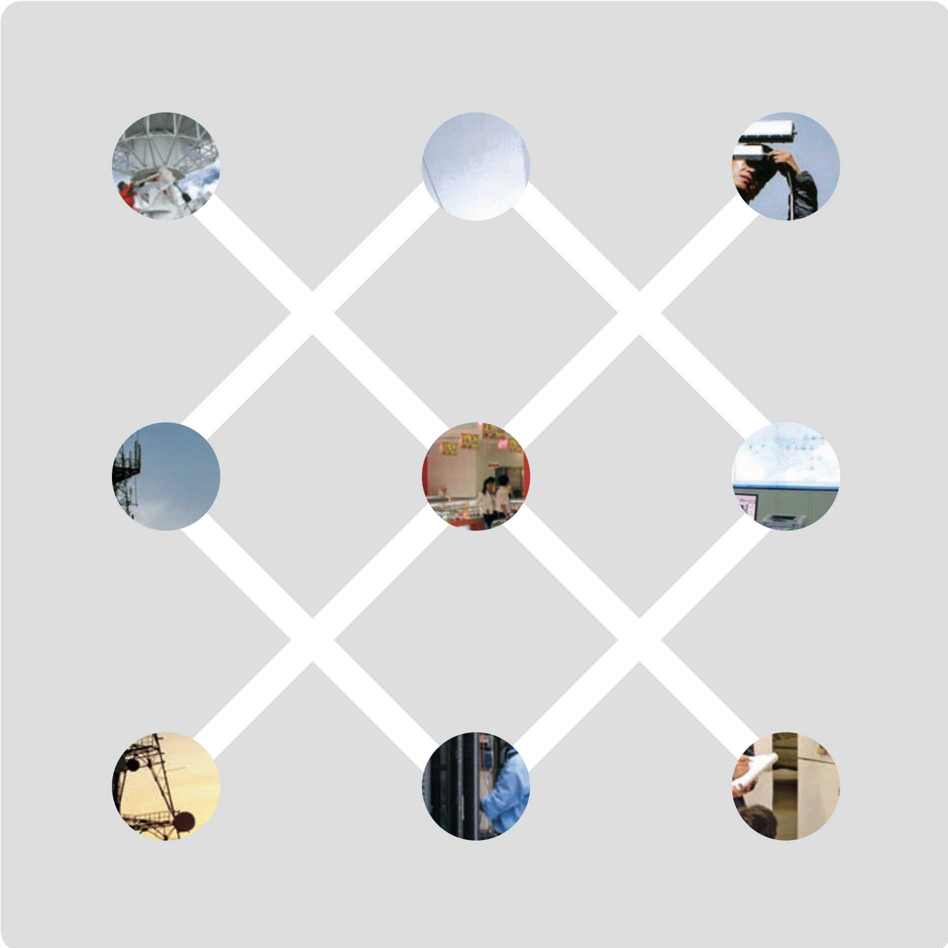
中国通信服务
CHINA COMSERVICE



CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

Stock code: 552

Service provider for telecommunications, media and technology companies

Annual Report 2008

We are a service provider for telecommunications, media and technology companies. We have years of experience in providing services for telecommunications operators, government agencies, enterprises and other customers. These services include telecommunications infrastructure services covering planning, consulting, design, engineering and construction and project supervision and management, business process outsourcing services covering maintenance, distribution of telecommunications products and services, and facilities management, as well as applications, content and other services. We provide integrated services covering the key activities of the value chain of telecommunications operators and we have the ability to provide integrated solutions to our customers.





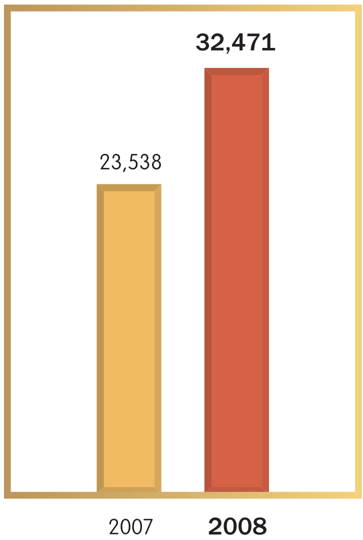
易讯空间
简单·快乐


Contents

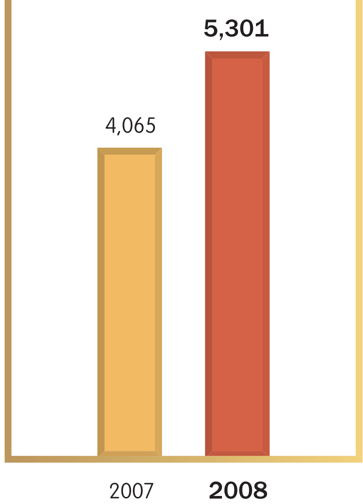
Financial Highlights

	2007	2008	Change
Revenues (RMB million)	23,538	**32,471**	37.9%
Gross profit (RMB million)	4,065	**5,301**	30.4%
Profit attributable to equity shareholders (RMB million)	1,167	**1,316**	12.8%
Basic earnings per share (RMB)	0.214	**0.232**	8.4%
Free cash flow[1] (RMB million)	1,025	**1,271**	24.0%

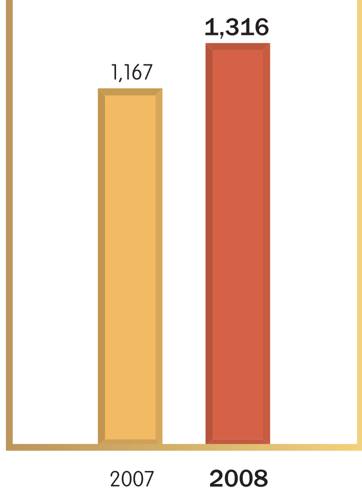
Revenues
(RMB million)



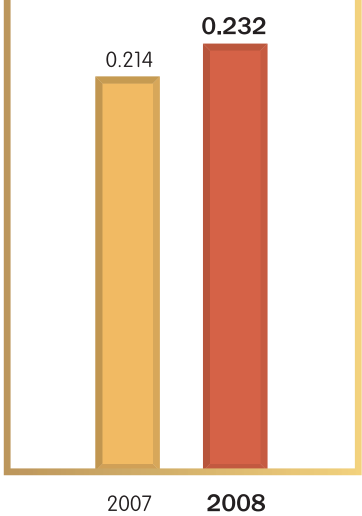
Gross profit
(RMB million)



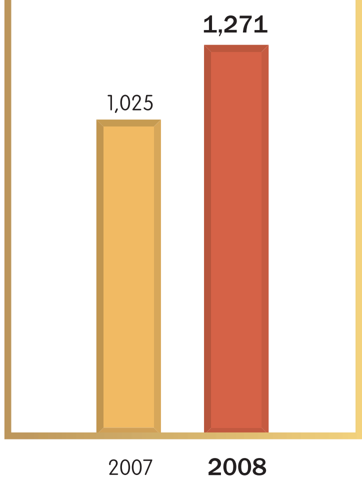
Profit attributable to equity shareholders
(RMB million)



Basic earnings per share
(RMB)



Free cash flow[1]
(RMB million)



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

Company Profile, Corporate Information and Milestones

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

As at 31 December 2008, the aggregate share capital of the Company was 5,771,682,000, of which 1,992,850,200 were H shares.

Honorary Chairman

Mr. Wang Xiaochu

Board of Directors

Executive directors

Mr. Li Ping *(Chairman)*
Mr. Zhang Zhiyong
Mr. Yuan Jianxing

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

Milestones

2006

August 2006

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

December 2006

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

2007

March 2007

12 March 2007: H Shares of the Company were included in the Hang Seng China Enterprises Index ("H-shares Index").

August 2007

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

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

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

Legal Name (in Chinese)
中國通信服務股份有限公司

Legal Name (In English)
China Communications Services Corporation Limited

Legal Representative
Mr. Li Ping

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

International Auditors
KPMG

Legal Advisors
Freshfields Bruckhaus Deringer
Jingtian & Gongcheng

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

Business Address
No. 19, Chaoyangmen
Beidajie Dongcheng District
Beijing, PRC 100010

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

Listing Place
The Stock Exchange of Hong Kong Limited

Stock Code
00552

Contact Information
Investor Relations Department:
Address: Room 3203–3205,
32/F, Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong
Telephone: (852) 3699 0000
Fascimile: (852) 3699 0120
Email: ir@chinaccs.com.hk

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

Website
www.chinaccs.com.hk

2008

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

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

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

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

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

Chairman's Statement

2008 was an extraordinary year for the Group. The international financial crisis initiated a global economic slowdown and brought challenges to the Group. At the same time, the formal announcement of the domestic telecommunications industry restructuring brought unprecedented opportunities to the industry.

Chairman

Dear Shareholders,

2008 was an extraordinary year for the Group. The international financial crisis initiated a global economic slowdown and brought challenges to the Group. At the same time, the formal announcement of the domestic telecommunications industry restructuring brought unprecedented opportunities to the industry. Through the effective implementation of our established development strategies, the Group seized development opportunities in the industry, and achieved encouraging results in areas such as operations, acquisition and integration and overseas expansion.

In 2008, total revenue of the Group reached RMB32,471 million, representing a year-on-year growth of 37.9%. Profit attributable to equity shareholders was RMB1,316 million, representing a year-on-year growth of 12.8%. Our free cash flow amounted to RMB1,271 million. Having considered the interests of, and return to, our shareholders, and the funding requirements for the Group's long-term development, the Board of Directors proposed to pay a final dividend of RMB0.0913 per share for the financial year ended 31 December 2008.

Telecommunications Industry Restructuring and Issuance of 3G Licence

The long-awaited telecommunications industry restructuring proposal was formally announced in May 2008 and 3G licences were officially issued in January 2009. It is expected that demand for 3G related services such as telecommunications infrastructure construction, network maintenance and optimization, and telecommunications value-added services will accelerate the rapid development of the industry's value chain and provide commercial opportunities for our three main businesses. The Group has already fully prepared itself for these opportunities, for example, by actively participating in the TD-SCDMA trial network construction and thus gaining valuable experience. In 2008, through the acquisition and integration of China International Telecommunications Construction Corporation ("CITCC"), the Group achieved nationwide business coverage with synergy emerging gradually. In addition, the Group established dedicated project support teams and closely monitored the demand of our three major operator customers. In the second half of 2008, there was significant progress in the respective businesses, which was the major factor in driving up our sales growth for the year. In future, the Group will continue to focus on our customer needs and key projects, and allocate resources effectively, with a view to achieving sustainable development.

Overseas Markets Expansion

Overseas markets expansion is one of the Group's long-term development strategies. In 2008, the Group achieved an initial success in its business expansion strategy by starting to act as the principal contractor for large-scale projects in certain regions such as Africa, including the nationwide optical fiber transmission network in Congo (K). Demand in developing countries for telecommunications infrastructure services is growing. Meanwhile, the PRC government adopted policies encouraging enterprises to "Go Abroad". All the foregoing has provided a sound development environment for our overseas business expansion. In future, the Group will focus on overseas projects in which we act as principal contractor, and strengthen our efforts in overseas markets expansion so as to fuel our long-term growing power.

Opportunity from Corporate Informatization Construction

In response to the global economic slowdown in 2008 caused by the financial crisis, the PRC government put forward a series of measures to stimulate the domestic economy and enlarge domestic demand, such as those aiming to accelerate infrastructure construction. Meanwhile, the government has encouraged the economic informatization of society and promoted the integration of industrialization and informatization. All of these have provided the industry with tremendous opportunities and a clear direction for development. Accordingly, the Group will focus on responding to the demand for informatization construction of government agencies and corporate customers and enhancing our cooperation with strategic partners. The Group will further improve our core competitiveness to grasp opportunities brought by such informatization construction.

Corporate Governance

The Group believes that maintaining a good corporate governance structure and sound internal control system is key to protecting the interests of the shareholders. In 2008, the Group strictly complied with the relevant laws and regulations and further optimized its corporate governance structure to ensure a stable, optimal and effective internal control system. The Group has consistently stood on a principle of timely, fair and accurate information disclosure, using different channels to enhance our communications with shareholders and capital markets, thereby improving the transparency of the Company and enhancing our corporate value.

Corporate Responsibility

China experienced catastrophic natural disasters in 2008, such as the snowstorms and earthquakes. The Group actively supported all major operators and equipment vendors to restore and reconstruct telecommunications networks, providing a total of over 30,000 person-time support services. It demonstrated our nationwide centralized deployment and prompt and highly efficient service support capability and helped us establish a sound corporate image. As a result, we received high social and customer recognition.

Outlook — Coexistence of Challenges and Opportunities

2009 is a year full of opportunities and challenges. The domestic telecommunications industry began to show signs of dampening growth in the second half of 2008 due to the slowdown in the global economy. This is expected to continue as the macroeconomic environment continues to negatively impact market demand in the telecommunications industry. There will be changes in the competitive landscape following the industry restructuring, and uncertainties in regulatory policy governing the industry will also emerge. However, we believe that the opportunities thrown up in these times will outweigh the challenges. In future, the Group will continue to build up our culture of providing quality customer service, sustain our customer-focused informatization strategy, actively expand our overseas markets, adhere to innovative development and encourage the integration of organic and external growth. With our excellent management team, professional staff members and years of industry experience, we are confident that we, as the "service provider for telecommunications, media and technology companies", are well positioned to achieve our mission of being customer-oriented, maintaining excellent operations, allocating our resources efficiently, demonstrating innovative leadership and bringing maximized returns to our shareholders.

Finally, on behalf of the Board, I would like to express my gratitude to all staff for their dedication and hard work in contributing to the development of the Group in the past year, and also my sincere thanks to all customers and shareholders for their continuous unwavering support and trust.

Li Ping
Chairman

Beijing, PRC
2 April 2009

In 2008, the Group recorded revenues of RMB32,471 million, representing an increase of 37.9% over the same period last year. Profit attributable to equity shareholders grew by 12.8% over the same period last year to RMB1,316 million. The rapid growth in revenues was mainly driven by the increase in revenue from telecommunications operators in the second half of the year and the integration synergies achieved after the acquisition of China International Telecommunications Construction Corporation ("CITCC").

President

Dear Shareholders,

I am very pleased to present the operating performance of the Group in 2008.

In 2008, the Group recorded revenues of RMB32,471 million, representing an increase of 37.9% over the same period last year. Profit attributable to equity shareholders grew by 12.8% over the same period last year to RMB1,316 million. The rapid growth in revenues was mainly driven by the increase in revenue from telecommunications operators in the second half of the year and the integration synergies achieved after the acquisition of China International Telecommunications Construction Corporation ("CITCC").

In 2008, cost of revenues amounted to RMB27,170 million, representing an increase of 39.5% over the same period last year. It was mainly attributable to the growth in relevant costs driven by the growth in revenues and businesses during the year. As a result, the Group's gross profit margin in 2008 was 16.3%, representing a decrease of one percentage point from 17.3% in 2007. Selling, general and administrative expenses were RMB3,854 million, representing 11.9% of our revenues, and maintained at the same level as in 2007. By strengthening working capital management and adopting a prudent strategy on capital expenditure, our free cash flow amounted to RMB1,271 million, and the Company maintained at a healthy cash flow position.

In 2008, we recorded rapid growths in all our three main businesses. After the formal announcement of telecommunications industry restructuring, our three major operator customers increased their investments in telecommunications network construction and optimization in the second half of the year, which drove an increase of 38.2% over the same period last year in our revenue from the telecommunications infrastructure ("TIS") services. The continuous growth in demand for telecommunications machineries and terminals by the telecommunications operators and the growth in outsourced network maintenance business led to an increase of 41.9% over the same period last year in our revenues from the business process outsourcing ("BPO") services. During the year under review, revenues from applications, contents and other ("ACO") services increased 25.1% over the same period last year as we made further progress in our IT applications business (which mainly includes system integration services) and benefited from the gradual outsourcing of call centre services by the telecommunications operators.

In 2008, the revenue from our three major operator customers was RMB21,696 million, representing an increase of 44.8% over the same period last year, among which revenue from China Telecom was up by 38.0%, and revenue from China Mobile and China Unicom together was up by 67.6%. Revenues from government agencies and corporate customers amounted to RMB10,775 million, representing an increase of 26.0% over the same period last year. Following the telecommunications industry restructuring, these three major operator customers increased their capital expenditure in mobile networks during the year and expanded their scale of non-core businesses outsourcing. As a result, our revenue from these three operator customers increased significantly.

In 2008, the Group completed the acquisition of CITCC and achieved nationwide business coverage. In addition, the acquisition laid a good foundation for our further expansion in overseas markets and the realization of economies of scale and synergies. After the acquisition, the Group steadily promoted the integration of risk control, financial management, operational analysis and corporate operations, which led to the optimization of the organizational structure of CITCC and the significant improvement in its operational efficiency. After completion of the acquisition on 30 May 2008, revenue and net profit contributed by CITCC to the Group in 2008 amounted to RMB1,690 million and RMB41 million respectively, driving revenue growth and net profit growth of the Group by 7.1 and 3.6 percentage points respectively.

With a solid foundation in the domestic market, we also actively expanded in overseas markets in 2008. Revenues from overseas markets amounted to RMB654 million, representing an increase of more than 50% over the same period last year. In future, the Group will target overseas projects in which we act as principal contractor, focus on providing project planning, design, consulting and construction of the communications network and integrated network outsourcing services for overseas telecommunications operators, and further expand our market share in overseas markets.

With the steady development of our businesses in 2008, the Group further improved its internal control and risk management system. The establishment of a two-tier officer-in-charge of risk management system, completion of a three-tier risk control mechanism, formulation and improvement of an internal audit system, enhancement of identification and control of risk factors and further improvements to operation management through using an IT management system, all served to effectively protect the interests of public shareholders.

In 2008, the Group continued to adhere to the human resources development strategy of "controlling total headcount, optimizing the human resources structure, enhancing capability and motivating staff enthusiasm". With the reduction of our management hierarchy and control of total headcount, we also emphasized the need to attract high-quality professional talents and strengthen our internal training, thereby providing effective support to the development of our business. The Group attached great importance to improving the performance-based management system, and implemented annual incentives and share appreciation rights as the middle and long-term incentive schemes respectively to ensure the alignment of the interests of the company, employees and shareholders.

Looking forward into 2009, we believe the increase in capital expenditure in the domestic telecommunications industry, and the gradual increase in demand for communications infrastructure auxiliary projects services from government agencies and corporate customers in the development in domestic industrialization and informatization, will vigorously drive the demand for our TIS services. Operators will expand their scale of non-core business outsourcing, which will drive a continuous and steady growth in the Group's BPO services. The Group is now further strengthening our cooperation with strategic partners to enhance our core competitiveness and brand value, and striving to push the ACO services to develop rapidly.

In 2009, the Group will strive to grasp business opportunities and reward our shareholders and society with excellent business performance. Accordingly, the Group will focus on the following tasks:

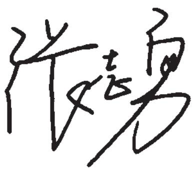
- **Providing full support to operators in network construction and business operations**
  Focus on the demand of telecommunications operators in 3G era for network construction, network maintenance and optimization, terminal sales, logistics distribution and IT applications services, etc.

- **Actively expanding the government agencies and corporate customers market**
  Focus on the demand of infrastructure companies and strive to undertake communications facilities construction projects for railways, highways, bridges, tunnels and subways by providing design, construction supervision, system integration, billing system and monitoring system, etc.

- **Accelerating our pace in overseas markets expansion**
  Focus on expansion in the markets of Africa, the Middle East, Latin America, Hong Kong, Macau and Southeast Asia, and actively undertake overseas projects as principal contractor.

- **Continuing to promote the development of ACO services**
  Adopt innovative development models and pursue further breakthrough in the cooperation with our strategic partners to ensure rapid business development.

- **Strengthening internal integration and enhancing operational efficiency**
  Push forward centralized cash management, strengthen internal resources allocation and enhance cost control, with a view of continuing to improve corporate value.



Zhang Zhiyong
President

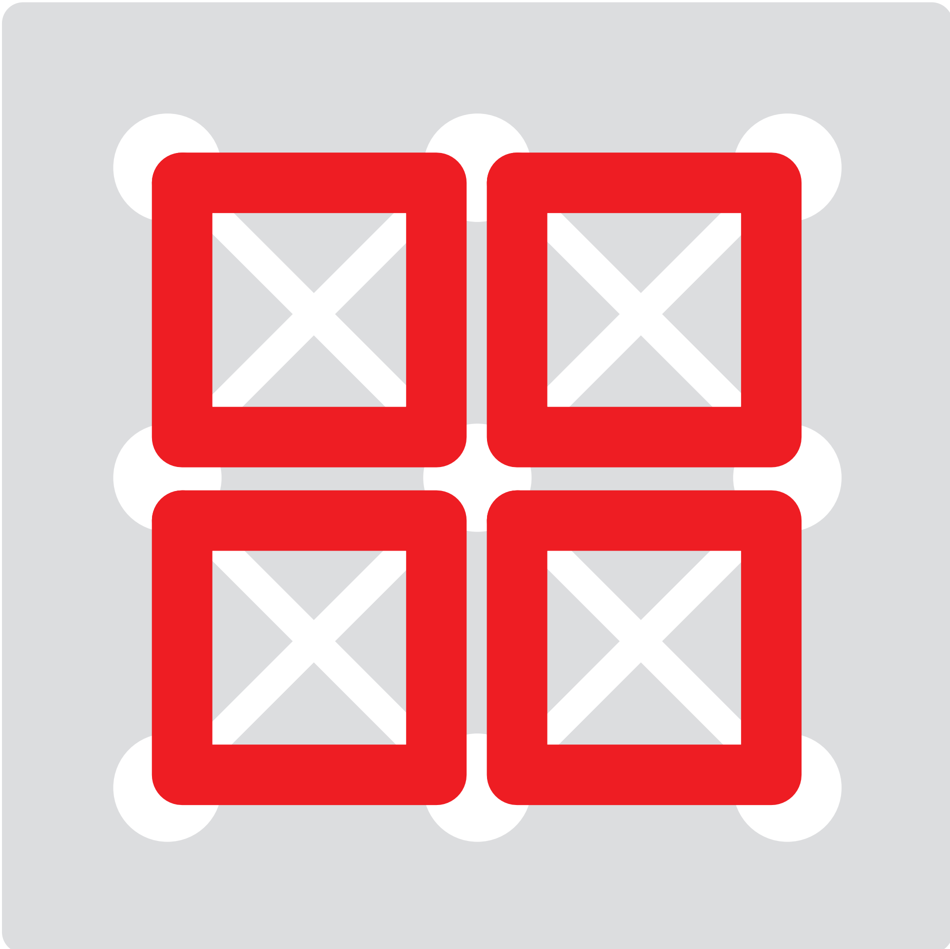
Beijing, PRC
2 April 2009

With over **60**
telecommunications
infrastructure
companies

50
outsourcing
services
companies

30
IT applications
and VAS
companies

Scaling-up, Integrated

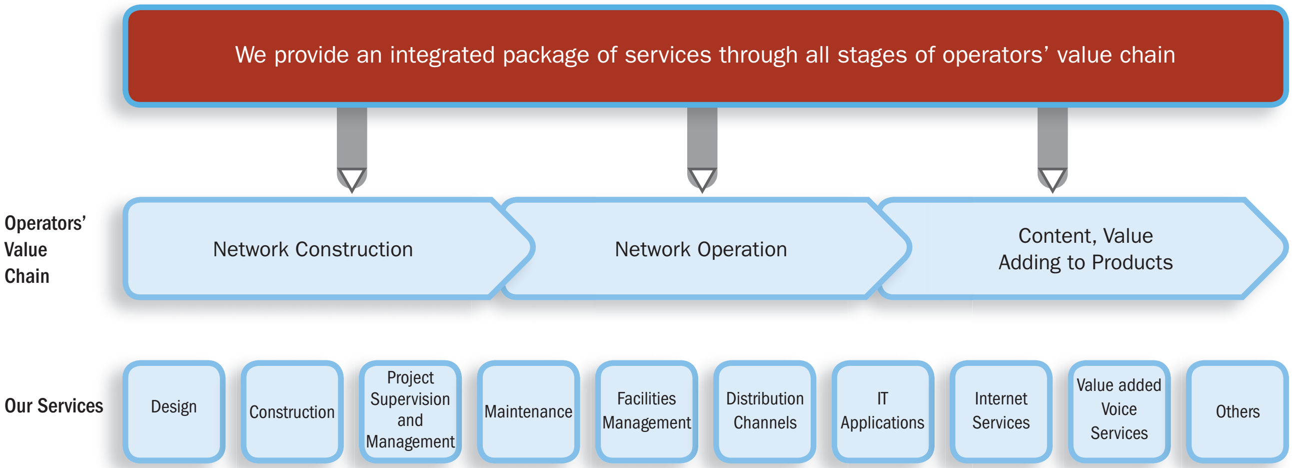


Nationwide service coverage, provision of an integrated and comprehensive package of services serving all aspects of operators' value chain

Business Review

The Group provides supporting services for telecommunications, media and technology companies. We have years of experience in providing services for telecommunications operators, government agencies, enterprises and other customers. These services include telecommunications infrastructure services covering planning, consulting, design, engineering and construction, and project supervision and management, business process outsourcing services covering maintenance, distribution of telecommunications products and services, and facilities management, as well as applications, content and other services. By capturing the valuable business opportunities in increasing network investments by domestic telecommunications operators and the demand for informatization from government agencies and corporate customers, we achieved a rapid growth in revenues in 2008. Our revenues amounted to RMB32,471 million, representing an increase of RMB8,933 million or 37.9% over 2007. Among our businesses, revenues from telecommunications infrastructure services, business process outsourcing services and applications, content and other services were increased by 38.2%, 41.9% and 25.1% respectively.

We are the market leader in terms of service capabilities, which include business integrity, operational scale and professionalism. We provide integrated services covering the key activities of the value chain of telecommunications operators and we have the ability to provide integrated solutions to our customers. We are also the largest design service provider, the largest engineering and construction service provider and the largest project supervision service provider for the domestic telecommunications industry. Our communications engineering projects are well recognised and awarded. For example, we were awarded with Excellent Communications Engineering Design Award and Quality Communications Engineering Award by the Ministry of Industry and Information Technology (the "MIIT") in 2008 for each of our 36 communications engineering design projects and 12 communications engineering and construction projects, accounting for more than 50% of the total projects receiving award under the respective categories. In addition, after the catastrophic snowstorms and earthquakes occurred in China in 2008, the Group fully utilized our nationwide service capability and organized our provincial subsidiaries to set up cross-region disaster relief working teams. We contributed resources like staff and equipment to fully support the major operators in restoring and reconstructing telecommunications network and resuming service. Such efforts demonstrated not only the Group's service capability in operational scale and professionalism but also our responsibility and commitment to our customers and the society.




Disaster relief command centre for Wenchuan earthquake


Organizing our staff for emergency rescue work

Undertaking communications resumption plan on disaster site


Restoring telecommunications facilities on disaster site

Customer Services and Market Expansion

China Telecom, China Mobile and China Unicom (the "Three Major Operators") have long been our three largest revenue sources. In 2008, revenue from the Three Major Operators accounted for 66.8% of our total revenue.

In 2008, there was restructuring in domestic telecommunications industry. After the announcement of restructuring, all the Three Major Operators had increased their network investments, especially in mobile networks. On the foundation of our well-preparation for that, we promptly started the "CTW[1] program", setting up a dedicated support team, with firewall, for each of the Three Major Operators respectively and deployed resources of the whole Group to rapidly respond to our customers' needs. We focused on the major projects like network construction, network maintenance and optimization, terminal sales, logistics distribution and IT applications. In 2008, revenue from the Three Major Operators amounted to RMB21,696 million, representing an increase of RMB6,712 million or 44.8% over 2007.

In May 2008, the Group completed its acquisition of China International Telecommunications Construction Corporation ("CITCC"). CITCC complemented our original businesses in northern provinces in the PRC, overseas markets and customers other than China Telecom, with emerging synergies. During the period from June to December in 2008, revenue from customers other than China Telecom accounted for 90.6% of CITCC's revenues. We have also leveraged on the strength of CITCC and supporting platform of China Communications Services (Hong Kong) International Limited ("CCSI") to strengthen market expansion in Africa, the Middle East, Latin America, Hong Kong and Macau and Southeast Asia and start to act as the principal contractor for telecommunications projects in regions such as Africa. In 2008, our revenues from overseas business amounted to RMB654 million, representing

[1] CTW refers to CDMA, TD-SCDMA, W-CDMA and their subsequent technologies

an increase of over 50% from 2007. The experiences from domestic telecommunications equipment manufacturers have demonstrated that there are tremendous potential in overseas markets. We will strive to develop overseas business with emphasis on risk control.

Chairman, Mr Li Ping, met with the president of Congo (K)

In 2008, we continued to closely work with parties like telecommunications operators and equipment manufacturers, to jointly develop government agencies and corporate customers markets. We actively undertook the construction of communications facilities for infrastructure and municipal projects, and provided professional solutions and integrated services such as Wide Area Network ("WAN") and Intranet for the informatization constructions by government agencies, schools, hospitals and enterprises (such as domestic large oil companies and insurance companies). In 2008, our revenue from government agencies, corporate and other customers amounted to RMB10,775 million, representing an increase of 26.0% over 2007.

	2008		2007		
(In RMB million except percentages)	**Revenues**	**Percentage to total revenues**	Revenues	Percentage to total revenues	**Increase over 2007**
China Telecom	**15,914**	**49.0%**	11,533	49.0%	38.0%
China Mobile and China Unicom	**5,782**	**17.8%**	3,451	14.7%	67.6%
Government agencies, corporate and other customers	**10,775**	**33.2%**	8,554	36.3%	26.0%
Total	**32,471**	**100.0%**	23,538	100.0%	37.9%

Telecommunications Infrastructure Services

In 2008, the Group's revenue from telecommunications infrastructure services was RMB15,329 million, representing an increase of 38.2% over 2007. The growth rate was accelerated significantly when compared with 2007. Particularly, revenues from design services, construction services and project supervision services were increased by 30.0%, 40.2% and 44.6% respectively.

According to the data published by the MIIT, the investments in fixed assets in domestic telecommunications industry in 2008 amounted to RMB295.37 billion, representing an increase of 29.6% over same period last year, and our revenue from providing telecommunications infrastructure services to the Three Major Operators was increased by 43.7%, indicating that our leader position in operators market was consolidated and strengthened. Three domestic 3G licenses were issued in early 2009. We noticed that the relevant parties had also published their 3G investment plans accordingly. It is anticipated that investments in fixed assets in domestic telecommunications industry in 2009 will continue to increase. We are confident that we can continue to benefit from such increase by utilizing our position as a neutral, professional and integrated comprehensive service provider. At the same time, we also realized that the economic slowdown caused by the global financial crisis has

Satellite communications system construction project in rural Tibet

Satellite communications system construction project in "Chang Cheng" station, South Pole

Base station installation in Tibetan Plateau

Base station installation at Mount Everest

spread to domestic communications industry and will place pressure on the pricing and profitability of our telecommunications infrastructure services.

China is still in the process of industrialization, informatization and urbanization, and there are huge investments in infrastructure and public facilities including highways, railways, subways, airports, ports, and stadiums. We have been working with telecommunications operators to provide ancillary communications engineering services for infrastructure construction and engineering projects, including subway construction in Shanghai, Shenzhen and other cities, and stadium construction for Guangzhou Asian Games and Shanghai World Expo. In 2008, our telecommunications infrastructure services revenue from government agencies, corporate customers and other customers was increased by 17.1%. Under the current economic environment, the Chinese government has indicated that it will further increase its investments in infrastructure construction to stimulate its economic growth. We will grasp this business opportunity to strengthen our cooperations with telecommunications operators and infrastructure companies and endeavour to undertake more ancillary communications engineering projects.

Retail outlet — “ec・one”

Service counter for telecom agency services

Logistic service for TD-SCDMA equipment

Business Process Outsourcing Services

We are the major business process outsourcing service provider for the telecommunications industry of the PRC. By extending our telecommunication infrastructure services along the value chain of telecommunications operators, we provide services like network maintenance, distribution of telecommunications products and services and facilities management. As at the end of 2008, the number of telephone subscribers had reached 982 million, and broadband internet access subscribers reached 83.43 million in China. With the expansion of their network scale and customer base, telecommunications operators gradually outsourced their non-core businesses for service quality improvement and operational efficiency. In 2008, our revenue from business process outsourcing services amounted to RMB13,288 million, representing an increase of 41.9% over 2007. We expect that the expansion of network by telecommunications operators and increase in their number of subscribers over the next few years will continue to drive the increase of outsourcing scale of their non-core businesses.

We provide telecommunications network and equipment maintenance services to telecommunications operators. These services include fiber optic cables, cables, PHS base stations and mobile (including GSM, CDMA and TD-CDMA) base stations, etc. We also provide communications and information system maintenance services to government agencies and corporate customers. In 2008, we undertook more maintenance projects from telecommunications operators, and revenue from maintenance services was increased by 49.4% accordingly. We also provide facilities management service like management of communications equipment rooms. In 2008, the site area of facility management provided by us for our operators and non-operators customers both recorded a double-digit growth, with relevant revenues increased by 15.2%.

In respect of the distribution of telecommunications products and services, we mainly serve the telecommunications operators and telecommunications equipment manufacturers, providing them with services including telecommunications service agency, distribution and retailing of PHS and mobile phones, distribution, logistics and procurement agency services relating to telecommunications machineries (such as fiber optic cables and ADSL modems, etc). In 2008, revenues from the above distribution of telecommunications products and services were increased by 47.4%, amounted to RMB8,985 million. There is a huge demand by our customers for this service and provision of such service will help increase our customer loyalty, with positive contribution to our overall revenues and profits. However, it also negatively impacted our gross profit margin. Therefore, we actively managed and optimized this business, and it has been developed as we expected. In the second half of 2008, our revenues from distribution of telecommunications products and services amounted to RMB4,735 million, growing steadily when compared to RMB4,250 million in the first half of 2008.

Applications, Content and Other Services

The Group provides IT application services to operators, government agencies and corporate customers. These services include system integration, software development and supporting system construction. We also provide individual customers with value-added communications services such as audio information services, and application and contents related Internet services. In 2008, revenue from the above services was increased by 25.1%, amounting to RMB3,853 million.

In 2008, the Group endeavoured to increase its market share in telecommunications operators supporting systems (including OSS, BSS and MSS) and provided corresponding system integration services. At the same time, we also worked with telecommunications operators in satisfying the demand for informatization by government agencies and corporate customers. For example, we participated together in construction of the city security surveillance system in Shenzhen and Dongguan. Revenue from IT application services recorded an increase of 29.2% in 2008. We also increasingly provided call center services to telecommunications operators, government agencies and corporate customers. Revenue from value-added voice services recorded rapid growth, representing an increase of 77.5% over the same period last year.

We believe that there is huge market potential in telecommunications network supporting systems, value-added communications services and Internet business, and the 3G era will bring tremendous business opportunities. In respect of these businesses, we also objectively realize that there are still rooms for enhancement in our service capability and branding. Through various ways like business cooperation and distribution network cooperation, we will work with our strategic partners to build a number of brands and enhance our product offering and service capability.

Surveillance system development

Operational, business and management supporting system (OSS, BSS, MSS) development

Among all the awards granted by MIIT in 2008 for communications engineering design and construction

Over 50% awarded to us

Neutral, Professional

Provide professional telecommunications support services to China Mobile, China Unicom, China Telecom, government agencies and corporate customers for many years as a neutral service provider

Management Discussion & Analysis of Financial Conditions and Results of Operations

Overview

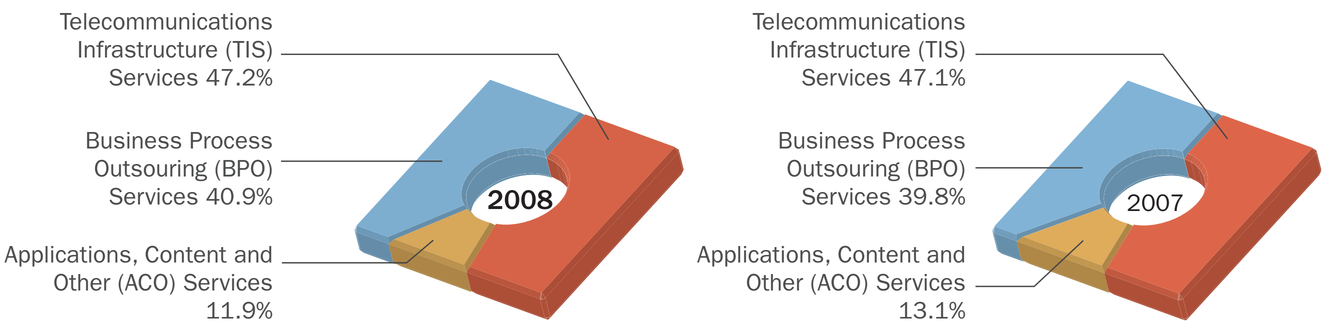
On 30 May 2008, the Company completed the acquisition of the 100% equity interest of China International Telecommunications Construction Corporation ("CITCC") from China National Postal and Telecommunications Appliances Corporation for a consideration of RMB505.46 million. In accordance with the acquisition accounting method under the International Financial Reporting Standards, the results of CITCC were included in the consolidated financial statements of the Group from the date of acquisition to 31 December 2008.

In 2008, there was a tremendous change in the market environment of the domestic telecommunications industry. The telecommunications industry restructuring plan was formally announced, and the PRC government's policy for the granting of 3G licenses became clearer and was finally made in the beginning of 2009. All of the telecommunications operators began to increase their investments in 2G and 3G network construction, capacity expansion and optimization, thus providing new opportunities for our Group. As we were fully prepared for the aforementioned changes, our major businesses grew strongly in 2008 and we achieved favourable operating results. Our revenues amounted to RMB32,470.57 million, an increase of 37.9% from 2007. Profit attributable to equity shareholders of the Company was RMB1,316.27 million, an increase of 12.8% from 2007. Basic earnings per share were RMB0.232, an increase of 8.4% from 2007. The free cash flow amounted to RMB1,271.12 million.

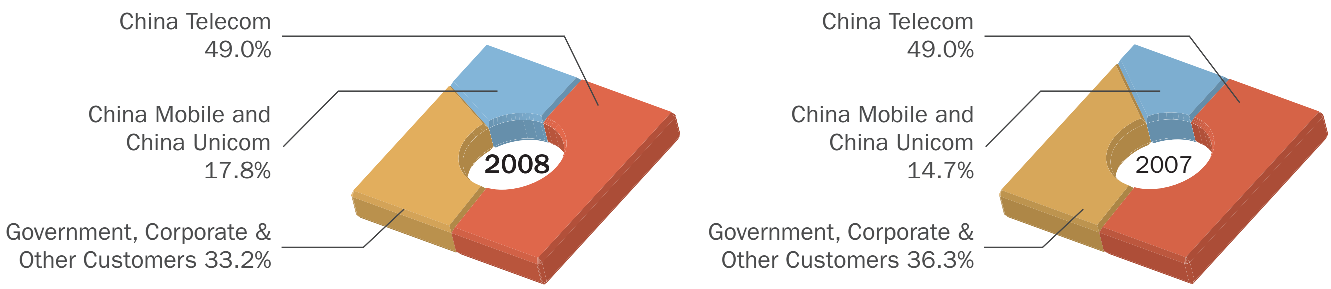
Revenues

Our revenues in 2008 were RMB32,470.57 million, an increase of 37.9% from 2007. Among our businesses, revenue from telecommunications infrastructure services was RMB15,329.46 million, an increase of 38.2% from 2007; revenue from business process outsourcing services was RMB13,288.37 million, an increase of 41.9% from 2007; revenue from applications, content and other services was RMB3,852.74 million, an increase of 25.1% from 2007. Telecommunications infrastructure services and business process outsourcing services were the major sources of our revenue growth in 2008. In terms of customer structure, the Group's revenues from our customers other than China Telecom amounted to RMB16,557.28 million, representing 51.0% of the total revenues, which was at the same level of 2007.

Business Mix



Customer Mix



The following table sets forth a breakdown of our revenues for 2007 and 2008, together with their respective rate of change:

	2008 RMB'000	2007 RMB'000	Percentage change
Telecommunications Infrastructure Services			
Design services	**3,166,637**	2,436,345	30.0%
Construction services	**11,316,088**	8,071,188	40.2%
Project supervision and management services	**846,739**	585,474	44.6%
	15,329,464	11,093,007	38.2%
Business Process Outsourcing Services			
Network maintenance	**2,349,901**	1,572,953	49.4%
Distribution of telecommunications services and products	**8,985,256**	6,097,148	47.4%
Facilities management	**1,953,213**	1,695,051	15.2%
	13,288,370	9,365,152	41.9%
Applications, Content and Other Services			
IT applications	**1,997,523**	1,546,478	29.2%
Internet service	**361,170**	478,022	–24.4%
Voice VAS	**578,071**	325,661	77.5%
Other	**915,972**	730,061	25.5%
	3,852,736	3,080,222	25.1%
Total	**32,470,570**	23,538,381	37.9%

Telecommunications Infrastructure Services

In 2008, our revenue from telecommunications infrastructure services was RMB15,329.46 million, which still remained as our primary source of income, and accounted for 47.2% of our revenues. As the telecommunications industry restructuring proposal was finalized and the PRC government's policy for granting 3G licenses became clearer, telecommunications operators began to increase their investments in network construction and optimization, providing tremendous opportunities to our Group. Given that we were well prepared for these opportunities, we were able to respond in a timely manner to telecommunications operators' demand and provide strong business support. Accordingly, our telecommunications infrastructure services business achieved substantial growth, and revenue from this business was increased by 38.2% in 2008 from RMB11,093.01 million in 2007.

Business Process Outsourcing Services

In 2008, our revenue from business process outsourcing services was RMB13,288.37 million, representing an increase of 41.9% over RMB9,365.15 million for 2007. Business process outsourcing services accounted for 40.9% of our revenues, representing an increase of 1.1 percentage points from 39.8% in 2007. Among our businesses, revenue from network maintenance was RMB2,349.90 million, representing an increase of 49.4% from 2007. It was mainly due to the telecommunications operators increasing their network capacity and continuing to actively progress with outsourcing of network maintenance with the purpose of improving service quality and lowering operating costs. In addition, revenues from distribution of telecommunications services and products amounted to RMB8,985.26 million, an increase of 47.4% from 2007. This increase mainly benefited from the strong growth in demand for telecommunications machinery and terminals by telecommunications operators. At the same time, the Group adjusted and optimized the business structure of our distribution of telecommunications services and products, and actively controlled the development of low-margin businesses to reduce operational risks and improve operational efficiency. Revenues from our distribution of telecommunications services and products in the second half of 2008 grew stably over the first half of the year.

Applications, Content and Other Services

In 2008, our revenue from applications, content and other service was RMB3,852.74 million, representing an increase of 25.1% over RMB3,080.22 million for 2007. Owing to the substantial growth in telecommunications infrastructure services and business process outsourcing services over the previous year, the proportion of revenue from applications, content and other service to our revenues was reduced to 11.9%, representing a decrease of 1.2 percentage points from 13.1% in 2007. Among the businesses, revenue from IT applications amounted to RMB1,997.52 million, representing an increase of 29.2% from 2007. Revenue from voice VAS was RMB578.07 million, representing an increase of 77.5% from 2007. The growth in these businesses was mainly attributed to the gradual implementation of call centres services outsourcing by telecommunications operators, and the Group's active expansion of businesses such as system integration to cope with the demand for informationization from government agencies and corporate customers. Revenues from Internet services amounted to RMB361.17 million, representing a decrease of 24.4% from 2007. In 2008, the Group further integrated this business in order to enhance its operational efficiency.

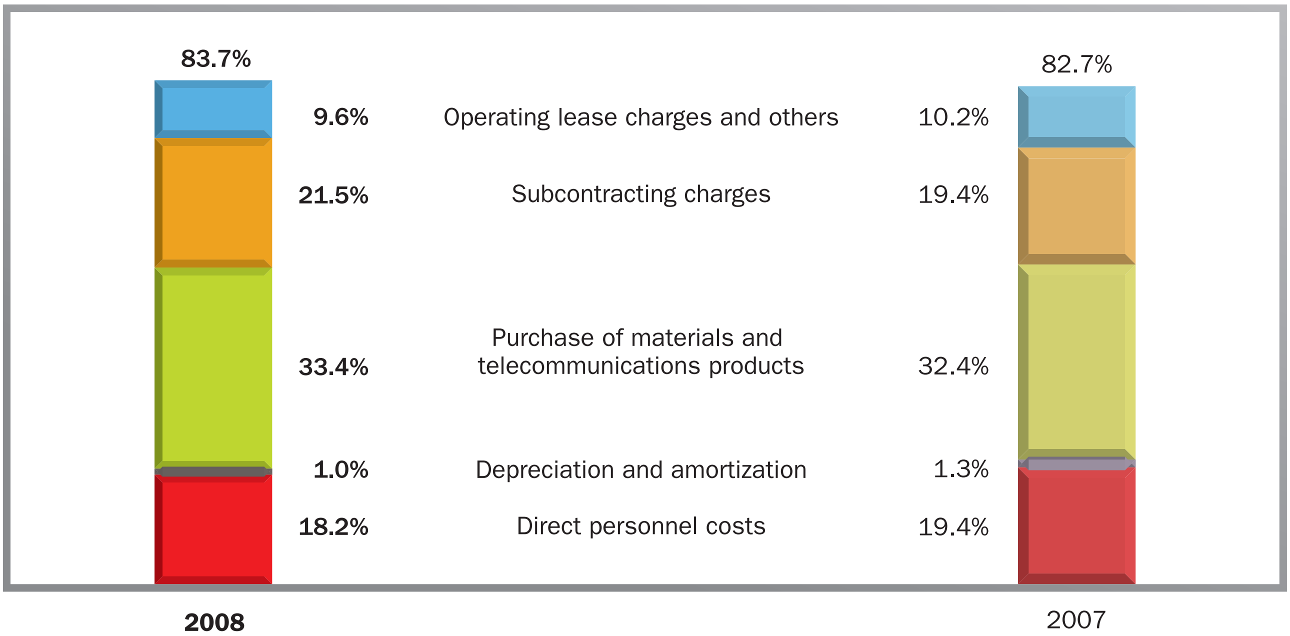
Cost of Revenues

Our cost of revenues in 2008 was RMB27,169.73 million, representing an increase of 39.5% from 2007 and accounting for 83.7% of our revenues.

The following table sets out a breakdown of our cost of revenues in 2007 and 2008 and their respective rate of change:

	2008 RMB'000	2007 RMB'000	Percentage change
Direct personnel costs	**5,921,374**	4,556,857	29.9%
Depreciation and amortization	**334,590**	305,205	9.6%
Purchase of materials and telecommunications products	**10,829,497**	7,632,433	41.9%
Subcontracting charges	**6,966,405**	4,577,237	52.2%
Operating lease charges and others	**3,117,862**	2,401,900	29.8%
Total cost of revenues	**27,169,728**	19,473,632	39.5%

Cost of revenues as the percentage of total revenues



Direct Personnel Costs

In 2008, direct personnel costs were RMB5,921.37 million, which accounted for 18.2% of our revenues and an increase of 29.9% over RMB4,556.86 million in 2007. The Group has always applied stringent control over its total headcount. After the formal announcement of telecommunications industry restructuring in 2008, the Group's business volume increased significantly. In order to respond promptly to this increase in demand for our business, we increased our recruitment of temporary workers to cope with ad hoc workforce demand and satisfy operators' tight work schedule. This expenditure item was the main reason for a rapid growth in our labour costs.

Depreciation and Amortization

In 2008, depreciation and amortization amounted to RMB334.59 million, which accounted for 1.0% of our revenues and represented an increase of 9.6% over RMB305.21 million in 2007.

Purchase of Materials and Telecommunications Products

In 2008, our businesses of distribution of telecommunications services and products and telecommunications infrastructure construction grew strongly, resulting in a significant increase in our revenues. Accordingly, the cost of purchasing materials and telecommunications products increased significantly, amounting to RMB10,829.50 million, representing 33.4% of revenues and an increase of 41.9% over RMB7,632.43 million in 2007. Among the cost, the amount of telecommunications products purchases was RMB7,304.39 million, representing an increase of 47.7% over RMB4,944.18 million in 2007, and that of construction material purchases was RMB3,525.11 million, representing an increase of 31.1% over RMB2,688.26 million in 2007.

Subcontracting Charges

In 2008, subcontracting charges were RMB6,966.41 million, which accounted for 21.5% of our revenues and represented an increase of 52.2% over RMB4,577.24 million in 2007. The increase in subcontracting charges was mainly derived from telecommunications infrastructure construction services. As the volume of our business increased significantly in 2008, we outsourced our low-end business (such as pipeline and cable related construction work) in telecommunications network construction, and this caused a substantial increase in subcontracting charges for the year.

Operating Lease Charges and Others

In 2008, operating lease charges and others were RMB3,117.86 million, which accounted for 9.6% of our revenues and represented an increase of 29.8% over RMB2,401.90 million in 2007.

Gross Profit

In 2008, the Group's gross profit amounted to RMB5,300.84 million, representing an increase of RMB1,236.09 million from RMB4,064.75 million in 2007, representing an increase of 30.4%. The Group's gross profit margin in 2008 was 16.3%, representing a decrease of 1.0 percentage point over 17.3% in 2007. The decrease in our gross profit margin when compared to 2007 was mainly attributable to the Group's adoption of a more competitive pricing strategy in order to capture more business opportunities that emerged after the telecommunications industry restructuring.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses in 2008 were RMB3,854.38 million, representing an increase of 37.9% over RMB2,794.66 million in 2007, which accounted for 11.9% of revenues and was maintained at the same level as in 2007. We will strengthen our comprehensive budget management and performance appraisal to effectively control excessive growth in our selling, general and administrative expenses.

Net Financing (Expense)/Income

In 2008, we recorded net financing costs of RMB77.70 million, whereas we recorded net financing income of RMB41.68 million in 2007. This change was mainly due to the Group's borrowings totalling RMB1.6 billion to fund acquisitions of our parent company's specialized telecommunications support services businesses ("Target Business") in 13 provinces (municipality and autonomous regions) in 2007. This borrowing caused a substantial increase in the Group's financing costs in 2008 and also had a negative impact on our net profit.

Income Tax

Certain subsidiaries of our Group, which were classified as new and high-technology enterprises, are subject to a preferential income tax rate of 15%. Our subsidiaries located in Hainan Province, and Shenzhen, Zhuhai and Xiamen Special Economic Zones are subject to an income tax rate of 18%. Apart from these companies, the Company and other subsidiaries of the Group are subject to an income tax rate of 25%. The income tax in 2008 was RMB401.42 million and our effective tax rate was 23.2%. The difference between our effective tax rate and the statutory tax rate was mainly due to the effect of the aforementioned preferential tax rate treatment of our subsidiaries.

Profit Attributable to Equity Shareholders

In 2008, profit attributable to equity shareholders of the Company was RMB1,316.27 million, an increase of 12.8% over RMB1,167.25 million in 2007.

Capital Expenditure

We implemented stringent budget management, and adjusted our capital expenditure plan to accord with changes in market condition. In 2008, our capital expenditure amounted to RMB707.14 million, and remained at a similar level to RMB719.54 million in 2007. The capital expenditure in 2008 represented 2.2% of our total revenues, a decrease of 0.9 percentage point when compared to 2007. Our capital expenditure included the purchases of production facilities and equipment, machinery and meters, vehicles, office equipments, plant and buildings, intangible assets and other operating assets.

Cash Flow and Capital Resources

Cash Flow

In 2008, our net cash inflow was RMB1,783.41 million. In 2007, our net cash outflow was RMB1,530.37 million. By the end of 2008, our cash and cash equivalents amounted to RMB8,415.01 million, of which, 99.2% was Renminbi in cash.

The following table sets out our cash flow position in 2007 and 2008, respectively:

	2008 RMB'000	2007 RMB'000
Net cash generated from operating activities	**1,950,309**	1,663,776
Net cash used in investing activities	**(43,609)**	(5,183,186)
Net cash (used in)/generated from financing activities	**(123,291)**	1,989,038
Net increase/(decrease) in cash and cash equivalents	**1,783,409**	(1,530,372)

In 2008, our net cash generated from operating activities was RMB1,950.31 million, an increase of RMB286.53 million from RMB1,663.78 million in 2007. The significant increase in net cash inflow from operating activities was mainly due to the rapid development of our operations and the improvement of our working capital management.

In 2008, our net cash used in investing activities was RMB43.61 million, a decrease of RMB5,139.58 million from RMB5,183.19 million in 2007. This was mainly due to the Company's acquisition of the Target Business for a consideration of RMB4.6 billion in 2007. The cash used in investing activities during the year included cash paid for the acquisition of CITCC and the cash brought into our Group by CITCC.

In 2008, our net cash used in financing activities was RMB123.29 million. In 2007, net cash generated from financing activities was RMB1,989.04 million. The change in cash flow of financing activities in our Group during 2008 was mainly attributable to the proceeds from our share placement in April 2008 and the cash used for the repayment of short-term debts.

Working Capital

By the end of 2008, our working capital (i.e. non-cash current assets minus operating current liabilities) was RMB68.54 million, representing a decrease of RMB345.56 million from RMB414.10 million in 2007. With the substantial growth in our revenues, we strengthened our accounts receivable management and obtained better credit terms.

Indebtedness

By the end of 2008, total indebtedness of the Group was RMB1,954.43 million, and most of them were fixed interest rate loans and denominated in RMB. Our indebtedness decreased by RMB606.79 million from RMB2,561.22 million at the year end of 2007. The Company completed the acquisitions of the Target Business in 2007, and, by way of debt financing, raised RMB1.6 billion by the end of 2007. Through strengthening the centralized cash management, the Group repaid RMB0.6 billion by the end of 2008, leaving RMB1.0 billion outstanding. All other new loans in 2008 were short-term borrowings made by our subsidiaries to supplement their working capital requirements.

By the end of 2008, our gearing ratio[1] was 14.0%, a decrease of 7.1 percentage points from 21.1% in 2007.

Contractual Obligations

The following table sets out our contractual obligations as at 31 December 2008:

	Total RMB'000	2009 RMB'000	2010 RMB'000	2011 RMB'000	2012 RMB'000	2013 and after RMB'000
Short-term debt	1,954,426	1,954,426	—	—	—	—
Long-term debt	—	—	—	—	—	—
Operating lease commitments	214,103	95,227	55,805	28,756	16,323	17,992
Capital commitments	353,274	353,274	—	—	—	—
Of which:						
Authorized and contracted for	163,397	163,397	—	—	—	—
Authorized but not contracted for	189,877	189,877	—	—	—	—
Total of contractual obligations	2,521,803	2,402,927	55,805	28,756	16,323	17,992

(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.

Exchange Rate

Most of our revenues and expenses are settled in Renminbi. Therefore the risks associated with foreign currency exchange rates have no significant impact on our business performance. By the end of 2008, the balance of our cash and cash equivalents in foreign currencies accounted for 0.8% of our total cash and cash equivalents.

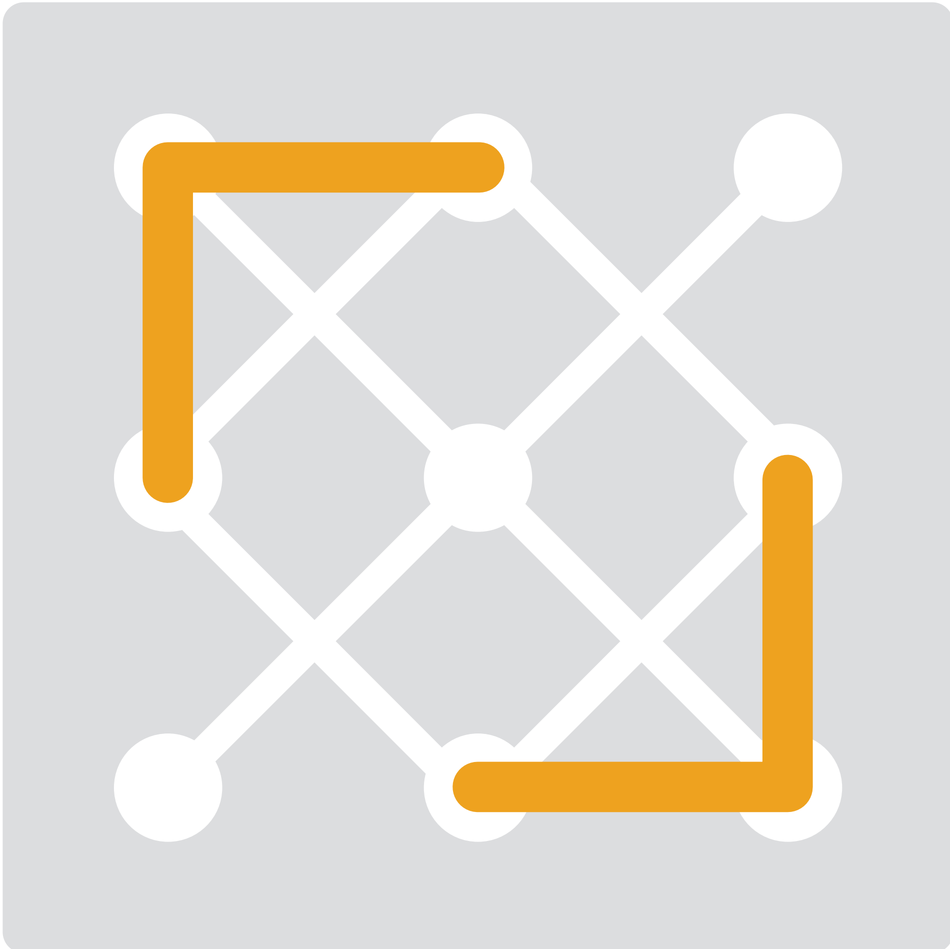
Acquisitions and Integration

In May 2008, the Company completed its acquisition of CITCC. After completion of the acquisition, the Company immediately implemented integration of CITCC within the Group and has achieved a smooth transition. This further improved our overall competitiveness and enhanced the Group's strength in the northern provinces of China and overseas markets. For the period from the date of acquisition to the end of 2008, the operating results of CITCC fully reached our targets, with revenues and profits attributable to the shareholders of the Company amounting to RMB1,689.60 million and RMB41.10 million respectively. With further integration, we believe the operating results of the Group will continue to improve. Furthermore, the Group will also continue to implement the development strategy in combining our organic growth and external expansion to bring greater value to our shareholders.

In 2008,
Revenue from Three Major Operator Customers up by 45%

Revenue from Government Agencies and Corporate Customers up by 26%

Focusing on customers



Focus on the business needs of operator customers
in the 3G era and the opportunities from informatization construction
of government agencies and corporate customers

Directors, Supervisors and Senior Management

Mr. WANG Xiaochu

Age 51, is the Honorary Chairman[1] of our Company. Mr. Wang is also President of China Telecommunications Corporation, Chairman and Chief Executive Officer of China Telecom Corporation Limited. Until 8 April 2008, Mr. Wang was the Chairman and non-executive director of the Company.

Mr. LI Ping

Age 55, is the Chairman of our Board of Directors and an Executive Director of our Company. Until 8 April 2008, Mr. Li was the Vice Chairman of our Board of Directors and our Chief Executive Officer. 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 held positions such as the Chairman and President of China Telecom (Hong Kong) International Limited, Vice Chairman and Executive Vice President 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 was the Joint Company Secretary of China Telecom Corporation Limited until 26 October 2006 and an Executive Director of China Telecom Corporation Limited until 8 September 2008. Mr Li graduated from the Beijing Institute of Posts and Telecommunications in 1976 with a major in Radio Telecommunications and is a senior engineer. 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 33 years of operational and management 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. ZHANG Zhiyong

Age 44, is the President and an Executive Director of our Company, in charge of operations, business development, mergers and acquisitions. Until 8 April 2008, Mr. Zhang was our Executive Vice President and Chief Operating Officer. Mr. Zhang is also the Managing Director of the Sideline Industrial Management Department of China Telecommunications Corporation. Mr. Zhang received a bachelor's degree in Radio Engineering from the Changchun Institute of Posts and Telecommunications in 1986 and received a master's degree in Control Engineering from the Yanshan University in 2002 and an MBA from the BI Norwegian School of Management in 2005. Prior to joining China Telecommunications Corporation in November 2002, Mr. Zhang served as Deputy Director of the Qinhuangdao City Posts and Telecommunications Bureau, Director of the Qinhuangdao City Telecommunications Bureau, General Manager of Hebei Telecom Company Limited, Qinhuangdao Branch, and Deputy General Manager of China Telecom Beijing Telecom Co. Ltd. Mr. Zhang has 23 years of operational and management experience in the telecommunications industry in China.

Mr. YUAN Jianxing

Age 54, is an Executive Director, Executive Vice President and Chief Financial Officer of our Company. Mr. Yuan received an MBA degree from the Ukrainian-American Humanitarian Institute "Wisconsin International University (USA) Ukraine" in 2002. Mr. Yuan served as Vice President and General Accountant of Hunan Telecom Company Limited from September 2004 to October 2006. Prior to that, he served as the Finance Department Director of Shanxi Provincial Post and Telecommunications Bureau, the General Manager of Shanxi Provincial Posts and Telecommunications Industrial Company, Director of Xinzhou Post 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 and Deputy Managing Director of the Sideline Industrial Management Department of China Telecommunications Corporation. Mr. Yuan has over 31 year experience in the telecommunications industry.

Mr. LIU Aili

Age 45, 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 Chairman of CMPak Limited, Pakistan. Mr. Liu graduated from Heilongjiang Posts and Telecommunications School with an associate degree and completed a post-graduate program in economics at Shandong University. Mr. Liu also received a master of management degree from the Norwegian School of Management BI and a doctoral degree in Business Administration from Hong Kong Polytechnic University. Mr. Liu previously served as Deputy Director General of Shandong Mobile Telecommunications Administration, Director General of Shandong Mobile Telecommunications Administration and General Manager of Shandong Mobile Communications Enterprises, Vice President of Shandong Mobile Communications Company, Director-General of the Network Department of China Mobile Communications Corporation, Chairman and President of Shandong Mobile and Zhejiang Mobile. He is a professor-level senior engineer with over 26 years of management experience in the telecommunications industry.

Mr. ZHANG Junan

Age 52, is a Non-Executive Director of our Company. Mr. Zhang is a Vice President of China United Network Communications Group Company Limited (previously known as China United Telecommunications Corporation) ("China Unicom"), a Senior Vice President of China Unicom (Hong Kong) Limited (previously known as China Unicom Limited) and the President of China United Telecommunications Corporation Mobile Communications Company Limited. Until 15 October 2008, Mr. Zhang was an Executive Director of China Unicom (Hong Kong) Limited. Mr. Zhang graduated from the Nanjing University of Posts and Telecommunications majoring in carrier communication in 1982, received a master's degree in Business Administration from the National Australian University in 2002 and received a Doctor of Business Administration from Hong Kong Polytechnic University in October 2008. Prior to joining China Unicom in December 2005, Mr. Zhang served as Deputy General Manager and General Manager of the Anhui Provincial Telecommunication Company, and Chairman and General Manager of Anhui Provincial Telecommunication Co., Ltd. Mr. Zhang had served as Director of Bengbu Municipal Posts and Telecommunications Bureau in Anhui Province and Deputy Director of Anhui Provincial Posts and Telecommunications Bureau. Mr. Zhang has long and extensive management experience in the telecommunications industry.

Mr. WANG Jun

Age 68, 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 54, is an Independent Non-Executive Director of our Company. Mr. Chan is a member of the Legislative Council of HKSAR, representing the Accountancy Constituency. He is the Chairman of PCP CPA Limited. He is also an Independent Non-Executive Director of publicly listed Kingmaker Footwear Holdings Limited, Hong Kong Economic Times Holdings Limited and The Wharf (Holdings) Limited. Until 1 January 2009, Mr. Chan was an Independent Non-Executive Director of China Resources Land Limited. Mr. Chan is a graduate of The Chinese University of Hong Kong where he obtained both his bachelor's and master's degrees in Business Administration. Mr. Chan is a Practising Certified Public Accountant in Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the Association of Chartered Certified Accountants ("ACCA"), CPA Australia, the Society of Chinese Accountants and Auditors, the Taxation Institute of Hong Kong and the Hong Kong Institute of Company Secretaries. Mr. Chan has over 30 years' experience in both professional and commercial fields and is a former president of the HKICPA and a former Chairman of the ACCA — Hong Kong. In 2006, he was awarded a Medal of Honour by the Government of HKSAR and in 2007, he was appointed a Justice of the Peace. In 2008, he was appointed a member of Shanghai City's Chinese People's Political Consultative Conference. In February 2008, he has also been appointed as an advisor to the Accounting Standards Committee of the Ministry of Finance of PRC.

Mr. ZHAO Chunjun

Age 68, is an Independent Non-Executive Director of our Company. Mr. Zhao is an Independent Non-Executive Director of Daheng New Epoch Technology, Inc., a company listed in the PRC. Mr. Zhao is also a Supervisor of Tsinghua Tongfang Co., Limited, which is also a company listed in the PRC. Mr. Zhao graduated from Tsinghua University in the PRC. He was Dean of the School of Economics and Management of Tsinghua University between June 2001 and October 2005, having previously served as First Vice Dean between January 1987 and June 2001.

Mr. WU Shangzhi

Age 59, is an Independent Non-Executive Director of our Company. Mr. Wu is the founder and Managing Partner of CDH China Holdings Management Company Limited ("CDH"). Prior to joining CDH, Mr. Wu was a general manager of the Direct Investment Department, Managing Director and member of the Management Committee of China International Capital Corporation (CICC) and he was also a Director of Focus Media Holdings Limited, a company listed on Nasdaq in the United States. Mr. Wu served as an Officer at the World Bank and the International Finance Corporation from 1984 to 1993. Mr. Wu graduated from the Massachusetts Institute of Technology with a Ph.D. degree in Mechanical Engineering and a M.S. in Management of Technology.

Mr. HAO Weimin

Age 74, is an Independent Non-Executive Director of our Company. Mr. Hao graduated from the PLA Zhangjiakou Institute of Communications Engineering, and the Beijing Institute of Posts and Telecommunications in 1953 and 1963 respectively. He is a professor-level senior engineer with over 50 years' experience in the telecommunications industry. Mr. Hao is the Vice Chairman of the China Association of Communications Enterprises and is also a standing committee member of the telecommunication technology committee and the radio frequency planning and consulting committee of the Ministry of Industry and Information Technology (previously known as Ministry of Information and Posts). From 1983 to 1986, Mr. Hao was sent to the United States as a visiting scholar to carry out telecommunications research on GTE Network Systems at Stanford University. Mr. Hao has been involved in management and research projects in the fields of management of technology, data communication, satellite communication, network planning and international communication since his return from the United States. Mr. Hao was a Deputy Director-General and Chief Engineer of the DGT of the former MPT and a Vice Chairman and the General Manager of China Orient Telecomm Satellite Co., Limited prior to December 2003.

Supervisors

Ms. XIA Jianghua, age 50, is Chairperson of the Supervisory Committee. Ms. Xia is Vice Director of Auditing Office and Division-Director of its Construction Auditing Division of China Telecommunications Corporation. Ms. Xia is also a Supervisor of China Telecom Group North Corporation. Ms. Xia is a senior auditor. Prior to joining China Telecommunications Corporation, Ms. Xia 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 24 year management and auditing experience in the telecommunications industry.

Mr. HAI Liancheng, age 64, is an Independent Supervisor of our Company. Mr. Hai studied at the Civil Aviation College and Chinese Communist Party's (CPC) School, and obtained a college diploma. Mr. Hai has served as Vice-Divisional Director and Divisional Director of the Financial Division of the Financial Department of CAAC, Vice-Director and Director of the Financial Department of CAAC, General Manager of China Aviation Oil Supply Corporation, and Vice General Manager of China Aviation Oil Holding Company. From September 2001 to February 2006, Mr. Hai served as Chairman of South China BlueSky Aviation Oil Co., Ltd and China Aviation Oil Corporation Ltd. Mr. Hai is the Director General of the Civil Aviation Administration of China (CAAC) Sub-association of the China Association of Chief Financial Officers and Chairman of the CAAC Training Centre for Accounting and Auditing since January 2006. Mr. Hai is employed by PICC Property and Casualty Co. Ltd. as consultant since June 2007. Since October 2007, Mr. Hai is the Chairman of Zhong Peng Certified Public Accountants Ltd.

Mr. YAN Dong, age 37, is an Employee Representative Supervisor of our Company. Mr. Yan is the Divisional Director of the Risk Management Department of the Company. Mr. Yan is Deputy Director and Chief Financial Officer of China International Telecommunications Construction Corporation. He is also the Divisional Director of the Operational Division of the Sideline Industrial Management Department of China Telecommunications 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. Mr. Yan has served as Director of Shandong Luxin Property Investment and Development Co., Ltd., Shandong International Investment Industries Corporation, and Yantai Zhenghai Electronic Mask Co., Ltd.

Mr. LIU Xiaoyi Mr. WANG Qi Mr. ZHANG Zhiyong Mr. LI Ping Mr. YUAN Jianxing Mr. LI Jian

Management

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

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

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

Mr. WANG Qi, age 53, is an Executive Vice President of our Company. Until 11 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 35 years of management experience in the telecommunications industry in China.

Mr. LI Jian, age 47, is an Executive Vice President of our Company. Mr. Li is Deputy Managing Director of the Sideline Industrial Management Department of China Telecommunications Corporation. Mr. Li graduated from Beijing Radio and Television University in 1986 with a major in Accounting and obtained a master's degree in International Management from Australian National University. Prior to joining China Telecommunications Corporation in May 2000, Mr. Li was a Director of the Treasury Division of the Department of Finance of the Ministry of Posts and Telecommunications. He then moved to China Telecommunications Corporation to take up the post of Director of the Treasury Division and Assets Division, and Director of the General Affairs and Assets Division under the Department of Finance. Mr. Li had also served as Chairman and President of China Telecom (Hong Kong) International Limited and Managing Director of the Investor Relations Department of China Telecom Corporation Limited. Mr. Li is an Accountant and has 27 years of operational and management experience in the telecommunications industry in China.

Mr. LIU Xiaoyi, age 41, is an Executive Vice President of our Company. Mr. Liu received a bachelor's degree in Communications Engineering from the Beijing Institute of Posts and Telecommunications in 1989, a master's degree in Communications Engineering from the Beijing University of Posts and Telecommunications in 1994, and an MBA degree from Tsinghua University in 2001. Mr. Liu joined China Telecommunications Corporation in October 2000 and served as a Director of the Data Business Division and as a Senior Manager of the International Division. From June 2002 to September 2006, Mr. Liu was Vice President of China Telecom (USA) Corporation. Mr. Liu has over 20 years' experience in the telecommunications industry.

Company Secretary

Mr. CHUNG Wai Cheung, Terence, age 35, 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 13 years of experience in auditing, financial management and company secretarial work with accounting firms and listed companies.

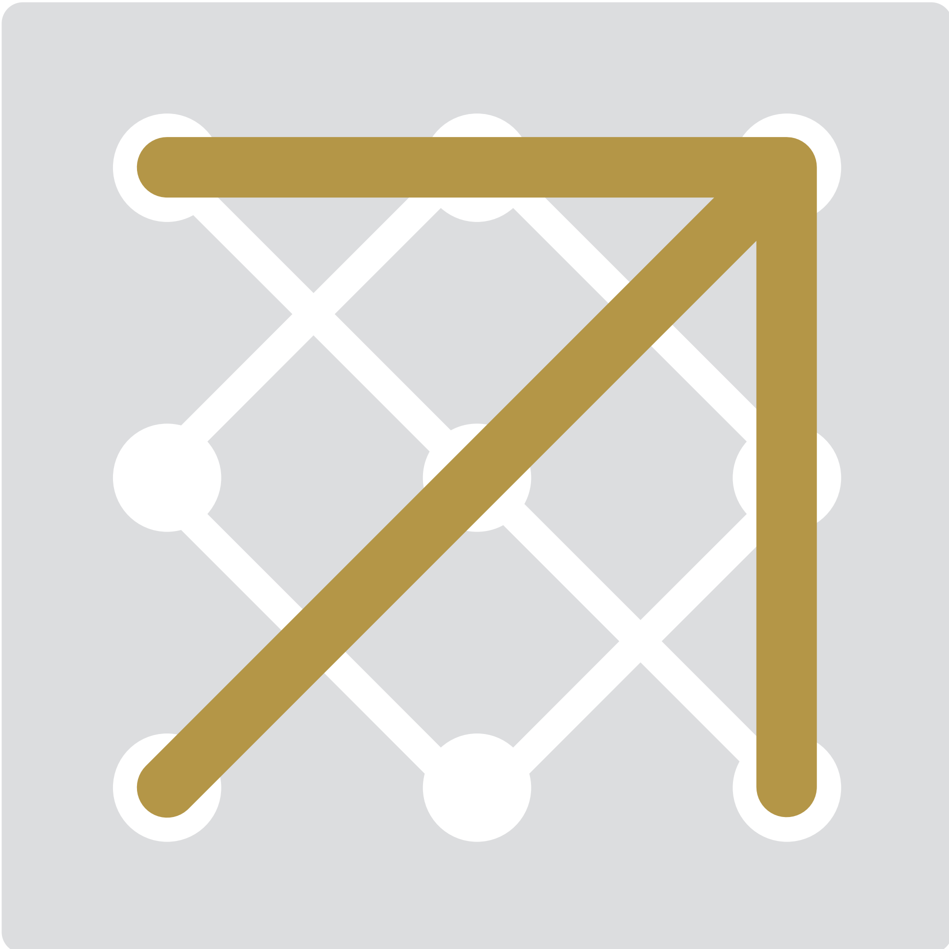
Revenue from overseas businesses up by more than

50%

Mainly focus on

5 regions

Developing overseas businesses



Mainly focus on expansion in regions like Africa, Latin America, the Middle East, Hong Kong, Macau, and Southeast Asia. Develop network planning, design, consulting and construction, and overall network outsourcing businesses

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 2008.

Principal Businesses

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

Results

Results of the Group for the year ended 31 December 2008 and the financial position of the Company and the Group as at that date are set out in the audited financial statements on page 86 to page 93 in this Annual Report.

Dividends

The Board proposed a cash dividend of RMB0.0913 per share for the year ended 31 December 2008, approximately RMB527 million in total. The proposed dividends will be submitted for consideration and approval at the 2008 annual general meeting to be held on 9 June 2009. 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 dollar as announced by the People's Bank of China for the week prior to the date of approval of declaration of dividends at the 2008 general meeting.

Further details in respect of the dividends and distribution of the Company are set out in note 14 of the audited financial statements on page 119 of this Annual Report.

According to the "Corporate Income Tax Law of the People's Republic of China" and the "Implementation Rules of the Corporate Income Tax Law of the People's Republic of China" (hereinafter collectively referred to as "Corporate Income Tax Laws") implemented in 2008, as from 1 January 2008, any PRC domestic enterprise which pays dividend to a non-resident enterprise shareholder shall withhold and pay corporate income tax for such shareholder. Therefore, the Company shall withhold and pay 10% corporate income tax when the Company distributes the 2008 final dividend to non-resident enterprise shareholders (including HKSCC Nominees Limited, corporate nominees or trustees, or other organizations or entities that are considered non-resident enterprise shareholders) whose names appear on the register of H shareholders of the Company. In the event that the shareholders of the Company needs to change their names in the register of members of the Company, they need consult their nominees or trustees about the relevant procedures. The Company will abide by the Corporate Income Tax Laws and withhold and pay the corporate income tax for non-resident enterprise shareholders whose names appear on the H shareholders register of the Company on 9 June 2009. The Company will not be responsible for and will reject any disputes that arise from our withholding and paying corporate income tax due to a shareholder's failure in submitting documentation proof to the Company within the stated deadline.

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
Zhang Zhiyong	President Executive Director	8 April 2008 12 December 2007
Yuan Jianxing	Executive Director Executive Vice President and Chief Financial Officer	12 December 2007 16 October 2006
Liu Aili	Non-executive Director	12 October 2006
Zhang Junan	Non-executive Director	12 October 2006
Wang Jun	Independent Non-executive Director	26 September 2006
Chan Mo Po, Paul	Independent Non-executive Director	26 September 2006
Zhao Chunjun	Independent Non-executive Director	26 September 2006
Wu Shangzhi	Independent Non-executive Director	26 September 2006
Hao Weimin	Independent Non-executive Director	27 October 2006
Wang Qi	Executive Vice President	16 October 2006
Li Jian	Executive Vice President	16 October 2006
Liu Xiaoyi	Executive Vice President	16 October 2006
Chung Wai Cheung, Terence	Company Secretary, Assistant Chief Financial Officer and Qualified Accountant	16 October 2006

On 8 April 2008, the Board approved the resignation of Mr. Wang Xiaochu as Non-executive Director and Chairman of the Company and the appointment of Mr. Wang Xiaochu as Honorary Chairman[1] of the Company, the resignation of Mr. Li Ping as Vice Chairman and Chief Executive Officer of the Company and the appointment of Mr. Li Ping as Chairman of the Company, the resignation of Mr. Zhang Zhiyong as Executive Vice President of the Company and the appointment of Mr. Zhang Zhiyong as President of the Company.

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

In October 2008, Mr. Li Dazhi resigned from the position of Chief Executive Officer of Gansu Communications Services Company Limited and the position was taken by Mr. Ren Chengyin.

In November 2008, Mr. Wang Qi resigned from the position of Chief Executive Officer of Guangdong Communications Services Company Limited and the position was taken by Mr. Chen Zhiran. In February 2009, Mr. Chen Zhiran resigned from the position of Chief Executive Officer of Guangdong Communications Services Company Limited and the position was taken by Mr. Chen Hong.

In February 2009, Mr. Niu Jiangong resigned from the position of Chief Executive Officer of Xinjiang Communications Services Company Limited and the position was taken by Mr. Hou Zhilong.

Supervisors of the Company

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

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

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

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 at the The Stock Exchange of Hong Kong Limited ("Stock Exchange").

On 9 April 2008, the Company announced the completion of placing a total of 359,365,600 H shares, including an issue of 326,696,000 new H shares and an issue of 32,669,600 H shares placed on behalf of NSSF upon conversion of the same number of existing domestic shares of the Company allocated to NSSF by China Telecommunications Corporation ("China Telecom"). After the completion of placing, the total issued shares of the Company increased to 5,771,682,000 shares, of which 1,992,850,200 shares were H shares. As at 31 December 2008, 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 comprises of the followings:

Shares	Number of shares	Approximate % of issued share capital
Domestic shares (Total)	3,778,831,800	65.47%
Domestic shares held by:		
China Telecommunications Corporation(1)(2)	3,454,854,182	59.86%
Guangdong Telecom Industry Group Corporation(1)(2)	236,313,086	4.09%
Zhejiang Telecom Industry Corporation(1)(2)	87,664,532	1.52%
H shares (Total)	1,992,850,200	34.53%
Total	5,771,682,000	100%

(1) Each of Guangdong Telecom Industry Group Corporation ("GTIGC") and Zhejiang Telecom Industry Corporation ("ZTIC") is 100% owned by China Telecom.

(2) As disclosed in the Company's prospectus 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. China Telecom would hold the said portion of shares until the date on which the conditions precedent to the equity transfers were met. As disclosed in the Company's announcement dated 25 March 2009, the equity transfers were formally completed and bacame effective on 24 March 2009. At the same date, GTIGC and ZTIC completed the transfer of 236,313,086 and 87,664,532 domestic shares to China Telecom respectively. After the completion of the aforementioned equity transfers, China Telecom, China Mobile and China Unicom hold 52.60%, 8.78% and 4.09% of the issued shares of the Company respectively.

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

As at 31 December 2008, 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[1][2]	Domestic shares	Beneficial owner	3,778,831,800	100.00	65.47
China Mobile Communications Corporation[2]	Domestic shares	Beneficial owner	506,880,000	13.30	8.78
Guangdong Telecom Industry Group Corporation[1]	Domestic shares	Beneficial owner	236,313,086	6.25	4.09
China United Telecommunications Corporation[2]	Domestic shares	Beneficial owner	236,300,000	6.20	4.09
Commonwealth Bank of Australia	H shares	Interest of corporation controlled by the substantial shareholder	198,768,164 (L)	9.97	3.44
JPMorgan Chase & Co.	H shares	Beneficial owner	6,378,500 (L)		
		Custodian corporation/ approved lending agent	169,744,000 (L)		
			176,122,500 (L)	8.84	3.05
		Beneficial owner	6,698,000 (S)	0.34	0.12
		Custodian corporation/ approved lending agent	169,744,000 (P)	8.52	2.94
Invesco Hong Kong Limited (in its capacity as manager/ advisor of various accounts)	H shares	Investment manager	135,877,000 (L)	6.82	2.35
Morgan Stanley	H shares	Interest of corporation controlled by the substantial shareholder	111,394,963 (L)	5.58	1.93
			3,008,000 (S)	0.15	0.05
Schroder Investment Management Limited	H shares	Investment manager	100,604,000 (L)	5.04	1.74

* Remarks (L) — Long Position, (S) — Short Position, (P) — Lending Pool

(1) Since China Telecom indirectly holds 100% of the shares in GTIGC and ZTIC, the 236,313,086 and 87,664,532 domestic shares held by GTIGC and ZTIC respectively are considered and aggregated into the equity interest held by China Telecom. On 24 March 2009, GTIGC and ZTIC transferred their aforementioned shares to China Telecom.

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

Save as stated above, as at 31 December 2008, 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 2008, 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 2008, 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

The Company adopted a share appreciation rights scheme in 2007 as an incentive system for management and qualified employees. Details of the share appreciation rights scheme were disclosed in the notice of the 2006 annual general meeting of the Company dated 26 April 2007.

Please also refer to note 37 to the audited financial statements for details of the share appreciation rights scheme of the Company and the share appreciation rights granted during the year ended 31 December 2008.

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. These contracts are terminable at the option of either party by giving three months' notice in writing or according to the terms of the contract prior to the expiry of the contract.

Directors' and Supervisors' Interests in Contracts

For the year ended 31 December 2008, 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 11 of the audited financial statements for details of the emoluments of the directors and supervisors of the Company in 2008.

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 167 to 168 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 2008.

Bank Loans and Other Borrowings

Please refer to note 32 to the audited financial statements for details of bank loans and other borrowings of the Group.

Property, Plant and Equipment

Please refer to note 16 to the audited financial statements for movements in the fixed assets of the Group for the year ended 31 December 2008.

Distributable Reserves

Please refer to note 44 to the audited financial statements for details of the movements in the reserves of the Company for 2008.

Donations

For the year ended 31 December 2008, the Group made charitable and other donations of a total amount of RMB1.74 million.

Subsidiaries and Associated Companies

Please refer to note 22 and note 23 to the audited financial statements for details of the Company's subsidiaries and the Group's interests in associated companies as at 31 December 2008.

Changes in Equity

Please refer to the consolidated statement of changes in equity contained in the audited financial statements (page 90 of this Annual Report).

Plan of Employees' Retirement Benefits

Please refer to note 36 to the audited financial statements for details of the retirement benefits provided by the Group.

Pre-emptive Rights

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

Major Customers and Suppliers

For the reporting period, the sales to the five largest customers of the Group represented 71.5% of the operating revenue of the Group; of which, the sales to the largest customers of the Group represented 49.0% of the operating revenue of the Group. The purchases from the five largest suppliers of the Group accounted for less than 15.0% of the total annual purchases of the Group.

So far as the directors are aware, as disclosed in the paragraph headed "Share Capital" of this report, of the five largest customers of the Group during the reporting period, China Telecom held 65.47% equity interest of the Company, and agreed to transfer 506,880,000 and 236,300,000 domestic shares of the Company to China Mobile and China Unicom, respectively. China Telecom would hold the aforementioned shares prior to the completion of the transfer. The equity transfers were formally completed and became effective on 24 March 2009. As at 31 December 2008, 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.

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 2008:

Transaction	The Group *(RMB million)*	Annual cap of continuing connected transaction *(RMB million)*		
		2008	2009	2010
Engineering related services provided to China Telecom Group	8,701.85	9,500.00	12,500.00	12,500.00
Ancillary telecommunications services provided to China Telecom Group	4,648.47	4,700.00	6,700.00	6,700.00
Operation support services provided to/by China Telecom Group				
• Revenue	1,562.28	1,910.00	1,910.00	1,910.00
• Expenditure	400.69	470.00	470.00	470.00
IT application services provided to/by China Telecom Group				
• Revenue	946.69	1,000.00	1,300.00	1,600.00
• Expenditure	131.55	230.00	230.00	230.00
Property leasing provided to/by China Telecom Group				
• Revenue	53.99	76.00	76.00	76.00
• Expenditure	111.36	120.00	120.00	120.00
Centralized services provided to China Telecom Group	245.88	350.00	350.00	350.00

Continuing Connected Transactions Agreements Between the Group and China Telecom

The Company and China Telecom entered into six continuing connected transactions agreements on 16 November 2006 to manage the continuing connected transactions between the Group and China Telecom Group. These agreements include Engineering Framework Agreement, Ancillary Telecommunications Services Framework Agreement, Operation Support Services Framework Agreement, IT Application Services Framework Agreement, Property Leasing Framework Agreement and Centralized Services Agreement. Each of these agreements had an initial period of term that would expire 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 in advance by either party after giving a three-month written notice 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, 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 validity period of the six continuing connected transactions agreements to 31 December 2010.

Subject to approval from the shareholders (if applicable), the aforementioned six amended continuing connected transactions agreements will be automatically renewed for a further period of not more than three years each time, unless terminated in advance by either party after giving a three-month written notice in advance. In connection with the entry of the 2008 Supplementary Agreement, the Company also set new annual caps for the three years ended 31 December 2010 in respect of the transactions contemplated under the six continuing connected transactions agreements (see the table above). The 2008 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 independent shareholders of the Company at the extraordinary general meeting held on 14 November 2008. Details of the terms of these continuing connected transactions are set out below.

Engineering Framework Agreement

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

Ancillary Telecommunications Services Framework Agreement

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

(1) government-prescribed price;

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

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

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

The Company will be given priority by China Telecom Group in the provision of the Ancillary Telecommunications Services, provided that the terms and conditions offered by independent third parties to China Telecom Group are no more favourable than those offered by us for the same services. 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, but not limited to, basic telecommunications services such as, voice and data, value-added services and information application services. The charges payable for such IT application services under the IT Application Services Framework Agreement shall be determined by reference to market rates, for example, rates as reflected by prices obtained through the tender process (with a minimum of three parties tendering bids). The party receiving the relevant services will accord priority to the party providing such services, provided that the terms and conditions offered by independent third parties to the relevant party are no more favourable than those offered by the other party for the same services. 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 Group and China Telecom Group leased by each party from another party are based on market rates. Rental charges are payable monthly in arrears, except as otherwise agreed by parties, and are subject to review every three years by both parties confirming after negotiations whether to adjust the rental charges and the amount of such adjustment.

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

Strategic Cooperation Agreement

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

In connection with the acquisition of the Target Business from China Telecom in 2007, the Company entered into a supplementary agreement to the Strategic Cooperation Agreement (the "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 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 to achieve 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 independent non-executive directors of the Company have confirmed that all continuing connected transactions for the year ended 31 December 2008 to which the Group was a party:

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

2. had been entered into either:

    (i) on normal commercial terms; or

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

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

The independent non-executive directors have further confirmed that:

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

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

(i) the continuing connected transactions entered into between the Group and China Telecom Group during the year ended 31 December 2008 have been approved by the Directors;

(ii) they have performed sample checks on the continuing connected transactions entered into between the Group and China Telecom Group during the year ended 31 December 2008 and have not found that the continuing connected transactions were not in accordance with the pricing policies as stated in the relevant agreements;

(iii) they have performed sample checks on the continuing connected transactions entered into between the Group and China Telecom Group during the year ended 31 December 2008 and have not found that the continuing connected transactions were not in accordance with the terms of the agreements governing the transactions;

(iv) they note that the continuing connected transactions have not exceeded the 2008 annual caps as disclosed in the circular dated 26 September 2008 of the Company and approved by the independent shareholders of the Company on 14 November 2008.

Employees

As at 31 December 2008, the Group had 108,874 employees as follows:

	Number of staff	Percentage
Management	7,614	7%
Technical and marketing	37,083	34%
Operations	64,177	59%
Total	108,874	100%

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

Compliance with Code on Corporate Governance Practices

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

Material Legal Proceedings

As at 31 December 2008, 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 2008. 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 2009 will be proposed at the upcoming 2008 annual general meeting of the Company.

By order of the Board
Li Ping
Chairman

Beijing, China
2 April 2009

Report of the Supervisory Committee

Dear Shareholders,

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

During the reporting period, the Supervisory Committee held two meetings. At the fourth meeting of the first session of the Supervisory Committee held on 2 April 2008, the Company's operating results and financial statements of 2007 were reviewed. In addition, the Supervisory Committee reviewed and approved five resolutions, including the financial statements of 2007, profit distribution proposal and dividends distribution plan and external auditors' report for the year ended 2007. At the fifth meeting of the first session of the Supervisory Committee held on 1 September of the same year, the 2008 interim financial statements and the external auditors' 2008 review report were considered. During the reporting period, members of the Supervisory Committee supervised the major decisions of the Company and the performance of the members of the Board of Directors (the "Board") and senior management, and made relevant management recommendations with a serious and responsible attitude through attending the shareholders' general meeting of the Company and the meetings of the Board.

At the meeting held on 26 March 2009, the Supervisory Committee carefully reviewed the Company's financial reports of 2008 prepared in accordance with the PRC accounting principles and International Financial Reporting Standards, together with other relevant information, which was proposed to be submitted by the Board to the shareholders' general meeting and audited by external auditors who will issue an unqualified opinion. The Supervisory Committee is of the opinion that the financial reports was in conformity with the principle of consistency and reflected the Company's financial position and operating results in a true and complete manner.

The Supervisory Committee believes that during the reporting period, all members of the Board and senior management were dedicated, conscientious and prudent in their decision-making. They earnestly carried out the various resolutions of the meetings of the shareholders and the Board. With a view to maximizing both the value of the Company and the interests of shareholders, they made relentless efforts for the development of the Company, thereby achieving good operating results and fulfilling all the objectives of the production and operation plans that were set out at the beginning of the year. The Supervisory Committee was not aware of any violation of any laws, regulations and the Company's Articles of Association.

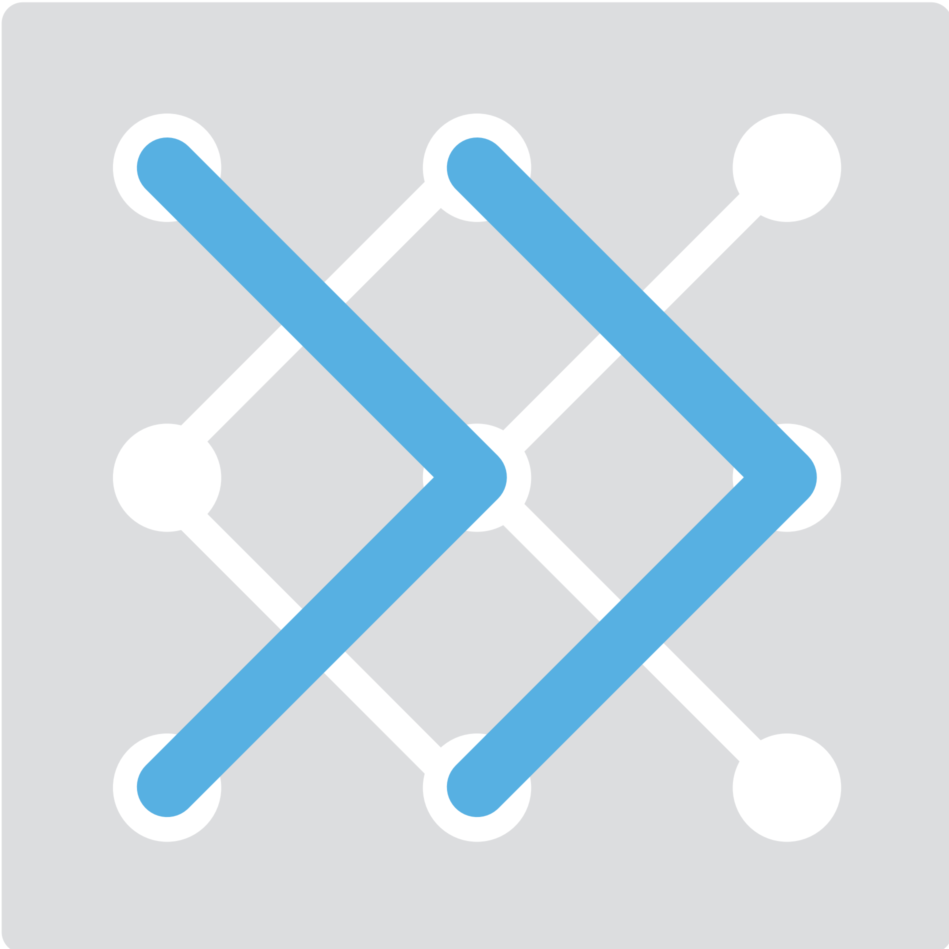
The office of the Supervisory Committee issued the "Collection of Working Documents for the Supervisory Committee of China Communications Services Corporation Limited" for the committee to facilitate its members to perform their duties and fulfill the regulatory spirit of the PRC. In the coming year, the Supervisory Committee will continue to perform its duties in accordance with the Company Law of the PRC, the Company's Articles of Association, and the relevant regulatory requirements of Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited; adhere to the principle of good faith, strengthen our supervisory work, safeguard the interest of the shareholders and the Company, and faithfully and diligently pursue our supervisory duties and endeavor to perform our obligations well.

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

Beijing, PRC
26 March 2009

Revenue from ACO business up by 25%

Accelerating ACO business development



Actively introduce cooperation partners, enhance the core capabilities and brand names of our Applications, Content and Other ("ACO") services

Corporate Governance Report

We are committed to maintaining sound corporate governance standards and procedures to ensure the completeness, transparency and quality of our information disclosure, and we strive to achieve more standardized operational procedures, effective management, and rational operation, so as to safeguard shareholders' interests to the greatest extent.

Corporate Governance Practices

As a company incorporated in the PRC and listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company has not only complied with the relevant provisions of the Rules Governing the Listing of Securities on the Stock Exchange (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.

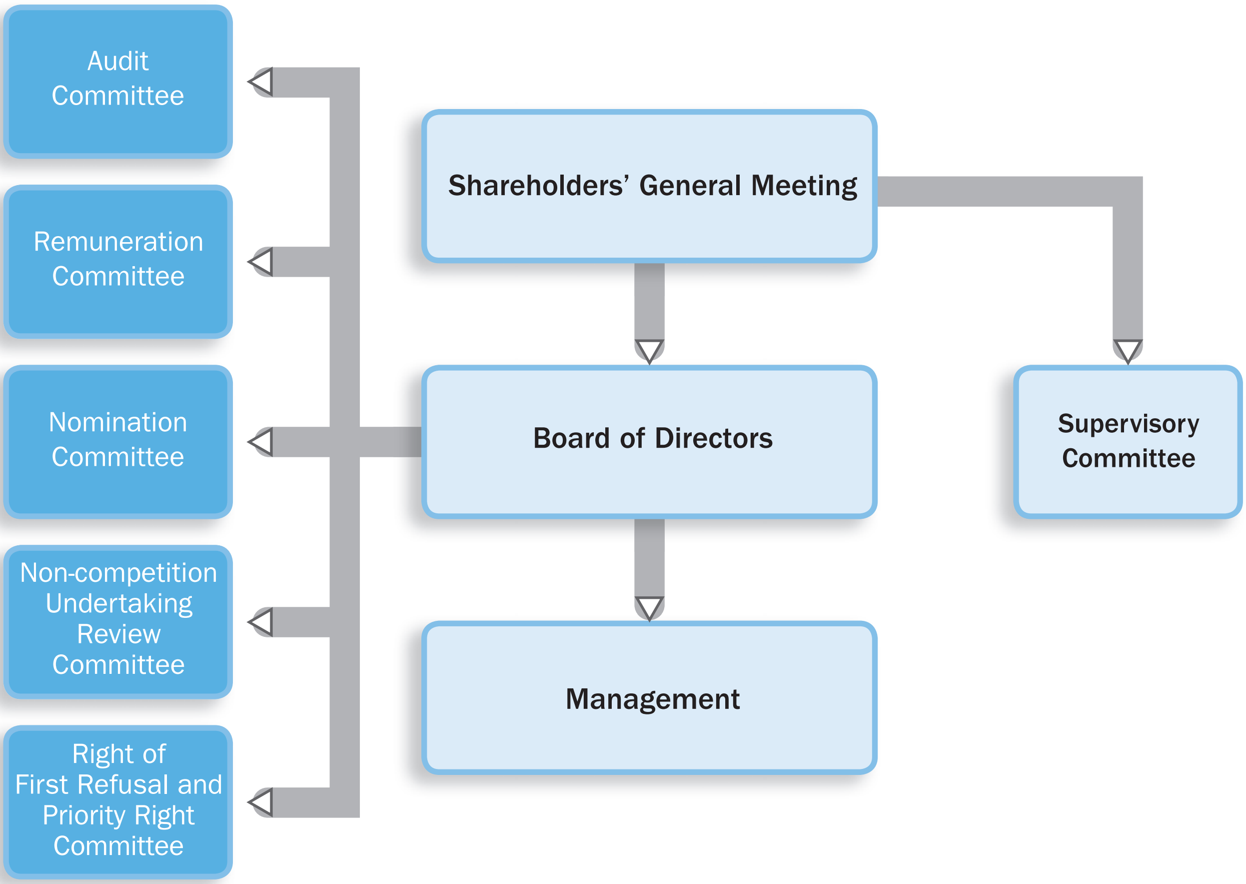
In 2008, the Company formulated and implemented the "Charter for the Supervisory Committee of China Communications Services Corporation Limited", to further standardize the daily operating mechanism for corporate governance and commit itself to maintaining a high standard of business conduct and integrity. The Company's endeavours in corporate governance in the past had received particular recognition in capital market, and we were awarded several honors including the "Best-Managed Companies" and the "Best Corporate Governance" in the election of the Asia's Best Companies (China Group) for the year 2008 by FinanceAsia.

For the year ended 31 December 2008, 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 (the "Recommended Best Practices") in accordance with our actual situation.

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

The responsibility statement of KPMG, our external auditors, regarding its report on the financial statements of the Group is set out on page 85 of this Annual Report.

Corporate Governance 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 2008, apart from the AGM, the Company also convened one EGM. 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. All the resolutions were voted by poll in all shareholders' meetings held in 2008.

At the AGM of 2007 held on 13 June 2008, the resolutions regarding the 2007 financial statements, profit distribution proposal and dividend declaration proposal, appointment of auditors, report of the directors, report of the Supervisory Committee, Charter for Supervisory Committee and amendments to the Articles of Association, etc were considered and approved by shareholders.

At the EGM of 2008 held on 14 November 2008, the resolutions regarding the renewal and amendment of annual caps of continuing connected transactions between the Company and China Telecommunications Corporation, the Company's controlling shareholder, were considered and approved by independent shareholders. China Telecommunications Corporation and its associates, being connected persons to the Company, abstained from voting for this resolution.

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

With the implementation of the amendments to the Listing Rules with effect from 1 January 2009, all resolutions proposed at shareholders' meeting of the Company will be voted by poll. The voting results will be posted on the websites of the Stock Exchange and the Company.

Board of Directors

The leadership and supervision of the Company are vested in the Board of Directors (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 on 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.

Composition of the Board

Since Mr. Wang Xiaochu resigned from the positions of non-executive director and Chairman on 8 April 2008, and became an Honorary Chairman, the Board comprises three executive directors (Mr. Li Ping as Chairman and executive director, Mr. Zhang Zhiyong and Mr. Yuan Jianxing as executive directors), two non-executive directors (Mr. Liu Aili and Mr. Zhang Junan) and five independent non-executive directors (Mr. Wang Jun, Mr. Chan Mo Po, Paul, Mr. Zhao Chunjun, Mr. Wu Shangzhi and Mr. Hao Weimin). The Honorary Chairman is not a member of the Board and has no voting right 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" of this Annual Report.

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

To the best knowledge of the directors, in 2008, the members of the Board did not have any financial, business, family or other material connection with each other, in particular between the Chairman and the President, and all of them are free to make independent judgments.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules to govern securities transactions by directors. Having made specific enquiries in writing to the directors, each of the directors has confirmed that he has complied with the Model Code in connection with transactions in the Company's securities in 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 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 2008, the Board held four meetings and passed one written resolution. For the resolutions in respect of the adjustments to the Board composition and senior management and the renewal and amendment of annual caps of continuing connected transactions between the Company and its controlling shareholder, China Telecommunications Corporation, directors with conflict of interests abstained from voting.

Director's individual attendance at each of the Board meetings and committee meetings held in 2008 is as follows (including attendances by written proxies):

	Attendance in 2008/Meetings convened during period of appointment					
	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	Non-competition Undertaking Review Committee	Right of First Refusal and Priority Right Committee
Executive Directors						
Li Ping[1] *(Chairman)*	4/4					
Zhang Zhiyong	4/4					
Yuan Jianxing	4/4					
Non-executive Directors						
Wang Xiaochu[2]	2/2					
Liu Aili	4/4					
Zhang Junan	4/4					
Independent Non-executive Directors						
Wang Jun	4/4			1/1		
Chan Mo Po, Paul	4/4	3/3	1/1		2/2	
Zhao Chunjun	4/4		1/1	1/1	2/2	1/1
Wu Shangzhi	4/4	3/3	1/1			1/1
Hao Wemin	4/4	3/3		1/1	2/2	1/1

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

2 The Board has approved the resignation of Mr. Wang Xiaochu as non-executive director and Chairman of the Company and his appointment as the Honorary Chairman of the Company on 8 April, 2008. Honorary Chairman is not a member of the Board and does not have any power or right to vote on any matters considered by the Board.

Chairman and President

The Company has separate positions for Chairman and President; these roles were segregated and held by Mr. Li Ping and Mr. Zhang Zhiyong respectively. Mr. Li Ping is responsible for overseeing the operation of the Board and formulating the overall strategies and policies of the Company. Mr. Zhang Zhiyong is responsible for the day-to-day management and overall operation of the Group.

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 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 2008, the Audit Committee held three meetings, mainly reviewed the resolutions of the Company for its audited financial report of 2007, interim report of 2008, report on connected transactions, report on internal control and risk management, appointment of independent auditors, and renewal and amendment of annual caps of continuing connected transactions. 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. 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 2008, the Remuneration Committee held one meeting, at which the members of the committee mainly reviewed the proposal regarding the granting of the second tranche of share appreciation rights in the first phase of implementation of the Company's share appreciation rights scheme and provided their recommendations to the Board. All members of the Remuneration Committee declared that they had no conflict of interests with the resolutions during their review.

Nomination Committee

The Nomination Committee consists of three independent non-executive directors: Mr. Zhao Chunjun (chairman), Mr. Wang Jun and Mr. Hao Weimin. The Nomination Committee is mainly responsible for reviewing the structure, size and composition of the Board, and the skills, knowledge and experience of members of the Board. In 2008, the Nomination Committee held one meeting, at which the members of the committee mainly reviewed the proposal regarding the adjustments to the composition of the Board and senior management of the Company, and made their recommendations to the Board.

Non-competition Undertaking Review Committee

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

In 2008, the Non-competition Undertaking Review Committee held two meetings, at which the members of the committee mainly reviewed the implementation of the non-competition undertakings by China Telecommunications Corporation and made their recommendations to the Board.

The Company has received a letter issued to the Company by China Telecommunications Corporation stating that they were not in breach of any non-competition undertakings in 2008. 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. The Right of First Refusal and Priority Right Committee is mainly responsible for monitoring the enforcement of the right of first refusal and priority right granted by China Telecommunications Corporation upon the listing of the Company in 2006, and protecting the interests of independent shareholders when such right of first refusal or priority right is exercised.

In 2008, the Right of First Refusal and Priority Right Committee held one meeting, at which the members of the committee mainly reviewed the proposed revision of the charter of the Committee and made their recommendations to the Board.

Independent Board Committee

Pursuant to the requirements under the Listing Rules, the Company held an Independent Board Committee Meeting on 19 September 2008, in which five independent non-executive directors of the Company attended. The Independent Board Committee mainly reviewed the resolution regarding the "renewal and amended annual caps of continuing connected transactions", and it made their recommendations to Independent Shareholders. The details of this resolution and the Independent Board Committee's recommendation were contained in circular despatched to shareholders on 26 September 2008.

Supervisory Committee

The Company has established a Supervisory Committee pursuant to the Company Law of the PRC. The Supervisory Committee consists of three members, of which Ms. Xia Jianghua is the chairperson, Mr. Hai Liancheng serves as the external independent supervisor and Mr. Yan Dong serves as the staff representative supervisor. The supervisors are appointed for a term of three years and may serve consecutive terms if re-elected upon the expiry of their term 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 2008, 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 2008	36,000
Non-auditing services (Tax consultancy)	2,015
	38,015

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 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 developed a Five-Step Working Methods on risk management including risk identification, risk analysis, solution formulation, solution implementation and results evaluation. The Group made in-depth analysis and investigations regarding the important risks faced by the Company. The Company gradually improved the overall level of internal control and risk management through a combination of pilot programs and issue of important precautions in internal control and risk management. Through the formulation and improvement of relevant internal control and risk management procedures, the Group has further unified and standardized its risk management and strengthened the information communication relating to internal control and risk management. Together with the newly acquired subsidiary — China International Telecommunications Construction Corporation, we focused on the training on internal control and risk management for the management personnel of provincial-level companies and specialized companies. The Company also paid particular attention to any possible risk exposure in conducting monthly and quarterly operation analysis, took timely measures, and issued timely pre-warnings against certain material risks in view of the Company's daily operation.

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

The Board considers that the implementation of the above measures was in compliance with the internal control requirements under C.2 of the Code Provisions and that the internal control and risk management system of the Company was effective. The Board intends to further improve and enhance its internal control and risk management In 2009.

Information Disclosure

The Company considers that integrity, timeliness, fairness and accuracy in information disclosure is key to improving corporate governance. In accordance with the Company's internal policy on information disclosure and the requirements of Listing Rules, the Company further improved external information publishing, especially in respect of important information such as price sensitive information, information related to annual reports and interim reports, so as to ensure true, accurate, complete and timely information disclosure.

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. At the same time, the Company has set up an investor relations department that is responsible for providing necessary information and services to our shareholders and investors. Details of Investor Relations are contained in the "Investor Relations" section of this Annual Report.

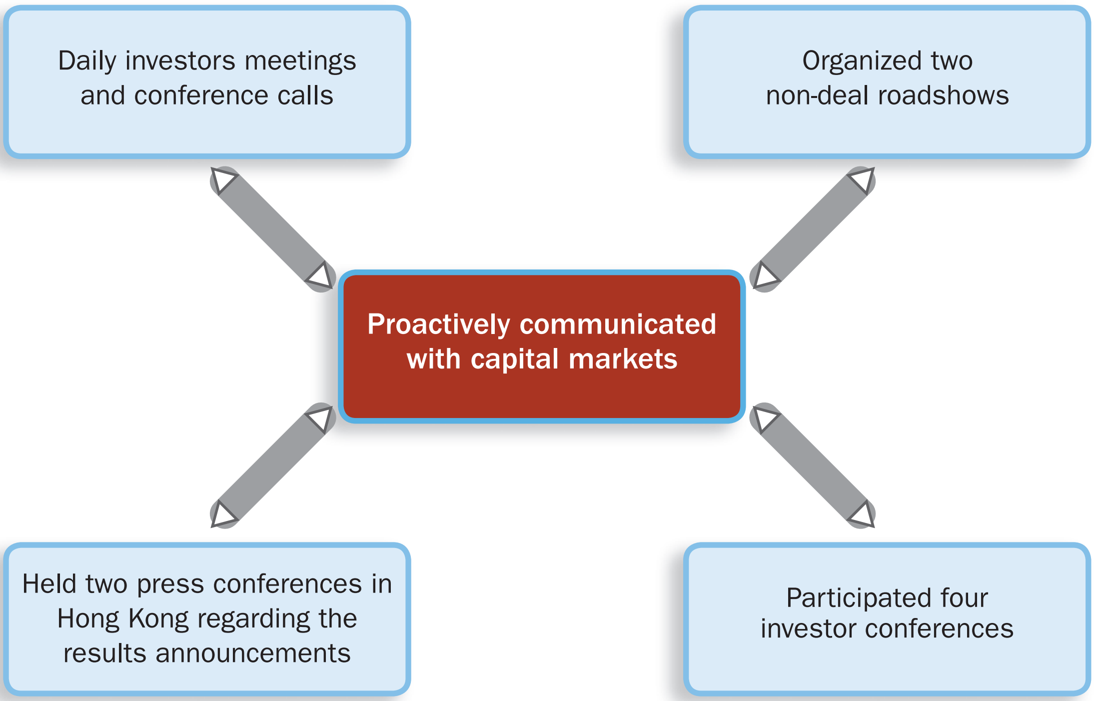
Investor Relations

Overview

The Group always attaches great importance to investor relationship and maintains a proactive two-way interactive communication with capital markets. The Group has followed a principle of true, timely, fair and accurate information disclosure and believes that it will promote a positive interaction between the Company and its investors and enhance investors' understanding on the Group. At the same time, this principle will enable us to understand the views and expectations of capital markets regarding the developments of the Company, which will help us enhance shareholders value and maximize our shareholders' interests.

Review

The Group recognizes the importance of maintaining a close relationship with capital markets. In 2008, the Group used different means to meet its investors and analysts, and held about 200 meetings, with a total of 768 person-time, and achieved an effective communication with capital markets.



During the year, the Group held two press conferences in Hong Kong in connection with the announcements of annual and interim results. This helped the investors understand both the performance and operation of the Company, and facilitated direct communication between investors and our management. These press conferences attracted a total of 259 participants, including media, investors and analysts; and were broadcast live at our Company's website, which promoted the dissemination of relevant information. During the year, the Group also organized two roadshows in Hong Kong and Singapore in respect of the results announcements, acquisition of China International Telecommunications Construction Corporation ("CITCC") and our H share placement. 112 important investors were met, which enhanced capital markets' understanding and investment confidence in our Company.

In 2008, the Group participated in four investor conferences organized by major investment banks like CLSA, Goldman Sachs, Deutsche Bank and met more than 100 investors. The number of investors we met during the ordinary course of business was 299, representing a significant growth compared to 2007. The Group also responded promptly to inquiries raised by investors by other means, including telephone and e-mail, etc.

In accordance with the requirements of the Listing Rules, in 2008, the Group made disclosures in respect of matters such as the acquisition of CITCC, placement of new H shares and renewal of continuing connected transactions. The respective documents including the announcements, annual report and circulars were published at the website of the Stock Exchange of Hong Kong Limited ("Stock Exchange") and the Group's website on a timely basis. The Group's website (http://www.chinaccs.com.hk) is an important platform for the public to obtain the information and news of the Group, which plays an important role in enhancing the capital market's understanding on the Company.

In 2008, during the election of the Asia's Best Companies by FinanceAsia, a leading financial magazine in Asia, we were ranked the fifth amongst the "Best-Managed Companies" and the "Best Corporate Governance" in China. Such a ranking was the recognition of our dedication and results by the capital markets.

Analyst meeting relating to our 2007 Annual Result Announcement

Share Price Performance and Stock Information

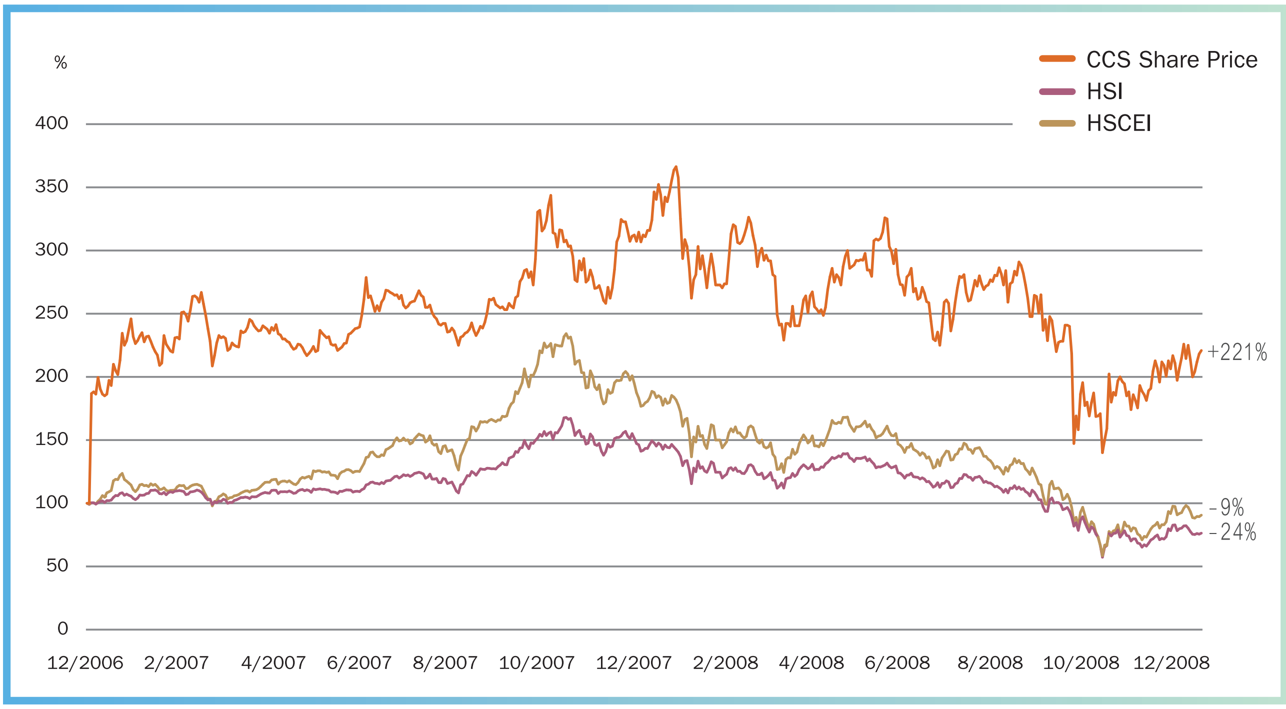
Share price performance in 2008

	Highest	Lowest	Closing
Share price per H share of the Company ("CCS Share Price") (HK$)	8.65	2.90	4.86
Change in CCS Share Price in 2008			–37%
Change in Hang Seng Index ("HSI") in 2008			–48%
Change in Hang Seng China Enterprises Index ("HSCEI") in 2008			–51%

The Company's H shares were listed on the Main Board of the Stock Exchange on 8 December 2006 following a global offering at an offer price of HK$ 2.2 per share, and were included in the component stock lists of the Hang Seng China Enterprises Index and MSCI China Index in 2007. Since its listing date to 31 December 2008, CCS Share Price increased by 2.2 times, and HSI and HSCEI dropped by about 24% and 9% respectively during the same period.

Share price performance since listing

(8 December 2006 to 31 December 2008)



On 9 April 2008, the Company completed the issuance of additional H shares, and placed an aggregate of 359,365,600 H shares (including 326,696,000 newly issued H shares and 32,669,600 H shares converted from the Company's existing domestic shares). On 31 December 2008, total issued share of the Company were 5,771,682,000 shares of RMB1.00 each in issue, of which, 3,778,831,800 were domestic shares, 1,992,850,200 were H shares. All the H shares were listed on the Stock Exchange, representing approximately 34.5% of the total issued shares of the Company.

Composition of Domestic Shares and H Shares

	As at 31 December 2007		**As at 31 December 2008**	
	Number of Shares	Percentage (%)	**Number of Shares**	**Percentage (%)**
Domestic shares	3,811,501,400	70.0%	**3,778,831,800**	**65.5%**
H shares	1,633,484,600	30.0%	**1,992,850,200**	**34.5%**
	5,444,986,000	100.0%	**5,771,682,000**	**100.0%**

As at 31 December 2008, the Company's market capitalization was about HK$ 28.05 billion.

Human Resources Development

In 2008, the Company adhered to the strategy of "customer focused service culture and retaining of innovative talents", focusing on the needs of our customers and markets, aiming at "controlling total headcounts, optimizing human resources structure, enhancing capability and motivating staff enthusiasm". As a result, the Company further integrated its human resources, nourished innovative talents, improved leadership and execution capabilities of management personnel, which provided us a strong manpower support in achieving our strategic objectives.

1. Basic information on employees

In 2008, the Company acquired China International Telecommunications Construction Corporation ("CITCC"). After the acquisition, our employee headcount went up by 4,913. By the end of 2008, the Company had a total of 108,874 employees, of which 7,614 were management staff, 37,083 were technical and marketing personnel, and 64,177 were operational personnel.

2. Strengthened organizational and human resources integration to improve overall efficiency

The Company has implemented a strategic guidance of "large company, small headquarters" to control stringently the number of management staff both in its group headquarters and each of the provincial headquarters. We continue to carry out organizational restructuring and integration to further reduce the number of subsidiaries and streamline our administrative hierarchy. The Company also effected cultural blending and resources integration in connection with the enterprises that we acquired and optimized their business and management processes to further improve corporate operational efficiency.

3. Controlled headcount and optimized human resources structure

The Company continued to implement a control policy on headcount for the Group, with headcount reduced by 2.78%[1]. In light of the characteristics of different business segments, we implemented differentiated management and increased training and recruitment of high-level and urgently needed professionals. The Company further optimized human resources structure by adopting measures like performance management, staff training, promotion by internal contest, personnel exit, which helped achieve a dynamic human resources deployment management.

4. Enhanced performance management system and established a sound remuneration incentive mechanism

According to our strategic vision and the key performance indicators determined, we further improved our performance appraisal and incentive mechanism and established an intertwined and efficient performance appraisal system for employees of different levels. Under the "contribution determines remuneration" concept, the remuneration incentives systems was further optimized for different level of employees, in which the senior management was provided with medium and long-term incentives such as annual bonus and share appreciation rights. Personal interests of the senior management are closely linked to their performance to align the interests of our Company, employees and shareholders.

1 Excluding the number of employees added by the acquisition of CITCC.

5. Attached importance to training, improved employees working skills, and achieved staff's self-improvement

Chairman, Mr. Li Ping presented in a leadership training programme

The Company has given full play to the integrated three-tier training system at the headquarters, provincial companies and specialized companies. Such system offered various training programs to employees which improved their working skills and enhanced the Company's management and services standard. Focusing on hot issues in our Company development, the Company conducted leadership training with open-end case study method, and the leadership and execution capabilities of management personnel were improved effectively. We carried out two-way communications between the personnel of provincial companies and corporate headquarters to enhance cooperation and coordination between different levels of subsidiaries and improve our talents reserve. The Company also conducted technical training with a focus on 3G business to support its business development. At the same time, the Company fully mobilized our resources to provide support for staff's self-study, actively guiding the staff to take part in education programs for academic credentials and training and tests for professional qualifications, and encouraging employees to explore their own potentials to achieve self-realization. As at the end of 2008, the Company had a total of 5,773 staff holding professional qualifications like certified public accountants, certified consultants, certified architects, human resource professionals, lawyers and network engineers.

6. Cared for employees and developed a harmonious environment

Our hiking activity

Chinese New Year gathering function

The Company continued to stick to the philosophy of "appreciating talent", cared about our staff and strived to establish a harmonious environment. The Company established a smooth and efficient information sharing platform through various means such as the OA system, internal publications and emails. Through such platform, our staff is able to know the latest developments of the Company. We also developed various enjoyable cultural and sports activities to improve team cohesion and enhance staff's sense of belonging. We organized donation activities for disaster relief to improve staff's social responsibilities. We developed a talent selection mechanism to optimize career path development, enabling our staff to reap the fruits of the development of our Company.

In addition, the Company attached great importance to staff's production safety and effectively protected their 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 2008 will be held at 10:00 am on 9 June 2009 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 2008 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 2009;

2. **THAT** the profit distribution proposal and the declaration and payment of a final dividend for the year ended 31 December 2008 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 2009 be considered and approved, and the Board be authorized to fix the remuneration of the auditors;

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

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

SPECIAL RESOLUTIONS

4. **THAT**:

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

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

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

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

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

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

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

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

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

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

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

Beijing, PRC
23 April 2009

Notes:

(1) Buyers who submit the share transfer application forms to the Company's share registrar before 4:30 pm on 8 May 2009 (Friday) and then register as shareholders on the register of members of the Company are entitled to attend the annual general meeting.

(2) Each shareholder entitled to attend and vote at the annual general meeting may appoint one or more proxies to attend and vote on his behalf at the annual general meeting. A proxy need not be a shareholder. Each shareholder who wishes to appoint one or more proxies should first review the annual report of the Company for the year 2008, which is expected to be despatched to shareholders on around 23 April 2009 (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
1806–1807, 18/F., 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 19 May 2009 (Tuesday).

(6) Closure of the register of members: The register of members of the Company will be closed from 10 May 2009 (Sunday) to 9 June 2009 (Tuesday) (both days inclusive).

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

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

No. 19, Chaoyangmen Beidajie
Dongcheng District
Beijing 100010
PRC

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

Independent auditor's report 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 86 to 166, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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

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 2008 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

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

2 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

(Expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
Revenues	4	32,470,570	23,538,381
Cost of revenues	5	(27,169,728)	(19,473,632)
Gross profit		5,300,842	4,064,749
Other operating income	6	417,960	341,485
Selling, general and administrative expenses		(3,854,381)	(2,794,662)
Other operating expenses	7	(55,865)	(12,579)
Net financing (expense)/income	8	(77,701)	41,682
Share of profits of associates		2,161	3,575
Profit before tax	9	1,733,016	1,644,250
Income tax	10	(401,415)	(461,056)
Profit for the year		1,331,601	1,183,194
Attributable to:			
Equity shareholders		1,316,267	1,167,247
Minority interests		15,334	15,947
Profit for the year		1,331,601	1,183,194
Final dividend	14(a)	526,955	393,629
Basic and diluted earnings per share (RMB)	15	0.232	0.214

The notes on pages 94 to 166 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2008

(Expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment, net	*16*	3,634,486	3,371,755
Investment properties	*17*	707,215	644,722
Construction in progress	*18*	231,008	228,174
Lease prepayments	*19*	431,291	371,799
Goodwill	*20*	103,005	—
Other intangible assets	*21*	115,577	80,094
Interests in associates	*23*	12,902	11,064
Other investments	*24*	269,788	307,971
Deferred tax assets	*25(b)*	117,616	96,371
Total non-current assets		5,622,888	5,111,950
Current assets			
Inventories	*26*	1,142,346	1,035,761
Accounts and bills receivable, net	*27*	9,202,905	6,627,607
Prepayments and other current assets	*29*	2,898,338	2,181,571
Restricted deposits	*30*	177,732	251,128
Cash and cash equivalents	*31*	8,415,011	6,632,252
Total current assets		21,836,332	16,728,319
Total assets		27,459,220	21,840,269
Current liabilities			
Interest-bearing borrowings	*32*	1,954,426	2,560,256
Accounts and bills payable	*33*	7,637,498	4,686,643
Receipts in advance for contract work		806,943	520,725
Accrued expenses and other payables	*34*	4,730,604	4,223,476
Income tax payable	*25(a)*	185,602	198,360
Total current liabilities		15,315,073	12,189,460
Net current assets		6,521,259	4,538,859
Total assets less current liabilities		12,144,147	9,650,809

	Note	2008 RMB'000	2007 RMB'000
Non-current liabilities			
Long-term borrowings, less current portion	*32*	—	960
Deferred tax liabilities	*25(b)*	31,453	11,641
Total non-current liabilities		31,453	12,601
Total liabilities		15,346,526	12,202,061
Equity			
Share capital	*35*	5,771,682	5,444,986
Reserves		6,219,189	4,115,792
Equity attributable to equity shareholders of the Company		11,990,871	9,560,778
Minority interests		121,823	77,430
Total equity		12,112,694	9,638,208
Total liabilities and equity		27,459,220	21,840,269

Approved and authorised for issue by the Board of Directors on 2 April 2009.

Li Ping
Chairman

Yuan Jianxing
Executive Vice President and Chief Financial Officer

The notes on pages 94 to 166 form part of these financial statements.

Balance Sheet

At 31 December 2008

(Expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment, net	16	389	108
Construction in progress	18	3,361	—
Other intangible assets	21	3,625	—
Investments in subsidiaries	22	9,987,008	9,479,781
Total non-current assets		9,994,383	9,479,889
Current assets			
Prepayments and other current assets	29	1,220,938	641,481
Cash and cash equivalents	31	429,528	156,924
Total current assets		1,650,466	798,405
Total assets		11,644,849	10,278,294
Current liabilities			
Interest-bearing borrowings	32	1,000,000	1,600,000
Accrued expenses and other payables	34	297,253	76,942
Total current liabilities		1,297,253	1,676,942
Net current assets/(liabilities)		353,213	(878,537)
Total assets less current liabilities		10,347,596	8,601,352
Total liabilities		1,297,253	1,676,942
Equity			
Share capital	35	5,771,682	5,444,986
Reserves	44	4,575,914	3,156,366
Total equity		10,347,596	8,601,352
Total liabilities and equity		11,644,849	10,278,294

Approved and authorised for issue by the Board of Directors on 2 April 2009.

Li Ping
Chairman

Yuan Jianxing
Executive Vice President and Chief Financial Officer

The notes on pages 94 to 166 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

(Expressed in Renminbi)

		Equity attributable to equity shareholders of the Company											
	Note	Share capital RMB'000	Share premium (note i) RMB'000	Capital reserve (note k) RMB'000	Revaluation Reserve RMB'000	Statutory surplus reserve (note j) RMB'000	Fair value reserve (note l) RMB'000	Exchange reserve (note m) RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
Balance as at 1 January 2007		5,444,986	1,557,783	1,413,776	415,557	5,538	—	—	2,657,196	722,277	12,217,113	146,709	12,363,822
Consideration for the acquisition of the Target Business (as defined in note 1b)	1(b)	—	—	—	—	—	—	—	(3,656,774)	—	(3,656,774)	—	(3,656,774)
Contributions	(a)	—	—	—	—	—	—	—	709,540	—	709,540	—	709,540
Acquisition of minority interests		—	—	—	—	—	—	—	67,723	—	67,723	(67,723)	—
Profit distributions	(b)	—	—	—	—	—	—	—	—	(62,680)	(62,680)	(5,911)	(68,591)
Distributions	(c)	—	—	—	—	—	—	—	(260,084)	—	(260,084)	—	(260,084)
Recognition of deferred tax assets	25	—	—	—	—	—	—	—	22,454	—	22,454	—	22,454
Transfer from retained earnings to other reserve	(d)	—	—	—	—	—	—	—	12,113	(12,113)	—	—	—
Transfer from other reserve to capital reserve	(g)	—	—	(496,110)	—	—	—	—	496,110	—	—	—	—
Distribution of special dividend	14(c) and (d)	—	—	—	—	—	—	—	—	(720,247)	(720,247)	(11,592)	(731,839)
(Recognition)/reversal of deferred tax liabilities	25	—	—	—	—	—	(11,641)	—	18,473	—	6,832	—	6,832
Change in fair value of available-for-sale securities	(l)	—	—	—	—	—	72,716	—	—	—	72,716	—	72,716
Exchange differences on translation of financial statement of subsidiaries outside Mainland PRC	(m)	—	—	—	—	—	—	(3,062)	—	—	(3,062)	—	(3,062)
Profit for the year		—	—	—	—	—	—	—	—	1,167,247	1,167,247	15,947	1,183,194
Appropriation	(j)	—	—	—	—	92,288	—	—	—	(92,288)	—	—	—
Balance as at 31 December 2007		5,444,986	1,557,783	917,666	415,557	97,826	61,075	(3,062)	66,751	1,002,196	9,560,778	77,430	9,638,208
Balance as at 1 January 2008		5,444,986	1,557,783	917,666	415,557	97,826	61,075	(3,062)	66,751	1,002,196	9,560,778	77,430	9,638,208
Issuance of shares	35	326,696	1,169,864	—	—	—	—	—	—	—	1,496,560	—	1,496,560
Contributions	(e)	—	—	—	—	—	—	—	—	8,335	8,335	—	8,335
Capital injection by minority shareholder to subsidiary	(f)	—	—	—	—	—	—	—	46,567	—	46,567	25,893	72,460
Acquisition of minority interests		—	—	—	—	—	—	—	(863)	—	(863)	(1,335)	(2,198)
Increase in minority interests	(h)	—	—	—	—	—	—	—	—	—	—	12,475	12,475
Change in fair value of available-for-sale securities	(l)	—	—	—	—	—	(44,877)	—	—	—	(44,877)	—	(44,877)
Reversal of deferred tax liabilities and assets	25	—	—	—	—	—	6,183	—	(1,855)	—	4,328	—	4,328
Exchange differences on translation of financial statement of subsidiaries outside Mainland PRC	(m)	—	—	—	—	—	—	(2,386)	—	—	(2,386)	—	(2,386)
Effect on opening deferred tax balances resulting from a change in tax rate	25	—	—	—	—	—	—	—	(208)	—	(208)	—	(208)
Dividend declared	14	—	—	—	—	—	—	—	—	(393,629)	(393,629)	—	(393,629)
Distribution to minority shareholders		—	—	—	—	—	—	—	—	—	—	(7,974)	(7,974)
Profit for the year		—	—	—	—	—	—	—	—	1,316,266	1,316,266	15,334	1,331,600
Appropriation	(j)	—	—	—	—	64,332	—	—	—	(64,332)	—	—	—
Balance as at 31 December 2008		5,771,682	2,727,647	917,666	415,557	162,158	22,381	(5,448)	110,392	1,868,836	11,990,871	121,823	12,112,694

Notes:

(a) The capital contributions in 2007 represented the injection of cash and other assets, including property, plant and equipment and investments related to the Target Business (as defined in note 1(b)).

(b) Profit distributions in 2007 represented the appropriation made and dividend declared by certain subsidiaries of the Target Business prior to the acquisition of the Target Business by the Group.

(c) The distributions in 2007 represented the reduction in capital of certain entities included in the Target Business and distribution of cash and other assets, including property, plant and equipment prior to the acquisition of the Target Business by the Group.

(d) Transfer from retained earnings to other reserve in 2007 represented the net profit of the Target Business for the period from 1 January 2007 to 31 January 2007, which was included in the consideration for the acquisition of the Target Business and the net assets value of the Target Business.

(e) The amount represents the profit distribution to a subsidiary of China Telecommunications Corporation ("CTC") by the Target Business, which was subsequently waived by the subsidiary.

(f) Capital injection by minority shareholder represents a minority shareholder's injection of USD10 million to acquire 30% equity interest in a subsidiary, Zhejiang Freeland New Media Co., Ltd, of the Group at a premium. The Company's shared portion of the premium has been recorded in other reserve.

(g) Transfer from other reserve to capital reserve in 2007 represented the difference between the consideration for the acquisition of the Target Business and the net assets value of the Target Business.

(h) The amount represents minority interests of certain non-wholly owned subsidiaries which the Group obtains the equity interests in these subsidiaries through donation from labour unions (see note 38(ii)).

(i) 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.

(j) 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 2008, the Company transferred RMB64,331,000 being 10% of the current year's net profit as determined in accordance with the PRC Accounting Rules and Regulations, to this reserve.

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

(l) 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.

(m) Exchange reserve
The exchange reserve represents all foreign exchange differences arising from the translation of the financial statements of subsidiaries located in Hong Kong, Nigeria and Tanzania.

The notes on pages 94 to 166 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

(Expressed in Renminbi)

	Note	2008 RMB'000	2007 RMB'000
Operating activities			
Profit before tax		1,733,016	1,644,250
Adjustments for:			
— Depreciation and amortisation		572,888	508,249
— Charge for/(write back) of impairment losses on accounts and other receivable		36,842	(11,274)
— Impairment losses on property, plant and equipment		1,073	—
— Impairment losses on inventories		4,846	1,456
— Interest income		(102,513)	(119,396)
— Finance costs		168,740	52,792
— Share of profits of associates		(2,161)	(3,575)
— Dividend income		(19,332)	(39,629)
— Gain on disposal of investments		(7,340)	(53,237)
— Gain/(loss) on disposal of property, plant and equipment and other assets		24,350	(129)
— Change in fair value of derivative financial instruments		—	9,461
— Exchange differences		11,474	15,461
— Donation of equity interests		(12,475)	—
— Write back of non-payable liabilities		(14,367)	(11,623)
Operating profit before changes in working capital		2,395,041	1,992,806
Increase in inventories		(107,804)	(59,500)
Increase in accounts and bills receivable		(1,982,441)	(815,941)
Increase in prepayments and other current assets		(422,549)	(332,625)
Increase in accounts and bills payable		2,612,158	508,569
Increase/(decrease) in receipts in advance for contract work		247,527	(159,286)
(Decrease)/increase in accrued expenses and other payables		(273,117)	911,699
Net cash inflow from operations		2,468,815	2,045,722
Interest paid		(171,006)	(50,258)
Interest received		100,967	120,337
Income tax paid		(448,467)	(452,025)
Cash generated from operating activities		1,950,309	1,663,776

	Note	2008 RMB'000	2007 RMB'000
Investing activities			
Payments on acquisition of property, plant and equipment and other assets		(756,746)	(623,564)
Proceeds from disposal of property, plant and equipment and other assets		56,996	73,549
Net cash inflow arising from acquisition of subsidiaries	*38(i)*	612,796	—
Net cash inflow arising from receipt of donation of equity interests	*38(ii)*	55,178	—
Payments for acquisition of investments		(2,201)	(193,188)
Payments for acquisition of Target Business (as defined in note (1b)) and assets		(44,092)	(4,600,200)
Proceeds from disposal of investments		32,030	102,232
Proceeds from disposal of associate		403	—
Dividends received		2,027	57,985
Net cash used in investing activities		(43,609)	(5,183,186)
Financing activities			
Proceeds from bank and other loans		1,995,425	4,142,839
Repayments of bank and other loans		(3,543,827)	(1,752,720)
Dividends paid		(326,012)	(643,830)
Contributions from owner		—	514,312
Contribution from minority shareholders to subsidiaries		72,460	—
Distributions to owner		—	(53,353)
Net proceeds from issuance of new shares		1,484,752	—
Decrease/(increase) in restricted deposits		193,911	(218,210)
Net cash (used in)/generated from financing activities		(123,291)	1,989,038
Net increase/(decrease) in cash and cash equivalents		1,783,409	(1,530,372)
Cash and cash equivalents at the beginning of year		6,632,252	8,163,755
Effect of foreign exchanges		(650)	(1,131)
Cash and cash equivalents at the end of year	*31*	8,415,011	6,632,252

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

The notes on pages 94 to 166 form part of these financial statements.

1 Principal activities, organisation and basis of presentation

(a) Principal activities

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

(b) Organisation

The Company was established in the PRC on 30 August 2006 as a joint stock limited company under the Company Law of the PRC as part of the Restructuring (as defined below) of 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"). The Company was founded by CTC, Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation by way 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.

1 Principal activities, organisation and basis of presentation (Continued)

(b) Organisation (Continued)

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

In December 2006, the Company issued 1,291,293,000 H shares with a par value of RMB1.00 each, at a price of 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 (see note (35)). A total of 1,992,850,200 H shares have been listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

(c) Basis of presentation

Pursuant to the acquisition agreement dated 15 June 2007, the Company acquired the telecommunications infrastructure services, business process outsourcing services and applications, content and other services located in Jiangsu Province, Anhui Province, Jiangxi Province, Hunan Province, Guangxi Zhuang Autonomous Region, Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province and Xinjiang Uygur Autonomous Region, together with the equity interests in Guangdong Nanfang Communication GSM 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.

As the Target Business was under common control of CTC, the acquisition of the Target Business was reflected in the Company's 2007 consolidated financial statements as a combination of entities under common control and accounted for in a manner similar to pooling-of-interests. Accordingly, the assets and liabilities of the Target Business were accounted for at historical costs and consolidated financial statements of the Company prior to the foregoing acquisition were restated to include the results of operations and assets and liabilities of the Target Business on a combined basis. The consideration paid by the Company for the acquisition of the Target Business was accounted for as an equity transaction in the consolidated statement of changes in equity.

2 Significant accounting policies

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2008 comprise the Group and its interests in associates.

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

— Property, plant and equipment (see note 16) is stated at its revalued amount (see note 2(g)).

— Derivative financial instruments are measured at fair value.

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

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

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

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

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 41.

2 Significant accounting policies (Continued)

(c) Basis of consolidation

(i) Subsidiaries and minority interests

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

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

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

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

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

2 Significant accounting policies (Continued)

(c) Basis of consolidation (Continued)

(ii) Associates

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

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

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

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

(d) Goodwill

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

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

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

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

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 associates, are as follows:

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

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

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

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

When these investments are derecognised or impaired (see note 2(l)), the cumulative gain or loss previously recognised directly in equity, is recognised in profit or loss.

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

(f) Investment properties

Investment properties are land and/or 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.

2 Significant accounting policies (Continued)

(f) Investment properties (Continued)

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

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

(g) Other property, plant and equipment

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

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

— other items of plant and equipment.

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

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

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

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

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

2 Significant accounting policies (Continued)

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

Subsequent to the revaluation which was required by the PRC rules and regulations in connection with the Restructuring and which was based on depreciated replacement costs (note 16), property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation, less subsequent accumulated depreciation and impairment losses and any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. When an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs is revalued simultaneously. When an asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to equity as a component of revaluation reserve. However, a revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised as an expense in the consolidated income statement. However, a revaluation decrease is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation reserve in respect of that same asset. Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date.

(h) Construction in progress

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

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

(i) Lease prepayments

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

(j) Intangible assets (other than goodwill)

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

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

2 Significant accounting policies (Continued)

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

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

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

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

2 Significant accounting policies (Continued)

(l) Impairment of assets (Continued)

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

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

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

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

(ii) Impairment of other assets

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

— property, plant and equipment;

— investment properties;

— construction in progress;

— lease prepayments;

— goodwill;

— other intangible assets;

— investments in subsidiaries and associates; 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.

2 Significant accounting policies (Continued)

(l) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

— Calculation of recoverable amount

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

— Recognition of impairment losses

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

— Reversals of impairment losses

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

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

(m) Inventories

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

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

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

2 Significant accounting policies (Continued)

(m) Inventories (Continued)

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

(n) Construction contracts

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

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

(o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less 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.

2 Significant accounting policies (Continued)

(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 scheme

Compensation expense under the Group's share appreciation rights scheme is measured as the amount by which the quoted market price of the Company's H shares exceeds the exercise price. Compensation expense in respect of the share appreciation rights granted is accrued as a charge to the 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 37.

(iii) Termination benefits

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

(u) Income tax

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

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

2 Significant accounting policies (Continued)

(u) Income tax (Continued)

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

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

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

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

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

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

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

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

2 Significant accounting policies (Continued)

(u) Income tax (Continued)

— 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

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

(i) Contract revenue

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

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

(ii) Services rendered

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

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

2 Significant accounting policies (Continued)

(w) Revenue recognition (Continued)

(iii) Sales of goods

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

(iv) Rental income from operating leases

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

(v) Dividend income

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

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

(vi) Interest income

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

(x) Government grants

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

(y) Translation of foreign currencies

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

2 Significant accounting policies (Continued)

(y) Translation of foreign currencies (Continued)

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

(z) Borrowing costs

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

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

(aa) Research and development costs

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

(bb) Segmental reporting

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

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

(cc) Dividends or profit distributions

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

2 Significant accounting policies (Continued)

(dd) Related parties

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

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

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

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

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

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

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

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

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

3 Adoption of new/revised IFRSs

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

There have been no significant changes to the accounting policies applied in these financial statements for the year presented as a result of these developments.

The Group has not applied any new standards or interpretations that are not yet effective for the current accounting period (see note 45).

4 Revenues

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

	2008 RMB'000	2007 RMB'000
Revenue from telecommunications infrastructure services	15,329,464	11,093,007
Revenue from business process outsourcing services	13,288,370	9,365,152
Revenue from applications, content and others	3,852,736	3,080,222
	32,470,570	23,538,381

5 Cost of revenues

	2008 RMB'000	2007 RMB'000
Depreciation and amortisation	334,590	305,205
Direct personnel costs	5,921,374	4,556,857
Operating lease charges	460,757	359,896
Purchase of materials and telecommunications products	10,829,497	7,632,433
Subcontracting charges	6,966,405	4,577,237
Others	2,657,105	2,042,004
	27,169,728	19,473,632

6 Other operating income

	2008 RMB'000	2007 RMB'000
Dividend income from unlisted securities	19,332	39,629
Government grants	87,093	66,914
Gain on disposal of investments	7,340	52,250
Gain on disposal of property, plant and equipment	7,354	129
Gain on disposal of held to maturity investment	—	987
Penalty income	2,142	3,122
Management fee income	245,879	139,245
Write back of non-payable liabilities	14,367	11,623
Others	34,453	27,586
	417,960	341,485

7 Other operating expenses

	2008 RMB'000	2007 RMB'000
Impairment losses on property, plant and equipment	1,073	—
Loss on disposal of property, plant and equipment	31,704	—
Donation	1,744	1,122
Compensation and penalty	10,653	4,399
Others	10,691	7,058
	55,865	12,579

8 Net financing (expense)/income

	2008 RMB'000	2007 RMB'000
Interest income	102,513	119,396
Net foreign exchange loss	(11,474)	(15,461)
Change in fair value of derivative financial instruments	—	(9,461)
Interest on bank advances and other borrowings wholly repayable within five years	(168,740)	(52,792)
	(77,701)	41,682

For the years ended 31 December 2008 and 2007, no borrowing costs were capitalised in relation to construction in progress.

9 Profit before tax

	2008 RMB'000	2007 RMB'000
(a) Staff costs:		
Salaries, wages and other benefits	7,310,746	5,522,727
Contributions to defined contribution retirement schemes	678,268	509,294
	7,989,014	6,032,021
(b) Other items:		
Depreciation		
— Property, plant and equipment (note 16)	500,918	453,878
— Investment properties (note 17)	29,751	26,073
Amortisation		
— Lease prepayments (note 19)	8,948	4,488
— Other intangible assets (note 21)	33,271	23,810
Auditors' remuneration	36,000	30,000
Cost of inventories	10,829,497	7,632,433
Impairment losses on accounts and other receivables	46,795	28,048
Reversal of impairment losses on accounts and other receivables	(9,953)	(39,322)
Operating lease charges	579,921	452,882
Research and development costs	112,101	22,136
Share of associates' taxation	388	615

10 Income tax

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

	2008 RMB'000	2007 RMB'000
Current tax		
PRC enterprise income tax	422,296	427,793
Deferred tax		
Origination and reversal of temporary differences (note 25(b))	(20,881)	33,263
Total income tax	401,415	461,056

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

	2008 RMB'000	2007 RMB'000
Profit before tax	1,733,016	1,644,250
Expected PRC enterprise income tax expense at a statutory tax rate of 25% (2007: 33%) (note (i))	433,254	542,603
Differential tax rates on subsidiaries' income (note (i))	(99,727)	(163,010)
Non-deductible expenses (note (ii))	39,531	44,734
Non-taxable income	(11,434)	(32,328)
Tax losses not recognised	49,034	41,830
Utilisation of previously unrecognised tax losses	(5,894)	—
Reversal of previously recognised tax losses	2,068	18,146
Effect on opening deferred tax resulting from a reduction in PRC statutory tax rate (note (iii))	(5,417)	9,081
Income tax	401,415	461,056

Notes:

(i) The provision of the PRC income tax for the Group is calculated based on a statutory rate of 25% and 33% 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 2008 and for the year ended 31 December 2007 respectively, except for certain subsidiaries of the Group, which are taxed at preferential rates of 15% in 2007 and 15% or 18% in 2008.

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

10 Income tax (Continued)

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

Notes: (Continued)

(iii) The amount represents the tax effect on opening balances of deferred tax assets from a change in the PRC statutory tax rate. On 16 March 2007, the Corporate Income Tax Law of the PRC ("new tax law") was passed by the Fifth Plenary Session of the Tenth National People's Congress and took effect on 1 January 2008. According to the new tax law, except for certain subsidiaries of the Company which were taxed at preferential rates, the enterprise income tax rate applicable to the Group is reduced from 33% to 25% from 1 January 2008. The enterprise income tax rate applicable to certain subsidiaries taxed at preferential tax rate has been increased from 15% to 25% due to cessation of preferential tax qualification on 1 January 2008. The deferred tax assets have been remeasured for the change in applicable tax rates.

11 Directors' and supervisors' emoluments

The names of the directors and the supervisors of the Company and their remuneration for the year ended 31 December 2008 are as follows:

	Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000	Pension scheme contribution RMB'000	2008 Total RMB'000
Name of directors and supervisors					
Wang Xiaochu	—	—	—	—	—
Li Ping	—	—	—	—	—
Zhang Zhiyong	—	—	—	—	—
Yuan Jianxing	—	—	—	—	—
Liu Aili	—	—	—	—	—
Zhang Junan	—	—	—	—	—
Wang Jun	200	—	—	—	200
Chan Mo Po, Paul	213	—	—	—	213
Zhao Chunjun	150	—	—	—	150
Wu Shangzhi	150	—	—	—	150
Hao Weimin	150	—	—	—	150
Xia Jianghua	—	—	—	—	—
Yan Dong	—	—	—	—	—
Hai Liancheng	75	—	—	—	75
	938	—	—	—	938

The above remuneration does not include share appreciation rights as it has not been granted to above directors and supervisors (see note 37).

Mr. Wang Xiaochu resigned as director of the Company on 8 April 2008.

11 Directors' and supervisors' emoluments (Continued)

The names of the directors and the supervisors of the Company and their remuneration for the year ended 31 December 2007 are as follows:

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

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

	2008	2007
HK$ equivalent		
Nil to 1,000,000	14	14

12 Individuals with highest emoluments

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

	2008	2007
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:

	2008 RMB'000	2007 RMB'000
Salaries, allowances and other benefits in kind	720	755
Bonuses	2,890	2,703
Pension scheme contributions	306	249
	3,916	3,707

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

	2008	2007
HK$ equivalent		
Nil to 1,000,000	5	5

13 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB643,313,000 (2007: RMB450,688,000) which has been dealt with in the financial statements of the Company.

	2008 RMB'000	2007 RMB'000
Amount of consolidated profit attributable to equity shareholders dealt with in the Company's financial statements	643,313	450,688
Final dividends from subsidiaries attributable to the profit of the previous financial year, approved and paid during the year	—	98,944
Special dividends from subsidiaries attributable to the profit of the previous financial year, approved and paid during the year	—	418,460
	643,313	968,092

14 Dividends

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

	2008 RMB'000	2007 RMB'000
Final dividend proposed after the balance sheet date RMB0.0913 per share (2007: RMB0.0682 per share)	526,955	393,629

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

	2008 RMB'000	2007 RMB'000
Final dividend in respect of the financial year ended 31 December 2007, approved during the year, of RMB0.0682 per share (year ended 31 December 2006: nil)	393,629	—

(c) Special dividend

	2008 RMB'000	2007 RMB'000
Special dividend approved	—	535,011

14 Dividends (Continued)

(c) Special dividend (Continued)

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 Company has been paying the 2006 Special Dividend to CTC and its subsidiaries in a series of payments commenced in July 2007.

(d) Profit distribution by the Target Business

As disclosed in the Circular of the Company dated 20 June 2007, in line with the principles set out in the "Notice of Forwarding the Implementation Opinions of the state-owned Assets Supervision and Administration Commission about Further Standardisation of 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 the form of cash to CTC and its subsidiaries amounting to RMB197 million in total.

15 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 2008 of RMB1,316 million (2007: RMB1,167 million) and the weighted average number of shares in issue during the year ended 31 December 2008 of 5,683,313 thousand (2007: 5,444,986 thousand).

	2008 Thousand shares	2007 Thousand shares
Ordinary share issued at 1 January	**5,444,986**	5,444,986
Effect of share issued in April 2008	**238,327**	—
	5,683,313	5,444,986

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

16 Property, plant and equipment, net

The Group

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

16 Property, plant and equipment, net (Continued)

The Group (Continued)

	Buildings RMB'000	Buildings improvements RMB'000	Motor vehicles RMB'000	Furniture, fixtures and other equipment RMB'000	Total RMB'000
Cost or valuation:					
As at 1 January 2008	2,250,178	211,041	680,596	1,307,170	4,448,985
Transferred to investment properties (note 17)	(130,768)	—	—	—	(130,768)
Transferred from investment properties (note 17)	31,068	—	—	—	31,068
Transferred from construction in progress (note 18)	131,710	16,619	482	12,783	161,594
Additions	46,133	23,867	117,186	270,383	457,569
Disposals	(5,082)	(39,790)	(56,063)	(124,067)	(225,002)
Through acquisition of subsidiaries (note 38(i))	224,352	—	112,954	154,635	491,941
As at 31 December 2008	2,547,591	211,737	855,155	1,620,904	5,235,387
Representing:					
Cost	1,069,190	86,046	409,868	862,160	2,427,264
Valuation – 2006 (note b)	1,478,401	125,691	445,287	758,744	2,808,123
	2,547,591	211,737	855,155	1,620,904	5,235,387
Accumulated depreciation and impairment losses:					
As at 1 January 2008	108,102	126,587	287,316	555,225	1,077,230
Transferred to investment properties (note 17)	(19,676)	—	—	—	(19,676)
Transferred from investment properties (note 17)	4,041	—	—	—	4,041
Depreciation charge	102,257	36,757	108,827	253,077	500,918
Written back on disposal	(1,271)	(12,135)	(39,000)	(93,965)	(146,371)
Impairment loss	—	—	610	463	1,073
Through acquisition of subsidiaries (note 38(i))	28,967	—	58,559	96,160	183,686
As at 31 December 2008	222,420	151,209	416,312	810,960	1,600,901
Net carrying value:					
As at 31 December 2008	2,325,171	60,528	438,843	809,944	3,634,486

16 Property, plant and equipment, net (Continued)

The Company

	Furniture, fixtures and other equipment RMB'000
Cost :	
As at 1 January 2007	9
Additions	110
As at 31 December 2007	119
Accumulated depreciation:	
As at 1 January 2007	—
Charge for the year	11
As at 31 December 2007	11
Net carrying value:	
As at 31 December 2007	108
Cost :	
As at 1 January 2008	119
Additions	339
As at 31 December 2008	458
Accumulated depreciation:	
As at 1 January 2008	11
Charge for the year	58
As at 31 December 2008	69
Net carrying value:	
As at 31 December 2008	389

16 Property, plant and equipment, net (Continued)

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

(b) Valuation pursuant to the Restructuring

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

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

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

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

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

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

16 Property, plant and equipment, net (Continued)

(c) Certain of the Group's bank loans were secured by certain of the Group's property, plant and equipment as described in note 32. As at 31 December 2008, except for the pledged property, plant and equipment disclosed in note 32, certain banking facilities of the Group were secured also by property, plant and equipment with carrying amount of RMB45 million and lease prepayment (note 19) with carrying amount of RMB13 million. Banking facilities utilized to the extent of RMB2.5 million as at 31 December 2008 (2007: RMB Nil).

(d) Up to the date of issue of these financial statements, the Group was in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB270 million as at 31 December 2008 (2007: RMB258 million). The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

(e) Had all property, plant and equipment been carried at cost less accumulated depreciation under the cost model, the carrying amounts of each class of property, plant and equipment as at 31 December 2008 would have been as follows:

	2008 RMB'000	2007 RMB'000
Buildings	2,162,468	1,978,818
Buildings improvements	60,283	84,016
Motor vehicles	367,280	303,329
Furniture, fixtures and other equipment	819,167	771,307
	3,409,198	3,137,470

17 Investment properties

	The Group	
	2008 RMB'000	2007 RMB'000
Cost:		
As at 1 January	713,285	501,647
Transferred from property, plant and equipment (note 16)	130,768	102,936
Transferred to property, plant and equipment (note 16)	(31,068)	(87,767)
Transferred from lease prepayments (note 19)	—	17,790
Transferred to lease prepayments (note 19)	(2,684)	—
Transferred from construction in progress (note 18)	—	7,530
Additions	280	245,106
Disposals	(17)	(52,463)
Through acquisition of subsidiaries (note 38(i))	12,406	—
Distributions in relation to acquisition of Target Business (see note 1)	—	(21,494)
As at 31 December	822,970	713,285
Accumulated depreciation:		
As at 1 January	68,563	56,129
Transferred from property, plant and equipment (note 16)	19,676	9,075
Transferred to property, plant and equipment (note 16)	(4,041)	(6,370)
Transferred from lease prepayments (note 19)	—	1,139
Transferred to lease prepayments (note 19)	(121)	—
Depreciation charge	29,751	26,073
Written back on disposal	—	(13,109)
Through acquisition of subsidiaries (note 38(i))	1,927	—
Distributions in relation to acquisition of Target Business (see note 1)	—	(4,374)
As at 31 December	115,755	68,563
Net carrying value:		
As at 31 December	707,215	644,722
Fair value	797,417	738,366

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

17 Investment properties (Continued)

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

	The Group	
	2008 RMB'000	2007 RMB'000
Within 1 year	**51,099**	34,334
After 1 year but within 5 years	**71,119**	60,313
After 5 years	**5,919**	3,964
	128,137	98,611

During the year ended 31 December 2008, RMB171 million (2007: RMB95 million) was recognised as rental income in the consolidated income statement and RMB23 million (2007: RMB11 million) in respect of direct operating expenses relating to investment properties was recognised as expenses in the consolidated income statement.

Up to the date of these financial statements, the Group was in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB144 million as at 31 December 2008 (2007: RMB154 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.

18 Construction in progress

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
Cost:				
As at 1 January	**228,174**	292,043	**—**	—
Additions	**162,017**	212,967	**3,361**	—
Transferred to property, plant and equipment (note 16)	**(161,594)**	(269,306)	**—**	—
Transferred to investment properties (note 17)	**—**	(7,530)	**—**	—
Through acquisition of subsidiaries (note 38(i))	**2,411**	—	**—**	—
As at 31 December	**231,008**	228,174	**3,361**	—

19 Lease prepayments

	The Group	
	2008 RMB'000	2007 RMB'000
Cost:		
As at 1 January	**383,896**	165,042
Additions	**16,200**	254,787
Disposals	**—**	(14,126)
Transferred from investment properties (note 17)	**2,684**	—
Transferred to investment properties (note 17)	**—**	(17,790)
Through acquisition of subsidiaries (note 38(i))	**51,782**	—
Distributions in relation to acquisition of Target Business (see note 1)	**—**	(4,017)
As at 31 December	**454,562**	383,896
Accumulated depreciation:		
As at 1 January	**12,097**	9,631
Amortisation charge	**8,948**	4,488
Written back on disposal	**—**	(793)
Transferred from investment properties (note 17)	**121**	—
Transferred to investment properties (note 17)	**—**	(1,139)
Through acquisition of subsidiaries (note 38(i))	**2,105**	—
Distributions in relation to acquisition of Target Business (see note 1)	**—**	(90)
As at 31 December	**23,271**	12,097
Net carrying value:		
As at 31 December	**431,291**	371,799

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 17 to 55 years as at 31 December 2008.

20 Goodwill

	2008 RMB'000	2007 RMB'000
Cost and carrying amount as at 31 December	103,005	—

	2008 RMB'000
Impairment tests for cash-generating units containing goodwill	
China International Telecommunications Construction Corporation ("CITCC")	103,005

The recoverable amounts of goodwill arising from the acquisition of CITCC are determined based on value in use calculation. The calculation use cash flow projection based on financial budget approved by management covering a one-year period and pre-tax discount rates of 12.7%.

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

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

21 Other intangible assets

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
Cost:				
As at 1 January	**131,764**	75,868	**—**	—
Additions	**71,076**	59,246	**4,500**	—
Disposals	**(10,566)**	(3,350)	**—**	—
Through acquisition of subsidiaries (note 38(i))	**4,076**	—	**—**	—
As at 31 December	**196,350**	131,764	**4,500**	—
Accumulated amortisation:				
As at 1 January	**51,670**	30,556	**—**	—
Amortisation charge	**33,271**	23,810	**875**	—
Written back on disposal	**(5,839)**	(2,696)	**—**	—
Through acquisition of subsidiaries (note 38(i))	**1,671**	—	**—**	—
As at 31 December	**80,773**	51,670	**875**	—
Net carrying value:				
As at 31 December	**115,577**	80,094	**3,625**	—

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

22 Investments in subsidiaries

	The Company 2008 RMB'000	The Company 2007 RMB'000
Unlisted investments, at cost	9,987,008	9,479,781

The following list contains only the particulars of subsidiaries at 31 December 2008 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	—	RMB2,800 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
Hainan Communications Services Company Limited	Limited Liability Company	The PRC	100	—	RMB79 million	Provision of integrated telecommunications support services through its subsidiaries in Hainan Province

22 Investments in subsidiaries (Continued)

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

22 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
Yunnan Communications Services Company Limited	Limited Liability Company	The PRC	100	—	RMB238 million	Provision of integrated telecommunications support services through its subsidiaries in Yunnan Province
Shaanxi Communications Services Company Limited	Limited Liability Company	The PRC	100	—	RMB145 million	Provision of integrated telecommunications support services through its subsidiaries in Shaanxi Province
Gansu Communications Services Company Limited	Limited Liability Company	The PRC	100	—	RMB129 million	Provision of integrated telecommunications support services through its subsidiaries in Gansu Province
Qinghai Communications Services Company Limited	Limited Liability Company	The PRC	100	—	RMB68 million	Provision of integrated telecommunications support services through its subsidiaries in Qinghai Province
Xinjiang Communications Services Company Limited	Limited Liability Company	The PRC	100	—	RMB179 million	Provision of integrated telecommunications support services through its subsidiaries in Xinjiang Uygur Autonomous Region
China International Telecommunication Construction Corporation	Limited Liability Company	The PRC	100	—	RMB317 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	—	HKD2 million	Provision of integrated telecommunications support services through its subsidiaries in Hong Kong and Macau

23 Interests in associates

	The Group	
	2008 **RMB'000**	2007 RMB'000
Share of net assets	**12,902**	11,064

As at 31 December 2008, the Group's associates are unlisted, established and operated in the PRC. The Group's interests in associates are individually and in aggregate not material to the Group's financial condition or results of operation for the year.

24 Other investments

	The Group	
	2008 **RMB'000**	2007 RMB'000
At cost/fair value:		
Unlisted equity securities, at cost	**234,986**	206,303
Listed equity securities, at quoted market price	**34,802**	76,895
Held-to-maturity unlisted debt securities, at amortised cost	**—**	24,773
	269,788	307,971

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

25 Income tax in the balance sheet

(a) Current taxation in the balance sheet

	The Group		The Company	
	2008 **RMB'000**	2007 RMB'000	**2008** **RMB'000**	2007 RMB'000
Provision for PRC income tax for the year	**422,296**	427,793	**—**	—
Through acquisition of subsidiaries	**10,195**	—	**—**	—
Provision income tax paid	**(246,889)**	(229,433)	**—**	—
	185,602	198,360	**—**	—

25 Income tax in the balance sheet (Continued)

(b) Deferred tax assets and liabilities

The Group

Deferred tax assets and liabilities attributable to the following:

	Assets		Liabilities		Net balance	
	2008 RMB'000	2007 RMB'000	**2008 RMB'000**	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
Impairment losses, primarily for receivables and inventories	**22,523**	13,089	**—**	—	**22,523**	13,089
Revaluation of other investments	**—**	—	**(4,282)**	—	**(4,282)**	—
Revaluation of property, plant and equipment	**—**	—	**(21,123)**	—	**(21,123)**	—
Revaluation of lease prepayments (note (iii))	**60,000**	63,966	**—**	—	**60,000**	63,966
Change in fair value (note (ii))	**—**	2,365	**(6,048)**	(11,641)	**(6,048)**	(9,276)
Unused tax losses (note (i))	**4,247**	3,372	**—**	—	**4,247**	3,372
Unpaid expenses	**30,846**	13,579	**—**	—	**30,846**	13,579
Deferred tax assets and (liabilities)	**117,616**	96,371	**(31,453)**	(11,641)	**86,163**	84,730

25 Income tax in the balance sheet (Continued)

(b) Deferred tax assets and liabilities (Continued)

The Group (Continued)

Movements in temporary differences for the years ended 31 December 2007 and 2008 are as follows:

	As at 1 January 2008 RMB'000	Acquisition of subsidiaries RMB'000	Recognised in the consolidated income statement RMB'000	Recognised in shareholders' equity RMB'000	As at 31 December 2008 RMB'000
Impairment losses, primarily for receivables and inventories	13,089	3,748	5,686	—	22,523
Revaluation of other investments	—	(4,282)	—	—	(4,282)
Revaluation of property, plant and equipment	—	(22,449)	1,326	—	(21,123)
Revaluation of lease prepayments (note (iii))	63,966	—	(1,903)	(2,063)	60,000
Change in fair value (note (ii))	(9,276)	(585)	(2,370)	6,183	(6,048)
Unused tax losses (note (i))	3,372	—	875	—	4,247
Unpaid expenses	13,579	—	17,267	—	30,846
Deferred tax assets and (liabilities)	84,730	(23,568)	20,881	4,120	86,163
		(note 38(i))	(note 10(a))		

25 Income tax in the balance sheet (Continued)

(b) Deferred tax assets and liabilities (Continued)

The Group (Continued)

	As at 1 January 2007 RMB'000	Recognised in the consolidated income statement RMB'000	Recognised in shareholders' equity RMB'000	As at 31 December 2007 RMB'000
Impairment losses, primarily for receivables and inventories	21,739	(8,650)	—	13,089
Pre-operating expenses	1,562	(1,562)	—	—
Revaluation of property, plant and equipment	(18,473)	—	18,473	—
Revaluation of lease prepayments (note (iii))	43,124	(1,612)	22,454	63,966
Change in fair value (note (ii))	—	2,365	(11,641)	(9,276)
Unused tax losses (note (i))	26,837	(23,465)	—	3,372
Unpaid expenses	13,918	(339)	—	13,579
Deferred tax assets and (liabilities)	88,707	(33,263)	29,286	84,730
		(note 10(a))		

Notes:

(i) Expiry of recognised tax losses

	2008 RMB'000	2007 RMB'000
Year of expiry		
2011	—	7,916
2012	—	5,436
2013	16,988	—
	16,988	13,352

25 Income tax in the balance sheet (Continued)

(b) Deferred tax assets and liabilities (Continued)

Notes: (Continued)

(ii) As at 31 December 2008, 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 million related to the change in fair value of available-for-sale investments was recognised in owner's equity.

(iii) In connection with the Restructuring and the Acquisition of the Target Business, land use rights were revalued. The revalued amount will serve as the tax base for future years. The land use rights were not revalued for financial reporting purposes and accordingly, deferred tax assets were created with a corresponding increase in equity. The amount recognised in equity during 2008 represents the change in taxable land use right revalued amount for certain subsidiaries. Based upon the level of historical taxable income and projections for future taxable income, management believes it is probable that the Group will realise the benefits of the deferred tax assets.

(iv) As at 31 December 2008, the Group has not recognised deferred tax assets in respect of tax losses of RMB383.4 million (2007: RMB289.2 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 2009 to 2013.

26 Inventories

	The Group	
	2008 RMB'000	2007 RMB'000
Construction materials	**394,446**	407,635
Finished goods	**686,105**	563,125
Spare parts and consumables	**61,795**	65,001
	1,142,346	1,035,761

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

	The Group	
	2008 RMB'000	2007 RMB'000
Carrying amount of inventories consumed and sold	**10,829,497**	7,632,433
Reversal of write down of inventories	**(23)**	(156)
Write down of inventories	**4,869**	1,612
	10,834,343	7,633,889

27 Accounts and bills receivable, net

	The Group	
	2008 RMB'000	2007 RMB'000
Bills receivable	**142,521**	39,228
Unbilled revenue for contract work	**2,610,786**	1,050,796
Trade receivables	**6,750,702**	5,611,097
	9,504,009	6,701,121
Less: impairment losses (note (d))	**(301,104)**	(73,514)
	9,202,905	6,627,607

(a) Included in accounts and bills receivable are amounts due from fellow subsidiaries of RMB5,299 million (2007: RMB3,344 million) as at 31 December 2008. 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.

27 Accounts and bills receivable, net (Continued)

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

	The Group	
	2008 RMB'000	2007 RMB'000
Current	4,326,064	3,616,471
Within 1 year	4,231,378	2,649,994
After 1 year but less than 2 years	459,572	309,942
After 2 years but less than 3 years	119,212	40,623
After 3 years	66,679	10,577
Amount past due	4,876,841	3,011,136
	9,202,905	6,627,607

(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	
	2008 RMB'000	2007 RMB'000
At 1 January	73,514	88,329
Acquisition of subsidiaries (note (i))	202,334	—
Impairment loss recognised	40,647	19,467
Reversal of impairment loss previously recognised	(8,089)	(30,695)
Uncollectible amounts written off	(7,302)	(3,587)
At 31 December	301,104	73,514

(i) Included in impairment losses are impairment loss of RMB202.3 million recognised before the acquisition date by the newly acquired CITCC and its subsidiaries, as at 31 December 2008.

At 31 December 2008, the Group's accounts and bills receivable of RMB256.9 million (2007: RMB14.4 million) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific impairment losses of RMB213.2 million (2007: RMB12.5 million) were recognised. The Group does not hold any collateral over these balances.

27 Accounts and bills receivable, net (Continued)

(e) Accounts and bills receivable that is not impaired

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

	The Group	
	2008 RMB'000	2007 RMB'000
Neither past due nor impaired	4,326,064	3,487,520
Within 1 year	4,230,186	2,555,504
After 1 year but less than 2 years	283,800	298,891
After 2 years but less than 3 years	77,571	39,175
After 3 years	18,442	10,200
At 31 December	8,936,063	6,391,290

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

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

28 Construction contracts

The aggregate amounts of costs incurred plus recognised profit less recognised losses to date, included in the gross amount due from/to customers for contract work at 31 December 2008 are RMB4,336 million (2007: RMB1,925 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 2008 are RMB25 million (2007: RMB22 million).

29 Prepayments and other current assets

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advances to staff	**206,127**	219,232	**—**	9
Amounts due from fellow subsidiaries	**502,996**	791,551	**21,276**	8,334
Amounts due from subsidiaries	**—**	—	**67,867**	—
Prepayments in connection with construction work and equipment purchases	**1,553,160**	732,890	**—**	—
Prepaid expenses and deposits	**235,801**	203,187	**667**	606
Dividends receivable	**25,394**	234	**1,131,128**	632,532
Others	**374,860**	234,477	**—**	—
	2,898,338	2,181,571	**1,220,938**	641,481

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

30 Restricted deposits

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

31 Cash and cash equivalents

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**7,020,822**	6,161,208	**64,528**	76,924
Highly liquid investments	**245,000**	80,000	**245,000**	80,000
Deposits with banks and other financial institutions	**1,149,189**	391,044	**120,000**	—
Cash and cash equivalents	**8,415,011**	6,632,252	**429,528**	156,924

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.

32 Interest-bearing borrowings

The Group's short-term borrowings comprise:

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
RMB denominated				
Borrowings from banks				
— guaranteed	**—**	5,000	**—**	—
— collateralised	**15,212**	8,000	**—**	—
— unsecured	**282,488**	—	**—**	—
Loans from ultimate holding company				
— unsecured	**1,000,000**	1,600,000	**1,000,000**	1,600,000
Loans from fellow subsidiaries				
— unsecured	**645,780**	734,000	**—**	—
Current portion of long-term borrowings				
— collateralised	**940**	2,020	**—**	—
United states dollar denominated				
Borrowings from banks				
— collateralised	**10,006**	211,236	**—**	—
	1,954,426	2,560,256	**1,000,000**	1,600,000

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

	The Group		The Company	
	2008	2007	**2008**	2007
RMB denominated				
Borrowings from banks				
— guaranteed	**—**	5.26%	**—**	—
— collateralised	**3.30%**	7.29%–8.16%	**—**	—
— unsecured	**6.03%–7.47%**	—	**—**	—
Loans from ultimate holding company				
— unsecured	**4.03%**	5.18%	**4.03%**	5.18%
Loans from fellow subsidiaries				
— unsecured	**3.00%–5.26%**	3.00%–6.84%	**—**	—
United states dollar denominated				
Borrowings from banks				
— collateralised	**2.25%**	5.38%–5.64%	**—**	—

32 Interest-bearing borrowings (Continued)

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

		The Group	
		2008 RMB'000	2007 RMB'000
Borrowings from banks:			
— collateralised	Floating interest rates at ranging from 7.97%–8.90% per annum (2007: 7.32%–8.16%) with maturities through 3 June 2009	940	2,980
		940	2,980
Less: Current portion of long-term borrowings		(940)	(2,020)
		—	960

The long-term borrowings were repayable as follows:

	2008 RMB'000	2007 RMB'000
Within 1 year or on demand	—	2,020
After 1 year but within 2 years	—	960
	—	2,980

As at 31 December 2008, no borrowings from bank were guaranteed by CTC Group (as defined in note 40(a)) (2007: RMB5 million).

As at 31 December 2008, no borrowings from bank were subject to financial covenants.

As at 31 December 2008, bank loans amounting to RMB0.9 million (2007: RMB11 million) and RMB25 million (2007: RMB211 million) were secured by certain property, plant and equipment of the Group with net book value of RMB22 million (2007: RMB80 million) and restricted deposits of RMB24 million (2007: RMB218 million) respectively.

The loan from ultimate holding company in 2008 is unsecured and repayable on 9 June 2009.

33 Accounts and bills payable

Accounts and bills payable comprise:

	The Group	
	2008 RMB'000	2007 RMB'000
Accounts payable	6,111,129	4,060,211
Bills payable	1,526,369	626,432
	7,637,498	4,686,643

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

	The Group	
	2008 RMB'000	2007 RMB'000
Within 1 year	7,246,984	4,225,513
After 1 year but less than 2 years	267,017	368,011
After 2 years but less than 3 years	84,554	55,060
After 3 years	38,943	38,059
	7,637,498	4,686,643

Included in accounts and bills payable are amounts due to fellow subsidiaries of RMB254 million (2007: RMB205 million) as at 31 December 2008. The amounts due to fellow subsidiaries are unsecured, interest free and are expected to be settled within one year.

34 Accrued expenses and other payables

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
Wages and welfare payables	**769,236**	641,716	**3,606**	3,600
Amounts due to fellow subsidiaries (note i)	**956,929**	1,156,402	**13,240**	13,837
Advances received	**470,778**	338,598	**—**	—
Other taxes payable	**356,957**	272,405	**1,146**	411
Special dividend and profit distribution relating to Target Business payable to CTC (note ii)	**349,879**	535,008	**—**	—
Dividend payable	**300,759**	—	**257,716**	
Payables for construction and purchase of fixed assets	**41,878**	95,022	**—**	—
Forward foreign exchange contracts	**—**	9,461	**—**	—
Others	**1,484,188**	1,174,864	**21,545**	59,094
	4,730,604	4,223,476	**297,253**	76,942

Note:

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

(ii) The balance included 2006 Special Dividend (note 14(c)) and profit distribution by the Target Business (note 14(d)).

35 Share capital

	2008 RMB'000	2007 RMB'000
Registered, issued and fully paid:		
3,778,831,800 (2007: 3,811,501,400) domestic state-owned ordinary shares of RMB1.00 each	3,778,832	3,811,501
1,992,850,200 (2007: 1,633,484,600) H shares of RMB1.00 each	1,992,850	1,633,485
	5,771,682	5,444,986

	2008 Thousand shares	2007 Thousand shares
At 1 January	5,444,986	5,444,986
Conversion of domestic state-owned ordinary shares into H shares	(32,670)	—
Issue of H shares	359,366	—
At 31 December	5,771,682	5,444,986

On 9 April 2008, the Company completed the Placing of an aggregate of 359,365,600 new overseas-listed foreign-invested shares at a price of HK$5.25 per share (the "Placing Shares"). The Placing Shares comprise (1) 326,696,000 new H shares issued by the Company in connection with the Placing, and (2) 32,669,600 H shares issued by the Company upon the conversion of the same number of the existing domestic legal person shares by SSF. The net proceeds from the Placing, after deducting share issue expenses of RMB45,309 thousand, amounted to RMB1,496,560 thousand of which RMB326,696 thousand and RMB1,169,864 thousand were credited to the Company's paid up capital and share premium reserve respectively.

Except for the 2006 Special Dividend stated in note 14(c), 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.

35 Share capital (Continued)

(a) Capital management (Continued)

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 2008 was 14.0% (2007: 21.1%). In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

36 Retirement benefit obligations

In accordance with the labour regulations of the PRC, the Group participates in various defined contribution retirement schemes organised by the municipal and provincial governments for its employees. The Group is required to make contributions to the retirement schemes at rates ranging from 18% to 22% (2007: 16.5% to 20%) of the salaries, bonuses and certain allowances of the employees. A member of the scheme is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date.

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

37 Share appreciation rights 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 dollar at the date of the exercise. The Company recognises compensation expense of the share appreciation rights over the applicable vesting period.

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

The Group reversed a compensation expense over the applicable vesting period amounted to RMB0.3 million for the year ended 31 December 2008 (2007: recognised RMB23 million). As the share appreciation right is not exercisable in the first 24 months, it has not been granted to each eligible employee. As such, compensation expense over the applicable vesting period recognised has not been allocated to each eligible employees.

38 Notes to consolidated cash flow statement

(i) Acquisition of major subsidiaries

On 30 May 2008, the Group acquired all of the shares in CITCC from China National Postal and Telecommunications Appliances Corporation ("the Vendor") for a consideration of RMB505.46 million. The cost of acquisition has been settled by cash payment of RMB201.48 million and the assumption of a debt of the Vendor due to CITCC of RMB303.98 million.

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

	On acquisition date RMB'000
Property, plant and equipment, net	308,255
Investment properties	10,479
Construction in progress	2,411
Lease prepayments	49,677
Other intangible assets	2,405
Other investments	29,478
Deferred tax assets	3,748
Inventories	2,661
Accounts and bills receivable, net	825,994
Prepayments and other current assets	483,599
Cash and cash equivalents	814,282
Interest-bearing borrowings	(943,753)
Accounts and bills payable	(336,654)
Receipts in advance for contract work	(38,690)
Accrued expenses and other payables	(773,924)
Income tax payable	(10,195)
Deferred tax liabilities	(27,316)
Net identifiable assets and liabilities	402,457
Goodwill on acquisition	103,005
Total purchase consideration	505,462
Less: non-cash consideration	303,976
Consideration paid in cash	201,486
Less: cash and cash equivalent balance acquired	814,282
Net cash inflow	612,796

38 Notes to consolidated cash flow statement (Continued)

(i) Acquisition of subsidiaries (Continued)

For the period from the date of acquisition to 31 December 2008, CITCC contributed a profit of RMB 41 million to the Group.

If the acquisition had occurred on 1 January 2008, management estimated that consolidated revenue would have been RMB34,151 million and consolidated profit for the year would have been RMB1,352 million.

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

The goodwill recognised on the acquisition is attributable mainly to the skills and technical talent of the acquired business work force, optimising the Group's customer base and geographic coverage, help to accelerate its overseas business development and the synergies expected to be achieved from integrating CITCC into the Group's existing telecommunications support services.

(ii) Donation of equity interests

In 2008, the Group received equity interests in certain companies as donation to the Group from local labour unions. These companies became non-wholly owned subsidiaries of the Group on the date of donation. The donation received had the following effect on the Group's assets and liabilities:

	2008 RMB'000
Cash and cash equivalents	55,178
Accounts and other receivables	23,714
Accounts and other payables	(12,296)
Other assets and liabilities	(41,646)
Net assets	24,950
Less: minority interests	12,475
Donation of equity interests	12,475

38 Notes to consolidated cash flow statement (Continued)

(iii) Major non-cash transactions

		2008 RMB'000	2007 RMB'000
Contributions in forms of property, plant and equipment, lease prepayments and other assets	*(i)*	—	195,228
Distributions in forms of property, plant and equipment, lease prepayments and other assets	*(ii)*	—	206,731

(i) The amount in 2007 represented injection of property, plant and equipment and other assets by CTC to the Group prior to the acquisition of the Target Business.

(ii) The amount in 2007 represented distribution of property, plant and equipment and other assets to CTC prior to the acquisition of the Target Business by the Group.

39 Commitments and contingent liabilities

(a) Capital commitments

As at 31 December 2008, the Group has capital commitment for acquisition and construction of property, plant and equipment and other assets as follows:

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Authorised and contracted for	163,397	9,714	3,053	—
Authorised but not contracted for	189,877	37,654	—	—

39 Commitments and contingent liabilities (Continued)

(b) Operating lease commitments

As at 31 December 2008, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
Within 1 year	**95,227**	119,888	**—**	—
After 1 year but within 5 years	**112,878**	161,355	**—**	—
After 5 years	**5,998**	5,118	**—**	—
	214,103	286,361	**—**	—

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 2008, the Group had no material contingent liabilities and no financial guarantees issued.

40 Financial instruments

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

(a) Credit risk

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

The Group's major customers are CTC and its subsidiaries (collectively referred to as "CTC Group"), and China Mobile Limited. The Group has a certain concentration of credit risk as the Group's largest customer accounted for 56% of the total accounts and bills receivable as at 31 December 2008 (2007: 50%). 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.

40 Financial instruments (Continued)

(a) Credit risk (Continued)

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 1% of its total assets for both 2008 and 2007.

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 32.

(c) Liquidity risk

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

The following table details 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

	2008						2007					
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
Interest-bearing borrowings	1,954,426	1,999,622	1,999,622	—	—	—	2,560,256	2,629,508	2,629,508	—	—	—
Account and bills payable	7,637,498	7,637,498	7,637,498	—	—	—	4,686,643	4,686,643	4,686,643	—	—	—
Receipt in advance for contract work	806,943	806,943	806,943	—	—	—	520,725	520,725	520,725	—	—	—
Accrued expenses and other payable	4,730,604	4,730,604	4,730,604	—	—	—	4,223,476	4,223,476	4,223,476	—	—	—
Long-term borrowings, less current portion	—	—	—	—	—	—	960	1,013	—	1,013	—	—
	15,129,471	15,174,667	15,174,667	—	—	—	11,992,060	12,061,365	12,060,352	1,013	—	—

40 Financial instruments (continued)

(c) Liquidity risk (Continued)

The Company

	2008						2007					
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
Interest-bearing borrowings	1,000,000	1,017,674	1,017,674	—	—	—	1,600,000	1,639,086	1,639,086	—	—	—
Accrued expenses and other payable	297,253	297,253	297,253	—	—	—	76,942	76,942	76,942	—	—	—
	1,297,253	1,314,927	1,314,927	—	—	—	1,676,942	1,716,028	1,716,028	—	—	—

(d) Fair value

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

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

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

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

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

(e) Foreign currency risk

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 US dollars and Hong Kong dollar (see notes 31 and 32).

The Group does not expect the appreciation or depreciation of the Renminbi against foreign currencies will materially affect the Group's financial position and result of operations because 99.2% (2007: 99.7%) of the Group's cash and cash equivalents and 99.5% (2007: 91.8%) of the Group's short-term debt as at 31 December 2008 are denominated in Renminbi.

40 Financial instruments (continued)

(e) Foreign currency risk (Continued)

Exposure to currency risk

The Group

	2008		2007	
	United States Dollars '000	Hong Kong Dollars '000	United States Dollars '000	Hong Kong Dollars '000
Other investments	—	—	—	25,220
Cash and cash equivalents	7,279	21,369	2,190	4,404
Accounts receivable	1,497	—	—	—
Accounts payable	(1,700)	—	—	—
Interest-bearing borrowings	(1,415)	—	(28,924)	—
Gross balance sheet exposure	5,661	21,369	(26,734)	29,624
Forward exchange contract	—	—	30,586	—
Overall net exposure	5,661	21,369	3,852	29,624

The Company

	2008		2007	
	United States Dollars '000	Hong Kong Dollars '000	United States Dollars '000	Hong Kong Dollars '000
Cash and cash equivalents	—	—	—	—

The following significant exchange rates applied during the year:

	Average rate		Spot rate	
	2008	2007	2008	2007
United States dollars	7.07	7.60	6.83	7.30
Hong Kong dollars	0.91	0.97	0.88	0.94

40 Financial instruments (continued)

(e) Foreign currency risk (Continued)

Exposure to currency risk (Continued)

Sensitivity analysis

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

The Group

	2008			2007		
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000	Increase/ (decrease) In foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
United States dollars	5%	1,450	—	5%	942	—
	(5)%	(1,450)	—	(5)%	(942)	—
Hong Kong dollars	5%	—	940	5 %	—	1,392
	(5)%	—	(940)	(5)%	—	(1,392)

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

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2008.

(f) Equity price risk

The Group is exposed to equity price risk arising from changes in the stock price of the Group's equity investment listed in Shanghai Stock Exchange and Shenzhen Stock Exchange. For such investment, it is estimated that an increase/decrease of 5% in its share price would increase/decrease the Group's equity by RMB1,740,100 at 31 December 2008 (2007: RMB3,844,745).

41 Significant accounting estimates and judgements

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies. In addition to those disclosed in note 20, 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 27 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.

(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.

41 Significant accounting estimates and judgements (Continued)

(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.

42 Related parties

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

(a) Transactions with CTC Group

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

42 Related parties (Continued)

(a) Transactions with CTC Group (Continued)

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

	2008 RMB'000	2007 RMB'000
Income from related parties:		
Engineering related services (note (i))	8,701,853	6,179,588
IT application services (note (ii))	946,695	649,214
Provision of ancillary telecommunications services (note (iii))	4,648,471	3,124,789
Provision of operation support services (note (iv))	1,562,283	1,528,435
Property leasing (note (v))	53,991	51,515
Management fee income (note(vi))	245,879	139,245
Expenses paid to related parties:		
Property leasing charges (note (vii))	111,355	94,326
IT application service charges (note (viii))	131,551	181,752
Operation support service charges (note (ix))	400,694	245,526
Interest paid (note (x))	117,956	12,262

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 rental income in respect of premises leased to CTC Group.

(vi) The amounts represent management fee income in respect of Centralised Services (as defined below) provided to CTC Group.

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

42 Related parties (Continued)

(a) Transactions with CTC Group (Continued)

Notes: (Continued)

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

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

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

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

	2008 RMB'000	2007 RMB'000
Accounts and bills receivable, net	5,299,264	3,344,339
Prepayments and other current assets	502,996	791,550
Total amounts due from CTC Group	5,802,260	4,135,889
Interest-bearing borrowings	1,645,780	2,334,000
Accounts and bills payable	253,724	205,137
Receipts in advance for contract work	41,732	61,039
Accrued expenses and other payables	1,503,315	1,678,088
Total amounts due to CTC Group	3,444,551	4,278,264

As at 31 December 2007 and 2008, no impairment losses for bad and doubtful debts were recorded in respect of amounts due from CTC Group.

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

42 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 16 November 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. 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.

42 Related parties (Continued)

(a) Transactions with CTC Group (Continued)

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

(5) In 2008, the Group acquired certain property, plant and equipment from CTC Group for a total consideration of RMB Nil (2007: RMB119 million) subsequent to the incorporation of the Company.

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

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

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

— rendering and receiving services;

— depositing and borrowing money; and

— use of public utilities.

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

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

42 Related parties (Continued)

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

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

	2008 RMB'000	2007 RMB'000
Cash and cash equivalents	7,858,742	6,603,444

	2008 RMB'000	2007 RMB'000
Interest income	101,473	86,089

(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 11 and certain of the highest paid employees as disclosed in note 12, is as follows:

	2008 RMB'000	2007 RMB'000
Salaries and other emoluments	2,423	2,340
Retirement benefits	7,185	1,114
Bonuses	1,301	6,041
	10,909	9,495

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

(d) Contributions to defined contribution retirement plans

The Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff. The details of the Group's employee benefits plan are disclosed in note 36. As at 31 December 2007 and 2008, there was no material outstanding contribution to post-employment benefit plans.

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

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

Transactions with the Group's ten largest customers, which are state-controlled entities, amounting to approximately RMB23,697 million for the year ended 31 December 2008 (2007: RMB15,704 million).

Transactions with Group's ten largest suppliers, which are state-controlled entities, amounting to RMB1,147 million for the year ended 31 December 2008 (2007: RMB867 million).

43 Segmental reporting

For the years ended 31 December 2007 and 2008, the Group principally had one business segment, the provision of integrated telecommunications service to the telecommunications industry in the PRC. The Group mainly operates in the PRC. Accordingly, no business and geographical segment information are presented.

44 Distributable reserves

The movement of shareholders' equity of the Company for 2008 is as follows:

	Share capital RMB'000 (note 35)	Share premium RMB'000 (note i)	Capital reserves RMB'000 (note ii)	Statutory surplus reserves RMB'000 (note iii)	Retained earnings/ (loss) RMB'000	Total RMB'000
At 1 January 2007	5,444,986	1,557,783	1,413,776	5,538	49,837	8,471,920
Profit for the year	—	—	—	—	968,092	968,092
Acquisition of Target Business	—	—	(374,995)	—	—	(374,995)
Expenses incurred in acquisition of Target Business	—	—	(45,205)	—	—	(45,205)
Distribution of special dividend (see note 14(c))	—	—	—	—	(418,460)	(418,460)
Appropriation	—	—	—	92,288	(92,288)	—
At 31 December 2007	5,444,986	1,557,783	993,576	97,826	507,181	8,601,352
At 1 January 2008	5,444,986	1,557,783	993,576	97,826	507,181	8,601,352
Profit for the year	—	—	—	—	643,313	643,313
Issuance of shares (see note 35)	326,696	1,169,864	—	—	—	1,496,560
Distribution of dividend (see note 14(b))	—	—	—	—	(393,629)	(393,629)
Appropriation	—	—	—	64,331	(64,331)	—
At 31 December 2008	5,771,682	2,727,647	993,576	162,157	692,534	10,347,596

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

44 Distributable reserves (Continued)

The aggregate amount of retained profits available for distribution to equity shareholders of the company after taking into account the current year's proposed final dividend (see note 14(a)) was:

	2008 RMB'000	2007 RMB'000
At 31 December	120,374	—

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

Notes:

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

(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.

45 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ended 31 December 2008

Up to the date of issue of these financial statements, the IASB has issued amendments, new standards and interpretations which are not yet effective for the accounting year ended 31 December 2008 and which have not been adopted in these financial statements. Of these developments, the following relate to matters they may be relevant to the Group's operations and financial statements:

		Effective for accounting periods beginning on or after
Amendment to IFRS 2	Share-based payment	1 January 2009
Revised IFRS 3	Business combination	1 July 2009
IFRS 8	Operating segments	1 January 2009
Revised IAS 23	Borrowing costs	1 January 2009
Amendments to IAS 27	Consolidated and separate financial statements	1 July 2009
Amendments to IFRS 7	Financial instruments: Disclosures — improving disclosures about financial instruments	1 July 2009

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

46 Immediate and ultimate controlling party

At 31 December 2008, the directors consider the immediate and ultimate controlling party of the Group to be CTC, a stated-owned enterprise established in the PRC. CTC does not produce financial statements available for public use.

Financial Summary

(Amounts in thousands, except per share data)

	For the years ended 31 December				
	2008 RMB	2007 RMB	2006 RMB	2005 RMB	2004 RMB
Results					
Revenue from telecommunications infrastructure services	**15,329,464**	11,093,007	10,941,175	10,450,989	10,171,724
Revenue from business process outsourcing services	**13,288,370**	9,365,152	6,167,397	5,328,100	4,493,214
Revenue from applications, content and others	**3,852,736**	3,080,222	2,204,160	2,229,839	1,790,748
Total revenues	**32,470,570**	23,538,381	19,312,732	18,008,928	16,455,686
Depreciation and amortization	**(334,590)**	(305,205)	(326,673)	(304,441)	(264,240)
Direct personnel costs	**(5,921,374)**	(4,556,857)	(3,937,327)	(3,448,097)	(2,227,276)
Purchase of materials and telecommunications products	**(10,829,497)**	(7,632,433)	(5,712,317)	(5,746,430)	(5,597,860)
Subcontracting charges	**(6,966,405)**	(4,577,237)	(3,582,311)	(2,782,283)	(3,298,311)
Operating lease charges and others	**(3,117,862)**	(2,401,900)	(2,187,169)	(2,011,648)	(1,737,022)
Cost of revenues	**(27,169,728)**	(19,473,632)	(15,745,797)	(14,292,899)	(13,124,709)
Gross profit	**5,300,842**	4,064,749	3,566,935	3,716,029	3,330,977
Other operating income	**417,960**	341,485	196,681	140,864	226,395
Selling, general and administrative expenses	**(3,854,381)**	(2,794,662)	(2,476,881)	(2,724,744)	(2,485,734)
Other operating expenses	**(55,865)**	(12,579)	(28,350)	(33,794)	(43,419)
Deficit on revaluation of property, plant and equipment	**—**	—	(135,629)	—	—
Net financing (cost)/income	**(77,701)**	41,682	87,315	39,641	44,104
Share of profits less (losses) of associates	**2,161**	3,575	(14)	14,676	7,386
Negative goodwill	**—**	—	4,039	159,499	43,299
Profit before tax	**1,733,016**	1,644,250	1,214,096	1,312,171	1,123,008
Income tax	**(401,415)**	(461,056)	(374,614)	(348,431)	(347,928)
Profit for the year	**1,331,601**	1,183,194	839,482	963,740	775,080
Attributable to:					
Equity shareholders/owner	**1,316,267**	1,167,247	816,754	755,496	679,948
Minority interests	**15,334**	15,947	22,728	208,244	95,132
Profit for the year	**1,331,601**	1,183,194	839,482	963,740	775,080
Basic and diluted earnings per share (RMB)	**0.232**	0.214	0.201	0.191	0.172

(Amounts in thousands)	As at 31 December				
	2008 RMB	2007 RMB	2006 RMB	2005 RMB	2004 RMB
Financial condition					
Property, plant and equipment, net	3,634,486	3,371,755	2,997,587	3,321,805	3,249,959
Other non-current assets	1,988,402	1,740,195	1,228,384	1,965,800	1,864,567
Inventories	1,142,346	1,035,761	980,230	646,692	772,598
Accounts and bills receivable, net	9,202,905	6,627,607	5,804,769	5,113,091	4,315,334
Prepayments and other current assets	2,898,338	2,181,571	2,116,936	2,879,928	2,471,735
Cash and cash equivalents	8,415,011	6,632,252	8,163,755	4,955,868	5,648,870
Restricted deposits	177,732	251,128	—	—	—
Total assets	27,459,220	21,840,269	21,291,661	18,883,184	18,323,063
Interest-bearing borrowings	1,954,426	2,560,256	157,700	302,045	289,583
Accounts and bills payable	7,637,498	4,686,643	4,182,105	3,092,209	3,093,906
Receipts in advance for contract work	806,943	520,725	680,048	1,067,701	1,381,222
Accrued expenses and other payables	4,730,604	4,223,476	3,652,347	3,945,826	3,828,160
Income tax payable	185,602	198,360	224,166	495,018	482,605
Non-current liabilities	31,453	12,601	31,473	12,000	22,000
Total liabilities	15,346,526	12,202,061	8,927,839	8,914,799	9,097,476
Equity attributable to equity holders of the Company	11,990,871	9,560,778	12,217,113	9,287,912	8,275,614
Minority interests	121,823	77,430	146,709	680,473	949,973
Total equity	12,112,694	9,638,208	12,363,822	9,968,385	9,225,587
Total liabilities and equity	27,459,220	21,840,269	21,291,661	18,883,184	18,323,063

CHINA COMMUNICATIONS
SERVICES CORPORATION LIMITED

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

website: www.chinaccs.com.hk

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