NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. PRINCIPAL ACTIVITIES AND ORGANISATION

(a) Principal activities

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

(b) Organisation

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

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

(i) CTC underwent a restructuring programme in connection with its full range of telecommunications related services, namely (1) telecommunications infrastructure design, construction and project supervision and management; (2) business process outsourcing (including management of infrastructure for information technologies business, general 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 3,623.40 million ordinary shares with a par value of RMB1.00 each.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. PRINCIPAL ACTIVITIES AND ORGANISATION (continued)

(b) Organisation (continued)

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. PRINCIPAL ACTIVITIES AND ORGANISATION (continued)

(b) Organisation (continued)

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

The provisions of the new Hong Kong Companies Ordinance (Cap. 622) regarding preparation of accounts and directors' reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2015 comprise the Group and its interests in associates.

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

— Financial derivatives and available-for-sale financial assets listed in active market are measured at fair value.

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

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

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

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 41.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation

(i) Business combinations involving enterprises under common control

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

(ii) Business combinations involving entities not under common control

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

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

(iii) Subsidiaries and non-controlling interests

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

a. has power over the investee;

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

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

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

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

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

(iv) Associates

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

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

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

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

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Goodwill

Goodwill represents the excess of

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

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

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

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

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

(e) Investments in debt and equity securities

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Investment properties

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

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

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

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

(g) Property, plant and equipment

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

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

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

Buildings	20–30 years
Building improvements	5 years
Motor vehicles	5–10 years
Furniture, fixtures and other equipment	3–20 years

The useful life of an asset and its residual value, if any, and depreciation method are reviewed annually.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Construction in progress

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

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

(i) Lease prepayments

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

(j) Intangible assets (other than goodwill)

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

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

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

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

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

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

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

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

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

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

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

Both the period and method of amortisation are reviewed annually.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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.

Lease payments made under an operating lease are charged to profit or loss in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(l) Impairment of assets

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

Investments in debt and equity securities classified as available-for-sale securities and other current and non-current receivables that are stated at amortised cost are reviewed at each end of the reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events.

— Significant financial difficulty of the debtor;

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of assets (continued)

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

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

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

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

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

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

— For available-for-sale securities carried at fair value that is considered to be impaired, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of assets (continued)

(ii) Impairment of other assets

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

— property, plant and equipment;

— investment properties;

— construction in progress;

— lease prepayments;

— goodwill; and

— other intangible assets.

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

— **Calculation of recoverable amount**

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. 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 profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

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

— **Reversals of impairment losses**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Inventories

Inventories are carried at the lower of cost and net realizable 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 realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

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

(n) Construction contracts

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

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

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

(o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(l)).

(p) Interest-bearing borrowings

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

Debt and equity instruments issued by the group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

(q) Trade and other payables

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

(t) Employee benefits

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

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees.

(ii) Share appreciation rights scheme

Compensation expense in respect of the share appreciation rights granted is accrued as a charge to profit or loss over the applicable vesting period based on the fair value of the stock appreciation rights. The liability of the accrued compensation expense is remeasured to fair value at each end of the reporting period until the liability is settled with the effect of changes in the fair value of the liability is charged or credited to profit or loss. Further details of the Group's share appreciation rights scheme are set out in note 38.

(iii) Termination benefits

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Income tax

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

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

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

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

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

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

The amount of deferred tax recognised is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Income tax (continued)

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

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

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

  — the same taxable entity; or

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

(v) Provisions and contingent liabilities

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

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

(w) Revenue recognition

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

(i) Contract revenue

When the outcome of a construction contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Revenue recognition (continued)

(ii) Services rendered

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

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

(iii) Sales of goods

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

(iv) Rental income from operating leases

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

(v) Dividends

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

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

(vi) Interest income

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Government grants

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

(y) Translation of foreign currencies

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

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

(z) Borrowing costs

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Segment reporting

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

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

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

(bb) Dividends or profit distributions

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

(cc) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. CHANGES IN ACCOUNTING POLICIES

The IASB has issued several amendments to IFRSs that are first effective for the current year of the Group:

Amendments to IAS 19	Defined Benefit Plans: Employee Contributions
Amendments to IFRSs	Annual Improvements to IFRSs 2010–2012 Cycle
Amendments to IFRSs	Annual Improvements to IFRSs 2011–2013 Cycle

The application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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:

	2015 RMB'000	2014 RMB'000
Revenue from telecommunications infrastructure services	**39,209,267**	34,008,077
Revenue from business process outsourcing services	**33,014,030**	31,215,423
Revenue from applications, content and other services	**8,736,649**	7,952,752
	80,959,946	73,176,252

The Group's major customers are telecommunications operators which include China Telecommunications Corporation and its subsidiaries (excluding the Group) ("CTC Group") and China Mobile Communications Corporation and its subsidiaries ("CM Group"), each contributing a revenue exceeding 10% of the Group's total revenues. Revenues from the provision of integrated telecommunications support services to CTC Group and CM Group for the year ended 31 December 2015 amount to RMB39,130 million and RMB12,659 million, respectively (2014: RMB31,948 million and RMB13,279 million, respectively), being 48.3% and 15.6% of the Group's total revenues, respectively (2014: 43.7% and 18.1%, respectively). In addition, the revenues derived from areas outside of Mainland China for the year ended 31 December 2015 amounts to RMB3,225 million (2014: RMB3,790 million).

5. COST OF REVENUES

	2015 RMB'000	2014 RMB'000
Depreciation and amortisation	**447,031**	450,741
Direct personnel costs	**8,731,020**	8,892,965
Operating lease charges	**1,318,185**	1,164,086
Purchase of materials and telecommunications products	**20,452,798**	20,190,921
Subcontracting charges	**31,811,771**	25,763,190
Others	**6,811,500**	6,032,646
	69,572,305	62,494,549

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. OTHER OPERATING INCOME

	2015 RMB'000	2014 RMB'000
Interest income	143,392	94,605
Dividend income from listed securities	824	822
Dividend income from unlisted securities	63,033	62,261
Government grants	244,759	210,126
Gain on partial disposal of an associate and other investments	—	69,411
Gain on disposal of property, plant and equipment and other intangible assets	38,153	6,421
Penalty income	1,652	1,909
Management fee income	297,177	286,403
Write-back of non-payable liabilities	34,443	23,889
Others	30,618	49,732
	854,051	805,579

7. OTHER OPERATING EXPENSES

	2015 RMB'000	2014 RMB'000
Impairment losses on property, plant and equipment and construction in progress	—	454
Loss on disposal of property, plant and equipment and other intangible assets	9,648	8,695
Donations	362	267
Penalty charge	11,290	14,852
Net foreign exchange loss	41,118	16,097
Others	46,752	44,273
	109,170	84,638

8. FINANCE COSTS

	2015 RMB'000	2014 RMB'000
Interest on bank and other borrowings	24,005	10,096
Interest for convertible preference shares and preference shares (note 35)	27,387	10,334
	51,392	20,430

For the years ended 31 December 2015 and 2014, no borrowing costs were capitalised in relation to construction in progress.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

9. PROFIT BEFORE TAX

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

		2015 RMB'000	2014 RMB'000
(a)	Staff costs:		
	Salaries, wages and other benefits	13,395,240	13,285,508
	Contributions to defined contribution retirement schemes	1,145,518	1,138,305
		14,540,758	14,423,813
(b)	Other items:		
	Depreciation		
	— Property, plant and equipment (note 16)	682,447	705,178
	— Investment properties (note 17)	41,490	43,270
	Amortisation		
	— Lease prepayments (note 19)	27,912	27,525
	— Other intangible assets (note 21)	93,669	64,769
	Auditors' remuneration	34,395	33,800
	Cost of inventories (note 26)	20,452,798	20,190,921
	Write-down of inventories (note 26)	64,712	18,666
	Reversal of write-down of inventories (note 26)	(1,452)	(1,057)
	Impairment losses on accounts and bills and other receivables	700,776	371,645
	Reversal of impairment losses on accounts and bills and other receivables	(116,984)	(42,076)
	Changes in fair value of financial derivatives	(3,524)	1,969
	Operating lease charges	1,601,101	1,451,817
	Research and development costs	2,038,016	1,780,923

The selling expenses, general and administrative expenses and other expenses of the Group are RMB1,406 million, RMB7,264 million and RMB636 million (2014: RMB1,209 million, RMB7,260 million and RMB308 million) respectively for the year ended 31 December 2015. Research and development costs include RMB1,591 million (2014: RMB1,389 million) relating to staff costs, amount of which is also included in the staff cost disclosed in note 9(a).

10. INCOME TAX

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

	2015 RMB'000	2014 RMB'000
Current tax		
PRC enterprise income tax	545,567	488,603
Overseas enterprise income tax	20,011	19,631
Deferred tax		
Origination and reversal of temporary differences (note 24)	(78,132)	(45,146)
Total income tax	487,446	463,088

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

10. INCOME TAX (continued)

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

	2015 RMB'000	2014 RMB'000
Profit before tax	**2,824,963**	2,630,886
Expected income tax expense at a statutory tax rate of 25% (2014: 25%) (note (i))	**706,241**	657,722
Differential tax rates on subsidiaries' income (note (i))	**(220,867)**	(195,847)
Non-deductible expenses (note (ii))	**135,387**	93,164
Non-taxable income	**(53,723)**	(46,940)
Tax losses not recognised	**59,058**	101,789
Utilisation of previously unrecognised tax losses	**(8,354)**	(6,604)
Over provision in respect of prior years	**(29,094)**	(29,516)
Effect of tax exemptions	**(1,362)**	(8,132)
Others (note (iii))	**(99,840)**	(102,548)
Income tax	**487,446**	463,088

Notes:

(i) The provision for income tax of the Group is calculated based on a statutory rate of 25% of the assessable profit of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the years ended 31 December 2015 and 2014, except for certain domestic subsidiaries of the Group, which are taxed at preferential rates of 20%, 15% and 10%, where applicable; and for certain overseas subsidiaries of the Group, which are taxed at respective statutory rates.

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

(iii) The amounts primarily represent the effect of additional deductions in research and development expense.

11. OTHER COMPREHENSIVE INCOME

Available-for-sale securities

	2015 RMB'000	2014 RMB'000
Changes in fair value recognised during the year	**16,312**	10,233
Net deferred tax debited to other comprehensive income	**(2,447)**	(1,535)
Net movement in the fair value reserve during the year recognised in other comprehensive income	**13,865**	8,698

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The names of the directors and the supervisors of the Company and their remuneration for the year ended 31 December 2015 are as follows:

	Fee RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000 (note)	Pension scheme contribution RMB'000	Share appreciation rights RMB'000	2015 Total RMB'000
Executive Directors						
Sun Kangmin (appointed on 19 January 2015)	—	—	—	—	—	—
Li Ping (resigned on 19 January 2015)	—	—	—	—	—	—
Si Furong	—	199	543	78	—	820
Hou Rui	—	140	488	70	—	698
	—	339	1,031	148	—	1,518
Non-Executive Directors						
Li Zhengmao	—	—	—	—	—	—
Zhang Junan	—	—	—	—	—	—
	—	—	—	—	—	—
Independent Non-Executive Directors						
Wang Jun	200	—	—	—	—	200
Zhao Chunjun	150	—	—	—	—	150
Siu Wai Keung, Francis	260	—	—	—	—	260
Lv Tingjie (appointed on 26 June 2015)	75	—	—	—	—	75
Wu Taishi (appointed on 26 June 2015)	75	—	—	—	—	75
Wei Leping (resigned on 26 June 2015)	75	—	—	—	—	75
	835	—	—	—	—	835
Supervisors						
Xia Jianghua (resigned on 11 December 2015)	—	—	—	—	—	—
Han Fang (appointed on 11 December 2015)	—	—	—	—	—	—
Hai Liancheng	75	—	—	—	—	75
Si Jianfei	—	119	334	65	—	518
	75	119	334	65	—	593
Total directors' and supervisors' emoluments						2,946

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

The names of the directors and the supervisors of the Company and their remuneration for the year ended 31 December 2014 are as follows:

	Fee RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000 (note)	Pension scheme contribution RMB'000	Share appreciation rights RMB'000	2014 Total RMB'000
Executive Directors						
Sun Kangmin (appointed on 19 January 2015)	—	—	—	—	—	—
Li Ping (resigned on 19 January 2015)	—	—	—	—	—	—
Si Furong (appointed on 21 February 2014)	—	199	225	72	—	496
Hou Rui	—	139	466	66	—	671
	—	338	691	138	—	1,167
Non-Executive Directors						
Li Zhengmao	—	—	—	—	—	—
Zhang Junan	—	—	—	—	—	—
	—	—	—	—	—	—
Independent Non-Executive Directors						
Wang Jun	200	—	—	—	—	200
Zhao Chunjun	150	—	—	—	—	150
Wei Leping	150	—	—	—	—	150
Siu Wai Keung, Francis	240	—	—	—	—	240
	740	—	—	—	—	740
Supervisors						
Xia Jianghua	—	—	—	—	—	—
Hai Liancheng	75	—	—	—	—	75
Si Jianfei	—	119	317	58	—	494
	75	119	317	58	—	569
Total directors' and supervisors' emoluments						2,476

Note:

The discretionary bonus is determined based on the performance of the directors and supervisors and the Group's operating results.

The emoluments of executive directors, Mr. Sun Kangmin and Mr. Li Ping, non-executive directors, Mr. Li Zhengmao and Mr. Zhang Junan, and supervisors, Ms. Han Fang and Ms. Xia Jianghua, were not borne by the Group.

The emoluments of executive directors, Mr. Si Furong and Ms. Hou Rui, were mainly for their services in connection with the management of the affairs of the Group.

The independent non-executive directors' emoluments shown above were in connection with their services as directors of the Group.

The emoluments of a supervisor, Mr. Hai Liancheng were in connection with his services as a supervisor of the Group and the emoluments of a supervisor, Mr. Si Jianfei, were mainly for his services as an employee of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

(a) The five highest paid employees of the Group

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

	2015	2014
Directors and supervisors	—	1
Non-director and non-supervisor employees	5	4
	5	5

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

	2015 RMB'000	2014 RMB'000
Salaries, allowances and other benefits in kind	1,929	1,353
Discretionary bonuses	3,286	2,728
Pension scheme contributions	208	255
	5,423	4,336

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

	2015	2014
RMB equivalent		
Nil to 1,000,000	3	4
1,000,001 to 1,500,000	2	1

(b) Senior management's remuneration

The number of the senior management (not including non-director and non-supervisor employees presented in 13(a)) whose remuneration fell within the following bands:

	2015	2014
RMB equivalent		
Nil to 1,000,000	19	20

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

14. DIVIDENDS

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

	2015 RMB'000	2014 RMB'000
Final dividend proposed after the end of the reporting period RMB0.1011 per share (2014: RMB0.0931 per share)	**700,220**	644,812

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

	2015 RMB'000	2014 RMB'000
Final dividend in respect of the financial year ended 31 December 2014, approved during the year, of RMB0.0931 per share (2013: RMB0.1293 per share)	**644,812**	895,534

(c) Special dividends payable to equity shareholders of the Company:

	2015 RMB'000	2014 RMB'000
Special dividend proposed after the end of the reporting period RMB0.0101 per share	**69,953**	—

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 2015 of RMB2,334,412 thousand (2014: RMB2,150,258 thousand) and number of shares in issue during the year ended 31 December 2015 of 6,926,018 thousand shares (2014: 6,926,018 thousand shares).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

16. PROPERTY, PLANT AND EQUIPMENT, NET

	Buildings RMB'000	Building improvements RMB'000	Motor vehicles RMB'000	Furniture, fixtures and other equipment RMB'000	Total RMB'000
Cost:					
As at 1 January 2015	3,230,812	488,697	1,643,787	3,572,992	8,936,288
Transfer to investment properties (note 17)	(20,115)	—	—	—	(20,115)
Transfer from investment properties (note 17)	2,930	—	—	—	2,930
Transfer from construction in progress (note 18)	23,428	14,727	5,319	32,370	75,844
Additions	48,800	34,634	112,349	271,340	467,123
Disposals	(39,700)	(6,265)	(147,448)	(193,126)	(386,539)
As at 31 December 2015	3,246,155	531,793	1,614,007	3,683,576	9,075,531
Accumulated depreciation and impairment losses:					
As at 1 January 2015	978,529	337,284	919,879	2,161,752	4,397,444
Transfer to investment properties (note 17)	(840)	—	—	—	(840)
Transfer from investment properties (note 17)	942	—	—	—	942
Depreciation charge	129,383	51,425	159,400	342,239	682,447
Depreciation written back on disposals	(21,278)	(5,178)	(136,950)	(166,515)	(329,921)
Impairment loss eliminated on disposals	—	—	(103)	(6,234)	(6,337)
As at 31 December 2015	1,086,736	383,531	942,226	2,331,242	4,743,735
Net carrying value:					
As at 31 December 2015	2,159,419	148,262	671,781	1,352,334	4,331,796
As at 1 January 2015	2,252,283	151,413	723,908	1,411,240	4,538,844

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

	Buildings RMB'000	Building improvements RMB'000	Motor vehicles RMB'000	Furniture, fixtures and other equipment RMB'000	Total RMB'000
Cost:					
As at 1 January 2014	3,159,042	466,298	1,593,643	3,400,234	8,619,217
Transfer to investment properties (note 17)	(35,563)	—	—	—	(35,563)
Transfer from investment properties (note 17)	52,875	—	—	—	52,875
Transfer from construction in progress (note 18)	38,406	8,640	2,875	116,564	166,485
Additions	17,444	20,451	144,714	221,369	403,978
Disposals	(1,392)	(6,692)	(97,445)	(165,175)	(270,704)
As at 31 December 2014	3,230,812	488,697	1,643,787	3,572,992	8,936,288
Accumulated depreciation and impairment losses:					
As at 1 January 2014	845,618	291,300	847,347	1,947,999	3,932,264
Transfer to investment properties (note 17)	(12,024)	—	—	—	(12,024)
Transfer from investment properties (note 17)	18,113	—	—	—	18,113
Depreciation charge	127,907	51,953	159,983	365,335	705,178
Depreciation written back on disposals	(1,085)	(5,969)	(87,444)	(150,799)	(245,297)
Impairment loss eliminated on disposals	—	—	(7)	(783)	(790)
As at 31 December 2014	978,529	337,284	919,879	2,161,752	4,397,444
Net carrying value:					
As at 31 December 2014	2,252,283	151,413	723,908	1,411,240	4,538,844
As at 1 January 2014	2,313,424	174,998	746,296	1,452,235	4,686,953

All the Group's buildings are located in the PRC.

As at 31 December 2015, certain banking facilities and borrowings from banks of the Group were secured by property, plant and equipment with carrying amount of RMB334 million (2014: RMB356 million).

Up to the date of issue of these consolidated financial statements, the Group is still in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying amount of approximately RMB372 million as at 31 December 2015 (2014: RMB397 million). The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

17. INVESTMENT PROPERTIES

	2015 RMB'000	2014 RMB'000
COST		
As at 1 January	**1,066,782**	1,081,013
Transfer from property, plant and equipment (note 16)	**20,115**	35,563
Transfer to property, plant and equipment (note 16)	**(2,930)**	(52,875)
Additions	**141**	3,081
As at 31 December	**1,084,108**	1,066,782
ACCUMULATED DEPRECIATION		
As at 1 January	**384,493**	346,892
Transfer from property, plant and equipment (note 16)	**840**	12,024
Transfer to property, plant and equipment (note 16)	**(942)**	(18,113)
Depreciation charge	**41,490**	43,270
Others	**41**	420
As at 31 December	**425,922**	384,493
NET CARRYING VALUE		
As at 31 December	**658,186**	682,289
As at 1 January	**682,289**	734,121
Fair value	**2,160,543**	2,130,704

All the Group's investment properties are located in the PRC.

The fair value measurement of the Group's investment properties is categorised into Level 3 of fair value measurement. The fair value was determined based on the income approach, where the market rentals of all lettable units of the properties are assessed and discounted at the market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The discount rate is determined by reference to the yields derived from analysing the sales transactions of similar commercial properties in the PRC and adjusted to take into account the market expectation from property investors to reflect factors specific to the Group's investment properties.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

17. INVESTMENT PROPERTIES (continued)

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

	2015 RMB'000	2014 RMB'000
Within 1 year	195,957	130,681
After 1 year but within 5 years	218,975	234,272
After 5 years	39,227	15,311
As at 31 December	454,159	380,264

During the year ended 31 December 2015, RMB107 million (2014: RMB149 million) has been recognised as rental income in the consolidated statement of profit or loss and RMB38 million (2014: RMB32 million) in respect of direct operating expenses relating to investment properties has been recognised as expenses in the consolidated statement of profit or loss.

Up to the date of these financial statements, the Group is still in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB38 million as at 31 December 2015 (2014: RMB30 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

	2015 RMB'000	2014 RMB'000
Cost:		
As at 1 January	234,890	207,111
Additions	259,865	229,553
Disposals	(2,692)	(913)
Transfer to other intangible assets (note 21)	(55,242)	(33,922)
Transfer to property, plant and equipment (note 16)	(75,844)	(166,485)
Impairment loss	—	(454)
As at 31 December	360,977	234,890

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

19. LEASE PREPAYMENTS

	2015 RMB'000	2014 RMB'000
Cost:		
As at 1 January	**1,083,566**	1,082,997
Additions	**5,102**	5,227
Disposals	**(69,324)**	(4,658)
As at 31 December	**1,019,344**	1,083,566
Released to profit or loss:		
As at 1 January	**211,218**	185,170
Amortisation charge	**27,912**	27,525
Disposals	**(13,372)**	(1,477)
As at 31 December	**225,758**	211,218
Net carrying value:		
As at 31 December	**793,586**	872,348
As at 1 January	**872,348**	897,827

Lease prepayments represent payments for land use rights paid to the PRC authorities. The Group's land use rights are located in the PRC and are with remaining terms ranging from 12 to 64 years as at 31 December 2015.

20. GOODWILL

	2015 RMB'000	2014 RMB'000
Cost and carrying amount	**103,005**	103,005

	2015 RMB'000	2014 RMB'000
Impairment tests for cash-generating units containing goodwill		
China International Telecommunications Construction Corporation ("CITCC")	**103,005**	103,005

The recoverable amounts of goodwill arising from the acquisition of CITCC are determined based on value in use calculation. The calculation uses cash flow projection based on financial budget approved by management covering a five-year period and pre-tax discount rates is 13.13 % (2014: 13.82%).

Cash flows beyond the five years period are extrapolated using zero growth rate. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

20. GOODWILL (continued)

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

	2015 RMB'000	2014 RMB'000
Cost:		
As at 1 January	562,522	458,856
Additions	62,778	80,513
Transfer from construction in progress (note 18)	55,242	33,922
Disposals	(7,086)	(10,769)
As at 31 December	673,456	562,522
Accumulated amortisation:		
As at 1 January	312,904	258,763
Amortisation charge	94,135	64,769
Written back on disposals	(2,814)	(10,628)
As at 31 December	404,225	312,904
Net carrying value:		
As at 31 December	269,231	249,618
As at 1 January	249,618	200,093

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

22. INTERESTS IN ASSOCIATES

	2015 RMB'000	2014 RMB'000
Share of net assets	117,196	67,211

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2015 RMB'000	2014 RMB'000
Unlisted equity securities, at cost	797,088	787,106
Listed equity securities, at quoted market price	67,984	51,672
	865,072	838,778

24. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net balance	
	31 December 2015 RMB'000	31 December 2014 RMB'000	31 December 2015 RMB'000	31 December 2014 RMB'000	31 December 2015 RMB'000	31 December 2014 RMB'000
Impairment losses, primarily for receivables and inventories	224,494	139,241	—	—	224,494	139,241
Revaluation of property, plant and equipment	—	—	(11,349)	(11,349)	(11,349)	(11,349)
Unused tax losses (note (i))	21,715	39,104	—	—	21,715	39,104
Change in fair value (note (ii))	—	—	(8,679)	(6,232)	(8,679)	(6,232)
Unpaid expenses	162,660	153,509	—	—	162,660	153,509
Others	—	—	5,341	4,224	5,341	4,224
Deferred tax assets and (liabilities)	408,869	331,854	(14,687)	(13,357)	394,182	318,497

Movements in deferred tax assets and liabilities for the year ended 31 December 2015 and 2014 are as follows:

	As at 1 January 2015 RMB'000	Recognised in profit or loss RMB'000 (note 10(a))	Recognised in other comprehensive income RMB'000	As at 31 December 2015 RMB'000
Impairment losses, primarily for receivables and inventories	139,241	85,253	—	224,494
Revaluation of property, plant and equipment	(11,349)	—	—	(11,349)
Unused tax losses (note (i))	39,104	(17,389)	—	21,715
Change in fair value (note (ii))	(6,232)	—	(2,447)	(8,679)
Unpaid expenses	153,509	9,151	—	162,660
Others	4,224	1,117	—	5,341
Deferred tax assets and (liabilities)	318,497	78,132	(2,447)	394,182

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

24. DEFERRED TAX ASSETS AND LIABILITIES (continued)

	As at 1 January 2014 RMB'000	Recognised in profit or loss RMB'000 (note 10(a))	Recognised in other comprehensive income RMB'000	As at 31 December 2014 RMB'000
Impairment losses, primarily for receivables and inventories	94,008	45,233	—	139,241
Revaluation of property, plant and equipment	(12,195)	846	—	(11,349)
Unused tax losses (note (i))	28,015	11,089	—	39,104
Change in fair value (note (ii))	(4,697)	—	(1,535)	(6,232)
Unpaid expenses	169,755	(16,246)	—	153,509
Others	—	4,224	—	4,224
Deferred tax assets and (liabilities)	274,886	45,146	(1,535)	318,497

Notes:

(i) Expiry of recognised tax losses

	2015 RMB'000	2014 RMB'000
Year of expiry		
2015	—	—
2016	—	8,169
2017	33,759	75,487
2018	51,529	66,535
2019	53,193	94,273
2020	3,042	—
	141,523	244,464

(ii) As at 31 December 2015, the Group's deferred tax liability related to the change in fair value of available-for-sale financial assets reflects in the above table.

(iii) As at 31 December 2015, the Group has not recognised deferred tax assets in respect of tax losses of RMB941.0 million (2014: RMB714.1 million) as it is not probable that future taxable profits against which the losses can be utilised will be available. The tax losses can be carried forward for five years from the year incurred and hence will be expired from 2016 to 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

25. OTHER NON-CURRENT ASSETS

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

26. INVENTORIES

	2015 RMB'000	2014 RMB'000
Construction materials	452,678	288,470
Finished goods	2,304,453	2,061,092
Spare parts and consumables	126,858	71,336
	2,883,989	2,420,898

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

	2015 RMB'000	2014 RMB'000
Carrying amount of inventories consumed and sold	20,452,798	20,190,921
Reversal of write-down of inventories	(1,452)	(1,057)
Write-down of inventories	64,712	18,666
	20,516,058	20,208,530

27. ACCOUNTS AND BILLS RECEIVABLE, NET

	2015 RMB'000	2014 RMB'000
Bills receivable	202,069	431,134
Unbilled revenues for contract work	7,864,033	7,856,102
Trade receivables	20,536,104	19,778,338
	28,602,206	28,065,574
Less: impairment losses	(1,081,377)	(624,376)
	27,520,829	27,441,198

(a) Included in accounts and bills receivable are amounts due from CTC Group of RMB15,976 million (2014: RMB13,612 million) as at 31 December 2015. The amounts due from CTC Group are unsecured, interest-free and are expected to be recovered within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

27. ACCOUNTS AND BILLS RECEIVABLE, NET (continued)

(b) The ageing analysis of accounts and bills receivable (net of impairment losses) based on credit terms is as follows:

	2015 RMB'000	2014 RMB'000
Current (note)	13,211,725	13,536,273
Within 1 year	11,666,256	11,228,501
After 1 year but less than 2 years	2,131,351	1,938,198
After 2 years but less than 3 years	511,497	648,426
After 3 years	—	89,800
Amount past due	14,309,104	13,904,925
	27,520,829	27,441,198

Note: Including revenues within the credit terms for contract work.

(c) 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:

	2015 RMB'000	2014 RMB'000
At 1 January	624,376	372,576
Impairment loss recognised	577,101	295,706
Reversal of impairment loss previously recognised	(101,648)	(34,208)
Uncollectible amounts written off	(18,452)	(9,698)
At 31 December	1,081,377	624,376

At 31 December 2015, accounts and bills receivable of RMB1,421 million (2014: RMB2,152 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 RMB511 million (2014: RMB317 million) were recognised. The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

27. ACCOUNTS AND BILLS RECEIVABLE, NET (continued)

(d) 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:

	2015 RMB'000	2014 RMB'000
Neither past due nor impaired	**13,211,725**	13,536,273
Past due but not impaired		
Within 1 year	**10,285,576**	10,127,135
After 1 year but less than 2 years	**1,000,787**	938,591
After 2 years but less than 3 years	**269,883**	245,510
After 3 years	**—**	39,114
	24,767,971	24,886,623

Receivables that were neither past due nor impaired mainly relate to major telecommunications operators for whom there was no recent record 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 customers for contract work at 31 December 2015 are RMB13,448 million (2014: RMB12,661 million).

In respect of construction contacts in progress at the end of the reporting period, the amounts of retentions held by customers for contract work, recorded within "Accounts and bills receivable, net" at 31 December 2015 are RMB41 million (2014: RMB26 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

29. PREPAYMENTS AND OTHER CURRENT ASSETS

	2015 RMB'000	2014 RMB'000
Advances to staff	**172,833**	224,602
Amounts due from CTC Group and other related parties	**1,430,237**	1,468,131
Prepayments in connection with construction work and equipment purchases	**2,648,540**	2,271,376
Prepaid expenses and deposits	**709,866**	590,965
Others	**1,911,598**	1,278,113
	6,873,074	5,833,187

The amounts due from CTC Group and other related parties are unsecured, interest-free and are expected to be recovered within one year.

30. RESTRICTED DEPOSITS

Restricted deposits represent cash in bank pledged as deposits for bills payable and cash held in dedicated bank accounts for certain construction projects, and deposits with original maturity over three months. Restricted deposits carry interest at prevailing market interest rates.

31. CASH AND CASH EQUIVALENTS

	2015 RMB'000	2014 RMB'000
Cash at bank and in hand	**8,748,298**	6,331,789
Deposits at bank with original maturity less than three months	**787,553**	981,726
Cash and cash equivalents	**9,535,851**	7,313,515

Bank balances carry interest at prevailing market interest rates.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

32. INTEREST-BEARING BORROWINGS

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

	2015 RMB'000	2014 RMB'000
RMB denominated		
Borrowings from banks		
— unsecured	32,953	—
Loan from a fellow subsidiary		
— unsecured	13,280	13,280
USD denominated		
Borrowings from banks		
— secured	17,013	17,378
— unsecured	109,590	216,160
Other denominated		
Borrowings from banks		
— unsecured	4,169	—
	177,005	246,818

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

	2015	2014
RMB denominated		
Borrowings from banks		
— unsecured	5.60%–5.62%	—
Loan from a fellow subsidiary		
— unsecured	2.39%	2.39%
USD denominated		
Borrowings from banks		
— secured	5.30%	5.30%
— unsecured	1.46%–4.14%	2.06%–4.70%
Other denominated		
Borrowings from banks		
— unsecured	8.60%	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

32. INTEREST-BEARING BORROWINGS (continued)

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

	2015 RMB'000	2014 RMB'000
USD denominated		
Borrowings from banks		
— secured	—	34,389
— unsecured	34,455	4,319
	34,455	38,708

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

	2015	2014
USD denominated		
Borrowings from banks		
— secured (fixed interest rate)	—	5.30%
— unsecured (fixed interest rate)	3.53%–4.14%	—
— unsecured (floating interest rate)	Libor+4.00%	Libor+4.00%

The Group's borrowings were repayable as follows:

	2015 RMB'000	2014 RMB'000
Within 1 year	177,005	246,818
After 1 year but within 2 years	18,221	17,378
After 2 years but within 5 years	16,234	21,330
	211,460	285,526

As at 31 December 2015, certain banking facilities and borrowings from banks of the Group were secured by property, plant and equipment with carrying amount of RMB334 million (2014: RMB356 million). Such banking facilities amounted to RMB131 million (2014: RMB131 million). The facilities were utilised to the extent of RMB17 million (2014: RMB52 million).

As at 31 December 2015, no borrowings from bank were subject to financial covenants.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

33. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	2015 RMB'000	2014 RMB'000
Accounts payable	17,429,304	16,366,810
Bills payable	2,270,081	2,448,758
	19,699,385	18,815,568

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

	2015 RMB'000	2014 RMB'000
Within 1 year	17,984,560	17,370,714
After 1 year but less than 2 years	1,191,927	994,309
After 2 years but less than 3 years	270,058	237,301
After 3 years	252,840	213,244
	19,699,385	18,815,568

Included in accounts and bills payable are amounts due to CTC Group and other related parties of RMB1,777 million (2014: RMB2,239 million) as at 31 December 2015. The amounts due to CTC Group and an associate of the Group are unsecured, interest-free and are expected to be settled within one year.

34. ACCRUED EXPENSES AND OTHER PAYABLES

	2015 RMB'000	2014 RMB'000
Wages and welfare payable	1,571,302	1,506,835
Amounts due to CTC Group and other related parties (note (i))	792,676	689,210
Advances received	1,578,163	1,128,593
Other taxes payable	806,418	841,579
Special dividend and profit distribution payable to CTC Group (note (ii))	54,029	91,426
Dividend payable	74,016	30,051
Payables for construction and purchase of property, plant and equipment	75,435	95,756
Others (note (iii))	3,739,563	3,041,516
	8,691,602	7,424,966

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

34. ACCRUED EXPENSES AND OTHER PAYABLES (continued)

Notes:

(i) The amounts due to CTC group and other related parties are unsecured, interest-free and are expected to be settled within one year.

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

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

Pursuant to a resolution passed at directors' meeting on 17 April 2007, the directors resolved to pay the 2006 special dividend to CTC and its subsidiaries amounting to RMB535 million in total, out of which RMB117 million was directly distributed at the subsidiary level. The Group has paid RMB533 million special dividend to CTC and its subsidiaries by 31 December 2015.

As disclosed in the Circular of the Company dated 20 June 2007, in line with the principles set out in the "Notice of the Forwarding the Implementation Opinions of the state-owned Assets Supervision and Administration Commission about Further Standardisation of the Work Relating to the Reconstruction of State-owned Enterprise" issued by the General Office of the State Council of the PRC, the changes in net assets between the period from 1 February 2007 to 31 August 2007 of the Target Business should be distributed in form of cash to CTC and its subsidiaries amounting to RMB197 million in total, of which RMB145 million has been paid to CTC and its subsidiaries by 31 December 2015.

Pursuant to the Equity Transfer Agreements entered into by the Group and CTC and its subsidiaries on 20 June 2012 in relation to the acquisitions of the Target Interests and SBSS, the net profit or loss made by the Target Interests and SBSS between the period from the respective valuation dates (31 October 2011 for Ningxia Construction and Ningxia Supervision and 30 June 2011 for Xinjiang Planning & Designing and SBSS) to 30 June 2012 (for the Target Interests) and 26 July 2012 (for SBSS) should be distributed in form of cash to CTC and its subsidiaries amounting to RMB26 million in total, which has been paid to CTC and its subsidiaries by 31 December 2015.

(iii) The amounts mainly include payables to suppliers for purchases on behalf of CTC, deposits received from subcontractors and others.

35. OTHER NON-CURRENT LIABILITIES

	2015 RMB'000	2014 RMB'000
Convertible preference shares and preference shares (note (i))	649,360	611,900
Others (note (ii))	216,420	175,742
	865,780	787,642

Notes:

(i) On 25 July 2014, a subsidiary of the Company has placed 66,670,000 convertible preference shares and 33,330,000 preference shares to an independent third party at par value of US$1 for each of the convertible preference share and preference share. According to the agreement, the subsidiary of the Company has the right, at its discretion, to defer the annual interest payment and also to redeem the convertible preference share and preference share eight years after the delivery date. However, the Group has obligation to pay the interest amount if the subsidiary of the Company defer the payment. Therefore, the directors of the Company consider that the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation arising from this agreement. Moreover, according to the agreement, the preference shareholder has the option to convert the convertible preference shares into ordinary shares from 1 January 2017 onwards. In the opinion of the directors of the Company, the number of ordinary shares can be converted, from the Group's perspective, is subject to negotiation between the Group and the preference shareholder in certain circumstances pursuant to the terms of the agreement, and with reference to fair value. In the consolidated statement of financial position of the Group, the host contract was classified as a financial liability.

The annual interest rate is 3.7% plus the average six-month dollar interest rate of Libor for six months before each interest payment date, and should be adjusted from the first interest payment in the year of eighth anniversary of the issuance date. The adjusted interest rate should not be less than 8%, and will automatically increase 1% every year after then. The effective interest rate as at 31 December 2015 was 4.21% per annum.

(ii) Others represent the deferred income arising from government grants and warranty provisions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

36. SHARE CAPITAL

	2015 RMB'000	2014 RMB'000
Registered, issued and fully paid:		
4,534,598,160 (31 December 2014: 4,534,598,160) domestic shares of RMB1.00 each	4,534,598	4,534,598
2,391,420,240 (31 December 2014: 2,391,420,240) H shares of RMB1.00 each	2,391,420	2,391,420
	6,926,018	6,926,018

	2015 Thousand shares	2014 Thousand shares
At 1 January and 31 December	6,926,018	6,926,018

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

(a) Capital management

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

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

The Group monitors its capital using a gearing ratio which is total debts divided by the sum of total debts and total equity. For this purpose, the Group defines total debt as the sum of short-term interest bearing borrowings, long-term interest bearing borrowings and convertible preference shares and preference shares. The Group aims to maintain the gearing ratio at a reasonable level. The Group's ratio as at 31 December 2015 was 3.4% (2014: 3.8%). In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

37. RETIREMENT BENEFIT OBLIGATIONS

In accordance with the labour regulations of the PRC, the Group participates in various defined contribution retirement schemes organised by the municipal and provincial governments for its employees. The Group is required to make contributions to the retirement schemes at rates ranging from 18% to 22% (2014: 18% to 22%) of the salaries, bonuses and certain allowances of the employees.

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

38. SHARE APPRECIATION RIGHTS SCHEME

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

38. SHARE APPRECIATION RIGHTS SCHEME (continued)

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

In March 2013, the Company's Board of Directors approved the adjustment of the exercise price of the first batch of the first phase share appreciation rights from HKD4.66 per unit to HKD4.51 per unit, and approved the adjustment of the exercise price of the second batch of the first phase share appreciation rights from HKD4.28 per unit to HKD4.13 per unit.

In March 2015, the Company's Board of Directors approved the adjustment of the exercise price of the second phase share appreciation rights from HKD3.41 per unit to HKD2.93 per unit.

During the year ended 31 December 2015, RMB13 million was credited (2014: RMB74 million charged) to profit or loss arising from the fair value remeasurement of the accrued compensation liability at the end of the reporting period. At 31 December 2015, the Group has recorded liabilities of RMB53 million (2014: RMB66 million).

The total of 113.4 million share appreciation right units of the first phase share appreciation rights have been exercised in 2013. As at 31 December 2015, 132.2 million share appreciation right units of the second phase share appreciation rights can be exercised, the rest of the second phase share appreciation rights are not vested.

39. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

As at 31 December 2015, the Group had capital commitments for acquisition and construction of property, plant and equipment and other non-current assets as follows:

	2015 RMB'000	2014 RMB'000
Contracted for but not provided	317,445	118,586

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

39. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(b) Operating lease commitments

As at 31 December 2015, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	2015 RMB'000	2014 RMB'000
Within 1 year	**308,106**	304,985
After 1 year but within 5 years	**352,620**	370,586
After 5 years	**122,061**	111,339
	782,787	786,910

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

(c) Contingent liabilities

As at 31 December 2015, the Group had no material contingent liabilities and no material financial guarantees issued.

40. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

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

(a) Credit risk

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

The Group's major customers are CTC Group and CM Group. The Group has a certain concentration of credit risk as the Group's major customers accounted for 69 % of the total accounts and bills receivable as at 31 December 2015 (2014: 66%). The Group has no significant credit risk with any of these customers since they are large State-owned companies 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

40. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(a) Credit risk (continued)

The credit risk on available-for-sale financial assets arises from loss in value through corporate failure. The Group mitigate the credit risk on available-for-sale financial assets by closely monitor its portfolio and minimize investments on these assets. The Group's available-for-sale financial assets are less than 2% of its total assets for both 2015 and 2014.

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

(b) Interest rate risk

The Group is exposed to fair value interest rate risk primarily from its short-term and long-term debts carrying interests at fixed rates. The Group manages its exposure to fair value 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 realizable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

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

	2015		2014	
	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	**Carrying amount RMB'000**	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	Carrying amount RMB'000
Short-term interest-bearing borrowings (note 32)	**179,538**	**177,005**	250,287	246,818
Account and bills payable (note 33)	**19,699,385**	**19,699,385**	18,815,568	18,815,568
Receipt in advance for contract work	**2,911,542**	**2,911,542**	1,578,088	1,578,088
Accrued expenses and other payables (note 34)	**8,691,602**	**8,691,602**	7,424,966	7,424,966
	31,482,067	**31,479,534**	28,068,909	28,065,440

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

40. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk

Foreign currency exchange rate risk arises on financial instruments that are denominated in a currency other than the respective functional currencies of group entities. The Group's foreign currency risk exposure relates to the bank deposits and borrowings denominated primarily in United States dollars, Hong Kong dollars, Nigerian Naira, Saudi Arabian Riyal and Ethiopian Birr. 92.2% (2014: 89.1%) of the Group's cash and cash equivalents and 21.9% (2014: 4.7%) of the Group's short-term debt and long-term debt as at 31 December 2015 are denominated in RMB.

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

Exposure to currency risk

	Exposure to foreign currencies (expressed in RMB) 2015					
	United States dollars RMB'000	**Hong Kong dollars RMB'000**	**Nigerian Naira RMB'000**	**Saudi Arabian Riyal RMB'000**	**Ethiopian Birr RMB'000**	**Others RMB'000**
Cash and cash equivalents	**450,005**	**27,211**	**44,158**	**35,378**	**12,133**	**175,905**
Accounts receivable	**425,604**	**34,594**	**28,829**	**197,545**	**45,233**	**332,287**
Accounts payable	**(260,798)**	**(9,163)**	**(24,234)**	**(116,817)**	**(53,036)**	**(127,598)**
Short-term interest-bearing borrowings	**(126,603)**	**—**	**—**	**—**	**—**	**(4,169)**
Long-term interest-bearing borrowings	**(34,455)**	**—**	**—**	**—**	**—**	**—**
Other non-current liabilities	**(649,360)**	**—**	**—**	**—**	**—**	**—**
Overall net exposure	**(195,607)**	**52,642**	**48,753**	**116,106**	**4,330**	**376,425**

	Exposure to foreign currencies (expressed in RMB) 2014					
	United States dollars RMB'000	Hong Kong dollars RMB'000	Nigerian Naira RMB'000	Saudi Arabian Riyal RMB'000	Ethiopian Birr RMB'000	Others RMB'000
Cash and cash equivalents	547,515	16,183	82,261	26,819	4,165	123,437
Accounts receivable	283,008	64,894	30,676	123,516	80,337	277,477
Accounts payable	(162,803)	(38,896)	(25,587)	(73,255)	(53,936)	(207,899)
Short-term interest-bearing borrowings	(233,538)	—	—	—	—	—
Long-term interest-bearing borrowings	(38,708)	—	—	—	—	—
Other non-current liabilities	(611,900)	—	—	—	—	—
Overall net exposure	(216,426)	42,181	87,350	77,080	30,566	193,015

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

40. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

Exposure to currency risk (continued)

The following significant exchange rates applied during the year:

	Average rate		Spot rate	
	2015	2014	**2015**	2014
United States dollars	**6.31**	6.11	**6.49**	6.12
Hong Kong dollars	**0.81**	0.79	**0.84**	0.79
Nigerian Naira	**0.03**	0.04	**0.03**	0.04
Saudi Arabian Riyal	**1.68**	1.63	**1.73**	1.63
Ethiopian Birr	**0.31**	0.31	**0.31**	0.31

Sensitivity analysis

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

	2015			2014		
	Strengthen/ (weaken) in foreign exchange rate	**Effect on profit after tax and retained profits RMB'000**	**Effect on other components of equity RMB'000**	Strengthen/ (weaken) in foreign exchange rate	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
United States dollars	**5%**	**(7,335)**	**—**	5%	(8,116)	—
	(5)%	**7,335**	**—**	(5)%	8,116	—
Hong Kong dollars	**5%**	**1,974**	**—**	5%	1,582	—
	(5)%	**(1,974)**	**—**	(5)%	(1,582)	—
Nigerian Naira	**5%**	**1,828**	**—**	5%	3,276	—
	(5)%	**(1,828)**	**—**	(5)%	(3,276)	—
Saudi Arabian Riyal	**5%**	**4,354**	**—**	5%	2,891	—
	(5)%	**(4,354)**	**—**	(5)%	(2,891)	—
Ethiopian Birr	**5%**	**162**	**—**	5%	1,146	—
	(5)%	**(162)**	**—**	(5)%	(1,146)	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

40. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

Sensitivity analysis (continued)

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

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, include inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2014.

(e) Equity price risk

The Group is exposed to equity price changes arising from listed equity investments classified as available-for-sale securities (see note 23). Other than unquoted securities held for strategic purpose, all of these investments are listed.

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

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

At 31 December 2015, it is estimated that an increase/(decrease) of 5% (2014: 5%) in the relevant share price (for listed investments) or the Company's own share price (for the share appreciation rights scheme) as applicable, with all other variables held constant, would have (decreased)/increased the Group's profit after tax (and retained profits) and other components of consolidated equity as follows:

	2015			2014		
	Increase/ (decrease) in equity price	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000	Increase/ (decrease) in equity price	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
Changes in the relevant equity price risk variable:						
Increase	5%	(9,897)	2,549	5%	(12,273)	1,938
Decrease	(5%)	8,763	(2,549)	(5%)	9,946	(1,938)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

40. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(e) Equity price risk (continued)

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the changes in the share price or other relevant risk variables had occurred at the end of the reporting period and had been applied to remeasure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. None of the Group's available-for-sale financial assets would be considered impaired as a result of the decrease in the share price or other relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2014.

(f) Fair value

(i) Financial instruments carried at fair value on a recurring basis

Some of the Group's financial instruments are measured at fair value at the end of each reporting period.

	2015			
	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Assets				
Available-for-sale securities				
— Listed equity securities	**67,984**	**—**	**—**	**67,984**
Trading financial assets				
— Foreign currency forward contract	**—**	**735**	**—**	**735**
Liabilities				
Trading financial liabilities				
— Foreign currency forward contract	**—**	**261**	**—**	**261**

	2014			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale securities				
— Listed equity securities	51,672	—	—	51,672
Trading financial assets				
— Foreign currency forward contract	—	143	—	143
Liabilities				
Trading financial liabilities				
— Foreign currency forward contract	—	1,574	—	1,574

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

40. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(f) Fair value (continued)

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

The fair values of financial assets and financial liabilities recorded at amortised cost are not materially different from their carrying amounts, which are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The fair values of Group's unquoted available-for-sale financial assets could not be reliably measured.

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 end of the reporting period. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies. In addition to those disclosed in note 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. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than that estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

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

(c) Impairment of long-lived assets other than goodwill

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

41. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(d) Depreciation and amortisation

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

(e) Deferred tax assets

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

42. RELATED PARTIES

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

(a) Transactions with CTC Group and other related parties

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

42. RELATED PARTIES (continued)

(a) Transactions with CTC Group and other related parties (continued)

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

	2015 RMB'000	2014 RMB'000
Income from related parties:		
Engineering related services (note (i))	21,568,401	15,582,389
IT application services (note (ii))	2,072,360	1,847,913
Provision of ancillary telecommunications services (note (iii))	8,521,187	7,548,455
Provision of operation support services (note (iv))	2,440,069	2,402,396
Supplies procurement service (note (v))	5,393,203	4,472,320
Property leasing (note (vi))	111,064	97,491
Management fee income (note (vii))	297,177	286,403
Expenses paid to related parties:		
Property leasing charges (note (viii))	171,998	155,410
IT application service charges (note (ix))	303,551	242,470
Operation support service charges (note (x))	685,051	662,565
Supplies procurement service charges (note (xi))	2,736,330	2,662,675
Interest paid (note (xii))	2,594	317

Notes:

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

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

(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 and other related parties.

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

(v) The amount represents supplies procurement service such as supplies procurement service, management of warehousing, transportation and installation services provided to CTC Group and other related parties.

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

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

42. RELATED PARTIES (continued)

(a) Transactions with CTC Group and other related parties (continued)

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

	2015 RMB'000	2014 RMB'000
Accounts and bills receivable, net	**16,155,020**	13,612,267
Prepayments and other current assets	**1,430,237**	1,468,131
Total amounts due from CTC Group and other related parties	**17,585,257**	15,080,398
Interest-bearing borrowings	**13,280**	13,280
Accounts and bills payable	**1,777,246**	2,238,518
Receipts in advance for contract work	**291,188**	81,079
Accrued expenses and other payables	**846,705**	780,636
Total amounts due to CTC Group and other related parties	**2,928,419**	3,113,513

As at 31 December 2015, the Group has recognised impairment losses of RMB152 million (2014: RMB26 million) for bad and doubtful debts in respect of amounts due from CTC Group and other related parties.

As at 31 December 2015, the Group has capital commitments to CTC Group and other related parties for acquisition and construction of property, plant and equipment and other assets as follows:

	2015 RMB'000	2014 RMB'000
Contracted for but not provided	**280,373**	4,863

As at 31 December 2015, the Group total future minimum lease payments to CTC Group and other related parties under non-cancellable operating leases were payable as follows:

	2015 RMB'000	2014 RMB'000
Within 1 year	**62,310**	90,095
After 1 year but within 5 years	**122,553**	160,735
After 5 year	**88,103**	89,141
	272,966	339,971

The directors of the Company 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 reasonable so far as the shareholders of the Company are concerned.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

42. RELATED PARTIES (continued)

(a) Transactions with CTC Group and other related parties (continued)

In connection with the Restructuring, the Company and CTC entered into a number of agreements effective as at November 16, 2006 to take up the existing agreements signed between the Predecessor Operations and CTC as set out in items (i), (ii) and (iii) below, together with a new agreement governing the provision of headquarter management function by the Company as set out in item (iv). After the Company acquired the Target Business in 2007, these agreements were amended by way of the 2008 Supplemental Agreement, pursuant to which the terms of the Agreements were renewed to 31 December 2010. On 29 October 2009, the Company entered into the Supplies Procurement Services Framework Agreement as set out in item (v) below. On 9 November 2010, these agreements were amended by way of 2010 Supplement Agreement, pursuant to which the terms of the Agreements were renewed to 31 December 2012. On 14 November 2011, the Company announced to propose the increase of annual caps for service charges payable to CTC Group under the Supplies Procurement Services Framework Agreement to RMB2,100 million and RMB2,600 million respectively, for the two years ended 31 December 2011 and 2012. On 20 September 2012, the Company announced to propose the increase of annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under Operation Support Services Framework Agreement for the year ended 31 December 2012 to RMB2,300 million and to RMB600 million, respectively, and the annual cap for the service charges receivable by the Company from CTC Group under the Supplies Procurement Services Framework Agreement for the year ended 31 December 2012 to RMB4,400 million, and signed Supplement Agreements which extended the expiry date of all agreements to 31 December 2015 and increased annual caps of several framework agreements. On 29 September 2015, the Company announced to propose the increase of annual caps for the service charges receivable by the Company from CTC Group under Engineering Framework Agreement for the year ended 31 December 2015 to RMB24,000 million, and the annual cap for the service charges payable by the Company to CTC Group under Operation Support Service Framework Agreement for the year ended 31 December 2015 to RMB800 million, and signed agreements which extended the expiry date of all agreements to 31 December 2018 and increased annual caps of several framework agreements.

According to these Supplement Agreements for the year ended 31 December 2015, (i) the annual cap for the service charges receivable by the Company from CTC Group under the Engineering Related Services Framework Agreement was RMB24,000 million; (ii) the annual cap for the service charges receivable by the Company from CTC Group under the Ancillary Telecommunications Services Framework Agreement was RMB11,000 million; (iii) the annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under the Operation Support Services Framework Agreement were RMB3,000 million and RMB800 million; respectively (iv) the annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under the IT Application Services Framework Agreement were RMB2,300 million and RMB490 million respectively ; (v) the annual cap for the service charges receivable by the Company from CTC Group under the Centralised Services Framework Agreement was RMB420 million; (vi) the annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under the Property Leasing Services Framework Agreement were RMB166 million and RMB180 million respectively; (vii) the annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under the Supplies Procurement Services Framework Agreement were RMB5,600 million and RMB4,100 million respectively. The terms of the principal agreements impacting the results of operations of the Group are summarised as follows:

(i) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

42. RELATED PARTIES (continued)

(a) Transactions with CTC Group and other related parties (continued)

(ii) 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.

(iii) 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:

— market price. In determining the market price, the Group primarily considers the following factors: (i) cost of service; (ii) prices of the same or similar type of services provided to CTC Group by other service providers in the market;(iii) prices of the same or similar type of services provided to CTC Group and independent third parties previously by the Group.

— in the absence of market price or where the market price cannot be determined, the price shall be agreed between both parties, which shall be the aggregate amount of reasonable costs, the relevant taxes in sales and reasonable profits. "Reasonable costs" means the costs confirmed by both parties after negotiations, and "reasonable profit" 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, labor cost, local commodity prices and economic development levels.

(iv) 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.

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

— maximum 1% of the contract value for procurement services on imported telecommunication supplies;

— maximum 3% of the contract value for procurement services on domestic telecommunication and non-telecommunication supplies and materials;

— market price. In determining the market price, the Group primarily considers the following factors: (i) cost of service; (ii) prices of the same or similar type of services provided to CTC Group or the Group by other service providers in the market; (iii) prices of the same or similar type of services provided to CTC Group and independent third parties by the Group, or prices of the same or similar type of services provided to the Group by CTC Group and independent third parties.

— in the absence of market price or where the market price cannot be determined, the price shall be agreed between both parties, which shall be the aggregate amount of reasonable costs, the taxes in sales and reasonable profits. "Reasonable costs" means the costs confirmed by both parties after negotiations, and "reasonable profit" 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, labor cost, local commodity prices and economic development levels.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

42. RELATED PARTIES (continued)

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

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

Apart from transactions with parent company and its affiliates (note 42(a)), the Group has collectively, but not individually significant transactions with other government-related entities, which include but are not limited to the following:

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

— Sales and purchases of goods, properties and other assets

— Lease of assets

— Depositing and borrowing money

— Use of public utilities

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

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

(c) Transactions with key management personnel

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

	2015 RMB'000	2014 RMB'000
Salaries and other emoluments	5,687	4,278
Retirement benefits	1,342	1,519
Discretionary bonuses	11,357	9,068
	18,386	14,865

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

42. RELATED PARTIES (continued)

(d) Contributions to defined contribution retirement plans

In accordance with the labour regulations of the PRC, the Group participates in various defined contribution retirement schemes organised by the municipal and provincial governments for its employees. The Group is required to make contributions to the retirement schemes at rates ranging from 18% to 22% of the salaries, bonuses and certain allowances of the employees. A member of the scheme is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date. The Group has no other material obligation for the payment of pension benefits associated with these schemes beyond the annual contributions described above.

As at 31 December 2015 and 2014, there was no material outstanding contribution to post-employment benefit plans.

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

(e) Applicability of the Listing Rules relating to connected transactions

The related party transactions with CTC Group disclosed in note 42(a) above constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. The applicable disclosures required by Chapter 14A of the Listing Rules are provided in the "Continuing Connected Transactions" section to the annual report.

43. SEGMENT REPORTING

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

44. SUBSIDIARIES

The following list contains only the particulars of subsidiaries at 31 December 2015 which principally affected the results, assets or liabilities of the Group.

Name of company	Type of legal entity	Place of incorporation/ establishment	Proportion of ownership interest and voting rights held by the Company 31 December 2015 Directly %	31 December 2014 Directly %	Issued and fully paid up/ registered capital	Principal activities
Guangdong Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB2,808 million	Provision of integrated telecommunications support services through its subsidiaries in Guangdong Province
Zhejiang Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB1,098 million	Provision of integrated telecommunications support services through its subsidiaries in Zhejiang Province
Shanghai Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB976 million	Provision of integrated telecommunications support services through its subsidiaries in Shanghai Municipality
Fujian Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB311 million	Provision of integrated telecommunications support services through its subsidiaries in Fujian Province
Hubei Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB317 million	Provision of integrated telecommunications support services through its subsidiaries in Hubei Province
Jiangsu Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB678 million	Provision of integrated telecommunications support services through its subsidiaries in Jiangsu Province
Anhui Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB420 million	Provision of integrated telecommunications support services through its subsidiaries in Anhui Province
Jiangxi Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB200 million	Provision of integrated telecommunications support services through its subsidiaries in Jiangxi Province
Hunan Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB886 million	Provision of integrated telecommunications support services through its subsidiaries in Hunan Province

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

44. SUBSIDIARIES (continued)

Name of company	Type of legal entity	Place of incorporation/ establishment	Proportion of ownership interest and voting rights held by the Company 31 December 2015 Directly %	31 December 2014 Directly %	Issued and fully paid up/ registered capital	Principal activities
Guangxi Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB192 million	Provision of integrated telecommunications support services through its subsidiaries in Guangxi Zhuang Autonomous Region
Chongqing Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB209 million	Provision of integrated telecommunications support services through its subsidiaries in Chongqing Municipality
Sichuan Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB798 million	Provision of integrated telecommunications support services through its subsidiaries in Sichuan Province
Guizhou Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB139 million	Provision of integrated telecommunications support services through its subsidiaries in Guizhou Province
Yunnan Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB238 million	Provision of integrated telecommunications support services through its subsidiaries in Yunnan Province
Shaanxi Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB145 million	Provision of integrated telecommunications support services through its subsidiaries in Shaanxi Province
Gansu Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB129 million	Provision of integrated telecommunications support services through its subsidiaries in Gansu Province
Qinghai Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB68 million	Provision of integrated telecommunications support services through its subsidiaries in Qinghai Province
Xinjiang Communications Services Company Limited	Limited Liability Company	The PRC	100	100	RMB195 million	Provision of integrated telecommunications support services through its subsidiaries in Xinjiang Uygur Autonomous Region

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

44. SUBSIDIARIES (continued)

Name of company	Type of legal entity	Place of incorporation/ establishment	Proportion of ownership interest and voting rights held by the Company 31 December 2015 Directly %	31 December 2014 Directly %	Issued and fully paid up/ registered capital	Principal activities
China International Telecommunication Construction Corporation	Limited Liability Company	The PRC	**100**	100	RMB550 million	Provision of integrated telecommunications support services through its subsidiaries in Northern China Provinces
China Communications Services (Hong Kong) International Limited	Limited Liability Company	Hong Kong	**100**	100	HKD846.87 million	Provision of integrated telecommunications support services through its subsidiaries in Hong Kong
Zhongshutong Information Co., Ltd.	Limited Liability Company	The PRC	**60.38**	60.38	RMB120 million	Provision of integrated telecommunications support services
China Comservice Software Tech. Co., Ltd	Limited Liability Company	The PRC	**60**	60	USD25 million	Provision of integrated telecommunications support services
Ningxia Hui Autonomous Region Communications Industrial Services Company Limited	Limited Liability Company	The PRC	**100**	100	RMB106 million	Provision of integrated telecommunications support services through its subsidiaries in Ningxia Hui Autonomous Region
Shandong Communications Services Company Limited	Limited Liability Company	The PRC	**100**	100	RMB100 million	Provision of integrated telecommunications support services in Shandong Province
Sino-British Submarine System Co., Ltd.	Limited Liability Company	The PRC	**51**	51	RMB327 million	Provision of submarine cable installation and other related services
Hainan Communications Services Company Limited	Limited Liability Company	The PRC	**100**	100	RMB141 million	Provision of integrated telecommunications support services through its subsidiaries in Hainan Province
China Comservice Supply Chain Management Company Limited	Limited Liability Company	The PRC	**100**	—	RMB100 million	Provision of integrated telecommunications support services

Sino-British Submarine System Co., Ltd., China Comservice Software Tech. Co., Ltd., and Zhongshutong Information Co., Ltd. are non-wholly owned subsidiaries of the Group. The Group's cumulative non-controlling interest is RMB449 million as at 31 December 2015 (2014: RMB513 million). The non-controlling interests are individually and in aggregate not material to the Group's financial condition or results of operation for the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

45. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	31 December 2015 RMB'000	31 December 2014 RMB'000
Non-current assets		
Property, plant and equipment, net	**10,888**	10,414
Construction in progress	**13,728**	10,862
Other intangible assets	**36,743**	9,098
Investments in subsidiaries	**12,627,534**	12,617,534
Total non-current assets	**12,688,893**	12,647,908
Current assets		
Inventories	**372**	—
Prepayments and other current assets	**1,280,846**	1,424,210
Restricted deposits	**1,213,174**	254,736
Cash and cash equivalents	**1,489,189**	1,262,093
Total current assets	**3,983,581**	2,941,039
Total assets	**16,672,474**	15,588,947
Current liabilities		
Accrued expenses and other payables	**699,782**	21,667
Income tax payable	**—**	431
Total current liabilities	**699,782**	22,098
Net current assets	**3,283,799**	2,918,941
Total assets less current liabilities	**15,972,692**	15,566,849
Total liabilities	**699,782**	22,098
Equity		
Share capital	**6,926,018**	6,926,018
Reserves	**9,046,674**	8,640,831
Total equity	**15,972,692**	15,566,849
Total liabilities and equity	**16,672,474**	15,588,947

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

45. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

The movements of shareholders' equity of the Company are as follows:

	Share capital RMB'000 (note 36)	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2014	6,926,018	4,529,310	1,966,293	664,801	1,513,128	15,599,550
Profit for the year	—	—	—	—	862,833	862,833
Distribution of dividend (see note 14(b))	—	—	—	—	(895,534)	(895,534)
Appropriation	—	—	—	86,283	(86,283)	—
At 31 December 2014	6,926,018	4,529,310	1,966,293	751,084	1,394,144	15,566,849
Profit for the year	—	—	—	—	**1,050,655**	**1,050,655**
Distribution of dividend (see note 14(b))	—	—	—	—	**(644,812)**	**(644,812)**
Appropriation	—	—	—	**105,066**	**(105,066)**	—
At 31 December 2015	**6,926,018**	**4,529,310**	**1,966,293**	**856,150**	**1,694,921**	**15,972,692**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

46. POSSIBLE IMPACT OF AMENDMENTS TO STANDARDS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2015

Up to the date of issue of these consolidated financial statements, the IASB has issued the following amendments to standards and new standards which are not yet effective for the year ended 31 December 2015 and which have not been adopted in these consolidated financial statements.

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[3]
Amendments to IAS 1	Disclosure Initiative[3]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[3]
Amendments to IFRSs	Annual Improvements to IFRSs 2012–2014 Cycle[3]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants[3]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception[3]
Amendments to IAS 7	Disclosure Initiative[5]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[5]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2016
4 Effective for annual periods beginning on or after a date to be determined
5 Effective for annual periods beginning on or after 1 January 2017

Except for those described below, the directors of the Company do not anticipate that the application of the new and revised IFRSs above will have a material effect on the Group's consolidated financial statements.

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduced new requirements for classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement category for certain simple debt instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

46. POSSIBLE IMPACT OF AMENDMENTS TO STANDARDS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2015 (continued)

IFRS 9 Financial Instruments (continued)

Key requirements of IFRS 9 are:

(i) All recognised financial assets that are within the scope of IAS 39 are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

(ii) With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

(iii) In relation to the impairment of financial assets, IFRS 9 requires an expected credits loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

(iv) The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company anticipate that the application of IFRS 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Group performs a detailed review.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

46. POSSIBLE IMPACT OF AMENDMENTS TO STANDARDS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2015 (continued)

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers; IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specially, the Standard introduces a 5-step approach to revenue recognition.

— Step 1: Identify the contract(s) with a customer

— Step 2: Identify the performance obligations in the contract

— Step 3: Determine the transaction price

— Step 4: Allocate the transaction price to the performance obligations in the contract

— Step 5: Recognise revenue when (or as)the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e, when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The directors of the Company anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

IFRS 16 Leases

IFRS 16, which upon the effective date will supersede IAS 17 Leases, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under IFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, IAS 17.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

46. POSSIBLE IMPACT OF AMENDMENTS TO STANDARDS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2015 (continued)

IFRS 16 Leases (continued)

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The directors of the Company anticipate that the application of IFRS 16 in the future may have a material impact on the amounts reported and/or disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until the Group performs a detailed review.

47. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2015, the directors of the Company consider the immediate and ultimate controlling party of the Group to be CTC, a stated-owned enterprise established in the PRC. CTC does not produce financial statements available for public use.