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") from CTC. The Company was founded by CTC, Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation by ways of the injection of those subsidiaries carrying on the Predecessor Operations and cash contributions.

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

(i) CTC 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 (36)). A total of 1,992,850,200 H shares have been listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

(c) Basis of presentation

Pursuant to the equity transfer agreements entered into by the Group and CTC and certain of its subsidiaries on 26 May 2009, the Group acquired 95.945% and 51% equity interests in Shanghai Tongmao Import & Export Co., Ltd and Guoxin Lucent Technologies Network Technologies Co., Ltd (collectively the "Target Interests"), respectively, for a total purchase price of RMB98.05 million.

Since the Group and the Target Interests are under common control of CTC, the Target Interests have been accounted for as a combination of entities under common control in a manner similar to pooling-of-interests. Accordingly, the assets and liabilities of the Target Interests have been accounted for at historical costs and the consolidated financial statements of the Company prior to the acquisition of the Target Interests have been restated to include the results of operations and assets and liabilities of the Target Interests on a combined basis. The considerations paid by the Group for the acquisitions of the Target Interests were accounted for as an equity transaction in the consolidated statement of changes in equity.

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

(c) Basis of presentation (Continued)

The results of operations for the year ended 31 December 2008, the financial position as at 31 December 2008 and the cash flow effect for the year ended 31 December 2008 previously reported by the Group have been restated to include the results of the Target Interests as set out below:

	The Group (as previously reported) RMB'000	Target Interests RMB'000	Combined adjustments RMB'000	Combined RMB'000
Results of operations for the year ended 31 December 2008				
Revenues	32,470,570	565,207	(30,405)	33,005,372
Gross profit	5,300,842	76,691	(4,529)	5,373,004
Profit for the year	1,331,601	12,043	–	1,343,644
Basic earnings per share (in RMB)	0.232	–	–	0.233
Financial position as at 31 December 2008				
Total assets	27,459,220	395,293	(17,711)	27,836,802
Total liabilities	15,346,526	264,397	(17,711)	15,593,212
Total equity	12,112,694	130,896	–	12,243,590
Cash flow effect for the year ended 31 December 2008				
Net cash generated from operating activities	1,950,309	(2,576)	–	1,947,733
Net cash used in investing activities	(43,609)	(1,169)	–	(44,778)
Net cash used in financing activities	(123,291)	(10,189)	–	(133,480)

For the year presented, all significant balances and transactions between the Group and the Target Interests have been eliminated on combination.

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 2009 comprise the Group and its interests in associate.

The financial statements have been prepared on the historical cost basis, except for the following material items in the balance sheet:

– Property, plant and equipment (see note 17) is stated at its revalued amount (see note 2(g)).

– 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 accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying 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 major sources of estimation uncertainty are discussed in note 42.

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 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 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 and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income 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)).

(ii) Associates

An associate is an entity 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, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost and adjust thereafter for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(d) and (l)). The Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post- tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

2 Significant accounting policies (Continued)

(c) Basis of consolidation (Continued)

(ii) Associates (Continued)

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

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in 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 state at cost less any impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination 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 and the investment as a whole is tested for impairments whenever there is objective evidence of impairment (see note 2(l)).

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

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

(e) Other investments in debt and equity securities

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

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

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

2 Significant accounting policies (Continued)

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

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is re-measured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from 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 is reclassified from equity to profit or loss.

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

(f) Investment properties

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

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

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

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

(g) Other property, plant and equipment

The following items of property, plant and equipment stated 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)).

2 Significant accounting policies (Continued)

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

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.

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

(h) Construction in progress

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

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

2 Significant accounting policies (Continued)

(i) Lease prepayments

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

(j) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads and borrowing costs, where applicable (see Note 2(z)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see Note 2(l)). Other development expenditure is recognised as an expense in the period in which it is incurred.

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

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

Both the period and method of amortisation are reviewed annually.

(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.

2 Significant accounting policies (Continued)

(l) Impairment of assets

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

Investments in debt and equity securities (other than investments in subsidiaries: see note 2(l)(ii)) 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. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events

– Significant financial difficulty of the debtor;

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

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

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

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

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

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

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

2 Significant accounting policies (Continued)

(l) Impairment of assets (Continued)

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

– 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. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

– For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to consolidate 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 in other comprehensive income.

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

2 Significant accounting policies (Continued)

(I) Impairment of assets (Continued)

(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

– 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.

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

2 Significant accounting policies (Continued)

(l) Impairment of assets (Continued)

(ii) Impairment of other assets (Continued)

– 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 year 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.

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

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

The accounting policy for contract revenue is set out in note 2(w)(i). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the 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".

2 Significant accounting policies (Continued)

(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.

(r) Cash and cash equivalents

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

(s) Derivative financial instruments

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

(t) Employee benefits

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

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

2 Significant accounting policies (Continued)

(t) Employee benefits (Continued)

(ii) Share appreciation rights schemes

Compensation expense under the Group's share appreciation rights schemes are 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 schemes are set out in note 38.

(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 in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

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

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

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

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

2 Significant accounting policies (Continued)

(u) Income tax (Continued)

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

– 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.

2 Significant accounting policies (Continued)

(w) Revenue recognition

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

(i) Contract revenue

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

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

(ii) Services rendered

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

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

(iii) Sales of goods

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

(iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in 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) Dividends

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

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

(vi) Interest income

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

2 Significant accounting policies (Continued)

(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 from the carrying amount of the asset and consequently are recognised in the consolidated income statement over the useful life of the asset by way of reduced depreciation expenses.

(y) Translation of foreign currencies

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

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

(z) Borrowing costs

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

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and 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 completed.

2 Significant accounting policies (Continued)

(aa) Segment reporting

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

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

The Group principally has one business segment and hence no segment information is provided (see note 44).

(bb) Dividends or profit distributions

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

(cc) Related parties

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 Changes in accounting policies

The IASB has issued one new IFRS, a number of amendments to IFRSs and new interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 8, *Operating segments*
- IAS 1 (revised 2007), *Presentation of financial statements*
- IAS 23 (revised 2007), *Borrowing costs*
- Amendments to IAS 27, *Consolidated and separate financial statements — cost of an investment in a subsidiary, jointly controlled entity or associate*
- Amendments to IFRS 2, *Share-based payment — vesting conditions and cancellations*
- Amendments to IFRS 7, *Financial instruments: Disclosures — improving disclosures about financial instruments*
- Improvements to IFRSs (2008)

The amendments to IFRS 2, IAS 23 and improvements to IFRSs (2008) have had no material impact on the Group's financial statements as the amendments were consistent with policies already adopted by the Group. The impact of these developments on the financial statements is as follows:

- As a result of the adoption of IAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

- IFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. As the Group principally has one reportable segment, such change has no material impact to the presentation of this financial information. For additional information about segment reporting, please refer to note 44.

3 Changes in accounting policies (Continued)

- As a result of the adoption of the amendments to IFRS 7, the financial statements include expanded disclosures in note 41(f) about the fair value measurement of the Group's financial instruments, categorising these fair value measurement into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to IFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments have not been provided.

- The amendments to IAS 27 have removed the requirement that dividends out of pre- acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009, all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognised in the Group's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividends. In such cases, in addition to recognising dividend income in profit or loss, the Group would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

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:

	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Revenue from telecommunications infrastructure services	**19,289,579**	15,329,464
Revenue from business process outsourcing services	**15,943,326**	13,743,789
Revenue from applications, content and other services	**4,266,545**	3,932,119
	39,499,450	33,005,372

The Group's major customers are telecommunications operators which include CTC and its subsidiaries ("CTC Group") and China Mobile Communications Corporation and its subsidiaries ("CM Group"), both with revenue exceeding 10% of the Group's total revenue. Revenues from the provision of integrated telecommunications support services to CTC Group and CM Group for the year ended 31 December 2009 amount to RMB20,243 million and RMB5,642 million respectively (2008: RMB15,966 million and RMB4,749 million respectively), being 51.2% and 14.3% of the Group's total revenue respectively (2008: 48.4% and 14.4% respectively). In addition, the revenue derived from areas outside Mainland PRC for the year ended 31 December 2009 amounts to RMB1,287 million (2008: RMB706 million).

5 Cost of revenues

	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Depreciation and amortisation	**351,402**	336,629
Direct personnel costs	**7,073,351**	5,962,414
Operating lease charges	**608,086**	463,145
Purchase of materials and telecommunications products	**12,364,499**	11,167,207
Subcontracting charges	**9,064,577**	6,970,705
Others	**3,665,598**	2,732,268
	33,127,513	27,632,368

6 Other operating income

	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Interest income	**72,726**	103,306
Dividend income from unlisted securities	**31,594**	19,332
Government grants	**97,461**	89,300
Gain on disposal of investments	**6,845**	7,340
Gain on disposal of property, plant and equipment	**9,629**	7,464
Penalty income	**6,888**	2,142
Management fee income	**259,849**	245,879
Write-back of non-payable liabilities	**25,135**	14,367
Others	**10,683**	35,223
	520,810	524,353

7 Other operating expenses

	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Impairment losses on property, plant and equipment	3,847	1,073
Impairment loss on other investments	8,211	–
Loss on disposal of property, plant and equipment	31,846	31,761
Donations	452	1,744
Penalty charge	12,584	10,653
Net foreign exchange loss	9,051	14,827
Others	10,791	10,691
	76,782	70,749

8 Finance costs

	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Interest on bank advances and other borrowings wholly repayable within five years	88,435	176,334

For the years ended 31 December 2009 and 2008, no borrowing costs were capitalised in relation to construction in progress.

9 Profit before tax

		2009 RMB'000	2008 RMB'000 (restated– note 1(c))
(a)	Staff costs:		
	Salaries, wages and other benefits	**8,643,858**	7,365,663
	Contributions to defined contribution retirement schemes	**883,961**	683,363
		9,527,819	8,049,026
(b)	Other items:		
	Depreciation		
	– Property, plant and equipment (note 17)	**530,513**	503,875
	– Investment properties (note 18)	**31,995**	29,751
	Amortisation		
	– Lease prepayments (note 20)	**9,590**	8,948
	– Other intangible assets (note 22)	**37,509**	33,333
	Auditors' remuneration	**38,000**	36,000
	Cost of inventories	**12,364,499**	11,167,207
	Impairment losses on accounts and other receivable	**74,521**	46,795
	Reversal of impairment losses on accounts and other receivable	**(12,602)**	(9,953)
	Operating lease charges	**748,195**	584,102
	Research and development costs	**257,073**	122,543
	Share of associate's taxation	**277**	388

10 Income tax

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

	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Current tax		
PRC enterprise income tax	**454,675**	424,558
Deferred tax		
Origination and reversal of temporary differences (note 26)	**(27,319)**	(20,883)
Total income tax	**427,356**	403,675

10 Income tax (Continued)

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

	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Profit before tax	**2,037,594**	1,747,319
Expected PRC enterprise income tax expense at a statutory tax rate of 25% (2008: 25%) (note (i))	**509,398**	436,830
Differential tax rates on subsidiaries' income (note (i))	**(146,787)**	(100,799)
Non-deductible expenses (note (ii))	**39,259**	41,806
Non-taxable income	**(10,374)**	(12,072)
Tax losses not recognised	**31,118**	50,043
Utilisation of previously unrecognised tax losses	**(3,626)**	(8,784)
Reversal of previously recognised tax losses	**—**	2,068
Effect on opening deferred tax resulting from a reduction in PRC statutory tax rate (note (iii))	**8,368**	(5,417)
Income tax	**427,356**	403,675

Notes:

(i) The provision of PRC income tax of the Group is calculated based on a statutory rate of 25% of the assessable profit of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the year ended 31 December 2009 and for the year ended 31 December 2008, except for certain subsidiaries of the Group, which are taxed at preferential rates of 15% or 20%.

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

(iii) The amounts in the years ended 31 December 2009 and 2008 represented the tax effect on opening balances of deferred tax assets arising from the change in the enterprise income tax rate applicable to certain subsidiaries due to changes in preferential tax qualification during the years concerned. The deferred tax assets were remeasured for the change in applicable tax rates.

11 Other comprehensive income/(loss)

Available-for-sale securities

	2009 RMB'000	2008 RMB'000
Changes in fair value recognised during the period	43,197	(44,877)
Net deferred tax (charged)/credited to other comprehensive income	(7,585)	6,183
Net movement in the fair value reserve during the period recognised in other comprehensive income/(loss)	35,612	(38,694)

12 Directors' and supervisors' emoluments

The names of the directors and the supervisors of the Company and their remuneration for the year ended 31 December 2009 are as follows:

	Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000	Pension scheme contribution RMB'000	2009 Total RMB'000
Name of directors and supervisors					
Li Ping	—	—	—	—	—
Zhang Zhiyong	—	140	387	57	584
Yuan Jianxing	—	113	323	53	489
Liu Aili	—	—	—	—	—
Zhang Junan	—	—	—	—	—
Wang Jun	200	—	—	—	200
Chan Mo Po, Paul	211	—	—	—	211
Zhao Chunjun	150	—	—	—	150
Wu Shangzhi	150	—	—	—	150
Hao Weimin	150	—	—	—	150
Xia Jianghua	—	—	—	—	—
Yan Dong	—	69	258	42	369
Hai Liancheng	75	—	—	—	75
	936	322	968	152	2,378

The above remuneration does not include share appreciation rights as it has not been granted to above directors and supervisors (see note 38).

12 Directors' and supervisors' emoluments (Continued)

The names of the directors and the supervisors of the Company and their remuneration for the year ended 31 December 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 number of directors and supervisors whose remuneration fell within the following band:

	2009	2008
HK$ equivalent Nil to 1,000,000	**13**	14

13 Individuals with highest emoluments

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

	2009	2008
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:

	2009 RMB'000	2008 RMB'000
Salaries, allowances and other benefits in kind	**874**	720
Bonuses	**2,730**	2,890
Pension scheme contributions	**349**	306
	3,953	3,916

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

	2009	2008
HK$ equivalent		
Nil to 1,000,000	**5**	5

14 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB772,186 thousand (2008: RMB643,313 thousand) which has been dealt with in the financial statements of the Company.

15 Dividends

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

	2009 RMB'000	2008 RMB'000
Final dividend proposed after the balance sheet date RMB0.1108 per share (2008: RMB0.0913 per share)	**639,502**	526,955

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

	2009 RMB'000	2008 RMB'000
Final dividend in respect of the financial year ended 31 December 2008, approved during the year, of RMB0.0913 per share (2007: RMB0.0682 per share)	**526,955**	393,629

16 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the year ended 31 December 2009 of RMB1,598,589 thousand (2008: RMB1,326,770 thousand) and the weighted average number of shares in issue during the year ended 31 December 2009 of 5,771,682 thousand shares (2008: 5,683,313 thousand shares).

	2009 Thousand shares	2008 Thousand shares
Ordinary share issued at 1 January	**5,771,682**	5,444,986
Effect of share issued in April 2008	**—**	238,327
	5,771,682	5,683,313

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

17 Property, plant and equipment, net

The Group

	Buildings RMB'000 (restated – note 1(c))	Buildings improvements RMB'000 (restated – note 1(c))	Motor vehicles RMB'000 (restated – note 1(c))	Furniture, fixtures and other equipment RMB'000 (restated – note 1(c))	Total RMB'000 (restated – note 1(c))
Cost or valuation:					
As at 1 January 2008	2,252,023	211,041	684,509	1,330,233	4,477,806
Transferred to investment properties (note 18)	(130,768)	—	—	—	(130,768)
Transferred from investment properties (note 18)	31,068	—	—	—	31,068
Transferred from construction in progress (note 19)	131,710	16,619	482	12,783	161,594
Additions	46,133	23,867	117,186	271,784	458,970
Disposals	(5,082)	(39,790)	(56,477)	(125,627)	(226,976)
Through acquisition of subsidiaries (note 39(i))	224,352	—	112,954	154,635	491,941
As at 31 December 2008	2,549,436	211,737	858,654	1,643,808	5,263,635
Representing:					
Cost	1,071,035	86,046	413,367	885,064	2,455,512
Valuation — 2006 (note b)	1,478,401	125,691	445,287	758,744	2,808,123
	2,549,436	211,737	858,654	1,643,808	5,263,635
Accumulated depreciation and impairment losses:					
As at 1 January 2008	108,220	126,587	289,955	571,252	1,096,014
Transferred to investment properties (note 18)	(19,676)	—	—	—	(19,676)
Transferred from investment properties (note 18)	4,041	—	—	—	4,041
Depreciation charge	102,316	36,757	109,235	255,567	503,875
Written back on disposal	(1,270)	(12,135)	(39,359)	(95,349)	(148,113)
Impairment loss	—	—	610	463	1,073
Through acquisition of subsidiaries (note 39(i))	28,967	—	58,559	96,160	183,686
As at 31 December 2008	222,598	151,209	419,000	828,093	1,620,900
Net carrying value:					
As at 31 December 2008	2,326,838	60,528	439,654	815,715	3,642,735

17 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 2009	2,549,436	211,737	858,654	1,643,808	5,263,635
Transferred to investment properties (note 18)	(53,328)	—	—	—	(53,328)
Transferred from investment properties (note 18)	43,751	—	—	—	43,751
Transferred from construction in progress (note 19)	239,981	15,845	585	31,659	288,070
Additions	69,807	35,281	176,844	314,110	596,042
Disposals	(26,955)	(18,531)	(36,697)	(133,033)	(215,216)
Through acquisition of subsidiary (note 39(i))	—	—	—	458	458
As at 31 December 2009	2,822,692	244,332	999,386	1,857,002	5,923,412
Representing:					
Cost	1,359,925	130,426	572,814	1,157,744	3,220,909
Valuation — 2006 (note b)	1,462,767	113,906	426,572	699,258	2,702,503
	2,822,692	244,332	999,386	1,857,002	5,923,412
Accumulated depreciation and impairment losses:					
As at 1 January 2009	222,598	151,209	419,000	828,093	1,620,900
Transferred to investment properties (note 18)	(12,895)	—	—	—	(12,895)
Transferred from investment properties (note 18)	14,057	—	—	—	14,057
Depreciation charge	120,177	35,015	116,169	259,152	530,513
Written back on disposal	(3,718)	(3,419)	(28,914)	(109,824)	(145,875)
Through acquisition of subsidiary (note 39(i))	—	—	—	144	144
Impairment loss	—	—	138	3,709	3,847
As at 31 December 2009	340,219	182,805	506,393	981,274	2,010,691
Net carrying value:					
As at 31 December 2009	2,482,473	61,527	492,993	875,728	3,912,721

17 Property, plant and equipment, net (Continued)

The Company

	Furniture, fixtures and other equipment RMB'000
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
Cost :	
As at 1 January 2009	**458**
Additions	**190**
Transferred from construction in progress (note 19)	**4,322**
As at 31 December 2009	**4,970**
Accumulated depreciation:	
As at 1 January 2009	**69**
Charge for the year	**92**
As at 31 December 2009	**161**
Net carrying value:	
As at 31 December 2009	**4,809**

17 Property, plant and equipment, net (Continued)

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

(b) Valuation pursuant to the Restructuring

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

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

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

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

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

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

(c) As at 31 December 2009, certain banking facilities of the Group were secured by property, plant and equipment with carrying amount of RMB7 million (2008: RMB45 million). As at 31 December 2009, no lease prepayment (2008: RMB13 million) was secured for banking facilities.

(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 RMB290 million as at 31 December 2009 (2008: RMB270 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.

17 Property, plant and equipment, net (Continued)

(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 2009 would have been as follows:

	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Buildings	2,338,597	2,164,135
Buildings improvements	60,844	60,283
Motor vehicles	439,393	368,091
Furniture, fixtures and other equipment	878,997	824,938
	3,717,831	3,417,447

18 Investment properties

	The Group	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Cost:		
As at 1 January	822,970	713,285
Transferred from property, plant and equipment (note 17)	53,328	130,768
Transferred to property, plant and equipment (note 17)	(43,751)	(31,068)
Transferred to lease prepayments (note 20)	—	(2,684)
Additions	—	280
Disposals	—	(17)
Through acquisition of subsidiaries (note 39(i))	—	12,406
As at 31 December	832,547	822,970
Accumulated depreciation:		
As at 1 January	115,755	68,563
Transferred from property, plant and equipment (note 17)	12,895	19,676
Transferred to property, plant and equipment (note 17)	(14,057)	(4,041)
Transferred to lease prepayments (note 20)	—	(121)
Depreciation charge	31,995	29,751
Through acquisition of subsidiaries (note 39(i))	—	1,927
As at 31 December	146,588	115,755
Net carrying value:		
As at 31 December	685,959	707,215
Fair value	813,237	797,417

18 Investment properties (Continued)

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

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	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Within 1 year	**50,381**	51,099
After 1 year but within 5 years	**74,408**	71,119
After 5 years	**11,597**	5,919
	136,386	128,137

During the year ended 31 December 2009, RMB80 million (2008: RMB75 million) was recognised as rental income in the consolidated income statement and RMB21 million (2008: RMB20 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 RMB103 million as at 31 December 2009 (2008: RMB144 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.

19 Construction in progress

	The Group		The Company	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))	**2009 RMB'000**	2008 RMB'000
Cost:				
As at 1 January	**231,008**	228,174	**3,361**	—
Additions	**130,396**	162,017	**2,541**	3,361
Transferred to property, plant and equipment (note 17)	**(288,070)**	(161,594)	**(4,322)**	—
Through acquisition of subsidiaries (note 39(i))	**—**	2,411	**—**	—
As at 31 December	**73,334**	231,008	**1,580**	3,361

20 Lease prepayments

	The Group	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Cost:		
As at 1 January	**454,562**	383,896
Additions	**64,248**	16,200
Disposals	**(4,584)**	—
Transferred from investment properties (note 18)	**—**	2,684
Through acquisition of subsidiaries (note 39(i))	**—**	51,782
As at 31 December	**514,226**	454,562
Accumulated depreciation:		
As at 1 January	**23,271**	12,097
Amortisation charge	**9,590**	8,948
Written back on disposal	**(322)**	—
Transferred from investment properties (note 18)	**—**	121
Through acquisition of subsidiaries (note 39(i))	**—**	2,105
As at 31 December	**32,539**	23,271
Net carrying value:		
As at 31 December	**481,687**	431,291

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 16 to 69 years as at 31 December 2009.

21 Goodwill

	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Cost and carrying amount	**103,005**	103,005
Impairment tests for cash-generating units containing goodwill		
China International Telecommunications Construction Corporation ("CITCC") (note 39(i))	**103,005**	103,005

The recoverable amounts of goodwill arising from the acquisition of CITCC are determined based on value in use calculation. The calculation use cash flow projection based on financial budget approved by management covering a one-year period and pre-tax discount rates is 9.6%.

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.

22 Other intangible assets

	The Group		The Company	
	2009 RMB'000	2008 RMB'000 (restated – note 1(c))	**2009 RMB'000**	2008 RMB'000
Cost:				
As at 1 January	**196,533**	131,947	**4,500**	—
Additions	**71,200**	71,076	**1,477**	4,500
Disposals	**(9,788)**	(10,566)	**—**	—
Through acquisition of subsidiaries (note 39(i))	**—**	4,076	**—**	—
As at 31 December	**257,945**	196,533	**5,977**	4,500
Accumulated amortisation:				
As at 1 January	**80,952**	51,787	**875**	—
Amortisation charge	**37,509**	33,333	**1,575**	875
Written back on disposal	**(8,969)**	(5,839)	**—**	—
Through acquisition of subsidiaries (note 39(i))	**—**	1,671	**—**	—
As at 31 December	**109,492**	80,952	**2,450**	875
Net carrying value:				
As at 31 December	**148,453**	115,581	**3,527**	3,625

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

23 Investments in subsidiaries

	The Company	
	2009 RMB'000	2008 RMB'000
Unlisted investments, at cost	**10,226,636**	9,987,008

(Expressed in Renminbi)

23 Investments in subsidiaries (Continued)

The following list contains only the particulars of subsidiaries at 31 December 2009 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	—	RMB2,881 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
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

(Expressed in Renminbi)

23 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
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
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

23 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
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	—	HKD227 million	Provision of integrated telecommunications support services through its subsidiaries in Hong Kong
Guoxin Lucent Technologies Network Technologies Co., Ltd.	Limited Liability Company	The PRC	51	—	USD12 million	Provision of integrated telecommunications support services
Freeland Information Technology Co., Ltd.	Limited Liability Company	The PRC	100	—	RMB10 million	Provision of integrated telecommunications support services

24 Interest in associate

	The Group 2009 RMB'000	The Group 2008 RMB'000 (restated– note 1(c))
Share of net assets	**12,960**	12,902

As at 31 December 2009, the Group's associate is unlisted, established and operated in the PRC. The Group's interest in associate is individually and in aggregate not material to the Group's financial condition or results of operation for the year.

25 Other investments

	The Group	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
At cost/fair value:		
Unlisted equity securities, at cost	**226,775**	234,986
Listed equity securities, at quoted market price	**77,998**	34,802
	304,773	269,788

26 Deferred tax assets and liabilities

Deferred tax assets and liabilities attributable to the following:

	Assets		Liabilities		Net balance	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))	**2009 RMB'000**	2008 RMB'000 (restated– note 1(c))	**2009 RMB'000**	2008 RMB'000 (restated– note 1(c))
Impairment losses, primarily for receivables and inventories	**37,208**	22,523	**—**	—	**37,208**	22,523
Revaluation of other investments	**—**	—	**(2,420)**	(4,282)	**(2,420)**	(4,282)
Revaluation of property, plant and equipment	**—**	—	**(19,716)**	(21,123)	**(19,716)**	(21,123)
Unused tax losses (note (i))	**4,651**	4,247	**—**	—	**4,651**	4,247
Change in fair value (note (ii))	**—**	—	**(13,633)**	(6,048)	**(13,633)**	(6,048)
Revaluation of lease prepayments (note (iii))	**57,304**	60,000	**—**	—	**57,304**	60,000
Unpaid expenses	**41,389**	30,846	**—**	—	**41,389**	30,846
Deferred tax assets and (liabilities)	**140,552**	117,616	**(35,769)**	(31,453)	**104,783**	86,163

26 Deferred tax assets and liabilities (Continued)

Movements in temporary differences for the year ended 31 December 2008 and 2009 are as follows:

The Group

	As at 1 January 2009 RMB'000	Acquisition of subsidiary RMB'000	Recognised in the consolidated income statement RMB'000	Recognised in shareholders' equity RMB'000	As at 31 December 2009 RMB'000
Impairment losses, primarily for receivables and inventories	22,523	—	14,685	—	37,208
Revaluation of other investments	(4,282)	—	1,862	—	(2,420)
Revaluation of property, plant and equipment	(21,123)	—	1,407	—	(19,716)
Unused tax losses (note (i))	4,247	—	404	—	4,651
Change in fair value (note (ii))	(6,048)	—	—	(7,585)	(13,633)
Revaluation of lease prepayments (note (iii))	60,000	—	(1,551)	(1,145)	57,304
Unpaid expenses	30,846	31	10,512	—	41,389
Deferred tax assets and (liabilities)	86,163	31	27,319	(8,730)	104,783
		(note 39(i))	(note 10(a))		

	As at 1 January 2008 RMB'000 (restated– note 1(c))	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 (restated– note 1(c))
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)
Unused tax losses (note (i))	3,372	—	875	—	4,247
Change in fair value (note (ii))	(9,276)	(585)	(2,370)	6,183	(6,048)
Revaluation of lease prepayments (note (iii))	63,966	—	(1,901)	(2,065)	60,000
Unpaid expenses	13,579	—	17,267	—	30,846
Deferred tax assets and (liabilities)	84,730	(23,568)	20,883	4,118	86,163
		(note 39(i))	(note 10(a))		

26 Deferred tax assets and liabilities (Continued)

Notes:

(i) Expiry of recognised tax losses

	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Year of expiry		
2011	**—**	—
2012	**—**	—
2013	**16,988**	16,988
2014	**1,612**	—
	18,600	16,988

(ii) As at 31 December 2009, 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 RMB13.6 million (2008: RMB6.0 million) related to the change in fair value of available-for-sale investments was recognised in shareholders' 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 2009 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 2009, the Group has not recognised deferred tax assets in respect of tax losses of RMB511.6 million (2008: RMB386.8 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 2010 to 2014.

27 Inventories

	The Group	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Construction materials	**405,439**	434,571
Finished goods	**1,190,318**	686,105
Spare parts and consumables	**63,869**	61,795
	1,659,626	1,182,471

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

	The Group	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Carrying amount of inventories consumed and sold	**12,364,499**	11,167,207
Reversal of write-down of inventories	**(1,286)**	(23)
Write-down of inventories	**24,695**	4,869
	12,387,908	11,172,053

28 Accounts and bills receivable, net

	The Group	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Bills receivable	**101,718**	146,577
Unbilled revenue for contract work	**2,970,511**	2,620,511
Trade receivables	**7,727,589**	6,864,788
	10,799,818	9,631,876
Less: impairment losses	**(332,129)**	(301,104)
	10,467,689	9,330,772

28 Accounts and bills receivable, net (Continued)

(a) Included in accounts and bills receivable are amounts due from fellow subsidiaries of RMB6,772 million (2008: RMB5,332 million) as at 31 December 2009. 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.

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

	The Group	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Current	**5,313,774**	4,364,365
Within 1 year	**4,320,911**	4,320,944
After 1 year but less than 2 years	**618,309**	459,572
After 2 years but less than 3 years	**130,957**	119,212
After 3 years	**83,738**	66,679
Amount past due	**5,153,915**	4,966,407
	10,467,689	9,330,772

(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	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
At 1 January	**301,104**	73,514
Acquisition of subsidiaries	**—**	202,334
Impairment loss recognised	**46,077**	40,647
Reversal of impairment loss previously recognised	**(9,260)**	(8,089)
Uncollectible amounts written off	**(5,792)**	(7,302)
At 31 December	**332,129**	301,104

28 Accounts and bills receivable, net (Continued)

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

At 31 December 2009, the Group's accounts and bills receivable of RMB290.3 million (2008: RMB256.9 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 RMB234.4 million (2008: RMB213.2 million) were recognised. The Group does not hold any collateral over these balances.

(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	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Neither past due nor impaired	**5,313,774**	4,364,365
Within 1 year	**4,320,911**	4,319,752
After 1 year but less than 2 years	**335,743**	283,800
After 2 years but less than 3 years	**64,262**	77,571
After 3 years	**22,005**	18,442
At 31 December	**10,056,695**	9,063,930

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.

29 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 2009 are RMB5,600 million (2008: RMB4,336 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 2009 are RMB26 million (2008: RMB25 million).

30 Prepayments and other current assets

	The Group		The Company	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))	**2009 RMB'000**	2008 RMB'000
Advances to staff	**221,450**	206,385	**—**	—
Amounts due from fellow subsidiaries	**392,209**	502,996	**35,330**	21,276
Amounts due from subsidiaries	**—**	—	**170,005**	67,867
Prepayments in connection with construction work and equipment purchases	**1,779,566**	1,609,409	**—**	—
Prepaid expenses and deposits	**207,347**	235,965	**729**	667
Dividends receivable	**38,903**	25,394	**1,371,008**	1,131,128
Others	**500,923**	395,815	**44**	—
	3,140,398	2,975,964	**1,577,116**	1,220,938

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

31 Restricted deposits

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

32 Cash and cash equivalents

	The Group		The Company	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))	**2009 RMB'000**	2008 RMB'000
Cash at bank and in hand	**7,420,776**	7,143,953	**24,232**	64,528
Highly liquid investments	**163,000**	245,000	**163,000**	245,000
Deposits with banks and other financial institutions	**1,286,648**	1,149,189	**235,000**	120,000
Cash and cash equivalents	**8,870,424**	8,538,142	**422,232**	429,528

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.

33 Interest-bearing borrowings

The Group's short-term borrowings comprise:

	The Group		The Company	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))	**2009 RMB'000**	2008 RMB'000
RMB denominated				
Borrowings from banks				
— collateralised	**—**	15,212	**—**	—
— unsecured	**850,000**	282,488	**700,000**	—
Loans from ultimate holding company				
— unsecured	**300,000**	1,000,000	**300,000**	1,000,000
Loans from fellow subsidiaries				
— unsecured	**118,280**	645,780	**—**	—
Loans from third parties				
— unsecured	**—**	39,000	**—**	—
Current portion of long-term borrowings				
— collateralised	**—**	940	**—**	—
United States dollars denominated				
Borrowings from banks				
— collateralised	**—**	10,006	**—**	—
	1,268,280	1,993,426	**1,000,000**	1,000,000

33 Interest-bearing borrowings (Continued)

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

	The Group		The Company	
	2009	2008 (restated– note 1(c))	**2009**	2008
RMB denominated				
Borrowings from banks				
— collateralised	**—**	3.30%	**—**	—
— unsecured	**3.51%**	6.03%–7.47%	**3.51%**	—
Loans from ultimate holding company				
— unsecured	**3.89%**	4.03%	**3.89%**	4.03%
Loans from fellow subsidiaries				
— unsecured	**2.39%–5.31%**	3.00%–5.26%	**—**	—
Loan from third party				
— unsecured	**—**	5.83%–5.91%	**—**	—
United States dollars denominated				
Borrowings from banks				
— collateralised	**—**	2.25%	**—**	—

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

	The Group	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Borrowings from banks:		
— collateralised	**—**	940
	—	940
Less: Current portion of long-term borrowings	**—**	(940)
	—	—

As at 31 December 2009, no borrowings from bank were subject to financial covenants.

As at 31 December 2009, no bank loan (2008: RMB26 million) is secured by property, plant and equipment (2008: net book value of RMB22 million) and restricted deposits (2008: net book value of RMB24 million) of the Group respectively.

The loan from ultimate holding company in as at 31 December 2009 is unsecured and repayable on 9 June 2010.

34 Accounts and bills payable

Accounts and bills payable comprise:

	The Group	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Accounts payable	**7,054,217**	6,190,058
Bills payable	**1,790,501**	1,556,729
	8,844,718	7,746,787

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

	The Group	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Within 1 year	**8,302,532**	7,356,165
After 1 year but less than 2 years	**407,273**	267,125
After 2 years but less than 3 years	**79,705**	84,554
After 3 years	**55,208**	38,943
	8,844,718	7,746,787

Included in accounts and bills payable are amounts due to fellow subsidiaries of RMB283 million (2008: RMB254 million) as at 31 December 2009. The amounts due to fellow subsidiaries are unsecured, interest-free and are expected to be settled within one year.

35 Accrued expenses and other payables

	The Group		The Company	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))	**2009 RMB'000**	2008 RMB'000
Wages and welfare payables	**833,792**	769,653	**4,947**	3,606
Amounts due to fellow subsidiaries (note i)	**840,302**	957,286	**19,594**	13,240
Advances received	**445,725**	543,475	**—**	—
Other taxes payable	**332,808**	358,003	**3,616**	1,146
Special dividend and profit distribution relating to Target Business payable to CTC (note ii)	**294,628**	349,879	**—**	—
Dividend payable	**612,064**	309,824	**568,154**	257,716
Payables for construction and purchase of fixed assets	**146,704**	42,102	**500**	—
Others	**2,047,056**	1,496,603	**48,649**	21,545
	5,553,079	4,826,825	**645,460**	297,253

Note:

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

(ii) 2006 special dividend and profit distribution by Target Business

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.

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

36 Share capital

	2009 RMB'000	2008 RMB'000
Registered, issued and fully paid:		
3,778,831,800 (2008: 3,778,831,800) domestic state-owned ordinary shares of RMB1.00 each	**3,778,832**	3,778,832
1,992,850,200 (2008: 1,992,850,200) H shares of RMB1.00 each	**1,992,850**	1,992,850
	5,771,682	5,771,682

	2009 Thousand shares	2008 Thousand shares
At 1 January	**5,771,682**	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**	5,771,682

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 RMB45,309,000, amounted to RMB1,496,560,000 of which RMB326,696,000 and RMB1,169,864,000 were credited to the Company's paid up capital and share premium reserve respectively.

Except for the 2006 special dividend stated in note 35(ii), all shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

(a) Capital management

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

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

The Group 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 2009 was 8.8% (2008: 14.2%). 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.

37 Retirement benefit obligations

In accordance with the labour regulations of the PRC, the Group participates in various defined contribution retirement schemes organised by the municipal and provincial governments for its employees. The Group is required to make contributions to the retirement schemes at rates ranging from 18% to 22% (2008: 18% to 22%) of the salaries, bonuses and certain allowances of the employees. A member of the scheme is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date.

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

38 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 dollars at the date of the exercise. The Company recognises compensation expense of the share appreciation rights over the applicable vesting period.

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

In April 2009, the Company's remuneration committee approved the granting of 49.8 million share appreciation right units to eligible employees (second batch of share appreciation rights). Under the terms of this grant, all share appreciation rights had a contractual life of five years from date of grant and an exercise price of HK$4.76 per unit. A recipient of share appreciation rights may not exercise the rights in the first 24 months after the date of grant. As at each of the second, third and fourth anniversary of the date of grant, the total number of share appreciation rights exercisable may not in aggregate exceed one-third, two-third and 100%, respectively, of the total share appreciation rights granted to such person.

The Group recognised a compensation expense over the applicable vesting period amounted to RMB8.4 million for the year ended 31 December 2009 (2008: reversed RMB0.3 million). The first batch of share appreciation rights have not been fully granted to each eligible employee. As such, compensation expense of the share appreciation rights over the applicable vesting period recognised has not been fully allocated to each eligible employees. The second batch of share appreciation rights have not been granted to each eligible employee, no compensation expense of the second batch of share rights over the applicable vesting period recognised has been allocated to each eligible employees.

39 Notes to consolidated cash flow statement

(i) Acquisition of subsidiary

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

	On acquisition date	
	2009 RMB'000	2008 RMB'000
Property, plant and equipment, net	**314**	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	**31**	3,748
Inventories	**—**	2,661
Accounts and bills receivable, net	**4**	825,994
Prepayments and other current assets	**286**	483,599
Cash and cash equivalents	**3,529**	814,282
Interest-bearing borrowings	**—**	(943,753)
Accounts and bills payable	**(80)**	(336,654)
Receipts in advance for contract work	**—**	(38,690)
Accrued expenses and other payables	**(3,242)**	(773,924)
Income tax payable	**(22)**	(10,195)
Deferred tax liabilities	**—**	(27,316)
Net identifiable assets and liabilities	**820**	402,457
Goodwill on acquisition	**—**	103,005
Total purchase consideration	**820**	505,462
Less: consideration payable	**—**	303,976
Less: non-cash consideration	**820**	—
Consideration paid in cash	**—**	201,486
Less: cash and cash equivalent balance acquired	**3,529**	814,282
Net cash inflow	**3,529**	612,796

On 30 November 2009, the Group acquired all of the shares in PT HuaNing Consulting Indonesia ("PT HuaNing") from Mr. Yuan Qin and Mr. Jiang Kai Cheng for a consideration of USD0.12 million.

For the period from the date of acquisition to 31 December 2009, PT HuaNing contributed a profit of RMB0.07 million to the Group.

If the acquisition had accrued on 1 January 2009, management estimated that consolidated revenue would have been RMB39,506 million and consolidated profit for the year would have been RMB1,611 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.

39 Notes to consolidated cash flow statement (Continued)

(i) Acquisition of subsidiary (Continued)

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.

For the period from the date of acquisition to 31 December 2008, CITCC contributed a profit of RMB41 million to the Group.

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

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

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

(ii) Donation of equity interests

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

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

40 Commitments and contingent liabilities

(a) Capital commitments

As at 31 December 2009, the Group has capital commitment for acquisition and construction of property, plant and equipment as follows:

	The Group		The Company	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))	**2009 RMB'000**	2008 RMB'000
Authorised and contracted for	**100,064**	163,397	**6,419**	3,053
Authorised but not contracted for	**117,019**	189,877	**41,895**	—

(b) Operating lease commitments

As at 31 December 2009, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group		The Company	
	2009 RMB'000	2008 RMB'000 (restated– note 1(c))	**2009 RMB'000**	2008 RMB'000
Within 1 year	**114,187**	98,362	**205**	—
After 1 year but within 5 years	**120,369**	112,878	**23**	—
After 5 years	**6,608**	5,998	**—**	—
	241,164	217,238	**228**	—

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 2009, the Group had no material contingent liabilities and no financial guarantees issued.

41 Financial risk management and fair values

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

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

(a) Credit risk

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 65% of the total accounts and bills receivable as at 31 December 2009 (2008: 57%). The Group has no significant credit risk with any of these customers since the Group maintains long-term and stable business relationships with these large customers in the telecommunications industry.

The credit risk on 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.

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 2009 and 2008.

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 33.

(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.

41 Financial risk management and fair values (Continued)

(c) Liquidity risk (Continued)

The following table show 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

	2009 Contractual undiscounted cash outflow within 1 year or on demand RMB'000	2009 Balance sheet carrying amount RMB'000	2008 Contractual undiscounted cash outflow within 1 year or on demand RMB'000 (restated– note 1(c))	2008 Balance sheet carrying amount RMB'000 (restated– note 1(c))
Interest-bearing borrowings	1,283,783	1,268,280	2,039,200	1,993,426
Account and bills payable	8,844,718	8,844,718	7,746,787	7,746,787
Receipt in advance	1,088,327	1,088,327	808,196	808,196
Accrued expenses and other payable	5,553,079	5,553,079	4,826,825	4,826,825
	16,769,907	16,754,404	15,421,008	15,375,234

The Company

	2009 Contractual undiscounted cash outflow within 1 year or on demand RMB'000	2009 Balance sheet carrying amount RMB'000	2008 Contractual undiscounted cash outflow within 1 year or on demand RMB'000	2008 Balance sheet carrying amount RMB'000
Interest-bearing borrowings	1,011,294	1,000,000	1,017,674	1,000,000
Accrued expenses and other payable	645,460	645,460	297,253	297,253
	1,656,754	1,645,460	1,314,927	1,297,253

41 Financial risk management and fair values (Continued)

(d) Currency risk

Foreign currency exchange rate risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured. The Group's foreign currency risk exposure relates to the bank deposits and borrowings denominated primarily in United States dollars, Hong Kong dollars and Nigerian Naria (see note 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 97.0% (2008: 99.3%) of the Group's cash and cash equivalents and 100% (2008: 99.5%) of the Group's short-term debt as at 31 December 2009 are denominated in Renminbi.

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

Exposure to currency risk

The Group

Exposure to foreign currencies (expressed in RMB)

	2009			2008		
	United States dollars '000	**Hong Kong dollars '000**	**Nigerian Naira '000**	United States dollars '000	Hong Kong dollars '000	Nigerian Naira '000
Cash and cash equivalents	**126,963**	**92,430**	**46,430**	49,716	18,804	—
Accounts receivable	**93,578**	**—**	**—**	10,224	—	—
Accounts payable	**(11,611)**	**—**	**—**	(11,611)	—	—
Interest-bearing loans	**(9,644)**	**—**	**—**	(9,664)	—	—
Overall net exposure	**199,286**	**92,430**	**46,430**	38,665	18,804	—

41 Financial risk management and fair values (Continued)

(d) Currency risk (Continued)

Exposure to currency risk (Continued)

The following significant exchange rates applied during the year:

The Company

	Exposure to foreign currencies (expressed in RMB)			
	2009		2008	
	United States dollars '000	**Hong Kong dollars '000**	United States dollars '000	Hong Kong dollars '000
Cash and cash equivalents	**—**	**2,504**	—	—

The Group

	Average rate		Spot rate	
	2009	2008	**2009**	2008
United States dollars	**6.83**	7.07	**6.83**	6.83
Hong Kong dollars	**0.88**	0.91	**0.88**	0.88
Nigerian Naira	**0.05**	—	**0.05**	—

41 Financial risk management and fair values (Continued)

(d) Currency risk (Continued)

Sensitivity analysis

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

The Group

	2009			2008		
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits '000	Effect on other components of equity '000	Increase/ (decrease) In foreign exchange rates	Effect on profit after tax and retained profits '000	Effect on other components of equity '000
United States dollars	5%	9,964	—	5%	1,933	—
	(5)%	(9,964)	—	(5)%	(1,933)	—
Hong Kong dollars	5%	4,622	—	5%	940	—
	(5)%	(4,622)	—	(5)%	(940)	—
Nigerian Naira	5%	2,322	—	5%	—	—
	(5)%	(2,322)	—	(5)%	—	—

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

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, include inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender of the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the group's presentation currency. The analysis is performed on the same basis for 2008.

41 Financial risk management and fair values (Continued)

(e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale securities (see note 25). Other than unquoted securities held for strategic purpose, all of these investments are listed.

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

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

At 31 December 2009, it is estimated that an increase/(decrease) of 5% (2008: 5%) in the relevant share price (for listed investments) or the company's own share price (for the share appreciation rights scheme) as applicable, with all other variables held constant, would have increased/(decreased) the Group's profit after tax (and retained profits) and other components of consolidated equity as follows:

The Group

	2009			2008		
		Effect on profit after tax and retained profits '000	**Effect on other components of equity '000**		Effect on profit after tax and retained profits '000	Effect on other components of equity '000
Changes in the relevant equity price risk variable:						
Increase	**5%**	**(3,684)**	**3,899**	5%	(4,516)	1,740
Decrease	**(5)%**	**3,684**	**(3,899)**	(5)%	4,516	(1,740)

41 Financial risk management and fair values (Continued)

(e) Equity price risk (Continued)

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the changes in the share price or other relevant risk variables had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the balance sheet date. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant risk variables, that none of the Group's available-for-sale investments would be considered impaired as a result of the decrease in the share price or other relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2008.

(f) Fair value

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy defined in IFRS 7, *Financial Instruments: Disclosures*, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

41 Financial risk management and fair values (Continued)

(f) Fair value (Continued)

(i) Financial instruments carried at fair value (Continued)

	The Group				The Company			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets								
Available-for-sale securities — Listed equity securities	77,998	—	—	77,998	—	—	—	—
Liabilities								
Share appreciation rights	—	30,744	—	30,744	—	3,437	—	3,437

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

(g) Estimation of fair values

The following summaries the major methods and assumptions used in estimating the fair values of financial instruments.

(i) Other investments

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

(ii) Interest-bearing borrowings

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

(iii) Share appreciation rights

The fair value of share 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.

42 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 21, 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 28 will not include profit which the Group may eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than 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.

42 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.

43 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.

43 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:

	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Income from related parties:		
Engineering related services (note (i))	**10,996,437**	8,701,853
IT application services (note (ii))	**1,092,998**	990,723
Provision of ancillary telecommunications services (note (iii))	**4,468,905**	3,373,577
Provision of operation support services (note (iv))	**1,694,087**	1,590,803
Supplies procurement service (note (v))	**1,949,401**	1,254,702
Property leasing (note (vi))	**41,355**	53,991
Management fee income (note (vii))	**259,849**	245,879
Expenses paid to related parties:		
Property leasing charges (note (viii))	**119,048**	112,068
IT application service charges (note (ix))	**186,098**	111,554
Operation support service charges (note (x))	**215,256**	178,383
Supplies procurement service charges (note (xi))	**634,604**	216,714
Interest paid (note (xii))	**28,192**	117,956

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 supplies procurement service such as supplies procurement service, management of biddings warehousing, transportation and installation services.

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

43 Related parties (Continued)

(a) Transactions with CTC Group (Continued)

Notes: (Continued)

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

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

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

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

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

(xii) 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:

	2009 RMB'000	2008 RMB'000 (restated– note 1(c))
Accounts and bills receivable, net	**6,771,830**	5,331,861
Prepayments and other current assets	**392,209**	502,996
Total amounts due from CTC Group	**7,164,039**	5,834,857
Interest-bearing borrowings	**418,280**	1,645,780
Accounts and bills payable	**282,570**	253,724
Receipts in advance for contract work	**56,569**	41,732
Accrued expenses and other payables	**1,605,436**	1,503,672
Total amounts due to CTC Group	**2,362,855**	3,444,908

As at 31 December 2008 and 2009, 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.

43 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. On 29 October 2009, the Company entered into the Supplies Procurement Services Framework Agreement as set out in item (5) below. 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.

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

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

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

— 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.

43 Related parties (Continued)

(b) Transactions with key management personnel

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

	2009 RMB'000	2008 RMB'000
Salaries and other emoluments	3,874	2,423
Retirement benefits	1,243	1,301
Bonuses	7,672	7,185
	12,789	10,909

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

(c) 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 37. As at 31 December 2009 and 2008, there was no material outstanding contribution to post-employment benefit plans.

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

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

Transactions with the Group's ten largest customers, which are state-controlled entities, amounting to approximately RMB27,805 million for the year ended 31 December 2009 (2008: RMB23,697 million).

Transactions with Group's ten largest suppliers, which are state-controlled entities, amounting to RMB1,373 million for the year ended 31 December 2009 (2008: RMB1,147 million).

44 Segment reporting

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

45 Distributable reserves

The movement of shareholders' equity of the Company for 2009 is as follows:

	Share capital RMB'000 (note 36)	Share premium RMB'000 (note i)	Capital reserves RMB'000 (note ii)	Statutory surplus reserves RMB'000 (note iii)	Retained earnings RMB'000	Total RMB'000
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 36)	326,696	1,169,864	—	—	—	1,496,560
Distribution of dividend (see note 15(b))	—	—	—	—	(393,629)	(393,629)
Appropriation	—	—	—	64,332	(64,332)	—
At 31 December 2008	5,771,682	2,727,647	993,576	162,158	692,533	10,347,596
At 1 January 2009	5,771,682	2,727,647	993,576	162,158	692,533	10,347,596
Profit for the year	—	—	—	—	772,186	772,186
Acquisition of Target interests (see note 1(c))	—	—	(2,387)	—	—	(2,387)
Distribution of dividend (see note 15(b))	—	—	—	—	(526,955)	(526,955)
Appropriation	—	—	—	77,219	(77,219)	—
At 31 December 2009	5,771,682	2,727,647	991,189	239,377	860,545	10,590,440

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

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 15(a)) was:

	2009 RMB'000	2008 RMB'000
At 31 December	**175,850**	120,374

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

45 Distributable reserves (Continued)

Note:

(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.

46 Comparative figures

As a result of the application of IAS 1 (revised 2007), *Presentation of financial statements*, certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 3. In addition, as stated in note 1(c), as a result of the acquisition of Target Interests, comparative figures have been restated.

(Expressed in Renminbi)

47 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ended 31 December 2009

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 2009 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
Revised IFRS 3	Business combinations	1 July 2009
Amendments to IAS 27	Consolidated and separate financial statements	1 July 2009
Amendments to IAS 39	Financial instruments: Recognition and measurement — Eligible hedged items	1 July 2009
IFRIC 17	Distributions of non-cash assets to owners	1 July 2009
Improvements to IFRSs 2009		1 July 2009 or 1 January 2010
Amendments to IFRS 1	First-time adoption of International Financial Reporting Standards — Additional exemptions for first-time adopters	1 January 2010
Amendments to IFRS 2	Share-based payment — Group cash-settled share-based payment transactions	1 January 2010
Amendment to IAS 32	Financial instruments: Presentation — Classification of rights issues	1 February 2010
IFRIC 19	Extinguishing financial liabilities with equity instruments	1 July 2010
Amendment to IFRS 1	First-time adoption of International Financial Reporting Standards — Limited exemption from comparative IFRS 7 disclosure for first-time adopters	1 July 2010
Revised IAS 24	Related party disclosures	1 January 2011
Amendments to IFRIC 14	IAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction — Prepayments of a minimum funding requirement	1 January 2011
IFRS 9	Financial instruments	1 January 2013

47 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ended 31 December 2009 (Continued)

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.

48 Immediate and ultimate controlling party

At 31 December 2009, 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.