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 service provider in the informatization sector including telecommunications, media and information technology industries in the People's Republic of China (the "PRC"). Its principal activities comprise provision of a full range of telecommunications support services in the PRC and overseas, including (i) telecommunications infrastructure design, construction and 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.

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.

1 PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PRESENTATION (continued)

(b) Organisation (continued)

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. 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 Company and China Telecommunications Corporation and its subsidiaries ("CTC Group") on 26 May 2009, the Company acquired a 95.945% equity interest in Shanghai Tongmao Import & Export Co. Ltd ("Tongmao") and a 51% equity interest in Guoxin Lucent Technologies Network Technologies Co., Ltd ("Guoxin Lucent", now renamed as "Guoxun Innovation Software Technology Co., Ltd") (collectively the "Target Interests") 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 were accounted for as a combination of entities under common control in a manner similar to pooling-of-interests in the Company's 2009 consolidated financial statements. Accordingly, the assets and liabilities of the Target Interests were accounted for at historical costs and the consolidated financial statements of the Company prior to the acquisitions of the Target Interests were included 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.

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 of Hong Kong Limited.

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

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2010 comprise the Group and its interests in associates.

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 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.

(c) Basis of consolidation

(i) Subsidiaries and non-controlling interests

Subsidiaries are entities 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.

An investment in a subsidiary is consolidated into 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.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the company, 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. For each business combination, the group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary’s net identifiable assets.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

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

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling 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 non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.

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

(ii) Associates

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

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

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.

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Goodwill

Goodwill represents the excess of

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

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

When (ii) is greater than (i), then this excess is recognised immediately in income statement as a gain on a bargain purchase.

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

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

(e) 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)).

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Investment properties (continued)

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) Property, plant and equipment

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

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, 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.

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.

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Construction in progress

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

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

(i) Lease prepayments

Lease prepayments represent land use rights paid to the PRC's 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 other 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 carry 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.
- 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.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of assets (continued)

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

– For available-for-sale securities, the cumulative loss that has been recognised 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.

(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).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– 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.

– 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.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Construction contracts (continued)

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

(o) Trade and other receivables

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

(p) Interest-bearing borrowings

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

(q) Trade and other payables

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

(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 scheme 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).

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.

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(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Income tax (continued)

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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Revenue recognition (continued)

(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.

(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.

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2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Translation of foreign currencies (continued)

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into RMB at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised 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 complete.

(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 additional 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;

(Expressed in Renminbi)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(cc) Related parties (continued)

(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 two revised IFRSs, a number of amendments to IFRSs and two 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 3 (revised 2008), *Business combinations*
- Amendments to IAS 27, *Consolidated and separate financial statements*
- Amendments to IFRS 5, *Non-current assets held for sale and discontinued operations – plan to sell the controlling interest in a subsidiary*
- Amendment to IAS 39, *Financial instruments: Recognition and measurement – eligible hedged items*
- Improvements to IFRSs (2009)
- IFRIC 17, *Distributions of non-cash assets to owners*
- Amendments to IAS 17, *Leases*

The amendment to IAS 39 has had no material impact on the Group's financial statements as the amendment and the Interpretation's conclusions were consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons.

- The impact of the majority of the revisions to IFRS 3, IAS 27, IFRS 5 and IFRIC 17 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

- The impact of the amendments to IFRS 3 (in respect of recognition of acquiree's deferred tax assets) and IAS 27 (in respect of allocation of losses to non-controlling interests (previously known as "non-controlling interests") in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current year.

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3 CHANGES IN ACCOUNTING POLICIES (continued)

Further details of these changes in accounting policy are as follows.

- As a result of the adoption of IFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in IFRS 3 (revised 2008). These include the following changes in accounting policies:

  – Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

  – In addition to the Group's existing policy of measuring the non-controlling interests (previously known as the "non-controlling interests") in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

- As a result of the adoption of IAS 27 (amended 2008), it requires that if the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. The Group adopted such accounting treatment in previous year and no change in policies in this regard.

- IFRIC 17 requires distributions of non-cash assets to owners to be measured at the fair value of the assets distributed. This will result in a gain or loss being recognised in profit or loss to the extent that the fair value of the assets is different from their carrying value. In accordance with the transitional provisions in IFRIC 17, this new accounting policy will be applied prospectively to distributions in current or future periods and therefore previous periods have not been restated.

- As a result of the amendment to IAS 17, Leases, arising from the "Improvements to IFRSs (2009)" omnibus standard, the group has re-evaluated the classification of its interests in leasehold land as to whether, in the group's judgement, the lease transfers substantially all the risks and rewards of ownership of the land such that the group is in a position economically similar to that of a purchaser. The group has concluded that the classification of such leases as operating leases continues to be appropriate.

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:

	2010 RMB'000	2009 RMB'000
Revenues from telecommunications infrastructure services	**21,636,545**	19,289,579
Revenues from business process outsourcing services	**18,508,424**	15,943,326
Revenues from applications, content and other services	**5,272,263**	4,266,545
	45,417,232	39,499,450

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"), each contributing a revenue exceeding 10% of the Group's total revenues. Revenues from the provision of integrated telecommunications support services to CTC Group and CM Group for the year ended 31 December 2010 amount to RMB19,925 million and RMB7,495 million respectively (2009: RMB20,243 million and RMB5,642 million respectively), being 43.9% and 16.5% of the Group's total revenues respectively (2009: 51.2% and 14.3% respectively). In addition, the revenues derived from areas outside Mainland China for the year ended 31 December 2010 amounts to RMB2,225 million (2009: RMB1,287 million).

5 COST OF REVENUES

	2010 RMB'000	2009 RMB'000
Depreciation and amortisation	**359,100**	351,402
Direct personnel costs	**7,459,665**	7,073,351
Operating lease charges	**728,764**	608,086
Purchase of materials and telecommunications products	**13,506,740**	12,364,499
Subcontracting charges	**11,883,574**	9,064,577
Others	**4,080,403**	3,665,598
	38,018,246	33,127,513

6 OTHER OPERATING INCOME

	2010 RMB'000	2009 RMB'000
Interest income	**77,734**	72,726
Dividend income from unlisted securities	**28,816**	31,594
Government grants	**121,008**	97,461
Gain on disposal of investments	**54,841**	6,845
Gain on disposal of property, plant and equipment	**8,315**	9,629
Penalty income	**6,547**	6,888
Management fee income	**285,915**	259,849
Write-back of non-payable liabilities	**11,799**	25,135
Others	**34,710**	10,683
	629,685	520,810

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7 OTHER OPERATING EXPENSES

	2010 RMB'000	2009 RMB'000
Impairment losses on property, plant and equipment	**34**	3,847
Impairment loss on other intangible assets	**9,580**	–
Impairment loss on other investments	**4,926**	8,211
Loss on disposal of property, plant and equipment	**5,942**	31,846
Donations	**1,332**	452
Penalty charge	**5,550**	12,584
Net foreign exchange loss	**9,788**	9,051
Others	**33,768**	10,791
	70,920	76,782

8 FINANCE COSTS

	2010 RMB'000	2009 RMB'000
Interest on bank advances and other borrowings wholly repayable within five years	**57,732**	88,435

For the years ended 31 December 2010 and 2009, no borrowing costs were capitalised in relation to construction in progress.

9 PROFIT BEFORE TAX

		2010 RMB'000	2009 RMB'000
(a)	Staff costs:		
	Salaries, wages and other benefits	**10,003,237**	8,853,012
	Contributions to defined contribution retirement schemes	**807,293**	883,961
		10,810,530	9,736,973
(b)	Other items:		
	Depreciation		
	– Property, plant and equipment (note 17)	**537,613**	530,513
	– Investment properties (note 18)	**31,304**	31,995
	Amortisation		
	– Lease prepayments (note 20)	**11,276**	9,590
	– Other intangible assets (note 22)	**42,321**	37,509
	Auditors' remuneration	**38,000**	38,000
	Cost of inventories	**13,496,980**	12,364,499
	Impairment losses on accounts and other receivable	**141,686**	74,521
	Reversal of impairment losses on accounts and other receivable	**(25,879)**	(12,602)
	Operating lease charges	**891,699**	748,195
	Research and development costs	**514,413**	257,073
	Share of associates' taxation	**552**	277

Research and development costs include RMB418,424 thousand (2009: RMB209,154 thousand) relating to staff costs, which amount is also included in the staff cost disclosed in note 9(a).

10 INCOME TAX

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

	2010 RMB'000	2009 RMB'000
Current tax		
PRC enterprise income tax	**523,563**	454,675
Overseas enterprise income tax	**4,058**	–
Deferred tax		
Origination and reversal of temporary differences (note 26)	**(67,910)**	(27,319)
Total income tax	**459,711**	427,356

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

	2010 RMB'000	2009 RMB'000
Profit before tax	**2,276,102**	2,037,594
Expected income tax expense at a statutory tax rate of 25% (2009: 25%) (note (i))	**569,025**	509,398
Differential tax rates on subsidiaries' income (note (i))	**(165,345)**	(146,787)
Non-deductible expenses (note (ii))	**49,399**	39,259
Non-taxable income	**(13,154)**	(10,374)
Tax losses not recognised	**28,292**	31,118
Utilisation of previously unrecognised tax losses	**(9,705)**	(3,626)
Effect on opening deferred tax resulting from a reduction in PRC statutory tax rate (note (iii))	**1,199**	8,368
Income tax	**459,711**	427,356

Notes:

(i) The provision of 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 2010 and for the year ended 31 December 2009, except for certain subsidiaries of the Group, which are taxed at preferential rates of 15% or 22%.

(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 2010 and 2009 represent 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.

Notes To The Consolidated Financial Statements

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11 OTHER COMPREHENSIVE (LOSS)/INCOME

Available-for-sale securities

	2010 RMB'000	2009 RMB'000
Changes in fair value recognised during the period	**(18,426)**	43,197
Net deferred tax credited/(charged) to other comprehensive income	**1,392**	(7,585)
Net movement in the fair value reserve during the period recognised in other comprehensive (loss)/income	**(17,034)**	35,612

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 2010 are as follows:

	Fees RMB'000	**Salaries, allowances and other benefits in kind RMB'000**	**Discretionary bonus RMB'000**	**Pension scheme contribution RMB'000**	**2010 Total RMB'000**
Name of directors and supervisors					
Li Ping	**–**	**–**	**–**	**–**	**–**
Zheng Qibao	**–**	**75**	**112**	**31**	**218**
Zhang Zhiyong	**–**	**87**	**356**	**34**	**477**
Yuan Jianxing	**–**	**122**	**361**	**55**	**538**
Hou Rui	**–**	**16**	**31**	**8**	**55**
Liu Aili	**–**	**–**	**–**	**–**	**–**
Zhang Junan	**–**	**–**	**–**	**–**	**–**
Wang Jun	**207**	**–**	**–**	**–**	**207**
Chan Mo Po, Paul	**218**	**–**	**–**	**–**	**218**
Zhao Chunjun	**153**	**–**	**–**	**–**	**153**
Wu Shangzhi	**153**	**–**	**–**	**–**	**153**
Hao Weimin	**153**	**–**	**–**	**–**	**153**
Xia Jianghua	**–**	**–**	**–**	**–**	**–**
Yan Dong	**–**	**75**	**277**	**46**	**398**
Hai Liancheng	**76**	**–**	**–**	**–**	**76**
	960	**375**	**1,137**	**174**	**2,646**

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

	2010	2009
HK$ equivalent		
Nil to 1,000,000	**15**	13

13 INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

	2010	2009
Directors and supervisors	**–**	–
Non-director and non-supervisor employees	**5**	5
	5	5

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(Expressed in Renminbi)

13 INDIVIDUALS WITH HIGHEST EMOLUMENTS (continued)

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

	2010 RMB'000	2009 RMB'000
Salaries, allowances and other benefits in kind	**843**	874
Bonuses	**2,859**	2,730
Pension scheme contributions	**378**	349
	4,080	3,953

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

	2010	2009
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 RMB869,415 thousand (2009: RMB772,186 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:

	2010 RMB'000	2009 RMB'000
Final dividend proposed after the balance sheet date RMB0.1260 per share (2009: RMB0.1108 per share)	**727,232**	639,502

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

	2010 RMB'000	2009 RMB'000
Final dividend in respect of the financial year ended 31 December 2009, approved during the year, of RMB0.1108 per share (2008: RMB0.0913 per share)	**639,502**	526,955

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 2010 of RMB1,817,805 thousand (2009: RMB1,598,589 thousand) and the number of shares in issue during the year ended 31 December 2010 of 5,771,682 thousand shares (2009: 5,771,682 thousand shares).

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	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
Transfer to investment properties (note 18)	(53,328)	–	–	–	(53,328)
Transfer from investment properties (note 18)	43,751	–	–	–	43,751
Transfer 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
Transfer to investment properties (note 18)	(12,895)	–	–	–	(12,895)
Transfer 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

Notes To The Consolidated Financial Statements

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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 2010	2,822,692	244,332	999,386	1,857,002	5,923,412
Transfer to investment properties (note 18)	(77,876)	–	–	–	(77,876)
Transfer from investment properties (note 18)	30,251	–	–	–	30,251
Transfer from construction in progress (note 19)	105,391	27,981	–	17,944	151,316
Additions	30,029	29,302	191,748	310,044	561,123
Disposals	(2,274)	(6,945)	(42,993)	(119,968)	(172,180)
As at 31 December 2010	2,908,213	294,670	1,148,141	2,065,022	6,416,046
Representing:					
Cost	1,446,626	183,088	739,905	1,411,116	3,780,735
Valuation – 2006 (note b)	1,461,587	111,582	408,236	653,906	2,635,311
	2,908,213	294,670	1,148,141	2,065,022	6,416,046
Accumulated depreciation and impairment losses:					
As at 1 January 2010	340,219	182,805	506,393	981,274	2,010,691
Transfer to investment properties (note 18)	(11,014)	–	–	–	(11,014)
Transfer from investment properties (note 18)	10,566	–	–	–	10,566
Depreciation charge	116,383	24,928	116,108	280,194	537,613
Written back on disposal	(223)	(5,945)	(39,183)	(112,072)	(157,423)
Impairment loss	–	–	–	34	34
As at 31 December 2010	455,931	201,788	583,318	1,149,430	2,390,467
Net carrying value:					
As at 31 December 2010	2,452,282	92,882	564,823	915,592	4,025,579

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17 PROPERTY, PLANT AND EQUIPMENT, NET (continued)

The Company

	Furniture, fixtures and other equipment RMB'000
Cost:	
As at 1 January 2009	458
Additions	190
Transfer 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
Cost:	
As at 1 January 2010	**4,970**
Additions	**196**
Transfer from construction in progress (note 19)	**142**
As at 31 December 2010	**5,308**
Accumulated depreciation:	
As at 1 January 2010	**161**
Charge for the year	**957**
As at 31 December 2010	**1,118**
Net carrying value:	
As at 31 December 2010	**4,190**

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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 non-controlling 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 2010, certain banking facilities of the Group were secured by property, plant and equipment with carrying amount of RMB7 million (2009: RMB7 million).

(d) Up to the date of issue of these financial statements, the Group is still in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB270 million as at 31 December 2010 (2009: RMB290 million). The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

(e) Had all property, plant and equipment been carried at cost less accumulated depreciation under the cost model, the carrying amounts of each class of property, plant and equipment as at 31 December 2010 would have been as follows:

	2010 RMB'000	2009 RMB'000
Buildings	**2,319,193**	2,338,597
Buildings improvements	**93,099**	60,844
Motor vehicles	**514,521**	439,393
Furniture, fixtures and other equipment	**925,927**	878,997
	3,852,740	3,717,831

18 INVESTMENT PROPERTIES

	The Group	
	2010	2009
	RMB'000	RMB'000
Cost:		
As at 1 January	**832,547**	822,970
Transfer from property, plant and equipment (note 17)	**77,876**	53,328
Transfer to property, plant and equipment (note 17)	**(30,251)**	(43,751)
Transfer to lease prepayments (note 20)	**(690)**	–
Additions	**1,079**	–
Disposals	**(6,961)**	–
As at 31 December	**873,600**	832,547
Accumulated depreciation:		
As at 1 January	**146,588**	115,755
Transfer from property, plant and equipment (note 17)	**11,014**	12,895
Transfer to property, plant and equipment (note 17)	**(10,566)**	(14,057)
Transfer to lease prepayments (note 20)	**(55)**	–
Depreciation charge	**31,304**	31,995
Disposals	**(701)**	–
As at 31 December	**177,584**	146,588
Net carrying value:		
As at 31 December	**696,016**	685,959
Fair value	**878,684**	813,237

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

The Group leases out its properties under operating leases. The leases typically run for period of one year to 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	
	2010	2009
	RMB'000	RMB'000
Within 1 year	**51,106**	50,381
After 1 year but within 5 years	**88,605**	74,408
After 5 years	**22,637**	11,597
	162,348	136,386

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18 INVESTMENT PROPERTIES (continued)

During the year ended 31 December 2010, RMB69 million (2009: RMB70 million) has been recognised as rental income in the consolidated income statement and RMB22 million (2009: RMB21 million) in respect of direct operating expenses relating to investment properties has been recognised as expenses in the consolidated income statement.

Up to the date of these financial statements, the Group is still in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB66 million as at 31 December 2010 (2009: RMB103 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	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Cost:				
As at 1 January	**73,334**	231,008	**1,580**	3,361
Additions	**232,216**	130,396	**10,321**	2,541
Transfer to property, plant and equipment (note 17)	**(151,316)**	(288,070)	**(142)**	(4,322)
As at 31 December	**154,234**	73,334	**11,759**	1,580

20 LEASE PREPAYMENTS

	The Group	
	2010 RMB'000	2009 RMB'000
Cost:		
As at 1 January	**514,226**	454,562
Additions	**–**	64,248
Disposals	**(1,001)**	(4,584)
Transfer from investment properties (note 18)	**690**	–
As at 31 December	**513,915**	514,226
Accumulated depreciation:		
As at 1 January	**32,539**	23,271
Amortisation charge	**11,276**	9,590
Written back on disposal	**(90)**	(322)
Transfer from investment properties (note 18)	**55**	–
As at 31 December	**43,780**	32,539
Net carrying value:		
As at 31 December	**470,135**	481,687

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 28 to 70 years as at 31 December 2010.

21 GOODWILL

	2010 RMB'000	2009 RMB'000
Cost and carrying amount	**103,005**	103,005

	2010 RMB'000	2009 RMB'000
Impairment tests for cash-generating units containing goodwill		
China International Telecommunications Construction Corporation ("CITCC")	**103,005**	103,005

The recoverable amounts of goodwill arising from the acquisition of CITCC are determined based on value in use calculation. The calculation use cash flow projection based on financial budget approved by management covering a one-year period and pre-tax discount rates is 10.7%.

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

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

22 OTHER INTANGIBLE ASSETS

	The Group		**The Company**	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Cost:				
As at 1 January	**257,945**	196,533	**5,977**	4,500
Additions	**57,637**	71,200	**917**	1,477
Disposals	**(10,493)**	(9,788)	**–**	–
As at 31 December	**305,089**	257,945	**6,894**	5,977
Accumulated amortisation:				
As at 1 January	**109,492**	80,952	**2,450**	875
Amortisation charge	**42,321**	37,509	**1,811**	1,575
Written back on disposal	**(8,294)**	(8,969)	**–**	–
Impairment loss	**9,580**	–	**–**	–
As at 31 December	**153,099**	109,492	**4,261**	2,450
Net carrying value:				
As at 31 December	**151,990**	148,453	**2,633**	3,527

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

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23 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2010 **RMB'000**	2009 RMB'000
Unlisted investments, at cost	**10,470,145**	10,226,636

The following list contains only the particulars of subsidiaries at 31 December 2010 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

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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
Jiangsu Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB678 million	Provision of integrated telecommunications support services through its subsidiaries in Jiangsu Province
Anhui Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB420 million	Provision of integrated telecommunications support services through its subsidiaries in Anhui Province
Jiangxi Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB200 million	Provision of integrated telecommunications support services through its subsidiaries in Jiangxi Province
Hunan Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB896 million	Provision of integrated telecommunications support services through its subsidiaries in Hunan Province
Guangxi Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB192 million	Provision of integrated telecommunications support services through its subsidiaries in Guangxi Zhuang Autonomous Region
Chongqing Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB209 million	Provision of integrated telecommunications support services through its subsidiaries in Chongqing Municipality
Sichuan Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB798 million	Provision of integrated telecommunications support services through its subsidiaries in Sichuan Province

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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
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
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 Telecommunications Construction Corporation	Limited Liability Company	The PRC	100	–	RMB417 million	Provision of integrated telecommunications support services through its subsidiaries in Northern China Provinces

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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
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
Guoxun Innovation Software Technologies Co., Ltd.	Limited Liability Company	The PRC	100	–	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
China Comservice Software Tech. Co., Ltd	Limited Liability Company	The PRC	60	–	USD25 million	Provision of integrated telecommunications support services

24 INTEREST IN ASSOCIATES

	The Group 2010 RMB'000	The Group 2009 RMB'000
Share of net assets	**61,433**	12,960

As at 31 December 2010, the Group's associates are unlisted, established and operated in the PRC. The Group's interest in associates are individually and in aggregate not material to the Group's financial condition or results of operation for the year.

25 OTHER INVESTMENTS

	The Group 2010 RMB'000	The Group 2009 RMB'000
At cost/fair value:		
Unlisted equity securities, at cost	**520,314**	226,775
Listed equity securities, at quoted market price	**51,087**	77,998
	571,401	304,773

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26 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities attributable to the following:

	Assets		Liabilities		Net balance	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Impairment losses, primarily for receivables and inventories	**54,491**	37,208	**–**	–	**54,491**	37,208
Revaluation of other investments	**–**	–	**(1,188)**	(2,420)	**(1,188)**	(2,420)
Revaluation of property, plant and equipment	**–**	–	**(18,160)**	(19,716)	**(18,160)**	(19,716)
Unused tax losses (note (i))	**11,497**	4,651	**–**	–	**11,497**	4,651
Change in fair value (note (ii))	**–**	–	**(12,241)**	(13,633)	**(12,241)**	(13,633)
Revaluation of lease prepayments (note (iii))	**55,979**	57,304	**–**	–	**55,979**	57,304
Unpaid expenses	**83,855**	41,389	**–**	–	**83,855**	41,389
Deferred tax assets and (liabilities)	**205,822**	140,552	**(31,589)**	(35,769)	**174,233**	104,783

Movements in temporary differences for the year ended 31 December 2010 and 2009 are as follows:

The Group

	As at 1 January 2010 RMB'000	**Recognised in the consolidated income statement RMB'000**	**Recognised in shareholders' equity RMB'000**	**As at 31 December 2010 RMB'000**
Impairment losses, primarily for receivables and inventories	**37,208**	**17,283**	**–**	**54,491**
Revaluation of other investments	**(2,420)**	**1,232**	**–**	**(1,188)**
Revaluation of property, plant and equipment	**(19,716)**	**1,556**	**–**	**(18,160)**
Unused tax losses (note (i))	**4,651**	**6,846**	**–**	**11,497**
Change in fair value (note (ii))	**(13,633)**	**–**	**1,392**	**(12,241)**
Revaluation of lease prepayments (note (iii))	**57,304**	**(1,473)**	**148**	**55,979**
Unpaid expenses	**41,389**	**42,466**	**–**	**83,855**
Deferred tax assets and (liabilities)	**104,783**	**67,910**	**1,540**	**174,233**
		(note 10(a))		

26 DEFERRED TAX ASSETS AND LIABILITIES (continued)

Movements in temporary differences for the year ended 31 December 2010 and 2009 are as follows (continued):

The Group (continued)

	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 10(a))		

Notes:

(i) Expiry of recognised tax losses

	2010 RMB'000	2009 RMB'000
Year of expiry		
2013	**16,768**	16,988
2014	**1,612**	1,612
2015	**27,608**	–
	45,988	18,600

(ii) As at 31 December 2010, 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 RMB12.2 million (2009: RMB13.6 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 2010 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 2010, the Group has not recognised deferred tax assets in respect of tax losses of RMB413.6 million (2009: RMB511.6 million) as it is not probable that future taxable profits against which the losses can be utilised will be available. The tax losses can be carried forward for five years from the year incurred and hence will be expired from 2011 to 2015.

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27 INVENTORIES

	The Group	
	2010	2009
	RMB'000	RMB'000
Construction materials	**287,312**	405,439
Finished goods	**1,520,197**	1,190,318
Spare parts and consumables	**25,677**	63,869
	1,833,186	1,659,626

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

	The Group	
	2010	2009
	RMB'000	RMB'000
Carrying amount of inventories consumed and sold	**13,496,980**	12,364,499
Reversal of write-down of inventories	**(9,488)**	(1,286)
Write-down of inventories	**14,075**	24,695
	13,501,567	12,387,908

28 ACCOUNTS AND BILLS RECEIVABLE, NET

	The Group	
	2010	2009
	RMB'000	RMB'000
Bills receivable	**95,208**	101,718
Unbilled revenues for contract work	**2,956,264**	2,970,511
Trade receivables	**10,231,195**	7,727,589
	13,282,667	10,799,818
Less: impairment losses	**(395,110)**	(332,129)
	12,887,557	10,467,689

(a) Included in accounts and bills receivable are amounts due from fellow subsidiaries of RMB6,950 million (2009: RMB6,772 million) as at 31 December 2010. 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.

28 ACCOUNTS AND BILLS RECEIVABLE, NET (continued)

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

	The Group	
	2010 RMB'000	2009 RMB'000
Current	**4,890,354**	5,313,774
Within 1 year	**6,566,525**	4,320,911
After 1 year but less than 2 years	**1,108,228**	618,309
After 2 years but less than 3 years	**245,878**	130,957
After 3 years	**76,572**	83,738
Amount past due	**7,997,203**	5,153,915
	12,887,557	10,467,689

(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	
	2010 RMB'000	2009 RMB'000
At 1 January	**332,129**	301,104
Impairment loss recognised	**96,354**	46,077
Reversal of impairment loss previously recognised	**(23,467)**	(9,260)
Uncollectible amounts written off	**(9,906)**	(5,792)
At 31 December	**395,110**	332,129

At 31 December 2010, the Group's accounts and bills receivable of RMB355.7 million (2009: RMB290.3 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 RMB282 million (2009: RMB234.4 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	
	2010 RMB'000	2009 RMB'000
Neither past due nor impaired	**4,890,354**	5,313,774
Within 1 year	**6,566,525**	4,320,911
After 1 year but less than 2 years	**991,590**	335,743
After 2 years but less than 3 years	**78,040**	64,262
After 3 years	**36,198**	22,005
At 31 December	**12,562,707**	10,056,695

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28 ACCOUNTS AND BILLS RECEIVABLE, NET (continued)

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

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 2010 are RMB6,108 million (2009: RMB5,600 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 2010 are RMB19 million (2009: RMB26 million).

30 PREPAYMENTS AND OTHER CURRENT ASSETS

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Advances to staff	**179,462**	221,450	**166**	–
Amounts due from fellow subsidiaries	**1,364,133**	392,209	**30,852**	35,330
Amounts due from subsidiaries	**–**	–	**246,086**	170,005
Prepayments in connection with construction work and equipment purchases	**1,691,226**	1,779,566	**–**	–
Prepaid expenses and deposits	**159,890**	207,347	**714**	729
Dividends receivable	**4,063**	38,903	**955,890**	1,371,008
Others	**569,102**	500,923	**45**	44
	3,967,876	3,140,398	**1,233,753**	1,577,116

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 certain construction projects.

32 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Cash at bank and in hand	**7,612,626**	7,420,776	**481,258**	24,232
Highly liquid investments	**–**	163,000	**–**	163,000
Deposits with banks and other financial institutions	**857,623**	1,286,648	**200,000**	235,000
Cash and cash equivalents	**8,470,249**	8,870,424	**681,258**	422,232

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	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
RMB denominated				
Borrowings from banks				
– unsecured	**750,000**	850,000	**700,000**	700,000
Loans from ultimate holding company				
– unsecured	**800,000**	300,000	**800,000**	300,000
Loans from fellow subsidiaries				
– unsecured	**228,509**	118,280	**–**	–
Central African CFA Franc denominated				
Borrowings from banks				
– unsecured	**2,014**	–	**–**	–
	1,780,523	1,268,280	**1,500,000**	1,000,000

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(Expressed in Renminbi)

33 INTEREST-BEARING BORROWINGS (continued)

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

	The Group		The Company	
	2010	2009	**2010**	2009
RMB denominated				
Borrowings from banks				
– unsecured	**3.51%-4.01%**	3.51%	**3.76%**	3.51%
Loans from ultimate holding company				
– unsecured	**4.08%**	3.89%	**3.89%-4.08%**	3.89%
Loans from fellow subsidiaries				
– unsecured	**2.39%-5.51%**	2.39%-5.31%	**–**	–
Central African CFA Franc denominated				
Borrowings from banks				
– unsecured€	**6.00%**	–	**–**	–

As at 31 December 2010, no borrowings from bank were subject to financial covenants.

The loan from ultimate holding company in as at 31 December 2010 is unsecured and repayable on 10 June 2011.

34 ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	The Group	
	2010 RMB'000	2009 RMB'000
Accounts payable	**7,973,422**	7,054,217
Bills payable	**1,795,370**	1,790,501
	9,768,792	8,844,718

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

	The Group	
	2010 RMB'000	2009 RMB'000
Within 1 year	**9,093,470**	8,302,532
After 1 year but less than 2 years	**494,547**	407,273
After 2 years but less than 3 years	**112,808**	79,705
After 3 years	**67,967**	55,208
	9,768,792	8,844,718

Included in accounts and bills payable are amounts due to fellow subsidiaries of RMB231 million (2009: RMB283 million) as at 31 December 2010. The amounts due to fellow subsidiaries are unsecured, interest-free and are expected to be settled within one year.

(Expressed in Renminbi)

35 ACCRUED EXPENSES AND OTHER PAYABLES

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Wages and welfare payables	**1,185,048**	833,792	**13,027**	4,947
Amounts due to fellow subsidiaries (note i)	**826,436**	840,302	**21,630**	19,594
Advances received	**761,531**	445,725	**–**	–
Other taxes payable	**444,171**	332,808	**2,653**	3,616
Special dividend and profit distribution relating to Target Business payable to CTC (note ii)	**166,655**	294,628	**–**	–
Dividend payable	**59,586**	612,064	**–**	568,154
Payables for construction and purchase of fixed assets	**148,305**	146,704	**–**	500
Others	**2,972,574**	2,047,056	**46,075**	48,649
	6,564,306	5,553,079	**83,385**	645,460

Notes:

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

(ii) 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 Group has paid RMB453 million special dividend to CTC and its subsidiaries by 31 December 2010.

As disclosed in the Circular of the Company dated 20 June 2007, in line with the principles set out in the "Notice of the Forwarding the Implementation Opinions of the state-owned Assets Supervision and Administration Commission about Further Standardisation of the Work Relating to the Reconstruction of State-owned Enterprise" issued by the General Office of the State Council of the PRC, the changes in net assets between the period from 1 February 2007 to 31 August 2007 of the Target Business should be distributed in form of cash to CTC and its subsidiaries amounting to RMB197 million in total, of which RMB112 million has been paid to CTC and its subsidiaries by 31 December 2010.

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36 SHARE CAPITAL

	2010 RMB'000	2009 RMB'000
Registered, issued and fully paid:		
3,778,831,800 (2009: 3,778,831,800) domestic state-owned ordinary shares of RMB1.00 each	**3,778,832**	3,778,832
1,992,850,200 (2009: 1,992,850,200) H shares of RMB1.00 each	**1,992,850**	1,992,850
	5,771,682	5,771,682

	2010 Thousand shares	2009 Thousand shares
At 1 January and at 31 December	**5,771,682**	5,771,682

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 2010 was 11.1% (2009: 8.8%). In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

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% (2009: 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 third, fourth and fifth 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 third, fourth and fifth 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 RMB63 million for the year ended 31 December 2010 (2009: RMB8.4 million). The first and second batches 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.

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(Expressed in Renminbi)

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	
	2010	2009
	RMB'000	RMB'000
Property, plant and equipment, net	**–**	314
Deferred tax assets	**–**	31
Accounts and bills receivable, net	**375**	4
Prepayments and other current assets	**15,978**	286
Cash and cash equivalents	**3,434**	3,529
Accounts and bills payable	**(10,342)**	(80)
Accrued expenses and other payables	**(8,543)**	(3,242)
Income tax payable	**–**	(22)
Net identifiable assets and liabilities	**902**	820
Goodwill on acquisition	**–**	–
Total purchase consideration	**902**	820
Less: non-cash consideration	**–**	820
Consideration paid in cash	**902**	–
Less: cash and cash equivalent balance acquired	**3,434**	3,529
Net cash inflow	**2,532**	3,529

On 1 January 2010, the Group acquired all of the shares in G-Apex International Limited ("G-Apex") from Messr Huang Dunfeng, Zhang Changzheng and Chen Aihua in Uganda for a consideration of USD0.10 million.

For the period from the date of acquisition to 31 December 2010, G-Apex contributed a profit of RMB1.36 million to the Group.

On 1 January 2010, the Group acquired all of the shares in Anhui Telecommunications Engineering Company (Ghana) Limited ("Anhui Telecom (Ghana)") from Messr Huang Dunfeng, Zhang Changzheng and Chen Aihua in Ghana for a consideration of USD0.03 million.

For the period from the date of acquisition to 31 December 2010, Anhui Telecom(Ghana) contributed a profit of RMB2.4 million to the Group.

On 1 February 2010, the Group acquired all of the shares in Huaxin Consulting De Venezuela C.A ("Huaxin Consulting") from Mr Wang Jianbin in Venezuela for a consideration of USD1.00.

For the period from the date of acquisition to 31 December 2010, Huaxin Consulting contributed no profit to the Group yet.

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.

40 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

As at 31 December 2010, the Group has capital commitment for acquisition and construction of property, plant and equipment as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Authorised and contracted for	**216,365**	100,064	**6,069**	6,419
Authorised but not contracted for	**57,085**	117,019	**490**	41,895

40 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(b) Operating lease commitments

As at 31 December 2010, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Within 1 year	**180,699**	114,187	**219**	205
After 1 year but within 5 years	**221,322**	120,369	**–**	23
After 5 years	**63,893**	6,608	**–**	–
	465,914	241,164	**219**	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 2010, the Group had no material contingent liabilities and no material 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 Group and CM Group. The Group has a certain concentration of credit risk as these two largest customers accounted for 70% of the total accounts and bills receivable as at 31 December 2010 (2009: 65%). 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 2% of its total assets for both 2010 and 2009.

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.

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41 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(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.

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

	2010		2009	
	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	**Balance sheet carrying amount RMB'000**	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	Balance sheet carrying amount RMB'000
Interest-bearing borrowings	**1,817,388**	**1,780,523**	1,283,783	1,268,280
Account and bills payable	**9,768,792**	**9,768,792**	8,844,718	8,844,718
Receipt in advance	**1,083,587**	**1,083,587**	1,088,327	1,088,327
Accrued expenses and other payable	**6,564,306**	**6,564,306**	5,553,079	5,553,079
	19,234,073	**19,197,208**	16,769,907	16,754,404

The Company

	2010		2009	
	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	**Balance sheet carrying amount RMB'000**	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	Balance sheet carrying Amount RMB'000
Interest-bearing borrowings	**1,536,338**	**1,500,000**	1,011,294	1,000,000
Accrued expenses and other payable	**83,385**	**83,385**	645,460	645,460
	1,619,723	**1,583,385**	1,656,754	1,645,460

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 96.0% (2009: 97.0%) of the Group's cash and cash equivalents and 99.9% (2009: 100%) of the Group's short-term debt as at 31 December 2010 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) 2010					
	United States dollars ’000	**Hong Kong dollars ’000**	**Nigerian Naira ‘000**	**Saudi Arabian Riyal ’000**	**United Arab Emirates Dirham ‘000**	**Others ‘000**
Cash and cash equivalents	**204,864**	**98,273**	**40,759**	**6,896**	**591**	**9,631**
Accounts receivable	**71,662**	**32,487**	**2,437**	**2,156**	**11,026**	**4,789**
Accounts payable	**(83,648)**	**(20,908)**	**–**	**–**	**(6,805)**	**(10,934)**
Overall net exposure	**192,878**	**109,852**	**43,196**	**9,052**	**4,812**	**3,486**

	Exposure to foreign currencies (expressed in RMB) 2009					
	United States dollars ’000	Hong Kong dollars ’000	Nigerian Naira ‘000	Saudi Arabian Riyal ’000	United Arab Emirates Dirham ‘000	Others ‘000
Cash and cash equivalents	126,963	92,430	46,430	–	–	–
Accounts receivable	93,578	–	–	–	–	–
Accounts payable	(11,611)	–	–	–	–	–
Interest-bearing loans	(9,644)	–	–	–	–	–
Overall net exposure	199,286	92,430	46,430	–	–	–

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41 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

The Company

	Exposure to foreign currencies (expressed in RMB)			
	2010		2009	
	United States dollars '000	**Hong Kong dollars '000**	United States dollars '000	Hong Kong dollars '000
Cash and cash equivalents	**50**	**1,316**	–	2,504

The following significant exchange rates applied during the year:

The Group

	Average rate		Spot rate	
	2010	2009	**2010**	2009
United States dollars	**6.73**	6.83	**6.62**	6.83
Hong Kong dollars	**0.86**	0.88	**0.85**	0.88
Nigerian Naira	**0.04**	0.05	**0.04**	0.05
Saudi Arabian Riyal	**1.80**	1.82	**1.77**	1.82
United Arab Emirates Dirham	**1.83**	1.86	**1.80**	1.86

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

	2010			2009		
	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%**	**9,644**	**–**	5%	9,964	–
	(5)%	**(9,644)**	**–**	(5)%	(9,964)	–
Hong Kong dollars	**5%**	**5,493**	**–**	5%	4,622	–
	(5)%	**(5,493)**	**–**	(5)%	(4,622)	–
Nigerian Naira	**5%**	**2,160**	**–**	5%	2,322	–
	(5)%	**(2,160)**	**–**	(5)%	(2,322)	–
Saudi Arabian Riyal	**5%**	**453**	**–**	5%	–	–
	(5)%	**(453)**	**–**	(5)%	–	–
United Arab Emirates Dirham	**5%**	**241**	**–**	5%	–	–
	(5)%	**(241)**	**–**	(5)%	–	–

41 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group's entities' profit after tax 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 2009.

(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 scheme issued by the Company as disclosed in note 38.

At 31 December 2010, it is estimated that an increase/(decrease) of 5% (2009: 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

	2010			2009		
		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%**	**(5,016)**	**1,916**	5%	(3,684)	3,899
Decrease	**(5)%**	**5,016**	**(1,916)**	(5)%	3,684	(3,899)

(Expressed in Renminbi)

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 2009.

(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

	The Group			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Available-for-sale securities				
Listed equity securities	51,087	–	–	51,087
Liabilities				
Share appreciation rights	–	93,641	–	93,641

	The Company			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Available-for-sale securities				
Listed equity securities	–	–	–	–
Liabilities				
Share appreciation rights	–	9,767	–	9,767

41 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(f) Fair value (continued)

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

The fair values of 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.

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42 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(b) Impairment for trade and other receivables

The Group estimates impairment losses for trade and other receivables resulting from the inability of the customers to make the required payments. The Group bases the estimates on the ageing 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.

(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.

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

	2010 RMB'000	2009 RMB'000
Income from related parties:		
Engineering related services (note (i))	**9,901,200**	10,996,437
IT application services (note (ii))	**1,155,592**	1,092,998
Provision of ancillary telecommunications services (note (iii))	**4,519,671**	4,468,905
Provision of operation support services (note (iv))	**1,753,276**	1,694,087
Supplies procurement service (note (v))	**2,570,424**	1,949,401
Property leasing (note (vi))	**24,532**	41,355
Management fee income (note(vii))	**285,915**	259,849
Expenses paid to related parties:		
Property leasing charges (note (viii))	**117,373**	119,048
IT application service charges (note (ix))	**178,137**	186,098
Operation support service charges (note (x))	**278,662**	215,256
Supplies procurement service charges (note (xi))	**447,754**	634,604
Interest paid (note (xii))	**31,728**	28,192

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.

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43 RELATED PARTIES (continued)

(a) Transactions with CTC Group (continued)

Notes: (continued)

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

(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:

	2010 RMB'000	2009 RMB'000
Accounts and bills receivable, net	**6,950,121**	6,771,830
Prepayments and other current assets	**1,364,133**	392,209
Total amounts due from CTC Group	**8,314,254**	7,164,039
Interest-bearing borrowings	**1,028,509**	418,280
Accounts and bills payable	**231,136**	282,570
Receipts in advance for contract work	**50,154**	56,569
Accrued expenses and other payables	**993,963**	1,605,436
Total amounts due to CTC Group	**2,303,762**	2,362,855

As at 31 December 2010, the Group has recognised impairment losses of RMB3,295 thousand (2009: RMB2,568 thousand) for bad and doubtful debts 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 November 16, 2006 to take up the existing agreements signed between the Predecessor Operations and CTC as set out in items (1), (2) and (3) below, together with a new agreement governing the provision of headquarter management function by the Company as set out in item (4). 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. On 9 November 2010, these agreements were amended by way of 2010 Supplement Agreement, pursuant to which the terms of the Agreements were renewed to 31 December 2012. 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.

(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.

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(Expressed in Renminbi)

43 RELATED PARTIES (continued)

(a) Transactions with CTC Group (continued)

(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.

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

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

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

(Expressed in Renminbi)

43 RELATED PARTIES (continued)

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

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

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

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

	2010 **RMB'000**	2009 RMB'000
Cash and cash equivalents	**7,691,859**	7,591,353

	2010 **RMB'000**	2009 RMB'000
Interest income	**64,901**	62,239

(c) Transactions with key management personnel

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

	2010 **RMB'000**	2009 RMB'000
Salaries and other emoluments	**4,053**	3,874
Retirement benefits	**1,447**	1,243
Bonuses	**8,269**	7,672
	13,769	12,789

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

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43 RELATED PARTIES (continued)

(d) Contributions to defined contribution retirement plans

The Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff. The details of the Group's employee benefits plan are disclosed in note 37. As at 31 December 2010 and 2009, there was no material outstanding contribution to post-employment benefit plans.

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

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

Transactions with the Group's ten largest customers, which are state-controlled entities, amounting to approximately RMB29,737 million for the year ended 31 December 2010 (2009: RMB27,805 million).

Transactions with Group's ten largest suppliers, which are state-controlled entities, amounting to RMB1,213 million for the year ended 31 December 2010 (2009: RMB1,373 million).

44 SEGMENT REPORTING

The Group principally has one reportable segment, which is the provision of integrated telecommunications support services in the informatization sector. Therefore, no additional 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 movements of shareholders' equity of the Company for 2009 and 2010 are 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 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
At 1 January 2010	**5,771,682**	**2,727,647**	**991,189**	**239,377**	**860,545**	**10,590,440**
Profit for the year	**–**	**–**	**–**	**–**	**869,415**	**869,415**
Distribution of dividend (see note 15(b))	**–**	**–**	**–**	**–**	**(639,502)**	**(639,502)**
Appropriation	**–**	**–**	**–**	**86,941**	**(86,941)**	**–**
At 31 December 2010	**5,771,682**	**2,727,647**	**991,189**	**326,318**	**1,003,517**	**10,820,353**

45 DISTRIBUTABLE RESERVES (continued)

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

	2010 **RMB'000**	2009 RMB'000
At 31 December	**231,091**	175,850

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

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.

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46 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2010

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and Interpretations and one new standard which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these financial statements. These include the following which may be relevant to the group:

		Effective for accounting periods beginning on or after
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
Amendments 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
Improvements to IFRSs 2010		1 July 2010 or 1 January 2011
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
Amendment to IFRS 1	First-time adoption of International Financial Reporting Standards – Severe hyperinflation and removal of fixed dates for first-time adopters	1 July 2010
Amendments to IFRS 7	Financial instruments: Disclosures – Transfers of financial assets	1 July 2011
Amendments to IAS 12	Income taxes – Deferred tax: Recovery of underlying assets	1 January 2012
IFRS 9	Financial Instruments	1 January 2013

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.

47 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2010, 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.