# Notes to the Consolidated Financial Statements

*(Expressed in Renminbi)*

## 1 Principal activities, organisation and basis of presentation

### (a) Principal activities

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

### (b) Organisation

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

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

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

(ii) The net assets were injected into the Company by ways of asset injection of those subsidiaries carrying on the Predecessor Operations in consideration of approximately 3,623.4 million ordinary shares with a par value of RMB1 each.

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

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

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

### (b) Organisation (Continued)

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

In December 2006, the Company issued 1,291,293,000 H shares with a par value of RMB1.00 each, at a price of HK$2.20 per H share by way of an initial public offering (the "IPO") to Hong Kong and overseas investors. In connection with the IPO, 129,129,300 domestic state-owned shares of RMB1.00 each owned by CTC and its subsidiaries were converted into H shares and transferred to the National Council for Social Security Fund of the PRC ("SSF"). In December 2006, the Company also issued 193,693,000 H shares with a par value of RMB1.00 each, at a price of HK$2.20 per H share upon the exercise of the over-allotment option. In connection with the exercise of the over-allotment option, 19,369,300 domestic state-owned shares of RMB1.00 each owned by CTC and its subsidiaries were converted into H shares and transferred to SSF. In April 2008, the Company completed the placing of 326,696,000 H shares with a par value of RMB1.00 each at a price of RMB5.25 (the "Placing"). In connection with the Placing, 32,669,600 domestic legal person shares of RMB1.00 each owned by National Council for the Social Security Fund was converted into H shares (see note (35)). A total of 1,992,850,200 H shares have been listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

### (c) Basis of presentation

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

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

## 2 Significant accounting policies

### (a) Statement of compliance

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

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

### (b) Basis of preparation of the financial statements

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

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

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

— Derivative financial instruments are measured at fair value.

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

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

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

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

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

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

# 2 Significant accounting policies (Continued)

## (c) Basis of consolidation

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

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

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

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

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

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

## 2 Significant accounting policies (Continued)

### (c) Basis of consolidation (Continued)

***(ii) Associates***

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

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

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

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

### (d) Goodwill

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

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

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

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

## 2 Significant accounting policies (Continued)

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

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

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

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

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

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

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

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

### (f) Investment properties

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

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

## 2 Significant accounting policies (Continued)

### (f) Investment properties (Continued)

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

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

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

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

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

— other items of plant and equipment.

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

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

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

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

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

## 2 Significant accounting policies (Continued)

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

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

### (h) Construction in progress

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

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

### (i) Lease prepayments

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

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

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

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

## 2 Significant accounting policies (Continued)

### (k) Leased assets

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

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

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

### (l) Impairment of assets

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

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

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

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

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

## 2 Significant accounting policies (Continued)

### (l) Impairment of assets (Continued)

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

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

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

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

***(ii) Impairment of other assets***

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

— property, plant and equipment;

— investment properties;

— construction in progress;

— lease prepayments;

— goodwill;

— other intangible assets;

— investments in subsidiaries and associates; and

— other investments stated at cost.

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

## 2 Significant accounting policies (Continued)

### (l) Impairment of assets (Continued)

***(ii) Impairment of other assets (Continued)***

— Calculation of recoverable amount

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

— Recognition of impairment losses

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

— Reversals of impairment losses

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

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

### (m) Inventories

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

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

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

## 2 Significant accounting policies (Continued)

### (m) Inventories (Continued)

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

### (n) Construction contracts

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

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

### (o) Trade and other receivables

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

### (p) Interest-bearing borrowings

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

### (q) Trade and other payables

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

## 2 Significant accounting policies (Continued)

### (r) Cash and cash equivalents

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

### (s) Derivative financial instruments

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

### (t) Employee benefits

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

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

***(ii) Share appreciation rights scheme***

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

***(iii) Termination benefits***

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

### (u) Income tax

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

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

## 2 Significant accounting policies (Continued)

### (u) Income tax (Continued)

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

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

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

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

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

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

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

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

## 2 Significant accounting policies (Continued)

### (u) Income tax (Continued)

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

— the same taxable entity; or

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

### (v) Provisions and contingent liabilities

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

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

### (w) Revenue recognition

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

***(i) Contract revenue***

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

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

***(ii) Services rendered***

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

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

## 2 Significant accounting policies (Continued)

### (w) Revenue recognition (Continued)

***(iii) Sales of goods***

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

***(iv) Rental income from operating leases***

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

***(v) Dividend income***

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

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

***(vi) Interest income***

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

### (x) Government grants

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

### (y) Translation of foreign currencies

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

## 2 Significant accounting policies (Continued)

### (y) Translation of foreign currencies (Continued)

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

### (z) Borrowing costs

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

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

### (aa) Research and development costs

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

### (bb) Segmental reporting

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

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

### (cc) Dividends or profit distributions

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

## 2 Significant accounting policies (Continued)

### (dd) Related parties

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

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

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

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

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

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

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

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

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

## 3 Adoption of new/revised IFRSs

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

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

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

## 4 Revenues

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

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

## 5 Cost of revenues

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

## 6 Other operating income

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

## 7 Other operating expenses

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

## 8 Net financing (expense)/income

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

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

## 9 Profit before tax

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

## 10 Income tax

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

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

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

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

Notes:

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

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

## 10 Income tax (Continued)

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

Notes: (Continued)

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

## 11 Directors' and supervisors' emoluments

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

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

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

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

## 11 Directors' and supervisors' emoluments (Continued)

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

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

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

| | 2008 | 2007 |
|---|---|---|
| **HK$ equivalent** | | |
| Nil to 1,000,000 | 14 | 14 |

## 12 Individuals with highest emoluments

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

| | 2008 | 2007 |
|---|---|---|
| Directors and supervisors | — | — |
| Non-director and non-supervisor employees | 5 | 5 |
| | 5 | 5 |

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

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

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

| | 2008 | 2007 |
|---|---|---|
| **HK$ equivalent** | | |
| Nil to 1,000,000 | 5 | 5 |

## 13 Profit attributable to equity shareholders of the Company

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

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

## 14 Dividends

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

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

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

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

### (c) Special dividend

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| Special dividend approved | — | 535,011 |

## 14 Dividends (Continued)

### (c) Special dividend (Continued)

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

Pursuant to a resolution passed at directors' meeting on 17 April 2007, the directors resolved to pay the 2006 Special Dividend to CTC and its subsidiaries amounting to RMB535 million in total, out of which RMB117 million was directly distributed at the subsidiary level. The Company has been paying the 2006 Special Dividend to CTC and its subsidiaries in a series of payments commenced in July 2007.

### (d) Profit distribution by the Target Business

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

## 15 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the year ended 31 December 2008 of RMB1,316 million (2007: RMB1,167 million) and the weighted average number of shares in issue during the year ended 31 December 2008 of 5,683,313 thousand (2007: 5,444,986 thousand).

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

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

## 16 Property, plant and equipment, net

### The Group

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

## 16 Property, plant and equipment, net (Continued)

### The Group (Continued)

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

## 16 Property, plant and equipment, net (Continued)

### The Company

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

## 16 Property, plant and equipment, net (Continued)

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

(b) Valuation pursuant to the Restructuring

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

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

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

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

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

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

## 16 Property, plant and equipment, net (Continued)

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

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

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

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

## 17 Investment properties

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

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

## 17 Investment properties (Continued)

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

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

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

Up to the date of these financial statements, the Group was in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB144 million as at 31 December 2008 (2007: RMB154 million). The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

## 18 Construction in progress

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

## 19 Lease prepayments

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

Lease prepayments represent payments for land use rights paid to the PRC authorities. The Group's lease prepayments are located in the PRC and are with remaining terms ranging from 17 to 55 years as at 31 December 2008.

## 20 Goodwill

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| Cost and carrying amount as at 31 December | 103,005 | — |

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

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

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

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

## 21 Other intangible assets

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

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

## 22 Investments in subsidiaries

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

The following list contains only the particulars of subsidiaries at 31 December 2008 which principally affected the results, assets or liabilities of the Group.

| Name of company | Type of legal entity | Place of incorporation/ establishment | Held by the Company Directly % | Held by the Company Indirectly % | Issued and fully paid up/ registered capital | Principal activities |
|---|---|---|---|---|---|---|
| Guangdong Communications Services Company Limited | Limited Liability Company | The PRC | 100 | — | RMB2,800 million | Provision of integrated telecommunications support services through its subsidiaries in Guangdong Province |
| Zhejiang Communications Services Company Limited | Limited Liability Company | The PRC | 100 | — | RMB1,098 million | Provision of integrated telecommunications support services through its subsidiaries in Zhejiang Province |
| Shanghai Communications Services Company Limited | Limited Liability Company | The PRC | 100 | — | RMB976 million | Provision of integrated telecommunications support services through its subsidiaries in Shanghai Municipality |
| Fujian Communications Services Company Limited | Limited Liability Company | The PRC | 100 | — | RMB311 million | Provision of integrated telecommunications support services through its subsidiaries in Fujian Province |
| Hubei Communications Services Company Limited | Limited Liability Company | The PRC | 100 | — | RMB317 million | Provision of integrated telecommunications support services through its subsidiaries in Hubei Province |
| Hainan Communications Services Company Limited | Limited Liability Company | The PRC | 100 | — | RMB79 million | Provision of integrated telecommunications support services through its subsidiaries in Hainan Province |

## 22 Investments in subsidiaries (Continued)

| Name of company | Type of legal entity | Place of incorporation/ establishment | Held by the Company Directly % | Held by the Company Indirectly % | Issued and fully paid up/ registered capital | Principal activities |
|---|---|---|---|---|---|---|
| Jiangsu Communications Services Company Limited | Limited Liability Company | The PRC | 100 | — | RMB678 million | Provision of integrated telecommunications support services through its subsidiaries in Jiangsu Province |
| Anhui Communications Services Company Limited | Limited Liability Company | The PRC | 100 | — | RMB420 million | Provision of integrated telecommunications support services through its subsidiaries in Anhui Province |
| Jiangxi Communications Services Company Limited | Limited Liability Company | The PRC | 100 | — | RMB200 million | Provision of integrated telecommunications support services through its subsidiaries in Jiangxi Province |
| Hunan Communications Services Company Limited | Limited Liability Company | The PRC | 100 | — | RMB896 million | Provision of integrated telecommunications support services through its subsidiaries in Hunan Province |
| Guangxi Communications Services Company Limited | Limited Liability Company | The PRC | 100 | — | RMB192 million | Provision of integrated telecommunications support services through its subsidiaries in Guangxi Zhuang Autonomous Region |
| Chongqing Communications Services Company Limited | Limited Liability Company | The PRC | 100 | — | RMB209 million | Provision of integrated telecommunications support services through its subsidiaries in Chongqing Municipality |
| Sichuan Communications Services Company Limited | Limited Liability Company | The PRC | 100 | — | RMB798 million | Provision of integrated telecommunications support services through its subsidiaries in Sichuan Province |
| Guizhou Communications Services Company Limited | Limited Liability Company | The PRC | 100 | — | RMB139 million | Provision of integrated telecommunications support services through its subsidiaries in Guizhou Province |

## 22 Investments in subsidiaries (Continued)

| Name of company | Type of legal entity | Place of incorporation/ establishment | Held by the Company Directly % | Held by the Company Indirectly % | Issued and fully paid up/ registered capital | Principal activities |
|---|---|---|---|---|---|---|
| Yunnan Communications Services Company Limited | Limited Liability Company | The PRC | 100 | — | RMB238 million | Provision of integrated telecommunications support services through its subsidiaries in Yunnan Province |
| Shaanxi Communications Services Company Limited | Limited Liability Company | The PRC | 100 | — | RMB145 million | Provision of integrated telecommunications support services through its subsidiaries in Shaanxi Province |
| Gansu Communications Services Company Limited | Limited Liability Company | The PRC | 100 | — | RMB129 million | Provision of integrated telecommunications support services through its subsidiaries in Gansu Province |
| Qinghai Communications Services Company Limited | Limited Liability Company | The PRC | 100 | — | RMB68 million | Provision of integrated telecommunications support services through its subsidiaries in Qinghai Province |
| Xinjiang Communications Services Company Limited | Limited Liability Company | The PRC | 100 | — | RMB179 million | Provision of integrated telecommunications support services through its subsidiaries in Xinjiang Uygur Autonomous Region |
| China International Telecommunication Construction Corporation | Limited Liability Company | The PRC | 100 | — | RMB317 million | Provision of integrated telecommunications support services through its subsidiaries in Northern China Provinces |
| China Communications Services (Hong Kong) International Limited | Limited Liability Company | Hong Kong | 100 | — | HKD2 million | Provision of integrated telecommunications support services through its subsidiaries in Hong Kong and Macau |

## 23 Interests in associates

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

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

## 24 Other investments

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

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

## 25 Income tax in the balance sheet

### (a) Current taxation in the balance sheet

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

## 25 Income tax in the balance sheet (Continued)

### (b) Deferred tax assets and liabilities

***The Group***

Deferred tax assets and liabilities attributable to the following:

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

## 25 Income tax in the balance sheet (Continued)

### (b) Deferred tax assets and liabilities (Continued)

***The Group (Continued)***

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

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

## 25 Income tax in the balance sheet (Continued)

### (b) Deferred tax assets and liabilities (Continued)

***The Group (Continued)***

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

Notes:

(i) Expiry of recognised tax losses

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

## 25 Income tax in the balance sheet (Continued)

### (b) Deferred tax assets and liabilities (Continued)

Notes: (Continued)

(ii) As at 31 December 2008, the Group's available-for-sale investments were recognised at fair value as in accordance with the accounting policy of the Group. The tax bases of these assets were not adjusted to fair value and accordingly, a deferred tax liability of RMB6 million related to the change in fair value of available-for-sale investments was recognised in owner's equity.

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

(iv) As at 31 December 2008, the Group has not recognised deferred tax assets in respect of tax losses of RMB383.4 million (2007: RMB289.2 million) as it is not probable that future taxable profits against which the losses can be utilised will be available. The tax losses can be carried forward for five years from the year incurred and hence will be expired from 2009 to 2013.

## 26 Inventories

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

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

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

## 27 Accounts and bills receivable, net

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

(a) Included in accounts and bills receivable are amounts due from fellow subsidiaries of RMB5,299 million (2007: RMB3,344 million) as at 31 December 2008. The amounts due from fellow subsidiaries are unsecured, interest free and are expected to be recovered within one year.

(b) In general, debts are due for payment upon billing. Subject to negotiation, credit terms within a range of one to three months are available for certain customers with well-established trading and payment records.

## 27 Accounts and bills receivable, net (Continued)

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

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

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

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

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

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

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

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

## 27 Accounts and bills receivable, net (Continued)

### (e) Accounts and bills receivable that is not impaired

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

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

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

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

## 28 Construction contracts

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

In respect of construction contacts in progress at the balance sheet date, the amounts of retentions receivable from customers, recorded within "Accounts and bills receivable" at 31 December 2008 are RMB25 million (2007: RMB22 million).

## 29 Prepayments and other current assets

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

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

## 30 Restricted deposits

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

## 31 Cash and cash equivalents

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

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

## 32 Interest-bearing borrowings

The Group's short-term borrowings comprise:

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

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

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

## 32 Interest-bearing borrowings (Continued)

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

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

The long-term borrowings were repayable as follows:

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

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

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

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

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

## 33 Accounts and bills payable

Accounts and bills payable comprise:

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

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

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

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

## 34 Accrued expenses and other payables

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

Note:

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

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

## 35 Share capital

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

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

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

Except for the 2006 Special Dividend stated in note 14(c), all shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

### (a) Capital management

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

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

## 35 Share capital (Continued)

### (a) Capital management (Continued)

The Group monitor its capital using a gearing ratio which is total debts divided by the sum of total debts and total equity. For this purpose, the Group defines total debt as the sum of short-term interest bearing borrowings and long-term interest bearing borrowings. The Group aims to maintain the gearing ratio at a reasonable level. The Group's ratio as at 31 December 2008 was 14.0% (2007: 21.1%). In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

## 36 Retirement benefit obligations

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

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

## 37 Share appreciation rights schemes

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

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

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

## 38 Notes to consolidated cash flow statement

### (i) Acquisition of major subsidiaries

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

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

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

## 38 Notes to consolidated cash flow statement (Continued)

### (i) Acquisition of subsidiaries (Continued)

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

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

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

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

### (ii) Donation of equity interests

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

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

## 38 Notes to consolidated cash flow statement (Continued)

### (iii) Major non-cash transactions

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

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

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

## 39 Commitments and contingent liabilities

### (a) Capital commitments

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

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

## 39 Commitments and contingent liabilities (Continued)

### (b) Operating lease commitments

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

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

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

### (c) Contingent liabilities

As at 31 December 2008, the Group had no material contingent liabilities and no financial guarantees issued.

## 40 Financial instruments

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

### (a) Credit risk

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

The Group's major customers are CTC and its subsidiaries (collectively referred to as "CTC Group"), and China Mobile Limited. The Group has a certain concentration of credit risk as the Group's largest customer accounted for 56% of the total accounts and bills receivable as at 31 December 2008 (2007: 50%). The Group has no significant credit risk with any of these customers since the Group maintains long-term and stable business relationships with these large customers in the telecommunications industry.

The credit risk on cash at banks and restricted bank deposits is limited because the counterparties are banks with high credit rankings, mainly the four large state-owned banks.

## 40 Financial instruments (Continued)

### (a) Credit risk (Continued)

The credit risk on available-for-sale investments arises from loss in value through corporate failure. The Group mitigate the credit risk on available-for-sale investments by closely monitor its portfolio and minimise investments on these assets. The Group's available-for-sale investments are less than 1% of its total assets for both 2008 and 2007.

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

### (b) Interest rate risk

The Group's interest rate risk exposure primarily from its short-term debts carrying interests at fixed rates exposed the Group to fair value interest rate risk. The Group manages its exposure to interest rate risk by maintaining high proportion of fixed rate debts with maturity within one year. Details of the interest rates are disclosed in note 32.

### (c) Liquidity risk

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

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

***The Group***

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

## 40 Financial instruments (continued)

### (c) Liquidity risk (Continued)

***The Company***

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

### (d) Fair value

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

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

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

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

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

### (e) Foreign currency risk

Foreign currency exchange rate risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured. The Group's foreign currency risk exposure relates to the bank deposits and borrowings denominated primarily in US dollars and Hong Kong dollar (see notes 31 and 32).

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

## 40 Financial instruments (continued)

### (e) Foreign currency risk (Continued)

***Exposure to currency risk***

The Group

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

The Company

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

The following significant exchange rates applied during the year:

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

## 40 Financial instruments (continued)

### (e) Foreign currency risk (Continued)

***Exposure to currency risk (Continued)***

Sensitivity analysis

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

The Group

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

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

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

### (f) Equity price risk

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

## 41 Significant accounting estimates and judgements

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

### (a) Construction contracts

As explained in notes 2(n) and 2(w)(i) revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. As a result, until this point is reached the amounts due from customers for contract work as disclosed in note 27 will not include profit which the Group may eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than that estimated at the balance sheet date, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

### (b) Impairment for trade and other receivables

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

### (c) Impairment of long-lived assets

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

## 41 Significant accounting estimates and judgements (Continued)

### (d) Depreciation and amortisation

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

### (e) Deferred tax assets

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

## 42 Related parties

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

### (a) Transactions with CTC Group

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

## 42 Related parties (Continued)

### (a) Transactions with CTC Group (Continued)

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

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

Notes:

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

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

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

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

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

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

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

## 42 Related parties (Continued)

### (a) Transactions with CTC Group (Continued)

Notes: (Continued)

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

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

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

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

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

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

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

## 42 Related parties (Continued)

### (a) Transactions with CTC Group (Continued)

In connection with the Restructuring, the Company and CTC entered into a number of agreements effective as at 16 November 2006 to take up the existing agreements signed between the Predecessor Operations and CTC as set out in items (1), (2) and (3) below, together with a new agreement governing the provision of headquarter management function by the Company as set out in item (4). After the Company acquired the Target Business in 2007, these agreements were amended by way of the 2008 Supplemental Agreement, pursuant to which the terms of the Agreements were renewed to 31 December 2010. The terms of the principal agreements impacting the results of operations of the Group are summarised as follows:

(1) The Group has entered into agreements with CTC pursuant to which the Group provides CTC Group with construction, design and project supervision and management for telecommunications infrastructure projects. In addition, the Group has entered into information technology service agreements with CTC pursuant to which the Group provides CTC Group with telecommunications network support service, software and hardware development and other IT related services. The amounts charged for these services are determined by reference to market rates as reflected in prices obtained through a tender.

(2) The Group has entered into facilities leasing agreements with CTC pursuant to which the Group leases certain premises and other facilities to CTC Group, and vice versa. The rental charges are based on market rate, with reference to amounts stipulated by local price bureau.

(3) The Group has entered into operation support services agreements for facilities management, advertising, conferencing, logistics, cultural, educational, hygiene and other community services with CTC. In addition, the Group has entered into ancillary services agreements with CTC. The ancillary services provided to CTC Group include repairs and maintenance of telecommunications equipment and facilities and certain customer services. Pursuant to these agreements, the Group charges CTC Group, and vice versa, for these services in accordance with the following terms:

— government prescribed price;

— where there is no government prescribed prices but where there is a government guided price, the government guided price will apply;

— where there is neither a government prescribed price nor a government guided price, the market price will apply; and

— where none of the above is available, the pre is to be agreed between the relevant parties, which shall be based on the cost incurred in providing the services plus a reasonable profit margin.

## 42 Related parties (Continued)

### (a) Transactions with CTC Group (Continued)

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

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

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

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

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

— rendering and receiving services;

— depositing and borrowing money; and

— use of public utilities.

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

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

## 42 Related parties (Continued)

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

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

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| Cash and cash equivalents | 7,858,742 | 6,603,444 |

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| Interest income | 101,473 | 86,089 |

### (c) Transactions with key management personnel

Remuneration for key management personnel, including amounts paid to the Company's directors and supervisors as disclosed in note 11 and certain of the highest paid employees as disclosed in note 12, is as follows:

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

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

### (d) Contributions to defined contribution retirement plans

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

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

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

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

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

## 43 Segmental reporting

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

## 44 Distributable reserves

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

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

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

## 44 Distributable reserves (Continued)

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

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| At 31 December | 120,374 | — |

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

Notes:

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

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

(iii) According to the Company's Article of Association, the Company is required to transfer 10% of its net profit as determined in accordance with the PRC Accounting Rules and Regulations to its statutory surplus reserve until the reserve balance reaches 50% of the registered capital.

The transfer to this reserve must be made before distribution of a dividend to shareholders. Statutory surplus reserve can be used to make good previous years' losses, if any, or to expand the Company's business, and may be converted into share capital by the issuance or by increasing the par value of the share currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

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

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

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

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

## 46 Immediate and ultimate controlling party

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