

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

(Expressed in Renminbi)

Equity attributable to equity shareholders of the Company											
	Note	Share capital RMB'000	Share premium (note f) RMB'000	Capital reserve (note g) RMB'000	Revaluation reserve RMB'000	Statutory surplus reserve (note e) RMB'000	Other reserve RMB'000	Retained earnings/ shareholder's equity RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
As at 1 January 2005		—	—	—	—	—	—	6,138,601	6,138,601	714,187	6,852,788
Contributions	(a)	—	—	—	—	—	—	835,836	835,836	23,085	858,921
Acquisition of minority interests through contributions from CTC		—	—	—	—	—	—	317,849	317,849	(317,849)	—
Distributions	(b)	—	—	—	—	—	—	(890,590)	(890,590)	—	(890,590)
Profit for the year		—	—	—	—	—	—	597,556	597,556	182,946	780,502
Profit distributions	(c)	—	—	—	—	—	—	(226,477)	(226,477)	(81,948)	(308,425)
As at 31 December 2005		—	—	—	—	—	—	6,772,775	6,772,775	520,421	7,293,196
As at 1 January 2006		—	—	—	—	—	—	6,772,775	6,772,775	520,421	7,293,196
Contributions	(a)	—	—	—	—	—	—	478,335	478,335	—	478,335
Acquisition of minority interests through contributions from CTC		—	—	—	—	—	—	315,957	315,957	(315,957)	—
Profit distributions	(c)	—	—	—	—	—	—	(655,027)	(655,027)	(126,996)	(782,023)
Distributions	(b)	—	—	—	—	—	—	(834,638)	(834,638)	—	(834,638)
Net assets distributed to CTC in connection with the Restructuring	(d)	—	—	—	—	—	—	(1,660,674)	(1,660,674)	—	(1,660,674)
Recognition of deferred tax assets	24	—	—	—	—	—	42,507	—	42,507	—	42,507
Revaluation of property, plant and equipment	16(b)	—	—	—	294,442	—	—	—	294,442	1,131	295,573
Capitalisation upon legal establishment of the Company	1	3,960,000	—	1,413,776	—	—	—	(4,384,991)	988,785	—	988,785
Issuance of shares upon public offering	(f)	1,484,986	1,807,727	—	—	—	—	—	3,292,713	—	3,292,713
Share issue expenses	(f)	—	(249,944)	—	—	—	—	—	(249,944)	—	(249,944)
Profit for the year		—	—	—	—	—	—	696,078	696,078	23,182	719,260
Appropriation	(e)	—	—	—	—	69,969	—	(69,969)	—	—	—
As at 31 December 2006		5,444,986	1,557,783	1,413,776	294,442	69,969	42,507	657,846	9,481,309	101,781	9,583,090

The notes on pages 70 to 122 form part of these financial statements.

Notes:

- (a) The capital contributions during the years ended 31 December 2005 and 2006 represent the injection of cash and other assets, including property, plant and equipment and the increase in shareholdings in the subsidiaries.
- (b) The distributions during the years ended 31 December 2005 and 2006 represent the reduction in capital of certain subsidiaries and distributions of cash and other assets, including property, plant and equipment by certain subsidiaries upon transformation into limited liability companies.
- (c) Profit distributions represent the appropriation made and dividend declared by certain of the subsidiaries of the Group prior to the establishment of the Company.
- (d) Pursuant to the Restructuring (as defined in note 1(b)), certain assets and liabilities of the Predecessor Operations were not transferred to the Group and were reflected as distributions to the then owner in the consolidated statement of changes in equity for the year ended 31 December 2006.
- (e) Statutory surplus reserve
According to the Company's Article of Association, the Company is required to transfer 10% of its net profit as determined in accordance with the PRC Accounting Rules and Regulations to its statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

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

For 2006, the Company transferred RMB69,969,000, being 10% of the current year's net profit as determined in accordance with the PRC Accounting Rules and Regulations, to this reserve.

- (f) Share premium
The share premium represents the difference between the total amount of the par value of shares issued and the amount of the net proceeds received from the initial public offering.
- (g) Capital reserve
The capital reserve represents the difference between the total amount of the par value of shares issued and the amount of the net assets transferred from CTC, Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation upon the formation of the Company.