achieved synergistic development of businesses and enhanced execution capability on cross-functional services, so as to satisfy the development requirements of domestic non-operator customers and overseas customers. On the other hand, the Group integrated specialized resources and progressively pushed forward the internal legal entities integration to optimize resources allocation and achieve effective operation. Meanwhile, the Group attached importance to the functional management and organizational innovation, continued to improve its refined management ability, construct an efficient management model and enhance corporate management and control ability, with a view to reducing cost, increasing efficiency and effectively avoiding systematic risks.

Human resource management is an important means for the Group to strengthen its core competence. Therefore, it proactively explored innovative incentive mechanism and has constructed a market-oriented remuneration policy. By focusing on the high-value added segments along the industry chain, the Group has been tilting human resources towards high-end and strategic businesses, and endeavored to transform itself into a "technology and management focused" business model.

President's Statement

Looking forward, the Group will set the objective as a "hundred billion" leader of the producer services in the informatization sector. It will focus on key areas and expand proactively, strengthen R&D and enhance cooperation and innovation. The Group will endeavor to perform the following main tasks in 2011 and thus maintain its leading position in the industry:

- Fully support the full-service operations of the domestic telecommunications operators, and capture industry opportunities such as optical-fiber network and mobile Internet, and thus maintaining its leading position in domestic operator market.

- Exploit the huge market potential triggered by China's urbanization, informatization and the Three Networks Convergence, focus on the demand for informatization for government agencies and sectors such as transportation facilities, energy and construction, and vigorously explore domestic non-operator market.

- Strengthen its overseas market expansion by focusing on regions such as Africa, the Middle East, Latin America and the Asian Pacific, and continue to reinforce its strategic cooperation with telecommunications equipment manufacturers in order to achieve the win-win situation.

- Exert great efforts in incubating the ACO business by introducing strategic cooperation partners, focusing on the niche-market of mobile Internet, and accelerating the innovation of new products, services and incentive mechanism.

- Reinforce our effective operation by further leveraging on the advantage of its complementary resources, and innovating its management structure and system, with a view to enhancing its core competence and resource utilization efficiency.

Zheng Qibao
President

Beijing, PRC
30 March 2011

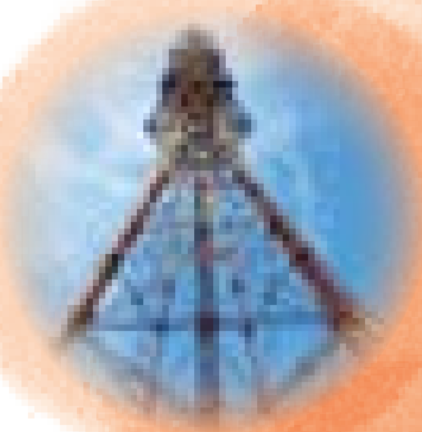
"As Powerful as Water"

With enhanced power by accumulating strengths and taking advantageous terrain, water occupies a leading position when it runs from the peak.

中国通信服务

"Strategy of Maintaining a Leading Position in the Domestic Market"

To maintain a leading position in the operator market, we endeavour to develop customers in the domestic non-operator market, and achieve a leading position in terms of business model, service quality, capabilities and culture.



Business Overview

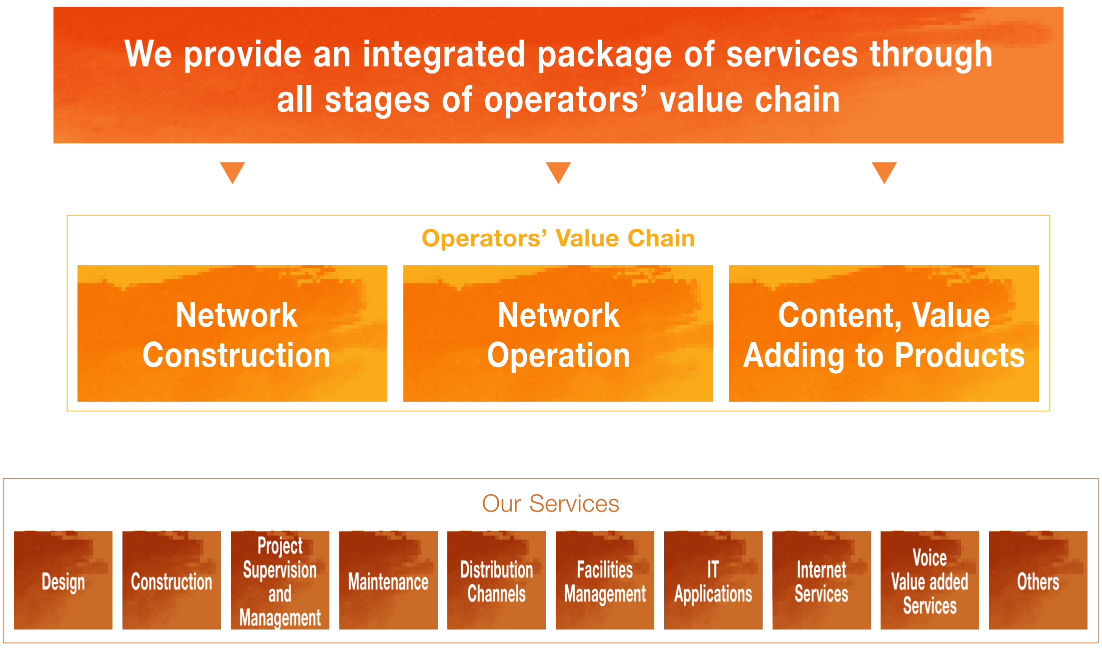
The Group is a leading service provider in the PRC that provides integrated support services in the informatization sector including telecommunications, media and technology. The Group provides integrated solutions, including telecommunications infrastructure services, business process outsourcing services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

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

Base station with the highest altitude in the world built by the Group

CUSTOMER SERVICES AND MARKET EXPANSION

In 2010, through catering to customers' needs and strengthening external strategic cooperation, the Group strengthened its leading market position in the domestic operator market and endeavoured to expand the domestic non-operator market and the overseas markets, thus leading to further optimized customer and business mix, enhanced core competence, continuingly improved innovation, and achieved a rapid growth of total revenues. In 2010, the total revenues of the Group amounted to RMB45,417 million, representing a year-on-year growth of 15.0%.

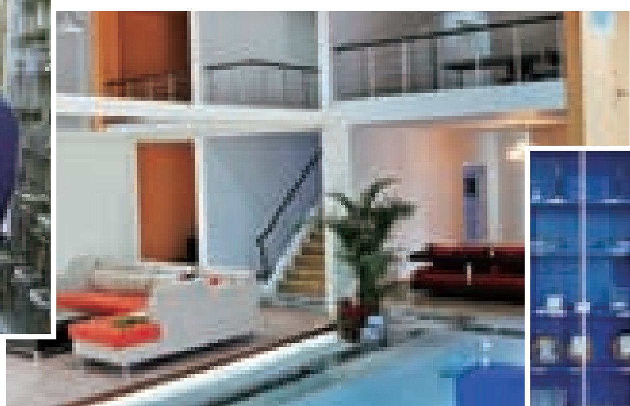
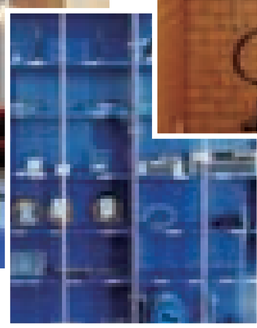
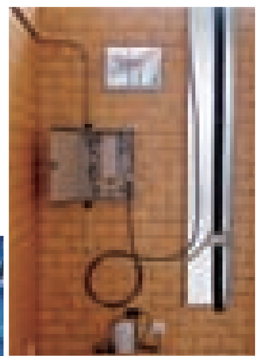


Business Overview

In 2010, the Group further optimized its customer mix. Revenues from domestic operator customers increased by 7.2% to RMB29,464 million, accounting for 64.9% of total revenues; revenues from domestic non-operator customers increased by 27.8% to RMB13,728 million, accounting for 30.2% of total revenues and revenues from overseas markets increased by 73.0% to RMB2,225 million, accounting for 4.9% of total revenues.

(In RMB million except percentages)	**2010** Revenues	**2010** Percentage of total revenues	2009 Revenues	2009 Percentage of total revenues	Change over 2009
Domestic operator customers	**29,464**	**64.9%**	27,473	69.5%	7.2%
Of which: China Telecom	**19,925**	**43.9%**	20,243	51.2%	-1.6%
China Mobile and China Unicom	**9,539**	**21.0%**	7,230	18.3%	32.0%
Domestic non-operator customers	**13,728**	**30.2%**	10,739	27.2%	27.8%
Overseas customers	**2,225**	**4.9%**	1,287	3.3%	73.0%
Total	**45,417**	**100.0%**	39,499	100.0%	15.0%

In 2010, the capital expenditure in the domestic telecommunications industry amounted to approximately RMB319.7 billion[1], representing a decrease of 14.2% in 2009. In response to this, the Group actively adopted measures to take further advantage of its strengths in telecommunications infrastructure services and vigorously expanded its services in network maintenance, IT applications and Internet services, which led to stable revenue level from operators and enhanced leadership in the industry. The Group made great efforts to expand its revenue share from China Mobile and China Unicom by improving service quality and customers' experience, and consequently achieved rapid growth of revenue from both China Mobile and China Unicom. Meanwhile, the Group continuously implemented explorations and trials with domestic telecommunications operators in respect of joint construction and sharing of telecommunications facilities, collaborative logistics services, energy saving and emission reduction, and kept innovating its business and service models in response to new business opportunities.

City-optical network R&D base of the Group

(1) According to the Ministry of Industry and Information Technology of the People's Republic of China.

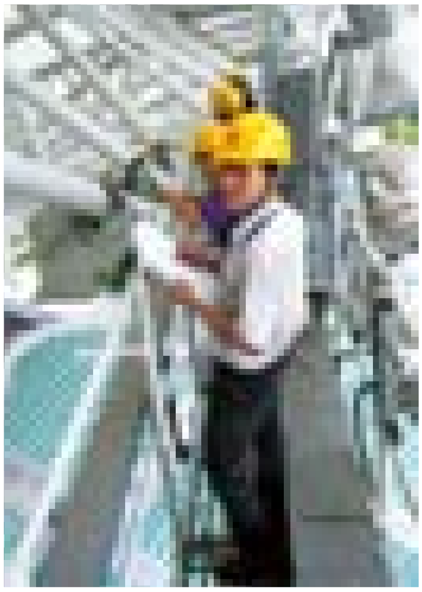
Business Overview

Based on our experiences in serving customers over the past years, we believe that the capital expenditure by the three operators in China will remain relatively stable in the coming years given the continuing growth of their customer bases and network scale as well as the continued introduction of new services and new technologies. Therefore, the Group's revenues from domestic operators will also maintain steady growth.

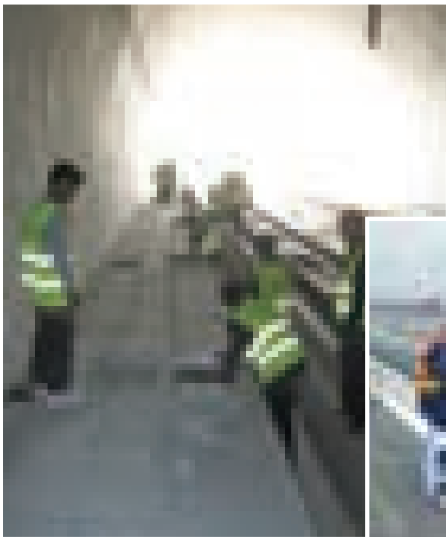
The Group's domestic non-operator customers include government agencies, media enterprises, infrastructure enterprises, energy sector related enterprises, telecommunications equipment manufacturers, public service unit such as educational and medical institutions and small to medium-sized enterprises. The Group is able to smoothly apply its experiences in serving domestic telecommunications operators and relevant technical expertise to the ancillary communications engineering services required by domestic non-operator customers in China. In 2010, facing the market opportunities in ancillary communications engineering services brought about by huge construction investments of domestic non-operator customers in infrastructure and public facilities, such as the Three Networks Convergence, energy saving and emission reduction, expressways, high-speed railways, subways, airports, ports and

■ Projects for the Shanghai World Expo

Business Overview

Projects for the Asian Games



Communications infrastructure projects

stadiums, the Group endeavored to capture these opportunities by improving its service and product systems targeted at domestic non-operator customers and enhancing the synergies in its marketing across different businesses, so as to promote brand awareness and marketing capability and achieve rapid revenue growth from the domestic non-operator customers. The huge domestic non-operator market potential will become one of the Group's key growth drivers in the future.

The Group firmly implemented its overseas expansion strategy, and applied its technical advantages in serving the world's largest communications networks into capabilities in obtaining communications construction projects in developing countries. In 2010, the revenue from overseas markets was RMB2,225 million, representing an increase of 73.0% over last year. In 2010, the Group focused on its expansion in Africa, the Middle East, Latin America and other regions, while actively expanding into Australia, New Zealand, Eastern Europe and other countries and regions. We provided services such as infrastructure communications construction, business network construction, network maintenance and weak current system construction and maintenance for local telecommunications operators, government agencies and corporate customers. In addition, the world's well-known telecommunications equipment

Business Overview

■ Overseas projects signing ceremonies

■ Overseas project site

manufacturers are also important overseas customers of the Group. The Group has entered into strategic cooperation agreements with them to further explore their large-scale construction services market. In 2010, the Group continued to reinforce its strategic cooperation with companies such as telecommunications equipment manufacturers, financial institutions and large state-owned enterprises by leveraging on the advantages of each other to jointly expand the communications EPC (Engineering, Procurement and Construction) business in overseas markets and to achieve breakthroughs in winning EPC projects. The overseas business will also become one of the Group's key growth drivers in the future.

TELECOMMUNICATIONS INFRASTRUCTURE SERVICES

As the largest telecommunications infrastructure service provider in China, the Group is in possession of the highest-grade qualifications in the communications construction industry in China. In 2010, the Group's revenue from telecommunications infrastructure services amounted to RMB21,637 million, representing a year-on-year growth of 12.2%.

The Group provides a full range of telecommunications infrastructure services to telecommunications operators. These services include design, construction and project supervision for wireline, wireless, broadband networks and support systems. The Group's revenue from the provision of telecommunications infrastructure services to telecommunications operators is mainly driven by the capital expenditure of telecommunications operators. In 2010, we enhanced our efforts in market expansion. Under the circumstances of capital expenditure of the domestic telecommunications operators dropped by 14.2% over the same period of last year, the Group's revenues of telecommunications infrastructure services from three telecommunications operators amounted to RMB16,409 million, representing a year-on-year growth of 3.7%, demonstrating a further enhancement of its market position.

The subsidiaries of the Group entered into strategic cooperation agreements with broadcasting and television enterprises

In addition, the Group also provides integrated solutions for ancillary communications networks, including ancillary communications engineering services and operating support services, to domestic non-operator customers such as government agencies, telecommunications equipment manufacturers and broadcasting and television enterprises, as well as overseas customers. Benefiting from the increasing investment in and demand for domestic infrastructure construction and the Group's further expansion into overseas markets, the Group's revenue of telecommunications infrastructure services from domestic non-operator customers and our overseas markets amounted to RMB5,228 million, representing a year-on-year growth of 50.9%.

With domestic telecommunications operators' progressive construction of broadband networks and increasing investment in Internet of things and cloud computing, capital expenditure of the telecommunications industry will remain relatively stable and the market size of domestic telecommunications infrastructure services will be maintained at a comparatively stable level. Fuelled by accelerated urbanization and informatization progress, domestic non-operator customers have made significant investments in the infrastructure sector and the informatization sector, creating a huge market for ancillary communications engineering services. As for the overseas market, many countries in the world have strong construction demands and large market potential for optic cable networks, optical fiber access networks and mobile networks. Therefore, we believe that the development of telecommunications infrastructure services is promising.

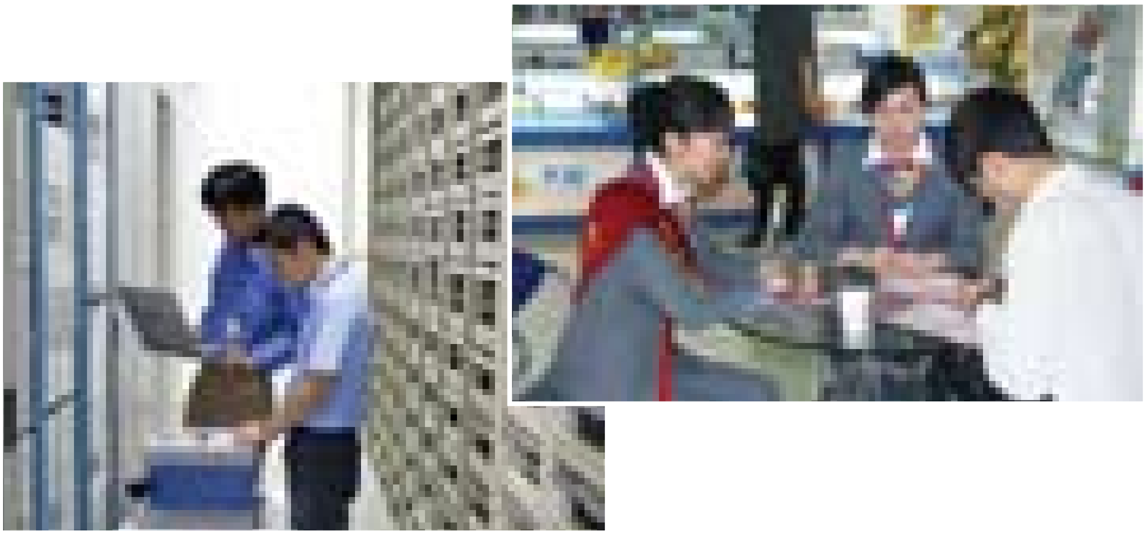
BUSINESS PROCESS OUTSOURCING SERVICES

The Group is a leading provider of business process outsourcing services for the communications industry in China. The business process outsourcing services of the Group mainly include network equipment maintenance, distribution of telecommunications and products ("Distribution"), and facilities

Business Overview

management services. Apart from domestic telecommunications operators, the Group also serves a number of government agencies and enterprise customers. In 2010, revenues from business process outsourcing services amounted to RMB18,508 million, representing a year-on-year growth of 16.1%, among which revenues from network maintenance, distribution of telecommunications services and products and facilities management services were up by 22.6%, 15.1% and 10.3% respectively.

With continuous expansion in the scales of the operators' networks and customer bases, the scale and scope of operators' non-core business service outsourcing will continue to grow and expand. Meanwhile, the market space for the Group to provide maintenance services in relation to base stations, fiber optic cables, electric cables, user access lines, user terminals and network equipment for telecommunications



Network maintenance and distribution service

operators also continued to expand. Driven by these positive factors, revenue from our network maintenance services has maintained a rapid growth. In 2010, the revenue of our network maintenance business amounted to RMB4,270 million, representing a rapid increase of 22.6% over last year.

The Distribution services of the Group mainly include the supply of communications machineries and handsets, logistics and procurement agency services and telecommunications agency services. Our major customers are telecommunications operators, telecommunications equipment manufacturers, government agencies and medium to large-sized enterprises. In 2010, the revenue of the Distribution business of the Group amounted to RMB11,957 million, representing an increase of 15.1% over last year. At the same time as maintaining the stable growth of the Distribution business, the Group also attached importance to the improvement of the quality of revenue from the Distribution business. In 2010, the Group focused on high-end logistics businesses, integrated existing resources and sought business partners to lay a solid foundation for improving the overall services capabilities of the Distribution business.

Attributable to its unique position in the PRC telecommunications industry, the Group provides facilities management services for the machinery buildings of three telecommunications operators and the high-end office buildings of its non-operator customers, revenue from the facilities management services of the Group recorded RMB2,282 million in 2010, representing a stable increase of 10.3%.

APPLICATIONS, CONTENT AND OTHER SERVICES

The Group is a provider of value-added services with great potential in China. It provides system integration services (including the development and construction of the supporting systems OSS, BSS and MSS), Internet services and voice value-added services for operators, which can also be widely used by industrial customers other than telecommunications operators. In 2010, revenue from applications, content and other services amounted to RMB5,272 million, representing a year-on-year growth of 23.6%. Among which, revenue from IT applications services and Internet services increased by 26.5% and 68.8% respectively.

■ Mobile Internet value-added services and "All-purpose" systems developed for mobile phone

We have observed that, with the continuous growth in the number of mobile subscribers and Internet users in China, the rapid growth of the mobile Internet industry and the gradual development of the "Three Networks Convergence", the demand from individuals and corporate users for mobile Internet applications will continue to grow and the mobile Internet business will move into a period of golden strategic opportunity. In response to these opportunities, we will segment the market, enhance the market share of high-end products and continue our efforts to cooperate with internationally renowned enterprises (such as Accenture) in business development and capital activities, increase investment in research and development, accelerate the innovation of our business development mechanism and recruitment of high-calibre talents, and thus enhance our core competitive edge and drive the rapid development of our businesses.

"As Soft and Accessible as Water"

Penetrating where there is an interstice, bypassing where there is an obstacle, water quickly flows everywhere without being obstructed.

中国通信服务

“Strategy of Penetrating into Overseas Market”

Rapidly developing overseas market with focus on key regions, we extend our years of customer service experiences and capabilities to overseas market.

Management's Discussion and Analysis of Financial Conditions and Results of Operations

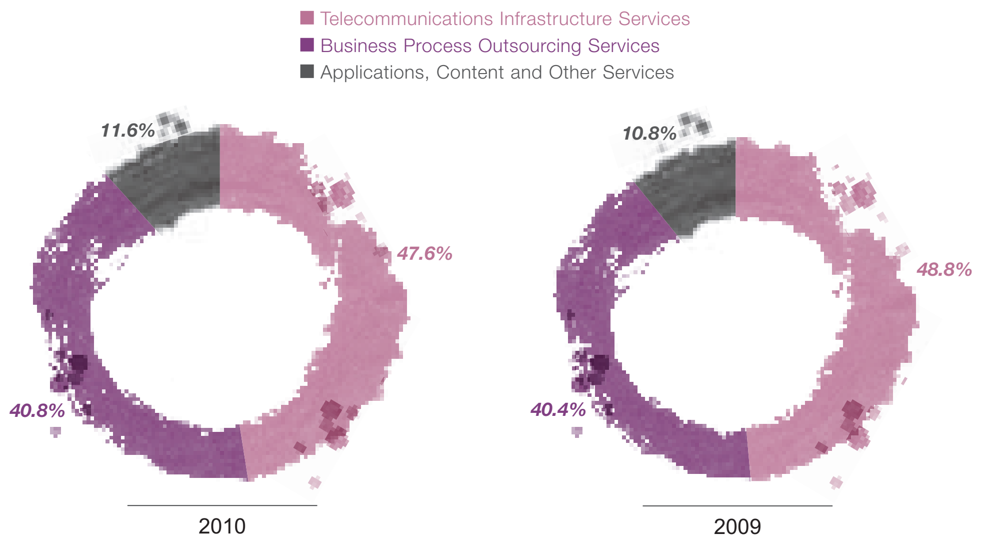
OVERVIEW

In 2010, under the circumstance of decreased capital expenditure by domestic telecommunications operators and a more competitive market, the Group put more efforts in executing its customer-oriented service innovation strategy and vigorously expanded businesses in the domestic non-operator market and overseas market, and thus maintained rapid growth momentum in all businesses. Our revenues amounted to RMB45,417.23 million, representing an increase of 15.0% from 2009. Profit attributable to equity shareholders of the Company amounted to RMB1,817.81 million, representing an increase of 13.7% from 2009. Basic earnings per share was RMB0.315, representing an increase of 13.7% from 2009. Free cash flow amounted to RMB628.37 million.

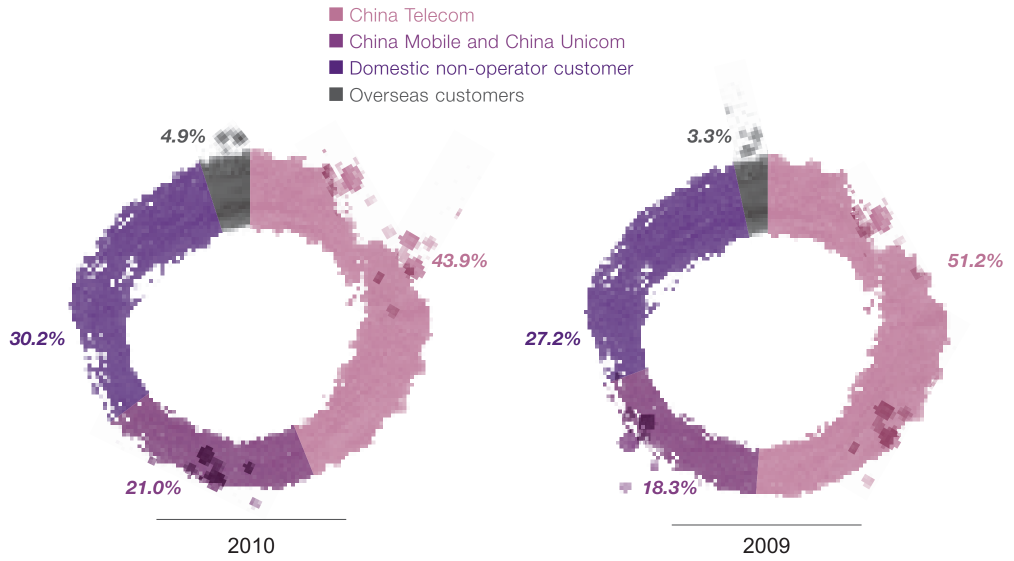
REVENUES

Our revenues in 2010 were RMB45,417.23 million, representing an increase of 15.0% from 2009. Among our businesses, revenues from telecommunications infrastructure ("TIS") services were RMB21,636.55 million, representing an increase of 12.2% from 2009; revenues from business process outsourcing ("BPO") services were RMB18,508.42 million, representing an increase of 16.1% from 2009; revenues from applications, content and other ("ACO") services were RMB5,272.26 million, representing an increase of 23.6% from 2009. TIS services was the major source of our revenues in 2010, while IT applications in ACO services and network maintenance services in BPO services were the two major businesses which experienced a relatively faster growth in revenue. In terms of customer structure, the Group's revenues from the three telecommunications operators amounted to RMB29,464.37 million, representing 64.9% of the revenues, an increase of 7.2% from 2009; revenues from the domestic non-operator customers and overseas customers amounted to RMB15,952.86 million, representing 35.1% of the revenues, an increase of 32.6% from 2009.

Business Mix



Customer Mix



The following table sets forth a breakdown of our revenues for 2009 and 2010, together with their respective rates of change:

	2010 RMB'000	2009 RMB'000	Percentage Change
Telecommunications Infrastructure Services			
Design services	**4,453,627**	4,021,105	10.8%
Construction services	**15,796,460**	14,086,311	12.1%
Project supervision and management services	**1,386,458**	1,182,163	17.3%
	21,636,545	19,289,579	12.2%
Business Process Outsourcing Services			
Network maintenance	**4,269,869**	3,484,132	22.6%
Distribution of telecommunications services and products	**11,956,698**	10,389,777	15.1%
Facilities management	**2,281,857**	2,069,417	10.3%
	18,508,424	15,943,326	16.1%
Applications, Content and Other Services			
IT applications	**2,637,849**	2,084,600	26.5%
Internet service	**483,862**	286,732	68.8%
Voice VAS	**706,264**	652,885	8.2%
Other	**1,444,288**	1,242,328	16.3%
	5,272,263	4,266,545	23.6%
Total	**45,417,232**	39,499,450	15.0%

Telecommunications Infrastructure Services

In 2010, revenues from TIS services of the Group were RMB21,636.55 million, representing an increase of 12.2% over RMB19,289.58 million from 2009, which was our primary source of revenues, and accounted for 47.6% of our revenues. Under the circumstance of decreased capital expenditure by domestic telecommunications operators, the Group adopted more proactive and effective measures, TIS revenues from domestic operators grew steadily and amounted to RMB16,409.25 million in 2010, representing an increase of 3.7% over RMB15,824.44 million from 2009. Meanwhile, assisted by the Group's vigorous expansion of the domestic non-operator market and overseas market, TIS revenues from such markets grew rapidly and amounted to RMB5,227.30 million, representing an increase of 50.9% over RMB3,465.14 million in 2009.

Business Process Outsourcing Services

In 2010, revenues from BPO services of the Group were RMB18,508.42 million, representing an increase of 16.1% over RMB15,943.33 million in 2009. BPO services accounted for 40.8% of our revenues, representing an increase of 0.4 percentage points from 40.4% in 2009. Among our businesses, revenues from network maintenance were RMB4,269.87 million, representing an increase of 22.6% from 2009 and kept growing strongly. Rapid revenue growth mainly benefited from the strategy of full-service operations of telecommunications operators that have increased their investments in network optimization and maintenance services. In addition, the Group continued to strengthen the management of distribution of telecommunications services and products and optimize its business structure, and the low margin businesses was reasonably controlled and operating efficiency was improved. Revenues from distribution of telecommunications services and products amounted to RMB11,956.70 million, representing an increase of 15.1% from 2009. The proportion of revenues from the distribution of telecommunications services and products to our revenues remained stable.

Applications, Content and Other Services

In 2010, revenues from ACO services of the Group were RMB5,272.26 million, representing an increase of 23.6% over RMB4,266.55 million from 2009. ACO services accounted for 11.6% of our revenues, representing an increase of 0.8 percentage points from 10.8% in 2009. During this year, the Group further expanded the market of government and enterprise informatization services and the Internet application service to telecommunications operators, which led to a rapid increase in revenues from IT applications and Internet services and became a major revenue generator for ACO services. The revenues from IT applications and Internet services were RMB2,637.85 million and RMB483.86 million, respectively, representing an increase of 26.5% and 68.8% from 2009.

COST OF REVENUES

Our cost of revenues in 2010 was RMB38,018.25 million, representing an increase of 14.8% from 2009 and accounting for 83.7% of our revenues.

The following table sets out a breakdown of our cost of revenues in 2009 and 2010 and their respective rates of change:

	2010 RMB'000	2009 RMB'000	Percentage Change
Direct personnel costs	**7,459,665**	7,073,351	5.5%
Depreciation and amortization	**359,100**	351,402	2.2%
Purchase of material and telecommunications products	**13,506,740**	12,364,499	9.2%
Subcontracting charges	**11,883,574**	9,064,577	31.1%
Operating lease charges and others	**4,809,167**	4,273,684	12.5%
Total cost of revenues	**38,018,246**	33,127,513	14.8%

Direct Personnel Costs

In 2010, direct personnel costs were RMB7,459.67 million, representing 16.4% of our revenues and an increase of 5.5% over RMB7,073.35 million in 2009. With the rapid growth in business volume in 2010, the Group consistently applied reasonable control over its total headcount and subcontracted our low-end tasks, thereby minimizing the staff costs and avoiding related risks. The proportion of direct personnel costs of our revenues decreased by 1.5 percentage points compared to 2009.

Depreciation and Amortization

In 2010, depreciation and amortization amounted to RMB359.10 million, representing 0.8% of our revenues and an increase of 2.2% over RMB351.40 million in 2009. Its proportion of our revenues was maintained at the relatively similar level as in 2009.

Purchase of Materials and Telecommunications Products

In 2010, the cost of materials and telecommunications products purchase was RMB13,506.74 million, representing 29.7% of revenues and an increase of 9.2% over RMB12,364.50 million in 2009. In 2010, the Group strengthened its management in the business of distribution of telecommunications services and products and controlled the development of low-margin distribution businesses. This effectively lowered the growth of the cost of materials and telecommunications products purchase. Its proportion of our revenues decreased by 1.6 percentage points compared to 2009.

Subcontracting Charges

In 2010, subcontracting charges were RMB11,883.57 million, representing 26.2% of our revenues and an increase of 31.1% over RMB9,064.58 million in 2009. The increase in subcontracting charges was mainly derived from the business of TIS services. As the business volume increased significantly in 2010, we outsourced certain of the specialized tasks required by domestic non-operator customers and low-end tasks after taking into consideration of efficiency and benefits. Its proportion of our revenues increased by 3.3 percentage points compared to 2009.

Operating Lease Charges and Others

In 2010, operating lease charges and others were RMB4,809.17 million, representing 10.6% of our revenues and an increase of 12.5% over RMB4,273.68 million in 2009. Its proportion of our revenues was maintained at the relatively similar level as in 2009.

GROSS PROFIT

In 2010, the Group's gross profit amounted to RMB7,398.99 million, representing an increase of 16.1% over RMB6,371.94 million in 2009. The Group's gross profit margin in 2010 was 16.3%, representing an increase of 0.2 percentage point over 16.1% in 2009. The Group was able to enhance gross profit margin in 2010 through optimizing its business and customer structures and controlling personnel costs.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Our selling, general and administrative expenses in 2010 were RMB5,627.04 million, representing an increase of 19.9% over RMB4,691.51 million in 2009, and accounted for 12.4% of our revenues, an increase of 0.5 percentage points over 2009. Due to the rapid business growth, the Group exerted more efforts in sales and marketing and increased investment in research and development.

FINANCE COSTS

In 2010, the Group's finance costs were RMB57.73 million, representing a decrease of 34.7% over RMB88.44 million in 2009. The significant decrease was mainly due to the fact that the Group strengthened the centralized cash management and the cooperation with banks, and therefore improved our efficiency in cash utilization.

INCOME TAX

Certain of our subsidiaries were recognized as new and high-technology enterprises and were entitled to a preferential income tax rate of 15%. Our subsidiaries in Shenzhen, Zhuhai, Xiamen and Hainan Special Economic Zones were entitled to an income tax rate of 22%. Apart from these subsidiaries, the Company and other subsidiaries of the Group were subject to an income tax rate of 25%. The income tax of the Group in 2010 was RMB459.71 million and our effective tax rate was 20.2%, representing a decrease of 0.8 percentage points over 21.0% in 2009. This was mainly due to the preferential income tax treatment for new and high-technology enterprises and the preferential policy of double deduction for research and development expenses before income tax enjoyed by certain of our subsidiaries. The difference between our effective tax rate and the statutory tax rate was mainly due to the effect of the aforementioned preferential tax rate treatment of our subsidiaries.

PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

In 2010, profit attributable to equity shareholders of the Company was RMB1,817.81 million, an increase of 13.7% over RMB1,598.59 million in 2009. Profit attributable to equity shareholders of the Company accounted for 4.0% of our revenues, remaining at the similar level as in 2009.

CAPITAL EXPENDITURE

We implemented stringent budget management over capital expenditure, and adjusted our capital expenditure plan according to the changes of market condition. In 2010, our capital expenditure amounted to RMB832.96 million, an increase of 4.7% from RMB795.69 million in 2009. The capital expenditure in 2010 accounted for 1.8% of our revenues. Our capital expenditure included the purchases of production facilities and equipment, machinery and meters, plant and office buildings, intangible assets and other operating assets.

CASH FLOW

Our net cash outflow in 2010 was RMB390.06 million whereas that in 2009 was net cash inflow RMB336.68 million. As at the end of 2010, our cash and cash equivalents amounted to RMB8,470.25 million, of which 95.73% was denominated in Renminbi.

The following table sets out our cash flow positions in 2009 and 2010, respectively:

	2010 RMB'000	2009 RMB'000
Net cash generated from operating activities	**1,526,412**	2,062,227
Net cash used in investing activities	**(1,055,364)**	(814,115)
Net cash used in financing activities	**(861,103)**	(911,437)
Net (decrease)/increase in cash and cash equivalents	**(390,055)**	336,675

In 2010, net cash generated from operating activities was RMB1,526.41 million, an decrease of RMB535.82 million from RMB2,062.23 million in 2009. The decrease in net cash generated from operating activities was mainly because more cash was needed to support the rapid development of the Group's domestic and overseas business.

In 2010, net cash used in investing activities was RMB1,055.36 million, an increase of RMB241.24 million from RMB814.12 million in 2009. Cash used in investing activities in 2010 mainly comprised of capital expenditure including the purchase of facilities.

In 2010, net cash used in financing activities was RMB861.10 million, a decrease of RMB50.34 million from RMB911.44 million in 2009. The decrease in net cash used in financing activities was mainly because the Group made the payment for previous dividends and increased the bank loans at the end of 2010.

WORKING CAPITAL

As at the end of 2010, working capital (i.e. current assets minus current liabilities) was RMB7,945.82 million, while working capital was RMB7,349.56 million in 2009. The increase in working capital was mainly due to the rapid development of the Group's domestic and overseas businesses.

INDEBTEDNESS

As at the end of 2010, total indebtedness of the Group was RMB1,780.52 million, and most of them were fixed interest rate loans and denominated in Renminbi. Our indebtedness increased by RMB512.24 million from RMB1,268.28 million at the year end of 2009.

As at the end of 2010, our gearing ratio[1] was 11.1%, an increase of 2.3 percentage points from 8.8% in 2009.

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

CONTRACTUAL OBLIGATIONS

The following table sets out our contractual obligations as at 31 December 2010:

	Total RMB'000	2011 RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 and after RMB'000
Short-term debt	1,780,523	1,780,523	–	–	–	–
Long-term debt	–	–	–	–	–	–
Operating lease commitments	465,914	180,699	96,437	51,233	38,038	99,507
Capital commitments	273,450	273,450	–	–	–	–
Of which:						
Authorized and contracted for	216,365	216,365	–	–	–	–
Authorized but not contracted for	57,085	57,085	–	–	–	–
Total of contractual obligations	2,519,887	2,234,672	96,437	51,233	38,038	99,507

EXCHANGE RATE

Most of our revenues and expenses are settled in Renminbi and therefore the risks associated with foreign currency exchange rates have no significant impact on our business performance. As at the end of 2010, the balance of our cash and cash equivalents in foreign currencies accounted for 4.27% of our total cash and cash equivalents, of which 2.42% and 1.16% were denominated in US dollars and Hong Kong dollars, respectively.

"As Flexible as Water"

Square or circular, water is ever-changing in shape to adapt to all kinds of environment.

中国通信服务

"Strategy of Innovation in the Niche Market"

Focusing on the niche market of mobile Internet, we keep innovating our products, operating models, mechanisms and cooperation methods.

Directors, Supervisors and Senior Management

Mr. WANG Xiaochu

age 53, is the Honorary Chairman[1] of our Company. Mr. Wang is also President of China Telecommunications Corporation, Chairman and Chief Executive Officer of China Telecom Corporation Limited. Until 8 April 2008, Mr. Wang was the Chairman and non-executive director of the Company.

Mr. LI Ping

age 57, is the Chairman of our Board of Directors and an Executive Director of our Company in charge of our overall management. Mr. Li is also a Vice President of China Telecommunications Corporation and Executive Vice President of China Telecom Corporation Limited. Prior to joining China Telecommunications Corporation in August 2000, Mr. Li served as the Chairman and Chief Executive Officer of China Telecom (Hong Kong) International Limited, Vice Chairman and Chief Operating Officer of China Mobile Limited and Deputy Director General of the Directorate General of Telecommunications (the "DGT") of the former Ministry of Posts and Telecommunications (the "MPT") of the PRC. Mr. Li graduated from the Beijing Institute of Posts and Telecommunications in 1976 with a major in Radio Telecommunications. He also received an MBA degree from the State University of New York at Buffalo, U.S.A. in 1989. Mr. Li has extensive administrative experience in the management of listed companies and has 35 years of operational and managerial experience in the telecommunications industry in China.

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

鄭奇寶

Mr. ZHENG Qibao

age 53, is the President and an Executive Director of our Company, responsible for our daily operations and management. Mr Zheng is also a Managing Director of the Sideline Industrial Management Department of China Telecommunications Corporation. Mr. Zheng graduated from Shanghai Second Polytechnic University in 1986 and received a bachelor degree in mechanical engineering, received an EMBA degree from China Europe International Business School in 1998, and a doctoral degree in Political Economics from Fudan University in 2003. Mr. Zheng previously served as a Managing Director of Shanghai Telecom Corporation Limited and Dean of China Telecom Corporation Limited Shanghai Research Institute, Executive Vice Dean of China Telecom Corporation Limited Beijing Research Institute and the Managing Director of the Corporate Strategy Department of China Telecommunications Corporation. Prior to that, Mr. Zheng served as Deputy General Engineer of Shanghai Posts and Telecommunications Bureau, Dean of Shanghai Telecom Technology Research Institute and General Manager of Shanghai Telecom Long Distance Communication Division. Mr. Zheng has 33 years of operational and managerial experience in the telecommunications industry in China.

元建興

Mr. YUAN Jianxing

age 56, is an Executive Vice President and Executive Director of our Company. Mr. Yuan is also the Deputy Managing Director of the Sideline Industrial Management Department of China Telecommunications Corporation and the Chairman of China Satcom Guomai Communications Co., Ltd. Until 30 December 2010, Mr. Yuan was the Chief Financial Officer of our Company. Prior to that, he served as the Deputy Director of Finance Department of Shanxi Provincial Post and Telecommunications Bureau, the General Manager of Shanxi Provincial Posts and Telecommunications Industrial Company, Director of Xinzhou Posts and Telecommunications Bureau in Shanxi Province, the General Manager of Taiyuan Branch of Shanxi Telecom Company Limited, Deputy General Manager of Shanxi Telecom Company Limited, Deputy Managing Director of the Sideline Industrial Management Department of China Telecommunications Corporation and Vice President and Chief Accountant of Hunan Telecom Company Limited. Mr. Yuan received an MBA degree from the Ukrainian-American Humanitarian Institute "Wisconsin International University (USA) Ukraine" in 2002. Mr. Yuan has over 33 years experience in the telecommunications industry.

Directors, Supervisors and Senior Management

Ms. HOU Rui [1]

age 41, is an Executive Director, Executive Vice President and Chief Financial Officer of our Company. Ms. Hou received a master degree in Management Engineering from Beijing University of Posts and Telecommunications in 1995 and a master degree in International Commercial Accounting from The University of New South Wales in 2002. Prior to joining the Company, Ms. Hou was Deputy Managing Director of the Finance Department in China Telecommunications Corporation. Prior to that, Ms. Hou served as Divisional Director of General Finance Division and Budgeting Division of China Telecommunications Corporation's Finance Department and the director and the Chief Accountant of Guangxi Telecom Company. Ms. Hou has over 16 years experience in telecommunications industry and financial management.

Mr. LIU Aili

age 47, is a Non-Executive Director of our Company. Mr. Liu is an Executive Director and a Vice President of China Mobile Limited. He is also a Vice President of China Mobile Communications Corporation. Mr. Liu received a master of management degree and a doctoral degree in Business Administration. Mr. Liu previously served as Deputy Director General of Shandong Mobile Telecommunications Administration, Director General of Shandong Mobile Telecommunications Administration and General Manager of Shandong Mobile Communications Enterprises, Vice President of Shandong Mobile Communications Company, Director-General of the Network Department of China Mobile Communications Corporation, Chairman and President of Shandong Mobile and Zhejiang Mobile. He is a professor-level senior engineer with over 28 years of management experience in the telecommunications industry.

[1] Ms. Hou Rui was appointed as an Executive Vice President of the Company on 27 October 2010, as the Chief Financial Officer of the Company on 30 December 2010 and as an Executive Director of the Company on 23 February 2011.

Directors, Supervisors and Senior Management

Mr. ZHANG Junan

age 54, is a Non-Executive Director of our Company. Mr. Zhang is a member of Party Leadership Group, Vice President of China United Network Communications Group Company Limited, a Senior Vice President of China Unicom (Hong Kong) Limited. Mr. Zhang graduated from the Nanjing University of Posts and Telecommunications majoring in carrier communication in 1982, received a master degree in Business Administration from the National Australian University in 2002 and received a Doctor of Business Administration from Hong Kong Polytechnic University in October 2008. Prior to joining China Unicom in December 2005, Mr. Zhang served as Deputy General Manager and General Manager of the Anhui Provincial Telecommunication Company, and Chairman and General Manager of Anhui Provincial Telecommunication Co., Ltd. Mr. Zhang had served as Director of Bengbu Municipal Posts and Telecommunications Bureau in Anhui Province and Deputy Director of Anhui Provincial Posts and Telecommunications Bureau. Mr. Zhang has long and extensive management experience in the telecommunications industry.

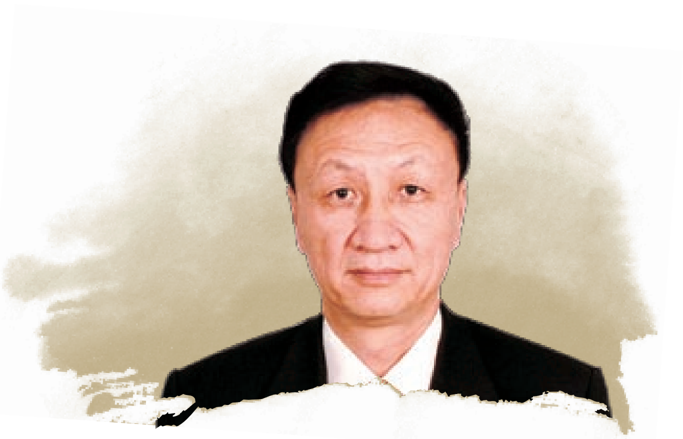
Mr. WANG Jun

age 70, is an Independent Non-Executive Director of our Company. Mr. Wang graduated from the Harbin Engineering Institute in the PRC. Mr. Wang was the former Chairman of China International Trust and Investment Corporation ("CITIC"). After his retirement in July 2006, he became the Executive Director and Chairman of the Board of Directors of CITIC 21CN Company Limited and the Chairman and Executive Director of Goldbond Group Holdings Limited. Until 17 April 2008, Mr. Wang was a Non-Executive Director and Honorary Chairman of HKC (Holdings) Limited.

Directors, Supervisors and Senior Management

Mr. CHAN Mo Po, Paul

age 56, is an Independent Non-Executive Director of our Company. Mr. Chan is a member of the Legislative Council of HKSAR, representing the Accountancy Constituency, and Chairman of Legal Aid Services Council. He is the Co-Chairman of Crowe Horwath (HK) CPA Limited. He is also an Independent Non-Executive Director of publicly listed Kingmaker Footwear Holdings Limited, Hong Kong Economic Times Holdings Limited and The Wharf (Holdings) Limited. Until 1 January 2009, Mr. Chan was an Independent Non-Executive Director of China Resources Land Limited. Mr. Chan is a graduate of The Chinese University of Hong Kong where he obtained both his bachelor's and master's degrees in Business Administration. Mr. Chan is a Practising Certified Public Accountant in Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the Association of Chartered Certified Accountants ("ACCA"), CPA Australia, the Society of Chinese Accountants and Auditors, the Taxation Institute of Hong Kong and the Hong Kong Institute of Company Secretaries. Mr. Chan has over 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 and advisor to the Accounting Standards Committee of the Ministry of Finance of PRC.



Mr. ZHAO Chunjun

age 70, is an Independent Non-Executive Director of our Company. Mr. Zhao is an Independent Non-Executive Director of Dongfang Electric Corporation Limited and an Independent Director of China United Network Communications Limited. He is the committee member of Degree Committee and the Academic Council of Tsinghua University. Until 11 May 2010, Mr. Zhao was the Chairman of the Supervisory Committee of Tongfang Co., Limited. Mr. Zhao graduated from Tsinghua University in the PRC. He was Dean of the School of Economics and Management of Tsinghua University between June 2001 and October 2005, having previously served as Executive/First Vice Dean between January 1987 and June 2001.

Directors, Supervisors and Senior Management

Mr. WU Shangzhi

age 61, is an Independent Non-Executive Director of our Company. Mr. Wu is the Chairman of CDH China Holdings Management Company Limited ("CDH"). Prior to joining CDH, Mr. Wu was an investment officer and senior investment officer at the World Bank from 1984 to 1991 and he also was a senior investment officer of the International Finance Corporation of the World Bank Group from 1991 to 1993. From 1993 to 1995, Mr. Wu was an executive director of Beijing Copia Consulting Co. Ltd. Mr. Wu was a managing director of the Direct Investment Department of China International Capital Corporation (CICC) from 1995 to 2002 and member of the Management Committee of CICC from 2000 to 2002. 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 76, 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 60 years' experience in the telecommunications industry. Mr. Hao is the Vice Chairman of the China Association of Communications Enterprises and is also a standing committee member of the telecommunication technology committee and the radio frequency planning and consulting committee of the Ministry of Industry and Information Technology. From 1983 to 1986, Mr. Hao was sent to the United States as a visiting scholar to carry out telecommunications research on GTE Network Systems at Stanford University. Mr. Hao has been involved in management and research projects in the fields of management of technology, data communication, satellite communication, network planning and international communication since his return from the United States. Mr. Hao previously served as a Deputy Director-General and Chief Engineer of the DGT of the former MPT and a Vice Chairman and the General Manager of China Orient Telecomm Satellite Co., Limited prior to December 2003.

SUPERVISORS

Ms. XIA Jianghua, age 52, is Chairperson of the Supervisory Committee. Ms. Xia is Vice Director of Auditing Office and Division-Director of Construction Auditing Division of China Telecommunications Corporation. Ms. Xia is a senior auditor. Prior to joining China Telecommunications Corporation, she served as Vice-Divisional Director of the Auditing Bureau of MPT, Vice- Divisional Director (standing) of the Auditing Division of DGT. Ms. Xia has over 26 year management and auditing experience in the telecommunications industry.

Mr. HAI Liancheng, age 66, is an Independent Supervisor of our Company. Mr. Hai studied at the Civil Aviation College and Chinese Communist Party's (CPC) School, and obtained a college diploma. Mr. Hai has served as Vice-Divisional Director and Divisional Director of the Financial Division of the Financial Department of Civil Aviation Administration of China ("CAAC"), Vice-Director and Director of the Financial Department of CAAC, General Manager of China Aviation Oil Supply Corporation, and Vice General Manager of China Aviation Oil Holding Company. From September 2001 to February 2006, Mr. Hai served as Chairman of South China BlueSky Aviation Oil Co., Ltd and China Aviation Oil Corporation Ltd. Mr. Hai is the Director General of the CAAC Sub-association of the China Association of Chief Financial Officers and Chairman of the CAAC Training Centre for Accounting and Auditing. Mr. Hai is employed by PICC Property and Casualty Co. Ltd. as consultant since June 2007. Since October 2007, Mr. Hai is the Chairman of Zhong Peng Certified Public Accountants Ltd.

Mr. YAN Dong, age 39, is an Employee Representative Supervisor of our Company. Mr. Yan is the Director of the Corporate Affairs Department of the Company. Prior to that, Mr. Yan was the Divisional Director of the Risk Management Department of the Company and the Deputy Director and Chief Financial Officer of China International Telecommunications Construction Corporation. Mr. Yan received an MBA from Shandong University in 2002. Prior to joining China Telecommunications Corporation in 2004, Mr. Yan served as a Project Manager in Shandong International Trust and Investment Corporation, Office Director, Manager of the Investment Department and Secretary of the Board of Directors of Shandong Luxin Investment Corporation and General Manager of Shandong Luxin Property Investment and Development Co., Ltd.

1.Mr. LI Ping

3.Mr. YUAN Jianxing

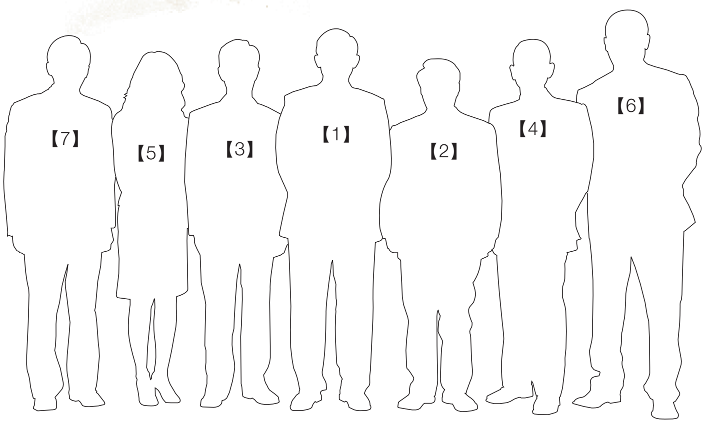
2.Mr. ZHENG Qibao

7.Mr. LIANG Shiping

6.Mr. LIU Xiaoyi

5.Ms. HOU Rui

4.Mr. WANG Qi



MANAGEMENT

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

Mr. ZHENG Qibao. (Please refer to the "Directors" Section)

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

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

Mr. WANG Qi, age 55, is an Executive Vice President of our Company. Mr. Wang is also the Chairman of China International Telecommunications Construction Corporation, a subsidiary of the Company. Until November 2008, Mr. Wang was the Chief Executive Officer of Guangdong Communications Services Company Limited. Mr. Wang graduated from the Chinese Communist Party's (CPC) School of Guangdong in 1998. Mr. Wang had served as General Manager of Guangdong Post and Telecommunications Development Corporation, and Director of the Telecom Engineering Administration Centre of Guangdong Telecommunications Corporation. Mr. Wang was involved in a number of major communications network projects for Guangdong Telecom, and was awarded the Excellent Engineering Project Prize issued by the MPT. Mr. Wang has 37 years of management experience in the telecommunications industry in China.

Mr. LIU Xiaoyi, age 43, is an Executive Vice President of our Company. Mr. Liu received a bachelor's degree in Communications Engineering from the Beijing Institute of Posts and Telecommunications in 1989, a master's degree in Communications Engineering from the Beijing University of Posts and Telecommunications in 1994, and an MBA degree from Tsinghua University in 2001. Mr. Liu joined China Telecommunications Corporation in October 2000 and served as a Director of the Data Business Division and as a Senior Manager of the International Division. From June 2002 to September 2006, Mr. Liu was Vice President of China Telecom (USA) Corporation. Mr. Liu has over 22 years' experience in the telecommunications industry.

Mr. LIANG Shiping, age 41, is an Executive Vice President of our Company. Mr. Liang joined the Company in August 2008 as Director of the Marketing Department of the Company. Mr. Liang received a bachelor's degree in Computer Engineering from the Computer Science Department of Jilin University in 1992 and master's degree in Computer Application from the Sixth Research Institute of the Ministry of Machinery and Electronics Industry in 1996. Prior to joining the Company, Mr. Liang served at the Data Communication Bureau of the Ministry of Posts and Telecommunications, the Multimedia Bureau of the Telecom Administration of the Ministry of Posts and Telecommunications and the Technology Development Department of China Telecom Data Communication Bureau. From October 2000 to August 2008, Mr. Liang served as a Divisional Director of the Planning Division of the Data Communication Bureau and the Application Development Division of the Corporate Informatization Department. Mr. Liang has over 19 years' experience in telecommunications and IT industry.

COMPANY SECRETARY

Mr. CHUNG Wai Cheung, Terence, age 37, has been our Company Secretary, Assistant Chief Financial Officer and Qualified Accountant since 16 October 2006. Mr. Chung graduated from Melbourne University, Australia, with a bachelor of commerce degree in 1996 and received a master's degree in Business Administration from the Australian Graduate School of Management in 2005. Mr. Chung is a member of the Hong Kong Institute of Certified Public Accountants and the CPA Australia. Between March 2001 and October 2006, Mr. Chung worked as Finance Manager and Senior Finance Manager with China Mobile Limited and China Telecom Corporation Limited respectively. Mr. Chung has nearly 15 years of experience in auditing, financial management and company secretarial work with accounting firm and listed companies.

"As Nourishing as Water"

Nourishing organisms and lives, water creates a favorable environment for all.

中国通信服务

"Strategy of Operation Based on Talents"

Through optimizing the team structure of employees and building an excellent and highly-efficient pool of staff whose knowledge and skills are the key resources of the Company, we have made the best efforts to enhance the efficiency of human resources so as to provide our customers with the best services.

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 2010.

PRINCIPAL BUSINESSES

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

RESULTS

Results of the Group for the year ended 31 December 2010 and the financial position of the Company and the Group as at that date are set out in the audited financial statements on page 89 to page 158 in this Annual Report.

DIVIDENDS

The Board proposed a cash dividend of RMB0.1260 per share for the year ended 31 December 2010, approximately RMB727 million in total. The proposed dividends will be submitted for consideration and approval at the 2010 annual general meeting to be held on 28 June 2011. Dividends will be denominated and declared in RMB. Dividends of domestic shares will be paid in RMB, whereas dividends of H Shares will be paid in Hong Kong dollars. The relevant exchange rate will be the average of the mid-point rates of RMB to Hong Kong dollars as announced by the People's Bank of China for the week prior to the date of approval of declaration of dividends at the 2010 annual general meeting.

Further details in respect of the dividends and distribution by the Company are set out in note 15 of the audited financial statements on page 120 of this Annual Report.

According to the "Corporate Income Tax Law of the People's Republic of China" and the "Implementation Rules of the Corporate Income Tax Law of the People's Republic of China" (hereinafter collectively referred to as "Corporate Income Tax Laws") implemented in 2008, as from 1 January 2008, any PRC domestic enterprise which pays dividends to a non-resident enterprise shareholder shall withhold and pay corporate income tax for such shareholder. Therefore, the Company shall withhold and pay 10% corporate income tax when the Company distributes the 2010 final dividend to non-resident enterprise shareholders (including HKSCC Nominees Limited, corporate nominees or trustees, or other organizations or entities that are considered non-resident enterprise shareholders) whose names appear on the register of H shareholders of the Company. In the event that the shareholders of the Company need to change their names in the register of members of the Company, they need to consult their nominees or trustees about the relevant procedures. The Company will abide by the Corporate Income Tax Laws and withhold and pay the corporate income tax for non-resident enterprise shareholders whose names appear on the H shareholders register of the Company on 28 June 2011. The Company will not be responsible for and will reject any disputes that arise from our withholding and paying corporate income tax due to a shareholder's failure to submit documentary proof to the Company before the stated deadline for the shareholders register to be changed.

DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY

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

Name	Position in the Company	Date of appointment
Wang Xiaochu	Honorary Chairman[1]	8 April 2008
Li Ping	Chairman Executive Director	8 April 2008 3 August 2006
Zheng Qibao	Executive Director President	10 August 2010 21 June 2010
Yuan Jianxing	Executive Director Executive Vice President	12 December 2007 16 October 2006
Hou Rui	Executive Director Chief Financial Officer[2] Executive Vice President	23 February 2011 30 December 2010 27 October 2010
Liu Aili	Non-executive Director	12 October 2006
Zhang Junan	Non-executive Director	12 October 2006
Wang Jun	Independent Non-executive Director	26 September 2006
Chan Mo Po, Paul	Independent Non-executive Director	26 September 2006
Zhao Chunjun	Independent Non-executive Director	26 September 2006
Wu Shangzhi	Independent Non-executive Director	26 September 2006
Hao Weimin	Independent Non-executive Director	27 October 2006
Wang Qi	Executive Vice President	16 October 2006
Liu Xiaoyi	Executive Vice President	16 October 2006
Liang Shiping	Executive Vice President	3 March 2010
Chung Wai Cheung, Terence	Company Secretary, Assistant Chief Financial Officer and Qualified Accountant	16 October 2006

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

(2) On 30 December 2010, Ms. Hou Rui succeeded Mr. Yuan Jianxing as the Chief Financial Officer of the Company.

Report of the Directors

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

On 21 June 2010, Mr. Zhang Zhiyong resigned from the position of the President and Executive Director of the Company.

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

Name	Position in the Group	Date of appointment
Chen Hong	Chief Executive Officer of Guangdong Communications Services Company Limited	5 February 2009
Chen Zhijian	Chief Executive Officer of Shanghai Communications Services Company Limited	7 December 2010
Wu Xiaowei	Chief Executive Officer of Zhejiang Communications Services Company Limited	6 September 2010
Yang Yonghe	Chief Executive Officer of Fujian Communications Services Company Limited	13 March 2007
Gao Liangping	Chief Executive Officer of Hubei Communications Services Company Limited	17 August 2006
Cheng Hongyan	Chief Executive Officer of Jiangsu Communications Services Company Limited	5 April 2007
Gu Ping	Chief Executive Officer of Anhui Communications Services Company Limited	5 April 2007
Chen Biao	Chief Executive Officer of Jiangxi Communications Services Company Limited	5 April 2007
Xiao Yafan	Chief Executive Officer of Hunan Communications Services Company Limited	5 April 2007
Qi Yan	Chief Executive Officer of Guangxi Communications Services Company Limited	5 April 2007
Li Xiulin	Chief Executive Officer of Chongqing Communications Services Company Limited	5 April 2007
Deng Chang	Chief Executive Officer of Sichuan Communications Services Company Limited	5 April 2007
Xu Haiming	Chief Executive Officer of Guizhou Communications Services Company Limited	23 July 2009
Qing Deming	Chief Executive Officer of Yunnan Communications Services Company Limited	5 April 2007
Yang Changlin	Chief Executive Officer of Shaanxi Communications Services Company Limited	5 April 2007
Ren Chengyin	Chief Executive Officer of Gansu Communications Services Company Limited	17 October 2008
Deng Xiaohui	Chief Executive Officer of Qinghai Communications Services Company Limited	5 April 2007
Hou Zhilong	Chief Executive Officer of Xinjiang Communications Services Company Limited	5 February 2009
Yang Fan	Chief Executive Officer of China Communications Services (Hong Kong) International Limited	1 November 2007
Xu Chuguo	Chief Executive Officer of China International Telecommunications Construction Corporation	5 November 2008

On 7 December 2010, Mr. Chen Zhijian succeeded Mr. Yuan Jinling as Chief Executive Officer of Shanghai Communications Services Company Limited.

On 6 September 2010, Mr. Wu Xiaowei succeeded Mr. Shi Yongsheng as Chief Executive Officer of Zhejiang Communications Services Company Limited.

SUPERVISORS OF THE COMPANY

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

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

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

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

SHARE CAPITAL

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

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

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

On the same date, Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation completed the transfers of 236,313,086 and 87,664,532 domestic shares respectively to China Telecom.

As at 31 December 2010, the share capital of the Company was RMB5,771,682,000, divided into 5,771,682,000 shares of RMB1.00 each. The share capital of the Company is comprised of the followings:

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

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

As at 31 December 2010, the interests or short positions of persons who at any of the Company's general meetings (excluding the directors and supervisors of the Company) are entitled to exercise or control the exercise of 5% or more of the voting power in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be maintained under Section 336 of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) (the "SFO") were as follows:

Name of shareholder	Type of shares	Capacity	Number of shares held	Percentage of the respective type of share (%)	Percentage of the total number of shares in issue (%)
China Telecommunications Corporation	Domestic shares	Beneficial owner	3,035,651,800(L) 108,899,720(S)[1]	80.33 2.88	52.60 1.89
China Mobile Communications Corporation	Domestic shares	Beneficial owner	506,880,000(L)	13.30	8.78
China United Network Communications Group Company Limited	Domestic shares	Beneficial owner	236,300,000(L)	6.25	4.09
Commonwealth Bank of Australia	H shares	Interest of corporation controlled by the substantial shareholder	360,805,795(L)	18.11	6.25
Matthews International Capital Management, LLC	H shares	Interest of corporation controlled by the substantial shareholder	221,034,000(L)	11.09	3.83

* Note: (L) – Long Position
(S) – Short Positon

(1) As disclosed in the announcement dated 21 June 2010 by the Company, China Telecommunications Corporation will transfer 108,899,720 domestic shares, accounting for 1.89% of the total issued shares of the Company, to China National Postal and Telecommunications Appliances Corporation (中國郵電器材集團公司). The completion of such share transfer will be conditional on, among other things, the approval by the relevant state-owned assets supervision authorities of the PRC.

Save as stated above, as at 31 December 2010, 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 2010, 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 2010, the Company had not granted its directors or supervisors, or their respective spouses or children below the age of 18 any rights to subscribe for the shares or debentures of the Company or any of its associated corporations and none of them has ever exercised any such right to subscribe for shares or debentures.

SHARE APPRECIATION RIGHTS

Please refer to note 38 to the audited financial statements for details of the share appreciation rights scheme of the Company and the share appreciation rights granted during the year ended 31 December 2010.

PUBLIC FLOAT

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

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACT

Each of the directors and supervisors has entered into a service contract with the Company. According to the service contract, each of the contracts has an initial term of three years and is renewable in accordance with the Articles of Association of the Company when the initial term expires except for Mr. Zheng Qibao and Ms. Hou Rui. 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. Mr. Zheng Qibao and Ms. Hou Rui were appointed, for a term commencing from the dates of the respective extraordinary general meetings approving their appointments to the date of annual general meeting of the Company for the year 2011 to be held in 2012.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

For the year ended 31 December 2010, no director or supervisor of the Company had any material interest, whether direct or indirect, in any contract of significance entered into by the Company, any of its holding companies or subsidiaries or fellow subsidiaries, apart from the service contracts mentioned above.

EMOLUMENTS OF THE DIRECTORS AND SUPERVISORS

Based on the overall remuneration policy of the Company and with reference to the payroll standard of the same industry companies in the market, the remuneration of directors and supervisors is determined after taking into account the scope and complexities of their duties. Please refer to note 12 to the audited financial statements for details of the emoluments of the directors and supervisors of the Company in 2010.

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 159 to 160 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 2010.

BANK LOANS AND OTHER BORROWINGS

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

PROPERTY, PLANT AND EQUIPMENT

Please refer to note 17 to the audited financial statements for movements in the fixed assets of the Group for the year ended 31 December 2010.

DISTRIBUTABLE RESERVES

Please refer to note 45 to the audited financial statements for details of the movements in the reserves of the Group for the year ended 31 December 2010.

DONATIONS

For the year ended 31 December 2010, the Group made charitable and other donations of a total amount of RMB1.33 million.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Please refer to note 23 and note 24 to the audited financial statements for details of the Company's subsidiaries and the Company's associated companies as at 31 December 2010.

CHANGES IN EQUITY

Please refer to the consolidated statement of changes in equity contained in the audited financial statements (page 94 of this Annual Report).

PLAN OF EMPLOYEES' RETIREMENT BENEFITS

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

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

For the reporting period, the sales to the five largest customers of the Group represented 67.1% of the operating revenue of the Group; of which, the sales to the largest customers of the Group represented 43.9% of the operating revenue of the Group. The purchases from the five largest suppliers of the Group accounted for less than 4% of the total annual purchases of the Group.

So far as the directors are aware of the five largest customers of the Group during the reporting period, as at 31 December 2010, Mr. Liu Aili, a non-executive director of the Company, held 224,100 share purchase options in China Mobile Limited, a subsidiary of China Mobile, one of our five largest customers, and Mr. Zhang Junan, a non-executive director of the Company, held 460,000 share purchase options in China Unicom (Hong Kong) Limited, a subsidiary of China Unicom, one of our five largest customers.

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

CONNECTED TRANSACTIONS

The Company entered into an equity transfer agreement with Lucent Technologies Investment Co., Ltd (the Vendor) on 7 April 2010, pursuant to which the Company agreed to acquire and the Vendor agreed to sell a 49% equity interest in Guoxin Lucent Technologies Network Technologies Co., Ltd (Guoxin Lucent)[(1)] for a total consideration of RMB41 million. Upon the completion of this acquisition, Guoxin Lucent became a wholly owned subsidiary of the Company.

(1) In July 2010, Guoxin Lucent Technologies Network Technologies Co., Ltd. was officially renamed as Guoxun Innovation Software Technology Co., Ltd.

Guoxin Lucent's businesses fall within the Company's third principal business area, namely, applications, content and other (ACO) services, and Guoxin Lucent has established a good reputation in this area. Following the telecommunications industry restructuring and the commencement of the 3G era in the PRC, the Board expects that there will be huge market demand for operators supporting systems related services. The Board believed that the acquisition will further consolidate the Company's control over Guoxin Lucent by turning it into a wholly-owned subsidiary and allow implementation of the Group's business strategy with respect to the ACO business more effectively.

The Vendor held a 49% equity interest in Guoxin Lucent, one of our subsidiaries, so the Vendor was a connected person of the Company under the Listing Rules. Accordingly, the acquisition constituted a connected transaction of the Company. The Company has complied with the relevant Listing Rules requirements in respect of such connected transaction and made corresponding announcement on 7 April 2010.

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 2010:

Unit: RMB million

	Year ended 31 December 2010		Year ending 31 December 2011	Year ending 31 December 2012
Transaction	**Annual Caps**	**Actual Amounts**	**Annual Caps**	**Annual Caps**
Engineering related services provided to China Telecom Group	12,500	9,901.20	13,125	14,000
Ancillary telecommunications services provided to China Telecom Group	6,700	4,519.67	7,035	7,550
Operation support services provided to/by China Telecom Group				
Revenue	1,910	1,753.28	1,910	1,910
Expenditure	470	278.66	470	470
IT application services provided to/by China Telecom Group				
Revenue	1,600	1,155.59	1,750	1,900
Expenditure	230	178.14	430	430
Centralized services provided to China Telecom Group	350	285.92	350	350
Property leasing provided to/by China Telecom Group				
Revenue	76	24.53	166	166
Expenditure	120	117.37	150	150
Supplies procurement services provided to/by China Telecom Group				
Revenue	2,800	2,570.42	3,500	4,000
Expenditure	900	447.75	900	900

CONTINUING CONNECTED TRANSACTIONS AGREEMENTS BETWEEN THE GROUP AND CHINA TELECOM

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

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

Subject to approval from the shareholders (if applicable), the aforementioned seven amended continuing connected transactions agreements will be automatically renewed for a further period of not more than three years each time, unless terminated by either party by giving a written notice three months in advance. In connection with the entry of the 2010 Supplementary Agreement, the Company also set new annual caps for the two years ended 31 December 2012 in respect of the transactions contemplated under the seven continuing connected transactions agreements (see the table above). The 2010 Supplemental Agreement and the new annual caps (excluding the new annual caps for the Property Leasing Framework Agreement and Centralized Services Agreement that did not require any independent shareholders approval under the Listing Rules) were approved by the independent shareholders of the Company at the extraordinary general meeting held on 30 December 2010. Details of the terms of these continuing connected transactions are set out below.

ENGINEERING FRAMEWORK AGREEMENT

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

ANCILLARY TELECOMMUNICATIONS SERVICES FRAMEWORK AGREEMENT

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

(1) government-prescribed price;

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

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

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

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

OPERATION SUPPORT SERVICES FRAMEWORK AGREEMENT

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

IT APPLICATION SERVICES FRAMEWORK AGREEMENT

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

CENTRALIZED SERVICES AGREEMENT

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

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

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

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

PROPERTY LEASING FRAMEWORK AGREEMENT

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

SUPPLIES PROCUREMENT SERVICES FRAMEWORK AGREEMENT

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

CONTINUING CONNECTED TRANSACTION AGREEMENT BETWEEN THE GROUP AND CHINA TELECOM CORPORATION LIMITED

Strategic Cooperation Agreement

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

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

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

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

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

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

The independent non-executive directors of the Company have confirmed that all continuing connected transactions for the year ended 31 December 2010 to which the Group was a party:

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

2. had been entered into either:

    (i) on normal commercial terms; or

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

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

The independent non-executive directors have further confirmed that:

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

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

1. the continuing connected transactions entered into between the Group and China Telecom Group during the year ended 31 December 2010 have been approved by the Directors;

2. they have performed sample checks on the continuing connected transactions entered into between the Group and China Telecom Group during the year ended 31 December 2010 and have not found that the continuing connected transactions were not in accordance with the pricing policies as stated in the relevant agreements;

3. they have performed sample checks on the continuing connected transactions entered into between the Group and China Telecom Group during the year ended 31 December 2010 and have not found that the continuing connected transactions were not in accordance with the terms of the agreements governing the transactions; and

4. they note that the continuing connected transactions have not exceeded the 2010 annual caps as disclosed in the circular dated 26 September 2008 and 12 November 2009 of the Company and approved by the independent shareholders of the Company on 14 November 2008 and 29 December 2009.

EMPLOYEES

As at 31 December 2010, the Group had 127,123 employees as follows:

	Number of staff	Percentage
Management	8,377	6.59%
Technical and marketing	49,637	39.05%
Operations	69,109	54.36%
Total	127,123	100%

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

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 2010, so far as the directors are aware, the Company was not involved in any material litigation or arbitration and no material litigation claims had been made against, or were pending or threatened against the Company.

AUDITORS

KPMG and KPMG Huazhen were engaged as the international and domestic auditors of the Company respectively for the year ended 31 December 2010. KPMG has audited the accompanying financial statements, which were prepared in accordance with International Financial Reporting Standards. The Company has retained KPMG and KPMG Huazhen since the date of its listing. A resolution for the reappointment of KPMG and KPMG Huazhen as the international and domestic auditors of the Company for the year ending 31 December 2011 will be proposed at the upcoming 2010 annual general meeting of the Company.

By order of the Board
Li Ping
Chairman

Beijing, China
30 March 2011

Report of the Supervisory Committee

Dear Shareholders,

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

During the reporting period, the Supervisory Committee held two meetings according to its annual work plan. At the third meeting of the second session of the Supervisory Committee held on 25 March 2010, the Supervisory Committee reviewed and approved five resolutions on the financial statements of the Company for 2009, the profit distribution proposal and dividends distribution plan, external auditors' report, the work report of the Supervisory Committee for 2009 and the work plan of the Supervisory Committee for 2010. At the fourth meeting of the second session of the Supervisory Committee held on 26 August of the same year, the Supervisory Committee reviewed and approved the resolutions on the interim financial statements for 2010, external auditors' report and the report on internal control and risk management of the Company for the first half of 2010. During the reporting period, members of the Supervisory Committee attended the meetings of the Board of Directors, the shareholders' general meeting and the meetings of the Audit Committee of the Company held in 2010, and supervised the major decisions of the Company and the performance of the members of the Board of Directors and senior management, and made relevant management recommendations with a serious and responsible attitude.

The Supervisory Committee is of the opinion that, by providing customer-oriented innovative services and vigorously expanding domestic non-operator customer market and overseas market in 2010, the Company has overcome difficulties such as the decrease of capital expenditure by domestic operators and a more competitive market, maintained a momentum of rapid growth in all its businesses with remarkable operating results, and achieved a double-digit growth both in terms of operating revenue and net profit.

The Supervisory Committee is of the opinion that, all members of the Board of Directors and senior management of the Company have complied with the laws and regulations, and earnestly performed their duties in accordance with the Articles of Association of the Company in 2010. In addition, they have also safeguarded the interests of the shareholders, earnestly carried out various resolutions of the shareholders' general meetings and the Board of Directors, and operated strictly in accordance with the regulatory requirements for a listed company. The Supervisory Committee was not aware of any violation of relevant national laws and regulations and the Articles of Association, or any acts which would violate the interests of the Company.

The Supervisory Committee carefully reviewed the financial statements of the Company for 2010 which were prepared in accordance with relevant requirements, audited by external auditors who have issued an unqualified opinion, and is intended to be submitted by the Board of Directors to the shareholders' general meeting, and other relevant information. The Supervisory Committee is of the opinion that the financial statements give an objective and true view of the Company's financial position and operating results.

In 2011, to safeguard the interests of the shareholders and the interests of the Company and pursue its supervisory duties diligently, the Supervisory Committee will continue to perform its duties in accordance with the Company Law of the PRC and the Articles of Association of the Company.

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

Beijing, PRC
24 March 2011

"As Mighty As Water"

Accumulating power by gathering tiny water drops, water multiplies its power by merging streams to form a mighty torrent.

“Strategy of Synergic Operation”

Optimizing organization structure and operational process, and building integrated services capabilities and implementing refined management, we aim to avoid systematic risk and increase the value of the Company.

Corporate Governance Report

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

CORPORATE GOVERNANCE PRACTICES

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

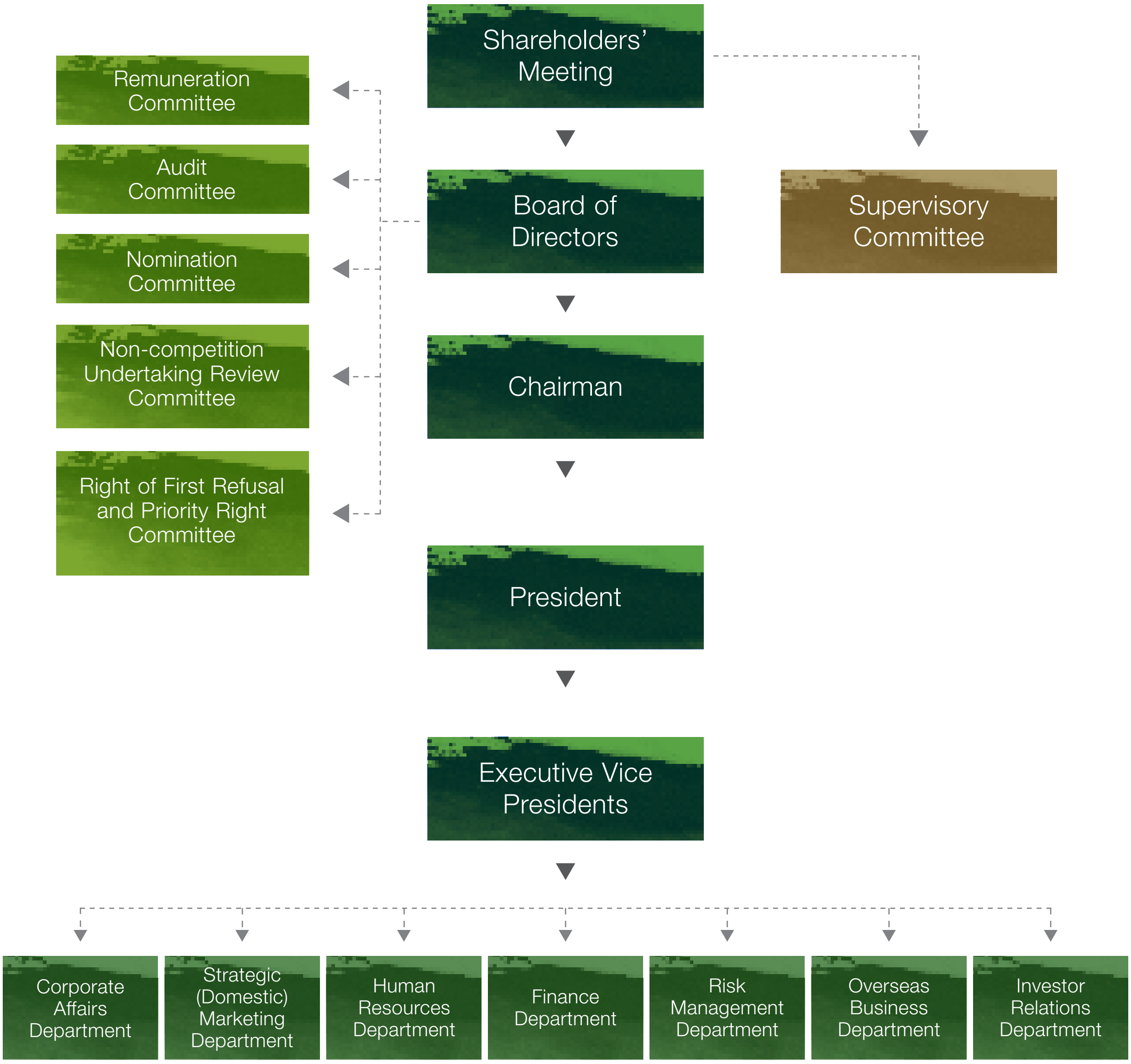
The Company commits itself to maintaining a high standard of business conduct and integrity. The Company's endeavours in corporate governance in the past had received particular recognition in capital markets. The Company received "Gold Award – Investor Relations" in "The Asset Corporate Awards 2010" organized by the authoritative financial magazine, The Asset.

For the year ended 31 December 2010, the Company had complied with the code provisions in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (the "Code Provisions"). In addition, the Company had also adopted certain applicable recommended best practices as set out in Appendix 14 of the Listing Rules (the "Recommended Best Practices") in accordance with our actual situation.

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

The responsibility statement of KPMG, our external auditors, regarding its report on the financial statements of the Group is set out on page 88 of this Annual Report.

CORPORATE STRUCTURE OF THE COMPANY



SHAREHOLDERS' MEETING

Pursuant to the Company's Article of Association, the shareholders' meetings are classified as annual general meeting (the "AGM") and extraordinary general meeting (the "EGM"). The AGM will be convened once a year and within six months after the end of a financial year. In 2010, apart from the AGM, the Company also convened two EGMs. A resolution will be separately put forward in respect of each independent matter. The details of the voting procedures and voting by poll at the request of shareholders were set out in the notices of the general meetings in accordance with the provisions under the Articles of Association and the Listing Rules. In accordance with the Listing Rules, all the resolutions were voted by poll in all shareholders' meetings held in 2010.

At the AGM of 2009 held on 28 June 2010, the resolutions, including the 2009 financial statements, profit distribution proposal and dividend declaration proposal, appointment of auditors, report of the directors, report of the Supervisory Committee, were considered and approved by shareholders.

At the first EGM of 2010 held on 10 August 2010, the resolutions, including the appointment of Mr. Zheng Qibao as executive director of the Company and the amendments to the Articles of Association of the Company, were considered and approved by shareholders.

At the second EGM of 2010 held on 30 December 2010, the resolutions regarding the renewal of continuing connected transactions and proposed new annual caps between the Company and China Telecommunications Corporation, the Company's controlling shareholder, were considered and approved by independent shareholders. China Telecommunications Corporation and its associates, being connected persons to the Company, abstained from voting for this resolution.

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

BOARD OF DIRECTORS

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

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

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

CHANGE OF DIRECTOR

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

The appointment of Mr. Zheng Qibao as an executive director of the Company was approved at the EGM held on 10 August 2010. The appointment of Ms. Hou Rui as an executive director of the Company was approved at the EGM on 23 February 2011.

Every newly appointed director of the Company should receive a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently such briefing and professional development as is necessary, to ensure that he has a proper understanding of the operations and business of the issuer and that he is fully aware of his responsibilities under statute and common law, the Exchange Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company.

Due to other work arrangement, Mr. Zhang Zhiyong resigned as the president and executive director of the Company which was approved by the Board with effect from 21 June 2010. Mr. Zhang Zhiyong has confirmed that he has no disagreement with the Board and did not have any matters, in relation to his resignation that should be brought to the attention of the shareholders of the Company.

COMPOSITION OF THE BOARD

As of 31 December 2010, the Board comprised ten directors, including three executive directors (Mr. Li Ping as Chairman and executive director, Mr. Zheng Qibao and Mr. Yuan Jianxing as executive directors), two non-executive directors (Mr. Liu Aili and Mr. Zhang Junan) and five independent non-executive directors (Mr. Wang Jun, Mr. Chan Mo Po, Paul, Mr. Zhao Chunjun, Mr. Wu Shangzhi and Mr. Hao Weimin). Mr. Wang Xiaochu continues to be the Honorary Chairman of the Company. The Honorary Chairman is not a member of the Board and has no voting rights on any matters to be considered by the Board. After Ms. Hou Rui was appointed as an executive director of the Company on 23 February 2011, the number of the directors of the board increased to 11. The profiles of the directors are set out in the "Profiles of Directors, Supervisors and Senior Management" section of this Annual Report.

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

To the best knowledge of the directors, in 2010, the members of the Board did not have any financial, business, family or other material connection with each other, in particular between the Chairman and the President, and all of them are free to make independent judgments.

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

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

MEETINGS OF THE BOARD

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

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

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

In 2010, the Board held four meetings and passed three written resolutions. For the resolutions on the connected transactions such as renewal of continuing connected transactions and proposed new annual caps between the Company and China Telecommunications Corporation, directors with conflict of interests abstained from voting.

Director's individual attendance (including attendances by written proxies) at the Board meetings and committee meetings held in 2010 is as follows:

	Attendance in 2010/Meetings convened during period of appointment			
	Board of Directors	Audit Committee	Nomination Committee	Non-competition Undertaking Review Committee
Executive Directors				
Li Ping (Chairman)	4/4			
Zheng Qibao[(1)]	3/3			
Yuan Jianxing	4/4			
Zhang Zhiyong[(2)]	1/1			
Non-executive Directors				
Liu Aili	4/4			
Zhang Junan	4/4			
Independent Non-executive Directors				
Wang Jun	4/4		2/2	
Chan Mo Po, Paul	4/4	3/3		2/2
Zhao Chunjun	4/4		2/2	2/2
Wu Shangzhi	4/4	3/3		
Hao Weimin	4/4	3/3	2/2	2/2

(1) Mr. Zheng Qibao was appointed as an executive director of the Company on 10 August 2010.

(2) Mr. Zhang Zhiyong resigned as the president and executive director of the Company on 21 June 2010.

EXECUTIVE DIRECTORS, CHAIRMAN AND PRESIDENT

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

NON-EXECUTIVE DIRECTORS

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

BOARD COMMITTEES

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

AUDIT COMMITTEE

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

In 2010, the Audit Committee held three meetings, mainly reviewing the resolutions of the Company for its audited financial report of 2009, interim report of 2010, report on connected transactions, report on internal control and risk management, appointment of independent auditors, renewal of continuing connected transactions and proposed new annual caps. The Audit Committee also met with the external auditors separately to discuss the matters found during the audit and other issues that might be raised by the auditors.

REMUNERATION COMMITTEE

The Remuneration Committee consists of three independent non-executive directors: Mr. Wu Shangzhi (Chairman), Mr. Chan Mo Po, Paul and Mr. Zhao Chunjun. According to the charter of the remuneration committee, meeting will be convened when needed. The Remuneration Committee is mainly responsible for giving recommendation on the overall remuneration policies and structure of the directors and senior management to the Board. The Remuneration Committee did not convene any meetings in 2010.

NOMINATION COMMITTEE

The Nomination Committee consists of three independent non-executive directors: Mr. Zhao Chunjun (Chairman), Mr. Wang Jun and Mr. Hao Weimin. The Nomination Committee is mainly responsible for reviewing the structure, size and composition of the Board, and the skills, knowledge and experience of members of the Board. In 2010, the Nomination Committee held two meetings, at which the members of the committee mainly reviewed resolutions regarding the proposed appointment of executive directors of the Company and made their recommendations 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 given by China Telecommunications Corporation to us.

In 2010, the Non-competition Undertaking Review Committee held two meetings, at which the members of the committee mainly reviewed the implementation of the non-competition undertakings by China Telecommunications Corporation and made their recommendations to the Board.

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 2010. The letter has been reviewed by the Non-competition Undertaking Review Committee and the Board.

RIGHT OF FIRST REFUSAL AND PRIORITY RIGHT COMMITTEE

The Right of First Refusal and Priority Right Committee consists of three independent non-executive directors: Mr. Wu Shangzhi (Chairman), Mr. Zhao Chunjun and Mr. Hao Weimin. According to the Charter of the Right of First Refusal and Priority Right Committee, meeting will be convened when needed. The Right of First Refusal and Priority Right Committee is mainly responsible for monitoring the enforcement of the right of first refusal and priority right granted by China Telecommunications Corporation upon the listing of the Company, and protecting the interests of independent shareholders when such right of first refusal or priority right is exercised. The Right of First Refusal and Priority Right Committee did not convene any meetings in 2010.

INDEPENDENT BOARD COMMITTEE

Pursuant to the requirements under the Listing Rules, the Company held an Independent Board Committee Meeting on 9 November 2010, at which five independent non-executive directors of the Company attended. The Independent Board Committee mainly reviewed the resolution regarding the renewal of continuing connected transactions and proposed new annual caps between the Company and China Telecommunications Corporation, and it made its recommendations to the independent shareholders. The details of this resolution and the Independent Board Committee's recommendation were contained in the circular despatched to shareholders on 12 November 2010.

SUPERVISORY COMMITTEE

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

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

In 2010, 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:

	Fees (RMB'000)
Auditing services for the year ended 31 December 2010	38,000
Non-auditing services	1,600
	39,600

INTERNAL CONTROL

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

The Group is committed to strengthening its internal control and risk management and has established a sound internal control foundation. The Group further improved internal control system and implemented comprehensive risk management pursuant to the relevant requirements of the Stock Exchange, promoted the application of risk management process in operating activities and daily management, and gradually improved the overall level of the internal control and risk management. The Group focused on formulating and improving relevant systems in relation to internal control and risk management. It has formulated and issued documents including “Guidelines on Strengthening China Comservice’s Risk Management” and “Terms of Reference for Risk Management Office” which specifies the goals and duties of risk management for companies at various levels and optimized the organizational structure and operational mechanism of risk management. It also supplemented and perfected the “Internal Control Guidance of China Communications Services Corporation Limited” in which 5 internal control procedures were added and 26 internal control procedures were amended and improved. Based on the above documents, companies at various levels also worked out their own implementation rules on internal control while the Group organized companies at various levels to conduct assessment on the design and operational efficiency of their respective internal control system. The Group has also made efforts in promoting the establishment of risk management committee in companies at various levels which would provide organizational support for risk management. The Group organized auditors and lawyers to conduct training courses on internal control and risk management in provincial-level companies and specialized companies to raise the awareness of internal control and risk management for companies at various levels. It also continued to send its risk management personnel to participate in the trainings conducted by National Accounting Institute on internal control, auditing and risk management, aiming to improve their competence of risk management.

The Group has persistently promoted the construction of its information system and vigorously built an IT-based control and management platform. The Group realized the unification of the financial system on EMOSS (Enterprise Management Operation Support System), the online operation of the one-account system and contract management system, and the integration of the above systems with portal site and OA system. The Company strived to integrate its internal control and risk management with the information system to realize an effective solidification of the process of internal control and risk management and a better integration of the Company’s risk management and operation management, thus strengthening the Company’s internal control and risk management, reducing operation risks and improving the standard of the Company’s internal control and risk management.

The Board considers that the implementation of the above measures was in compliance with the internal control requirements under C.2 of the Code Provisions and that the internal control and risk management system of the Company was effective. The Board intends to continue to further improve and enhance its internal control and risk management in 2011.

INFORMATION DISCLOSURE AND COMMUNICATIONS

The Company considers that integrity, timeliness, fairness and accuracy in information disclosure are key to improving corporate governance. In accordance with the Company's internal policy on information disclosure and the requirements of the Listing Rules, the Company endevoured to ensure true, accurate, complete and timely information disclosure, especially in respect of important information such as price sensitive information, information related to annual reports and interim reports. In addition, to maintain good relations with our shareholders, the Company has set up the comprehensive investor relations program and important issues including performance, fundamental business strategy, and governance are made through the following channels:

1. HKEx website

2. The Company's website

3. The Company's hotline

4. The Company's press releases

5. Circulars and letters to Shareholders

6. Interim and annual financial reports as well as press conferences in relation to result announcement, webcast presentation

7. Continuous communicate with investors, media and financial analysts by means of road shows, conference calls, one-to-one meetings and industry conferences

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

Investor Relations

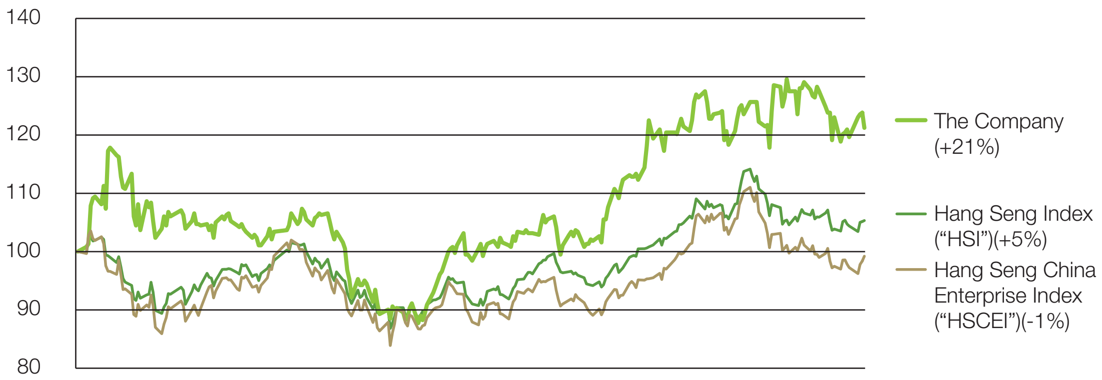
2010 marked the fourth year of the Company's listing in Hong Kong. Since its listing, the Company has gradually formed a scientific and systematic management mechanism for investor relations after plenty of exploration and practice, which serves as a bridge for effective communication between the Company and the capital market. The Company has always attached great importance to investor relations. Adhering to the disclosure principles of openness, fairness, transparency and multi-channel, the Company discloses its financial and operation information to the capital market timely. It also listens attentively to various suggestions and proposals from the capital market with regards to the Company's management and operation in a proactive, sincere and humble manner so as to improve the Company's management quality, enhance shareholders' value and maximize their interests.

CONTINUED GROWTH IN RESULTS WITH ROBUST SHARE PRICE PERFORMANCE

In 2010, telecommunications operators significantly reduced their investment in network construction after 3G investment peaked in 2009, which affected the confidence of the capital market in the Company's performance in the first half of 2010. In view of this situation, the Company effectively communicated with the capital market regarding the strategies and measures taken to tackle such situation through various communication channels including one-on-one meetings, investor forums held by investment banks and non-deal road shows. The efforts therefore enabled a comprehensive understanding of the Company's development prospects and managed expectation of capital market in a timely and effective manner. The Company thereafter announced its sound interim results with a sustained and steady growth, thus pushing its share price up to better reflect the value and development prospects of the Company.

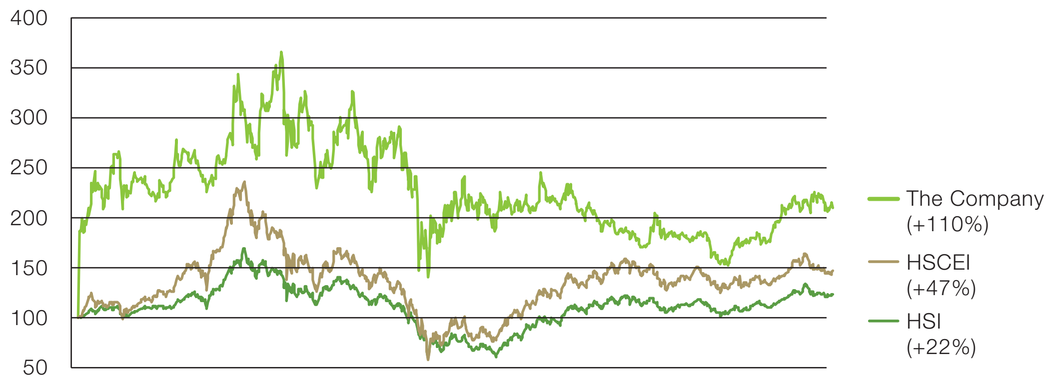
2010	Highest	Lowest	Closing
Price per H share of the Company (HK$)	4.99	3.27	4.63

Share Price Performance in 2010
From 1 January 2010 to 31 December 2010



The Company's H shares were listed on the Stock Exchange on 8 December 2006 at an offer price of HK$2.2 per share. Since the Company's IPO, the steady growth of the Company's earnings, the proficient corporate governance, together with the consistent and effective investor relations practices have given a strong impetus to the sustained upward trend of the Company's share price. Since its listing to 31 December 2010, the prices of the Company's H shares had increased by 110%.

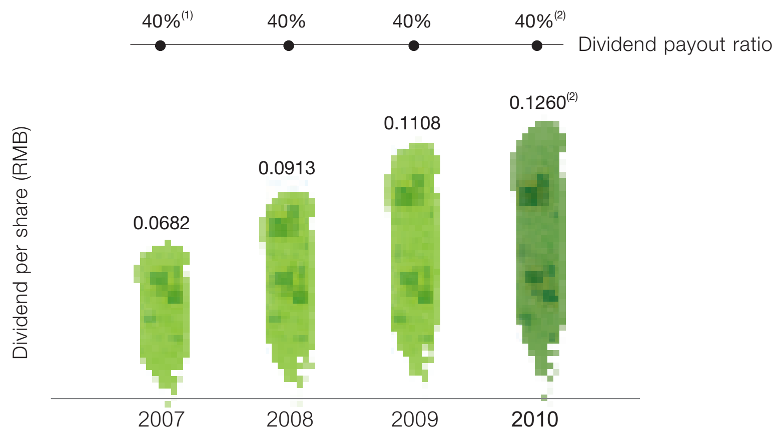
Share Price Performance Since Listing
From 8 December 2006 to 31 December 2010



As of 31 December 2010, the total number of shares of the Company were 5,771,682,000, of which, 3,778,831,800 shares were domestic shares, and 1,992,850,200 were H shares, both with par value of RMB1.00 each. All the H shares of the Company are listed at the Stock Exchange, representing approximately 34.5% of the total issued shares of the Company. Based on the closing price as of 31 December 2010, the Company's market value was about HK$26.7 billion.

SHAREHOLDER RETURNS

The Company attaches great importance to the shareholders' views on its dividend payout. The Company determines its dividends payout with reference to the Company's financial status, long-term development needs and potential investment opportunities. The following table shows the steady growth of the Company's dividend per share and the dividend payout ratio since its listing, which demonstrates the Company's continued efforts in steadily increasing shareholders return.



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

(2) Subject to the approval at the 2010 annual general meeting to be held on 28 June 2011.

DEPLOYING INTERACTIVE MULTI-CHANNELLED COMMUNICATION TO REALIZE EFFECTIVE INVESTOR RELATIONS

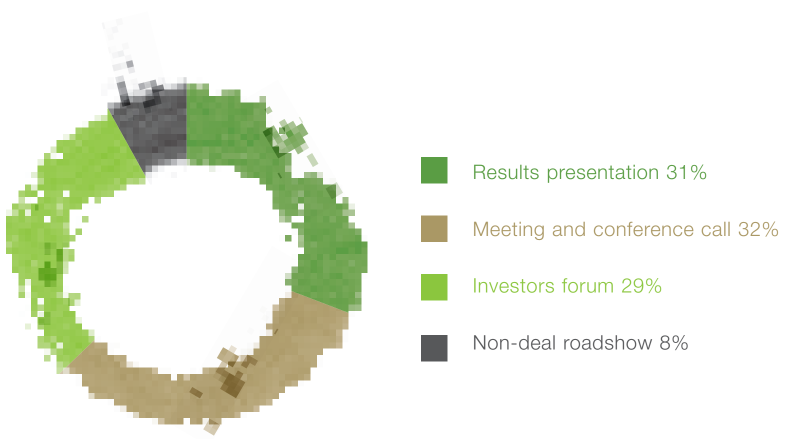
Enhancing investor relations management system

The Company has been committed to establishing a scientific and systematic management system of investor relations. In 2010, the Company further defined and improved the procedures of major investor relations practices, including results announcement, non-deal road shows, disclosure of material information, etc. In 2010, the Company also further upgraded the investor database with the support of its established investor relations management platform, thus standardizing and systematizing the major work on investor relations, including investor meeting scheduling, investor information's collection and classification as well as investor shareholding analysis.

Facilitating diversified and multi-channelled investor activities

In 2010, the Company communicated its development philosophy and strategies and its latest operation results in the capital market in a timely manner through various investor communication channels, including analyst briefings, non-deal roadshows, one-on-one meetings, investor forums organized by investment banks, telephone conferences, emails, and investors' on-site visits as well as the Company's website. Meanwhile, according to the needs and styles of different analysts and investors, the Company flexibly arranged senior managements with different responsibilities to participate various investor relations activities. Since the listing, the Company's senior managements including Chairman, President, Chief Financial Officer and executive vice presidents have participated in plenty of investor activities to fully communicate with the capital market, which truly realized multi-channelled communications. In 2010, the Company hosted two analyst presentations and two press conferences on its annual results and interim results respectively, held two non-deal roadshows, participated in eight international investor forums held by investment banks, and conducted hundreds of one-on-one meetings and telephone conferences in the usual course. Throughout 2010, the Company facilitated interactive communications with nearly 400 investors or analysts. Upon the request of investors, the Company also arranged investor on-site visits in 2010 to help investors to have a direct communication with the Company's operating frontier, and these activities have enhanced the investors' understanding on the Company's businesses and operations.

Attendance Analysis of Investor Relations Activities in 2010



List of investor relations activities of the Company conducted in 2010

Period	Activities	Venue
1/2010	UBS Greater China Conference 2010	Shanghai
1/2010	Deutsche Bank Access China Conference 2010	Beijing
3/2010	2009 Annual Results Announcement – Analysts Briefing – Press Conference	Hong Kong
3/2010	Non-Deal Roadshow	Hong Kong
4/2010	Nomura China Conference	Chongqing
6/2010	Goldman Sachs Telecom & Internet Corporate Day 2010	Hong Kong
8/2010	2010 Interim Results Announcement – Analysts Briefing – Press Conference	Hong Kong
9/2010	Non-Deal Roadshow	Hong Kong
10/2010	Citi Greater China Investor Conference 2010	Macau
11/2010	Daiwa Investment Conference	Hong Kong
11/2010	Goldman Sachs China Investment Frontier Conference 2010	Beijing
12/2010	RBS – China Access 12th Five-Year Plan Conference	Hong Kong

ADHERING TO TIMELY, JUST, FAIR AND ACCURATE INFORMATION DISCLOSURE

The Company has strictly complied with the information disclosure requirements for listed companies and made information disclosure in a timely, just, fair and accurate manner so as to enhance the transparency of the Company, established smooth communication channels, and enhanced communications with the capital market. In 2010, the Company published more than 19 corporate communications such as announcements and circulars. Such publications have objectively and comprehensively disclosed information regarding the Company's results, operating performance, financial information, dividend payment, connected transactions, the change of important executive positions and composition of the Board, poll results of shareholder meetings and certain other voluntary disclosures. The Company's website (http://www.chinaccs.com.hk) is not only a distribution channel for relevant information dissemination as requried by the Listing Rules, it is also an important means for the capital market to access information and contact with the Company.

In 2010, the Group published the following information on the websites of the Stock Exchange and the Company pursuant to the Listing Rules:

3/3/2010	Announcement on the appointment of executive vice president
15/3/2010	Announcement relating to the date of the board meeting to approve the 2009 annual results
30/3/2010	Announcement of annual results for the year ended 31 December 2009
07/4/2010	Announcement relating to connected transactions
19/4/2010	2009 annual report
19/4/2010	Notice of the annual general meeting to be held on 28 June 2010, reply slip and proxy form
21/6/2010	Resignation of director and change of important executive positions, proposed appointment of director and proposed amendments to the Articles of Association
24/6/2010	Notice of extraordinary general meeting to be held on 10 August 2010, reply slip and proxy form
28/6/2010	Poll results of the annual general meeting held on 28 June 2010 and payment of final dividend
10/8/2010	Poll results of the extraordinary general meeting held on 10 August 2010
18/8/2010	Announcement relating to the date of board meeting to approve the 2010 interim results
31/8/2010	Announcement of interim results for the six months ended 30 June 2010
14/9/2010	2010 interim report
27/10/2010	Announcement relating to the appointment of executive vice president
9/11/2010	Announcement relating to the renewal of continuing connected transactions and proposed new annual caps
12/11/2010	Notice of extraordinary general meeting to be held on 30 December 2010, reply slip and proxy form
12/11/2010	Circular relating to the renewal of continuing connected transactions and proposed new annual caps
30/12/2010	Announcement relating to the change of important executive positions and the proposed appointment of director
30/12/2010	Announcement relating to the poll results of the extraordinary general meeting held on 30 December 2010

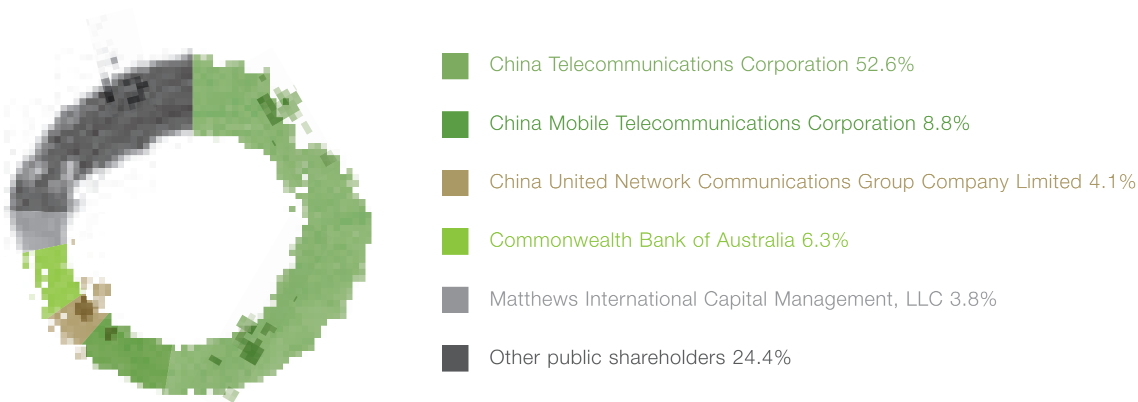
HEARING INVESTORS COMPREHENSIVELY AND REALIZING INTERACTIVE COMMUNICATIONS

As the Company enhances investor communications and information disclosure, the Company also attaches great importance to its investors' recommendations and opinions. With a proactive, sincere and modest attitude, the Company collected and filed the opinions and recommendations on the Company's operation and management through different channels of investor communications. These initiatives also included the provision of an investor relations electronic mailbox on its website and a direct telephone line for investors to express their views. The Company actively inquired investors of their recommendations on the Company's operation and management during investor activities and forwarded these opinions and recommendations to the management and supervisors at all levels on a regular and timely basis, hence enablling a two-way interaction with the investors and helping the Company to formulate its development strategies and improve its operation and management.

ANALYZING SHAREHOLDING STATUS TO FURTHER ENHANCE INVESTOR COMMUNICATION

To better and more effectively communicate with its investors and formulate its investor relations development strategies, the Company has been aware of the importance of a timely and thorough understanding on its shareholding status. In 2010, the Company appointed an international survey company to conduct two investigations on the shareholding of the Company. Through these investigations, the Company was able to have a comprehensive, precise and in-depth understanding of its shareholding structure, geographical locations of shareholders, investment styles, fund sources and position changes in shareholdings, etc., thus forming a strategic basis and foundation for the Company to enhance communications with investors, expand its overseas and domestic shareholder base, and manage investor relations more effectively.

Shareholding Structure
As of 31 December 2010



Investor Relations

RECOGNITION AND HONORS IN CAPITAL MARKET

In 2010, there were increasing number of analysts covering and following the Company. There are various international research institutions regularly publishing research reports on the Company. Since the Company's listing, the Company's investment value has been highly recognized and as of 31 December 2010, most of the major research institutions maintained "Buy" or "Hold" investment ratings on the Company.

In 2010, the Company achieved remarkable performance and progress in respect of investor relations and helped the Company gain wider recognition from the capital market. The Company was awarded 5 international awards that showed the effectiveness of the Companies' investor relations practices.

Major awards and recognitions in 2010

- "The Asset Corporate Awards 2010" by The Assets
  – Gold Award – Investor Relations

- "2010 International Galaxy Awards"
  – "Annual Reports: Telecommunications" – Gold Award

- "2010 International ARC Awards"
  – "Overall Annual Report" – Silver Award
  – "Interior Design" – Silver Award

- "2010 FORTUNE China 500" published by Fortune China
  – Rank 64th

- "Investor Relations Website" by IR Global Rankings
  – 3rd for IR website in China

OTHER NECESSARY INFORMATION FOR SHAREHOLDERS

Shareholder services

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

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

Shareholder enquiries

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

Investor relations

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

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

Human Resources Development

As a leading provider of producer services in the informatization sector, the Group has endeavoured to create a team of capable management and professionals and help them fully exploit their potential. In 2010, based on its own situation, the Group responded closely to market changes by continuously improving the human resources management, innovating human resources management mechanism and optimizing the human resource allocation, thereby providing solid human resources support and guarantee to the Group in its pursuit to become a "hundred-billion enterprise" with excellent performance.

In 2010, the Group continued to upgrade its precise management of human resources and improve corporate performance in accordance with standards comparable to those of its domestic and international peers under the guidance of human resource plan. The Group established a management model to control the number of staff and labour cost, with a focus on introducing talents in our advantageous areas and key businesses such as consultation and design, applications, content related businesses, and overseas business. The Group also introduced seasoned talents from the market and high-quality graduates to reinforce its professional team and implemented a succession plan for the senior management in order to build a professional management team with passion, expertise and skills, so as to optimize human resource structure. As at the end of 2010, the Group had a total of 127,123 staff, including 8,377 managers, 49,637 technology and marketing personnel and 69,109 operating personnel.

In 2010, the Group continued to innovate its market-oriented incentive mechanism on performance appraisal and fully implemented the senior management appraisal that emphasized on the results of both annual appraisal and tenure appraisal, the achievement made and efforts input, as well as the consideration on the appraisal results and resource allocation of the Group. In addition, the Group endeavoured to explore a flexible income distribution system and conducted trials on its market-oriented remuneration system, so as to have its staff benefit from the Group's development. The Group also continued to implement its share appreciation right scheme and further improved its long-term incentive mechanism that adapts to modern enterprise system.

In 2010, the Group made great efforts in building its core team with talents by leveraging on the synergy among the three-level hierarchies within the Group, including head quarter level, provincial subsidiary level and the professional company level. The Group continued to improve its training schemes through allocating internal and external resources to provide various on-job trainings and focusing on trainings for senior management and overseas management, thus greatly enhancing the capabilities and skills of its staff. Meanwhile, the Group also offered trainings on professional qualifications, aiming to train professionals such as chartered financial analysts, registered accountants, registered consultants, registered architects, network engineers, human resources professionals, lawyers, etc.

In 2010, the Group kept on with its "people-oriented" philosophy and care on its staff. The Group abided the relevant national laws and regulations, established a harmonious work environment for its staff and built stable relationship with its employee. Furthermore, the Company has always stressed the great importance of labor safe and achieved effective protection on the staff's health and safety.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of China Communications Services Corporation Limited (the "Company") for the year 2010 will be held at 2:00 pm on 28 June 2011 at No. 19, Chaoyangmen Beidajie, Dongcheng District, Beijing, PRC, to consider and, if thought fit, pass the following businesses:

ORDINARY RESOLUTIONS

1. **THAT** the consolidated financial statements of the Company, the report of the Directors, the report of the Supervisory Committee and the report of the international auditors for the year ended 31 December 2010 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 2011;

2. **THAT** the profit distribution proposal and the declaration and payment of a final dividend for the year ended 31 December 2010 be considered and approved;

3. **THAT** the reappointment of KPMG and KPMG Huazhen as the international auditors and domestic auditors of the Company, respectively, for the year ending 31 December 2011 be considered and approved, and the Board be authorized to fix the remuneration of the auditors;

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

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

SPECIAL RESOLUTIONS

4. **THAT**:

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

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

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

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

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

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

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

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

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

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

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

Beijing, PRC
15 April 2011

Notes:

(1) Buyers who submit the share transfer application forms to the Company's share registrar before 4:30 pm on 27 May 2011 (Friday) and then register as shareholders on the register of members of the Company are entitled to attend the annual general meeting.

(2) Each shareholder entitled to attend and vote at the annual general meeting may appoint one or more proxies to attend and vote on his behalf at the annual general meeting. A proxy need not be a shareholder. Each shareholder who wishes to appoint one or more proxies should first review the annual report of the Company for the year 2010, which is expected to be despatched to shareholders on around 15 April 2011 (Friday).

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

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

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

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

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

(b) shareholders intending to attend the annual general meeting shall return the attendance slip via hand delivery, mail or fax to the Office of the Board of the Company on or before 7 June 2011 (Tuesday).

(6) Closure of the register of members: The register of members of the Company will be closed from 29 May 2011(Sunday) to 28 June 2011 (Tuesday) (both days inclusive).

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

(8) The address of the Office of the Board is as follows:
No. 19, Chaoyangmen Beidajie
Dongcheng District
Beijing 100010
PRC

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

Independent Auditor's Report

KPMG

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

We have audited the consolidated financial statements of China Communications Services Corporation Limited (the "Company") set out on pages 89 to 158, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

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

30 March 2011

Consolidated Income Statement

For the year ended 31 December 2010
(Expressed in Renminbi)

	Note	**2010 RMB'000**	2009 RMB'000
Revenues	4	**45,417,232**	39,499,450
Cost of revenues	5	**(38,018,246)**	(33,127,513)
Gross profit		**7,398,986**	6,371,937
Other operating income	6	**629,685**	520,810
Selling, general and administrative expenses		**(5,627,043)**	(4,691,507)
Other operating expenses	7	**(70,920)**	(76,782)
Finance costs	8	**(57,732)**	(88,435)
Share of profits of associates		**3,126**	1,571
Profit before tax	9	**2,276,102**	2,037,594
Income tax	10	**(459,711)**	(427,356)
Profit for the year		**1,816,391**	1,610,238
Attributable to:			
Equity shareholders of the Company		**1,817,805**	1,598,589
Non-controlling interests		**(1,414)**	11,649
Profit for the year		**1,816,391**	1,610,238
Basic and diluted earnings per share (RMB)	16	**0.315**	0.277

The notes on pages 98 to 158 form part of these financial statements. Details of dividend payable to equity shareholders of the Company attributable to the profit for the year are set out in note 15.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Profit for the year		**1,816,391**	1,610,238
Other comprehensive income for the year (after tax)			
Exchange differences on translation of financial statements of subsidiaries outside Mainland China		**608**	(1,324)
Effect on opening deferred tax balances resulting from a change in tax rate		**148**	(1,145)
Available-for-sale securities: net movement in the fair value reserve	11	**(17,034)**	35,612
		(16,278)	33,143
Total comprehensive income for the year		**1,800,113**	1,643,381
Attributable to:			
Equity shareholders of the Company		**1,801,527**	1,631,732
Non-controlling interests		**(1,414)**	11,649
Total comprehensive income for the year		**1,800,113**	1,643,381

The notes on pages 98 to 158 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment, net	17	**4,025,579**	3,912,721
Investment properties	18	**696,016**	685,959
Construction in progress	19	**154,234**	73,334
Lease prepayments	20	**470,135**	481,687
Goodwill	21	**103,005**	103,005
Other intangible assets	22	**151,990**	148,453
Interest in associates	24	**61,433**	12,960
Other investments	25	**571,401**	304,773
Deferred tax assets	26	**205,822**	140,552
Total non-current assets		**6,439,615**	5,863,444
Current assets			
Inventories	27	**1,833,186**	1,659,626
Accounts and bills receivable, net	28	**12,887,557**	10,467,689
Prepayments and other current assets	30	**3,967,876**	3,140,398
Restricted deposits	31	**269,099**	160,525
Cash and cash equivalents	32	**8,470,249**	8,870,424
Total current assets		**27,427,967**	24,298,662
Total assets		**33,867,582**	30,162,106
Current liabilities			
Interest-bearing borrowings	33	**1,780,523**	1,268,280
Accounts and bills payable	34	**9,768,792**	8,844,718
Receipts in advance for contract work		**1,083,587**	1,088,327
Accrued expenses and other payables	35	**6,564,306**	5,553,079
Income tax payable		**284,941**	194,701
Total current liabilities		**19,482,149**	16,949,105
Net current assets		**7,945,818**	7,349,557
Total assets less current liabilities		**14,385,433**	13,213,001

Consolidated Balance Sheet

At 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Non-current liabilities			
Deferred tax liabilities	26	**31,589**	35,769
Total non-current liabilities		**31,589**	35,769
Total liabilities		**19,513,738**	16,984,874
Equity			
Share capital	36	**5,771,682**	5,771,682
Reserves		**8,449,360**	7,297,004
Equity attributable to equity shareholders of the Company		**14,221,042**	13,068,686
Non-controlling interests		**132,802**	108,546
Total equity		**14,353,844**	13,177,232
Total liabilities and equity		**33,867,582**	30,162,106

Approved and authorised for issue by the Board of Directors on 30 March 2011.

Li Ping
Chairman

Hou Rui
Executive Vice President and Chief Finance Officer

The notes on pages 98 to 158 form part of these financial statements.

Balance Sheet

At 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment, net	17	**4,190**	4,809
Construction in progress	19	**11,759**	1,580
Other intangible assets	22	**2,633**	3,527
Investments in subsidiaries	23	**10,470,145**	10,226,636
Total non-current assets		**10,488,727**	10,236,552
Current assets			
Prepayments and other current assets	30	**1,233,753**	1,577,116
Cash and cash equivalents	32	**681,258**	422,232
Total current assets		**1,915,011**	1,999,348
Total assets		**12,403,738**	12,235,900
Current liabilities			
Interest-bearing borrowings	33	**1,500,000**	1,000,000
Accrued expenses and other payables	35	**83,385**	645,460
Total current liabilities		**1,583,385**	1,645,460
Net current assets		**331,626**	353,888
Total assets less current liabilities		**10,820,353**	10,590,440
Total liabilities		**1,583,385**	1,645,460
Equity			
Share capital	36	**5,771,682**	5,771,682
Reserves	45	**5,048,671**	4,818,758
Total equity		**10,820,353**	10,590,440
Total liabilities and equity		**12,403,738**	12,235,900

Approved and authorised for issue by the Board of Directors on 30 March 2011.

Li Ping
Chairman

Hou Rui
Executive Vice President and Chief Finance Officer

The notes on pages 98 to 158 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010
(Expressed in Renminbi)

	Note	Equity attributable to equity shareholders of the Company											
		Share capital	Share premium (note a)	Capital reserve (note b)	Revaluation reserve	Statutory surplus reserve (note c)	Fair value reserve (note d)	Exchange reserve (note e)	Other reserve	Retained earnings	Total	Non-controlling interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at 1 January 2010		**5,771,682**	**2,727,647**	**932,621**	**415,557**	**239,377**	**57,993**	**(6,772)**	**67,330**	**2,863,251**	**13,068,686**	**108,546**	**13,177,232**
Changes in equity for the year ended 31 December 2010													
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,817,805**	**1,817,805**	**(1,414)**	**1,816,391**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**(17,034)**	**608**	**148**	**–**	**(16,278)**	**–**	**(16,278)**
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**(17,034)**	**608**	**148**	**1,817,805**	**1,801,527**	**(1,414)**	**1,800,113**
Capital injection by a non-controlling owner to a subsidiary		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**69,276**	**69,276**
Acquisition of non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(9,669)**	**–**	**(9,669)**	**(31,427)**	**(41,096)**
Dividend declared	15(b)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(639,502)**	**(639,502)**	**–**	**(639,502)**
Distribution to non-controlling owners		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(12,179)**	**(12,179)**
Appropriation		**–**	**–**	**–**	**–**	**86,941**	**–**	**–**	**–**	**(86,941)**	**–**	**–**	**–**
Balance as at 31 December 2010		**5,771,682**	**2,727,647**	**932,621**	**415,557**	**326,318**	**40,959**	**(6,164)**	**57,809**	**3,954,613**	**14,221,042**	**132,802**	**14,353,844**
Balance as at 1 January 2009		5,771,682	2,727,647	917,666	415,557	162,158	22,381	(5,448)	206,382	1,868,836	12,086,861	156,729	12,243,590
Changes in equity for the year ended 31 December 2009													
Profit for the year		–	–	–	–	–	–	–	–	1,598,589	1,598,589	11,649	1,610,238
Other comprehensive income		–	–	–	–	–	35,612	(1,324)	(1,145)	–	33,143	–	33,143
Total comprehensive income							35,612	(1,324)	(1,145)	1,598,589	1,631,732	11,649	1,643,381
Consideration for the acquisition of the Target Interests (as defined in note 1 (c))		–	–	–	–	–	–	–	(98,055)	–	(98,055)	–	(98,055)
Adjustment of tax effect arising from Restructuring (as defined in note 1 (b))		–	–	14,955	–	–	–	–	–	–	14,955	–	14,955
Acquisition of non-controlling interests		–	–	–	–	–	–	–	(39,852)	–	(39,852)	(30,781)	(70,633)
Dividend declared	15(b)	–	–	–	–	–	–	–	–	(526,955)	(526,955)	–	(526,955)
Distribution to non-controlling owners		–	–	–	–	–	–	–	–	–	–	(29,051)	(29,051)
Appropriation		–	–	–	–	77,219	–	–	–	(77,219)	–	–	–
Balance as at 31 December 2009		5,771,682	2,727,647	932,621	415,557	239,377	57,993	(6,772)	67,330	2,863,251	13,068,686	108,546	13,177,232

The notes on pages 98 to 158 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010
(Expressed in Renminbi)

Notes:

(a) Share premium

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

(b) Capital reserve

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

(c) Statutory surplus reserve

According to the Company's Article of Association, the Company is required to transfer 10% of its net profit as determined in accordance with the 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 2010, the Company transferred RMB86,941,000 being 10% of the current year's net profit as determined in accordance with the PRC Accounting Rules and Regulations, to this reserve.

(d) 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.

(e) Exchange reserve

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

`The notes on pages 98 to 158 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Operating activities			
Profit before tax		**2,276,102**	2,037,594
Adjustments for:			
– Depreciation and amortisation		**622,514**	609,607
– Impairment losses on accounts and other receivable		**115,807**	61,919
– Impairment losses on property, plant and equipment and other intangible assets		**9,614**	3,847
– Impairment losses on inventories		**4,587**	23,409
– Interest income		**(77,734)**	(72,726)
– Finance costs		**57,732**	88,435
– Share of profits of associates		**(3,126)**	(1,571)
– Dividend income		**(28,816)**	(31,594)
– Gain on disposal of investments		**(54,841)**	(6,845)
– (Gain)/loss on disposal of property, plant and equipment		**(2,373)**	22,217
– Impairment loss on other investments		**4,926**	8,211
– Exchange differences		**9,788**	9,051
– Write back of non-payable liabilities		**(11,799)**	(25,135)
Operating profit before changes in working capital		**2,922,381**	2,726,419
Increase in inventories		**(171,210)**	(500,656)
Increase in accounts and bills receivable		**(2,500,741)**	(1,173,726)
Increase in prepayments and other current assets		**(1,049,038)**	(207,093)
Increase in accounts and bills payable		**917,807**	1,091,363
(Decrease)/increase in receipts in advance for contract work		**(4,740)**	280,129
Increase in accrued expenses and other payables		**1,830,346**	292,961
Net cash inflow from operations		**1,944,805**	2,509,397
Interest paid		**(56,824)**	(73,588)
Interest received		**75,678**	72,936
Income tax paid		**(437,247)**	(446,518)
Cash generated from operating activities		**1,526,412**	2,062,227

Consolidated Cash Flow Statement

For the year ended 31 December 2010
(Expressed in Renminbi)

	Note	2010 RMB'000	2009 RMB'000
Investing activities			
Payments for purchase of property, plant and equipment and other assets		**(819,923)**	(724,820)
Proceeds from disposal of property, plant and equipment and other assets		**26,913**	47,173
Net cash inflow arising from acquisition of subsidiaries	39(i)	**2,532**	3,529
Payments for acquisition of investments		**(298,464)**	–
Payments for acquisition of non-controlling interests		**(41,096)**	(71,807)
Payments for an associate		**(45,347)**	–
Payments for acquisition of Target Interests (as defined in note (1c))		**–**	(98,081)
Proceeds from disposal of investments		**63,325**	7,194
Dividends received		**56,696**	22,697
Net cash used in investing activities		**(1,055,364)**	(814,115)
Financing activities			
Proceeds from bank and other loans		**1,723,994**	1,450,905
Repayments of bank and other loans		**(1,356,505)**	(2,135,142)
Dividends paid		**(1,297,868)**	(309,177)
Contribution from non-controlling owners to subsidiaries		**69,276**	–
Decrease in restricted deposits for bank loans		**–**	81,977
Net cash used in financing activities		**(861,103)**	(911,437)
Net (decrease)/increase in cash and cash equivalents		**(390,055)**	336,675
Cash and cash equivalents at the beginning of year		**8,870,424**	8,538,142
Effect of foreign exchange rate changes		**(10,120)**	(4,393)
Cash and cash equivalents at the end of year	32	**8,470,249**	8,870,424

The notes on pages 98 to 158 form part of these financial statements.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

1 PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PRESENTATION

(a) Principal activities

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

(b) Organisation

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

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

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

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

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

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

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.

(Expressed in Renminbi)

1 PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PRESENTATION (continued)

(b) Organisation (continued)

In December 2006, the Company issued 1,291,293,000 H shares with a par value of RMB1.00 each, at a price of HK$2.20 per H share by way of an initial public offering (the "IPO") to Hong Kong and overseas investors. In connection with the IPO, 129,129,300 domestic state-owned shares of RMB1.00 each owned by CTC and its subsidiaries were converted into H shares and transferred to the National Council for Social Security Fund of the PRC ("SSF"). In December 2006, the Company also issued 193,693,000 H shares with a par value of RMB1.00 each, at a price of HK$2.20 per H share upon the exercise of the over-allotment option. In connection with the exercise of the over-allotment option, 19,369,300 domestic state-owned shares of RMB1.00 each owned by CTC and its subsidiaries were converted into H shares and transferred to SSF. In April 2008, the Company completed the placing of 326,696,000 H shares with a par value of RMB1.00 each at a price of RMB5.25 (the "Placing"). In connection with the Placing, 32,669,600 domestic legal person shares of RMB1.00 each owned by National Council for the Social Security Fund was converted into H shares. A total of 1,992,850,200 H shares have been listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

(c) Basis of presentation

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

Since the Group and the Target Interests are under common control of CTC, the Target Interests were accounted for as a combination of entities under common control in a manner similar to pooling-of-interests in the Company's 2009 consolidated financial statements. Accordingly, the assets and liabilities of the Target Interests were accounted for at historical costs and the consolidated financial statements of the Company prior to the acquisitions of the Target Interests were included the results of operations and assets and liabilities of the Target Interests on a combined basis. The considerations paid by the Group for the acquisitions of the Target Interests were accounted for as an equity transaction in the consolidated statement of changes in equity.

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 of Hong Kong Limited.

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

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2010 comprise the Group and its interests in associates.

The financial statements have been prepared on the historical cost basis, except for the following material items in the balance sheet:

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

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

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

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

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

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 42.

(c) Basis of consolidation

(i) Subsidiaries and non-controlling interests

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

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

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

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

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

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

(ii) Associates

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

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

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

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

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Goodwill

Goodwill represents the excess of

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

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

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

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

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

(e) Other investments in debt and equity securities

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

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

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

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

When these investments are derecognised or impaired (see note 2(l)), the cumulative gain or loss is reclassified from equity to profit or loss.

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

(f) Investment properties

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Investment properties (continued)

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

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

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

(g) Property, plant and equipment

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

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

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.

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Construction in progress

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

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

(i) Lease prepayments

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

(j) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads and borrowing costs, where applicable (see Note 2(z)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see Note 2(l)). Other development expenditure is recognised as an expense in the period in which it is incurred.

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

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

Both the period and method of amortisation are reviewed annually.

(k) Leased assets

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of assets

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

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

– Significant financial difficulty of the debtor;

– A breach of contract, such as default or delinquency in interest or principal payments;

– It becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

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

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

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

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

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

– For trade and other current receivables and other financial assets carried at cost or amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of assets (continued)

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

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

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

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

(ii) Impairment of other assets

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

– property, plant and equipment;

– investment properties;

– construction in progress;

– lease prepayments;

– goodwill;

– other intangible assets;

– investments in subsidiaries; and

– other investments stated at cost.

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

– Calculation of recoverable amount

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

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

(m) Inventories

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

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

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

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

(n) Construction contracts

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

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

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Construction contracts (continued)

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 allowance for impairment of doubtful debts (see note 2(l)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (see note 2(l)).

(p) Interest-bearing borrowings

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

(q) Trade and other payables

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

(r) Cash and cash equivalents

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

(s) Derivative financial instruments

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

(t) Employee benefits

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Employee benefits (continued)

(ii) Share appreciation rights schemes

Compensation expense under the Group's share appreciation rights schemes are measured as the amount by which the quoted market price of the Company's H shares exceeds the exercise price. Compensation expense in respect of the share appreciation rights granted is accrued as a charge to the consolidated income statement over the applicable vesting period based on the fair value of the stock appreciation rights. The liability of the accrued compensation expense is remeasured to fair value at each balance sheet date with the effect of changes in the fair value of the liability is charged or credited to the consolidated income statement. Further details of the Group's share appreciation rights scheme are set out in note 38.

(iii) Termination benefits

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

(u) Income tax

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

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

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

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

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

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.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Income tax (continued)

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

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

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

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

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

  - the same taxable entity; or

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

(v) Provisions and contingent liabilities

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

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

(w) Revenue recognition

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

(i) Contract revenue

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Revenue recognition (continued)

(ii) Services rendered

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

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

(iii) Sales of goods

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

(iv) Rental income from operating leases

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

(v) Dividends

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

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

(vi) Interest income

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

(x) Government grants

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

(y) Translation of foreign currencies

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

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Translation of foreign currencies (continued)

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

(z) Borrowing costs

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

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

(aa) Segment reporting

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

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

The Group principally has one business segment and hence no additional segment information is provided (see note 44).

(bb) Dividends or profit distributions

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

(cc) Related parties

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(cc) Related parties (continued)

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

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

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

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

3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued two revised IFRSs, a number of amendments to IFRSs and two new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 3 (revised 2008), *Business combinations*
- Amendments to IAS 27, *Consolidated and separate financial statements*
- Amendments to IFRS 5, *Non-current assets held for sale and discontinued operations – plan to sell the controlling interest in a subsidiary*
- Amendment to IAS 39, *Financial instruments: Recognition and measurement – eligible hedged items*
- Improvements to IFRSs (2009)
- IFRIC 17, *Distributions of non-cash assets to owners*
- Amendments to IAS 17, *Leases*

The amendment to IAS 39 has had no material impact on the Group's financial statements as the amendment and the Interpretation's conclusions were consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons.

- The impact of the majority of the revisions to IFRS 3, IAS 27, IFRS 5 and IFRIC 17 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.
- The impact of the amendments to IFRS 3 (in respect of recognition of acquiree's deferred tax assets) and IAS 27 (in respect of allocation of losses to non-controlling interests (previously known as "non-controlling interests") in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current year.

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3 CHANGES IN ACCOUNTING POLICIES (continued)

Further details of these changes in accounting policy are as follows.

- As a result of the adoption of IFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in IFRS 3 (revised 2008). These include the following changes in accounting policies:

  – Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

  – In addition to the Group's existing policy of measuring the non-controlling interests (previously known as the "non-controlling interests") in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

- As a result of the adoption of IAS 27 (amended 2008), it requires that if the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. The Group adopted such accounting treatment in previous year and no change in policies in this regard.

- IFRIC 17 requires distributions of non-cash assets to owners to be measured at the fair value of the assets distributed. This will result in a gain or loss being recognised in profit or loss to the extent that the fair value of the assets is different from their carrying value. In accordance with the transitional provisions in IFRIC 17, this new accounting policy will be applied prospectively to distributions in current or future periods and therefore previous periods have not been restated.

- As a result of the amendment to IAS 17, Leases, arising from the "Improvements to IFRSs (2009)" omnibus standard, the group has re-evaluated the classification of its interests in leasehold land as to whether, in the group's judgement, the lease transfers substantially all the risks and rewards of ownership of the land such that the group is in a position economically similar to that of a purchaser. The group has concluded that the classification of such leases as operating leases continues to be appropriate.

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:

	2010 RMB'000	2009 RMB'000
Revenues from telecommunications infrastructure services	**21,636,545**	19,289,579
Revenues from business process outsourcing services	**18,508,424**	15,943,326
Revenues from applications, content and other services	**5,272,263**	4,266,545
	45,417,232	39,499,450

The Group's major customers are telecommunications operators which include CTC and its subsidiaries ("CTC Group") and China Mobile Communications Corporation and its subsidiaries ("CM Group"), each contributing a revenue exceeding 10% of the Group's total revenues. Revenues from the provision of integrated telecommunications support services to CTC Group and CM Group for the year ended 31 December 2010 amount to RMB19,925 million and RMB7,495 million respectively (2009: RMB20,243 million and RMB5,642 million respectively), being 43.9% and 16.5% of the Group's total revenues respectively (2009: 51.2% and 14.3% respectively). In addition, the revenues derived from areas outside Mainland China for the year ended 31 December 2010 amounts to RMB2,225 million (2009: RMB1,287 million).

5 COST OF REVENUES

	2010 RMB'000	2009 RMB'000
Depreciation and amortisation	**359,100**	351,402
Direct personnel costs	**7,459,665**	7,073,351
Operating lease charges	**728,764**	608,086
Purchase of materials and telecommunications products	**13,506,740**	12,364,499
Subcontracting charges	**11,883,574**	9,064,577
Others	**4,080,403**	3,665,598
	38,018,246	33,127,513

6 OTHER OPERATING INCOME

	2010 RMB'000	2009 RMB'000
Interest income	**77,734**	72,726
Dividend income from unlisted securities	**28,816**	31,594
Government grants	**121,008**	97,461
Gain on disposal of investments	**54,841**	6,845
Gain on disposal of property, plant and equipment	**8,315**	9,629
Penalty income	**6,547**	6,888
Management fee income	**285,915**	259,849
Write-back of non-payable liabilities	**11,799**	25,135
Others	**34,710**	10,683
	629,685	520,810

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7 OTHER OPERATING EXPENSES

	2010 RMB'000	2009 RMB'000
Impairment losses on property, plant and equipment	**34**	3,847
Impairment loss on other intangible assets	**9,580**	–
Impairment loss on other investments	**4,926**	8,211
Loss on disposal of property, plant and equipment	**5,942**	31,846
Donations	**1,332**	452
Penalty charge	**5,550**	12,584
Net foreign exchange loss	**9,788**	9,051
Others	**33,768**	10,791
	70,920	76,782

8 FINANCE COSTS

	2010 RMB'000	2009 RMB'000
Interest on bank advances and other borrowings wholly repayable within five years	**57,732**	88,435

For the years ended 31 December 2010 and 2009, no borrowing costs were capitalised in relation to construction in progress.

9 PROFIT BEFORE TAX

		2010 RMB'000	2009 RMB'000
(a)	Staff costs:		
	Salaries, wages and other benefits	**10,003,237**	8,853,012
	Contributions to defined contribution retirement schemes	**807,293**	883,961
		10,810,530	9,736,973
(b)	Other items:		
	Depreciation		
	– Property, plant and equipment (note 17)	**537,613**	530,513
	– Investment properties (note 18)	**31,304**	31,995
	Amortisation		
	– Lease prepayments (note 20)	**11,276**	9,590
	– Other intangible assets (note 22)	**42,321**	37,509
	Auditors' remuneration	**38,000**	38,000
	Cost of inventories	**13,496,980**	12,364,499
	Impairment losses on accounts and other receivable	**141,686**	74,521
	Reversal of impairment losses on accounts and other receivable	**(25,879)**	(12,602)
	Operating lease charges	**891,699**	748,195
	Research and development costs	**514,413**	257,073
	Share of associates' taxation	**552**	277

Research and development costs include RMB418,424 thousand (2009: RMB209,154 thousand) relating to staff costs, which amount is also included in the staff cost disclosed in note 9(a).

10 INCOME TAX

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

	2010 RMB'000	2009 RMB'000
Current tax		
PRC enterprise income tax	**523,563**	454,675
Overseas enterprise income tax	**4,058**	–
Deferred tax		
Origination and reversal of temporary differences (note 26)	**(67,910)**	(27,319)
Total income tax	**459,711**	427,356

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

	2010 RMB'000	2009 RMB'000
Profit before tax	**2,276,102**	2,037,594
Expected income tax expense at a statutory tax rate of 25% (2009: 25%) (note (i))	**569,025**	509,398
Differential tax rates on subsidiaries' income (note (i))	**(165,345)**	(146,787)
Non-deductible expenses (note (ii))	**49,399**	39,259
Non-taxable income	**(13,154)**	(10,374)
Tax losses not recognised	**28,292**	31,118
Utilisation of previously unrecognised tax losses	**(9,705)**	(3,626)
Effect on opening deferred tax resulting from a reduction in PRC statutory tax rate (note (iii))	**1,199**	8,368
Income tax	**459,711**	427,356

Notes:

(i) The provision of income tax of the Group is calculated based on a statutory rate of 25% of the assessable profit of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the year ended 31 December 2010 and for the year ended 31 December 2009, except for certain subsidiaries of the Group, which are taxed at preferential rates of 15% or 22%.

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

(iii) The amounts in the years ended 31 December 2010 and 2009 represent the tax effect on opening balances of deferred tax assets arising from the change in the enterprise income tax rate applicable to certain subsidiaries due to changes in preferential tax qualification during the years concerned. The deferred tax assets were remeasured for the change in applicable tax rates.

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11 OTHER COMPREHENSIVE (LOSS)/INCOME

Available-for-sale securities

	2010 RMB'000	2009 RMB'000
Changes in fair value recognised during the period	**(18,426)**	43,197
Net deferred tax credited/(charged) to other comprehensive income	**1,392**	(7,585)
Net movement in the fair value reserve during the period recognised in other comprehensive (loss)/income	**(17,034)**	35,612

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 2010 are as follows:

	Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000	Pension scheme contribution RMB'000	2010 Total RMB'000
Name of directors and supervisors					
Li Ping	–	–	–	–	–
Zheng Qibao	–	75	112	31	218
Zhang Zhiyong	–	87	356	34	477
Yuan Jianxing	–	122	361	55	538
Hou Rui	–	16	31	8	55
Liu Aili	–	–	–	–	–
Zhang Junan	–	–	–	–	–
Wang Jun	207	–	–	–	207
Chan Mo Po, Paul	218	–	–	–	218
Zhao Chunjun	153	–	–	–	153
Wu Shangzhi	153	–	–	–	153
Hao Weimin	153	–	–	–	153
Xia Jianghua	–	–	–	–	–
Yan Dong	–	75	277	46	398
Hai Liancheng	76	–	–	–	76
	960	375	1,137	174	2,646

The above remuneration does not include share appreciation rights as it has not been granted to above directors and supervisors (see note 38).

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12 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

The names of the directors and the supervisors of the Company and their remuneration for the year ended 31 December 2009 are as follows:

	Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000	Pension scheme contribution RMB'000	2009 Total RMB'000
Name of directors and supervisors					
Li Ping	–	–	–	–	–
Zhang Zhiyong	–	140	387	57	584
Yuan Jianxing	–	113	323	53	489
Liu Aili	–	–	–	–	–
Zhang Junan	–	–	–	–	–
Wang Jun	200	–	–	–	200
Chan Mo Po, Paul	211	–	–	–	211
Zhao Chunjun	150	–	–	–	150
Wu Shangzhi	150	–	–	–	150
Hao Weimin	150	–	–	–	150
Xia Jianghua	–	–	–	–	–
Yan Dong	–	69	258	42	369
Hai Liancheng	75	–	–	–	75
	936	322	968	152	2,378

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

	2010	2009
HK$ equivalent		
Nil to 1,000,000	**15**	13

13 INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

	2010	2009
Directors and supervisors	**–**	–
Non-director and non-supervisor employees	**5**	5
	5	5

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(Expressed in Renminbi)

13 INDIVIDUALS WITH HIGHEST EMOLUMENTS (continued)

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

	2010 RMB'000	2009 RMB'000
Salaries, allowances and other benefits in kind	**843**	874
Bonuses	**2,859**	2,730
Pension scheme contributions	**378**	349
	4,080	3,953

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

	2010	2009
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 RMB869,415 thousand (2009: RMB772,186 thousand) which has been dealt with in the financial statements of the Company.

15 DIVIDENDS

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

	2010 RMB'000	2009 RMB'000
Final dividend proposed after the balance sheet date RMB0.1260 per share (2009: RMB0.1108 per share)	**727,232**	639,502

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

	2010 RMB'000	2009 RMB'000
Final dividend in respect of the financial year ended 31 December 2009, approved during the year, of RMB0.1108 per share (2008: RMB0.0913 per share)	**639,502**	526,955

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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 2010 of RMB1,817,805 thousand (2009: RMB1,598,589 thousand) and the number of shares in issue during the year ended 31 December 2010 of 5,771,682 thousand shares (2009: 5,771,682 thousand shares).

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

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
Cost or valuation:					
As at 1 January 2009	2,549,436	211,737	858,654	1,643,808	5,263,635
Transfer to investment properties (note 18)	(53,328)	–	–	–	(53,328)
Transfer from investment properties (note 18)	43,751	–	–	–	43,751
Transfer from construction in progress (note 19)	239,981	15,845	585	31,659	288,070
Additions	69,807	35,281	176,844	314,110	596,042
Disposals	(26,955)	(18,531)	(36,697)	(133,033)	(215,216)
Through acquisition of subsidiary (note 39(i))	–	–	–	458	458
As at 31 December 2009	2,822,692	244,332	999,386	1,857,002	5,923,412
Representing:					
Cost	1,359,925	130,426	572,814	1,157,744	3,220,909
Valuation – 2006 (note b)	1,462,767	113,906	426,572	699,258	2,702,503
	2,822,692	244,332	999,386	1,857,002	5,923,412
Accumulated depreciation and impairment losses:					
As at 1 January 2009	222,598	151,209	419,000	828,093	1,620,900
Transfer to investment properties (note 18)	(12,895)	–	–	–	(12,895)
Transfer from investment properties (note 18)	14,057	–	–	–	14,057
Depreciation charge	120,177	35,015	116,169	259,152	530,513
Written back on disposal	(3,718)	(3,419)	(28,914)	(109,824)	(145,875)
Through acquisition of subsidiary (note 39(i))	–	–	–	144	144
Impairment loss	–	–	138	3,709	3,847
As at 31 December 2009	340,219	182,805	506,393	981,274	2,010,691
Net carrying value:					
As at 31 December 2009	2,482,473	61,527	492,993	875,728	3,912,721

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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 2010	2,822,692	244,332	999,386	1,857,002	5,923,412
Transfer to investment properties (note 18)	(77,876)	–	–	–	(77,876)
Transfer from investment properties (note 18)	30,251	–	–	–	30,251
Transfer from construction in progress (note 19)	105,391	27,981	–	17,944	151,316
Additions	30,029	29,302	191,748	310,044	561,123
Disposals	(2,274)	(6,945)	(42,993)	(119,968)	(172,180)
As at 31 December 2010	2,908,213	294,670	1,148,141	2,065,022	6,416,046
Representing:					
Cost	1,446,626	183,088	739,905	1,411,116	3,780,735
Valuation – 2006 (note b)	1,461,587	111,582	408,236	653,906	2,635,311
	2,908,213	294,670	1,148,141	2,065,022	6,416,046
Accumulated depreciation and impairment losses:					
As at 1 January 2010	340,219	182,805	506,393	981,274	2,010,691
Transfer to investment properties (note 18)	(11,014)	–	–	–	(11,014)
Transfer from investment properties (note 18)	10,566	–	–	–	10,566
Depreciation charge	116,383	24,928	116,108	280,194	537,613
Written back on disposal	(223)	(5,945)	(39,183)	(112,072)	(157,423)
Impairment loss	–	–	–	34	34
As at 31 December 2010	455,931	201,788	583,318	1,149,430	2,390,467
Net carrying value:					
As at 31 December 2010	2,452,282	92,882	564,823	915,592	4,025,579

(Expressed in Renminbi)

17 PROPERTY, PLANT AND EQUIPMENT, NET (continued)

The Company

	Furniture, fixtures and other equipment RMB'000
Cost:	
As at 1 January 2009	458
Additions	190
Transfer from construction in progress (note 19)	4,322
As at 31 December 2009	4,970
Accumulated depreciation:	
As at 1 January 2009	69
Charge for the year	92
As at 31 December 2009	161
Net carrying value:	
As at 31 December 2009	4,809
Cost:	
As at 1 January 2010	**4,970**
Additions	**196**
Transfer from construction in progress (note 19)	**142**
As at 31 December 2010	**5,308**
Accumulated depreciation:	
As at 1 January 2010	**161**
Charge for the year	**957**
As at 31 December 2010	**1,118**
Net carrying value:	
As at 31 December 2010	**4,190**

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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 non-controlling interests as at 31 March 2006 amounting to RMB294 million and RMB1 million respectively. The deficit arising from the valuation of these assets amounting to RMB105 million, was recognised as an expense in 2006.

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

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

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

Buildings in connection with the acquisition of Target Business were also valued separately by Savills Valuations and Professional Services Limited, independent qualified valuers in Hong Kong, as at 31 March 2007. The value arrived at by them was approximately the same as that arrived at by PRC valuers as adjusted for the depreciation of the period from 1 January 2007 to 31 March 2007.

(c) As at 31 December 2010, certain banking facilities of the Group were secured by property, plant and equipment with carrying amount of RMB7 million (2009: RMB7 million).

(d) Up to the date of issue of these financial statements, the Group is still in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB270 million as at 31 December 2010 (2009: RMB290 million). The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

(e) Had all property, plant and equipment been carried at cost less accumulated depreciation under the cost model, the carrying amounts of each class of property, plant and equipment as at 31 December 2010 would have been as follows:

	2010 RMB'000	2009 RMB'000
Buildings	**2,319,193**	2,338,597
Buildings improvements	**93,099**	60,844
Motor vehicles	**514,521**	439,393
Furniture, fixtures and other equipment	**925,927**	878,997
	3,852,740	3,717,831

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18 INVESTMENT PROPERTIES

	The Group	
	2010 **RMB'000**	2009 RMB'000
Cost:		
As at 1 January	**832,547**	822,970
Transfer from property, plant and equipment (note 17)	**77,876**	53,328
Transfer to property, plant and equipment (note 17)	**(30,251)**	(43,751)
Transfer to lease prepayments (note 20)	**(690)**	–
Additions	**1,079**	–
Disposals	**(6,961)**	–
As at 31 December	**873,600**	832,547
Accumulated depreciation:		
As at 1 January	**146,588**	115,755
Transfer from property, plant and equipment (note 17)	**11,014**	12,895
Transfer to property, plant and equipment (note 17)	**(10,566)**	(14,057)
Transfer to lease prepayments (note 20)	**(55)**	–
Depreciation charge	**31,304**	31,995
Disposals	**(701)**	–
As at 31 December	**177,584**	146,588
Net carrying value:		
As at 31 December	**696,016**	685,959
Fair value	**878,684**	813,237

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 five years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals. At the balance sheet date, the Group's total future minimum lease payments under non-cancellable operating leases were receivable as follows:

	The Group	
	2010 **RMB'000**	2009 RMB'000
Within 1 year	**51,106**	50,381
After 1 year but within 5 years	**88,605**	74,408
After 5 years	**22,637**	11,597
	162,348	136,386

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18 INVESTMENT PROPERTIES (continued)

During the year ended 31 December 2010, RMB69 million (2009: RMB70 million) has been recognised as rental income in the consolidated income statement and RMB22 million (2009: RMB21 million) in respect of direct operating expenses relating to investment properties has been recognised as expenses in the consolidated income statement.

Up to the date of these financial statements, the Group is still in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB66 million as at 31 December 2010 (2009: RMB103 million). The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

19 CONSTRUCTION IN PROGRESS

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Cost:				
As at 1 January	**73,334**	231,008	**1,580**	3,361
Additions	**232,216**	130,396	**10,321**	2,541
Transfer to property, plant and equipment (note 17)	**(151,316)**	(288,070)	**(142)**	(4,322)
As at 31 December	**154,234**	73,334	**11,759**	1,580

20 LEASE PREPAYMENTS

	The Group	
	2010 RMB'000	2009 RMB'000
Cost:		
As at 1 January	**514,226**	454,562
Additions	**–**	64,248
Disposals	**(1,001)**	(4,584)
Transfer from investment properties (note 18)	**690**	–
As at 31 December	**513,915**	514,226
Accumulated depreciation:		
As at 1 January	**32,539**	23,271
Amortisation charge	**11,276**	9,590
Written back on disposal	**(90)**	(322)
Transfer from investment properties (note 18)	**55**	–
As at 31 December	**43,780**	32,539
Net carrying value:		
As at 31 December	**470,135**	481,687

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 28 to 70 years as at 31 December 2010.

21 GOODWILL

	2010 RMB'000	2009 RMB'000
Cost and carrying amount	**103,005**	103,005

	2010 RMB'000	2009 RMB'000
Impairment tests for cash-generating units containing goodwill		
China International Telecommunications Construction Corporation ("CITCC")	**103,005**	103,005

The recoverable amounts of goodwill arising from the acquisition of CITCC are determined based on value in use calculation. The calculation use cash flow projection based on financial budget approved by management covering a one-year period and pre-tax discount rates is 10.7%.

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

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

22 OTHER INTANGIBLE ASSETS

	The Group		**The Company**	
	2010 RMB'000	2009 RMB'000	**2010** RMB'000	2009 RMB'000
Cost:				
As at 1 January	**257,945**	196,533	**5,977**	4,500
Additions	**57,637**	71,200	**917**	1,477
Disposals	**(10,493)**	(9,788)	**–**	–
As at 31 December	**305,089**	257,945	**6,894**	5,977
Accumulated amortisation:				
As at 1 January	**109,492**	80,952	**2,450**	875
Amortisation charge	**42,321**	37,509	**1,811**	1,575
Written back on disposal	**(8,294)**	(8,969)	**–**	–
Impairment loss	**9,580**	–	**–**	–
As at 31 December	**153,099**	109,492	**4,261**	2,450
Net carrying value:				
As at 31 December	**151,990**	148,453	**2,633**	3,527

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

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23 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2010 **RMB'000**	2009 RMB'000
Unlisted investments, at cost	**10,470,145**	10,226,636

The following list contains only the particulars of subsidiaries at 31 December 2010 which principally affected the results, assets or liabilities of the Group.

Name of company	Type of legal entity	Place of incorporation/ establishment	Held by the Company Directly %	Held by the Company Indirectly %	Issued and fully paid up/ registered capital	Principal activities
Guangdong Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB2,881 million	Provision of integrated telecommunications support services through its subsidiaries in Guangdong Province
Zhejiang Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB1,098 million	Provision of integrated telecommunications support services through its subsidiaries in Zhejiang Province
Shanghai Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB976 million	Provision of integrated telecommunications support services through its subsidiaries in Shanghai Municipality
Fujian Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB311 million	Provision of integrated telecommunications support services through its subsidiaries in Fujian Province
Hubei Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB317 million	Provision of integrated telecommunications support services through its subsidiaries in Hubei Province

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23 INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Type of legal entity	Place of incorporation/ establishment	Held by the Company Directly %	Held by the Company Indirectly %	Issued and fully paid up/ registered capital	Principal activities
Jiangsu Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB678 million	Provision of integrated telecommunications support services through its subsidiaries in Jiangsu Province
Anhui Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB420 million	Provision of integrated telecommunications support services through its subsidiaries in Anhui Province
Jiangxi Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB200 million	Provision of integrated telecommunications support services through its subsidiaries in Jiangxi Province
Hunan Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB896 million	Provision of integrated telecommunications support services through its subsidiaries in Hunan Province
Guangxi Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB192 million	Provision of integrated telecommunications support services through its subsidiaries in Guangxi Zhuang Autonomous Region
Chongqing Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB209 million	Provision of integrated telecommunications support services through its subsidiaries in Chongqing Municipality
Sichuan Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB798 million	Provision of integrated telecommunications support services through its subsidiaries in Sichuan Province

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23 INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Type of legal entity	Place of incorporation/ establishment	Held by the Company Directly %	Held by the Company Indirectly %	Issued and fully paid up/ registered capital	Principal activities
Guizhou Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB139 million	Provision of integrated telecommunications support services through its subsidiaries in Guizhou Province
Yunnan Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB238 million	Provision of integrated telecommunications support services through its subsidiaries in Yunnan Province
Shaanxi Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB145 million	Provision of Integrated telecommunications support services through its subsidiaries in Shaanxi Province
Gansu Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB129 million	Provision of integrated telecommunications support services through its subsidiaries in Gansu Province
Qinghai Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB68 million	Provision of integrated telecommunications support services through its subsidiaries in Qinghai Province
Xinjiang Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB179 million	Provision of integrated telecommunications support services through its subsidiaries in Xinjiang Uygur Autonomous Region
China International Telecommunications Construction Corporation	Limited Liability Company	The PRC	100	–	RMB417 million	Provision of integrated telecommunications support services through its subsidiaries in Northern China Provinces

23 INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Type of legal entity	Place of incorporation/ establishment	Held by the Company Directly %	Held by the Company Indirectly %	Issued and fully paid up/ registered capital	Principal activities
China Communications Services (Hong Kong) International Limited	Limited Liability Company	Hong Kong	100	–	HKD227 million	Provision of integrated telecommunications support services through its subsidiaries in Hong Kong
Guoxun Innovation Software Technologies Co., Ltd.	Limited Liability Company	The PRC	100	–	USD12 million	Provision of integrated telecommunications support services
Freeland Information Technology Co., Ltd.	Limited Liability Company	The PRC	100	–	RMB10 million	Provision of integrated telecommunications support services
China Comservice Software Tech. Co., Ltd	Limited Liability Company	The PRC	60	–	USD25 million	Provision of integrated telecommunications support services

24 INTEREST IN ASSOCIATES

	The Group 2010 RMB'000	The Group 2009 RMB'000
Share of net assets	**61,433**	12,960

As at 31 December 2010, the Group's associates are unlisted, established and operated in the PRC. The Group's interest in associates are individually and in aggregate not material to the Group's financial condition or results of operation for the year.

25 OTHER INVESTMENTS

	The Group 2010 RMB'000	The Group 2009 RMB'000
At cost/fair value:		
Unlisted equity securities, at cost	**520,314**	226,775
Listed equity securities, at quoted market price	**51,087**	77,998
	571,401	304,773

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26 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities attributable to the following:

	Assets		Liabilities		Net balance	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Impairment losses, primarily for receivables and inventories	**54,491**	37,208	**–**	–	**54,491**	37,208
Revaluation of other investments	**–**	–	**(1,188)**	(2,420)	**(1,188)**	(2,420)
Revaluation of property, plant and equipment	**–**	–	**(18,160)**	(19,716)	**(18,160)**	(19,716)
Unused tax losses (note (i))	**11,497**	4,651	**–**	–	**11,497**	4,651
Change in fair value (note (ii))	**–**	–	**(12,241)**	(13,633)	**(12,241)**	(13,633)
Revaluation of lease prepayments (note (iii))	**55,979**	57,304	**–**	–	**55,979**	57,304
Unpaid expenses	**83,855**	41,389	**–**	–	**83,855**	41,389
Deferred tax assets and (liabilities)	**205,822**	140,552	**(31,589)**	(35,769)	**174,233**	104,783

Movements in temporary differences for the year ended 31 December 2010 and 2009 are as follows:

The Group

	As at 1 January 2010 RMB'000	**Recognised in the consolidated income statement RMB'000**	**Recognised in shareholders' equity RMB'000**	**As at 31 December 2010 RMB'000**
Impairment losses, primarily for receivables and inventories	**37,208**	**17,283**	**–**	**54,491**
Revaluation of other investments	**(2,420)**	**1,232**	**–**	**(1,188)**
Revaluation of property, plant and equipment	**(19,716)**	**1,556**	**–**	**(18,160)**
Unused tax losses (note (i))	**4,651**	**6,846**	**–**	**11,497**
Change in fair value (note (ii))	**(13,633)**	**–**	**1,392**	**(12,241)**
Revaluation of lease prepayments (note (iii))	**57,304**	**(1,473)**	**148**	**55,979**
Unpaid expenses	**41,389**	**42,466**	**–**	**83,855**
Deferred tax assets and (liabilities)	**104,783**	**67,910**	**1,540**	**174,233**
		(note 10(a))		

26 DEFERRED TAX ASSETS AND LIABILITIES (continued)

Movements in temporary differences for the year ended 31 December 2010 and 2009 are as follows (continued):

The Group (continued)

	As at 1 January 2009 RMB'000	Acquisition of subsidiary RMB'000	Recognised in the consolidated income statement RMB'000	Recognised in shareholders' equity RMB'000	As at 31 December 2009 RMB'000
Impairment losses, primarily for receivables and inventories	22,523	–	14,685	–	37,208
Revaluation of other investments	(4,282)	–	1,862	–	(2,420)
Revaluation of property, plant and equipment	(21,123)	–	1,407	–	(19,716)
Unused tax losses (note (i))	4,247	–	404	–	4,651
Change in fair value (note (ii))	(6,048)	–	–	(7,585)	(13,633)
Revaluation of lease prepayments (note (iii))	60,000	–	(1,551)	(1,145)	57,304
Unpaid expenses	30,846	31	10,512	–	41,389
Deferred tax assets and (liabilities)	86,163	31	27,319	(8,730)	104,783
			(note 10(a))		

Notes:

(i) Expiry of recognised tax losses

	2010 RMB'000	2009 RMB'000
Year of expiry		
2013	**16,768**	16,988
2014	**1,612**	1,612
2015	**27,608**	–
	45,988	18,600

(ii) As at 31 December 2010, the Group's available-for-sale investments were recognised at fair value as in accordance with the accounting policy of the Group. The tax bases of these assets were not adjusted to fair value and accordingly, a deferred tax liability of RMB12.2 million (2009: RMB13.6 million) related to the change in fair value of available-for-sale investments was recognised in shareholders' equity.

(iii) In connection with the Restructuring and the Acquisition of the Target Business, land use rights were revalued. The revalued amount will serve as the tax base for future years. The land use rights were not revalued for financial reporting purposes and accordingly, deferred tax assets were created with a corresponding increase in equity. The amount recognised in equity during 2010 represents the change in taxable land use right revalued amount for certain subsidiaries. Based upon the level of historical taxable income and projections for future taxable income, management believes it is probable that the Group will realise the benefits of the deferred tax assets.

(iv) As at 31 December 2010, the Group has not recognised deferred tax assets in respect of tax losses of RMB413.6 million (2009: RMB511.6 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 2011 to 2015.

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27 INVENTORIES

	The Group 2010 RMB'000	2009 RMB'000
Construction materials	**287,312**	405,439
Finished goods	**1,520,197**	1,190,318
Spare parts and consumables	**25,677**	63,869
	1,833,186	1,659,626

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

	The Group 2010 RMB'000	2009 RMB'000
Carrying amount of inventories consumed and sold	**13,496,980**	12,364,499
Reversal of write-down of inventories	**(9,488)**	(1,286)
Write-down of inventories	**14,075**	24,695
	13,501,567	12,387,908

28 ACCOUNTS AND BILLS RECEIVABLE, NET

	The Group 2010 RMB'000	2009 RMB'000
Bills receivable	**95,208**	101,718
Unbilled revenues for contract work	**2,956,264**	2,970,511
Trade receivables	**10,231,195**	7,727,589
	13,282,667	10,799,818
Less: impairment losses	**(395,110)**	(332,129)
	12,887,557	10,467,689

(a) Included in accounts and bills receivable are amounts due from fellow subsidiaries of RMB6,950 million (2009: RMB6,772 million) as at 31 December 2010. The amounts due from fellow subsidiaries are unsecured, interest-free and are expected to be recovered within one year.

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

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28 ACCOUNTS AND BILLS RECEIVABLE, NET (continued)

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

	The Group	
	2010 RMB'000	2009 RMB'000
Current	**4,890,354**	5,313,774
Within 1 year	**6,566,525**	4,320,911
After 1 year but less than 2 years	**1,108,228**	618,309
After 2 years but less than 3 years	**245,878**	130,957
After 3 years	**76,572**	83,738
Amount past due	**7,997,203**	5,153,915
	12,887,557	10,467,689

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

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

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

	The Group	
	2010 RMB'000	2009 RMB'000
At 1 January	**332,129**	301,104
Impairment loss recognised	**96,354**	46,077
Reversal of impairment loss previously recognised	**(23,467)**	(9,260)
Uncollectible amounts written off	**(9,906)**	(5,792)
At 31 December	**395,110**	332,129

At 31 December 2010, the Group's accounts and bills receivable of RMB355.7 million (2009: RMB290.3 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 RMB282 million (2009: RMB234.4 million) were recognised. The Group does not hold any collateral over these balances.

(e) **Accounts and bills receivable that is not impaired**

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

	The Group	
	2010 RMB'000	2009 RMB'000
Neither past due nor impaired	**4,890,354**	5,313,774
Within 1 year	**6,566,525**	4,320,911
After 1 year but less than 2 years	**991,590**	335,743
After 2 years but less than 3 years	**78,040**	64,262
After 3 years	**36,198**	22,005
At 31 December	**12,562,707**	10,056,695

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28 ACCOUNTS AND BILLS RECEIVABLE, NET (continued)

(e) Accounts and bills receivable that is not impaired (continued)

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

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

29 CONSTRUCTION CONTRACTS

The aggregate amounts of costs incurred plus recognised profit less recognised losses to date, included in the gross amount due from/to customers for contract work at 31 December 2010 are RMB6,108 million (2009: RMB5,600 million).

In respect of construction contacts in progress at the balance sheet date, the amounts of retentions receivable from customers, recorded within “Accounts and bills receivable” at 31 December 2010 are RMB19 million (2009: RMB26 million).

30 PREPAYMENTS AND OTHER CURRENT ASSETS

	The Group		The Company	
	2010 RMB’000	2009 RMB’000	**2010 RMB’000**	2009 RMB’000
Advances to staff	**179,462**	221,450	**166**	–
Amounts due from fellow subsidiaries	**1,364,133**	392,209	**30,852**	35,330
Amounts due from subsidiaries	**–**	–	**246,086**	170,005
Prepayments in connection with construction work and equipment purchases	**1,691,226**	1,779,566	**–**	–
Prepaid expenses and deposits	**159,890**	207,347	**714**	729
Dividends receivable	**4,063**	38,903	**955,890**	1,371,008
Others	**569,102**	500,923	**45**	44
	3,967,876	3,140,398	**1,233,753**	1,577,116

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

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31 RESTRICTED DEPOSITS

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

32 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Cash at bank and in hand	**7,612,626**	7,420,776	**481,258**	24,232
Highly liquid investments	**–**	163,000	**–**	163,000
Deposits with banks and other financial institutions	**857,623**	1,286,648	**200,000**	235,000
Cash and cash equivalents	**8,470,249**	8,870,424	**681,258**	422,232

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

33 INTEREST-BEARING BORROWINGS

The Group's short-term borrowings comprise:

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
RMB denominated				
Borrowings from banks				
– unsecured	**750,000**	850,000	**700,000**	700,000
Loans from ultimate holding company				
– unsecured	**800,000**	300,000	**800,000**	300,000
Loans from fellow subsidiaries				
– unsecured	**228,509**	118,280	**–**	–
Central African CFA Franc denominated				
Borrowings from banks				
– unsecured	**2,014**	–	**–**	–
	1,780,523	1,268,280	**1,500,000**	1,000,000

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33 INTEREST-BEARING BORROWINGS (continued)

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

	The Group		The Company	
	2010	2009	**2010**	2009
RMB denominated				
Borrowings from banks				
– unsecured	**3.51%-4.01%**	3.51%	**3.76%**	3.51%
Loans from ultimate holding company				
– unsecured	**4.08%**	3.89%	**3.89%-4.08%**	3.89%
Loans from fellow subsidiaries				
– unsecured	**2.39%-5.51%**	2.39%-5.31%	**–**	–
Central African CFA Franc denominated				
Borrowings from banks				
– unsecured€	**6.00%**	–	**–**	–

As at 31 December 2010, no borrowings from bank were subject to financial covenants.

The loan from ultimate holding company in as at 31 December 2010 is unsecured and repayable on 10 June 2011.

34 ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	The Group	
	2010 RMB'000	2009 RMB'000
Accounts payable	**7,973,422**	7,054,217
Bills payable	**1,795,370**	1,790,501
	9,768,792	8,844,718

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

	The Group	
	2010 RMB'000	2009 RMB'000
Within 1 year	**9,093,470**	8,302,532
After 1 year but less than 2 years	**494,547**	407,273
After 2 years but less than 3 years	**112,808**	79,705
After 3 years	**67,967**	55,208
	9,768,792	8,844,718

Included in accounts and bills payable are amounts due to fellow subsidiaries of RMB231 million (2009: RMB283 million) as at 31 December 2010. The amounts due to fellow subsidiaries are unsecured, interest-free and are expected to be settled within one year.

35 ACCRUED EXPENSES AND OTHER PAYABLES

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Wages and welfare payables	**1,185,048**	833,792	**13,027**	4,947
Amounts due to fellow subsidiaries (note i)	**826,436**	840,302	**21,630**	19,594
Advances received	**761,531**	445,725	**–**	–
Other taxes payable	**444,171**	332,808	**2,653**	3,616
Special dividend and profit distribution relating to Target Business payable to CTC (note ii)	**166,655**	294,628	**–**	–
Dividend payable	**59,586**	612,064	**–**	568,154
Payables for construction and purchase of fixed assets	**148,305**	146,704	**–**	500
Others	**2,972,574**	2,047,056	**46,075**	48,649
	6,564,306	5,553,079	**83,385**	645,460

Notes:

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

(ii) Special dividend and profit distribution by Target Business

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

Pursuant to a resolution passed at directors' meeting on 17 April 2007, the directors resolved to pay the 2006 special dividend to CTC and its subsidiaries amounting to RMB535 million in total, out of which RMB117 million was directly distributed at the subsidiary level. The Group has paid RMB453 million special dividend to CTC and its subsidiaries by 31 December 2010.

As disclosed in the Circular of the Company dated 20 June 2007, in line with the principles set out in the "Notice of the Forwarding the Implementation Opinions of the state-owned Assets Supervision and Administration Commission about Further Standardisation of the Work Relating to the Reconstruction of State-owned Enterprise" issued by the General Office of the State Council of the PRC, the changes in net assets between the period from 1 February 2007 to 31 August 2007 of the Target Business should be distributed in form of cash to CTC and its subsidiaries amounting to RMB197 million in total, of which RMB112 million has been paid to CTC and its subsidiaries by 31 December 2010.

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36 SHARE CAPITAL

	2010 RMB'000	2009 RMB'000
Registered, issued and fully paid:		
3,778,831,800 (2009: 3,778,831,800) domestic state-owned ordinary shares of RMB1.00 each	**3,778,832**	3,778,832
1,992,850,200 (2009: 1,992,850,200) H shares of RMB1.00 each	**1,992,850**	1,992,850
	5,771,682	5,771,682

	2010 Thousand shares	2009 Thousand shares
At 1 January and at 31 December	**5,771,682**	5,771,682

Except for the 2006 special dividend stated in note 35(ii), all shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

(a) Capital management

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

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

The Group monitor its capital using a gearing ratio which is total debts divided by the sum of total debts and total equity. For this purpose, the Group defines total debt as the sum of short-term interest bearing borrowings and long-term interest bearing borrowings. The Group aims to maintain the gearing ratio at a reasonable level. The Group's ratio as at 31 December 2010 was 11.1% (2009: 8.8%). In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

37 RETIREMENT BENEFIT OBLIGATIONS

In accordance with the labour regulations of the PRC, the Group participates in various defined contribution retirement schemes organised by the municipal and provincial governments for its employees. The Group is required to make contributions to the retirement schemes at rates ranging from 18% to 22% (2009: 18% to 22%) of the salaries, bonuses and certain allowances of the employees. A member of the scheme is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date.

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

38 SHARE APPRECIATION RIGHTS SCHEMES

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

In April 2007, the Company's remuneration committee approved the granting of 38.3 million share appreciation right units to eligible employees (first batch of share appreciation rights). Under the terms of this grant, all share appreciation rights had a contractual life of seven years from date of grant and an exercise price of HK$5.25 per unit. A recipient of share appreciation rights may not exercise the rights in the first 24 months after the date of grant. As at each of the third, fourth and fifth anniversary of the date of grant, the total number of share appreciation rights exercisable may not in aggregate exceed one-third, two-third and 100%, respectively, of the total share appreciation rights granted to such person.

In April 2009, the Company's remuneration committee approved the granting of 49.8 million share appreciation right units to eligible employees (second batch of share appreciation rights). Under the terms of this grant, all share appreciation rights had a contractual life of five years from date of grant and an exercise price of HK$4.76 per unit. A recipient of share appreciation rights may not exercise the rights in the first 24 months after the date of grant. As at each of the third, fourth and fifth 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 RMB63 million for the year ended 31 December 2010 (2009: RMB8.4 million). The first and second batches of share appreciation rights have not been fully granted to each eligible employee. As such, compensation expense of the share appreciation rights over the applicable vesting period recognised has not been fully allocated to each eligible employees.

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(Expressed in Renminbi)

39 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(i) Acquisition of subsidiary

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	On acquisition date	
	2010 RMB'000	2009 RMB'000
Property, plant and equipment, net	**–**	314
Deferred tax assets	**–**	31
Accounts and bills receivable, net	**375**	4
Prepayments and other current assets	**15,978**	286
Cash and cash equivalents	**3,434**	3,529
Accounts and bills payable	**(10,342)**	(80)
Accrued expenses and other payables	**(8,543)**	(3,242)
Income tax payable	**–**	(22)
Net identifiable assets and liabilities	**902**	820
Goodwill on acquisition	**–**	–
Total purchase consideration	**902**	820
Less: non-cash consideration	**–**	820
Consideration paid in cash	**902**	–
Less: cash and cash equivalent balance acquired	**3,434**	3,529
Net cash inflow	**2,532**	3,529

On 1 January 2010, the Group acquired all of the shares in G-Apex International Limited ("G-Apex") from Messr Huang Dunfeng, Zhang Changzheng and Chen Aihua in Uganda for a consideration of USD0.10 million.

For the period from the date of acquisition to 31 December 2010, G-Apex contributed a profit of RMB1.36 million to the Group.

On 1 January 2010, the Group acquired all of the shares in Anhui Telecommunications Engineering Company (Ghana) Limited ("Anhui Telecom (Ghana)") from Messr Huang Dunfeng, Zhang Changzheng and Chen Aihua in Ghana for a consideration of USD0.03 million.

For the period from the date of acquisition to 31 December 2010, Anhui Telecom(Ghana) contributed a profit of RMB2.4 million to the Group.

On 1 February 2010, the Group acquired all of the shares in Huaxin Consulting De Venezuela C.A ("Huaxin Consulting") from Mr Wang Jianbin in Venezuela for a consideration of USD1.00.

For the period from the date of acquisition to 31 December 2010, Huaxin Consulting contributed no profit to the Group yet.

At the acquisition date, pre-acquisition carrying amounts of the acquiree's assets and liabilities had been determined based on applicable IFRSs, with no difference from the amounts recognised.

40 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

As at 31 December 2010, the Group has capital commitment for acquisition and construction of property, plant and equipment as follows:

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Authorised and contracted for	**216,365**	100,064	**6,069**	6,419
Authorised but not contracted for	**57,085**	117,019	**490**	41,895

40 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(b) Operating lease commitments

As at 31 December 2010, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Within 1 year	**180,699**	114,187	**219**	205
After 1 year but within 5 years	**221,322**	120,369	**–**	23
After 5 years	**63,893**	6,608	**–**	–
	465,914	241,164	**219**	228

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

(c) Contingent liabilities

As at 31 December 2010, the Group had no material contingent liabilities and no material financial guarantees issued.

41 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

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

(a) Credit risk

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

The Group's major customers are CTC Group and CM Group. The Group has a certain concentration of credit risk as these two largest customers accounted for 70% of the total accounts and bills receivable as at 31 December 2010 (2009: 65%). The Group has no significant credit risk with any of these customers since the Group maintains long-term and stable business relationships with these large customers in the telecommunications industry.

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

The credit risk on available-for-sale investments arises from loss in value through corporate failure. The Group mitigate the credit risk on available-for-sale investments by closely monitor its portfolio and minimise investments on these assets. The Group's available-for-sale investments are less than 2% of its total assets for both 2010 and 2009.

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

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(Expressed in Renminbi)

41 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(b) Interest rate risk

The Group's interest rate risk exposure primarily from its short-term debts carrying interests at fixed rates exposed the Group to fair value interest rate risk. The Group manages its exposure to interest rate risk by maintaining high proportion of fixed rate debts with maturity within one year. Details of the interest rates are disclosed in note 33.

(c) Liquidity risk

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

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

The Group

	2010		2009	
	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	**Balance sheet carrying amount RMB'000**	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	Balance sheet carrying amount RMB'000
Interest-bearing borrowings	**1,817,388**	**1,780,523**	1,283,783	1,268,280
Account and bills payable	**9,768,792**	**9,768,792**	8,844,718	8,844,718
Receipt in advance	**1,083,587**	**1,083,587**	1,088,327	1,088,327
Accrued expenses and other payable	**6,564,306**	**6,564,306**	5,553,079	5,553,079
	19,234,073	**19,197,208**	16,769,907	16,754,404

The Company

	2010		2009	
	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	**Balance sheet carrying amount RMB'000**	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	Balance sheet carrying Amount RMB'000
Interest-bearing borrowings	**1,536,338**	**1,500,000**	1,011,294	1,000,000
Accrued expenses and other payable	**83,385**	**83,385**	645,460	645,460
	1,619,723	**1,583,385**	1,656,754	1,645,460

41 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk

Foreign currency exchange rate risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured. The Group's foreign currency risk exposure relates to the bank deposits and borrowings denominated primarily in United States dollars, Hong Kong dollars and Nigerian Naria (see note 32).

The Group does not expect the appreciation or depreciation of the Renminbi against foreign currencies will materially affect the Group's financial position and result of operations because 96.0% (2009: 97.0%) of the Group's cash and cash equivalents and 99.9% (2009: 100%) of the Group's short-term debt as at 31 December 2010 are denominated in Renminbi.

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

Exposure to currency risk

The Group

	Exposure to foreign currencies (expressed in RMB) 2010					
	United States dollars '000	**Hong Kong dollars '000**	**Nigerian Naira '000**	**Saudi Arabian Riyal '000**	**United Arab Emirates Dirham '000**	**Others '000**
Cash and cash equivalents	**204,864**	**98,273**	**40,759**	**6,896**	**591**	**9,631**
Accounts receivable	**71,662**	**32,487**	**2,437**	**2,156**	**11,026**	**4,789**
Accounts payable	**(83,648)**	**(20,908)**	**–**	**–**	**(6,805)**	**(10,934)**
Overall net exposure	**192,878**	**109,852**	**43,196**	**9,052**	**4,812**	**3,486**

	Exposure to foreign currencies (expressed in RMB) 2009					
	United States dollars '000	Hong Kong dollars '000	Nigerian Naira '000	Saudi Arabian Riyal '000	United Arab Emirates Dirham '000	Others '000
Cash and cash equivalents	126,963	92,430	46,430	–	–	–
Accounts receivable	93,578	–	–	–	–	–
Accounts payable	(11,611)	–	–	–	–	–
Interest-bearing loans	(9,644)	–	–	–	–	–
Overall net exposure	199,286	92,430	46,430	–	–	–

Notes To The Consolidated Financial Statements

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41 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

The Company

	Exposure to foreign currencies (expressed in RMB)			
	2010		2009	
	United States dollars ’000	**Hong Kong dollars ’000**	United States dollars ’000	Hong Kong dollars ’000
Cash and cash equivalents	**50**	**1,316**	–	2,504

The following significant exchange rates applied during the year:

The Group

	Average rate		Spot rate	
	2010	2009	**2010**	2009
United States dollars	**6.73**	6.83	**6.62**	6.83
Hong Kong dollars	**0.86**	0.88	**0.85**	0.88
Nigerian Naira	**0.04**	0.05	**0.04**	0.05
Saudi Arabian Riyal	**1.80**	1.82	**1.77**	1.82
United Arab Emirates Dirham	**1.83**	1.86	**1.80**	1.86

Sensitivity analysis

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

The Group

	2010			2009		
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits ‘000**	**Effect on other components of equity ‘000**	Increase/ (decrease) In foreign exchange rates	Effect on profit after tax and retained profits ‘000	Effect on other components of equity ‘000
United States dollars	**5%**	**9,644**	**–**	5%	9,964	–
	(5)%	**(9,644)**	**–**	(5)%	(9,964)	–
Hong Kong dollars	**5%**	**5,493**	**–**	5%	4,622	–
	(5)%	**(5,493)**	**–**	(5)%	(4,622)	–
Nigerian Naira	**5%**	**2,160**	**–**	5%	2,322	–
	(5)%	**(2,160)**	**–**	(5)%	(2,322)	–
Saudi Arabian Riyal	**5%**	**453**	**–**	5%	–	–
	(5)%	**(453)**	**–**	(5)%	–	–
United Arab Emirates Dirham	**5%**	**241**	**–**	5%	–	–
	(5)%	**(241)**	**–**	(5)%	–	–

(Expressed in Renminbi)

41 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

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

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, include inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender of the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the group's presentation currency. The analysis is performed on the same basis for 2009.

(e) Equity price risk

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

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

The Group is also exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of other financial liabilities of the Group. As at the balance sheet date the Group is exposed to this risk through the share appreciation rights scheme issued by the Company as disclosed in note 38.

At 31 December 2010, it is estimated that an increase/(decrease) of 5% (2009: 5%) in the relevant share price (for listed investments) or the Company's own share price (for the share appreciation rights scheme) as applicable, with all other variables held constant, would have increased/(decreased) the Group's profit after tax (and retained profits) and other components of consolidated equity as follows:

The Group

	2010			2009		
		Effect on profit after tax and retained profits '000	**Effect on other components of equity '000**		Effect on profit after tax and retained profits '000	Effect on other components of equity '000
Changes in the relevant equity price risk variable:						
Increase	**5%**	**(5,016)**	**1,916**	5%	(3,684)	3,899
Decrease	**(5)%**	**5,016**	**(1,916)**	(5)%	3,684	(3,899)

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

41 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(e) Equity price risk (continued)

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the changes in the share price or other relevant risk variables had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the balance sheet date. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant risk variables, that none of the Group's available-for-sale investments would be considered impaired as a result of the decrease in the share price or other relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2009.

(f) Fair value

(i) Financial instruments carried at fair value

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

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

	The Group			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Available-for-sale securities				
Listed equity securities	51,087	–	–	51,087
Liabilities				
Share appreciation rights	–	93,641	–	93,641

	The Company			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Available-for-sale securities				
Listed equity securities	–	–	–	–
Liabilities				
Share appreciation rights	–	9,767	–	9,767

41 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(f) Fair value (continued)

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

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

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

(g) Estimation of fair values

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

(i) Other investments

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

(ii) Interest-bearing borrowings

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

(iii) Share appreciation rights

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

42 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Construction contracts

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

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42 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(b) Impairment for trade and other receivables

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

(c) Impairment of long-lived assets

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

(d) Depreciation and amortisation

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

(e) Deferred tax assets

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

43 RELATED PARTIES

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

(a) Transactions with CTC Group

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

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

	2010 RMB'000	2009 RMB'000
Income from related parties:		
Engineering related services (note (i))	**9,901,200**	10,996,437
IT application services (note (ii))	**1,155,592**	1,092,998
Provision of ancillary telecommunications services (note (iii))	**4,519,671**	4,468,905
Provision of operation support services (note (iv))	**1,753,276**	1,694,087
Supplies procurement service (note (v))	**2,570,424**	1,949,401
Property leasing (note (vi))	**24,532**	41,355
Management fee income (note(vii))	**285,915**	259,849
Expenses paid to related parties:		
Property leasing charges (note (viii))	**117,373**	119,048
IT application service charges (note (ix))	**178,137**	186,098
Operation support service charges (note (x))	**278,662**	215,256
Supplies procurement service charges (note (xi))	**447,754**	634,604
Interest paid (note (xii))	**31,728**	28,192

Notes:

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

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

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

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

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

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43 RELATED PARTIES (continued)

(a) Transactions with CTC Group (continued)

Notes: (continued)

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

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

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

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

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

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

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

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

	2010 RMB'000	2009 RMB'000
Accounts and bills receivable, net	**6,950,121**	6,771,830
Prepayments and other current assets	**1,364,133**	392,209
Total amounts due from CTC Group	**8,314,254**	7,164,039
Interest-bearing borrowings	**1,028,509**	418,280
Accounts and bills payable	**231,136**	282,570
Receipts in advance for contract work	**50,154**	56,569
Accrued expenses and other payables	**993,963**	1,605,436
Total amounts due to CTC Group	**2,303,762**	2,362,855

As at 31 December 2010, the Group has recognised impairment losses of RMB3,295 thousand (2009: RMB2,568 thousand) for bad and doubtful debts in respect of amounts due from CTC Group.

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

43 RELATED PARTIES (continued)

(a) Transactions with CTC Group (continued)

In connection with the Restructuring, the Company and CTC entered into a number of agreements effective as at November 16, 2006 to take up the existing agreements signed between the Predecessor Operations and CTC as set out in items (1), (2) and (3) below, together with a new agreement governing the provision of headquarter management function by the Company as set out in item (4). After the Company acquired the Target Business in 2007, these agreements were amended by way of the 2008 Supplemental Agreement, pursuant to which the terms of the Agreements were renewed to 31 December 2010. On 29 October 2009, the Company entered into the Supplies Procurement Services Framework Agreement as set out in item (5) below. On 9 November 2010, these agreements were amended by way of 2010 Supplement Agreement, pursuant to which the terms of the Agreements were renewed to 31 December 2012. The terms of the principal agreements impacting the results of operations of the Group are summarised as follows:

(1) The Group has entered into agreements with CTC pursuant to which the Group provides CTC Group with construction, design and project supervision and management for telecommunications infrastructure projects. In addition, the Group has entered into information technology service agreements with CTC pursuant to which the Group provides CTC Group with telecommunications network support service, software and hardware development and other IT related services. The amounts charged for these services are determined by reference to market rates as reflected in prices obtained through a tender.

(2) The Group has entered into facilities leasing agreements with CTC pursuant to which the Group leases certain premises and other facilities to CTC Group, and vice versa. The rental charges are based on market rate, with reference to amounts stipulated by local price bureau.

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

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

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

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(Expressed in Renminbi)

43 RELATED PARTIES (continued)

(a) Transactions with CTC Group (continued)

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

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

(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.

43 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:

	2010 **RMB'000**	2009 RMB'000
Cash and cash equivalents	**7,691,859**	7,591,353

	2010 **RMB'000**	2009 RMB'000
Interest income	**64,901**	62,239

(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:

	2010 **RMB'000**	2009 RMB'000
Salaries and other emoluments	**4,053**	3,874
Retirement benefits	**1,447**	1,243
Bonuses	**8,269**	7,672
	13,769	12,789

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

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

43 RELATED PARTIES (continued)

(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 37. As at 31 December 2010 and 2009, 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 RMB29,737 million for the year ended 31 December 2010 (2009: RMB27,805 million).

Transactions with Group's ten largest suppliers, which are state-controlled entities, amounting to RMB1,213 million for the year ended 31 December 2010 (2009: RMB1,373 million).

44 SEGMENT REPORTING

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

45 DISTRIBUTABLE RESERVES

The movements of shareholders' equity of the Company for 2009 and 2010 are as follows:

	Share capital RMB'000 (note 36)	**Share premium** RMB'000 (note i)	**Capital reserves** RMB'000 (note ii)	**Statutory surplus reserves** RMB'000 (note iii)	**Retained earnings** RMB'000	**Total** RMB'000
At 1 January 2009	5,771,682	2,727,647	993,576	162,158	692,533	10,347,596
Profit for the year	–	–	–	–	772,186	772,186
Acquisition of Target interests(see note 1(c))	–	–	(2,387)	–	–	(2,387)
Distribution of dividend (see note 15(b))	–	–	–	–	(526,955)	(526,955)
Appropriation	–	–	–	77,219	(77,219)	–
At 31 December 2009	5,771,682	2,727,647	991,189	239,377	860,545	10,590,440
At 1 January 2010	**5,771,682**	**2,727,647**	**991,189**	**239,377**	**860,545**	**10,590,440**
Profit for the year	**–**	**–**	**–**	**–**	**869,415**	**869,415**
Distribution of dividend (see note 15(b))	**–**	**–**	**–**	**–**	**(639,502)**	**(639,502)**
Appropriation	**–**	**–**	**–**	**86,941**	**(86,941)**	**–**
At 31 December 2010	**5,771,682**	**2,727,647**	**991,189**	**326,318**	**1,003,517**	**10,820,353**

45 DISTRIBUTABLE RESERVES (continued)

According to the Company's Articles of Association, the amount of retained earnings available for distribution to equity shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with IFRSs after the appropriation to statutory surplus reserve as detailed in notes to the consolidated statement of changes in equity.

The aggregate amount of retained profits available for distribution to equity shareholders of the Company after taking into account the current year's proposed final dividend (see note 15(a)) was:

	2010 **RMB'000**	2009 RMB'000
At 31 December	**231,091**	175,850

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

Note:

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

(ii) The capital reserve represents the difference between the total amount of the par value of shares issued and the amount of the net assets transferred from CTC, Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation upon the formation of the Company. Then, the capital reserve was net off by the difference between the consideration for the acquisition of Target Business and net assets value of the Target Business in 2007.

(iii) According to the Company's Article of Association, the Company is required to transfer 10% of its net profit as determined in accordance with the PRC Accounting Rules and Regulations to its statutory surplus reserve until the reserve balance reaches 50% of the registered capital.

The transfer to this reserve must be made before distribution of a dividend to shareholders. Statutory surplus reserve can be used to make good previous years' losses, if any, or to expand the Company's business, and may be converted into share capital by the issuance or by increasing the par value of the share currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

46 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2010

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and Interpretations and one new standard which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these financial statements. These include the following which may be relevant to the group:

		Effective for accounting periods beginning on or after
Amendment to IAS 32	Financial instruments: Presentation – Classification of rights issues	1 February 2010
IFRIC 19	Extinguishing financial liabilities with equity instruments	1 July 2010
Amendments to IFRS 1	First-time adoption of International Financial Reporting Standards – Limited exemption from comparative IFRS 7 disclosure for first-time adopters	1 July 2010
Improvements to IFRSs 2010		1 July 2010 or 1 January 2011
Revised IAS 24	Related party disclosures	1 January 2011
Amendments to IFRIC 14	IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction – Prepayments of a minimum funding requirement	1 January 2011
Amendment to IFRS 1	First-time adoption of International Financial Reporting Standards – Severe hyperinflation and removal of fixed dates for first-time adopters	1 July 2010
Amendments to IFRS 7	Financial instruments: Disclosures – Transfers of financial assets	1 July 2011
Amendments to IAS 12	Income taxes – Deferred tax: Recovery of underlying assets	1 January 2012
IFRS 9	Financial Instruments	1 January 2013

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.

47 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2010, the directors consider the immediate and ultimate controlling party of the Group to be CTC, a stated-owned enterprise established in the PRC. CTC does not produce financial statements available for public use.

Financial Summary

(Amounts in thousands, except per share data)

	For the years ended 31 December				
	2010 RMB	2009 RMB	2008 RMB (Note 1)	2007 RMB (Note 1)	2006 RMB (Note 1)
Results					
Revenue from telecommunications infrastructure services	**21,636,545**	19,289,579	15,329,464	11,093,007	10,941,175
Revenue from business process outsourcing services	**18,508,424**	15,943,326	13,743,789	9,695,630	6,787,975
Revenue from applications, content and others	**5,272,263**	4,266,545	3,932,119	3,251,874	2,448,019
Total revenues	**45,417,232**	39,499,450	33,005,372	24,040,511	20,177,169
Depreciation and amortization	**(359,100)**	(351,402)	(336,629)	(307,149)	(328,393)
Direct personnel costs	**(7,459,665)**	(7,073,351)	(5,962,414)	(4,600,240)	(3,975,421)
Purchase of materials and telecommunications products	**(13,506,740)**	(12,364,499)	(11,167,207)	(7,993,192)	(6,420,470)
Subcontracting charges	**(11,883,574)**	(9,064,577)	(6,970,705)	(4,580,668)	(3,583,645)
Operating lease charges and others	**(4,809,167)**	(4,273,684)	(3,195,413)	(2,428,831)	(2,235,047)
Cost of revenues	**(38,018,246)**	(33,127,513)	(27,632,368)	(19,910,080)	(16,542,976)
Gross profit	**7,398,986**	6,371,937	5,373,004	4,130,431	3,634,193
Other operating income	**629,685**	520,810	524,353	465,396	321,775
Selling, general and administrative expenses	**(5,627,043)**	(4,691,507)	(3,905,116)	(2,843,607)	(2,528,507)
Other operating expenses	**(70,920)**	(76,782)	(70,749)	(39,336)	(37,009)
Deficit on revaluation of property, plant and equipment	**–**	–	–	(388)	(135,629)
Net financing income	**(57,732)**	(88,435)	(176,334)	(56,086)	(30,928)
Share of profits less (losses) of associates	**3,126**	1,571	2,161	3,575	(14)
Negative goodwill	**–**	–	–	–	4,039
Profit before tax	**2,276,102**	2,037,594	1,747,319	1,659,985	1,227,920
Income tax	**(459,711)**	(427,356)	(403,675)	(462,930)	(375,904)
Profit for the year	**1,816,391**	1,610,238	1,343,644	1,197,055	852,016
Attributable to:					
Equity shareholders of the Company/ Equity owners	**1,817,805**	1,598,589	1,326,770	1,181,108	829,288
Non-controlling interests	**(1,414)**	11,649	16,874	15,947	22,728
Profit for the year	**1,816,391**	1,610,238	1,343,644	1,197,055	852,016
Basic and diluted earnings per share (RMB)	**0.315**	0.277	0.233	0.217	0.204

Financial Summary

(Amounts in thousands, except per share data)

	At 31 December				
	2010 RMB	2009 RMB	2008 RMB (Note 1)	2007 RMB (Note 1)	2006 RMB (Note 1)
Financial condition					
Property, plant and equipment, net	**4,025,579**	3,912,721	3,642,735	3,381,792	3,007,364
Other non-current assets	**2,414,036**	1,950,723	1,988,406	1,740,261	1,228,466
Inventories	**1,833,186**	1,659,626	1,182,471	1,042,854	995,167
Accounts and bills receivable, net	**12,887,557**	10,467,689	9,330,772	6,826,220	5,949,868
Prepayments and other current assets	**3,967,876**	3,140,398	2,975,964	2,253,543	2,181,501
Cash and cash equivalents	**8,470,249**	8,870,424	8,538,142	6,769,323	8,262,305
Restricted deposits	**269,099**	160,525	178,312	251,129	–
Total assets	**33,867,582**	30,162,106	27,836,802	22,265,122	21,624,671
Interest-bearing borrowings	**1,780,523**	1,268,280	1,993,426	2,593,256	157,700
Accounts and bills payable	**9,768,792**	8,844,718	7,746,786	4,837,946	4,278,768
Receipts in advance for contract work	**1,083,587**	1,088,327	808,197	520,725	680,048
Accrued expenses and other payables	**6,564,306**	5,553,079	4,826,825	4,318,266	3,756,661
Income tax payable	**284,941**	194,701	186,525	200,213	224,426
Non-current liabilities	**31,589**	35,769	31,453	12,601	31,473
Total liabilities	**19,513,738**	16,984,874	15,593,212	12,483,007	9,129,076
Equity attributable to shareholders of the Company/Equity owners	**14,221,042**	13,068,686	12,086,861	9,704,685	12,348,886
Non-controlling interests	**132,802**	108,546	159,729	77,430	146,709
Total equity	**14,353,844**	13,177,232	12,243,590	9,782,115	12,495,595
Total liabilities and equity	**33,867,582**	30,162,106	27,836,802	22,265,122	21,624,671

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

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