

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

1 Principal activities and organisation

(a) Principal activities

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

(b) Organisation

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

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

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

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

1 Principal activities and organisation (Continued)

(b) Organisation (Continued)

- (ii) The net assets have been injected into the Company by ways of asset injection of those subsidiaries carrying on the Predecessor Operations in consideration of approximately 3,623.4 million ordinary shares with a par value of RMB1 each (the “Asset Injection”).
- (iii) The Group, immediately after the Restructuring, contains substantially all of the operating assets and liabilities relating to the Predecessor Operations, comprising (1) telecommunications infrastructure design, construction and supervision and management; (2) business process outsourcing (including network maintenance, facilities management, distribution of telecommunications services and products); and (3) a variety of other services including applications, content and others.
- (iv) In connection with the Restructuring, certain assets and liabilities historically associated with the Predecessor Operations were not transferred to the Company and were retained by CTC.

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

In December 2006, the Company issued 1,291,293,000 H shares with a par value of RMB1.00 each, at a price of HK\$2.20 per H share by way of an initial public offering (the “IPO”) to Hong Kong and overseas investors. In connection with the IPO, 129,129,300 domestic state-owned shares of RMB1.00 each owned by CTC and its subsidiaries were converted into H shares and transferred to the National Council for Social Security Fund of the PRC (“SSF”). In December 2006, the Company also issued 193,693,000 H shares with a par value of RMB1.00 each, at a price of HK\$2.20 per H share upon the exercise of the over-allotment option. In connection with the exercise of the over-allotment option, 19,369,300 domestic state-owned shares of RMB1.00 each owned by CTC and its subsidiaries were converted into H shares and transferred to SSF. A total of 1,633,484,600 H shares were listed on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

1 Principal activities and organisation (Continued)

(c) Basis of presentation

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

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

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

1 Principal activities and organisation (Continued)

(c) Basis of presentation (Continued)

The results of operations for the year ended 31 December 2006 and the financial conditions as at 31 December 2006 and the shareholders' equity as at 31 December 2006 and 1 January 2006 and the cashflow effect for the year ended 31 December 2006 previously reported by the Group and the Target Business and the combined amounts presented in the accompanying consolidated financial statements are set out below:

	The Group (as previously reported) RMB'000	Target Business (as previously reported) RMB'000	Combined adjustments RMB'000 (note i)	Combined RMB'000
Results of operations for the year ended 31 December 2006				
Revenues	14,182,800	5,129,932	–	19,312,732
Gross profit	2,759,204	1,105,547	(297,816)	3,566,935
Profit for the year	719,260	122,211	(1,989)	839,482
Basic earnings per share	0.172	–	–	0.201
Financial condition as at 31 December 2006				
Current assets	12,189,055	4,876,635	–	17,065,690
Total assets	15,331,380	5,975,081	(14,800)	21,291,661
Current liabilities	5,748,290	3,148,076	–	8,896,366
Total liabilities	5,748,290	3,179,549	–	8,927,839
Shareholders' equity as at 31 December 2006	9,583,090	2,795,532	(14,800)	12,363,822
Shareholders' equity as at 1 January 2006	7,293,196	2,675,189	(18,833)	9,949,552
Cash flow effect for the year ended 31 December 2006				
Cash generated from/ (used in) operating activities	499,471	(75,017)	–	424,454
Net cash used in investing activities	(631,582)	(170,055)	–	(801,637)
Net cash generated from financing activities	3,517,224	67,846	–	3,585,070

1 Principal activities and organisation (Continued)

(c) Basis of presentation (Continued)

Note i:

Pursuant to the acquisition of the Target Business, the Group acquired the remaining equity interests in a non-wholly owned subsidiary held by the Target Business, which was reported as an interest in an associate included in the Target Business. Accordingly, adjustments have been made to take out the share of profit of the associate from the income statement of the Target Business and the interest in an associate from the balance sheet of the Target Business in Combination.

In addition, included in the combined adjustments is an adjustment of RMB297,816,000 in connection with the reclassification of certain personnel costs from selling, general and administrative expenses to cost of revenues to conform to the current year presentation.

2 Significant accounting policies

(a) Statement of compliance

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

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. The adoption of these new and revised IFRSs would not result in substantial changes in the Group’s accounting policies applied in these financial statements for the two years presented. 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 accounting periods reflected in these financial statements.

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

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (Continued)

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2007 comprise the Group and its interest in associates.

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

- Property, plant and equipment (see note 17) is stated at its revalued amount (see note 2(g)).
- Derivative financial instruments are measured at fair value.
- Other investments listed in active market are measured at fair value.
- Liabilities for cash-settled share-based payment arrangements are measured at fair value.

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

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

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

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

2 Significant accounting policies (Continued)

(c) Basis of consolidation

(i) *Subsidiaries and minority interests*

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

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

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

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

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (Continued)

(c) Basis of consolidation (Continued)

(i) *Subsidiaries and minority interests (Continued)*

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 2(p) or (q) depending on the nature of the liability.

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

(ii) *Associates*

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

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

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

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

2 Significant accounting policies (Continued)

(d) Goodwill

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

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

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

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

(e) Other investments in debt and equity securities

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

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

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

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

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (Continued)

(e) Other investments in debt and equity securities (Continued)

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

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

(f) Investment properties

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

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

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

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

2 Significant accounting policies (Continued)

(g) Other property, plant and equipment

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (Continued)

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

Subsequent to the revaluation which was required by PRC rules and regulations in connection with the Restructuring and which was based on depreciated replacement costs (note 17), property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation, less subsequent accumulated depreciation and impairment losses and any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. When an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs is revalued simultaneously. When an asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to equity as a component of revaluation reserve. However, a revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised as an expense in the consolidated income statement. However, a revaluation decrease is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation reserve in respect of that same asset. Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the balance sheet date.

(h) Construction in progress

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

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

2 Significant accounting policies (Continued)

(i) Lease prepayments

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

(j) Intangible assets (other than goodwill)

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

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

(k) Leased assets

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

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

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

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (Continued)

(I) Impairment of assets

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

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

- For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.
- For trade and other current receivables and other financial assets carried at cost or amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

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

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

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

2 Significant accounting policies (Continued)

(I) Impairment of assets (Continued)

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

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

(ii) *Impairment of other assets*

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

- property, plant and equipment;
- investment properties;
- construction in progress;
- lease prepayments;
- intangible assets;
- investments in subsidiaries and associates;
- other investments stated at cost; and
- goodwill.

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.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (Continued)

(I) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

(m) Inventories

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

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

2 Significant accounting policies (Continued)

(m) Inventories (Continued)

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

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

(n) Construction contracts

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

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

(o) Trade and other receivables

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

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (Continued)

(p) Interest-bearing borrowings

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

(q) Trade and other payables

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

(r) Cash and cash equivalents

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

(s) Derivative financial instruments

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

(t) Employee benefits

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

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

2 Significant accounting policies (Continued)

(t) Employee benefits (Continued)

(ii) *Share appreciation rights scheme*

Compensation expense under the Group's share appreciation rights scheme is measured as the amount by which the quoted market price of the Company's H shares exceeds the exercise price. Compensation expense in respect of the share appreciation rights granted is accrued as a charge to the income statement over the applicable vesting period based on the fair value of the share appreciation rights. The liability of the accrued compensation expense is remeasured to fair value at each balance sheet date with the effect of changes in the fair value of the liability is charged or credited to the consolidated income statement. Further details of the Group's share appreciation rights scheme are set out in note 37.

(iii) *Termination benefits*

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

(u) Income tax

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

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

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.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (Continued)

(u) Income tax (Continued)

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

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

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

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

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

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 Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(v) Provisions and contingent liabilities

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

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

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (Continued)

(w) Revenue recognition

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

(i) *Contract revenue*

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

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

(ii) *Services rendered*

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

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

(iii) *Sales of goods*

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

(iv) *Rental income from operating leases*

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

2 Significant accounting policies (Continued)

(w) Revenue recognition (Continued)

(v) Dividends

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(vi) Interest income

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

(x) Government grants

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

(y) Translation of foreign currencies

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

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

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (Continued)

(z) Borrowing costs

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

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

(aa) Research and development costs

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

(bb) Segment reporting

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

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

(cc) Dividends or profit distributions

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

(dd) Related parties

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

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

2 Significant accounting policies (Continued)

(dd) Related parties (Continued)

- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit or employees of the Group or of any entity that is a related party of the Group.

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

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

3 Adoption of new/revised IFRSs

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

There have been no significant changes to the accounting policies applied in these financial statements for the year presented as a result of these developments. However, as a result of the adoption of IFRS 7, Financial Instruments: Disclosure and the amendments to IAS 1, Presentations of Financial Statements, there have been some additional disclosures provided as follows:

As a result of the adoption of IFRS 7, the financial statements include expanded disclosure about the significance of the group's financial instruments and the nature and extent of risk arising from those instruments, compared with the information previously required to be disclosed by IAS 32, Financial Instruments: Presentation. These disclosures are provided throughout these financial statements, in particular in note 40.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

3 Adoption of new/revised IFRSs (Continued)

The amendment to IAS 1 introduces additional disclosure requirements to provide information about the level of capital and the group's and the company's objectives, policies and processes for managing capital. These new disclosures are set out in note 35.

Both IFRS 7 and the amendment to IAS 1 do not have any material impact of the classification, recognition and the measurement of the amounts recognised in the financial instruments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 45).

4 Revenues

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

	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Revenue from telecommunications infrastructure services	11,093,007	10,941,175
Revenue from business process outsourcing services	9,365,152	6,167,397
Revenue from applications, content and others	3,080,222	2,204,160
	23,538,381	19,312,732

5 Cost of revenues

	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Depreciation and amortisation	305,205	326,673
Direct personnel costs	4,556,857	3,937,327
Operating lease charges	359,896	235,161
Purchase of materials and telecommunications products	7,632,433	5,712,317
Subcontracting charges	4,577,237	3,582,311
Others	2,042,004	1,952,008
	19,473,632	15,745,797

6 Other operating income

	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Dividend income from unlisted securities	39,629	28,816
Government grants	66,914	50,660
Net gain on disposal of investments	52,250	31,100
Net gain on disposal of property, plant and equipment	129	6,163
Net gain on disposal of held to maturity investment	987	–
Penalty income	3,122	3,362
Management fee income	139,245	45,104
Write-off of non-payable liabilities	11,623	6,920
Others	27,586	24,556
	341,485	196,681

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

7 Other operating expenses

	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Impairment losses on other investments	–	240
Impairment losses on property, plant and equipment	–	4,800
Net loss on disposal of property, plant and equipment	–	2,431
Donation	1,122	2,008
Penalty charge	4,399	5,009
Others	7,058	13,862
	12,579	28,350

8 Net financing income

	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Interest income	119,396	123,201
Net foreign exchange loss	(15,461)	(8,017)
Change in fair value of derivative financial asset	(9,461)	–
Interest on bank advances and other borrowings wholly repayable within five years	(52,792)	(27,869)
	41,682	87,315

For the years ended 31 December 2007 and 2006, no borrowing costs were capitalised in relation to construction in progress.

9 Negative goodwill

	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Negative goodwill arising from acquisition from minority interests	–	4,039

Negative goodwill has arisen on the acquisition as a result of gains from bargain purchases.

10 Profit before tax

	2007 RMB'000	2006 RMB'000 (restated – note 1c)
(a) Staff costs:		
Salaries, wages and other benefits	5,522,727	4,812,438
Contributions to defined contribution retirement schemes	509,294	443,793
	6,032,021	5,256,231
(b) Other items:		
Depreciation and amortisation	508,249	532,155
Auditors' remuneration	30,000	10,800
Cost of inventories	7,632,433	5,712,317
Impairment losses on accounts and other receivables	28,048	36,179
Reversal of impairment losses on accounts and other receivables	(39,322)	(7,469)
Operating lease charges	452,882	305,689
Research and development costs	22,136	19,802
Share of associates' taxation	615	487

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

11 Income tax

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

	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Current tax		
PRC enterprise income tax	427,793	394,439
Deferred tax		
Origination and reversal of temporary differences (note 25)	33,263	(19,825)
Total income tax	461,056	374,614

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

	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Profit before tax	1,644,250	1,214,096
Expected PRC enterprise income tax expense at a statutory tax rate of 33% (note (i))	542,603	400,652
Differential tax rates on subsidiaries' income (note (i))	(163,010)	(129,433)
Non-deductible expenses (note (ii))	44,734	130,412
Non-taxable income (note (iii))	(32,328)	(48,575)
Tax losses not recognised (note (iv))	41,830	21,558
Reversal of previously recognised tax losses (note (v))	18,146	–
Effect on opening deferred tax resulting from a reduction in PRC statutory tax rate (note (vi))	9,081	–
Income tax	461,056	374,614

11 Income tax (Continued)

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

Notes:

- (i) The provision of PRC income tax of the Group is calculated based on a statutory rate of 33% 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 2007 and 2006, except for certain subsidiaries of the Group, which are tax at preferential rates of 15%.
- (ii) The amounts include personnel and other miscellaneous expenses in excess of statutory deductible limits for tax purpose. The amounts for the year ended 31 December 2006 also include the deficit on revaluation of property, plant and equipment.
- (iii) Non-taxable income mainly represents dividend income and negative goodwill.
- (iv) The amount includes deferred tax assets not recognised amounting to RMB Nil (2006: RMB4.8 million) in respect of the tax losses of the entities distributed to the then owner pursuant to the Restructuring.
- (v) The amount represents the reversal of deferred tax assets relating to tax losses previously recognised as the Group reassessed and considered that future taxable income would not be sufficient for those tax losses to be utilised.
- (vi) The amount represents tax effect on opening balances of deferred tax assets. On 16 March 2007, the Corporate Income Tax Law of the PRC ("new tax law") was passed by the Fifth Plenary Session of the Tenth National People's Congress and will take effect on 1 January 2008. According to the new tax law, except for certain subsidiaries of the Company which are taxed at preferential taxes, the enterprise income tax rate applicable to the Group is reduced from 33% to 25% from 1 January 2008.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

12 Directors' and supervisors' emoluments

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

Name of directors and supervisors	Fees	Salaries, allowances and other benefits in kind	Discretionary bonus	Pension scheme contribution	2007 Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Wang Xiaochu	—	—	—	—	—
Li Ping	—	—	—	—	—
Zhang Zhiyong (appointed on 12 December 2007)	—	—	—	—	—
Yuan Jianxing (appointed on 12 December 2007)	—	—	—	—	—
Liu Aili	—	—	—	—	—
Zhang Junan	—	—	—	—	—
Wang Jun	200	—	—	—	200
Chan Mo Po, Paul	232	—	—	—	232
Zhao Chunjun	150	—	—	—	150
Wu Shangzhi	150	—	—	—	150
Hao Weimin	150	—	—	—	150
Xia Jianghua	—	—	—	—	—
Yan Dong	—	98	237	36	371
Hai Liancheng	75	—	—	—	75
	957	98	237	36	1,328

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 2006 are as follows:

Name of directors and supervisors	Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000	Pension scheme contribution RMB'000	2006 Total RMB'000
Wang Xiaochu	—	—	—	—	—
Li Ping	—	—	—	—	—
Liu Aili	—	—	—	—	—
Zhang Junan	—	—	—	—	—
Wang Jun	53	—	—	—	53
Chan Mo Po, Paul	63	—	—	—	63
Zhao Chunjun	40	—	—	—	40
Wu Shangzhi	40	—	—	—	40
Hao Weimin	27	—	—	—	27
Xia Jianghua	—	—	—	—	—
Yan Dong	—	98	192	34	324
Hai Liancheng	31	—	—	—	31
	254	98	192	34	578

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

	2007	2006
HK\$ equivalent		
Nil to 1,000,000	14	12

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

13 Individuals with highest emoluments

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

	2007	2006
Directors and supervisors	—	—
Non-director and non-supervisor employees	5	5
	5	5

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

	2007 RMB'000	2006 RMB'000
Salaries, allowances and other benefits in kind	755	756
Bonuses	2,703	1,955
Pension scheme contributions	249	413
	3,707	3,124

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

	2007	2006
HK\$ equivalent		
Nil to 1,000,000	5	5

14 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB450,688,000 (2006: RMB55,375,000) which has been dealt with in the financial statements of the Company.

	2007 RMB'000	2006 RMB'000
Amount of consolidated profit attributable to equity shareholders dealt with in the Company's financial statements	450,688	55,375
Final dividends from subsidiaries attributable to the profit of the previous financial year, approved and paid during the year	98,944	—
Special dividends from subsidiaries attributable to the profit of the previous financial year, approved and paid during the year	418,460	—
	968,092	55,375

15 Dividends

(a) Final dividend

	2007 RMB'000	2006 RMB'000
Final dividend proposed after the balance sheet date of RMB0.0682 per ordinary share (2006: nil)	371,348	—

The above amount of proposed final dividend for 2007 is based on 5,444,986,000 shares issued at 31 December 2007. In connection with the share placement as mentioned in post balance sheet event (see note 47), the total proposed final dividend will be increased by RMB22 million and total proposed final dividend will be RMB394 million when all such new shares are successfully placed.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

15 Dividends (Continued)

(b) Special dividend

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 (being the distributable profit of the Group for the period from 1 April 2006 to 7 December 2006), out of which RMB117 million was directly distributed at the subsidiary level.

(c) Profit distribution by Target Business

As disclosed in the Circular of the Company dated 20 June 2007, in line with the principles set out in the “Notice of 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 to be distributed in form of cash to CTC and its subsidiaries amounting to RMB197 million in total.

16 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the year ended 31 December 2007 of RMB1,167 million (2006: RMB817 million) and the weighted average number of shares in issue during the year ended 31 December 2007 of 5,444,986,000 (2006: 4,057,643,000). The weighted average number of shares in issue during the year ended 31 December 2006 represents the number of shares issued and outstanding upon the legal formation of the Company on 30 August 2006 as if such shares have been outstanding for the above entire year. The weighted average number of shares for the year ended 31 December 2006 also reflects the issuance of 1,484,986,000 shares in 2006 in connection with the Company's initial public offering (see note 35).

The weighted average number of shares in issue is set out below:

	2007 Thousands shares	2006 Thousands shares
Ordinary share issued at 1 January	5,444,986	–
Shares issued to CTC upon formation of the Company in 2006 as if such shares have been outstanding for the entire year in 2006 (see note 35)	–	3,960,000
Effect of shares issued in December 2006	–	97,643
	5,444,986	4,057,643

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

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

17 Property, plant and equipment, net The Group

	Buildings RMB'000	Buildings improvements RMB'000	Motor vehicles RMB'000	Furniture, fixtures and other equipment RMB'000	Total RMB'000 (restated – note 1c)
Cost or valuation:					
As at 1 January 2006	2,608,215	211,143	964,476	1,447,036	5,230,870
Through acquisition of subsidiaries	35,536	2,160	8,111	22,214	68,021
Transferred from construction in progress (note 19)	164,095	35,110	3,425	55,265	257,895
Transferred to investment properties (note 18)	(45,244)	–	–	–	(45,244)
Additions	326,671	14,268	159,753	314,145	814,837
Disposals	(275,115)	(34,321)	(149,820)	(186,609)	(645,865)
Distributions in relation to Restructuring and acquisition of Target Business (see note 1)	(937,864)	(12,423)	(180,744)	(185,965)	(1,316,996)
Revaluation	(19,735)	(11,472)	(169,219)	(369,267)	(569,693)
As at 31 December 2006	1,856,559	204,465	635,982	1,096,819	3,793,825
Representing:					
Cost	282,636	31,766	99,668	215,675	629,745
Valuation – 2006 (Note (b))	1,573,923	172,699	536,314	881,144	3,164,080
	1,856,559	204,465	635,982	1,096,819	3,793,825
Accumulated depreciation and impairment losses:					
As at 1 January 2006	481,277	113,392	586,159	728,237	1,909,065
Through acquisition of subsidiaries	6,522	1,284	4,563	13,704	26,073
Depreciation charge	82,240	32,498	145,890	228,303	488,931
Transfer to investment properties (note 18)	(1,695)	–	–	–	(1,695)
Written back on disposal	(98,622)	(23,101)	(118,025)	(144,409)	(384,157)
Impairment losses	–	–	18	4,782	4,800
Distributions in relation to Restructuring and acquisition of Target Business (see note 1)	(192,501)	(8,811)	(109,886)	(84,829)	(396,027)
Revaluation	(187,444)	(17,196)	(290,853)	(355,259)	(850,752)
As at 31 December 2006	89,777	98,066	217,866	390,529	796,238
Net carrying value:					
As at 31 December 2006	1,766,782	106,399	418,116	706,290	2,997,587

17 Property, plant and equipment, net (Continued)

The Group (Continued)

	Buildings	Buildings	Motor	Furniture, fixtures and other	Total
	Buildings	improvements	vehicles	equipment	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost or valuation:					
As at 1 January 2007	1,856,559	204,465	635,982	1,096,819	3,793,825
Transferred to investment properties (note 18)	(102,936)	–	–	–	(102,936)
Transferred from investment properties (note 18)	87,767	–	–	–	87,767
Transferred from construction in progress (note 19)	229,225	11,538	2,002	26,541	269,306
Additions	343,193	12,637	119,341	288,969	764,140
Disposals	(105,949)	(17,377)	(64,135)	(73,284)	(260,745)
Distributions in relation to the acquisition of Target Business (see note 1)	(57,681)	(222)	(12,594)	(31,875)	(102,372)
As at 31 December 2007	2,250,178	211,041	680,596	1,307,170	4,448,985
Representing:					
Cost	769,055	55,905	203,212	473,520	1,501,692
Valuation – 2006 (Note (b))	1,481,123	155,136	477,384	833,650	2,947,293
	2,250,178	211,041	680,596	1,307,170	4,448,985
Accumulated depreciation and impairment losses:					
As at 1 January 2007	89,777	98,066	217,866	390,529	796,238
Transferred to investment properties (note 18)	(9,075)	–	–	–	(9,075)
Transferred from investment properties (note 18)	6,370	–	–	–	6,370
Depreciation charge	63,375	35,306	113,487	241,710	453,878
Written back on disposal	(30,123)	(6,680)	(34,916)	(55,550)	(127,269)
Distributions in relation to the acquisition of Target Business (see note 1)	(12,222)	(105)	(9,121)	(21,464)	(42,912)
As at 31 December 2007	108,102	126,587	287,316	555,225	1,077,230
Net carrying value:					
As at 31 December 2007	2,142,076	84,454	393,280	751,945	3,371,755

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

17 Property, plant and equipment, net (Continued)

The Company

	Furniture, fixtures and other equipment RMB'000
Cost:	
Additions	9
As at 31 December 2006	9
Accumulated depreciation:	
As at 31 December 2006	—
Net carrying value:	
As at 31 December 2006	9
Cost:	
At 1 January 2007	9
Additions	110
As at 31 December 2007	119
Accumulated depreciation:	
At 1 January 2007	—
Charge for the year	11
As at 31 December 2007	11
Net carrying value:	
As at 31 December 2007	108

17 Property, plant and equipment, net (Continued)

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

(b) Valuation pursuant to the Restructuring

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

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

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

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

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

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

(c) Certain of the Group's bank loans were secured by certain of the Group's property, plant and equipment as described in note 32.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

17 Property, plant and equipment, net (Continued)

- (d) Up to the date of issue of these financial statements, the Group was in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB258 million as at 31 December 2007. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.
- (e) Had all property, plant and equipment been carried at cost less accumulated depreciation under the cost model, the carrying amounts of each class of total property, plant and equipment as at 31 December 2007 would have been as follows:

	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Buildings	1,978,818	1,600,457
Buildings improvements	84,016	101,027
Motor vehicles	303,329	300,968
Furniture, fixtures and other equipment	771,307	719,867
	3,137,470	2,722,319

18 Investment properties

	The Group	
	2007	2006
	RMB'000	RMB'000
		(restated – note 1c)
Cost:		
As at 1 January	501,647	1,006,398
Through acquisition of subsidiaries	–	10,323
Transferred from property, plant and equipment (note 17)	102,936	45,244
Transferred to property, plant and equipment (note 17)	(87,767)	–
Transferred from lease prepayments (note 20)	17,790	–
Transferred from construction in progress (note 19)	7,530	2,109
Additions	245,106	207,635
Disposals	(52,463)	(103,599)
Distributions in relation to Restructuring and acquisition of Target Business (see note 1)	(21,494)	(666,463)
As at 31 December	713,285	501,647
Accumulated depreciation:		
As at 1 January	56,129	180,642
Transferred from property, plant and equipment (note 17)	9,075	1,695
Transferred to property, plant and equipment (note 17)	(6,370)	–
Transferred from lease prepayments (note 20)	1,139	–
Depreciation charge	26,073	25,203
Written back on disposal	(13,109)	(33,044)
Distributions in relation to Restructuring and acquisition of Target Business (see note 1)	(4,374)	(118,367)
As at 31 December	68,563	56,129
Net carrying value:		
As at 31 December	644,722	445,518
Fair value	738,366	463,666

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

18 Investment properties (Continued)

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

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

	The Group	
	2007	2006
	RMB'000	RMB'000 (restated – note 1c)
Within 1 year	34,334	18,512
After 1 year but within 5 years	60,313	39,391
After 5 years	3,964	20,352
	98,611	78,255

During the year ended 31 December 2007, RMB95 million (2006: RMB64 million) was recognised as rental income in the consolidated income statement and RMB11 million (2006: RMB7 million) in respect of direct operating expenses relating to investment properties was recognised as expenses in the consolidated income statement.

Up to the date of these financial statements, the Group was in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB154 million as at 31 December 2007. The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

19 Construction in progress

	The Group	
	2007	2006
	RMB'000	RMB'000 (restated – note 1c)
Cost:		
As at 1 January	292,043	402,508
Additions	212,967	257,262
Transferred to property, plant and equipment (note 17)	(269,306)	(257,895)
Transferred to investment properties (note 18)	(7,530)	(2,109)
Distributions in relation to Restructuring and acquisition of Target Business (see note 1)	–	(107,723)
As at 31 December	228,174	292,043

20 Lease prepayments

	The Group	
	2007	2006
	RMB'000	RMB'000
		(restated – note 1c)
Cost:		
As at 1 January	165,042	216,084
Through acquisition of subsidiaries	–	10,192
Additions	254,787	62,553
Disposals	(14,126)	(25,514)
Transferred to investment properties (note 18)	(17,790)	–
Distributions in relation to Restructuring and acquisition of Target Business (see note 1)	(4,017)	(98,273)
As at 31 December	383,896	165,042
Accumulated depreciation:		
As at 1 January	9,631	12,957
Through acquisition of subsidiaries	–	1,501
Amortisation charge	4,488	5,098
Written back on disposal	(793)	(1,919)
Transferred to investment properties (note 18)	(1,139)	–
Distributions in relation to Restructuring and acquisition of Target Business (see note 1)	(90)	(8,006)
As at 31 December	12,097	9,631
Net carrying value:		
As at 31 December	371,799	155,411

Lease prepayments represent payments for land use rights paid to the PRC authorities. The Group's lease prepayments are located in the PRC and are with remaining terms ranging from 18 to 56 years as at 31 December 2007.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

21 Intangible assets

	The Group	
	2007	2006
	RMB'000	RMB'000
		(restated – note 1c)
Cost:		
As at 1 January	75,868	60,269
Through acquisition of subsidiaries	–	2,609
Additions	59,246	28,641
Disposals	(3,350)	(5,683)
Distributions in relation to Restructuring and acquisition of Target Business (see note 1)	–	(9,968)
As at 31 December	131,764	75,868
Accumulated amortisation:		
As at 1 January	30,556	26,532
Through acquisition of subsidiaries	–	1,382
Amortisation charge	23,810	12,923
Written back on disposal	(2,696)	(3,913)
Distributions in relation to Restructuring and acquisition of Target Business (see note 1)	–	(6,368)
As at 31 December	51,670	30,556
Net carrying value:		
As at 31 December	80,094	45,312

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

22 Investment in subsidiaries

	The Company	
	2007	2006
	RMB'000	RMB'000
Unlisted investments, at cost	9,479,781	5,373,776

The following list contains only the particulars of subsidiaries at 31 December 2007 which principally affected the results, assets or liabilities of the Group.

Name of company	Type of legal entity	Place of incorporation/ establishment	Held by the Company		Issued and fully paid up/ registered capital	Principal activities
			Directly %	Indirectly %		
Guangdong Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB857 million	Provision of integrated telecommunications support services through its subsidiaries in Guangdong Province
Zhejiang Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB1,098 million	Provision of integrated telecommunications support services through its subsidiaries in Zhejiang Province
Shanghai Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB976 million	Provision of integrated telecommunications support services through its subsidiaries in Shanghai Municipality

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

22 Investment in subsidiaries (Continued)

Name of company	Type of legal entity	Place of incorporation/ establishment	Held by the Company Directly %	Indirectly %	Issued and fully paid up/ registered capital	Principal activities
Fujian Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB311 million	Provision of Integrated telecommunications support services through its subsidiaries in Fujian Province
Hubei Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB317 million	Provision of integrated telecommunications support services through its subsidiaries in Hubei Province
Hainan Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB79 million	Provision of integrated telecommunications support services through its subsidiaries in Hainan Province
Jiangsu Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB678 million	Provision of integrated telecommunications support services through its subsidiaries in Jiangsu Province

22 Investment in subsidiaries (Continued)

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

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

22 Investment in subsidiaries (Continued)

Name of company	Type of legal entity	Place of incorporation/ establishment	Held by the Company Directly %	Indirectly %	Issued and fully paid up/ registered capital	Principal activities
Chongqing Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB209 million	Provision of integrated telecommunications support services through its subsidiaries in Chongqing Municipality
Sichuan Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB798 million	Provision of integrated telecommunications support services through its subsidiaries in Sichuan Province
Guizhou Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB139 million	Provision of Integrated telecommunications support services through its subsidiaries in Guizhou Province
Yunnan Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB238 million	Provision of Integrated telecommunications support services through its subsidiaries in Yunnan Province

22 Investment in subsidiaries (Continued)

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

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

23 Interests in associates

	The Group	
	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Share of net assets	11,064	9,367

As at 31 December 2007, the Group's associates are unlisted, established and operated in the PRC. The Group's interests in associates are individually and in aggregate not material to the Group's financial condition or results of operation for the year.

24 Other investments

	The Group	
	2007 RMB'000	2006 RMB'000 (restated – note 1c)
At cost/fair value:		
Unlisted equity securities, at cost	206,303	136,775
Listed equity securities, at quoted market price	76,895	–
Held-to-maturity unlisted debt securities, at amortised cost	24,773	36,778
	307,971	173,553

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

25 Deferred tax assets and liabilities

The Group

Deferred tax assets and liabilities attributable to the following:

	Assets		Liabilities		Net balance	
	2007 RMB'000	2006 RMB'000 (restated – note 1c)	2007 RMB'000	2006 RMB'000 (restated – note 1c)	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Impairment losses, primarily for receivables and inventories	13,089	21,739	–	–	13,089	21,739
Pre-operating expenses	–	1,562	–	–	–	1,562
Revaluation of property, plant and equipment	–	–	–	(18,473)	–	(18,473)
Revaluation of lease prepayments (note (iii))	63,966	43,124	–	–	63,966	43,124
Change in fair value (note (ii))	2,365	–	(11,641)	–	(9,276)	–
Unused tax losses (note (i))	3,372	26,837	–	–	3,372	26,837
Unpaid expenses	13,579	13,918	–	–	13,579	13,918
Deferred tax assets and (liabilities)	96,371	107,180	(11,641)	(18,473)	84,730	88,707

Movements in temporary differences for the year ended 31 December 2006 and 2007 are as follows:

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

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

25 Deferred tax assets and liabilities (Continued)

The Group (Continued)

	As at 1 January 2006 RMB'000 (restated – note 1c)	Recognised in the consolidated income statement RMB'000	Recognised in shareholders' equity RMB'000	As at 31 December 2006 RMB'000 (restated – note 1c)
Impairment losses, primarily for receivables and inventories	18,911	2,828	–	21,739
Pre-operating expenses	2,231	(669)	–	1,562
Revaluation of property, plant and equipment	–	–	(18,473)	(18,473)
Revaluation of lease prepayments (note (iii))	–	(1,173)	44,297	43,124
Unused tax losses (note (i))	9,387	17,450	–	26,837
Unpaid expenses	12,529	1,389	–	13,918
Deferred tax assets and (liabilities)	43,058	19,825	25,824	88,707
		(note 11(a))		

Notes:

- (i) Expiry of recognised tax losses

	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Year of expiry		
2008	–	2,336
2009	–	8,968
2010	–	16,978
2011	7,916	53,042
2012	5,436	–
	13,352	81,324

25 Deferred tax assets and liabilities (Continued)

The Group (Continued)

Notes: (Continued)

- (ii) As at 31 December 2007, the Group's derivative financial instruments and available-for-sale investments were recognised in fair value as in accordance with the accounting policy of the Group. The tax bases of these assets were not adjusted to fair value and accordingly, a deferred tax asset of RMB2 million related to the change in fair value of derivative financial instruments and deferred tax liability of RMB12 million related to the change in fair value of available-for-sale investments was recognised in income statement and owner's equity respectively.
- (iii) In connection with the Restructuring and the Acquisition of the Target Business, land use rights were revalued. The revalued amount will serve as the tax base for future years. The land use rights were not revalued for financial reporting purposes and accordingly, deferred tax assets of RMB66.8 million is created with a corresponding increase in equity. Based upon the level of historical taxable income and projections for future taxable income, management believes it is probable that the Group will realise the benefits of the deferred tax assets.
- (iv) As at 31 December 2007, the Group has not recognised deferred tax assets in respect of tax losses of RMB289.2 million (2006: RMB91.6 million) as it is not probable that future taxable profits against which the losses can be utilised will be available. The tax losses can be carried forward for five years from the year incurred and hence will be expired from 2008 to 2012.

26 Inventories

	The Group	
	2007	2006
	RMB'000	RMB'000
		(restated – note 1c)
Construction materials	407,635	401,168
Finished goods	563,125	517,772
Spare parts and consumables	65,001	61,290
	1,035,761	980,230

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

26 Inventories (Continued)

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

	The Group	
	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Carrying amount of inventories consumed and sold	7,632,433	5,712,317
Reversal of write down of inventories	(156)	–
Write down of inventories	1,612	4,795
	7,633,889	5,717,112

27 Accounts and bills receivable, net

	The Group	
	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Bills receivable	39,228	96,655
Unbilled revenue for contract work (note 28)	1,050,796	1,133,045
Trade receivables	5,611,097	4,663,398
	6,701,121	5,893,098
Less: impairment losses	(73,514)	(88,329)
	6,627,607	5,804,769

- (a) Included in accounts and bills receivable are amounts due from fellow subsidiaries of RMB3,344 million (2006: RMB3,334 million) as at 31 December 2007. The amounts due from fellow subsidiaries are unsecured, interest free and are expected to be recovered within one year.

27 Accounts and bills receivable, net (Continued)

- (b) In general, debts are due for payment upon billing. Subject to negotiation, credit terms within a range of one to three months are available for certain customers with well-established trading and payment records.
- (c) The ageing analysis of accounts and bills receivable (net of impairment losses) is as follows:

	The Group	
	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Current	3,616,471	3,925,762
Within 1 year	2,649,994	1,522,487
After 1 year but less than 2 years	309,942	304,554
After 2 years but less than 3 years	40,623	44,657
After 3 years	10,577	7,309
Amount past due	3,011,136	1,879,007
	6,627,607	5,804,769

(d) Impairment of accounts and bills receivable

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

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

27 Accounts and bills receivable, net (Continued)

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

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

	The Group	
	2007 RMB'000	2006 RMB'000 (restated – note 1c)
At 1 January	88,329	72,998
Impairment loss recognised	19,467	25,576
Reversal of impairment loss previously recognised	(30,695)	(7,469)
Uncollectible amounts written off	(3,587)	(2,776)
At 31 December	73,514	88,329

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

27 Accounts and bills receivable, net (Continued)

(e) Accounts and bills receivable that is not impaired

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

	The Group	
	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Neither past due nor impaired	3,487,520	3,633,117
Within 1 year	2,555,504	1,408,994
After 1 year but less than 2 years	298,891	281,851
After 2 years but less than 3 years	39,175	41,328
After 3 years	10,200	6,764
At 31 December	6,391,290	5,372,054

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

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

28 Construction contracts

The aggregate amounts of costs incurred plus recognised profit less recognised losses to date, included in the gross amount due from/to customers for contract work at 31 December 2007 are RMB1,925 million (2006: RMB2,987 million as restated).

In respect of construction contracts in progress at the balance sheet date, the amounts of retentions receivable from customers, recorded within "Accounts and bills receivable" at 31 December 2007 are RMB22 million (2006: RMB34 million as restated).

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

29 Prepayments and other current assets

	The Group		The Company	
	2007 RMB'000	2006 RMB'000 (restated – note 1c)	2007 RMB'000	2006 RMB'000
Advances to staff	219,232	182,111	9	–
Amounts due from fellow subsidiaries	791,551	955,688	8,334	–
Amounts due from associates	–	15,000	–	–
Prepayments in connection with construction work and equipment purchases	732,890	407,388	–	–
Prepaid expenses and deposits	203,187	222,987	606	–
Dividends receivable	234	18,590	632,532	–
Others	234,477	315,172	–	2,360
	2,181,571	2,116,936	641,481	2,360

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

30 Restricted deposits

Restricted deposits represent cash pledged as collateral for bank loans and construction projects.

31 Cash and cash equivalents

	The Group		The Company	
	2007 RMB'000	2006 RMB'000 (restated – note 1c)	2007 RMB'000	2006 RMB'000
Cash at bank and in hand	6,161,208	7,991,994	76,924	3,150,555
Highly liquid investments	80,000	–	80,000	–
Deposits with banks and other financial institutions	391,044	171,761	–	–
Cash and cash equivalents	6,632,252	8,163,755	156,924	3,150,555

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

The cash and cash equivalents denominated in Renminbi, Hong Kong dollars and United States dollars bear interest at 0.72% to 4.14% (2006: 0.72% to 2.52%), 1.0% to 3.5% (2006: 2.75% to 4.3%) and 1.15% (2006: 0.8% to 1.15%) per annum for the year ended 31 December 2007 respectively.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

32 Interest-bearing borrowings

The Group's short-term borrowings are comprised of:

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
		(restated – (note 1c)		
RMB denominated				
Borrowings from banks				
– guaranteed	5,000	13,000	–	–
– collateralised	8,000	72,600	–	–
– unsecured	–	45,500	–	–
Loans from ultimate holding company				
– unsecured	1,600,000	–	1,600,000	–
Loans from fellow subsidiaries				
– unsecured	734,000	20,600	–	–
Current portion of long-term borrowings				
– guaranteed	–	4,000	–	–
– collateralised	2,020	2,000	–	–
United states dollar denominated				
Borrowings from banks				
– collateralised	211,236	–	–	–
	2,560,256	157,700	1,600,000	–

32 Interest-bearing borrowings (Continued)

The Group's interest rate per annum on short-term borrowings is:

	The Group		The Company	
	2007	2006 (restated – note 1c)	2007	2006
RMB denominated				
Borrowings from banks				
– guaranteed	5.26%	5.25% – 7.25%	–	–
– collateralised	7.29% – 8.16%	4.65% – 7.34%	–	–
– unsecured	–	4.65% – 5.86%	–	–
Loans from ultimate holding company				
– unsecured	5.18%	–	5.18%	–
Loans from fellow subsidiaries				
– unsecured	3.00% – 6.84%	5.02% – 5.85%	–	–
United States dollar denominated				
Borrowings from banks				
– collateralised	5.38% – 5.64%	–	–	–

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

32 Interest-bearing borrowings (Continued)

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

		The Group	
		2007	2006
		RMB'000	RMB'000
			(restated – note 1c)
Borrowings from banks:			
– guaranteed	Interest rates ranging from 6.42% to 6.59% per annum with maturities through 16 February 2007	–	4,000
– collateralised	Floating interest rates at ranging from 7.32% – 8.16% per annum with maturities through 3 June 2009	2,980	5,000
Loans from fellow subsidiaries:			
– unsecured	Interest rates at 5.02% per annum with maturities through 7 November 2008	–	10,000
		2,980	19,000
Less: Current portion of long-term borrowings		(2,020)	(6,000)
		960	13,000

32 Interest-bearing borrowings (Continued)

The long-term borrowings were repayable as follows:

	The Group	
	2007	2006
	RMB'000	RMB'000
		(restated – note 1c)
Within 1 year or on demand	2,020	6,000
After 1 year but within 2 years	960	2,000
After 2 years but within 5 years	–	11,000
	2,980	19,000

As at 31 December 2007, borrowings from bank amounting to RMB5 million was guaranteed by CTC Group (as defined below) (2006: RMB17 million).

As at 31 December 2007, bank loans amounting to RMB11 million (2006: RMB78 million) and RMB211 million (2006: Nil) were secured by certain property, plant and equipment of the Group with net book value of RMB80 million (2006: RMB124 million) and restricted deposits of RMB218 million (2006: Nil) respectively.

The loan from ultimate holding company is unsecured and repayable on 20 June 2008.

33 Accounts and bills payable

Accounts and bills payable comprise:

	The Group	
	2007	2006
	RMB'000	RMB'000
		(restated – note 1c)
Accounts payable	4,060,211	4,002,570
Bills payable	626,432	179,535
	4,686,643	4,182,105

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

33 Accounts and bills payable (Continued)

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

	The Group	
	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Within 1 year	4,225,513	3,985,454
After 1 year but less than 2 years	368,011	140,398
After 2 years but less than 3 years	55,060	33,121
After 3 years	38,059	23,132
	4,686,643	4,182,105

Included in accounts and bills payable are amounts due to fellow subsidiaries of RMB205 million (2006: RMB170 million) as at 31 December 2007. The amounts due to fellow subsidiaries are unsecured, interest free and are expected to be settled within one year.

34 Accrued expenses and other payables

	The Group		The Company	
	2007 RMB'000	2006 RMB'000 (restated – note 1c)	2007 RMB'000	2006 RMB'000
Wages and welfare payables	641,716	897,791	3,600	–
Amounts due to fellow subsidiaries (note i)	1,156,402	908,786	13,837	1,150
Advances received	338,598	199,590	–	–
Other taxes payable	272,405	216,628	411	3,335
Dividends payable to the then owners (note ii)	535,008	356,846	–	–
Payables for construction and purchase of fixed assets	95,022	222,530	–	–
Forward foreign exchange contracts	9,461	–	–	–
Others	1,174,864	850,176	59,094	50,295
	4,223,476	3,652,347	76,942	54,780

Notes:

- (i) The amounts due to fellow subsidiaries are unsecured, interest free and are expected to be settled within one year.
- (ii) The balance of 2007 includes Special dividend (note 15(b)) and profit distribution by Target Business (note 15(c)). The balance of 2006 represents dividends declared by certain of the subsidiaries now comprising the Group and payable to the then owners.

35 Share capital

	2007 RMB'000	2006 RMB'000
Registered, issued and fully paid:		
3,811,501,400 (2006: 3,811,501,400) domestic state-owned ordinary shares of RMB1.00 each	3,811,501	3,811,501
1,633,484,600 (2006: 1,633,484,600) H shares of RMB1.00 each	1,633,485	1,633,485
	5,444,986	5,444,986

	2007 Thousand shares	2006 Thousand shares
At 1 January	5,444,986	–
Issuance of domestic state-owned ordinary shares	–	3,960,000
Conversion of domestic state-owned ordinary shares into H shares	–	(148,499)
Issuance of H shares	–	1,633,485
At 31 December	5,444,986	5,444,986

The Company was incorporated on 30 August 2006 with a registered share capital of 3,960,000,000 domestic state-owned ordinary shares with a par value of RMB1.00 each. Such shares were issued to CTC, Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation, as a consideration for the transferring of the Predecessor Operations and injection of cash to the Company (see note 1). In December 2006, the Company issued 1,484,986,000 H shares with a par value of RMB1.00, at a price of HK\$2.20 per H share and 148,498,600 domestic state-owned shares of RMB1.00 each owned by CTC were converted into H shares in connection with the initial public offering. For more details, please refer to note 1(b).

All shareholders are entitled to receive dividends as declared from time to time except for the special dividends described in note 15(b) 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.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

35 Share capital (Continued)

(a) Capital management

The Group's primary objective when managing capital is 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 telecommunication 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 aims to maintain the gearing ratio at a reasonable level. The Group monitors its capital using a gearing ratio which is total debts divided by the sum of total debts and total equity. The Group's gearing ratio as at 31 December 2007 was 21% (2006: 1%). In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce the gearing ratio.

36 Retirement benefit obligations

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

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

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

In April 2007, the Company's remuneration committee approved the granting of 38.35 million share appreciation right units to eligible employees. Under the terms of this grant, all share appreciation rights had a contractual life of seven years from date of grant and an exercise price of HK\$5.25 per unit. A recipient of share appreciation rights may not exercise the rights in the first 24 months after the date of grant. As at each of the second, third and fourth anniversary of the date of grant, the total number of share appreciation rights exercisable may not in aggregate exceed one-third, two-third and 100%, respectively, of the total share appreciation rights granted to such person.

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

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

38 Notes to consolidated cash flow statement

(a) Acquisition of subsidiaries

During the year ended 31 December 2006, the Group acquired several subsidiaries as follows:

	2006 RMB'000
Property, plant and equipment, net	41,948
Investment properties	10,323
Lease prepayments	8,691
Intangible assets	1,227
Inventories	14,068
Accounts and bills receivable, net	46,623
Prepayments and other current assets	31,133
Cash and cash equivalents	16,139
Accounts and bills payable	(39,104)
Accrued expenses and other payables	(25,598)
Income tax payable	(26)
Net identifiable assets and liabilities	105,424
Contributed by owner (note)	(105,424)
Total purchase price paid, satisfied in cash	—
Less: Cash of the subsidiaries acquired	(16,139)
Net cash inflow in respect of the purchase of subsidiaries	(16,139)

Note: These represent the acquisition of subsidiaries made by owner, being transferred to the Group by way of capital contribution.

38 Notes to consolidated cash flow statement (Continued)

(b) Major non-cash transactions

	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Contributions in forms of property, plant and equipment, lease prepayments and other assets	195,228	487,293
Distributions in forms of property, plant and equipment, lease prepayments and other assets	206,731	502,446
Distribution of net assets to owner pursuant to the Restructuring	–	1,430,962

39 Commitments and contingent liabilities

(a) Capital commitments

As at 31 December 2007, the Group has capital commitment for acquisition and construction of property, plant and equipment as follows:

	The Group	
	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Authorised and contracted for	9,714	93,966
Authorised but not contracted for	37,654	36,969

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

39 Commitments and contingent liabilities (Continued)

(b) Operating lease commitments

As at 31 December 2007, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group	
	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Within 1 year	119,888	69,084
After 1 year but within 5 years	161,355	124,324
After 5 years	5,118	9,200
	286,361	202,608

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

(c) Contingent liabilities

The Group had no material contingent liabilities and no financial guarantees issued.

40 Financial instruments

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

(a) Credit risk

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

The Group's major customers are CTC and its subsidiaries (collectively referred to as "CTC Group"), and China Mobile Limited. The Group has a certain concentration of credit risk as the Group's largest customer accounted for 50% of the total accounts and bills receivable as at 31 December 2007 (2006: 57%). The Group has no significant credit risk with any of these customers since the Group maintains long-term and stable business relationships with these large customers in the telecommunications industry.

The credit risk on restricted bank deposits is limited because the counterparties are banks with high credit rankings.

The maximum exposure to credit risk is represented by the carrying amount of each financial assets carry a significant exposure to credit risk.

(b) Interest rate risk

The interest rate risk of the Group is limited because the majority of outstanding loans are fixed interest rate loans.

The interest rates and terms of repayment of outstanding loans and deposits of the Group at balance sheet date are disclosed in notes 30, 31 and 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 and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

40 Financial instruments (Continued)

(c) Liquidity risk (Continued)

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

The Group

	2007						2006 (restated – note 1c)					
	Total contractual		Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total contractual		Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	Carrying amount	undiscounted cash flow					Carrying amount	undiscounted cash flow				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing borrowings	2,560,256	2,629,508	2,629,508	–	–	–	157,700	160,056	160,056	–	–	–
Account and bills payable	4,686,643	4,686,643	4,686,643	–	–	–	4,182,105	4,182,105	4,182,105	–	–	–
Receipt in advance	520,725	520,725	520,725	–	–	–	680,048	680,048	680,048	–	–	–
Accrued expenses and other payable	4,223,476	4,223,476	4,223,476	–	–	–	3,652,347	3,652,347	3,652,347	–	–	–
Long term borrowing, less current portion	960	1,013	–	1,013	–	–	13,000	14,177	–	13,164	1,013	–
	11,992,060	12,061,365	12,060,352	1,013	–	–	8,685,200	8,688,733	8,674,556	13,164	1,013	–

The Company

	2007						2006					
	Total contractual		Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total contractual		Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	Carrying amount	undiscounted cash flow					Carrying amount	undiscounted cash flow				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing borrowings	1,600,000	1,639,086	1,639,086	–	–	–	–	–	–	–	–	–
Accrued expenses and other payable	76,942	76,942	76,942	–	–	–	54,780	54,780	54,780	–	–	–
	1,676,942	1,716,028	1,716,028	–	–	–	54,780	54,780	54,780	–	–	–

40 Financial instruments (Continued)

(d) Fair value

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

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

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

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

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

(e) Foreign currency risk

(i) *Recognised assets and liabilities*

Except for the US dollar loan, all the Group's borrowings are denominated in Renminbi, the functional currency of the Group. Given this, management does not expect that there will be any significant currency risk associated with the Group's borrowings.

(ii) *Exposure to currency risk*

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

40 Financial instruments (Continued)

(e) Foreign currency risk (Continued)

(ii) Exposure to currency risk (Continued)

The Group

	2007 United States Dollars '000	2007 Hong Kong Dollars '000	2006 United States Dollars '000	2006 Hong Kong Dollars '000
Other investments	–	25,220	–	25,220
Cash and cash equivalents	2,190	4,404	561	3,139,190
Interest bearing loan	(28,924)	–	–	–
Gross balance sheet exposure	(26,734)	29,624	561	3,164,410
Forward exchange contract	30,586	–	–	–
Overall net exposure	3,852	29,624	561	3,164,410

The Company

	2007 United States Dollars '000	2007 Hong Kong Dollars '000	2006 United States Dollars '000	2006 Hong Kong Dollars '000
Cash and cash equivalents	–	–	–	3,134,926

40 Financial instruments (Continued)

(e) Foreign currency risk (Continued)

(ii) Exposure to currency risk (Continued)

The following significant exchange rates applied during the year:

	Average rate		Spot rate	
	2007	2006	2007	2006
United States dollars	7.60	7.97	7.30	7.81
Hong Kong dollars	0.97	1.03	0.94	1.00

Sensitivity analysis

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

The Group

	The Group					
	Increase/ (decrease) in foreign exchange rates	2007 Effect on profit after tax and retained profits '000	Effect on other components of equity '000	Increase/ (decrease) in foreign exchange rates	2006 Effect on profit after tax and retained profits '000	Effect on other components of equity '000
United States dollars	5%	942	–	5%	147	–
	(5)%	(942)	–	(5)%	(147)	–
Hong Kong dollars	5 %	–	1,392	5 %	105,020	1,474
	(5)%	–	(1,392)	(5)%	(105,020)	(1,474)

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

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

40 Financial instruments (Continued)

(e) Foreign currency risk (Continued)

(ii) Exposure to currency risk (Continued)

Sensitivity analysis (Continued)

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

(f) Equity price risk

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

41 Significant accounting estimates and judgements

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

(a) Construction contracts

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

41 Significant accounting estimates and judgements (Continued)

(b) Impairment for trade and other receivables

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

(c) Impairment of long-lived assets

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

42 Related parties

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

(a) Transactions with CTC Group

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

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

42 Related parties (Continued)

(a) Transactions with CTC Group (Continued)

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

	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Income from related parties:		
Engineering related services (note (i))	6,179,588	6,379,788
IT application services (note (ii))	649,214	251,909
Provision of ancillary telecommunications services (note (iii))	3,124,789	2,466,206
Provision of operation support services (note (iv))	1,528,435	1,301,255
Property leasing (note (v))	51,515	50,165
Management fee income (note(vi))	139,245	45,104
Expenses paid to related parties:		
Property leasing charges (note (vii))	94,326	55,665
IT application service charges (note (viii))	181,752	182,532
Operation support service charges (note (ix))	245,526	190,038
Interest paid (note (x))	12,262	2,636

Notes:

- (i) The amount represents the engineering related services, such as design, construction and project management for telecommunications infrastructure project provided to CTC Group.
- (ii) The amount represents the telecommunications network support services, software and hardware development and other IT related services provided to CTC Group.
- (iii) The amount represents ancillary telecommunications services such as maintenance of network facilities including optical ducts and cables, exchange buildings and base stations; operation of distribution channels, fixed line and wireless value-added service, internet contents and information services provided to CTC Group.
- (iv) The amount represents the facilities management, advertising, conferencing services and certain repair and leasing of equipments services provided to CTC Group.

42 Related parties (Continued)

(a) Transactions with CTC Group (Continued)

Notes: (Continued)

- (v) The amount represents rental income in respect of premises leased to CTC Group.
- (vi) The amounts represent management fee income in respect of centralised services provided to CTC Group.
- (vii) The amount represents operating leases in respect of business premises paid and payable to CTC Group.
- (viii) The amount represents basic telecommunications service, value-added service and information application service charged by CTC Group.
- (ix) The amount represents the charge paid and payable to CTC Group for logistics, labour resources, cultural, educational, hygiene and other supporting services.
- (x) Interest paid/payable represents the interest paid or payable to CTC Group in respect of the loans from fellow subsidiaries.

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

	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Accounts and bills receivable, net	3,344,339	3,334,835
Prepayments and other current assets	791,550	955,688
Total amounts due from CTC Group	4,135,889	4,290,523
Interest-bearing borrowings	2,334,000	30,600
Accounts and bills payable	205,137	170,371
Receipts in advance for contract work	61,039	93,642
Accrued expenses and other payables	1,678,088	1,183,033
Total amounts due to CTC Group	4,278,264	1,477,646

As at 31 December 2006 and 2007, no impairment losses for bad and doubtful debts were recorded in respect of amounts due from CTC Group.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

42 Related parties (Continued)

(a) Transactions with CTC Group (Continued)

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

In connection with the Restructuring, the Company and CTC entered into a number of agreements effective as at November 16, 2006 to take up the existing agreements signed between the Predecessor Operations and CTC as set out in items (1), (2) and (3) below, together with a new agreement governing the provision of headquarter management function by the Company as set out in item (4). The terms of the principal agreements impacting the results of operations of the Group are summarised as follows:

- (1) The Group has entered into agreements with CTC pursuant to which the Group provides CTC Group with construction, design and project supervision and management for telecommunications infrastructure projects. In addition, the Group has entered into information technology service agreements with CTC pursuant to which the Group provides CTC Group with telecommunications network support service, software and hardware development and other IT related services. The amounts charged for these services are determined by reference to market rates as reflected in prices obtained through a tender.
- (2) The Group has entered into facilities leasing agreements with CTC pursuant to which the Group leases certain premises and other facilities to CTC Group, and vice versa. The rental charges are based on market rate, with reference to amounts stipulated by local price bureau.
- (3) The Group has entered into operation support services agreements for facilities management, advertising, conferencing, logistics, cultural, educational, hygiene and other community services with CTC. In addition, the Group has entered into ancillary services agreements with CTC. The ancillary services provided to CTC Group include repairs and maintenance of telecommunications equipment and facilities and certain customer services. Pursuant to these agreements, the Group charges CTC Group, and vice versa, for these services in accordance with the following terms:
 - government prescribed price;
 - where there is no government prescribed prices but where there is a government guided price, the government guided price will apply;

42 Related parties (Continued)

(a) Transactions with CTC Group (Continued)

- where there is neither a government prescribed price nor a government guided price, the market price will apply; and
 - where none of the above is available, the price is to be agreed between the relevant parties, which shall be based on the cost incurred in providing the services plus a reasonable profit margin.
- (4) The Group has entered into agreement with CTC pursuant to which the Group takes up the role as headquarter management function to manage assets of the telecommunications support business of provinces, municipalities and autonomous regions including Ningxia, Tibet and any assets retained by CTC after the Restructuring. The aggregate administrative costs incurred by the Group for the provision of the centralised services are apportioned pro rata between the Group and CTC Group according to the net asset ratio of each of the relevant party.
- (5) The Group acquired certain property, plant and equipment from CTC Group for a total consideration of RMB119 million in 2007 and RMB295 million in 2006 subsequent to the incorporation of the Company.

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

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

- sales and purchase of goods, properties and other assets;
- rendering and receiving services;
- depositing and borrowing money; and
- use of public utilities.

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

42 Related parties (Continued)

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

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

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

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

	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Cash and cash equivalents	6,603,444	4,996,975
Interest income	86,089	51,726

42 Related parties (Continued)

(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:

	2007 RMB'000	2006 RMB'000 (restated – note 1c)
Salaries and other emoluments	2,340	2,171
Retirement benefits	1,114	1,330
Bonuses	6,041	4,906
	9,495	8,407

Total remuneration is included in "Staff costs" in note 10 (a).

(d) Contributions to defined contribution retirement plans

The Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff. The details of the Group's employee benefits plan are disclosed in note 36. As at 31 December 2006 and 2007, there was no material outstanding contribution to post-employment benefit plans.

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

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

Transactions with the Group's ten largest customers, which are state-controlled entities, amounting to approximately RMB15,704 million for the year ended 31 December 2007 (2006: RMB13,764 million).

Transactions with Group's ten largest suppliers, which are state-controlled entities, amounting to RMB867 million for the year ended 31 December 2007 (2006: RMB544 million).

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

43 Segment reporting

For the years ended 31 December 2006 and 2007, the Group principally has one business segment, the provision of integrated telecommunications service to the telecommunications industry in the PRC. The Group mainly operates in the PRC. Accordingly, no business and geographical segment information are presented.

44 Distributable reserves

The movement of shareholders' equity of the Company for 2007 is as follows:

	Share capital RMB'000 (note 35)	Share premium RMB'000	Capital reserves RMB'000	Statutory surplus reserves RMB'000	Retained Earnings/ (loss) RMB'000	Total RMB'000
Capitalisation upon legal establishment of the Company (note 1)	3,960,000	–	1,413,776	–	–	5,373,776
Issuance of shares upon public listing	1,484,986	1,807,727	–	–	–	3,292,713
Shares issue expenses	–	(249,944)	–	–	–	(249,944)
Profit for the year	–	–	–	–	55,375	55,375
Appropriation	–	–	–	5,538	(5,538)	–
At 31 December 2006	5,444,986	1,557,783	1,413,776	5,538	49,837	8,471,920
At 1 January 2007	5,444,986	1,557,783	1,413,776	5,538	49,837	8,471,920
Profit for the year	–	–	–	–	968,092	968,092
Acquisition of Target Business	–	–	(374,995)	–	–	(374,995)
Expenses incurred in acquisition of Target Business	–	–	(45,205)	–	–	(45,205)
Distribution of special dividend (see note 15(b))	–	–	–	–	(418,460)	(418,460)
Appropriation	–	–	–	92,288	(92,288)	–
At 31 December 2007	5,444,986	1,557,783	993,576	97,826	507,181	8,601,352

44 Distributable reserves (Continued)

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

At 31 December 2007, there were no distributable reserves attributable to the equity shareholders of the Company.

45 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ended 31 December 2007

Up to the date of issue of these financial statements, the IASB has issued amendments, new standards and interpretations which are not yet effective for the accounting year ended 31 December 2007 and which have not been adopted in these financial statements. Of these developments, the following relate to matters they may be relevant to the Group's operations and financial statements:

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

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

Notes to the Consolidated Financial Statements

(Expressed in Renminbi)

46 Immediate and ultimate controlling party

At 31 December 2007, the directors consider the immediate and ultimate controlling party of the Group to be CTC, a stated-owned enterprise established in the PRC. CTC does not produce financial statements available for public use.

47 Post balance sheet events

- (a) On 28 March 2008, the Company entered into a placing and underwriting agreement in relation to the placing (the “Placing”) of an aggregate of 359,365,600 new overseas-listed foreign-invested shares at a price of HK\$5.25 per share (the “Placing Shares”). The Placing Shares comprise of (1) 326,696,000 new H Shares to be allotted and issued by the Company in connection with the Placing, and (2) 32,669,600 H Shares to be allotted and issued by the Company upon the conversion of the same number of existing domestic legal person shares by the National Council for the Social Security Fund of the PRC. Completion of the Placing is conditional upon the fulfilment of certain conditions as specified in the placing and underwriting agreement and the granting of and permission to deal by the Listing Committee of the Stock Exchange.

Completion of the Placing is expected to take place on or around 9 April 2008 or such other time or date as the Company and the placing agent may agree.

- (b) Pursuant to the Equity Transfer Agreement dated 3 April 2008 entered into between the Company and China National Postal and Telecommunications Appliances Corporation (the “vendor”), the Company will acquire 100% equity interest of China International Telecommunications Construction Corporation from the vendor for a consideration of RMB505 million in cash. Completion of the above transaction is conditional upon the fulfilment of certain conditions as specified in the Equity Transfer Agreement.