中国通信服务
CHINA COMSERVICE

Leading through

In N ovations,

and Enhancing Efficiency

through Intensive Management

CHINA COMMUNICATIONS SERVICES
CORPORATION LIMITED

Stock code: 552

Annual Report 2011

Five Years of Glorious Moments Witnessing Together

Since its listing in Hong Kong in 2006, China Communications Services Corporation Limited has already gone through five years of growth.

As implied from the five halo rings gleaming on the cover of this annual report, we have witnessed such glorious moments together with all investors during the past five years of outstanding achievements.

In the past 5 years, our customer groups have expanded rapidly, and we are now covering different regions throughout China and more than 50 countries and regions in the world. We have also enhanced the quality of our revenue simultaneously.

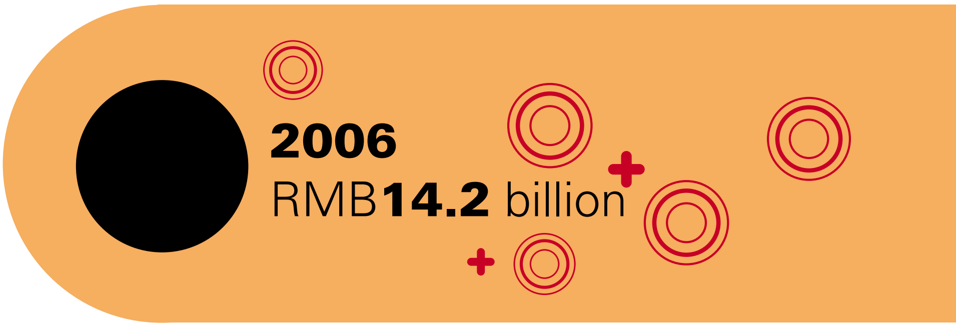
Following the strategy of "Leading through Innovation and Enhancing Efficiency through Intensive Management", we are writing a new chapter in our history of corporate development, and looking forward to another more glorious five years.

Contents

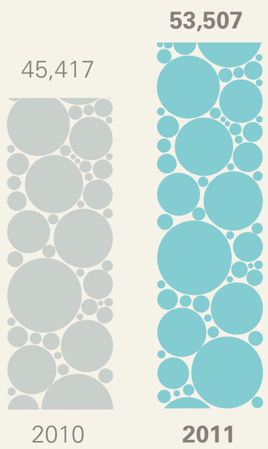
Financial Highlights

	2010 (Restated)[1]	**2011**	Change
Revenues (RMB million)	45,417	**53,507**	17.8%
Gross profit (RMB million)	7,393	**8,509**	15.1%
Profit attributable to equity shareholders (RMB million)	1,804	**2,115**	17.2%
Basic earnings per share (RMB)	0.313	**0.366**	17.2%
Free cash flow[2] (RMB million)	628	**414**	-34.1%

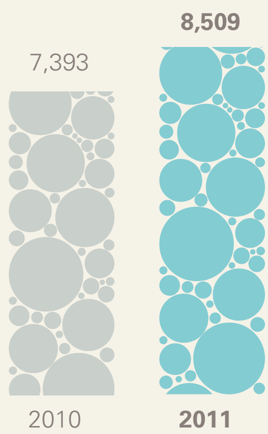
Revenues increased from RMB14.2 billion in 2006, the first year after listing, by more than 2-fold to more than RMB53.5 billion in 2011



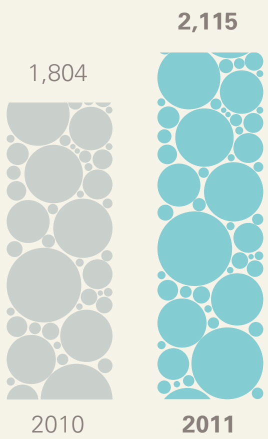
Revenues
(RMB million)



Gross profit
(RMB million)



Profit attributable to equity shareholders
(RMB million)



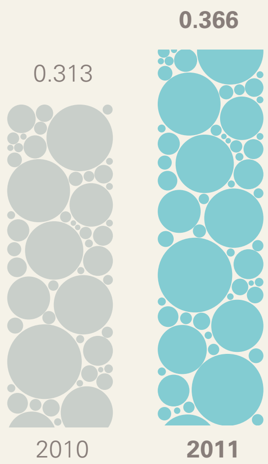
[1] In 2011, the Group retrospectively adopted the amendment to IFRS 1. Please refer to note 3 to the audited financial statements for details.

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

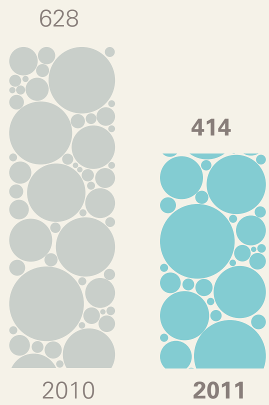
2011

RMB**53.5** billion

Basic earnings per share
(RMB)



Free cash flow
(RMB million)

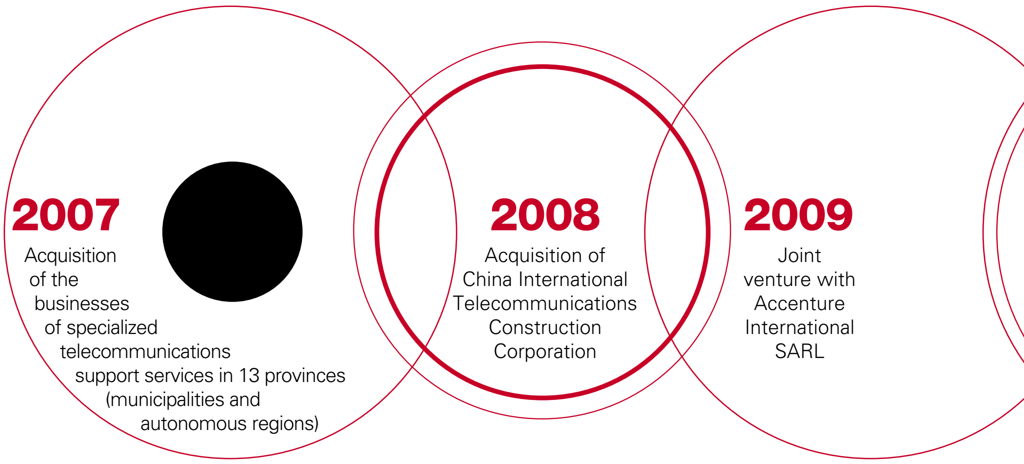


Company Profile and Corporate Information

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. Our shareholders include China Telecommunications Corporation ("China Telecom"), China Mobile Communications Corporation ("China Mobile"), China United Network Communications Group Company Limited ("China Unicom") and China National Postal and Telecommunications Appliances Corporation. Meanwhile all three telecommunications operators in the PRC are our customers. We also provide services to 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 2011, the aggregate share capital of the Company was 5,771,682,000, of which 1,992,850,200 were H shares.

Realizing external expansion through acquisitions and joint ventures



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)

2010
Acquisition of the remaining equity interest in Guoxin Lucent Technologies Network Technologies Co., Ltd.

2011
Joint venture with Sybase, Inc.

N

2011
Joint venture with Bytemobile, Inc.

LEGAL NAME (IN CHINESE)
中國通信服務股份有限公司

LEGAL NAME (IN ENGLISH)
China Communications Services Corporation Limited

LEGAL REPRESENTATIVE
Mr. Li Ping

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

INTERNATIONAL AUDITORS
KPMG

LEGAL ADVISORS
Freshfields Bruckhaus Deringer
King & Wood Mallesons Lawyers

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Computershare Hong Kong Investor Services Limited
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Wanchai
Hong Kong

LISTING PLACE
The Stock Exchange of Hong Kong Limited

STOCK CODE
00552

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

WEBSITE
www.chinaccs.com.hk

Milestones

AUGUST 2006

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

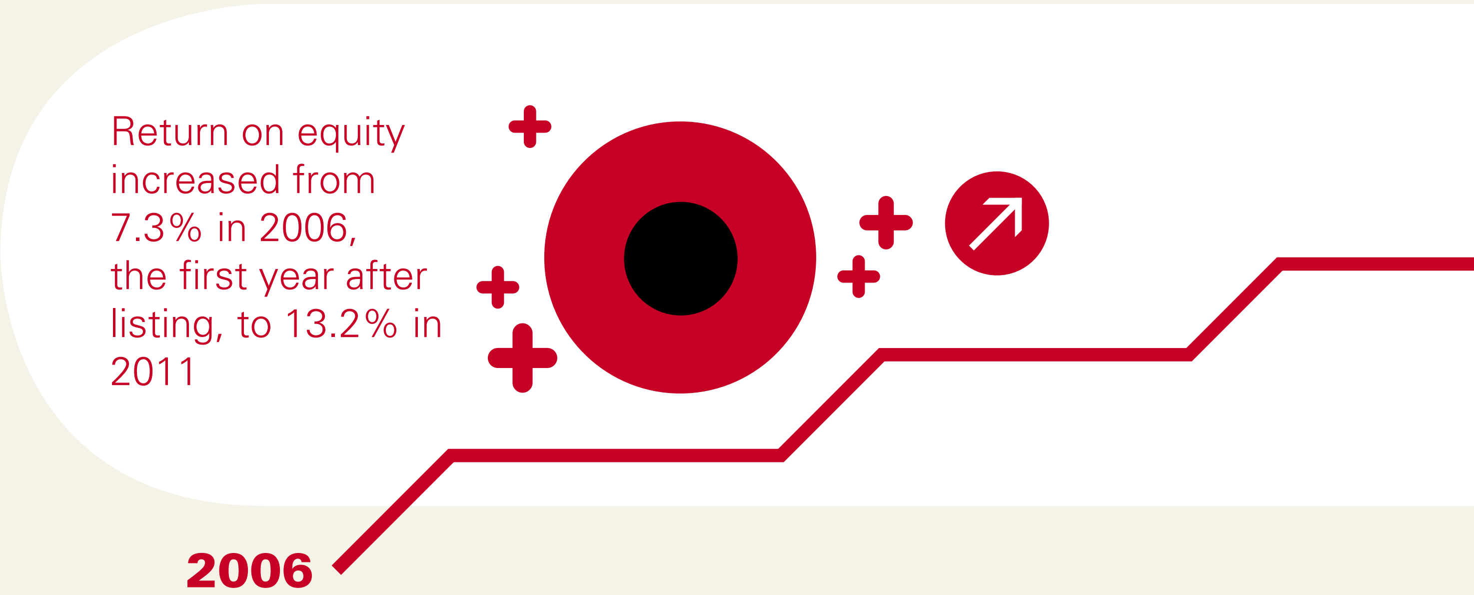
DECEMBER 2006

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

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 approximately HK$1,668 million.



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.

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

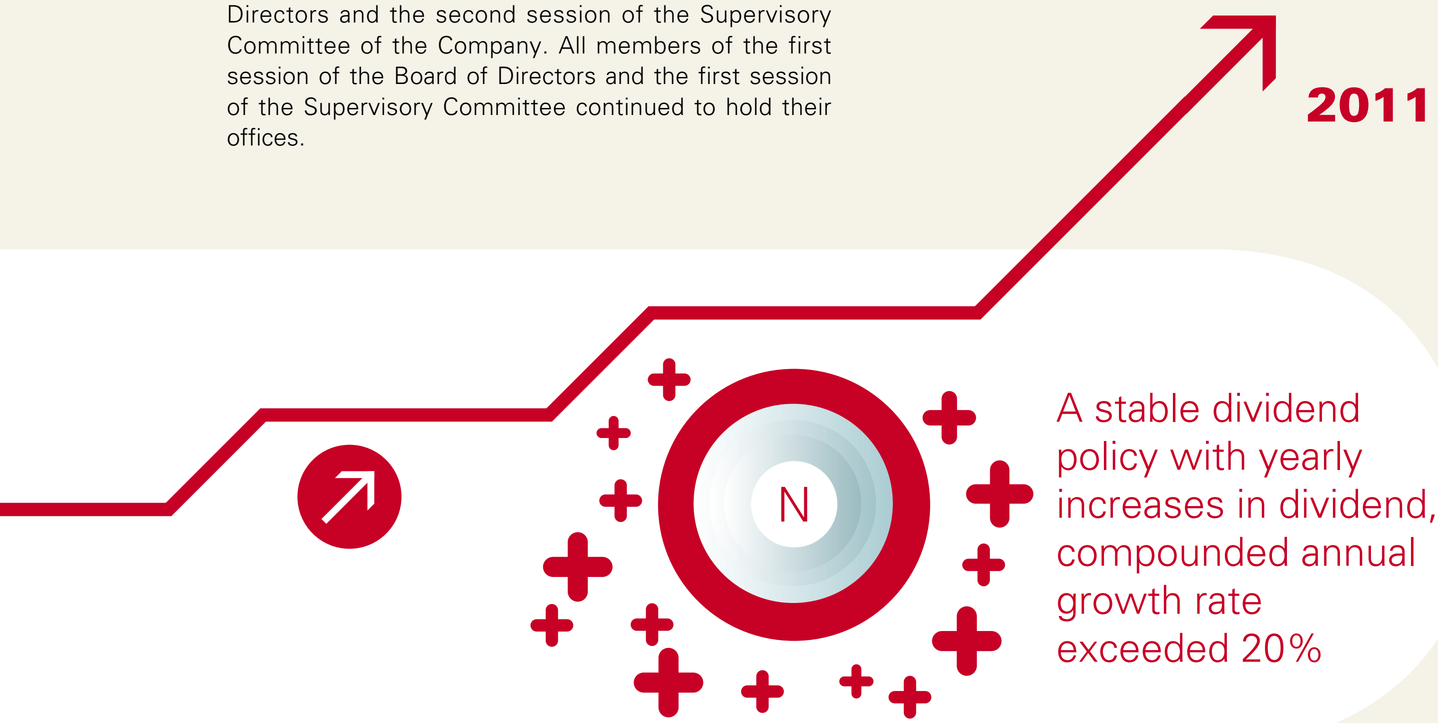
24 March 2009: China Telecommunications Corporation completed the transfer of 506,880,000 and 236,300,000 domestic shares of the Company to China Mobile Communications Corporation and China United Network Communications Group Company Limited respectively.

MAY 2009

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

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.



A stable dividend policy with yearly increases in dividend, compounded annual growth rate exceeded 20%

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 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 President and Executive Director of the Company; Mr. Zheng Qibao was appointed as President of the Company.

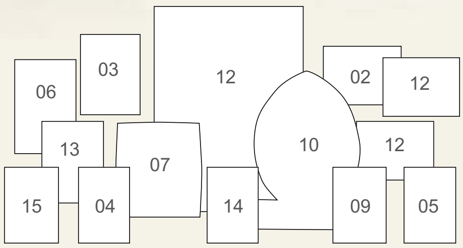
AUGUST 2010

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.

01 5th in "Best Managed Companies" and "Best Corporate Governance" in 2008 *(FinanceAsia)*
02 2008 annual report – Gold award in "2009 International ARC Awards"
03 2008 annual report – Gold award in "2009 International Galaxy Awards"
04 One of "China's Most Promising Companies 2009" *(the Asset)*
05 Titanium award in "The Asset Corporate Awards 2009" *(the Asset)*
06 2009 annual report – Gold award in "2010 International Galaxy Awards"
07 3rd for "IR Website in China" *(IR Global Rankings)*
08 64th in the "2010 FORTUNE China 500" *(FORTUNE China)*
09 Gold award in "The Asset Corporate Awards 2010" *(the Asset)*
10 "Best Investor Relations by a China Company" in "Asian Excellence Recognition Awards 2011" *(Corporate Governance Asia)*
11 79th in the "2011 FORTUNE China 500" *(FORTUNE China)*
12 2010 annual report – Grand award and three Gold awards in "2011 International ARC Awards"
13 2010 annual report – Gold award in "2011 International Galaxy Awards"
14 One of "China's Most Promising Companies 2011" *(the Asset)*
15 Gold award in "The Asset Corporate Awards 2011" *(the Asset)*



DECEMBER 2010

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

FEBRUARY 2011

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

MARCH 2011

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

MAY 2011

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

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

JUNE 2011

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

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

OCTOBER 2011

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

DECEMBER 2011

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

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

FEBRUARY 2012

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


Leading through Innovation
and Enhancing Efficiency
Turning to a N ew Page for the Future
through Intensive
Management

Leading through Innovation and Enhancing Efficiency through Intensive Management

A new chapter of corporate development at the beginning of its second five-year period: following the strategy of "Leading through Innovation and Enhancing Efficiency through Intensive Management", the Company will achieve its vision of becoming the "Hundred-Billion Enterprise with Excellent Performance".

"Leading through Innovation":
Through the renovation of markets, businesses and products, the Company will satisfy the demands from its customers and achieve a breakthrough in its scale.

"Enhancing Efficiency through Intensive Management":
Through operations such as collaboration, central allocation of resources and professional management, the Company will effectively control the risks and enhance its overall efficiency and competitiveness.

Leading through Innovation
and Enhancing Efficiency

Turning to a New Page for the Future

through Intensive
Management

Chairman's Statement

Dear Shareholders,

In the past 5 years since the Company's initial public offering in December 2006, the Company has extended its position from a "services provider for telecommunications operators" to a "leading provider of producer services in the informatization sector". With the corporate vision of becoming a "world-class information network builder", the Company has achieved remarkable results through its innovative and pro-active business initiatives. The Group has recorded revenues of over RMB50 billion for the first time in the past 5 years and saw corresponding growth in its profit as well, both of which have more than doubled since its initial public offering. These excellent operating results have also given rise to favorable investment returns for shareholders in the form of yearly increases in dividends, thus realizing the simultaneous increase in the value of both the Group and its shareholders.

Operating Results

The Group achieved outstanding growth in 2011, with total revenues reaching RMB53,507 million, representing a year-on-year growth of 17.8%. Profit attributable to equity shareholders was RMB2,115 million, representing a year-on-year growth of 17.2%. Having considered the interests of and returns to our shareholders, the Board has proposed to maintain 40% dividend payout ratio[1] and pay a final dividend of RMB0.1222 per share[2] for the financial year ended 31 December 2011.

(1) Dividend payout ratio = total dividend ÷ profit attributable to equity shareholder
(2) Calculated on the basis of the total share capital of the Company after the rights issue on 8 February 2012

Further Reinforcing the Leading Position in Domestic Telecommunications Operator Market

As a result of the proliferating informatization trends, domestic telecommunications operators accelerated their development and increased their capital expenditures steadily in 2011. Driven by the increasing popularity of smart terminals, mobile Internet development and the "Broadband China" strategy, domestic telecommunications operators further increased their investment in areas such as fiber optic broadband and mobile network upgrade and expansion. Under such circumstances, the Group has been closely monitoring the change in customer requirements and supporting the full-service operations of domestic telecommunications operators. It has also actively participated in the network construction and provided network optimization and maintenance businesses which have been brought about by the expansion of networks. As a result, the Group further reinforced its market leading position. The revenue from the domestic telecommunications operator market achieved a rapid growth of 15.9%, representing 63.8% of total revenues.

Vigorously Expanding into Domestic Non-operator Market and Overseas Market

The accelerating industrial informatization and urbanization of China has generated a large scale of investment, which has in turn created a significant domestic non-operator market for the Group to develop. The Group, with its capacity, resources and successful experience gained from serving domestic telecommunications operators for many years, is able to provide integrated communications solutions for domestic non-operator customers, and focused on government agencies and key industries such as infrastructure, transportation, energy, and financial sectors. In 2011, the revenue from domestic non-operators market increased by 15.7%, representing 29.7% of total revenues.

In 2011, the revenue of the Group from overseas markets achieved a rapid growth of 56.0%, and its proportion to total revenues further increased to 6.5%. The Group further promoted its cooperation with large-scale state-owned enterprises, equipment manufacturers and financial institutions. It also rapidly expanded and cultivated turnkey projects, and developed subcontracting projects with enlarged scale and in an efficient manner. Whilst the Group is eager to expand its presence in overseas markets, it is also concerned about risk management and gradually improves its operational support mechanism for its overseas operations. During the year, the Group signed strategic alliance agreements with financial institutions to guard against financial risks in its overseas operations through measures such as credit insurance. The above measures are to ensure that scale breakthrough in overseas markets can be achieved in a prudent manner.

Strengthening Core Capability through Innovation

The Group bears changes in customer needs in mind and actively strives for new models of joint venture and cooperation in order to further accelerate its rapid growth. In 2011, the Group sought out global leading strategic partners such as Sybase, Inc. and Bytemobile, Inc. to form joint ventures for collaboration in areas such as mobile Internet and network optimization. By leveraging its partners' advanced technologies, the Group is able to provide its customers with more comprehensive solutions to their requirements. Beyond this, the Group increased its investment in research and development for its products and services, and participated in the construction and operation of new technology projects such as cloud computing center and Customer Premises Network (CPN), thereby driving the Group forward as a management and technology oriented enterprise.

Enhancing Efficiency through Strengthened Management

Over the course of the year, the Group further promoted high-efficiency management practices focusing on six core areas including collaboration management, subcontracting management, human resource management, fund management, projects management and contract management. Among which, remarkable progress and results were achieved in the integration of legal entities within the Group, business collaboration and centralized fund management. The above measures further enhanced the Group's operational efficiency and bolstered the Group's simultaneous enhancement in scale and efficiency.

Corporate Governance

While strictly complying with relevant laws and regulations, the Group is continually striving to further strengthen its internal control and risk management procedures and is in the process of enhancing its IT support system for internal control in order to improve its corporate governance standards and transparency. The Group's persistent efforts in fostering sound corporate governance have been recognized by capital market: the Group was once again awarded a Gold Award in "The Asset Corporate Awards 2011" and recognized as one of "China's Most Promising Companies 2011" in the telecommunications category by *The Asset*, a respected financial magazine in Asia. Moreover, the Group was given one of the "Best Investor Relations by a China Company" awards in the "Asian Excellence Recognition Awards" 2011 by *Corporate Governance Asia*, a respected journal on Corporate Governance in Asia.

Corporate Social Responsibility

The Group has always been committed to corporate social responsibility. The Group has been actively participating in the rescue and relief work in the provinces along the Yangtze River and providing emergency communications support and maintenance for domestic telecommunications operators. All of these demonstrated our sound social responsibilities. In addition, the Group also received high profile recognition by the government and the media by undertaking the construction and maintenance of communications systems for major national events proactively, such as the Xi'an Horticultural Expo and the Universiade Shenzhen 2011, and promoting energy saving and emission reduction.

Rights Issue

With strong shareholder support, the Group successfully completed the rights issue of H shares and domestic shares in February 2012 and recorded over-subscription for the rights shares. The Group believes the proceeds from the rights issue will provide strong financial support for the implementation of various opportunities, including its expansion into domestic non-operator market and overseas market, strategic acquisitions and joint ventures, as well as research and development, thus bolstering the Group's long-term development.

Prospects

With the constant evolution in communications technologies, domestic telecommunications operators are striving to transform into integrated information services providers. Their continual investment in 3G, mobile Internet, Wifi and broadband will lay a solid foundation for the future sustainable development for the Group. Furthermore, the large-scale investment in informatization driven by government policies, technological and social development, as well as the huge demand from overseas markets for informatization infrastructure and telecommunications facilities, have allowed the Group to identify two new growth engines with great potential: the domestic non-operator market and the overseas market. The Group is confident about the future and will continue with its customer-focused innovative service strategies. Following the principle of "leading through innovation and enhancing efficiency through intensive management", the Group will tap further into the needs of the domestic telecommunications operators market while simultaneously expanding into the domestic non-operator market and overseas market, with the aim of building up a "hundred-billion enterprise" which creates more value for its customers and shareholders through its consistently excellent performance.

Finally, on behalf of the Board, I would like to express my sincere gratitude to all of the Group's shareholders, customers and all sectors of society for their long-standing care and support to the Group.

Li Ping
Chairman

Beijing, PRC
29 March 2012

President's Statement

Dear Shareholders,

I am very pleased to present the operating results of the Group in 2011.

Financial Performance

In 2011, the Group recorded total revenues of RMB53,507 million, representing a year-on-year growth of 17.8%. Profit attributable to equity shareholders amounted to RMB2,115 million, representing a year-on-year growth of 17.2%. The sustained and rapid growth of our operating results was mainly attributable to the deliberate allocation of resources by the Group to reinforce its share in its core market, capturing the development opportunities arising from the network upgrade and expansion and broadband construction of the domestic telecommunications operators, while simultaneously expanding into the domestic non-operator market and overseas market.

The cost of revenues of the Group amounted to RMB44,998 million, representing a year-on-year increase of 18.3%, and the gross profit margin was 15.9%. Selling, general and administrative expenses amounted to RMB6,401 million, representing a year-on-year increase of 13.6%. As a result of the Group's measures to enhance operational efficiency, such as centralized fund management and collaborative management, and the realization of economies of scale, net profit margin was 4.0% and remained stable over the past few years. As the Group devoted more efforts in market development, there was an increasing demand for working capital, and free cash flow[1] for the year was RMB414 million, representing a decline on a year-on-year basis.

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

Business Development

In 2011, the Group sustained its sound growth momentum in all of its three main businesses. The revenue from telecommunications infrastructure ("TIS") services realized a year-on-year increase of 16.1%, accounting for 46.9% of total revenues. The Group allocated its resources flexibly as the market environment required and has committed resources to support domestic telecommunications operators on key projects such as the upgrade and expansion of the mobile network and fiber optic broadband network. TIS revenue from domestic telecommunications operators increased by 15.1% over the same period last year, and was the major driving force for the growth of TIS services during the period. In addition, in response to the enormous demand for domestic informatization construction and telecommunications infrastructure construction from overseas customers, the Group devoted more efforts to the development of the domestic non-operator market and the overseas market. The TIS revenues from these two markets grew by 19.1% year-on-year in aggregate, and those two markets have become important driving forces for the future growth of TIS business.

In 2011, business process outsourcing ("BPO") services achieved a year-on-year increase of 20.6%, accounting for 41.7% of total revenues. Within this, network maintenance services secured relatively rapid growth and realized a year-on-year increase of 23.6%. By leveraging its advantages in delivering integrated services, the Group provided ancillary services such as the distribution of telecommunications machineries in response to customer requirements. The Group's revenues from the distribution of telecommunications services and products ("Distribution Business") achieved a year-on-year increase of 20.8%, which led to the fast growth of BPO revenue. The Group will actively manage and control the development of its Distribution Business, and strike a proper balance between scale of development and economic efficiency.

In 2011, applications, content and other ("ACO") services grew steadily and its revenue achieved a year-on-year increase of 15.3%, accounting for 11.4% of total revenues. During the period, the Group took advantage of the opportunities created as a result of industry developments, such as the informatization of the community and mobile Internet, and used its best endeavours to promote an innovative business development model. This included the proactive introduction of strategic cooperation partners, increased investment in research and development and the promotion of innovation of services and products. All of the above facilitated the Group's market development and value enhancement.

Expansion of Customer Groups

The Group has been focusing on three major markets. While reinforcing its leading position in the domestic telecommunications operator market, the Group also actively explored the domestic non-operator market and the overseas market. In 2011, the revenues from the domestic telecommunications operator market amounted to RMB34,151 million, representing a year-on-year growth of 15.9%, accounting for 63.8% of total revenues. The revenues from the domestic non-operator market amounted to RMB15,885 million, representing a year-on-year growth of 15.7%, accounting for 29.7% of total revenues. The overseas business maintained rapid growth, and the revenues from the overseas market amounted to RMB3,471 million, representing a year-on-year growth of 56.0%, and its revenue contribution to total revenues increased to 6.5%. The domestic non-operator market and the overseas market have enormous market potentials, and in the future will provide a strong impetus to the sustainable and rapid development of the Group.

Operation Management

The Group has laid a solid foundation in management, and has strived to improve its mechanisms and systems as well as promoting its intensive high-efficiency management to enhance operational efficiency and management capability. During the year, the Group's operational efficiencies were enhanced by strengthened collaborative management and the construction of strategic units in different professional areas such as design business. In addition, the Group promoted centralized internal fund management and enhanced its efficiency in the utilization of funds. The Group has focused upon the integration of internal resources, the optimization of its organizational structure and the reduction of the number of legal entities. The Group believes the above measures will provide cogent assurance for the Group's simultaneous growth in scale and efficiency.

The Group also enhanced its human resource management. As a result of the Group's innovation of incentive mechanisms to attract and retain core talents, staff are able to realize their career development and share the benefits of the Group's growth. In order to help fulfill its future development strategies, the Group adopted an innovative approach in personnel allocation, and has focused its personnel allocation on its high-end businesses. On the other hand, through the outsourcing of low-end business, the Group effectively mitigated the impact of wage increases. Moreover, the Group focused on building an expert team specializing in the fields of project management and overseas development in order to properly serve the Group's increased requirements resulting from rapid business growth.

Prospects for 2012

Looking ahead, the Group will strive to promote its businesses with a substantial development through innovation, efficiency enhancement, and targeting its goal of becoming a "hundred-billion enterprise" with excellent performance. The Group will mainly focus on the following areas during 2012 in order to maximise returns for shareholders and contribute to society:

- Tap further into the domestic telecommunications operator market: The Group will reinforce its leading position in the domestic telecommunications operator market and further participate in businesses such as mobile network construction, broadband, wireless city, and will proactively push forward business collaboration;

- Explore and develop domestic non-operator market: By leveraging the opportunities arising from informatization of society and urbanization, the Group will focus on key industries and actively develop businesses regarding dedicated communications networks, system integration, consolidated cabling, pipeline engineering, intelligent buildings and mobile Internet;

- Further expand its operational scale in overseas market: The Group will devote more resources for turnkey projects, and conduct subcontracting projects with focus on efficiency. The Group will also promote business collaboration, enhance risk management and target to achieve scale development in the overseas market;

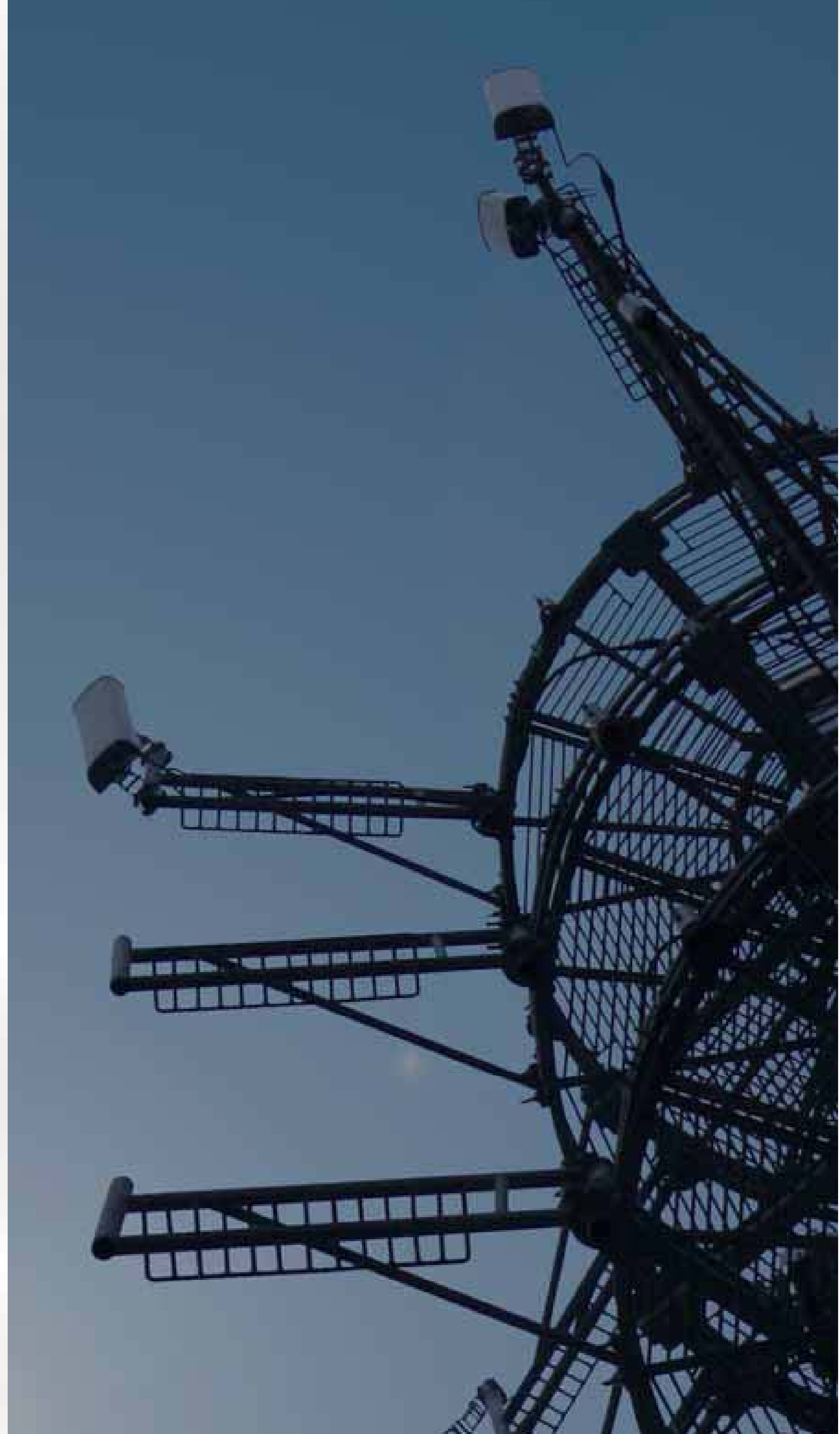
- Drive the innovation of ACO business: The Group will focus on the management of the existing joint venture projects, promote innovation in its mechanisms and products, and endeavour to create a new model in business growth;

- Further promote intensive management: The Group will further promote centralized fund management and business collaboration, improve mechanisms for project management and subcontracting management, strengthen contract management and build up a team of experts who are adaptive to the swiftly changing market. With the above measures, the Group will be able to enhance its competitiveness and management capability, and thus realize healthy and sustainable growth.

Zheng Qibao
President

Beijing, PRC
29 March 2012

Market Focusing and Services Innovation



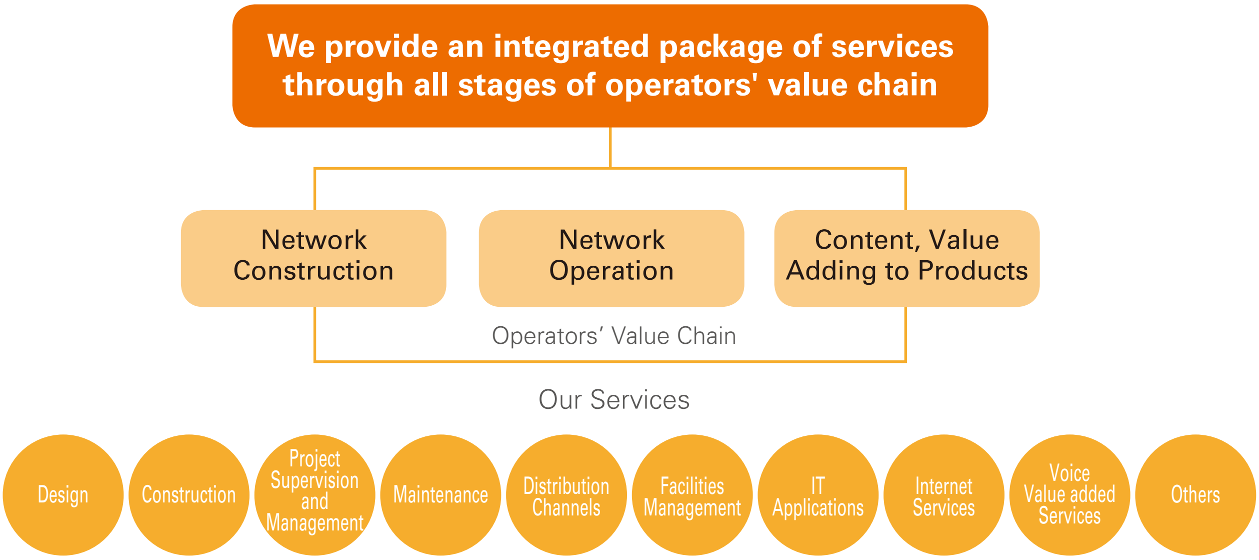
Meticulously develop the **domestic telecommunications operator market,** vigorously expand the **domestic non-operator market** and develop the **overseas market** in a scale manner.

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, where overseas expansion is mainly focused on markets such as Africa, Middle East, Latin America and Asia Pacific.

Signing Ceremonies for Joint-Venture and Cooperation Projects



Customer Services and Market Expansion

In 2011, through meticulous operation and innovative expansion initiatives, the Group further reinforced its leading market position in the domestic telecommunications operator market, achieved steady businesses development in the domestic non-operator market and recorded rapid business growth from the overseas market. As such, the Group achieved a rapid growth of total revenues, which amounted to RMB53,507 million in 2011, representing a year-on-year growth of 17.8%.

In 2011, the Group attained a more balanced customer mix, and revenue contribution from key customers continued to increase. Revenue from domestic telecommunications operator customers increased by 15.9% to RMB34,151 million, accounting for 63.8% of total revenues; revenue from domestic non-operator customers increased by 15.7% to RMB15,885 million, accounting for 29.7% of total revenues and revenue from overseas market increased by 56.0% to RMB3,471 million, with its contribution to total revenues increased by 1.6 percentage points over last year to 6.5%.

(In RMB million except percentages)	**2011** Revenue	**2011** Percentage to total revenue	2010 Revenue	2010 Percentage to total revenue	Change over 2010
Domestic telecommunications operator customers	**34,151**	**63.8%**	29,464	64.9%	15.9%
Of which: China Telecom	**22,956**	**42.9%**	19,925	43.9%	15.2%
China Mobile and China Unicom	**11,195**	**20.9%**	9,539	21.0%	17.4%
Domestic non-operator customers	**15,885**	**29.7%**	13,728	30.2%	15.7%
Overseas customers	**3,471**	**6.5%**	2,225	4.9%	56.0%
Total	**53,507**	**100.0%**	45,417	100.0%	17.8%

In 2011, benefitted from the "Broadband China" strategy, the accelerated development of mobile Internet and the proliferation of smart phones, the domestic telecommunications operators devoted more resources to the expansion and upgrade of fiber optic broadband and mobile network, and the capital expenditure remained stable with a mild uptrend. As such, by leveraging the advantages in communication services industry, the Group continued to improve its marketing initiatives, services quality and the response time to market. The Group realized rapid growth in construction, supervision, network maintenance, distribution of telecommunications services and products and IT applications businesses. Revenues from the domestic telecommunications operators increased rapidly and our position in the industry was further reinforced.

It is particularly noteworthy that the project which the Group participated in – "China Telecom Prime IP Backbone Network (CN2) Construction Project" was awarded "National Prime-Quality Project Gold Award", which was the first national gold award won by the communications industry in China. Such recognition fully demonstrated the Group's leading position in the communications construction industry.

Based on the experiences in serving customers over the past years, the Group believes that the capital expenditure by the domestic telecommunications operators will remain relatively stable in the coming years given the continuing growth of their customer base, network scale as well as the continued introduction of new technologies and new services. The Group is also endeavored to explore the market in Northern China and establishes Shandong Communications Service Company Limited. The Group believes that revenue from domestic telecommunications operators will maintain a steady growth in future.

"Safe City" Projects

The Group continually innovated the business development model and mechanism in the expansion of domestic non-operator market. On top of the replication of its experiences and technologies in serving the telecommunications operators, the Group extends its ability, pursues informatization innovation and proactively provides services regarding informatization, city pipelines, weak current engineering, video surveillance and cloud computing center construction to government agencies, telecommunications equipment manufacturers, customers in the industries of construction, transportation, finance, energy, education and etc., and small and medium-sized enterprises. In 2011, the Group captured the opportunities of urbanization and informatization in China, improved its product structure,

Project Sites for Domestic Non-operator Customers

Overseas Project Sites

strengthened its business collaboration and thus achieved breakthroughs in many industries and participated in several sizable construction projects such as "Safe City" in Chongqing, Xi'an Horticultural Expo, Shenzhen Universiade, and Cloud Computing Center in Zhenjiang. All the above significantly enhanced the Group's brand awareness and marketing capability and led to steady revenue growth from its domestic non-operator customers.

In 2011, the Group continued to firmly implement its overseas expansion strategy and overcame the negative impact from the political instabilities in Middle East and North Africa. The revenue from overseas markets was RMB3,471 million in 2011, representing an increase of 56.0% over last year. The Group focused on its expansion in turnkey projects such as FTTH project in Saudi Arabia, ADSS backbone fiber optic network project in Nepal and IDC project in Indonesia for customers including telecommunications operators, government agencies and large enterprises, and had achieved substantial breakthroughs. Moreover, the Group implemented the strategic cooperation agreements with many telecommunication equipment manufacturers and revenue from them increased rapidly. The Group strengthened business cooperation with large-scale state-owned enterprises, explored ICT system integration projects such as the weak current engineering system integration project for the new ferry terminal at Macau and achieved preliminary success. The Group also strives to minimize operational risks in overseas. In 2011, the Group entered into strategic cooperation agreements with financial institutions such as banks and insurance companies and kept improving the construction of fundamental legal and financial mechanisms and IT systems for overseas subsidiaries to improve its risk management capability. In view of the enormous market potential in overseas market, the Group will endeavor to achieve scale breakthrough in overseas market in a prudent manner.

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 2011, the Group's revenue from telecommunications infrastructure services amounted to RMB25,115 million, representing a year-on-year growth of 16.1%.

The Group provides a full range of telecommunications infrastructure services to telecommunications operators in China and overseas. These services include planning, design, construction and project supervision for fixed line, mobile, broadband networks and support systems. The Group endeavored to support the construction of mobile network for the domestic telecommunications operators and built more than 130 thousand WiFi hotspots during the year. In 2011, revenue of telecommunications infrastructure services of the Group from domestic telecommunications operators amounted to RMB18,889 million, representing a year-on-year growth of 15.1%, which demonstrated the Group's solid leading position in the market.

Development of Overseas Customers

The Group also provides integrated solutions for ancillary communications networks and integrated solutions for informatization to domestic non-operator customers such as government agencies, telecommunications equipment manufacturers and broadcasting and television enterprises and overseas customers. The Group continued to achieve breakthroughs domestically in "safe city" and "smart city", as well as in the overseas market. Revenue of telecommunications infrastructure services from domestic non-operator market and overseas market amounted to RMB6,226 million, representing a year-on-year growth of 19.1%.

The Group believes that there is still ample potential for development of telecommunications infrastructure services. Domestic telecommunications operators will continue to increase their investments in the construction of broadband network, mobile network, cloud computing and projects on energy saving and emission reduction. Their capital expenditure is expected to remain relatively stable with a mild uptrend in the near future, so the market size of telecommunications

Telecommunications Infrastructure Projects

infrastructure services from domestic telecommunications operators will also remain relatively stable. Following the further development of urbanization and informatization in China, there will be enormous investments in infrastructure construction, informatization and new technologies, which result in broad space for the development of domestic non-operator market. There are also huge demands in the construction of telecommunication infrastructure network, mobile network and informatization from many overseas countries. The Group will capture the strategic opportunities to realize the stable development of telecommunications infrastructure services.

Business Process Outsourcing Services

The Group is a leading provider of business process outsourcing services for the communications industry in China. Leveraging our advantage in providing integrated service along the value chain of the communication industry, the Group provides network maintenance, distribution of telecommunications services and products ("Distribution") and facilities management to domestic telecommunications operators, government agencies and enterprise customers. In 2011, revenue of business process outsourcing services amounted to RMB22,315 million, representing a year-on-year growth of 20.6%.

The Group provides maintenance services to telecommunications operators in relation to fiber optic cables, electric cables, base stations, network equipment and user terminals. Such business scales have been continuously expanded following the increasing demand for higher network quality and the outsourcing of non-core businesses. In 2011, the Group's revenue of network maintenance business amounted to RMB5,276 million, representing a rapid increase of 23.6% over last year.

The Distribution services of the Group include the sales and distribution of communications machineries and handsets, logistics, procurement agency services and telecommunications agency services. Our major customers are telecommunications operators, telecommunications equipment manufacturers, government agencies and medium to large-sized enterprises. The Group sells mobile handsets for and supplies telecommunication machineries

Network Optimization and Maintenance Services

to telecommunications operators. These services enable the Group to build closer relationship with customers and increase its revenue and profit. They also have the advantages of fast funds turnover and comparatively high return on investment and high labor productivity. In 2011, the revenue of the Distribution business of the Group amounted to RMB14,443 million, representing a steady increase of 20.8% over last year. Adhering to the principle of efficiency, the Group will devote more efforts to the management and control of Distribution services, centralize resources for Distribution services and build a unified brand.

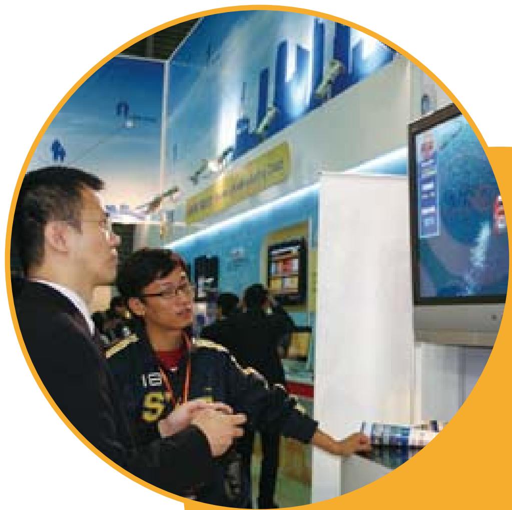
The Group provides facilities management services on machinery buildings and high-end office buildings for domestic telecommunications operators and non-operator customers. In 2011, revenue of the facilities management services amounted to RMB2,596 million, representing an increase of 13.8% over last year.

Distribution of Telecommunications Services and Products

Applications, Content and Other Services

The Group is a provider of value-added services in the communications industry of China with great potential. It provides IT system integration services (including the development and construction of the operator's OSS, BSS and MSS and industry applications), Internet services and voice value-added services for telecommunications operators, government agencies and other industrial customers. In 2011, revenue of applications, content and other services amounted to RMB6,077 million, representing a year-on-year growth of 15.3%.

The implementation of the national "Broadband China" strategy and the proliferation of the mobile Internet industry will stipulate further demands in informatization and Internet applications. To seize these market opportunities, the Group speeds up the cooperation on mobile Internet and wireless network optimization with Sybase, Inc., a global leading software enterprise, and Bytemobile, Inc., an industry leading wireless data optimization company. By leveraging their advanced technologies and well-developed customer solutions and combining our advantages in customer relationship, distribution channels and localized services, the Group will create more value for its customers. In the meantime, the Group will also increase investment in research and development, accelerate the innovation in business and incentive mechanism, acquire core talents in order to enhance its core competitiveness.



Mobile Internet and IT Applications Services

Business Transformation and Products Innovation

Promote **business innovation,** duplicate well-developed models, manage cooperation and joint-venture projects and devote to research and development.

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

Overview

In 2011, the Group put more efforts in executing its customer-oriented service innovation strategy and allocated resources deliberately in an increasingly competitive market. By capturing the opportunity of increasing capital expenditure by domestic telecommunications operators and vigorously expanding businesses in the domestic non-operator market and overseas market, the Group maintained rapid growth momentum in all businesses. Our total revenues amounted to RMB53,507.40 million, representing an increase of 17.8% from 2010. Profit attributable to equity shareholders of the Company amounted to RMB2,114.86 million, representing an increase of 17.2% from RMB1,803.75 million[(1)] of 2010. Basic earnings per share was RMB0.366, representing an increase of 17.2% from 2010. Free cash flow amounted to RMB413.87 million, representing a decrease of 34.1% over the same period last year.

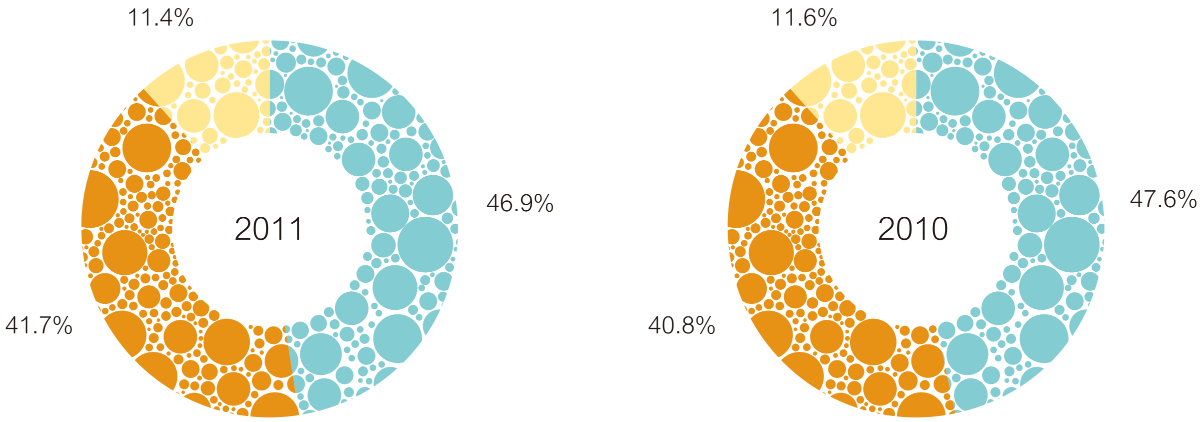
Revenues

Our total revenues in 2011 were RMB53,507.40 million, representing an increase of 17.8% from 2010. Among our businesses, revenues from telecommunications infrastructure ("TIS") services were RMB25,114.96 million, representing an increase of 16.1% from 2010; revenues from business process outsourcing ("BPO") services were RMB22,315.34 million, representing an increase of 20.6% from 2010; revenues from applications, content and other ("ACO") services were RMB6,077.10 million, representing an increase of 15.3% from 2010. BPO services were the major source of our revenues growth in 2011, while network maintenance and distribution of telecommunications services and products in BPO services were the two major businesses which experienced a relatively faster growth in revenues. In terms of customer structure, the Group's revenues from the domestic telecommunications operators amounted to RMB34,151.06 million, representing 63.8% of the total revenues, an increase of 15.9% from 2010; revenues from the domestic non-operator customers and overseas customers amounted to RMB19,356.34 million and its proportion of total revenues increased to 36.2%, representing an increase of 21.3% from 2010. Domestic telecommunications operators were the major driving force of the Group's revenues growth in 2011.

(1) In 2011, the Group retrospectively adopted the amendment to IFRS 1. Please refer to note 3 of the audited financial statements for details.

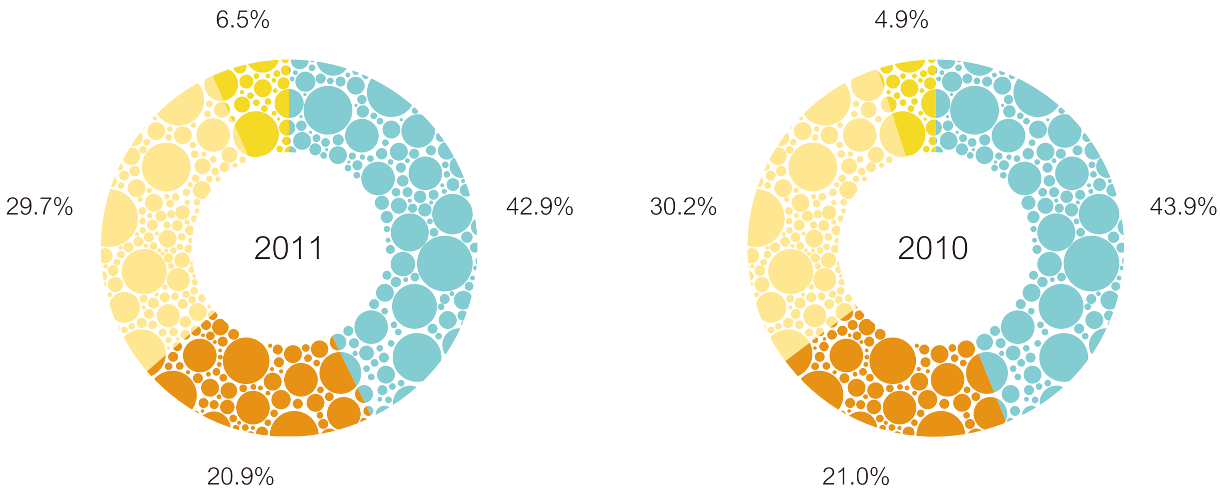
Business Mix

- Telecommunications Infrastructure Services
- Business Process Outsourcing Services
- Applications, Content and Other Services



Customer Mix

- China Telecom
- China Mobile and China Unicom
- Domestic non-operator customers
- Overseas customers



The following table sets forth a breakdown of our total revenues for 2010 and 2011, together with their respective rates of change:

	2011 RMB'000	2010 RMB'000	Percentage Change
Telecommunications Infrastructure Services			
Design services	**5,110,320**	4,453,627	14.7%
Construction services	**18,329,463**	15,796,460	16.0%
Project supervision and management services	**1,675,179**	1,386,458	20.8%
	25,114,962	21,636,545	16.1%
Business Process Outsourcing Services			
Network maintenance	**5,276,067**	4,269,869	23.6%
Distribution of telecommunications services and products	**14,442,791**	11,956,698	20.8%
Facilities management	**2,596,481**	2,281,857	13.8%
	22,315,339	18,508,424	20.6%
Applications, Content and Other Services			
IT applications	**3,105,892**	2,637,849	17.7%
Internet service	**537,218**	483,862	11.0%
Voice VAS	**746,427**	706,264	5.7%
Others	**1,687,559**	1,444,288	16.8%
	6,077,096	5,272,263	15.3%
Total	**53,507,397**	45,417,232	17.8%

Telecommunications Infrastructure Services

In 2011, revenues from TIS services of the Group were RMB25,114.96 million, representing an increase of 16.1% over RMB21,636.55 million from 2010, which was our primary source of revenues, and accounted for 46.9% of our total revenues, representing a decrease of 0.7 percentage points from 47.6% in 2010. During the period, driven by the increasing popularity of smart phones, mobile Internet development and the "Broadband China" strategy, the domestic telecommunications operators increased their capital expenditure steadily. Under this circumstance, the Group adopted more proactive and effective measures, TIS revenues from domestic telecommunications operators grew rapidly and amounted to RMB18,889.00 million in 2011, representing an increase of 15.1% over RMB16,409.25 million from 2010. Meanwhile, the Group further expanded into the domestic non-operator market and overseas market, and TIS revenues from such markets grew rapidly and amounted to RMB6,225.96 million, representing an increase of 19.1% over RMB5,227.30 million in 2010.

Business Process Outsourcing Services

In 2011, revenues from BPO services of the Group were RMB22,315.34 million, representing an increase of 20.6% over RMB18,508.42 million in 2010. BPO services accounted for 41.7% of our total revenues, representing an increase of 0.9 percentage points from 40.8% in 2010. Among BPO services, revenues from network maintenance were RMB5,276.07 million, representing an increase of 23.6% from 2010 and kept growing strongly. Rapid revenue growth was mainly attributable to the increased spending in network optimization and maintenance on the enlarged network and subscriber base of domestic telecommunications operators. In addition, by leveraging the advantages of our integrated services, the Group provided ancillary services such as the distribution of telecommunications machineries according to the requirements of the customers. Meanwhile, the rapid growth of mobile subscribers in China and their demand for handsets also promoted the handsets distribution business of the Group. Revenues from distribution of telecommunications services and products amounted to RMB14,442.79 million, representing an increase of 20.8% from 2010.

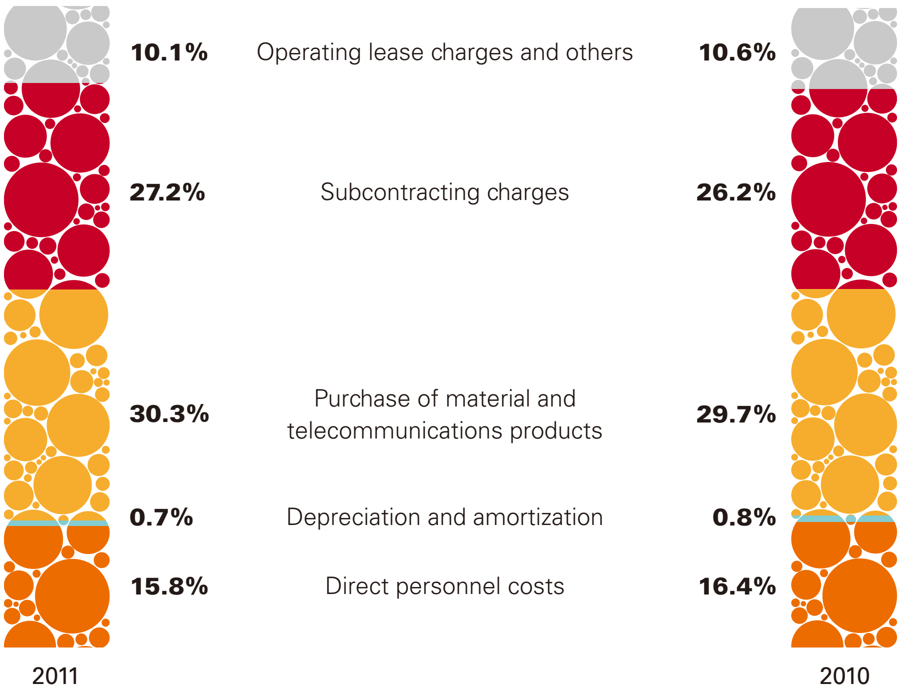
Applications, Content and Other Services

In 2011, revenues from ACO services of the Group were RMB6,077.10 million, representing an increase of 15.3% over RMB5,272.26 million from 2010. ACO services accounted for 11.4% of our total revenues, representing a decrease of 0.2 percentage points from 11.6% in 2010. During this year, the Group further expanded the informatization services to government and enterprise customers and the Internet application service to telecommunications operators, which led to a rapid increase in revenues from IT applications and became a major revenue generator for ACO services. The revenues from IT applications were RMB3,105.89 million, representing an increase of 17.7% from 2010.

Cost of Revenues

Our cost of revenues in 2011 was RMB44,998.32 million, representing an increase of 18.3% from 2010 and accounting for 84.1% of our total revenues.

Cost of Revenues as a % of Total Revenues



The following table sets out a breakdown of our cost of revenues in 2010 and 2011 and their respective rates of change:

	2011 RMB'000	2010 RMB'000 (Restated)	Percentage Change
Direct personnel costs	**8,473,657**	7,459,665	13.6%
Depreciation and amortization	**393,152**	364,743	7.8%
Purchase of material and telecommunications products	**16,195,976**	13,506,740	19.9%
Subcontracting charges	**14,525,988**	11,883,574	22.2%
Operating lease charges and others	**5,409,545**	4,809,168	12.5%
Total cost of revenues	**44,998,318**	38,023,890	18.3%

Direct Personnel Costs

In 2011, direct personnel costs were RMB8,473.66 million, representing 15.8% of our total revenues and an increase of 13.6% over RMB7,459.67 million in 2010. With the rapid growth in business volume in 2011, the Group consistently applied reasonable control over its total headcount and subcontracted our low-end tasks, thereby minimizing the staff costs, avoiding related risks and effectively mitigating the impact of wage increase in the society. The proportion of direct personnel costs of our total revenues decreased by 0.6 percentage points compared to 2010.

Depreciation and Amortization

In 2011, depreciation and amortization amounted to RMB393.15 million, representing 0.7% of our total revenues and an increase of 7.8% over RMB364.74 million in 2010. Its proportion of our total revenues was maintained at the relatively similar level as in 2010.

Purchase of Materials and Telecommunications Products

In 2011, the cost of materials and telecommunications products purchase was RMB16,195.98 million, representing 30.3% of our total revenues and an increase of 19.9% over RMB13,506.74 million in 2010. In 2011, the distribution of telecommunications services and products business of the Group grew rapidly, and so the corresponding cost of telecommunications products purchase, including the telecommunications machineries and handsets, also grew in a faster pace. Cost of construction materials in respect of our telecommunications infrastructure business remained relatively stable over last year. The cost of materials and telecommunications products as a percentage of our total revenues increased by 0.6 percentage points compared to 2010.

Subcontracting Charges

In 2011, subcontracting charges were RMB14,525.99 million, representing 27.2% of our total revenues and an increase of 22.2% over RMB11,883.57 million in 2010. The increase in subcontracting charges was mainly derived from the telecommunications infrastructure services. As the business volume increased significantly in 2011, 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 total revenues increased by 0.9 percentage points compared to 2010.

Operating Lease Charges and Others

In 2011, operating lease charges and others were RMB5,409.55 million, representing 10.1% of our total revenues and an increase of 12.5% over RMB4,809.17 million in 2010. Its proportion of our total revenues decreased by 0.5 percentage points compared to 2010.

Gross Profit

In 2011, the Group's gross profit amounted to RMB8,509.08 million, representing an increase of 15.1% over RMB7,393.34 million in 2010. The Group's gross profit margin in 2011 was 15.9%, representing a decrease of 0.4 percentage points over 16.3% in 2010. Due to the market competition and costs increase for certain businesses and expenses, the Group's gross profit margin was affected to certain extent. However, operational efficiency on most of our businesses remained stable as a result of our strengthened management over business collaboration and costs control.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses in 2011 were RMB6,401.10 million, representing an increase of 13.6% over RMB5,637.14 million in 2010, and accounting for 12.0% of our total revenues. In 2011, the Group strengthened cost control on selling and administrative expense and realized economies of scale while its business grew rapidly. Selling, general and administrative expenses as a percentage of total revenues decreased by 0.4 percentage points compared to 2010.

Finance Costs

In 2011, the Group's finance costs were RMB60.31 million and increased slightly by 4.5% over RMB57.73 million in 2010. In 2011, the tightening macroeconomic policy in China led to a rising loan interest rate and our corresponding finance costs. However, the Group also reduced finance costs by implementing effective centralized fund management. As a result of the two factors above, the finance costs of the Group remained relatively stable during the year.

Income Tax

Certain of our domestic subsidiaries were recognized as new and high-technology enterprises and were entitled to a preferential income tax rate of 15%. Our subsidiaries in Shenzhen, Zhuhai, Xiamen and Hainan Special Economic Zones were entitled to an income tax rate of 24%. Apart from these subsidiaries, the Company and other domestic subsidiaries of the Group were subject to an income tax rate of 25%. The overseas subsidiaries of the Group were subject to different countries' tax rate. The income tax of the Group in 2011 was RMB534.19 million and our effective tax rate was 20.2%, remaining relatively stable compared to 20.3% in 2010. The difference between our effective tax rate and the statutory tax rate was mainly due to the preferential income tax treatment for new and high-technology enterprises and the preferential policy of deduction for research and development expenses before income tax enjoyed by certain of our subsidiaries.

Profit Attributable to Equity Shareholders of the Company

In 2011, profit attributable to equity shareholders of the Company was RMB2,114.86 million, representing an increase of 17.2% over RMB1,803.75 million in 2010. Profit attributable to equity shareholders of the Company accounted for 4.0% of our total revenues, remaining at a stable level as in 2010.

Capital Expenditure

We implemented stringent budget management over capital expenditure, and adjusted our capital expenditure plan according to the changes of market condition. In 2011, our capital expenditure amounted to RMB823.14 million, a decrease of 1.2% from RMB832.96 million in 2010. The capital expenditure in 2011 accounted for 1.5% of our total revenues. Our capital expenditure included the purchases of production facilities and equipment, machinery and meters, plant and office buildings, intangible assets and other operating assets.

Cash Flow

Our net cash outflow in 2011 increased to RMB1,158.74 million over RMB390.06 million in 2010. As at the end of 2011, our cash and cash equivalents amounted to RMB7,298.23 million, of which 95.7% was denominated in Renminbi.

The following table sets out our cash flow positions in 2010 and 2011, respectively:

	2011 **RMB'000**	2010 RMB'000
Net cash generated from operating activities	**1,223,642**	1,526,412
Net cash used in investing activities	**(860,541)**	(1,055,364)
Net cash used in financing activities	**(1,521,836)**	(861,103)
Net decrease in cash and cash equivalents	**(1,158,735)**	(390,055)

In 2011, net cash generated from operating activities was RMB1,223.64 million, representing a decrease of RMB302.77 million from RMB1,526.41 million in 2010. The decrease in net cash generated from operating activities was mainly because more cash was needed to support the rapid development of the Group's domestic and overseas business, and certain customers of the Group delayed their payment due to credit tightening in China.

In 2011, net cash used in investing activities was RMB860.54 million, representing a decrease of RMB194.82 million from RMB1,055.36 million in 2010. Cash used in investing activities in 2011 mainly comprised of capital expenditure including the purchase of facilities.

In 2011, net cash used in financing activities was RMB1,521.84 million, representing an increase of RMB660.74 million from RMB861.10 million in 2010. The increase in net cash used in financing activities was mainly because the Group repaid the short-term entrust loan.

Working Capital

As at the end of 2011, working capital (i.e. current assets minus current liabilities) was RMB9,189.05 million, while working capital was RMB7,945.82 million in 2010. The increase in working capital was mainly due to the rapid development of the Group's domestic and overseas businesses, and certain customers of the Group delayed their payment due to credit tightening in China.

Indebtedness

As at the end of 2011, total indebtedness of the Group was RMB998.34 million and decreased by RMB782.18 million from RMB1,780.52 million at the year end of 2010. Indebtedness of the Group were mainly fixed interest rate loans and denominated in Renminbi, of which Renminbi loan accounted for 82.3% and US dollar loan accounted for 17.7%, and 94.5% was fixed interest rate loans and 5.5% was floating interest rate loans.

As at the end of 2011, our gearing ratio[1] was 5.9%, a decrease of 5.0 percentage points from 10.9% in 2010.

[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 2011:

	Total RMB'000	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	2016 and after RMB'000
Short-term debt	998,335	998,335	–	–	–	–
Operating lease commitments	468,696	185,647	92,143	63,215	38,284	89,407
Capital commitments	154,947	154,947	–	–	–	–
Of which:						
Authorized and contracted for	93,431	93,431	–	–	–	–
Authorized but not contracted for	61,516	61,516	–	–	–	–
Total of contractual obligations	1,621,978	1,338,929	92,143	63,215	38,284	89,407

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 2011, the balance of our cash and cash equivalents in foreign currencies accounted for 4.3% of our total cash and cash equivalents, of which 2.5% and 0.6% were denominated in US dollars and Hong Kong dollars, respectively.

Profiles of Directors, Supervisors and Senior Management

Honorary Chairman

Mr. WANG Xiaochu

age 54, is the Honorary Chairman[1] of our Company. Mr. Wang is also the Chairman of China Telecommunications Corporation, Chairman and Chief Executive Officer of China Telecom Corporation Limited. Until 8 April 2008, Mr. Wang was the Chairman and Non-Executive Director of the Company.

Executive Directors

Mr. LI Ping

age 58, 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 36 years of operational and managerial experience in the telecommunications industry in China.

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

Mr. ZHENG Qibao

age 54, 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 34 years of operational and managerial experience in the telecommunications industry in China.

Mr. YUAN Jianxing

age 57, 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 34 years experience in the telecommunications industry.

Ms. HOU Rui

age 42, 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 17 years experience in telecommunications industry and financial management.

Non-Executive Directors

Mr. LIU Aili

age 48, 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 and a Director of China Mobile Communication Company Limited. 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, and Chairman of CMPak Limited. He is a professor-level senior engineer with over 29 years of management experience in the telecommunications industry.

Mr. ZHANG Junan

age 55, is a Non-Executive Director of our Company. Mr. Zhang is a Vice President of China United Network Communications Group Company Limited, a Senior Vice President of China Unicom (Hong Kong) Limited and a Director and Senior Vice President of China United Network Communications Limited. Mr. Zhang graduated from the Nanjing University of Posts and Telecommunications majoring in carrier communication in 1982, received a master degree in Business Administration from the National Australian University in 2002 and received a Doctor of Business Administration from Hong Kong Polytechnic University in October 2008. Mr. Zhang previously served as Executive Director of China Unicom (Hong Kong) Limited, Deputy General Manager and General Manager of the Anhui Provincial Telecommunication Company, Chairman and General Manager of Anhui Provincial Telecommunication Co., Ltd, Director of Bengbu Municipal Posts and Telecommunications Bureau in Anhui Province and Deputy Director of Anhui Provincial Posts and Telecommunications Bureau. Mr. Zhang has long and extensive management experience in the telecommunications industry.

Independent Non-Executive Directors

Mr. WANG Jun

age 71, is an Independent Non-Executive Director of our Company. Mr. Wang graduated from the Harbin Engineering Institute in the PRC. Mr. Wang was the former Chairman of China International Trust and Investment Corporation ("CITIC"). After his retirement in July 2006, he became the Executive Director and Chairman of the Board of Directors of CITIC 21CN Company Limited and the Chairman and Executive Director of Goldbond Group Holdings Limited. Until 17 April 2008, Mr. Wang was a Non-Executive Director and Honorary Chairman of HKC (Holdings) Limited.

Mr. CHAN Mo Po, Paul

age 57, 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 Director of China Vanke Co., Ltd, a company listed on Shenzhen Stock Exchange and an Independent Non-Executive Director of Hong Kong Economic Times Holdings Limited and The Wharf (Holdings) Limited, both of which are listed on Hong Kong Stock Exchange. Until 29 August 2011, Mr. Chan was an Independent Non-executive Director of Kingmaker Footwear 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 71, is an Independent Non-Executive Director of our Company. Mr. Zhao is the committee member of Degree Committee and the Academic Council of Tsinghua University, the Chairman of Chinese Society for Management Modernization, an Independent Non-Executive Director of Dongfang Electric Corporation Limited and an Independent Director of China United Network Communications Limited. Mr. Zhao was the Chairman of the Supervisory Committee of Tongfang Co., Limited, an Independent Director of Daheng New Epoch Technology, Inc. and Bank of China Investment Management Company Limited. Mr. Zhao graduated from Tsinghua University in the PRC. He was Dean of the School of Economics and Management of Tsinghua University between June 2001 and October 2005, having previously served as Executive/First Vice Dean between January 1987 and June 2001.

Mr. WU Shangzhi

age 62, 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 77, 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 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 in GTE Network Systems Company and 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 53, 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 27 year management and auditing experience in the telecommunications industry.

Mr. HAI Liancheng, age 67, is an Independent Supervisor of our Company. Mr. Hai studied at the Civil Aviation College and Chinese Communist Party's (CPC) School, and obtained a college diploma. Mr. Hai has served as Vice-Divisional Director and Divisional Director of the Financial Division of the Financial Department of Civil Aviation Administration of China ("CAAC"), Vice-Director and Director of the Financial Department of CAAC, General Manager of China Aviation Oil Supply Corporation and Vice General Manager of China Aviation Oil Holding Company. From September 2001 to February 2006, Mr. Hai served as Chairman of South China BlueSky Aviation Oil Co., Ltd and China Aviation Oil Corporation Ltd. Mr. Hai is the Director General of the CAAC Sub-association of the China Association of Chief Financial Officers and Chairman of the CAAC Training Centre for Accounting and Auditing since January 2006. Mr. Hai was employed by PICC Property and Casualty Co. Ltd. as consultant from June 2007 to June 2009. From October 2007 to March 2011, Mr. Hai was the Chairman of Zhong Peng Certified Public Accountants Ltd. Since March 2011, Mr. Hai has served as senior advisor of China PnR Co., Ltd.

Mr. YAN Dong, age 40, 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.


Ms. HOU Rui
Mr. YUAN Jianxing
Mr. LI Ping
Mr. ZHENG Qibao
Mr. WANG Qi
Mr. LIANG Shiping

Management

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

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

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

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

Mr. WANG Qi, age 56, 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 38 years of management experience in the telecommunications industry in China.

Mr. LIANG Shiping, age 42, 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 20 years' experience in telecommunications and IT industry.

Company Secretary

Mr. CHUNG Wai Cheung, Terence, age 38, 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 16 years of experience in auditing, financial management and company secretarial work with accounting firm and listed companies.

Further promote
intensive and collaboration management
so as to develop into a management and strategy oriented enterprise.

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 2011.

Principal Businesses

The Group is a leading service provider in the PRC that provides integrated support services in the field of informatization. We offer telecommunications infrastructure services, including design, construction and project supervision and management; business process outsourcing services, including network maintenance, facilities management and distribution of telecommunications services and products; applications, content and other services, including IT applications, mobile Internet services and value-added voice services. The major customers of the Group include domestic operators, domestic non-operator 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 2011 and the financial position of the Company and the Group as at that date are set out in the audited financial statements on page 99 to page 174 in this annual report.

Dividends

The Board proposed a cash dividend of RMB0.1222 per share for the year ended 31 December 2011 based on dividend payout ratio of 40% over the profit attributable to equity shareholders of the Company, and total dividend amounted to approximately RMB846.36 million. The proposed dividends will be submitted for consideration and approval at the 2011 annual general meeting to be held on 28 June 2012. The Company proposed to distribute the dividends on the basis of the total share capital as at the close of trading on the record date for dividend distribution. Dividends will be denominated and declared in RMB. Dividends of domestic shares will be paid in RMB, whereas dividends of H shares will be paid in Hong Kong dollars. The relevant exchange rate will be the average of the mid-point rates of RMB to Hong Kong dollars as announced by the People's Bank of China for the week prior to the date of approval of declaration of dividends at the 2011 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 133 of this annual report.

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

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

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

Directors and Senior Management of the Company

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

Name	Position in the Company	Date of appointment
Wang Xiaochu	Honorary Chairman[1]	8 April 2008
Li Ping	Chairman Executive Director	8 April 2008 3 August 2006
Zheng Qibao	Executive Director President	10 August 2010 21 June 2010
Yuan Jianxing	Executive Director Executive Vice President	12 December 2007 16 October 2006
Hou Rui	Executive Director Chief Financial Officer Executive Vice President	23 February 2011 30 December 2010 27 October 2010
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
Liang Shiping	Executive Vice President	3 March 2010
Chung Wai Cheung, Terence	Company Secretary, Assistant Chief Financial Officer and Qualified Accountant	16 October 2006

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 10 November 2011, Mr. Liu Xiaoyi resigned from the position of the Executive Vice President of the Company.

(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.

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

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 "Profiles of Directors, Supervisors and Senior Management" section of this annual report.

Share Capital

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

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

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

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

As at 31 December 2011, 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 was comprised of the following as at the 31 December 2011:

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	2,926,752,080	50.71%
China Mobile Communications Corporation	506,880,000	8.78%
China United Network Communications Group Company Limited	236,300,000	4.09%
China National Postal and Telecommunications Appliances Corporation	108,899,720	1.89%
H shares (Total)	1,992,850,200	34.53%
Total	5,771,682,000	100.00%

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

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

As at 31 December 2011, 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	2,926,752,080 (L)	77.45	50.71
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	381,945,795 (L)	19.17	6.62

* Note: (L) – Long Position

Reference is made to the H share rights issue prospectus of the Company dated 13 January 2012. As at 31 December 2011, CITIC Securities Corporate Finance (HK) Limited, the underwriter of H share rights issue, held a long position of 398,570,040 H shares and a short position of 188,087,774 H shares pursuant to the underwriting agreement with the Company, under which CITIC Securities Corporate Finance (HK) Limited agreed to fully underwrite up to 398,570,040 H rights shares. CITIC Securities Company Limited, the sole shareholder of CITIC Securities International Company Limited, which wholly owns the equity interest of CITIC Securities Corporate Finance (HK) Limited, also held the above interests. China Telecommunications Corporation also held a long position of 188,087,774 H shares through its wholly-owned subsidiary Guang Hua Properties Limited, which entered into a sub-underwriting agreement with CITIC Securities Corporate Finance (HK) Limited to sub-underwrite up to 188,087,774 H rights shares. As a result of the over-subscription of the H rights Shares, CITIC Securities Corporate Finance (HK) Limited and Guang Hua Properties Limited held no shares of the Company upon completion of the H share rights issue in February 2012.

Save as stated above, as at 31 December 2011, 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 2011, 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 2011, the Company had not granted its directors or supervisors, or their respective spouses or children below the age of 18 any rights to subscribe for the shares or debentures of the Company or any of its associated corporations and none of them has ever exercised any such right to subscribe for shares or debentures.

Share Appreciation Rights

Please refer to note 40 to the audited financial statements for details of the share appreciation rights scheme of the Company and the share appreciation rights granted during the year ended 31 December 2011.

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 2011, 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 2011.

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 175 to 176 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 2011.

Bank Loans and Other Borrowings

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

Property, Plant and Equipment

Please refer to note 17 to the audited financial statements for movements in the fixed assets of the Group for the year ended 31 December 2011.

Distributable Reserves

Please refer to note 47 to the audited financial statements for details of the movements in the reserves of the Group for the year ended 31 December 2011.

Donations

For the year ended 31 December 2011, the Group made charitable and other donations of a total amount of RMB0.76 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 2011.

Changes in Equity

Please refer to the consolidated statement of changes in equity contained in the audited financial statements (pages 104 to 105 of this annual report).

Plan of Employees' Retirement Benefits

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

Pre-emptive Rights

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

Major Customers and Suppliers

For the reporting period, the sales to the five largest customers of the Group represented 65.9% of the operating revenue of the Group; of which, the sales to the largest customer of the Group represented 42.9% 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 2011, 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

On 10 April 2011, the Company, through Zhejiang Communications Services Company Limited ("Zhejiang CCS"), a directly wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with the Difo Telecommunications Group Limited ("Difo Telecom"), an indirectly wholly-owned subsidiary of China Telecom pursuant to which Zhejiang CCS agrees to sell, and the Difo Telecom agrees to acquire 100% equity interest in Zhejiang Nantian Post and Communications Technology Company Limited ("Zhejiang Nantian") for a total consideration of RMB194.1115 million payable in cash. After the completion of the disposal, Zhejiang Nantian will cease to be a subsidiary of the Company. Through internal business reorganizations, Zhejiang CCS has integrated the businesses of Zhejiang Nantian which are in line with the Company's principal businesses into another subsidiary. For the businesses which are not in line with the Company's principal businesses, Zhejiang CCS intends to dispose of its equity interest in Zhejiang Nantian. Leveraging on the disposal, the operational efficiency and competitiveness of Zhejiang CCS can be further enhanced and promoted. Difo Telecom is an indirectly wholly-owned subsidiary of China Telecom which is the controlling shareholder of the Company, so Difo Telecom is a connected person of the Company under the Listing Rules. Accordingly, the disposal constituted a connected transaction of the Company. The Company has complied with the relevant Listing Rules requirements in respect of such connected transaction and made corresponding announcement on 11 April 2011.

On 5 September 2011, Tianxun Ruida Communications Technology Company Limited ("Tianxun Ruida"), an indirectly wholly-owned subsidiary of the Company, entered into the Asset and Business Acquisition Agreement with E-Surfing Electronic Commerce Company Limited ("E-Surfing Electronic"), an indirectly wholly-owned subsidiary of China Telecom. Pursuant to the Asset and Business Acquisition Agreement, Tianxun Ruida will sell, and E-Surfing Electronic will acquire the target payment business and asset of Tianxun Ruida, for a total consideration of RMB14,624,200 payable in cash, subject to adjustment. Tianxun Ruida is an indirectly wholly-owned subsidiary of the Company and mainly engaged in supplying BOSS system to telecommunications operators. As the major customers of the Company have recently established their own payment businesses, the Company expects the profitability of the payment business would become limited. As part of the Group's development strategy, by disposing the payment business which is the non-core business of Tianxun Ruida, Tianxun Ruida could be more focused on operating its core business and be providing better service to its customers in the future. E-Surfing Electronic is an indirectly wholly-owned subsidiary of China Telecom which is the controlling shareholder of the Company, so E-Surfing Electronic is a connected person of the Company under the Listing Rules. Accordingly, the disposal constituted a connected transaction of the Company. The Company has complied with the relevant Listing Rules requirements in respect of such connected transaction and made corresponding announcement on 5 September 2011.

On 29 November 2011, Hongbo Information Company Limited ("Hongbo Information"), an indirectly wholly-owned subsidiary of the Company, entered into the Video Business and Asset Acquisition Agreement with E-Surfing Video Media Company Limited ("E-Surfing Video"), an indirect subsidiary of China Telecom, pursuant to which, Hongbo Information has agreed to sell, and E-Surfing Video has agreed to acquire, the target video business and asset for a total consideration of RMB32 million, subject to adjustment. The video business of Hongbo Information mainly includes the provision of internet video programmes and the relevant content and service support, and China Telecom is the major customer of such video business. As E-Surfing Video has been established by China Telecom as a strategic platform to manage and further develop its own video business, the Company expects the profitability of the video business of Hongbo Information would become limited. As part of the Group's development strategy, by disposing the video business, Hongbo Information could be more focused on its informatisation support businesses and provide better service to its customers in the future. E-Surfing Video is an indirectly wholly-owned subsidiary of China Telecom which is the controlling shareholder of the Company, so E-Surfing Video is a connected person of the Company under the Listing Rules. Accordingly, the disposal constituted a connected transaction of the Company. The Company has complied with the relevant Listing Rules requirements in respect of such connected transaction and made corresponding announcement on 29 November 2011.

On 8 December 2011, the Company entered into the Equity Transfer Agreement with Hunan Telecommunications Industrial (Group) Company Limited ("Hunan Industrial"), a wholly-owned subsidiary of China Telecom pursuant to which, the Company has agreed to sell, and Hunan Industrial has agreed to acquire 100% equity interest in the Hunan New Nantian Real Property Company Limited, a wholly-owned subsidiary of the Company, for a total consideration of RMB39,897,400. Since real property development is not the core business of the Company, pursuant to the applicable laws and policies and the regulatory requirement of the PRC authorities and as part of the Company's development strategy, the Company could be more focused on its principal businesses and provide better service to its customers by disposing the real property business. Hunan Industrial is an indirectly wholly-owned subsidiary of China Telecom which is the controlling shareholder of the Company, so Hunan Industrial is a connected person of the Company under the Listing Rules. Accordingly, the disposal constituted a connected transaction of the Company. The Company has complied with the relevant Listing Rules requirements in respect of such connected transaction and made corresponding announcement on 8 December 2011.

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 2011:

Unit: RMB million

Transaction	Year ended 31 December 2011 Annual Caps	 Actual Amounts	Year ending 31 December 2012 Annual Caps
Engineering related services provided to China Telecom Group	13,125	10,968	14,000
Ancillary telecommunications services provided to China Telecom Group	7,035	5,390	7,550
Operation support services provided to/by China Telecom Group			
Revenue	1,910	1,903	1,910
Expenditure	470	464	470
IT application services provided to/by China Telecom Group			
Revenue	1,750	1,355	1,900
Expenditure	430	165	430
Centralized services provided to China Telecom Group	350	309	350
Property leasing provided to/by China Telecom Group			
Revenue	166	59	166
Expenditure	150	140	150
Supplies procurement services provided to/by China Telecom Group			
Revenue	3,500	3,281	4,000
Expenditure	2,100	1,639	2,600

Continuing Connected Transactions Agreements Between the Company and China Telecom

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

The Company announced on 15 June 2007, and completed on 31 August 2007, its acquisition of China Telecom's specialized telecommunications support business ("Target Business") located in 13 provinces (municipalities and autonomous regions). In connection with the acquisition of the Target Business, a supplemental agreement in respect of the aforementioned six continuing connected transactions agreements was entered into between the Company and China Telecom on 15 June 2007 (the "2007 Supplemental Agreement"). The 2007 Supplemental Agreement extended the validity period of the six continuing connected transactions agreements to 31 December 2009, and extended the coverage of those agreements to 19 provinces (municipalities and autonomous regions), being the Group's primary service regions immediately after the completion of the acquisition of the Target Business. On 19 September 2008, the Company entered into a 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 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.

The Company announced on 14 November 2011 to propose the increase of annual caps for service charges payable to China Telecom Group under the Supplies Procurement Services Framework Agreement to RMB2,100 million and RMB2,600 million respectively, for the two years ending 31 December 2011 and 2012. In 2011, China witnessed a rapid development in the telecommunication industry and there was a rapid increase in mobile users and the corresponding demand for mobile terminals. In response to the high demand for mobile terminals, the Company increased the procurement of telecommunications supplies especially the mobile terminals from China Telecom Group, and leveraged on the existing distribution network of the Company to better address the market opportunities and promote the rapid development of business. The Company believes that the increase in the distribution of mobile terminals will increase the revenue and profit of the Company as well as reinforce its cooperation and relationship with China Telecom Group to ensure a stable revenue source, which will benefit the Company's future growth and development. Details of above revised annual caps for the Supplies Procurement Service Framework Agreement were disclosed in the circular dated 15 November 2011 and approved by the independent shareholders of the Company on 30 December 2011.

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

Engineering Framework Agreement

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

Ancillary Telecommunications Services Framework Agreement

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

(1) government-prescribed price;

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

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

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

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

Operation Support Services Framework Agreement

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

IT Application Services Framework Agreement

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

Centralized Services Agreement

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

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

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

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

Property Leasing Framework Agreement

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

Supplies Procurement Services Framework Agreement

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

Continuing Connected Transaction Agreement Between the Company and China Telecom Corporation Limited

Strategic Cooperation Agreement

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

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

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

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

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

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

The independent non-executive directors of the Company have confirmed that all continuing connected transactions for the year ended 31 December 2011 to which the Group was a party:

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

2. had been entered into either:

    (i) on normal commercial terms; or

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

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

The independent non-executive directors have further confirmed that:

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

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

1. the continuing connected transactions entered into between the Group and China Telecom Group during the year ended 31 December 2011 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 2011 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 2011 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 2011 annual caps as disclosed in the circular dated 12 November 2010 and 15 November 2011 of the Company and approved by the independent shareholders of the Company on 30 December 2010 and 30 December 2011.

Employees

As at 31 December 2011, the Group had 127 thousand employees as follows:

	Number of staff (thousand)	**Percentage**
Management	9	7.1%
Technical and marketing	54	42.5%
Operations	64	50.4%
Total	127	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 2011, 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 2011. 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 2012 will be proposed at the upcoming 2011 annual general meeting of the Company.

By order of the Board
Li Ping
Chairman

Beijing, PRC
29 March 2012

Report of the Supervisory Committee

Dear Shareholders,

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

During the reporting period, the Supervisory Committee held two meetings. At the fifth meeting of the second session of the Supervisory Committee held on 24 March 2011, the Supervisory Committee reviewed and approved five resolutions on the financial statements of the Company for 2010, the profit distribution proposal and dividends distribution plan, external auditors' report, the work report of the Supervisory Committee for 2010 and the work plan of the Supervisory Committee for 2011. At the sixth meeting of the second session of the Supervisory Committee held on 24 August of the same year, the Supervisory Committee reviewed and approved the resolutions on the interim financial statements for 2011, external auditors' report and the report on internal control and risk management of the Company for the first half of 2011. 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 2011, 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.

In October 2011, the members of the Supervisory Committee conducted examinations and investigations in our subsidiary Sichuan Communications Services Company Limited on implementation of the Group's five strategies, enhancement of financial management and internal control system as well as strengthening of the overseas business control. The investigation report affirmed the company's achievements on the enhancement of risk management, financial management and internal control, pointed out the major risks and proposed recommendations on management.

The Supervisory Committee is of the opinion that, by providing customer-oriented innovative services in 2011, the Company has further consolidated the postion in operator market and vigorously expanded domestic non-operator market as well as overseas market. The Company has actively tackled the challenges arising from market competition, maintained a momentum of rapid growth in all its businesses with remarkable operating results and achieved a double-digit growth both in terms of total revenues 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 favorably performed their duties in accordance with the Articles of Association of the Company in 2011. 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 2011 which were audited by external auditors who have issued an unqualified opinion, and is intended to be submitted by the Board of Directors to the shareholders' general meeting, and other relevant information. The Supervisory Committee is of the opinion that the financial statements give an objective and true view of the Company's financial position and operating results.

In 2012, to safeguard the interests of the shareholders and the interests of the Company and pursue its supervisory duties diligently over the major decisions and key operating activities, 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
23 March 2012

Innovate talent management system,
human resources allocation models and staff motivation mechanisms.

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, the Company has not only complied with the relevant provisions of the Listing Rules, but also abided by the PRC Company Law and other applicable laws, regulations and regulatory requirements of Hong Kong and the PRC as fundamental guidelines for the Company's corporate governance.

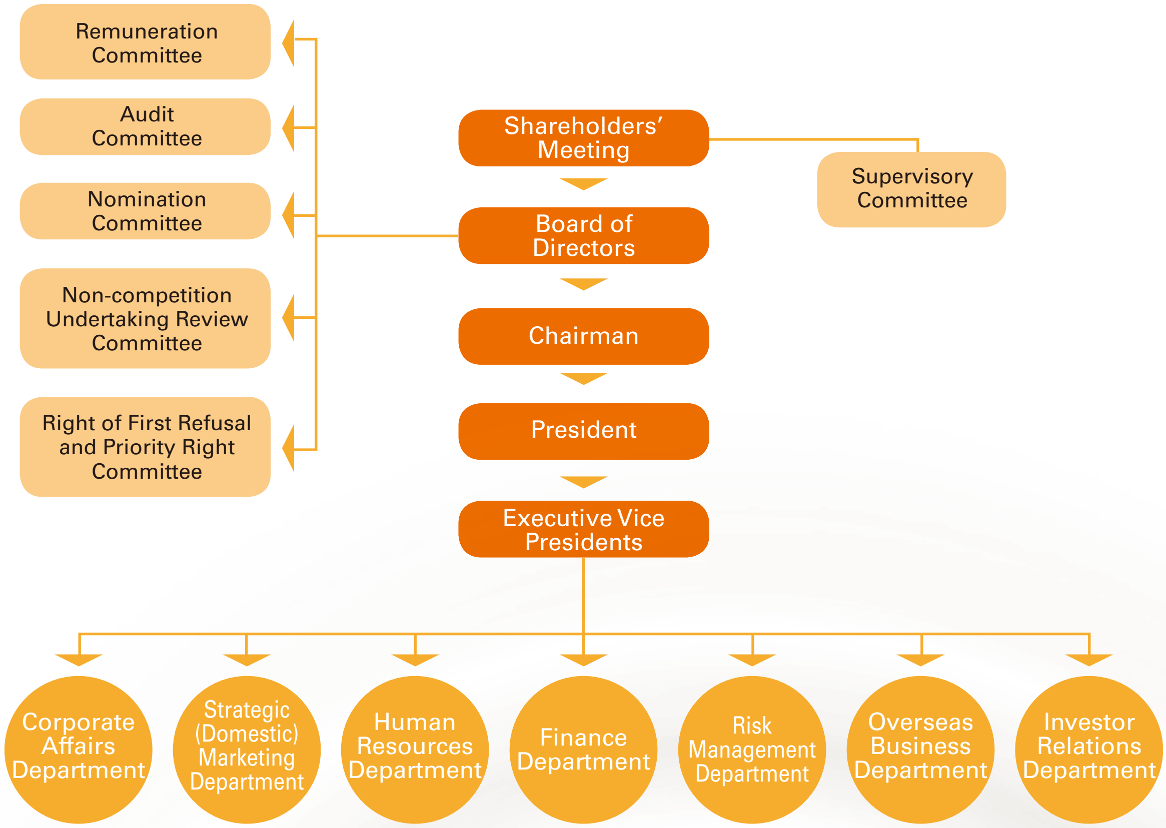
While strictly complying with relevant laws and regulations, the Group is continually striving to further strengthen its internal control and risk management procedures and is in the process of enhancing its IT support system for internal control in order to improve its corporate governance standards and transparency. The Group's persistent efforts in fostering sound corporate governance have been recognized by capital market: the Group was once again awarded a Gold Award in "The Asset Corporate Awards 2011" and recognized as one of "China's Most Promising Companies 2011" in the telecommunications category by *The Asset*, a respected financial magazine in Asia. Moreover, the Group was given one of the "Best Investor Relations by a China Company" awards in the "Asian Excellence Recognition Awards" 2011 by *Corporate Governance Asia*, a respected journal on Corporate Governance in Asia.

For the year ended 31 December 2011, 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 Independent Auditor's Report on the financial statements of the Group is set out on page 97 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 2011, apart from the AGM, the Company also convened three EGMs, one H shareholders class meeting and one domestic shareholders class meeting. 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 2011.

At the first EGM of 2011 held on 23 February 2011, the resolution, including appointment of Ms. Hou Rui as executive director of the Company, was considered and approved by shareholders.

At the AGM of 2010 held on 28 June 2011, the resolutions, including the 2010 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 second EGM of 2011 held on 28 June 2011, H shareholders class meeting and domestic shareholders class meeting of 2011 held on 28 June 2011, the resolutions, including proposed rights issue of domestic shares and H shares with revised basis and fund raising size, were considered and approved by shareholders.

At the third EGM of 2011 held on 30 December 2011, the resolutions regarding revision of annual caps for continuing connected transactions between the Company and China Telecom, the Company's controlling shareholder, were considered and approved by independent shareholders. China Telecom and its associates, being connected persons to the Company, abstained from voting for this resolution.

The above resolutions at the AGM, EGMs and shareholders class meetings 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 Nomination Committee are then put to the Board for decision. The candidate of director at the shareholders' general meeting should be recommended by the Board and directors shall be elected at the shareholders' general meeting each for a term of three years, effective from the date of election.

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 Company and that he is fully aware of his responsibilities under the applicable laws and regulations, the Listing Rules and other regulatory requirements and the business and governance policies of the Company.

Composition of the Board

As of 31 December 2011, the Board comprised eleven directors, including four executive directors (Mr. Li Ping as Chairman and executive director, Mr. Zheng Qibao, Mr. Yuan Jianxing and Ms. Hou Rui as executive directors), two non-executive directors (Mr. 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 is the Honorary Chairman of the Company. The Honorary Chairman is not a member of the Board and has no voting rights on any matters to be considered by the Board. The profiles of the directors are set out in the "Profiles of Directors, Supervisors and Senior Management" section of this annual report.

The Board has five independent non-executive directors, constituting over 1/3 of the members of the Board, and complied with the Listing Rules 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 2011 the members of the Board did not have any financial, business, family or other material connection with each other, in particular between the Chairman and the President, and all of them are free to make independent judgments.

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

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 2011, the Board held four meetings and passed six written resolutions. For the resolutions on the connected transactions such as revision of annual caps for continuing connected transactions between the Company and China Telecom, 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 2011 is as follows:

	Attendance in 2011/ Meetings convened during period of appointment			
	Board of Directors	Audit Committee	Remuneration Committee	Non-competition Undertaking Review Committee
Executive Directors				
Li Ping (Chairman)	4/4			
Zheng Qibao	4/4			
Yuan Jianxing	4/4			
Hou Rui	4/4			
Non-executive Directors				
Liu Aili	4/4			
Zhang Junan	4/4			
Independent Non-executive Directors				
Wang Jun	4/4			
Chan Mo Po, Paul	4/4	3/3	1/1	2/2
Zhao Chunjun	4/4		1/1	2/2
Wu Shangzhi	4/4	3/3	1/1	
Hao Weimin	4/4	3/3		2/2

Chairman and President

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

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 2011, the Audit Committee held three meetings, mainly reviewing the resolutions of the Company for its audited financial report of 2010, interim report of 2011, report on connected transactions, report on internal control and risk management, appointment of independent auditors and implementation of amendments to IFRS 1. 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. In 2011, the Remuneration Committee held one meeting, mainly reviewing the resolution of adjusting the exercise price of share appreciation rights schemes of the Company.

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. The Nomination Committee did not convene any meetings in 2011.

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 Telecom to us.

In 2011, the Non-competition Undertaking Review Committee held two meetings, at which the members of the committee mainly reviewed the implementation of the non-competition undertakings by China Telecom and made their recommendations to the Board.

The Company has received a letter issued to the Company by China Telecom stating that they were not in breach of any non-competition undertakings in 2011. 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 Telecom upon the listing of the Company, and protecting the interests of independent shareholders when such right of first refusal or priority right is exercised. The Right of First Refusal and Priority Right Committee did not convene any meetings in 2011.

Independent Board Committee

Pursuant to the requirements under the Listing Rules, the Company held an Independent Board Committee meeting on 14 November 2011, at which five independent non-executive directors of the Company attended. The Independent Board Committee mainly reviewed the resolution regarding the revision of annual caps for continuing connected transactions between the Company and China Telecom, and it made its recommendations to the independent shareholders. Details of this resolution and the Independent Board Committee's recommendation were contained in the circular despatched to shareholders on 15 November 2011.

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 2011, 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 2011	39,500
Non-auditing services	2,650
	42,150

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, which formulated and published the "Implementation Measures for the Three Major One Significant Decision Making System of China Communications Services Corporation Limited". It was provided in the Measures the objectives of and the fundamental principles for the decision making by the "Three Major One Significant Decision Making System". The primary scope of the "Three Major One Significant Decision Making System", which refers to major decision making, major appointment and removal of personnel, major project arrangement and significant funding operation, specifies the decision making limits of those four matters, designates the decision making procedures of those four matters, clarifies the process of "decision making based on evidence discussion" with reference to those four matters, and designates the legal representatives and general managers at all level to be held responsible for the execution of these Measures. Upon the introduction of these Measures, the organization structure and operation mechanisms of the Group's internal control and risk management was further improved. In order to strengthen the leadership of risk control work, the Group reorganized the composition of the risk management committee and its office at the headquarter level in 2011, taking into account the redeployment of staff at the headquarter. Such actions secured the effective organization of the Group's internal control and risk management work.

The Group also formulated and issued the "Working Plan for the Risk Management of China Communications Services Corporation Limited in 2012–2015" during 2011, so as to lay a foundation for guiding the better implementation of internal control works at different levels in the coming years. It was provided in the plan the missions about the guidance thoughts, operation principles and objectives of our internal control works, and determined the key missions for the internal control and risk management work. The working plan further defined the direction for the work of the internal control and risk management departments at all levels in the next few years. The Group continued to facilitate the construction of informatization for internal control purposes. An informatized platform is now applied and the website regarding risk management information was online. Such website is set up under the OA system of the headquarter, which allowed the internal control department to conduct information exchange online. The Group 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 internal control and risk management, reducing operation risks and enhancing the level of the Group's internal control and risk management.

The Board considers that by implementing the above measures, the Company was in compliance with the internal control requirements under C.2 of the Code Provisions and that the internal control and risk management system of the Company was effective. The Board intends to continue to further improve and enhance its internal control and risk management in 2012.

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 to Shareholders
6. Interim and annual financial reports as well as press conferences in relation to results announcement, webcast presentation
7. Continuous communication 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.

Introduce cooperation partners and **acquire suitable assets** to rapidly enhance its core competence and brand.

Investor Relations

2011 marked the fifth year of the Company's listing. In the past five years, the Company has always emphasized the works of investor relations, insisted in improving the multi-channel interactive communication mechanism with the capital market and adhered to timely, just, fair and accurate information disclosure principles. The Company received a number of awards in the investor relations field, which indicated that the Company's investor relations were highly recognized by the capital market. During the year, the Company initiated the rights issue plan in order to secure the successful execution of our strategies for the coming few years, and the sound investor relations of the Company played an active role.

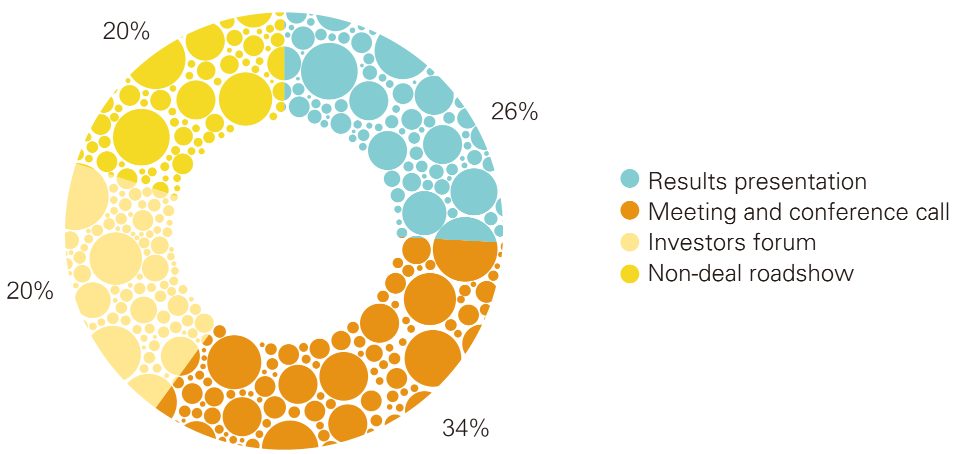
In future, the Company will endeavor to build pragmatic and efficient investor relations practices, and facilitate the further enhancement of its shareholders' value and maximize the returns to its shareholders.

Investor Relations Activities

In 2011, the Company initiated the rights issue plan for supporting the strategic development in the coming few years. In order to achieve smooth implementation of the rights issue, the Company promptly responded to the doubts of the investors and listened to their views and recommendations on the rights issue through a series of effective investor communication strategies and in a proactive and sincere manner. The rights issue scheme was finally approved in the general meeting with overwhelmingly proportion voting for the plan and was implemented by the end of the year. In the process of implementing the rights issue, the Company adopted various communication strategies at key nodes of timeline, including extensive global non-deal roadshows at the end of March to early April in 2011, two analysts' conference calls and two global investors' conference calls after the rights issue's officially launched in December 2011 as well as proactive information disclosure on capital market concerned issues (such as the approvals of the rights issue by State-owned Assets Supervision and Administration Commission of the State Council and China Securities Regulatory Commission) with the purpose to increase transparency of the Company.

Apart from the above major activities for the rights issue, the Company also insisted in improving the multi-channel interactive communication mechanisms with the capital market. Through a diversified communication channels such as investor and press conferences, non-deal roadshows, investor forums held by investment banks, one-on-one meetings, teleconferences and video conferences, emails, press releases as well as investor relations website, the Company promptly released its latest activities and business results as well as its vision and strategies in future development to the capital market. In 2011, the Company facilitated interactive communications with over 500 analysts and investors.

Attendance Analysis of Investor Relations Activities in 2011

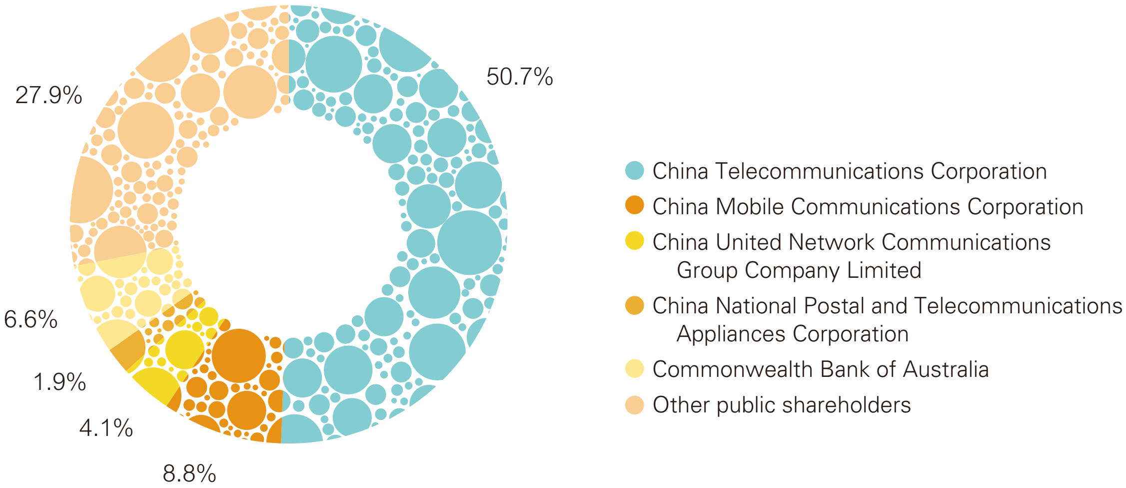


List of investor relations activities of the Company conducted in 2011

Period	Activities	Venue
1/2011	DB Access China Conference 2011	Beijing
1/2011	UBS Greater China Conference 2011	Shanghai
3/2011	2010 Annual Results Announcement – Analysts Briefing – Press Conference	Hong Kong
3–4/2011	Non-deal Roadshow	Hong Kong, Singapore, UK and USA
5/2011	Macquarie Greater China Conference	Hong Kong
6/2011	J.P. Morgan China Conference 2011	Beijing
8/2011	2011 Interim Results Announcement – Analysts Briefing – Press Conference	Hong Kong
8/2011	Non-deal Roadshow	Hong Kong
9/2011	Mirae Asset Mobile Internet Access Day	Hong Kong
10/2011	Citi Greater China Investor Conference 2011	Macau
10/2011	Goldman Sachs China Investment Frontier Conference 2011	Beijing
11/2011	Daiwa Investment Conference (HK) 2011	Hong Kong
11/2011	J.P. Morgan Asia Pacific Technology, Media & Telecommunications Conference 2011	Hong Kong
11/2011	Standard Chartered Asia Pacific Emerging Corporates Conference	Hong Kong
12/2011	RBS 2nd Annual HK/China Access Conference	Hong Kong

In 2011, the Company continued to appoint an international survey company to conduct investigations on the shareholding of the Company. Through two investigations in a year, the Company was able to have an in-depth understanding of its shareholding structure, geographical locations of shareholders, investment styles, fund sources and position changes in shareholdings, etc. These provided solid evidences and supports for the Company to enhance targeted communications with investors and manage investor relations more effectively and strategically.

Shareholding Structure
As of 31 December 2011



Source: Shareholders' register of the Company and the Stock Exchange

Note: The above shareholding structure was as of 31 December 2011, which has not reflected the changes after the completion of rights issue in February 2012. For detailed information on rights issue, please refer to "Report of the Directors".

Information Disclosure

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

Since its listing, the Company has strictly complied with the information disclosure requirements for listed companies and made information disclosure in timely, just, fair and accurate manner. In 2011, the Company published more than 30 corporate communications such as announcements and circulars. Such publications have objectively and comprehensively disclosed information regarding the Company's results, operating performance, financial information, rights issue, dividend payment, connected transactions and poll results of shareholder meetings, and certain other voluntary disclosures, including the press releases on key cooperation projects between the Group and its partners as well as awards received from the capital market.

In 2011, the Company published the following information on the websites of the Stock Exchange and the Company pursuant to the Listing Rules:

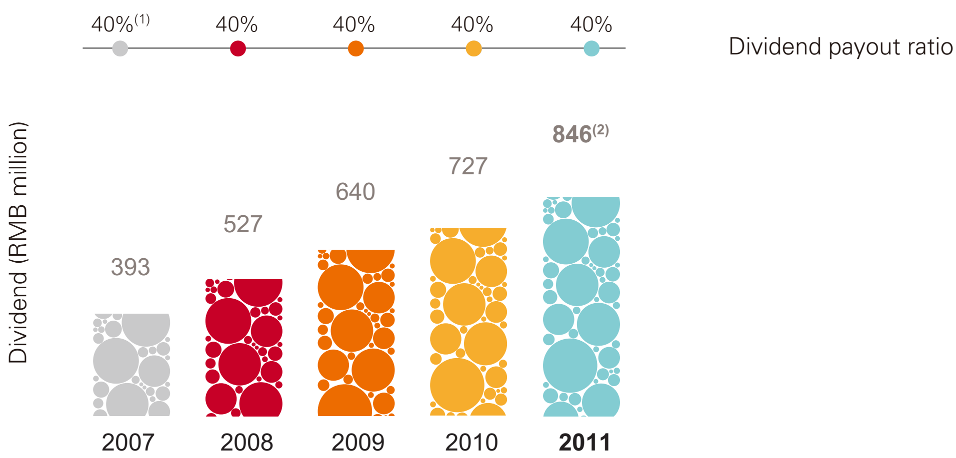
6-Jan-2011	Circular on the proposed appointment of director
6-Jan-2011	Notice of the extraordinary general meeting to be held on 23 February 2011, reply slip and proxy form
23-Feb-2011	Poll results of the extraordinary general meeting held on 23 February 2011
14-Mar-2011	Announcement relating to the date of the board meeting to approve the 2010 annual results
30-Mar-2011	Announcement relating to the proposed rights issue of domestic shares and H shares
30-Mar-2011	Announcement of annual results for the year ended 31 December 2010
1-Apr-2011	Circular relating to the proposed rights issue of domestic shares and H shares
1-Apr-2011	Notice of the extraordinary general meeting to be held on 17 May 2011, reply slip and proxy form
1-Apr-2011	Notice of the H shareholders class meeting to be held on 17 May 2011, reply slip and proxy form
11-Apr-2011	Announcement of connected transaction
15-Apr-2011	2010 annual report
15-Apr-2011	Notice of the annual general meeting to be held on 28 June 2011, reply slip and proxy form
9-May-2011	Announcement relating to the proposed rights issue of domestic shares and H shares with revised basis and fund raising size
12-May-2011	Circular relating to the proposed rights issue of domestic shares and H shares with revised basis and fund raising size
12-May-2011	Notice of the extraordinary general meeting to be held on 28 June 2011, reply slip and proxy form
12-May-2011	Notice of the H shareholders class meeting to be held on 28 June 2011, reply slip and proxy form
19-May-2011	Announcement relating to the SASAC approval of the proposed rights issue of domestic shares and H shares
28-Jun-2011	Poll results of the annual general meeting held on 28 June 2011 and payment of final dividend
28-Jun-2011	Poll results of the EGM, domestic shareholders class meeting and H shareholders class meeting held on 28 June 2011
8-Jul-2011	Announcement relating to the further information on the payment of final dividend
17-Aug-2011	Announcement relating to the date of the board meeting to approve the 2011 interim results
30-Aug-2011	Announcement of interim results for the six months ended 30 June 2011
5-Sep-2011	Announcement of connected transaction
15-Sep-2011	2011 interim report
14-Nov-2011	Announcement relating to the revision of annual caps for continuing connected transactions
15-Nov-2011	Circular relating to the revision of annual caps for continuing connected transactions
15-Nov-2011	Notice of the extraordinary general meeting to be held on 30 December 2011, reply slip and proxy form
29-Nov-2011	Announcement of connected transaction
6-Dec-2011	Announcement relating to China Securities Regulatory Commission's approval of the rights issue
8-Dec-2011	Announcement of connected transaction
30-Dec-2011	Poll results of the extraordinary general meeting held on 30 December 2011
30-Dec-2011	Announcement relating to the proposed rights issue and closure of H share register

The Company's website (http://www.chinaccs.com.hk) is not only a distribution channel for relevant information dissemination as required by the Listing Rules, but also an important platform for the investors to access Company's information. With the development in network technology, mobile Internet and mobile communication tools, the capital market prefers to get timely information by new technology means. In 2011, in alignment with the development trend of the Internet, the Company improved the webpage design and functions of its website. New features such as e-annual reports, interactive share price charts, interactive investors' calendar and information sharing on social network. By enhancing the technology and interactivity of the website, the capital market can obtain Company's information in an easier, timely and comprehensive manner. The new website was ranked 10th in Asia Pacific region in "IR Website Award 2011" held by *IR Global Rankings* in 2011.

Annual report is also one of important means for detailed information disclosure by the Company. Through the annual report, the Company delivers a comprehensive analysis of operation, financial position and future strategies to investors for their better understanding of the Company's operating status and development trends. The theme of the Company's annual report 2010 was also closely tied in with its development vision and the corporate culture of "The Highest Excellence is Like That of Water", which comprehensively outlined the Company's corporate culture and direction of its future development. In 2011, the Company's 2010 annual report won the Grand Award in the category of "Interior Design – Hong Kong & PRC" and another 3 Gold Awards in "2011 International ARC Award" among 2,100 entries from 31 countries.

Dividends

The Company attaches great importance to the shareholders' views on its dividends payout. The Company determines its dividends payout with reference to the Company's financial status, long-term development needs and potential investment opportunities. Although the Company announced the rights issue proposal in 2011 and has new plans of development, the Company maintained its dividend payout ratio at 40% of profit for the years of 2010 and 2011 after taking into adequate account about the interests of the shareholders, and sustained the stable dividend policy over the past few years since its listing



Notes:

(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 2011 annual general meeting to be held on 28 June 2012.

Recognitions and Honors in the Capital Market

In 2011, there were an increasing number of analysts and institutional investors covering and closely following the Company. There were more than 10 international research institutions regularly publishing research reports on the Company. Since the Company's listing, the Company's investment value has been highly recognized by the capital market and as of 31 December 2011, most of the major research institutions maintained "Buy" or "Hold" investment ratings on the Company.

In 2011, the Company achieved remarkable performance and progress in respect of investor relations. The Company was highly recognized by the capital market and it won 10 international awards or recognitions. The Company's annual report 2010 won the Grand Award in the category of "Interior Design – Hong Kong & PRC" in "2011 International ARC Award", which is the world's largest and most independent competitions of annual report, also known as the "Academy Awards of Annual Report" in the financial area. The Company was also awarded the "Gold Award – Investor Relations" by *The Asset* in "The Asset Corporate Awards 2011", as well as other gold awards in *Corporate Governance Asia* and "International Galaxy Award", etc. These honors fully demonstrated the competence and efficiency of the Company's investor relations work. The Company will continue to strengthen the quality and effectiveness of its investor relations works and strive for the maximization of its shareholders' value.

Major awards and recognitions in 2011

- "2011 International ARC Awards"
  - "Interior Design – Hong Kong & PRC" – Grand Award
  - "Interior Design "and "Illustrations" – total of 3 Gold Awards

- "The Asset Corporate Awards 2011" by *The Asset*
  - Investor Relations – Gold Award
  - China's Most Promising Companies 2011

- "Asian Excellence Recognition Awards 2011" by *Corporate Governance Asia*
  - Best Investor Relations by a China Company

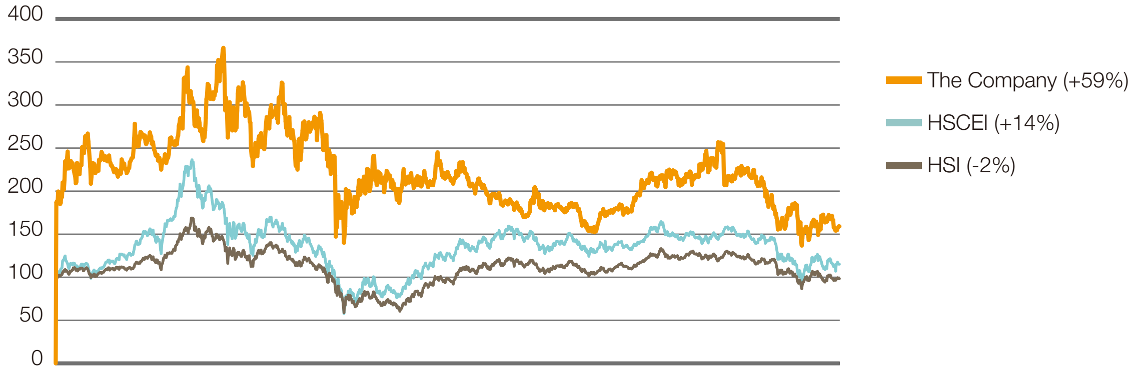
- "2011 International Galaxy Awards"
  - "Annual Reports – Telecommunications" – Gold Award
  - "Annual Reports Cover Design – Graphics/Text" – Silver Award

- "2011 FORTUNE China 500" published by *Fortune China*
  - Ranked 79th

Share Price Performance

The Company's H shares were listed on the Stock Exchange on 8 December 2006 at an offer price of HK$2.2 per share. During the last five years since its listing, the Company sustained steady growth. On the basis of stable performance, efficient corporate governance and good investor relations, the share price performance had been good in overall terms. The price of the Company's H shares as at 31 December 2011 increased by over 50% since its listing.

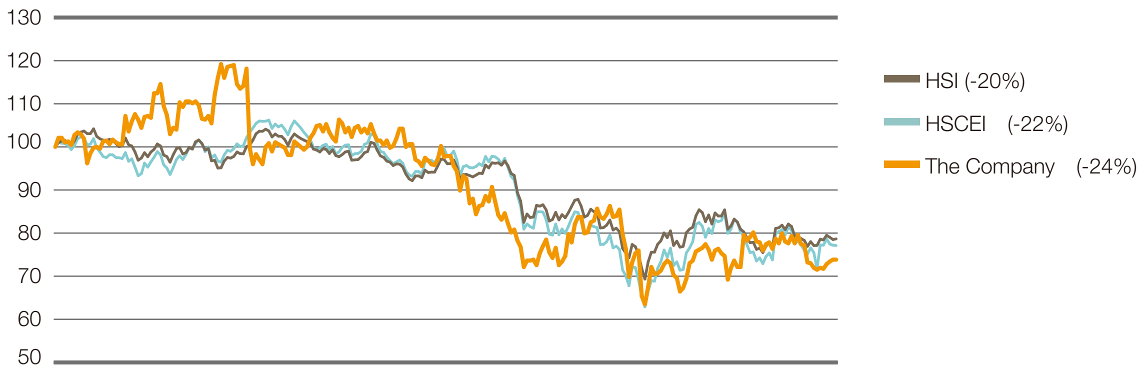
Share Price Performance Since Listing
From 8 December 2006 to 31 December 2011



As of 31 December 2011, the total number of shares for the Company was 5,771,682,000 shares, of which, 3,778,831,800 shares were domestic shares and 1,992,850,200 shares were H shares, both with par value of RMB1.00 each. All the H shares of the Company are listed at the Stock Exchange, representing approximately 34.5% of the total issued shares of the Company. Based on the closing price as of 31 December 2011, the Company's market value was about HK$19.7 billion.

2011	Highest	Lowest	Closing
Price per H share of the Company (HK$)	5.52	2.94	3.42

Share Price Performance in 2011
From 1 January 2011 to 31 December 2011



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 Resource Development

In 2011, the Group has endeavored to promote the strategy of "Talents Cultivation". Following the guidelines of "supporting development, controlling risks, enhancing capability and creating value", the Group continued to build the human resource system for "hundred-billion enterprise with excellent performance" through innovating talent motivation mechanism and improving the preciseness of human resource management.

In 2011, under the guidance of human resource plan, the Group continued to optimize the structure in accordance with standards comparable to those of its domestic and international peers. The Group directed its resources towards key business areas such as consultation and design, ACO and overseas business and gradually realized outsourcing of low-end business. As at the end of 2011, the Group had a total of 127 thousand staff. Revenue per headcount amounted to RMB418 thousand per year.

In 2011, the Group kicked off the establishment of high-end talents team and expanded the channel for career development of high-end talents. Strategies were deployed in the selection, appointment, appraisal, cultivation and motivation of high-end talents, by which core talents were effectively motivated and retained.

In 2011, the Group continued to strengthen the ability of human resource team. On-the-job training was comprehensively promoted by allocating the internal and external resources of the Group, resulted in an effective enhancement of staff's capability and skills. In particular, to achieve the goal of project management ability enhancement, the Group's training resources were devoted to organize various project manager training and certification exams. More than 3,400 project managers had completed such training program. As such, a team of professional project managers was built up with an overall enhancement of the theoretical knowledge and practical skills.

In 2011, the Group has also steadily promoted the construction of the "one portfolio" information system for human resource management to improve the comprehensive analysis and control abilities to human resources. As a result, the human resource management work was improved to be more standardized, precise, professional and scientific.

In 2011, 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 healthy and harmonious work environment for its staff and built stable relationship with its employee. Furthermore, the Group has always stressed the great importance of labor safety 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 2011 will be held at 2:00 pm on 28 June 2012 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 2011 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 2012;

2. **THAT** the profit distribution proposal and the declaration and payment of a final dividend for the year ended 31 December 2011 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 2012 be considered and approved, and the Board be authorized to fix the remuneration of the auditors;

4. To consider and approve, by way of separate ordinary resolutions, each of the following resolutions in relation to the election of the members of third session of the Board:

   4.1 **THAT** the re-election of Li Ping as an executive director of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years until the annual general meeting of the Company for the year 2014 to be held in 2015;

   THAT any director of the Company be and is hereby authorized to sign on behalf of the Company the director's service contract with Li Ping, and **THAT** the Board be and is hereby authorized to determine his remuneration.

   4.2 **THAT** the re-election of Zheng Qibao as an executive director of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years until the annual general meeting of the Company for the year 2014 to be held in 2015;

   THAT any director of the Company be and is hereby authorized to sign on behalf of the Company the director's service contract with Zheng Qibao, and **THAT** the Board be and is hereby authorized to determine his remuneration.

   4.3 **THAT** the re-election of Yuan Jianxing as an executive director of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years until the annual general meeting of the Company for the year 2014 to be held in 2015;

   THAT any director of the Company be and is hereby authorized to sign on behalf of the Company the director's service contract with Yuan Jianxing, and **THAT** the Board be and is hereby authorized to determine his remuneration.

   4.4 **THAT** the re-election of Hou Rui as an executive director of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years until the annual general meeting of the Company for the year 2014 to be held in 2015;

   THAT any director of the Company be and is hereby authorized to sign on behalf of the Company the director's service contract with Hou Rui, and **THAT** the Board be and is hereby authorized to determine her remuneration.

4.5 **THAT** the re-election of Liu Aili as a non-executive director of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years until the annual general meeting of the Company for the year 2014 to be held in 2015;

THAT any director of the Company be and is hereby authorized to sign on behalf of the Company the director's service contract with Liu Aili, and **THAT** the Board be and is hereby authorized to determine his remuneration.

4.6 **THAT** the re-election of Zhang Junan as a non-executive director of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years until the annual general meeting of the Company for the year 2014 to be held in 2015;

THAT any director of the Company be and is hereby authorized to sign on behalf of the Company the director's service contract with Zhang Junan, and **THAT** the Board be and is hereby authorized to determine his remuneration.

4.7 **THAT** the re-election of Wang Jun as an independent non-executive director of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years until the annual general meeting of the Company for the year 2014 to be held in 2015;

THAT any director of the Company be and is hereby authorized to sign on behalf of the Company the director's service contract with Wang Jun, and **THAT** the Board be and is hereby authorized to determine his remuneration.

4.8 **THAT** the re-election of Chan Mo Po, Paul as an independent non-executive director of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years until the annual general meeting of the Company for the year 2014 to be held in 2015;

THAT any director of the Company be and is hereby authorized to sign on behalf of the Company the director's service contract with Chan Mo Po, Paul, and **THAT** the Board be and is hereby authorized to determine his remuneration.

4.9 **THAT** the re-election of Zhao Chunjun as an independent non-executive director of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years until the annual general meeting of the Company for the year 2014 to be held in 2015;

THAT any director of the Company be and is hereby authorized to sign on behalf of the Company the director's service contract with Zhao Chunjun, and **THAT** the Board be and is hereby authorized to determine his remuneration.

4.10 **THAT** the election of Wei Leping as an independent non-executive director of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years until the annual general meeting of the Company for the year 2014 to be held in 2015;

THAT any director of the Company be and is hereby authorized to sign on behalf of the Company the director's service contract with Wei Leping, and **THAT** the Board be and is hereby authorized to determine his remuneration.

4.11 **THAT** the election of Siu Wai Keung as an independent non-executive director of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years until the annual general meeting of the Company for the year 2014 to be held in 2015;

THAT any director of the Company be and is hereby authorized to sign on behalf of the Company the director's service contract with Siu Wai Keung, and **THAT** the Board be and is hereby authorized to determine his remuneration.

5. To consider and approve, by way of separate ordinary resolutions, each of the following resolutions in relation to the re-election of the members of the third session of the supervisory committee of the Company (supervisors who represent the shareholders):

5.1 **THAT** the re-election of Xia Jianghua as a supervisor of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years until the annual general meeting of the Company for the year 2014 to be held in 2015.

5.2 **THAT** the re-election of Hai Liancheng as a supervisor of the Company be and is hereby considered and approved, with effect from date of this resolution for a term of three years until the annual general meeting of the Company for the year 2014 to be held in 2015.

5.3 **THAT** any director of the Company be and is hereby authorized to sign on behalf of the Company the supervisor's service contract with each supervisor, and **THAT** the supervisory committee of the Company be and is hereby authorized to determine the supervisor's remuneration.

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

6. **THAT**:

(a) subject to paragraph (c) below, the exercise by the Board during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares of the Company 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 6:

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

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

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

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

"Rights Issue" means an offer of shares open for a period fixed by the Board to holders of shares on the register of members on a fixed record date in proportion of their then holdings of such shares (subject to such exclusion or other arrangements as the Board may deem necessary or expedient in relation to fractional entitlements or having regard to any legal or practical restrictions or obligations under the laws of, or the requirement of, any 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.

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

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

Beijing, PRC
19 April 2012

Notes:

(1) Buyers who submit the share transfer application forms to the Company's share registrar before 4:30 pm on 28 May 2012 (Monday) 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 2011, which is expected to be despatched to shareholders on around 19 April 2012 (Thursday).

(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 2012 (Thursday).

(6) Closure of the register of members:

(a) Annual General Meeting
The H share register of members of the Company will be closed, for the purpose of determining shareholders' entitlement to attend the Annual General Meeting, from Tuesday, 29 May 2012 to Thursday, 28 June 2012 (both days inclusive), during which period no transfer of H shares will be registered. In order to attend the Annual General Meeting, all share transfers, accompanied by the relevant share certificates, must be lodged for registration with Computershare Hong Kong Investor Services Limited at Rooms 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Monday, 28 May 2012. H share shareholders who are registered with Computershare Hong Kong Investor Services Limited on 28 June 2012 are entitled to attend the Annual General Meeting.

(b) Proposed Final Dividend
The Board proposes a final dividend of RMB0.1222 per share (pre-tax) for the year ended 31 December 2011. The dividend proposal will be submitted for consideration at the Annual General Meeting to be held on 28 June 2012. If such proposed dividend distribution is approved by the shareholders, the final dividend will be distributed to those shareholders whose names appear on the register of members of the Company on Monday, 16 July 2012. The register of members will be closed from Wednesday, 11 July 2012 to Monday, 16 July 2012 (both days inclusive). In order to be entitled to the final dividend, H shares shareholders who have not registered the transfer documents are required to deposit the transfer documents together with the relevant share certificates at Computershare Hong Kong Investor Services Limited, at Rooms 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong at or before 4:30 p.m. on Tuesday, 10 July 2012.

(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 99 to 174, which comprise the consolidated and company balance sheets as at 31 December 2011, 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 consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards 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 consolidated financial statements based on our audit. This report is made solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended 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

29 March 2012

Consolidated Income Statement

For the year ended 31 December 2011
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000 (Restated)
Revenues	4	**53,507,397**	45,417,232
Cost of revenues	5	**(44,998,318)**	(38,023,890)
Gross profit		**8,509,079**	7,393,342
Other operating income	6	**657,871**	629,685
Selling, general and administrative expenses		**(6,401,096)**	(5,637,139)
Other operating expenses	7	**(62,879)**	(70,920)
Finance costs	8	**(60,311)**	(57,732)
Share of (losses)/profits of associates		**(2,600)**	3,126
Profit before tax	9	**2,640,064**	2,260,362
Income tax	10	**(534,192)**	(458,023)
Profit for the year		**2,105,872**	1,802,339
Attributable to:			
Equity shareholders of the Company		**2,114,863**	1,803,753
Non-controlling interests		**(8,991)**	(1,414)
Profit for the year		**2,105,872**	1,802,339
Basic and diluted earnings per share (RMB)	16	**0.366**	0.313

The notes on pages 108 to 174 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 2011
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000 (Restated)
Profit for the year		**2,105,872**	1,802,339
Other comprehensive income for the year (after tax)			
Exchange differences on translation of financial statements of subsidiaries outside Mainland China		**(3,425)**	608
Available-for-sale securities: net movement in the fair value reserve	11	**(18,305)**	(17,034)
		(21,730)	(16,426)
Total comprehensive income for the year		**2,084,142**	1,785,913
Attributable to:			
Equity shareholders of the Company		**2,093,133**	1,787,327
Non-controlling interests		**(8,991)**	(1,414)
Total comprehensive income for the year		**2,084,142**	1,785,913

The notes on pages 108 to 174 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2011
(Expressed in Renminbi)

	Note	31 December 2011 RMB'000	31 December 2010 RMB'000 (Restated)	1 January 2010 RMB'000 (Restated)
Non-current assets				
Property, plant and equipment, net	17	**3,929,111**	3,884,946	3,768,044
Investment properties	18	**729,045**	732,491	728,325
Construction in progress	19	**227,858**	154,234	73,334
Lease prepayments	20	**935,659**	924,884	948,384
Goodwill	21	**103,005**	103,005	103,005
Other intangible assets	22	**144,109**	150,095	148,502
Interest in associates	24	**62,661**	61,433	12,960
Other investments	25	**663,116**	694,912	428,284
Deferred tax assets	26	**195,976**	150,531	83,722
Other non-current assets	27	**28,876**	–	–
Total non-current assets		**7,019,416**	6,856,531	6,294,560
Current assets				
Inventories	28	**1,692,638**	1,833,186	1,659,626
Accounts and bills receivable, net	29	**17,257,870**	12,887,557	10,467,689
Prepayments and other current assets	31	**4,608,480**	3,967,876	3,140,398
Restricted deposits	32	**320,039**	269,099	160,525
Cash and cash equivalents	33	**7,298,232**	8,470,249	8,870,424
Total current assets		**31,177,259**	27,427,967	24,298,662
Total assets		**38,196,675**	34,284,498	30,593,222
Current liabilities				
Interest-bearing borrowings	34	**998,335**	1,780,523	1,268,280
Accounts and bills payable	35	**12,728,882**	9,768,792	8,844,718
Receipts in advance for contract work		**1,150,095**	1,083,587	1,088,327
Accrued expenses and other payables	36	**6,807,175**	6,564,306	5,553,079
Income tax payable		**303,720**	284,941	194,701
Total current liabilities		**21,988,207**	19,482,149	16,949,105
Net current assets		**9,189,052**	7,945,818	7,349,557
Total assets less current liabilities		**16,208,468**	14,802,349	13,644,117

The notes on pages 108 to 174 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2011
(Expressed in Renminbi)

	Note	31 December 2011 RMB'000	31 December 2010 RMB'000 (Restated)	1 January 2010 RMB'000 (Restated)
Non-current liabilities				
Other non-current liabilities	37	**60,156**	–	–
Deferred tax liabilities	26	**23,485**	53,101	57,281
Total non-current liabilities		**83,641**	53,101	57,281
Total liabilities		**22,071,848**	19,535,250	17,006,386
Equity				
Share capital	38	**5,771,682**	5,771,682	5,771,682
Reserves		**10,231,885**	8,844,932	7,706,776
Equity attributable to equity shareholders of the Company		**16,003,567**	14,616,614	13,478,458
Non-controlling interests		**121,260**	132,634	108,378
Total equity		**16,124,827**	14,749,248	13,586,836
Total liabilities and equity		**38,196,675**	34,284,498	30,593,222

Approved and authorised for issue by the Board of Directors on 29 March 2012.

Li Ping
Chairman

Hou Rui
Executive Vice President and Chief Finance Officer, Director

The notes on pages 108 to 174 form part of these financial statements.

Balance Sheet

At 31 December 2011
(Expressed in Renminbi)

	Note	31 December 2011 RMB'000	31 December 2010 RMB'000 (Restated)	1 January 2010 RMB'000 (Restated)
Non-current assets				
Property, plant and equipment, net	17	**11,633**	4,190	4,809
Construction in progress	19	**5,489**	11,759	1,580
Other intangible assets	22	**8,273**	2,633	3,527
Interest in associates	24	**1,059**	–	–
Investments in subsidiaries	23	**11,464,867**	11,481,374	11,237,865
Total non-current assets		**11,491,321**	11,499,956	11,247,781
Current assets				
Prepayments and other current assets	31	**1,308,317**	1,233,753	1,577,116
Restricted deposits	32	**100,000**	–	–
Cash and cash equivalents	33	**128,326**	681,258	422,232
Total current assets		**1,536,643**	1,915,011	1,999,348
Total assets		**13,027,964**	13,414,967	13,247,129
Current liabilities				
Interest-bearing borrowings	34	**800,000**	1,500,000	1,000,000
Accrued expenses and other payables	36	**100,154**	83,385	645,460
Total current liabilities		**900,154**	1,583,385	1,645,460
Net current assets		**636,489**	331,626	353,888
Total assets less current liabilities		**12,127,810**	11,831,582	11,601,669
Total liabilities		**900,154**	1,583,385	1,645,460
Equity				
Share capital	38	**5,771,682**	5,771,682	5,771,682
Reserves	47	**6,356,128**	6,059,900	5,829,987
Total equity		**12,127,810**	11,831,582	11,601,669
Total liabilities and equity		**13,027,964**	13,414,967	13,247,129

Approved and authorised for issue by the Board of Directors on 29 March 2012.

Li Ping
Chairman

Hou Rui
Executive Vice President and Chief Finance Officer, Director

The notes on pages 108 to 174 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011
(Expressed in Renminbi)

		Equity attributable to equity shareholders of the Company											
	Note	Share capital RMB'000	Share premium (note a) RMB'000	Capital reserve (note b) RMB'000	Revaluation reserve (note c) RMB'000	Statutory surplus reserve (note d) RMB'000	Fair value reserve (note e) RMB'000	Exchange reserve (note f) RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non–controlling interests RMB'000	Total equity RMB'000
Balance as at 1 January 2011 as previously reported		**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**
Change in accounting policy	3	**–**	**–**	**913,847**	**(415,557)**	**–**	**–**	**–**	**(85,205)**	**(17,513)**	**395,572**	**(168)**	**395,404**
Balance as at 1 January 2011 as adjusted		**5,771,682**	**2,727,647**	**1,846,468**	**–**	**326,318**	**40,959**	**(6,164)**	**(27,396)**	**3,937,100**	**14,616,614**	**132,634**	**14,749,248**
Changes in equity for the year ended 31 December 2011													
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,114,863**	**2,114,863**	**(8,991)**	**2,105,872**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**(18,305)**	**(3,425)**	**–**	**–**	**(21,730)**	**–**	**(21,730)**
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**(18,305)**	**(3,425)**	**–**	**2,114,863**	**2,093,133**	**(8,991)**	**2,084,142**
Capital injection by a non-controlling owner to a subsidiary		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**20,000**	**20,000**
Acquisition of non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(460)**	**–**	**(460)**	**(3,769)**	**(4,229)**
Dividend declared	15(b)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(727,232)**	**(727,232)**	**–**	**(727,232)**
Distribution to non-controlling owners		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(18,614)**	**(18,614)**
Appropriation		**–**	**–**	**–**	**–**	**102,389**	**–**	**–**	**–**	**(102,389)**	**–**	**–**	**–**
Others		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**21,512**	**–**	**21,512**	**–**	**21,512**
Balance as at 31 December 2011		**5,771,682**	**2,727,647**	**1,846,468**	**–**	**428,707**	**22,654**	**(9,589)**	**(6,344)**	**5,222,342**	**16,003,567**	**121,260**	**16,124,827**
Balance as at 1 January 2010 as previously reported		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
Change in accounting policy	3	–	–	913,847	(415,557)	–	–	–	(85,057)	(3,461)	409,772	(168)	409,604
Balance as at 1 January 2010 as adjusted		5,771,682	2,727,647	1,846,468	–	239,377	57,993	(6,772)	(17,727)	2,859,790	13,478,458	108,378	13,586,836
Changes in equity for the year ended 31 December 2010													
Profit for the year		–	–	–	–	–	–	–	–	1,803,753	1,803,753	(1,414)	1,802,339
Other comprehensive income		–	–	–	–	–	(17,034)	608	–	–	(16,426)	–	(16,426)
Total comprehensive income		–	–	–	–	–	(17,034)	608	–	1,803,753	1,787,327	(1,414)	1,785,913
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	1,846,468	–	326,318	40,959	(6,164)	(27,396)	3,937,100	14,616,614	132,634	14,749,248

The notes on pages 108 to 174 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011
(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 Telecommunications Corporation ("CTC"), Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation upon the formation of the Company. Then, the capital reserve was net off by the difference between the consideration for the acquisition of Target Business and the net assets value of the Target Business in 2007 and subsequent common control acquisitions net balances. As a result of the adoption of amendment to IFRS 1, the capital reserve has been restated (see note 3(ii)).

(c) Revaluation reserve

As required by the relevant PRC rules and regulations with respect to the Restructuring and the acquisition of the Target Business, revaluations were carried out by independent valuers registered in the PRC, on a depreciated replacement cost basis. The revaluation reserve represents the surpluses arising from these valuations of the Group's assets amounting to RMB294 million and RMB121 million in respect of the Restructuring and the acquisition of the Target Business, respectively, which have been credited to owner's equity. As a result of the adoption of amendment to IFRS 1, the revaluation reserve has been reversed (see note 3(ii)).

(d) 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 2011, the Company transferred RMB102 million being 10% of the current year's net profit as determined in accordance with the PRC Accounting Rules and Regulations, to this reserve.

(e) Fair value reserve

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

(f) Exchange reserve

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

The notes on pages 108 to 174 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2011
(Expressed in Renminbi)

	Note	2011 RMB'000	2010 RMB'000 (Restated)
Operating activities			
Profit before tax		**2,640,064**	2,260,362
Adjustments for:			
– Depreciation and amortisation		**677,944**	638,254
– Impairment losses on accounts and bills receivable and other receivables		**99,378**	115,807
– Impairment losses on property, plantand equipment and other intangible assets		**5,757**	9,614
– Impairment losses on inventories		**17,157**	4,587
– Interest income		**(84,378)**	(77,734)
– Finance costs		**60,311**	57,732
– Share of losses/(profits) of associates		**2,600**	(3,126)
– Dividend income		**(43,227)**	(28,816)
– Gain on disposal of investments		**(42,311)**	(54,841)
– Gain on disposal of property, plant and equipment and other assets		**(30,255)**	(2,373)
– Impairment loss on other investments		**–**	4,926
– Exchange differences		**13,282**	9,788
– Write-back of non-payable liabilities		**(11,282)**	(11,799)
Operating profit before changes inworking capital		**3,305,040**	2,922,381
Increase in inventories		**(300,971)**	(171,210)
Increase in accounts and bills receivable		**(4,477,759)**	(2,500,741)
Increase in prepayments and other current assets		**(705,072)**	(1,049,038)
Increase in accounts and billspayable		**3,053,732**	917,807
Increase/(decrease) in receipts in advance forcontract work		**66,510**	(4,740)
Increase in accrued expenses and other payables		**811,703**	1,830,346
Net cash inflow from operations		**1,753,183**	1,944,805
Interest paid		**(59,236)**	(56,824)
Interest received		**88,729**	75,678
Income tax paid		**(559,034)**	(437,247)
Cash generated from operating activities		**1,223,642**	1,526,412

The notes on pages 108 to 174 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2011
(Expressed in Renminbi)

	Note	**2011 RMB'000**	2010 RMB'000 (Restated)
Investing activities			
Payments for purchase of property, plant and equipment and other assets		**(916,016)**	(819,923)
Proceeds from disposal of property, plant and equipment and other assets		**37,925**	26,913
Net cash inflow arising from acquisition of subsidiaries		**–**	2,532
Payments for acquisition of investments		**(113,294)**	(298,464)
Payments for acquisition of non-controlling interests		**–**	(41,096)
Payments for associate		**–**	(45,347)
Proceeds from disposal of investments	41(i)	**78,105**	63,325
Dividends received		**52,739**	56,696
Net cash used in investing activities		**(860,541)**	(1,055,364)
Financing activities			
Proceeds from bank and other loans		**1,411,038**	1,723,994
Repayments of bank and other loans		**(2,165,486)**	(1,356,505)
Dividends paid		**(787,388)**	(1,297,868)
Contribution from non-controlling owners to subsidiaries		**20,000**	69,276
Net cash used in financing activities		**(1,521,836)**	(861,103)
Net decrease in cash and cash equivalents		**(1,158,735)**	(390,055)
Cash and cash equivalents at the beginning of year		**8,470,249**	8,870,424
Effect of foreign exchange rate changes		**(13,282)**	(10,120)
Cash and cash equivalents at the end of year	33	**7,298,232**	8,470,249

The notes on pages 108 to 174 form part of these financial statements.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

1 Principal activities and organisation

(a) Principal activities

China Communications Services Corporation Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") is a leading integrated service provider to the telecommunications industry 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.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

1 Principal activities and organisation (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.

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

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 2011 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:

– 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, except for the changes in accounting policies set out in note 3.

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

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

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

(c) Basis of consolidation

(i) Business combinations involving enterprises under common control

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

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(c) Basis of consolidation (continued)

(ii) Business combinations involving entities not under common control

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

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

(iii) Subsidiaries and non-controlling interests

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

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

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

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

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

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

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

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(c) Basis of consolidation (continued)

(iv) Associates

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

Investments in associates are accounted for in the consolidated financial statements under the equity method, 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.

(d) Goodwill

Goodwill represents the excess of

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

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

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

Goodwill is 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.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(e) Other investments in debt and equity securities

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

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

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

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

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

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

(f) Investment properties

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

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

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

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

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(g) Property, plant and equipment

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

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

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

Buildings	20–30 years
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.

(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.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (continued)

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

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.

(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.

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)

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 these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

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

  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.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(l) Impairment of assets (continued)

(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).

– 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.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(l) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– 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.

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

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(o) Trade and other receivables

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

(p) Interest-bearing borrowings

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

(q) Trade and other payables

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

(r) Cash and cash equivalents

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

(s) Derivative financial instruments

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

(t) Employee benefits

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

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

(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 40.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(t) Employee benefits (continued)

(iii) Termination benefits

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

(u) Income tax

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

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

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

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

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

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

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

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(u) Income tax (continued)

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

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

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

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

  – the same taxable entity; or

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

(v) Provisions and contingent liabilities

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

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

(w) Revenue recognition

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

(i) Contract revenue

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

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

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

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.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(y) Translation of foreign currencies

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

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into RMB at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised 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 segment information is provided (see note 46).

(bb) Dividends or profit distributions

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

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(cc) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

3 Changes in accounting policies

The IASB has issued a number of amendments to IFRSs and one new Interpretation that are effective for accounting period beginning on or after 1 January 2011. Of these, the following developments are relevant to the Group's financial statements:

– IAS 24 (revised 2009), "Related Party Disclosures"

– Improvements to IFRSs (2010)

The Group has not yet applied any new and revised standard or interpretation that is not yet effective for the current accounting period (Note 48).

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

3 Changes in accounting policies (continued)

(i) IAS 24 (revised 2009), "Related Party Disclosures"

IAS 24 (revised 2009), "Related Party Disclosures" revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous periods. The revised standard also provides limited relief from disclosure of information by government-related entities in respect of transactions with the government to which the Group is related or transactions with other entities related to the same government. As such, the adoption of IAS 24 (revised 2009), "Related Party Disclosures" has resulted in a change in the disclosures for the related party transactions with government-related entities in the financial statements.

(ii) Improvements to IFRSs (2010)

The Improvements to IFRSs (2010) omnibus standard introduces an amendment to IFRS 1, First-time adoption of International Financial Reporting Standards. In the amendment to IFRS 1, a first-time adopter of IFRSs is allowed to use an event-driven fair value measurement as deemed cost for some or all of its assets and liabilities, even when the measurement date is after the IFRS transition date, provided that the measurement date is during the period covered by the entity's first IFRS financial statements. This amendment can be adopted retrospectively by existing IFRS reporters at the latest in the annual period beginning on or after 1 January 2011.

The accounting periods covered by the first IFRS financial statements of the Predecessor Operations and the acquisition of Target Business are from 1 January 2004 to 31 December 2006 and from 1 January 2005 to 31 December 2007, respectively. During the Restructuring and the acquisition of Target Business, as required by the applicable laws and regulations of the PRC, the Group's financial statements prepared under Accounting Standards for Business Enterprises and other relevant rules (collectively "PRC GAAP"), accounted for property, plant and equipment, investment properties, lease prepayments, other intangible assets and other investments at deemed cost based on the valuations performed by China United Assets Appraisals Co., Ltd. as at 31 March 2006, 30 April 2006 and 31 January 2007 respectively. As the valuations were performed as at a date later than the respective dates of transition to IFRSs, the Group was not permitted at that time to adopt these valuations as deemed cost for the respective IFRS financial statements and instead adopted the following IFRS accounting policies:

– property, plant and equipment were recognised at the carrying amounts determined in accordance with IAS 16 at the respective dates of transition to IFRS and subsequently carried at revalued amount, being its fair value at the dates of revaluation; and

– investment properties, lease prepayments, other intangible assets and other investments were recognised at historical cost and therefore, the related revaluation gains arising from the revaluations in 2006 and 2007 as mentioned above were not recognised.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

3 Changes in accounting policies (continued)

(ii) Improvements to IFRSs (2010) (continued)

As a result of the amendment to IFRS 1, the Group has:

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

– changed its accounting policy for property, plant and equipment from the revaluation model to the cost model. The revaluation surplus and deficit related to the revaluation performed in 2006 and 2007, has also been adjusted retrospectively. This change is to align the Group's accounting policy with industry peers to provide more relevant financial information to the users of the Group's consolidated financial statements and to eliminate the differences between the Group's financial statements under IFRS and those under PRC GAAP.

The following table summarises the retrospective adjustments that have been made in accordance with amendment to IFRS 1 to each of the line items in the financial statements:

	31 December 2010 RMB'000	1 January 2010 RMB'000
Increase/(decrease) on items of consolidated balance sheet		
Assets		
Property, plant and equipment	**(140,633)**	(144,677)
Investment properties	**36,475**	42,366
Lease prepayments	**454,749**	466,697
Other intangible assets	**(1,895)**	49
Other investments	**123,511**	123,511
Deferred tax assets	**(55,291)**	(56,830)
Liabilities		
Deferred tax liabilities	**21,512**	21,512
Equity		
Capital reserve	**913,847**	913,847
Other reserve	**(85,205)**	(85,057)
Revaluation reserve	**(415,557)**	(415,557)
Retained earnings	**(17,513)**	(3,461)
Non-controlling interests	**(168)**	(168)
Increase on items of balance sheet		
Assets		
Investments in subsidiaries	**1,011,229**	1,011,229
Equity		
Capital reserve	**1,011,229**	1,011,229

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

3 Changes in accounting policies (continued)

(ii) Improvements to IFRSs (2010) (continued)

	2011 RMB'000	2010 RMB'000
Increase/(decrease) on items of consolidated statement of comprehensive income		
Depreciation and amortisation	**15,738**	15,738
Income tax	**(1,688)**	(1,688)
Total comprehensive income	**(14,050)**	(14,200)
Basic earnings per share for profit attributable to equity shareholders of the Company (RMB)	**(0.002)**	(0.002)

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:

	2011 RMB'000	2010 RMB'000
Revenues from telecommunications infrastructure services	**25,114,962**	21,636,545
Revenues from business process outsourcing services	**22,315,339**	18,508,424
Revenues from applications, content and other services	**6,077,096**	5,272,263
	53,507,397	45,417,232

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 2011 amount to RMB22,956 million and RMB9,049 million respectively (2010: RMB19,925 million and RMB7,495 million respectively), being 42.9% and 16.9% of the Group's total revenues respectively (2010: 43.9% and 16.5% respectively). In addition, the revenues derived from areas outside Mainland China for the year ended 31 December 2011 amounts to RMB3,471 million (2010: RMB2,225 million).

5 Cost of revenues

	2011 RMB'000	2010 RMB'000 (Restated)
Depreciation and amortisation	**393,152**	364,743
Direct personnel costs	**8,473,657**	7,459,665
Operating lease charges	**860,538**	728,764
Purchase of materials and telecommunications products	**16,195,976**	13,506,740
Subcontracting charges	**14,525,988**	11,883,574
Others	**4,549,007**	4,080,404
	44,998,318	38,023,890

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

6 Other operating income

	2011 RMB'000	2010 RMB'000
Interest income	**84,378**	77,734
Dividend income from unlisted securities	**43,227**	28,816
Government grants	**113,405**	121,008
Gain on disposal of investments	**42,311**	54,841
Gain on disposal of property, plant and equipment and other assets	**39,442**	8,315
Penalty income	**1,424**	6,547
Management fee income	**309,211**	285,915
Write-back of non-payable liabilities	**11,282**	11,799
Others	**13,191**	34,710
	657,871	629,685

7 Other operating expenses

	2011 RMB'000	2010 RMB'000
Impairment losses on property, plant and equipment	**–**	34
Impairment loss on other intangible assets	**5,757**	9,580
Impairment loss on other investments	**–**	4,926
Loss on disposal of property, plant and equipment/other intangible assets	**9,187**	5,942
Donations	**757**	1,332
Penalty charge	**7,484**	5,550
Net foreign exchange loss	**13,282**	9,788
Others	**26,412**	33,768
	62,879	70,920

8 Finance costs

	2011 RMB'000	2010 RMB'000
Interest on bank advances and other borrowings wholly repayable within five years	**60,311**	57,732

For the years ended 31 December 2011 and 2010, no borrowing costs were capitalised in relation to construction in progress.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

9 Profit before tax

		2011 RMB'000	2010 RMB'000 (Restated)
(a)	Staff costs:		
	Salaries, wages and other benefits	**11,374,110**	10,003,237
	Contributions to defined contribution retirement schemes	**915,830**	807,293
		12,289,940	10,810,530
(b)	Other items:		
	Depreciation		
	– Property, plant and equipment (note 17)	**571,013**	534,404
	– Investment properties (note 18)	**38,869**	37,195
	Amortisation		
	– Lease prepayments (note 20)	**28,939**	22,390
	– Other intangible assets (note 22)	**44,168**	44,265
	Auditors' remuneration	**42,150**	38,000
	Cost of inventories	**15,519,709**	13,496,980
	Impairment losses on accounts and bills and other receivables	**139,253**	141,686
	Reversal of impairment losses on accounts and bills and other receivables	**(40,076)**	(25,879)
	Operating lease charges	**1,047,786**	891,699
	Research and development costs	**841,038**	514,413
	Share of associates' taxation	**446**	552

Research and development costs include RMB702 million (2010: RMB418 million) 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:

	2011 RMB'000	2010 RMB'000 (Restated)
Current tax		
PRC enterprise income tax	**564,612**	523,562
Overseas enterprise income tax	**17,026**	4,058
Deferred tax		
Origination and reversal of temporary differences (note 26)	**(47,446)**	(69,597)
Total income tax	**534,192**	458,023

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

10 Income tax (continued)

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

	2011 RMB'000	2010 RMB'000 (Restated)
Profit before tax	**2,640,064**	2,260,362
Expected income tax expense at a statutory tax rate of 25% (2010: 25%) (note (i))	**660,016**	565,091
Differential tax rates on subsidiaries' income (note (i))	**(181,472)**	(163,099)
Non-deductible expenses (note (ii))	**52,229**	49,399
Non-taxable income	**(28,224)**	(13,154)
Tax losses not recognised	**39,402**	28,292
Utilisation of previously unrecognised tax losses	**(5,413)**	(9,705)
Effect on opening deferred tax resulting from a reduction in PRC statutory tax rate (note (iii))	**(2,346)**	1,199
Income tax	**534,192**	458,023

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 2011 and for the year ended 31 December 2010, except for certain subsidiaries of the Group, which are taxed at preferential rates of 15% or 24%.

(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 2011 and 2010 represent the tax effect on opening balances of deferred tax assets arising from the change in the enterprise income tax rate applicable to certain subsidiaries due to changes in preferential tax qualification during the years concerned. The deferred tax assets were remeasured for the change in applicable tax rates.

11 Other comprehensive income

Available-for-sale securities

	2011 RMB'000	2010 RMB'000
Changes in fair value recognised during the period	**(24,408)**	(18,426)
Net deferred tax credited to other comprehensive income	**6,103**	1,392
Net movement in the fair value reserve during the period recognised in other comprehensive income	**(18,305)**	(17,034)

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(Expressed in Renminbi)

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 2011 are as follows:

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

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

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

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(Expressed in Renminbi)

13 Individuals with highest emoluments

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

	2011	2010
Directors and supervisors	–	–
Non-director and non-supervisor employees	5	5
	5	5

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

	2011 RMB'000	2010 RMB'000
Salaries, allowances and other benefits in kind	862	843
Bonuses	3,032	2,859
Pension scheme contributions	416	378
	4,310	4,080

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

	2011	2010
HK$ equivalent		
Nil to 1,000,000	3	5
1,000,001 to 1,500,000	2	–

14 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB1,024 million (2010: RMB869 million) which has been dealt with in the financial statements of the Company.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

15 Dividends

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

	2011 RMB'000	2010 RMB'000
Final dividend proposed after the balance sheet date RMB0.1222 per share[(i)] (2010: RMB0.1260 per share)	**846,359**	727,232

(i) Calculated on the basis of the total share capital of the Company after the rights issue on 8 February 2012 (see note 49).

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

	2011 RMB'000	2010 RMB'000
Final dividend in respect of the financial year ended 31 December 2010, approved during the year, of RMB0.1260 per share (2009: RMB0.1108 per share)	**727,232**	639,502

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 2011 of RMB2,114,863 thousand (2010 restated: RMB1,803,753 thousand) and the number of shares in issue during the year ended 31 December 2011 of 5,771,682 thousand shares (2010: 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.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

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 deemed cost:					
As at 1 January 2011	2,908,213	294,670	1,148,141	2,065,022	6,416,046
Change in accounting policy (note 3)	(98,218)	2,522	49,170	22,510	(24,016)
As at 1 January 2011, as restated	2,809,995	297,192	1,197,311	2,087,532	6,392,030
Transfer to investment properties (note 18)	(55,628)	–	–	–	(55,628)
Transfer from investment properties (note 18)	15,397	–	–	–	15,397
Transfer from construction in progress (note 19)	86,847	13,346	–	18,210	118,403
Additions	13,447	28,944	219,901	361,386	623,678
Disposals	(1,984)	(17,473)	(51,275)	(190,406)	(261,138)
Disposal of subsidiaries	(48,727)	(550)	(5,597)	(11,292)	(66,166)
As at 31 December 2011	2,819,347	321,459	1,360,340	2,265,430	6,766,576
Accumulated depreciation and impairment losses:					
As at 1 January 2011	455,931	201,788	583,318	1,149,430	2,390,467
Change in accounting policy (note 3)	61,863	(8,709)	39,895	23,568	116,617
As at 1 January 2011, as restated	517,794	193,079	623,213	1,172,998	2,507,084
Transfer to investment properties (note 18)	(19,073)	–	–	–	(19,073)
Transfer from investment properties (note 18)	4,747	–	–	–	4,747
Depreciation charge	124,533	28,481	126,396	291,603	571,013
Written back on disposal	(516)	(7,792)	(44,187)	(157,976)	(210,471)
Disposal of subsidiaries	(9,607)	–	(414)	(5,728)	(15,749)
Impairment loss	–	–	(52)	(34)	(86)
As at 31 December 2011	617,878	213,768	704,956	1,300,863	2,837,465
Net carrying value:					
As at 31 December 2011	2,201,469	107,691	655,384	964,567	3,929,111
As at 1 January 2011, as restated	2,292,201	104,113	574,098	914,534	3,884,946

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(Expressed in Renminbi)

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 deemed cost:					
As at 1 January 2010 as previously reported	2,822,692	244,332	999,386	1,857,002	5,923,412
Change in accounting policy (note 3)	(99,053)	2,522	49,170	22,510	(24,851)
As at 1 January 2010, as restated	2,723,639	246,854	1,048,556	1,879,512	5,898,561
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	30,864	29,302	191,748	310,044	561,958
Disposals	(2,274)	(6,945)	(42,993)	(119,968)	(172,180)
As at 31 December 2010, as restated	2,809,995	297,192	1,197,311	2,087,532	6,392,030
Accumulated depreciation and impairment losses:					
As at 1 January 2010 as previously reported	340,219	182,805	506,393	981,274	2,010,691
Change in accounting policy (note 3)	65,092	(8,487)	39,934	23,287	119,826
As at 1 January 2010, as restated	405,311	174,318	546,327	1,004,561	2,130,517
Transfer to investment properties (note 18)	(11,014)	–	–	–	(11,014)
Transfer from investment properties (note 18)	10,566	–	–	–	10,566
Depreciation charge	113,154	24,706	116,069	280,475	534,404
Written back on disposal	(223)	(5,945)	(39,183)	(112,072)	(157,423)
Impairment loss	–	–	–	34	34
As at 31 December 2010, as restated	517,794	193,079	623,213	1,172,998	2,507,084
Net carrying value:					
As at 31 December 2010, as restated	2,292,201	104,113	574,098	914,534	3,884,946
As at 1 January 2010, as restated	2,318,328	72,536	502,229	874,951	3,768,044

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

17 Property, plant and equipment, net (continued)

The Company

	Furniture, fixtures and other equipment RMB'000
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
Cost:	
As at 1 January 2011	**5,308**
Additions	**1,959**
Transfer from construction in progress (note 19)	**7,126**
As at 31 December 2011	**14,393**
Accumulated depreciation:	
As at 1 January 2011	**1,118**
Charge for the year	**1,642**
As at 31 December 2011	**2,760**
Net carrying value:	
As at 31 December 2011	**11,633**
As at 31 December 2010	**4,190**
As at 1 January 2010	**4,809**

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

(b) As at 31 December 2011, certain banking facilities of the Group were secured by property, plant and equipment with carrying amount of RMB6 million (2010: RMB7 million).

(c) Up to the date of issue of these financial statements, the Group is still in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB275 million as at 31 December 2011 (2010: RMB270 million). The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

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18 Investment properties

	The Group	
	2011 RMB'000	2010 RMB'000 (Restated)
Cost or deemed cost:		
As at 1 January as previously reported	**873,600**	832,547
Change in accounting policy (note 3)	**53,127**	53,127
As at 1 January, as restated	**926,727**	885,674
Transfer from property, plant and equipment (note 17)	**55,628**	77,876
Transfer to property, plant and equipment (note 17)	**(15,397)**	(30,251)
Transfer to lease prepayments (note 20)	**–**	(690)
Additions	**9,518**	1,079
Disposals	**–**	(6,961)
As at 31 December, as restated	**976,476**	926,727
Accumulated depreciation:		
As at 1 January as previously reported	**177,584**	146,588
Change in accounting policy (note 3)	**16,652**	10,761
As at 1 January, as restated	**194,236**	157,349
Transfer from property, plant and equipment (note 17)	**19,073**	11,014
Transfer to property, plant and equipment (note 17)	**(4,747)**	(10,566)
Transfer to lease prepayments (note 20)	**–**	(55)
Depreciation charge	**38,869**	37,195
Disposals	**–**	(701)
As at 31 December, as restated	**247,431**	194,236
Net carrying value:		
As at 31 December, as restated	**729,045**	732,491
As at 1 January, as restated	**732,491**	728,325
Fair value	**1,200,048**	878,684

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

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18 Investment properties (continued)

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

	The Group	
	2011 RMB'000	2010 RMB'000
Within 1 year	**94,138**	51,106
After 1 year but within 5 years	**128,953**	88,605
After 5 years	**11,944**	22,637
	235,035	162,348

During the year ended 31 December 2011, RMB104 million (2010: RMB69 million) has been recognised as rental income in the consolidated income statement and RMB30 million (2010: RMB22 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 RMB56 million as at 31 December 2011 (2010: RMB66 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	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Cost:				
As at 1 January	**154,234**	73,334	**11,759**	1,580
Additions	**192,191**	232,216	**856**	10,321
Disposals	**(164)**	–	**–**	–
Transfer to property, plant and equipment (note 17)	**(118,403)**	(151,316)	**(7,126)**	(142)
As at 31 December	**227,858**	154,234	**5,489**	11,759

Notes To The Consolidated Financial Statements

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20 Lease prepayments

	The Group	
	2011 RMB'000	2010 RMB'000 (Restated)
Cost or deemed cost:		
As at 1 January as previously reported	**513,915**	514,226
Change in accounting policy (note 3)	**500,312**	501,146
As at 1 January, as restated	**1,014,227**	1,015,372
Additions	**39,714**	–
Disposals	**–**	(1,835)
Transfer from investment properties (note 18)	**–**	690
As at 31 December, as restated	**1,053,941**	1,014,227
Accumulated depreciation:		
As at 1 January	**43,780**	32,539
Change in accounting policy (note 3)	**45,563**	34,449
As at 1 January, as restated	**89,343**	66,988
Amortisation charge	**28,939**	22,390
Written back on disposal	**–**	(90)
Transfer from investment properties (note 18)	**–**	55
As at 31 December, as restated	**118,282**	89,343
Net carrying value:		
As at 31 December, as restated	**935,659**	924,884
As at 1 January, as restated	**924,884**	948,384

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 16 to 68 years as at 31 December 2011.

21 Goodwill

	2011 RMB'000	2010 RMB'000
Cost and carrying amount	**103,005**	103,005

	2011 RMB'000	2010 RMB'000
Impairment tests for cash-generating units containing goodwill		
China International Telecommunications Construction Corporation ("CITCC")	**103,005**	103,005

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(Expressed in Renminbi)

21 Goodwill (continued)

The recoverable amounts of goodwill arising from the acquisition of CITCC are determined based on value in use calculation. The calculation use cash flow projection based on financial budget approved by management covering a one-year period and pre-tax discount rates is 12.3%.

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	
	2011 RMB'000	2010 RMB'000 (Restated)	**2011 RMB'000**	2010 RMB'000
Cost or deemed cost:				
As at 1 January as previously reported	**305,089**	257,945	**6,894**	5,977
Change in accounting policy (note 3)	**1,278**	1,278	**–**	–
As at 1 January, as restated	**306,367**	259,223	**6,894**	5,977
Additions	**60,637**	57,637	**6,860**	917
Disposals	**(17,047)**	(10,493)	**–**	–
Disposal of subsidiaries	**(8,483)**	–	**–**	–
As at 31 December, as restated	**341,474**	306,367	**13,754**	6,894
Accumulated amortisation:				
As at 1 January as previously reported	**153,099**	109,492	**4,261**	2,450
Change in accounting policy (note 3)	**3,173**	1,229	**–**	–
As at 1 January, as restated	**156,272**	110,721	**4,261**	2,450
Amortisation charge	**44,168**	44,265	**1,220**	1,811
Written back on disposal	**(5,466)**	(8,294)	**–**	–
Disposal of subsidiaries	**(3,366)**	–	**–**	–
Impairment loss	**5,757**	9,580	**–**	–
As at 31 December, as restated	**197,365**	156,272	**5,481**	4,261
Net carrying value:				
As at 31 December, as restated	**144,109**	150,095	**8,273**	2,633
As at 1 January, as restated	**150,095**	148,502	**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		
	31 December 2011 RMB'000	31 December 2010 RMB'000 (Restated)	1 January 2010 RMB'000 (Restated)
Unlisted investments, at cost	**11,464,867**	11,481,374	11,237,865

The following list contains only the particulars of subsidiaries at 31 December 2011 which principally affected the results, assets or liabilities of the Group.

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

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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
Anhui Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB420 million	Provision of integrated telecommunications support services through its subsidiaries in Anhui Province
Jiangxi Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB200 million	Provision of integrated telecommunications support services through its subsidiaries in Jiangxi Province
Hunan Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB886 million	Provision of integrated telecommunications support services through its subsidiaries in Hunan Province
Guangxi Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB192 million	Provision of integrated telecommunications support services through its subsidiaries in Guangxi Zhuang Autonomous Region
Chongqing Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB209 million	Provision of integrated telecommunications support services through its subsidiaries in Chongqing Municipality
Sichuan Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB798 million	Provision of integrated telecommunications support services through its subsidiaries in Sichuan Province
Guizhou Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB139 million	Provision of integrated telecommunications support services through its subsidiaries in Guizhou Province
Yunnan Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB238 million	Provision of integrated telecommunications support services through its subsidiaries in Yunnan Province

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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
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 Telecommunication Construction Corporation	Limited Liability Company	The PRC	100	–	RMB417 million	Provision of integrated telecommunications support services through its subsidiaries in Northern China Provinces
China Communications Services (Hong Kong) International Limited	Limited Liability Company	Hong Kong	100	–	HKD227 million	Provision of integrated telecommunications support services through its subsidiaries in Hong Kong
Guoxun Innovation Software Technologies Co., Ltd.	Limited Liability Company	The PRC	100	–	USD12 million	Provision of integrated telecommunications support services
Zhongshutong Information Co., Ltd.	Limited Liability Company	The PRC	100	–	RMB61 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

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24 Interest in associates

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Share of net assets	**62,661**	61,433	**1,059**	–

As at 31 December 2011, 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		
	31 December 2011 RMB'000	31 December 2010 RMB'000 (Restated)	1 January 2010 RMB'000 (Restated)
At cost/fair value:			
Unlisted equity securities, at cost	**628,443**	643,825	350,286
Listed equity securities, at quoted market price	**34,673**	51,087	77,998
	663,116	694,912	428,284

26 Deferred tax assets and liabilities

Deferred tax assets and liabilities attributable to the following:

	Assets			Liabilities			Net balance		
	31 December 2011 RMB'000	31 December 2010 RMB'000 (Restated)	1 January 2010 RMB'000 (Restated)	**31 December 2011 RMB'000**	31 December 2010 RMB'000 (Restated)	1 January 2010 RMB'000 (Restated)	**31 December 2011 RMB'000**	31 December 2010 RMB'000 (Restated)	1 January 2010 RMB'000 (Restated)
Impairment losses, primarily receivables and inventories	**74,086**	54,491	37,208	**–**	–	–	**74,086**	54,491	37,208
Revaluation of other investments	**–**	–	–	**(1,188)**	(22,700)	(23,932)	**(1,188)**	(22,700)	(23,932)
Revaluation of property, plant and equipment	**–**	–	–	**(16,159)**	(18,160)	(19,716)	**(16,159)**	(18,160)	(19,716)
Unused tax losses (note (i))	**10,414**	11,497	4,649	**–**	–	–	**10,414**	11,497	4,649
Change in fair value (note (ii))	**–**	–	–	**(6,138)**	(12,241)	(13,633)	**(6,138)**	(12,241)	(13,633)
Unpaid expenses	**111,476**	84,543	41,865	**–**	–	–	**111,476**	84,543	41,865
Deferred tax assets and (liabilities)	**195,976**	150,531	83,722	**(23,485)**	(53,101)	(57,281)	**172,491**	97,430	26,441

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(Expressed in Renminbi)

26 Deferred tax assets and liabilities (continued)

Movements in temporary differences for the year ended 31 December 2011 and 2010 are as follows:

The Group

	As at 1 January 2011 RMB'000 (Restated)	Recognised in the consolidated income statement RMB'000	Recognised in shareholders' equity RMB'000	As at 31 December 2011 RMB'000
Impairment losses, primarily for receivables and inventories	**54,491**	**19,595**	**–**	**74,086**
Revaluation of other investments	**(22,700)**	**–**	**21,512**	**(1,188)**
Revaluation of property, plant and equipment	**(18,160)**	**2,001**	**–**	**(16,159)**
Unused tax losses (note (i))	**11,497**	**(1,083)**	**–**	**10,414**
Change in fair value (note (ii))	**(12,241)**	**–**	**6,103**	**(6,138)**
Unpaid expenses	**84,543**	**26,933**	**–**	**111,476**
Deferred tax assets and (liabilities)	**97,430**	**47,446**	**27,615**	**172,491**
		(note 10(a))		

	As at 1 January 2010 RMB'000 (Restated)	Recognised in the consolidated income statement RMB'000 (Restated)	Recognised in shareholders' equity RMB'000 (Restated)	As at 31 December 2010 RMB'000 (Restated)
Impairment losses, primarily for receivables and inventories	37,208	17,283	–	54,491
Revaluation of other investments	(23,932)	1,232	–	(22,700)
Revaluation of property, plant and equipment	(19,716)	1,556	–	(18,160)
Unused tax losses (note (i))	4,649	6,848	–	11,497
Change in fair value (note (ii))	(13,633)	–	1,392	(12,241)
Unpaid expenses	41,865	42,678	–	84,543
Deferred tax assets and (liabilities)	26,441	69,597	1,392	97,430
		(note 10(a))		

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

26 Deferred tax assets and liabilities (continued)

Notes:

(i) Expiry of recognised tax losses

	2011 RMB'000	2010 RMB'000
Year of expiry		
2013	**3,284**	16,768
2014	**1,612**	1,612
2015	**27,608**	27,608
2016	**9,152**	–
	41,656	45,988

(ii) As at 31 December 2011, 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 RMB6.1 million (2010: RMB12.2 million) related to the change in fair value of available-for-sale investments was recognised in shareholders' equity.

(iii) As at 31 December 2011, the Group has not recognised deferred tax assets in respect of tax losses of RMB481.5 million (2010: RMB413.6 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 2016.

27 Other non-current assets

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

28 Inventories

	The Group	
	2011 RMB'000	2010 RMB'000
Construction materials	**313,663**	287,312
Finished goods	**1,341,590**	1,520,197
Spare parts and consumables	**37,385**	25,677
	1,692,638	1,833,186

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(Expressed in Renminbi)

28 Inventories (continued)

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

	The Group	
	2011 RMB'000	2010 RMB'000
Carrying amount of inventories consumed and sold	**15,519,709**	13,496,980
Reversal of write-down of inventories	**(798)**	(9,488)
Write-down of inventories	**17,955**	14,075
	15,536,866	13,501,567

29 Accounts and bills receivable, net

	The Group	
	2011 RMB'000	2010 RMB'000
Bills receivable	**318,955**	95,208
Unbilled revenues for contract work	**4,248,999**	2,956,264
Trade receivables	**13,126,070**	10,231,195
	17,694,024	13,282,667
Less: impairment losses	**(436,154)**	(395,110)
	17,257,870	12,887,557

(a) Included in accounts and bills receivable are amounts due from fellow subsidiaries of RMB7,578 million (2010: RMB6,950 million) as at 31 December 2011. 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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(Expressed in Renminbi)

29 Accounts and bills receivable, net (continued)

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

	The Group	
	2011 RMB'000	2010 RMB'000
Current	**6,783,588**	4,890,354
Within 1 year	**8,906,080**	6,566,525
After 1 year but less than 2 years	**1,157,167**	1,108,228
After 2 years but less than 3 years	**296,994**	245,878
After 3 years	**114,041**	76,572
Amount past due	**10,474,282**	7,997,203
	17,257,870	12,887,557

(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	
	2011 RMB'000	2010 RMB'000
At 1 January	**395,110**	332,129
Impairment loss recognised	**84,596**	96,354
Reversal of impairment loss previously recognised	**(38,212)**	(23,467)
Uncollectible amounts written off	**(5,340)**	(9,906)
At 31 December	**436,154**	395,110

At 31 December 2011, the Group's accounts and bills receivable of RMB345 million (2010: RMB355.7 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 RMB265 million (2010: RMB282 million) were recognised. The Group does not hold any collateral over these balances.

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(Expressed in Renminbi)

29 Accounts and bills receivable, net (continued)

(e) Accounts and bills receivable that is not impaired

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

	The Group	
	2011 RMB'000	2010 RMB'000
Neither past due nor impaired	**6,783,588**	4,890,354
Within 1 year	**8,906,080**	6,566,525
After 1 year but less than 2 years	**881,327**	991,590
After 2 years but less than 3 years	**220,749**	78,040
After 3 years	**41,301**	36,198
At 31 December	**16,833,045**	12,562,707

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.

30 Construction contracts

The aggregate amounts of costs incurred plus recognised profit less recognised losses to date, included in the gross amount due from/to customers for contract work at 31 December 2011 are RMB8,418 million (2010: RMB6,108 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 2011 are RMB20 million (2010: RMB19 million).

31 Prepayments and other current assets

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Advances to staff	**229,760**	179,462	**360**	166
Amounts due from fellow subsidiaries	**1,227,264**	1,364,133	**57,165**	30,852
Amounts due from subsidiaries	**–**	–	**191,137**	246,086
Prepayments in connection with construction work and equipment purchases	**2,201,317**	1,691,226	**–**	–
Prepaid expenses and deposits	**246,507**	159,890	**685**	714
Dividends receivable	**–**	4,063	**1,058,970**	955,890
Others	**703,632**	569,102	**–**	45
	4,608,480	3,967,876	**1,308,317**	1,233,753

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

Notes To The Consolidated Financial Statements

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32 Restricted deposits

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

33 Cash and cash equivalents

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Cash at bank and in hand	**6,843,171**	7,612,626	**100,989**	481,258
Deposits with banks and other financial institutions	**455,061**	857,623	**27,337**	200,000
Cash and cash equivalents	**7,298,232**	8,470,249	**128,326**	681,258

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.

34 Interest-bearing borrowings

The Group's short-term borrowings comprise:

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
RMB denominated				
Borrowings from banks				
– unsecured	**8,000**	750,000	**–**	700,000
Loans from ultimate holding company				
– unsecured	**800,000**	800,000	**800,000**	800,000
Loans from fellow subsidiaries				
– unsecured	**13,280**	228,509	**–**	–
Central African CFA Franc denominated				
Borrowings from banks				
– unsecured	**–**	2,014	**–**	–
USD denominated				
Borrowings from banks				
– unsecured	**177,055**	–	**–**	–
	998,335	1,780,523	**800,000**	1,500,000

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(Expressed in Renminbi)

34 Interest-bearing borrowings (continued)

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

	The Group		The Company	
	2011	2010	**2011**	2010
RMB denominated				
Borrowings from banks – unsecured	**6.06%**	3.51%–4.01%	**–**	3.76%
Loans from ultimate holding company – unsecured	**4.88%**	4.08%	**4.88%**	3.89%–4.08%
Loans from fellow subsidiaries – unsecured	**2.39%**	2.39%–5.51%	**–**	–
USD denominated				
Borrowings from banks – unsecured	**1.55%–3.71%**	–	**–**	–

As at 31 December 2011, no borrowings from bank were subject to financial covenants.

The loans from ultimate holding company as at 31 December 2011 are unsecured and repayable on 28 April 2012 and 9 June 2012 respectively.

35 Accounts and bills payable

Accounts and bills payable comprise:

	The Group	
	2011 RMB'000	2010 RMB'000
Accounts payable	**10,659,256**	7,973,422
Bills payable	**2,069,626**	1,795,370
	12,728,882	9,768,792

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

	The Group	
	2011 RMB'000	2010 RMB'000
Within 1 year	**11,841,672**	9,093,470
After 1 year but less than 2 years	**621,893**	494,547
After 2 years but less than 3 years	**177,454**	112,808
After 3 years	**87,863**	67,967
	12,728,882	9,768,792

Included in accounts and bills payable are amounts due to fellow subsidiaries of RMB808 million (2010: RMB231 million) as at 31 December 2011. The amounts due to fellow subsidiaries are unsecured, interest-free and are expected to be settled within one year.

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36 Accrued expenses and other payables

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Wages and welfare payables	**1,406,910**	1,185,048	**6,384**	13,027
Amounts due to fellow subsidiaries (note i)	**886,288**	826,436	**33,658**	21,630
Advances received	**714,124**	761,531	**–**	–
Other taxes payable	**448,791**	444,171	**2,590**	2,653
Special dividend and profit distribution relating to Target Business payable to CTC (note ii)	**114,337**	166,655	**–**	–
Dividend payable	**82,137**	59,586	**13,721**	–
Payables for construction and purchase of fixed assets	**144,478**	148,305	**–**	–
Others	**3,010,110**	2,972,574	**43,801**	46,075
	6,807,175	6,564,306	**100,154**	83,385

Note:

(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 RMB498 million special dividend to CTC and its subsidiaries by 31 December 2011.

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 RMB120 million has been paid to CTC and its subsidiaries by 31 December 2011.

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37 Other non-current liabilities

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

38 Share capital

	2011 RMB'000	2010 RMB'000
Registered, issued and fully paid:		
3,778,831,800 (2010: 3,778,831,800) domestic state-owned ordinary shares of RMB1.00 each	**3,778,832**	3,778,832
1,992,850,200 (2010: 1,992,850,200) H shares of RMB1.00 each	**1,992,850**	1,992,850
	5,771,682	5,771,682

	2011 Thousand shares	2010 Thousand shares
At 1 January and at 31 December	**5,771,682**	5,771,682

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 2011 was 5.9% (2010 restated: 10.9%). In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

39 Retirement benefit obligations

In accordance with the labour regulations of the PRC, the Group participates in various defined contribution retirement schemes organised by the municipal and provincial governments for its employees. The Group is required to make contributions to the retirement schemes at rates ranging from 20% to 22% (2010: 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.

40 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$4.92 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$4.53 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 August 2011, the Company approved the granting of share appreciation right units to new eligible employees (second batch of share appreciation rights). Under the terms of this grant, 22.6 million share appreciation right units were granted to the employees who became eligible of this incentive plan since April 2009.

During the year ended 31 December 2011, RMB63 million was credited (2010: RMB63 million charged) to the consolidated income statement arising from the fair value remeasurement of the accrued compensation liability at the balance sheet date. The first and second batch 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.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

41 Notes to consolidated cash flow statement

(i) Disposal of subsidiary

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

42 Commitments and contingent liabilities

(a) Capital commitments

As at 31 December 2011, the Group has capital commitment for acquisition and construction of property, plant and equipment as follows:

	The Group		**The Company**	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Authorised and contracted for	**93,431**	216,365	**2,911**	6,069
Authorised but not contracted for	**61,516**	57,085	**–**	490

(b) Operating lease commitments

As at 31 December 2011, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group		**The Company**	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Within 1 year	**185,647**	180,699	**–**	219
After 1 year but within 5 years	**234,415**	221,322	**–**	–
After 5 years	**48,634**	63,893	**–**	–
	468,696	465,914	**–**	219

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

42 Commitments and contingent liabilities (continued)

(b) Operating lease commitments (continued)

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 2011, the Group had no material contingent liabilities and no material financial guarantees issued.

43 Financial risk management and fair values

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

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

(a) Credit risk

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 the Group's largest customers accounted for 61% of the total accounts and bills receivable as at 31 December 2011 (2010: 70%). 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 2011 and 2010.

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

(b) Interest rate risk

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

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

43 Financial risk management and fair values (continued)

(c) Liquidity risk

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

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

The Group

	2011		2010	
	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	**1,014,336**	**998,335**	1,817,388	1,780,523
Account and bills payable	**12,728,882**	**12,728,882**	9,768,792	9,768,792
Receipt in advance	**1,150,095**	**1,150,095**	1,083,587	1,083,587
Accrued expenses and other payable	**6,807,175**	**6,807,175**	6,564,306	6,564,306
	21,700,488	**21,684,487**	19,234,073	19,197,208

The Company

	2011		2010	
	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	**814,413**	**800,000**	1,536,338	1,500,000
Accrued expenses and other payable	**100,154**	**100,154**	83,385	83,385
	914,567	**900,154**	1,619,723	1,583,385

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43 Financial risk management and fair values (continued)

(d) Currency risk

Foreign currency exchange rate risk arises on financial instruments that are denominated in a currency other than the 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, Nigerian Naria and Saudi Arabian Riyal (see note 34).

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 95.7% (2010: 95.7%) of the Group's cash and cash equivalents and 82.3% (2010: 99.9%) of the Group's short-term debt as at 31 December 2011 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) 2011					
	United States dollars '000	**Hong Kong dollars '000**	**Nigerian Naira '000**	**Saudi Arabian Riyal '000**	**Ethiopian Birr '000**	**Others '000**
Cash and cash equivalents	**183,552**	**43,930**	**31,083**	**25,475**	**1,765**	**40,494**
Accounts receivable	**410,216**	**17,311**	**16,186**	**–**	**69,823**	**180,926**
Accounts payable	**(358,352)**	**(12,714)**	**(12,673)**	**–**	**(689)**	**(115,263)**
Interest-bearing loans	**(177,055)**	**–**	**–**	**–**	**–**	**–**
Overall net exposure	**58,361**	**48,527**	**34,596**	**25,475**	**70,899**	**106,157**

	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

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

43 Financial risk management and fair values (continued)

(d) Currency risk (continued)

Exposure to currency risk (continued)

The Company

	Exposure to foreign currencies (expressed in RMB)			
	2011		2010	
	United States dollars '000	**Hong Kong dollars '000**	United States dollars '000	Hong Kong dollars '000
Cash and cash equivalents	**5**	**108**	50	1,316

The following significant exchange rates applied during the year:

The Group

	Average rate		**Spot rate**	
	2011	2010	**2011**	2010
United States dollars	**6.46**	6.73	**6.30**	6.62
Hong Kong dollars	**0.83**	0.86	**0.81**	0.85
Nigerian Naira	**0.04**	0.04	**0.04**	0.04
Ethiopian Birr	**0.38**	0.47	**0.36**	0.40
Saudi Arabian Riyan	**1.73**	1.80	**1.68**	1.77

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.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

43 Financial risk management and fair values (continued)

(d) Currency risk (continued)

Exposure to currency risk (continued)

The Group

	2011 Increase/ (decrease) in foreign exchange rates	2011 Effect on profit after tax and retained profits '000	2011 Effect on other components of equity '000	2010 Increase/ (decrease) In foreign exchange rates	2010 Effect on profit after tax and retained profits '000	2010 Effect on other components of equity '000
United States dollars	**5%**	**2,918**	**–**	5%	9,644	–
	(5)%	**(2,918)**	**–**	(5)%	(9,644)	–
Hong Kong dollars	**5%**	**2,426**	**–**	5%	5,493	–
	(5)%	**(2,426)**	**–**	(5)%	(5,493)	–
Nigerian Naira	**5%**	**1,730**	**–**	5%	2,160	–
	(5)%	**(1,730)**	**–**	(5)%	(2,160)	–
Ethiopian Birr	**5%**	**3,545**	**–**	5%	83	–
	(5)%	**(3,545)**	**–**	(5)%	(83)	–
Saudi Arabian Riyal	**5%**	**1,274**	**–**	5%	453	–
	(5)%	**(1,274)**	**–**	(5)%	(453)	–

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 2010.

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(Expressed in Renminbi)

43 Financial risk management and fair values (continued)

(e) Equity price risk

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

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

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

At 31 December 2011, it is estimated that an increase/(decrease) of 5% (2010: 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

	2011			2010		
	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
Changes in the relevant equity price risk variable:						
Increase	**5%**	**(4,640)**	**1,300**	5%	(5,016)	1,916
Decrease	**(5)%**	**4,640**	**(1,300)**	(5)%	5,016	(1,916)

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 2010.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

43 Financial risk management and fair values (continued)

(f) Fair value

(i) Financial instruments carried at fair value

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

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

	The Group			
	Level 1 RMB'000	**Level 2** RMB'000	**Level 3** RMB'000	**Total** RMB'000
Assets				
Available-for-sale securities				
– Listed equity securities	34,673	–	–	34,673
Other non-current assets	–	28,876	–	28,876
Liabilities				
Share appreciation rights	–	30,789	–	30,789
Other non-current liabilities	–	9,982	–	9,982

	The Company			
	Level 1 RMB'000	**Level 2** RMB'000	**Level 3** RMB'000	**Total** RMB'000
Assets				
Available-for-sale securities				
– Listed equity securities	–	–	–	–
Liabilities				
Share appreciation rights	–	3,314	–	3,314

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

43 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.

44 Significant accounting estimates and judgements

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

(a) Construction contracts

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

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

44 Significant accounting estimates and judgements (continued)

(b) Impairment for trade and other receivables

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

(c) Impairment of long-lived assets

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

(d) Depreciation and amortisation

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

(e) Deferred tax assets

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

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

45 Related parties

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

(a) Transactions with CTC Group

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

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

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

	2011 RMB'000	2010 RMB'000
Income from related parties:		
Engineering related services (note (i))	**10,968,423**	9,901,200
IT application services (note (ii))	**1,354,958**	1,155,592
Provision of ancillary telecommunications services (note (iii))	**5,389,628**	4,519,671
Provision of operation support services (note (iv))	**1,903,269**	1,753,276
Supplies procurement service (note (v))	**3,280,890**	2,570,424
Property leasing (note (vi))	**58,644**	24,532
Management fee income (note (vii))	**309,211**	285,915
Expenses paid to related parties:		
Property leasing charges (note (viii))	**140,157**	117,373
IT application service charges (note (ix))	**164,755**	178,137
Operation support service charges (note (x))	**463,818**	278,662
Supplies procurement service charges (note (xi))	**1,638,763**	447,754
Interest paid (note (xii))	**51,021**	31,728

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

45 Related parties (continued)

(a) Transactions with CTC Group (continued)

Notes:

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

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

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

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

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

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

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

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

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

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

(xi) The amount represents the charge paid and payable to CTC Group 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.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

45 Related parties (continued)

(a) Transactions with CTC Group (continued)

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

	2011 RMB'000	2010 RMB'000
Accounts and bills receivable, net	**7,578,394**	6,950,121
Prepayments and other current assets	**1,227,264**	1,364,133
Other non-current assets	**3,314**	–
Total amounts due from CTC Group	**8,808,792**	8,314,254
Interest-bearing borrowings	**813,280**	1,028,509
Accounts and bills payable	**807,506**	231,136
Receipts in advance for contract work	**43,642**	50,154
Accrued expenses and other payables	**1,003,844**	993,963
Total amounts due to CTC Group	**2,668,272**	2,303,762

As at 31 December 2011, the Group has recognised impairment losses of RMB7,472 thousand (2010: RMB3,295 thousand) for bad and doubtful debts in respect of amounts due from CTC Group.

As at 31 December 2011, the Group has capital commitments to CTC Group for acquisition and construction of property, plant and equipment and other assets as follows:

	2011 RMB'000	2010 RMB'000
Authorised and contracted for	**6,545**	5,835

As at 31 December 2011, the Group total future minimum lease payments to CTC Group under non-cancellable operating leases were payable as follows:

	2011 RMB'000	2010 RMB'000
Within 1 year	**43,587**	36,254
After 1 year but within 5 years	**68,978**	27,926
After 5 year	**31,687**	33,710
	144,252	97,890

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.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

45 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.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

45 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.

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

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

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(Expressed in Renminbi)

45 Related parties (continued)

(a) Transactions with CTC Group (continued)

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

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

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

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

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

– Rendering and receiving services, including but not limited to telecommunications services

– Sales and purchases of goods, properties and other assets

– Lease of assets

– Depositing and borrowing money

– Use of public utilities

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

45 Related parties (continued)

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

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

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

(c) Transactions with key management personnel

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

	2011 RMB'000	2010 RMB'000
Salaries and other emoluments	**4,108**	4,053
Retirement benefits	**1,583**	1,447
Bonuses	**9,680**	8,269
	15,371	13,769

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

(d) Contributions to defined contribution retirement plans

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

As at 31 December 2011 and 2010, there was no material outstanding contribution to post-employment benefit plans.

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

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46 Segment reporting

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

47 Distributable reserves

The movements of shareholders' equity of the Company for 2010 and 2011 are as follows:

	Share capital RMB'000 (note 38)	**Share premium** RMB'000 (note i)	**Capital reserve** RMB'000 (note ii)	**Statutory surplus reserve** RMB'000 (note iii)	**Retained earnings** RMB'000	**Total** RMB'000
At 1 January 2010 as previously reported	5,771,682	2,727,647	991,189	239,377	860,545	10,590,440
Change in accounting policy (see note 3)	–	–	1,011,229	–	–	1,011,229
At 1 January 2010, as restated	5,771,682	2,727,647	2,002,418	239,377	860,545	11,601,669
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, as restated	5,771,682	2,727,647	2,002,418	326,318	1,003,517	11,831,582
At 1 January 2011 as previously reported	**5,771,682**	**2,727,647**	**991,189**	**326,318**	**1,003,517**	**10,820,353**
Change in accounting policy (see note 3)	**–**	**–**	**1,011,229**	**–**	**–**	**1,011,229**
At 1 January 2011, as restated	**5,771,682**	**2,727,647**	**2,002,418**	**326,318**	**1,003,517**	**11,831,582**
Profit for the year	**–**	**–**	**–**	**–**	**1,023,460**	**1,023,460**
Distribution of dividend (see note 15(b))	**–**	**–**	**–**	**–**	**(727,232)**	**(727,232)**
Appropriation	**–**	**–**	**–**	**102,389**	**(102,389)**	**–**
At 31 December 2011	**5,771,682**	**2,727,647**	**2,002,418**	**428,707**	**1,197,356**	**12,127,810**

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.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

47 Distributable reserves (continued)

	2011 RMB'000	2010 RMB'000
At 31 December	**305,805**	231,091

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)

48 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ended 31 December 2011

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 2011 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting period beginning on or after
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
Amendments to IAS 1, Presentation of financial statements – Presentation of Items of Other Comprehensive Income	1 July 2012
IFRS 10, Consolidated Financial Statements	1 January 2013
IFRS 11, Joint Arrangements	1 January 2013
IFRS 12, Disclosure of Interests in Other Entities	1 January 2013
IFRS 13, Fair Value Measurement	1 January 2013
IAS 27, Separate Financial Statements (2011)	1 January 2013
IAS 28, Investments in Associates and Joint Ventures (2011)	1 January 2013
Revised IAS 19, Employee Benefits	1 January 2013
IFRS 9, Financial Instruments	1 January 2015

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

49 Non-adjusting events after the reporting period

On 8 February 2012, the Company issued 398,570,040 H shares on the basis of 2 H rights shares for every 10 existing H shares at HK$3.19 per H rights share, and issued 755,766,360 domestic rights share on the basis of 2 domestic rights shares for every 10 existing domestic shares at RMB2.59 per domestic rights share. The total gross proceeds raised under the rights issue were RMB2,991 million, and the net proceeds raised under the rights issue were RMB2,956 million, after deduction of issuing expenses amounted to approximately RMB35 million. The rights issue increased RMB1,154 million of the Company's share capital and RMB1,802 million of the Company's share premium.

50 Immediate and ultimate controlling party

At 31 December 2011, 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.

51 Comparative figures

As a result of the adoption of amendments to IFRS 1, certain comparative figures have been adjusted to conform to current year's presentation. Further details of this development are disclosed in note 3.

Financial Summary

(Amounts in thousands, except per share data)

	For the five years ended 31 December				
	2011 RMB	2010 RMB (Note 2)	2009 RMB (Note 2)	2008 RMB (Note 1&2)	2007 RMB (Note 1&2)
Results					
Revenue from telecommunications infrastructures services	**25,114,962**	21,636,545	19,289,579	15,329,464	11,093,007
Revenue from business process outsourcing services	**22,315,339**	18,508,424	15,943,326	13,743,789	9,695,630
Revenue from applications, content and others	**6,077,096**	5,272,263	4,266,545	3,932,119	3,251,874
Total Revenues	**53,507,397**	45,417,232	39,499,450	33,005,372	24,040,511
Depreciation and amortization	**(393,152)**	(364,744)	(361,218)	(342,390)	(310,997)
Direct personnel costs	**(8,473,657)**	(7,459,665)	(7,073,351)	(5,962,414)	(4,600,240)
Purchase of materials and telecommunications products	**(16,195,976)**	(13,506,740)	(12,364,499)	(11,167,207)	(7,993,192)
Subcontracting charges	**(14,525,988)**	(11,883,574)	(9,064,577)	(6,970,705)	(4,580,668)
Operating lease charges and others	**(5,409,545)**	(4,809,167)	(4,273,684)	(3,195,413)	(2,428,831)
Cost of revenues	**(44,998,318)**	(38,023,890)	(33,137,329)	(27,638,129)	(19,913,928)
Gross profit	**8,509,079**	7,393,342	6,362,121	5,367,243	4,126,583
Other operating income	**657,871**	629,685	520,810	508,571	454,308
Selling, general and administrative expenses	**(6,401,096)**	(5,637,139)	(4,693,970)	(3,906,552)	(2,836,575)
Other operating expenses	**(62,879)**	(70,920)	(76,782)	(70,623)	(39,355)
Net financing income	**(60,311)**	(57,732)	(88,435)	(176,334)	(56,086)
Share of profits less (losses) of associates	**(2,600)**	3,126	1,571	2,161	3,575
Profit before tax	**2,640,064**	2,260,362	2,025,315	1,724,466	1,652,450
Income tax	**(534,192)**	(458,023)	(425,335)	(401,764)	(461,318)
Profit for the year	**2,105,872**	1,802,339	1,599,980	1,322,702	1,191,132
Attributable to:					
Equity shareholders of the Company	**2,114,863**	1,803,753	1,588,236	1,304,836	1,174,928
Non-controlling interests	**(8,991)**	(1,414)	11,744	17,866	16,204
Profit for the year	**2,105,872**	1,802,339	1,599,980	1,322,702	1,191,132
Basic and diluted earnings per share (RMB)	**0.366**	0.313	0.275	0.230	0.216

Financial Summary

(Amounts in thousands, except per share data)

	At 31 December				
	2011 RMB	2010 RMB (Note 2)	2009 RMB (Note 2)	2008 RMB (Note 1&2)	2007 RMB (Note 1&2)
Financial condition					
Property, plant and equipment, net	**3,929,111**	3,884,946	3,768,044	3,487,340	3,225,428
Other non-current assets	**3,090,305**	2,971,585	2,526,516	2,584,032	2,355,732
Inventories	**1,692,638**	1,833,186	1,659,626	1,182,471	1,042,854
Accounts and bills receivables, net	**17,257,870**	12,887,557	10,467,689	9,330,772	6,826,220
Prepayments and other current assets	**4,608,480**	3,967,876	3,140,398	2,975,964	2,253,543
Cash and cash equivalents	**7,298,232**	8,470,249	8,870,424	8,538,142	6,769,323
Restricted deposits	**320,039**	269,099	160,525	178,312	251,129
Total assets	**38,196,675**	34,284,498	30,593,222	28,277,033	22,724,229
Interest-bearing borrowings	**998,335**	1,780,523	1,268,280	1,993,426	2,593,256
Accounts and bills payable	**12,728,882**	9,768,792	8,844,718	7,746,786	4,837,946
Receipts in advance for contract work	**1,150,095**	1,083,587	1,088,327	808,197	520,725
Accrued expenses and other payables	**6,807,175**	6,564,306	5,553,079	4,826,825	4,318,266
Income tax payable	**303,720**	284,941	194,701	186,525	200,213
Non-current liabilities	**83,641**	53,101	57,281	52,965	12,601
Total liabilities	**22,071,848**	19,535,250	17,006,386	15,614,724	12,483,007
Equity attributable to shareholders of the Company	**16,003,567**	14,616,614	13,478,458	12,505,843	10,165,048
Non-controlling interests	**121,260**	132,634	108,378	156,466	76,174
Total equity	**16,124,827**	14,749,248	13,586,836	12,662,309	10,241,222
Total liabilities and equity	**38,196,675**	34,284,498	30,593,222	28,277,033	22,724,229

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 silmilar 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 2007 and 2008 have been restated to include the results and financial condition of the Traget Interests in the relevant period.

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

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