Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

1 Principal activities and organisation

(a) Principal activities

China Communications Services Corporation Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") is a leading integrated service provider to the telecommunications industry in the People's Republic of China (the "PRC"). Its principal activities comprise provision of a full range of telecommunications support services 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.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

1 Principal activities and organisation (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.

Pursuant to the Equity Transfer Agreements entered into by the Company and 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.

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.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2011 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:

– 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, except for the changes in accounting policies set out in note 3.

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 44.

(c) Basis of consolidation

(i) Business combinations involving enterprises under common control

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The assets and liabilities obtained are measured at the carrying amounts as recorded by the enterprise being combined at the combination date. The difference between the carrying amount of the net assets obtained and the carrying amount of consideration paid for the combination (or the total face value of shares issued) is adjusted to share premium in the capital reserve. If the balance of share premium is insufficient, any excess is adjusted to retained earnings. The combination date is the date on which one combining enterprise effectively obtains control of the other combining enterprises.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(c) Basis of consolidation (continued)

(ii) Business combinations involving entities not under common control

A business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination.

The acquirer, at the acquisition date, allocates the cost of the business combination by recognising the acquiree's identifiable asset, liabilities and contingent liabilities at their fair value at that date.

(iii) 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.

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)).

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(c) Basis of consolidation (continued)

(iv) 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.

(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 acquiree'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.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(e) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries and 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.

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.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(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.

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 provided 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.

(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.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (continued)

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

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.

(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.

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)

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 these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

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

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

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

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(l) Impairment of assets (continued)

(ii) Impairment of other assets

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

– property, plant and equipment;

– investment properties;

– construction in progress;

– lease prepayments;

– goodwill;

– other intangible assets;

– investments in subsidiaries; and

– other investments stated at cost.

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

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(l) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– Reversals of impairment losses

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

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

(m) Inventories

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

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

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

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

(n) Construction contracts

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

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

Construction contracts in progress at the balance sheet date are recorded at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the statement of financial position as the "Gross amount due from customers for contract work" (as an asset) or the "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included under "Trade debtors and bills receivable". Amounts received before the related work is performed are presented as "Advances received" under "Trade and other payables".

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, 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.

(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 40.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(t) Employee benefits (continued)

(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.

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.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(u) Income tax (continued)

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.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

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.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(y) Translation of foreign currencies

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

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

(z) Borrowing costs

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

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or 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 segment information is provided (see note 46).

(bb) Dividends or profit distributions

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

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

2 Significant accounting policies (continued)

(cc) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) Both entities are joint ventures of the same third party;

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) The entity is controlled or jointly controlled by a person identified in (a);

(vi) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

3 Changes in accounting policies

The IASB has issued a number of amendments to IFRSs and one new Interpretation that are effective for accounting period beginning on or after 1 January 2011. Of these, the following developments are relevant to the Group's financial statements:

– IAS 24 (revised 2009), "Related Party Disclosures"

– Improvements to IFRSs (2010)

The Group has not yet applied any new and revised standard or interpretation that is not yet effective for the current accounting period (Note 48).

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

3 Changes in accounting policies (continued)

(i) IAS 24 (revised 2009), "Related Party Disclosures"

IAS 24 (revised 2009), "Related Party Disclosures" revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous periods. The revised standard also provides limited relief from disclosure of information by government-related entities in respect of transactions with the government to which the Group is related or transactions with other entities related to the same government. As such, the adoption of IAS 24 (revised 2009), "Related Party Disclosures" has resulted in a change in the disclosures for the related party transactions with government-related entities in the financial statements.

(ii) Improvements to IFRSs (2010)

The Improvements to IFRSs (2010) omnibus standard introduces an amendment to IFRS 1, First-time adoption of International Financial Reporting Standards. In the amendment to IFRS 1, a first-time adopter of IFRSs is allowed to use an event-driven fair value measurement as deemed cost for some or all of its assets and liabilities, even when the measurement date is after the IFRS transition date, provided that the measurement date is during the period covered by the entity's first IFRS financial statements. This amendment can be adopted retrospectively by existing IFRS reporters at the latest in the annual period beginning on or after 1 January 2011.

The accounting periods covered by the first IFRS financial statements of the Predecessor Operations and the acquisition of Target Business are from 1 January 2004 to 31 December 2006 and from 1 January 2005 to 31 December 2007, respectively. During the Restructuring and the acquisition of Target Business, as required by the applicable laws and regulations of the PRC, the Group's financial statements prepared under Accounting Standards for Business Enterprises and other relevant rules (collectively "PRC GAAP"), accounted for property, plant and equipment, investment properties, lease prepayments, other intangible assets and other investments at deemed cost based on the valuations performed by China United Assets Appraisals Co., Ltd. as at 31 March 2006, 30 April 2006 and 31 January 2007 respectively. As the valuations were performed as at a date later than the respective dates of transition to IFRSs, the Group was not permitted at that time to adopt these valuations as deemed cost for the respective IFRS financial statements and instead adopted the following IFRS accounting policies:

– property, plant and equipment were recognised at the carrying amounts determined in accordance with IAS 16 at the respective dates of transition to IFRS and subsequently carried at revalued amount, being its fair value at the dates of revaluation; and

– investment properties, lease prepayments, other intangible assets and other investments were recognised at historical cost and therefore, the related revaluation gains arising from the revaluations in 2006 and 2007 as mentioned above were not recognised.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

3 Changes in accounting policies (continued)

(ii) Improvements to IFRSs (2010) (continued)

As a result of the amendment to IFRS 1, the Group has:

– retrospectively adjusted the amounts reported for previous periods in the respective IFRS financial statements to be consistent with the retrospective recognition of property, plant and equipment, investment properties, lease prepayment, other intangible assets and other investments assumed during the Restructuring and acquired during the acquisition of Target Business at their deemed cost in the respective first IFRS financial statements based on the results of valuations, with consequential adjustments for depreciation and amortisation charged in subsequent periods; and

– changed its accounting policy for property, plant and equipment from the revaluation model to the cost model. The revaluation surplus and deficit related to the revaluation performed in 2006 and 2007, has also been adjusted retrospectively. This change is to align the Group's accounting policy with industry peers to provide more relevant financial information to the users of the Group's consolidated financial statements and to eliminate the differences between the Group's financial statements under IFRS and those under PRC GAAP.

The following table summarises the retrospective adjustments that have been made in accordance with amendment to IFRS 1 to each of the line items in the financial statements:

	31 December 2010 RMB'000	1 January 2010 RMB'000
Increase/(decrease) on items of consolidated balance sheet		
Assets		
Property, plant and equipment	**(140,633)**	(144,677)
Investment properties	**36,475**	42,366
Lease prepayments	**454,749**	466,697
Other intangible assets	**(1,895)**	49
Other investments	**123,511**	123,511
Deferred tax assets	**(55,291)**	(56,830)
Liabilities		
Deferred tax liabilities	**21,512**	21,512
Equity		
Capital reserve	**913,847**	913,847
Other reserve	**(85,205)**	(85,057)
Revaluation reserve	**(415,557)**	(415,557)
Retained earnings	**(17,513)**	(3,461)
Non-controlling interests	**(168)**	(168)
Increase on items of balance sheet		
Assets		
Investments in subsidiaries	**1,011,229**	1,011,229
Equity		
Capital reserve	**1,011,229**	1,011,229

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

3 Changes in accounting policies (continued)

(ii) Improvements to IFRSs (2010) (continued)

	2011 RMB'000	2010 RMB'000
Increase/(decrease) on items of consolidated statement of comprehensive income		
Depreciation and amortisation	**15,738**	15,738
Income tax	**(1,688)**	(1,688)
Total comprehensive income	**(14,050)**	(14,200)
Basic earnings per share for profit attributable to equity shareholders of the Company (RMB)	**(0.002)**	(0.002)

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:

	2011 RMB'000	2010 RMB'000
Revenues from telecommunications infrastructure services	**25,114,962**	21,636,545
Revenues from business process outsourcing services	**22,315,339**	18,508,424
Revenues from applications, content and other services	**6,077,096**	5,272,263
	53,507,397	45,417,232

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 2011 amount to RMB22,956 million and RMB9,049 million respectively (2010: RMB19,925 million and RMB7,495 million respectively), being 42.9% and 16.9% of the Group's total revenues respectively (2010: 43.9% and 16.5% respectively). In addition, the revenues derived from areas outside Mainland China for the year ended 31 December 2011 amounts to RMB3,471 million (2010: RMB2,225 million).

5 Cost of revenues

	2011 RMB'000	2010 RMB'000 (Restated)
Depreciation and amortisation	**393,152**	364,743
Direct personnel costs	**8,473,657**	7,459,665
Operating lease charges	**860,538**	728,764
Purchase of materials and telecommunications products	**16,195,976**	13,506,740
Subcontracting charges	**14,525,988**	11,883,574
Others	**4,549,007**	4,080,404
	44,998,318	38,023,890

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

6 Other operating income

	2011 RMB'000	2010 RMB'000
Interest income	**84,378**	77,734
Dividend income from unlisted securities	**43,227**	28,816
Government grants	**113,405**	121,008
Gain on disposal of investments	**42,311**	54,841
Gain on disposal of property, plant and equipment and other assets	**39,442**	8,315
Penalty income	**1,424**	6,547
Management fee income	**309,211**	285,915
Write-back of non-payable liabilities	**11,282**	11,799
Others	**13,191**	34,710
	657,871	629,685

7 Other operating expenses

	2011 RMB'000	2010 RMB'000
Impairment losses on property, plant and equipment	**–**	34
Impairment loss on other intangible assets	**5,757**	9,580
Impairment loss on other investments	**–**	4,926
Loss on disposal of property, plant and equipment/other intangible assets	**9,187**	5,942
Donations	**757**	1,332
Penalty charge	**7,484**	5,550
Net foreign exchange loss	**13,282**	9,788
Others	**26,412**	33,768
	62,879	70,920

8 Finance costs

	2011 RMB'000	2010 RMB'000
Interest on bank advances and other borrowings wholly repayable within five years	**60,311**	57,732

For the years ended 31 December 2011 and 2010, no borrowing costs were capitalised in relation to construction in progress.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

9 Profit before tax

		2011 RMB'000	2010 RMB'000 (Restated)
(a)	Staff costs:		
	Salaries, wages and other benefits	**11,374,110**	10,003,237
	Contributions to defined contribution retirement schemes	**915,830**	807,293
		12,289,940	10,810,530
(b)	Other items:		
	Depreciation		
	– Property, plant and equipment (note 17)	**571,013**	534,404
	– Investment properties (note 18)	**38,869**	37,195
	Amortisation		
	– Lease prepayments (note 20)	**28,939**	22,390
	– Other intangible assets (note 22)	**44,168**	44,265
	Auditors' remuneration	**42,150**	38,000
	Cost of inventories	**15,519,709**	13,496,980
	Impairment losses on accounts and bills and other receivables	**139,253**	141,686
	Reversal of impairment losses on accounts and bills and other receivables	**(40,076)**	(25,879)
	Operating lease charges	**1,047,786**	891,699
	Research and development costs	**841,038**	514,413
	Share of associates' taxation	**446**	552

Research and development costs include RMB702 million (2010: RMB418 million) 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:

	2011 RMB'000	2010 RMB'000 (Restated)
Current tax		
PRC enterprise income tax	**564,612**	523,562
Overseas enterprise income tax	**17,026**	4,058
Deferred tax		
Origination and reversal of temporary differences (note 26)	**(47,446)**	(69,597)
Total income tax	**534,192**	458,023

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

10 Income tax (continued)

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

	2011 RMB'000	2010 RMB'000 (Restated)
Profit before tax	**2,640,064**	2,260,362
Expected income tax expense at a statutory tax rate of 25% (2010: 25%) (note (i))	**660,016**	565,091
Differential tax rates on subsidiaries' income (note (i))	**(181,472)**	(163,099)
Non-deductible expenses (note (ii))	**52,229**	49,399
Non-taxable income	**(28,224)**	(13,154)
Tax losses not recognised	**39,402**	28,292
Utilisation of previously unrecognised tax losses	**(5,413)**	(9,705)
Effect on opening deferred tax resulting from a reduction in PRC statutory tax rate (note (iii))	**(2,346)**	1,199
Income tax	**534,192**	458,023

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 2011 and for the year ended 31 December 2010, except for certain subsidiaries of the Group, which are taxed at preferential rates of 15% or 24%.

(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 2011 and 2010 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.

11 Other comprehensive income

Available-for-sale securities

	2011 RMB'000	2010 RMB'000
Changes in fair value recognised during the period	**(24,408)**	(18,426)
Net deferred tax credited to other comprehensive income	**6,103**	1,392
Net movement in the fair value reserve during the period recognised in other comprehensive income	**(18,305)**	(17,034)

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

12 Directors' and supervisors' emoluments

The names of the directors and the supervisors of the Company and their remuneration for the year ended 31 December 2011 are as follows:

	Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000	Pension scheme contribution RMB'000	2011 Total RMB'000
Name of directors and supervisors					
Li Ping	–	–	–	–	–
Zheng Qibao	–	164	450	53	667
Yuan Jianxing	–	137	375	49	561
Hou Rui	–	106	375	44	525
Liu Aili	–	–	–	–	–
Zhang Junan	–	–	–	–	–
Wang Jun	200	–	–	–	200
Chan Mo Po, Paul	200	–	–	–	200
Zhao Chunjun	150	–	–	–	150
Wu Shangzhi	150	–	–	–	150
Hao Weimin	150	–	–	–	150
Xia Jianghua	–	–	–	–	–
Yan Dong	–	86	296	41	423
Hai Liancheng	75	–	–	–	75
	925	493	1,496	187	3,101

The above remuneration does not include share appreciation rights as it has not been granted to the above directors and supervisors (see note 40).

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

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

13 Individuals with highest emoluments

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

	2011	2010
Directors and supervisors	–	–
Non-director and non-supervisor employees	5	5
	5	5

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

	2011 RMB'000	2010 RMB'000
Salaries, allowances and other benefits in kind	862	843
Bonuses	3,032	2,859
Pension scheme contributions	416	378
	4,310	4,080

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

	2011	2010
HK$ equivalent		
Nil to 1,000,000	3	5
1,000,001 to 1,500,000	2	–

14 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB1,024 million (2010: RMB869 million) which has been dealt with in the financial statements of the Company.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

15 Dividends

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

	2011 RMB'000	2010 RMB'000
Final dividend proposed after the balance sheet date RMB0.1222 per share[(i)] (2010: RMB0.1260 per share)	**846,359**	727,232

(i) Calculated on the basis of the total share capital of the Company after the rights issue on 8 February 2012 (see note 49).

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

	2011 RMB'000	2010 RMB'000
Final dividend in respect of the financial year ended 31 December 2010, approved during the year, of RMB0.1260 per share (2009: RMB0.1108 per share)	**727,232**	639,502

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 2011 of RMB2,114,863 thousand (2010 restated: RMB1,803,753 thousand) and the number of shares in issue during the year ended 31 December 2011 of 5,771,682 thousand shares (2010: 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.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

17 Property, plant and equipment, net

The Group

	Buildings RMB'000	Buildings improvements RMB'000	Motor vehicles RMB'000	Furniture, fixtures and other equipment RMB'000	Total RMB'000
Cost or deemed cost:					
As at 1 January 2011	2,908,213	294,670	1,148,141	2,065,022	6,416,046
Change in accounting policy (note 3)	(98,218)	2,522	49,170	22,510	(24,016)
As at 1 January 2011, as restated	2,809,995	297,192	1,197,311	2,087,532	6,392,030
Transfer to investment properties (note 18)	(55,628)	–	–	–	(55,628)
Transfer from investment properties (note 18)	15,397	–	–	–	15,397
Transfer from construction in progress (note 19)	86,847	13,346	–	18,210	118,403
Additions	13,447	28,944	219,901	361,386	623,678
Disposals	(1,984)	(17,473)	(51,275)	(190,406)	(261,138)
Disposal of subsidiaries	(48,727)	(550)	(5,597)	(11,292)	(66,166)
As at 31 December 2011	2,819,347	321,459	1,360,340	2,265,430	6,766,576
Accumulated depreciation and impairment losses:					
As at 1 January 2011	455,931	201,788	583,318	1,149,430	2,390,467
Change in accounting policy (note 3)	61,863	(8,709)	39,895	23,568	116,617
As at 1 January 2011, as restated	517,794	193,079	623,213	1,172,998	2,507,084
Transfer to investment properties (note 18)	(19,073)	–	–	–	(19,073)
Transfer from investment properties (note 18)	4,747	–	–	–	4,747
Depreciation charge	124,533	28,481	126,396	291,603	571,013
Written back on disposal	(516)	(7,792)	(44,187)	(157,976)	(210,471)
Disposal of subsidiaries	(9,607)	–	(414)	(5,728)	(15,749)
Impairment loss	–	–	(52)	(34)	(86)
As at 31 December 2011	617,878	213,768	704,956	1,300,863	2,837,465
Net carrying value:					
As at 31 December 2011	2,201,469	107,691	655,384	964,567	3,929,111
As at 1 January 2011, as restated	2,292,201	104,113	574,098	914,534	3,884,946

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

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 deemed cost:					
As at 1 January 2010 as previously reported	2,822,692	244,332	999,386	1,857,002	5,923,412
Change in accounting policy (note 3)	(99,053)	2,522	49,170	22,510	(24,851)
As at 1 January 2010, as restated	2,723,639	246,854	1,048,556	1,879,512	5,898,561
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	30,864	29,302	191,748	310,044	561,958
Disposals	(2,274)	(6,945)	(42,993)	(119,968)	(172,180)
As at 31 December 2010, as restated	2,809,995	297,192	1,197,311	2,087,532	6,392,030
Accumulated depreciation and impairment losses:					
As at 1 January 2010 as previously reported	340,219	182,805	506,393	981,274	2,010,691
Change in accounting policy (note 3)	65,092	(8,487)	39,934	23,287	119,826
As at 1 January 2010, as restated	405,311	174,318	546,327	1,004,561	2,130,517
Transfer to investment properties (note 18)	(11,014)	–	–	–	(11,014)
Transfer from investment properties (note 18)	10,566	–	–	–	10,566
Depreciation charge	113,154	24,706	116,069	280,475	534,404
Written back on disposal	(223)	(5,945)	(39,183)	(112,072)	(157,423)
Impairment loss	–	–	–	34	34
As at 31 December 2010, as restated	517,794	193,079	623,213	1,172,998	2,507,084
Net carrying value:					
As at 31 December 2010, as restated	2,292,201	104,113	574,098	914,534	3,884,946
As at 1 January 2010, as restated	2,318,328	72,536	502,229	874,951	3,768,044

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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 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
Cost:	
As at 1 January 2011	**5,308**
Additions	**1,959**
Transfer from construction in progress (note 19)	**7,126**
As at 31 December 2011	**14,393**
Accumulated depreciation:	
As at 1 January 2011	**1,118**
Charge for the year	**1,642**
As at 31 December 2011	**2,760**
Net carrying value:	
As at 31 December 2011	**11,633**
As at 31 December 2010	**4,190**
As at 1 January 2010	**4,809**

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

(b) As at 31 December 2011, certain banking facilities of the Group were secured by property, plant and equipment with carrying amount of RMB6 million (2010: RMB7 million).

(c) 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 RMB275 million as at 31 December 2011 (2010: RMB270 million). The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

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18 Investment properties

	The Group	
	2011 **RMB'000**	2010 RMB'000 (Restated)
Cost or deemed cost:		
As at 1 January as previously reported	**873,600**	832,547
Change in accounting policy (note 3)	**53,127**	53,127
As at 1 January, as restated	**926,727**	885,674
Transfer from property, plant and equipment (note 17)	**55,628**	77,876
Transfer to property, plant and equipment (note 17)	**(15,397)**	(30,251)
Transfer to lease prepayments (note 20)	**–**	(690)
Additions	**9,518**	1,079
Disposals	**–**	(6,961)
As at 31 December, as restated	**976,476**	926,727
Accumulated depreciation:		
As at 1 January as previously reported	**177,584**	146,588
Change in accounting policy (note 3)	**16,652**	10,761
As at 1 January, as restated	**194,236**	157,349
Transfer from property, plant and equipment (note 17)	**19,073**	11,014
Transfer to property, plant and equipment (note 17)	**(4,747)**	(10,566)
Transfer to lease prepayments (note 20)	**–**	(55)
Depreciation charge	**38,869**	37,195
Disposals	**–**	(701)
As at 31 December, as restated	**247,431**	194,236
Net carrying value:		
As at 31 December, as restated	**729,045**	732,491
As at 1 January, as restated	**732,491**	728,325
Fair value	**1,200,048**	878,684

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

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18 Investment properties (continued)

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

	The Group	
	2011 RMB'000	2010 RMB'000
Within 1 year	**94,138**	51,106
After 1 year but within 5 years	**128,953**	88,605
After 5 years	**11,944**	22,637
	235,035	162,348

During the year ended 31 December 2011, RMB104 million (2010: RMB69 million) has been recognised as rental income in the consolidated income statement and RMB30 million (2010: RMB22 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 RMB56 million as at 31 December 2011 (2010: RMB66 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	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Cost:				
As at 1 January	**154,234**	73,334	**11,759**	1,580
Additions	**192,191**	232,216	**856**	10,321
Disposals	**(164)**	–	**–**	–
Transfer to property, plant and equipment (note 17)	**(118,403)**	(151,316)	**(7,126)**	(142)
As at 31 December	**227,858**	154,234	**5,489**	11,759

Notes To The Consolidated Financial Statements

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20 Lease prepayments

	The Group	
	2011 **RMB'000**	2010 RMB'000 (Restated)
Cost or deemed cost:		
As at 1 January as previously reported	**513,915**	514,226
Change in accounting policy (note 3)	**500,312**	501,146
As at 1 January, as restated	**1,014,227**	1,015,372
Additions	**39,714**	–
Disposals	**–**	(1,835)
Transfer from investment properties (note 18)	**–**	690
As at 31 December, as restated	**1,053,941**	1,014,227
Accumulated depreciation:		
As at 1 January	**43,780**	32,539
Change in accounting policy (note 3)	**45,563**	34,449
As at 1 January, as restated	**89,343**	66,988
Amortisation charge	**28,939**	22,390
Written back on disposal	**–**	(90)
Transfer from investment properties (note 18)	**–**	55
As at 31 December, as restated	**118,282**	89,343
Net carrying value:		
As at 31 December, as restated	**935,659**	924,884
As at 1 January, as restated	**924,884**	948,384

Lease prepayments represent payments for land use rights paid to the PRC authorities. The Group's lease prepayments are located in the PRC and are with remaining terms ranging from 16 to 68 years as at 31 December 2011.

21 Goodwill

	2011 **RMB'000**	2010 RMB'000
Cost and carrying amount	**103,005**	103,005

	2011 **RMB'000**	2010 RMB'000
Impairment tests for cash-generating units containing goodwill		
China International Telecommunications Construction Corporation ("CITCC")	**103,005**	103,005

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21 Goodwill (continued)

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 12.3%.

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	
	2011 RMB'000	2010 RMB'000 (Restated)	**2011 RMB'000**	2010 RMB'000
Cost or deemed cost:				
As at 1 January as previously reported	**305,089**	257,945	**6,894**	5,977
Change in accounting policy (note 3)	**1,278**	1,278	**–**	–
As at 1 January, as restated	**306,367**	259,223	**6,894**	5,977
Additions	**60,637**	57,637	**6,860**	917
Disposals	**(17,047)**	(10,493)	**–**	–
Disposal of subsidiaries	**(8,483)**	–	**–**	–
As at 31 December, as restated	**341,474**	306,367	**13,754**	6,894
Accumulated amortisation:				
As at 1 January as previously reported	**153,099**	109,492	**4,261**	2,450
Change in accounting policy (note 3)	**3,173**	1,229	**–**	–
As at 1 January, as restated	**156,272**	110,721	**4,261**	2,450
Amortisation charge	**44,168**	44,265	**1,220**	1,811
Written back on disposal	**(5,466)**	(8,294)	**–**	–
Disposal of subsidiaries	**(3,366)**	–	**–**	–
Impairment loss	**5,757**	9,580	**–**	–
As at 31 December, as restated	**197,365**	156,272	**5,481**	4,261
Net carrying value:				
As at 31 December, as restated	**144,109**	150,095	**8,273**	2,633
As at 1 January, as restated	**150,095**	148,502	**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		
	31 December 2011 RMB'000	31 December 2010 RMB'000 (Restated)	1 January 2010 RMB'000 (Restated)
Unlisted investments, at cost	**11,464,867**	11,481,374	11,237,865

The following list contains only the particulars of subsidiaries at 31 December 2011 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	–	RMB2,808 million	Provision of integrated telecommunications support services through its subsidiaries in Guangdong Province
Zhejiang Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB1,098 million	Provision of integrated telecommunications support services through its subsidiaries in Zhejiang Province
Shanghai Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB976 million	Provision of integrated telecommunications support services through its subsidiaries in Shanghai Municipality
Fujian Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB311 million	Provision of integrated telecommunications support services through its subsidiaries in Fujian Province
Hubei Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB317 million	Provision of integrated telecommunications support services through its subsidiaries in Hubei Province
Jiangsu Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB678 million	Provision of integrated telecommunications support services through its subsidiaries in Jiangsu Province

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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
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	–	RMB886 million	Provision of integrated telecommunications support services through its subsidiaries in Hunan Province
Guangxi Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB192 million	Provision of integrated telecommunications support services through its subsidiaries in Guangxi Zhuang Autonomous Region
Chongqing Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB209 million	Provision of integrated telecommunications support services through its subsidiaries in Chongqing Municipality
Sichuan Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB798 million	Provision of integrated telecommunications support services through its subsidiaries in Sichuan Province
Guizhou Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB139 million	Provision of integrated telecommunications support services through its subsidiaries in Guizhou Province
Yunnan Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB238 million	Provision of integrated telecommunications support services through its subsidiaries in Yunnan Province

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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 %	Indirectly %	Issued and fully paid up/ registered capital	Principal activities
Shaanxi Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB145 million	Provision of integrated telecommunications support services through its subsidiaries in Shaanxi Province
Gansu Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB129 million	Provision of Integrated telecommunications support services through its subsidiaries in Gansu Province
Qinghai Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB68 million	Provision of integrated telecommunications support services through its subsidiaries in Qinghai Province
Xinjiang Communications Services Company Limited	Limited Liability Company	The PRC	100	–	RMB179 million	Provision of integrated telecommunications support services through its subsidiaries in Xinjiang Uygur Autonomous Region
China International Telecommunication Construction Corporation	Limited Liability Company	The PRC	100	–	RMB417 million	Provision of integrated telecommunications support services through its subsidiaries in Northern China Provinces
China Communications Services (Hong Kong) International Limited	Limited Liability Company	Hong Kong	100	–	HKD227 million	Provision of integrated telecommunications support services through its subsidiaries in Hong Kong
Guoxun Innovation Software Technologies Co., Ltd.	Limited Liability Company	The PRC	100	–	USD12 million	Provision of integrated telecommunications support services
Zhongshutong Information Co., Ltd.	Limited Liability Company	The PRC	100	–	RMB61 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

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24 Interest in associates

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Share of net assets	**62,661**	61,433	**1,059**	–

As at 31 December 2011, 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		
	31 December 2011 RMB'000	31 December 2010 RMB'000 (Restated)	1 January 2010 RMB'000 (Restated)
At cost/fair value:			
Unlisted equity securities, at cost	**628,443**	643,825	350,286
Listed equity securities, at quoted market price	**34,673**	51,087	77,998
	663,116	694,912	428,284

26 Deferred tax assets and liabilities

Deferred tax assets and liabilities attributable to the following:

	Assets			Liabilities			Net balance		
	31 December 2011 RMB'000	31 December 2010 RMB'000 (Restated)	1 January 2010 RMB'000 (Restated)	**31 December 2011 RMB'000**	31 December 2010 RMB'000 (Restated)	1 January 2010 RMB'000 (Restated)	**31 December 2011 RMB'000**	31 December 2010 RMB'000 (Restated)	1 January 2010 RMB'000 (Restated)
Impairment losses, primarily receivables and inventories	**74,086**	54,491	37,208	**–**	–	–	**74,086**	54,491	37,208
Revaluation of other investments	**–**	–	–	**(1,188)**	(22,700)	(23,932)	**(1,188)**	(22,700)	(23,932)
Revaluation of property, plant and equipment	**–**	–	–	**(16,159)**	(18,160)	(19,716)	**(16,159)**	(18,160)	(19,716)
Unused tax losses (note (i))	**10,414**	11,497	4,649	**–**	–	–	**10,414**	11,497	4,649
Change in fair value (note (ii))	**–**	–	–	**(6,138)**	(12,241)	(13,633)	**(6,138)**	(12,241)	(13,633)
Unpaid expenses	**111,476**	84,543	41,865	**–**	–	–	**111,476**	84,543	41,865
Deferred tax assets and (liabilities)	**195,976**	150,531	83,722	**(23,485)**	(53,101)	(57,281)	**172,491**	97,430	26,441

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26 Deferred tax assets and liabilities (continued)

Movements in temporary differences for the year ended 31 December 2011 and 2010 are as follows:

The Group

	As at 1 January 2011 RMB'000 (Restated)	**Recognised in the consolidated income statement RMB'000**	**Recognised in shareholders' equity RMB'000**	**As at 31 December 2011 RMB'000**
Impairment losses, primarily for receivables and inventories	**54,491**	**19,595**	**–**	**74,086**
Revaluation of other investments	**(22,700)**	**–**	**21,512**	**(1,188)**
Revaluation of property, plant and equipment	**(18,160)**	**2,001**	**–**	**(16,159)**
Unused tax losses (note (i))	**11,497**	**(1,083)**	**–**	**10,414**
Change in fair value (note (ii))	**(12,241)**	**–**	**6,103**	**(6,138)**
Unpaid expenses	**84,543**	**26,933**	**–**	**111,476**
Deferred tax assets and (liabilities)	**97,430**	**47,446**	**27,615**	**172,491**
		(note 10(a))		

	As at 1 January 2010 RMB'000 (Restated)	Recognised in the consolidated income statement RMB'000 (Restated)	Recognised in shareholders' equity RMB'000 (Restated)	As at 31 December 2010 RMB'000 (Restated)
Impairment losses, primarily for receivables and inventories	37,208	17,283	–	54,491
Revaluation of other investments	(23,932)	1,232	–	(22,700)
Revaluation of property, plant and equipment	(19,716)	1,556	–	(18,160)
Unused tax losses (note (i))	4,649	6,848	–	11,497
Change in fair value (note (ii))	(13,633)	–	1,392	(12,241)
Unpaid expenses	41,865	42,678	–	84,543
Deferred tax assets and (liabilities)	26,441	69,597	1,392	97,430
		(note 10(a))		

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26 Deferred tax assets and liabilities (continued)

Notes:

(i) Expiry of recognised tax losses

	2011 RMB'000	2010 RMB'000
Year of expiry		
2013	**3,284**	16,768
2014	**1,612**	1,612
2015	**27,608**	27,608
2016	**9,152**	–
	41,656	45,988

(ii) As at 31 December 2011, the Group's available-for-sale investments were recognised at fair value as in accordance with the accounting policy of the Group. The tax bases of these assets were not adjusted to fair value and accordingly, a deferred tax liability of RMB6.1 million (2010: RMB12.2 million) related to the change in fair value of available-for-sale investments was recognised in shareholders' equity.

(iii) As at 31 December 2011, the Group has not recognised deferred tax assets in respect of tax losses of RMB481.5 million (2010: RMB413.6 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 2016.

27 Other non-current assets

Other non-current assets mainly represent the rental prepayments for buildings and equipment.

28 Inventories

	The Group	
	2011 RMB'000	2010 RMB'000
Construction materials	**313,663**	287,312
Finished goods	**1,341,590**	1,520,197
Spare parts and consumables	**37,385**	25,677
	1,692,638	1,833,186

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28 Inventories (continued)

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

	The Group	
	2011 RMB'000	2010 RMB'000
Carrying amount of inventories consumed and sold	**15,519,709**	13,496,980
Reversal of write-down of inventories	**(798)**	(9,488)
Write-down of inventories	**17,955**	14,075
	15,536,866	13,501,567

29 Accounts and bills receivable, net

	The Group	
	2011 RMB'000	2010 RMB'000
Bills receivable	**318,955**	95,208
Unbilled revenues for contract work	**4,248,999**	2,956,264
Trade receivables	**13,126,070**	10,231,195
	17,694,024	13,282,667
Less: impairment losses	**(436,154)**	(395,110)
	17,257,870	12,887,557

(a) Included in accounts and bills receivable are amounts due from fellow subsidiaries of RMB7,578 million (2010: RMB6,950 million) as at 31 December 2011. 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.

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29 Accounts and bills receivable, net (continued)

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

	The Group	
	2011 RMB'000	2010 RMB'000
Current	**6,783,588**	4,890,354
Within 1 year	**8,906,080**	6,566,525
After 1 year but less than 2 years	**1,157,167**	1,108,228
After 2 years but less than 3 years	**296,994**	245,878
After 3 years	**114,041**	76,572
Amount past due	**10,474,282**	7,997,203
	17,257,870	12,887,557

(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	
	2011 RMB'000	2010 RMB'000
At 1 January	**395,110**	332,129
Impairment loss recognised	**84,596**	96,354
Reversal of impairment loss previously recognised	**(38,212)**	(23,467)
Uncollectible amounts written off	**(5,340)**	(9,906)
At 31 December	**436,154**	395,110

At 31 December 2011, the Group's accounts and bills receivable of RMB345 million (2010: RMB355.7 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 RMB265 million (2010: RMB282 million) were recognised. The Group does not hold any collateral over these balances.

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29 Accounts and bills receivable, net (continued)

(e) Accounts and bills receivable that is not impaired

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

	The Group	
	2011 RMB'000	2010 RMB'000
Neither past due nor impaired	**6,783,588**	4,890,354
Within 1 year	**8,906,080**	6,566,525
After 1 year but less than 2 years	**881,327**	991,590
After 2 years but less than 3 years	**220,749**	78,040
After 3 years	**41,301**	36,198
At 31 December	**16,833,045**	12,562,707

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.

30 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 2011 are RMB8,418 million (2010: RMB6,108 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 2011 are RMB20 million (2010: RMB19 million).

31 Prepayments and other current assets

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Advances to staff	**229,760**	179,462	**360**	166
Amounts due from fellow subsidiaries	**1,227,264**	1,364,133	**57,165**	30,852
Amounts due from subsidiaries	**–**	–	**191,137**	246,086
Prepayments in connection with construction work and equipment purchases	**2,201,317**	1,691,226	**–**	–
Prepaid expenses and deposits	**246,507**	159,890	**685**	714
Dividends receivable	**–**	4,063	**1,058,970**	955,890
Others	**703,632**	569,102	**–**	45
	4,608,480	3,967,876	**1,308,317**	1,233,753

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

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32 Restricted deposits

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

33 Cash and cash equivalents

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Cash at bank and in hand	**6,843,171**	7,612,626	**100,989**	481,258
Deposits with banks and other financial institutions	**455,061**	857,623	**27,337**	200,000
Cash and cash equivalents	**7,298,232**	8,470,249	**128,326**	681,258

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.

34 Interest-bearing borrowings

The Group's short-term borrowings comprise:

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
RMB denominated				
Borrowings from banks				
– unsecured	**8,000**	750,000	**–**	700,000
Loans from ultimate holding company				
– unsecured	**800,000**	800,000	**800,000**	800,000
Loans from fellow subsidiaries				
– unsecured	**13,280**	228,509	**–**	–
Central African CFA Franc denominated				
Borrowings from banks				
– unsecured	**–**	2,014	**–**	–
USD denominated				
Borrowings from banks				
– unsecured	**177,055**	–	**–**	–
	998,335	1,780,523	**800,000**	1,500,000

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(Expressed in Renminbi)

34 Interest-bearing borrowings (continued)

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

	The Group		The Company	
	2011	2010	**2011**	2010
RMB denominated				
Borrowings from banks – unsecured	**6.06%**	3.51%–4.01%	**–**	3.76%
Loans from ultimate holding company – unsecured	**4.88%**	4.08%	**4.88%**	3.89%–4.08%
Loans from fellow subsidiaries – unsecured	**2.39%**	2.39%–5.51%	**–**	–
USD denominated				
Borrowings from banks – unsecured	**1.55%–3.71%**	–	**–**	–

As at 31 December 2011, no borrowings from bank were subject to financial covenants.

The loans from ultimate holding company as at 31 December 2011 are unsecured and repayable on 28 April 2012 and 9 June 2012 respectively.

35 Accounts and bills payable

Accounts and bills payable comprise:

	The Group	
	2011 RMB'000	2010 RMB'000
Accounts payable	**10,659,256**	7,973,422
Bills payable	**2,069,626**	1,795,370
	12,728,882	9,768,792

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

	The Group	
	2011 RMB'000	2010 RMB'000
Within 1 year	**11,841,672**	9,093,470
After 1 year but less than 2 years	**621,893**	494,547
After 2 years but less than 3 years	**177,454**	112,808
After 3 years	**87,863**	67,967
	12,728,882	9,768,792

Included in accounts and bills payable are amounts due to fellow subsidiaries of RMB808 million (2010: RMB231 million) as at 31 December 2011. The amounts due to fellow subsidiaries are unsecured, interest-free and are expected to be settled within one year.

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36 Accrued expenses and other payables

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Wages and welfare payables	**1,406,910**	1,185,048	**6,384**	13,027
Amounts due to fellow subsidiaries (note i)	**886,288**	826,436	**33,658**	21,630
Advances received	**714,124**	761,531	**–**	–
Other taxes payable	**448,791**	444,171	**2,590**	2,653
Special dividend and profit distribution relating to Target Business payable to CTC (note ii)	**114,337**	166,655	**–**	–
Dividend payable	**82,137**	59,586	**13,721**	–
Payables for construction and purchase of fixed assets	**144,478**	148,305	**–**	–
Others	**3,010,110**	2,972,574	**43,801**	46,075
	6,807,175	6,564,306	**100,154**	83,385

Note:

(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 RMB498 million special dividend to CTC and its subsidiaries by 31 December 2011.

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 RMB120 million has been paid to CTC and its subsidiaries by 31 December 2011.

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(Expressed in Renminbi)

37 Other non-current liabilities

Other non-current liabilities mainly represent the deferred revenue arising from government grants and warranty provisions.

38 Share capital

	2011 RMB'000	2010 RMB'000
Registered, issued and fully paid:		
3,778,831,800 (2010: 3,778,831,800) domestic state-owned ordinary shares of RMB1.00 each	**3,778,832**	3,778,832
1,992,850,200 (2010: 1,992,850,200) H shares of RMB1.00 each	**1,992,850**	1,992,850
	5,771,682	5,771,682

	2011 Thousand shares	2010 Thousand shares
At 1 January and at 31 December	**5,771,682**	5,771,682

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 2011 was 5.9% (2010 restated: 10.9%). 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.

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(Expressed in Renminbi)

39 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 20% to 22% (2010: 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.

40 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$4.92 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$4.53 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 August 2011, the Company approved the granting of share appreciation right units to new eligible employees (second batch of share appreciation rights). Under the terms of this grant, 22.6 million share appreciation right units were granted to the employees who became eligible of this incentive plan since April 2009.

During the year ended 31 December 2011, RMB63 million was credited (2010: RMB63 million charged) to the consolidated income statement arising from the fair value remeasurement of the accrued compensation liability at the balance sheet date. The first and second batch of share appreciation rights have not been fully granted to each eligible employee. As such, compensation expense of the share appreciation rights over the applicable vesting period recognised has not been fully allocated to each eligible employees.

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(Expressed in Renminbi)

41 Notes to consolidated cash flow statement

(i) Disposal of subsidiary

	RMB'000
Subsidiary disposal price	244,009
Cash and cash equivalents received from disposal of subsidiary	224,459
Less: cash and cash equivalents balance disposed	146,354
Net cash inflow from subsidiary disposal	78,105
Non-cash assets and liabilities of disposed subsidiary	
Current asset	632,216
Non-current asset	65,524
Current liability	619,406

42 Commitments and contingent liabilities

(a) Capital commitments

As at 31 December 2011, the Group has capital commitment for acquisition and construction of property, plant and equipment as follows:

	The Group		**The Company**	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Authorised and contracted for	**93,431**	216,365	**2,911**	6,069
Authorised but not contracted for	**61,516**	57,085	**–**	490

(b) Operating lease commitments

As at 31 December 2011, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group		**The Company**	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Within 1 year	**185,647**	180,699	**–**	219
After 1 year but within 5 years	**234,415**	221,322	**–**	–
After 5 years	**48,634**	63,893	**–**	–
	468,696	465,914	**–**	219

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

42 Commitments and contingent liabilities (continued)

(b) Operating lease commitments (continued)

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 2011, the Group had no material contingent liabilities and no material financial guarantees issued.

43 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 the Group's largest customers accounted for 61% of the total accounts and bills receivable as at 31 December 2011 (2010: 70%). 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 2011 and 2010.

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

(b) Interest rate risk

The Group's interest rate risk exposure primarily from its short-term debts carrying interests at fixed rates exposed the Group to fair value interest rate risk. The Group manages its exposure to interest rate risk by maintaining high proportion of fixed rate debts with maturity within one year. Details of the interest rates are disclosed in note 34.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

43 Financial risk management and fair values (continued)

(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 tables 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

	2011		2010	
	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	**1,014,336**	**998,335**	1,817,388	1,780,523
Account and bills payable	**12,728,882**	**12,728,882**	9,768,792	9,768,792
Receipt in advance	**1,150,095**	**1,150,095**	1,083,587	1,083,587
Accrued expenses and other payable	**6,807,175**	**6,807,175**	6,564,306	6,564,306
	21,700,488	**21,684,487**	19,234,073	19,197,208

The Company

	2011		2010	
	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	**814,413**	**800,000**	1,536,338	1,500,000
Accrued expenses and other payable	**100,154**	**100,154**	83,385	83,385
	914,567	**900,154**	1,619,723	1,583,385

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

43 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, Nigerian Naria and Saudi Arabian Riyal (see note 34).

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 95.7% (2010: 95.7%) of the Group's cash and cash equivalents and 82.3% (2010: 99.9%) of the Group's short-term debt as at 31 December 2011 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) 2011					
	United States dollars '000	**Hong Kong dollars '000**	**Nigerian Naira '000**	**Saudi Arabian Riyal '000**	**Ethiopian Birr '000**	**Others '000**
Cash and cash equivalents	**183,552**	**43,930**	**31,083**	**25,475**	**1,765**	**40,494**
Accounts receivable	**410,216**	**17,311**	**16,186**	**–**	**69,823**	**180,926**
Accounts payable	**(358,352)**	**(12,714)**	**(12,673)**	**–**	**(689)**	**(115,263)**
Interest-bearing loans	**(177,055)**	**–**	**–**	**–**	**–**	**–**
Overall net exposure	**58,361**	**48,527**	**34,596**	**25,475**	**70,899**	**106,157**

	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

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(Expressed in Renminbi)

43 Financial risk management and fair values (continued)

(d) Currency risk (continued)

Exposure to currency risk (continued)

The Company

	Exposure to foreign currencies (expressed in RMB)			
	2011		2010	
	United States dollars '000	**Hong Kong dollars '000**	United States dollars '000	Hong Kong dollars '000
Cash and cash equivalents	**5**	**108**	50	1,316

The following significant exchange rates applied during the year:

The Group

	Average rate		**Spot rate**	
	2011	2010	**2011**	2010
United States dollars	**6.46**	6.73	**6.30**	6.62
Hong Kong dollars	**0.83**	0.86	**0.81**	0.85
Nigerian Naira	**0.04**	0.04	**0.04**	0.04
Ethiopian Birr	**0.38**	0.47	**0.36**	0.40
Saudi Arabian Riyan	**1.73**	1.80	**1.68**	1.77

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.

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(Expressed in Renminbi)

43 Financial risk management and fair values (continued)

(d) Currency risk (continued)

Exposure to currency risk (continued)

The Group

	2011 Increase/ (decrease) in foreign exchange rates	2011 Effect on profit after tax and retained profits '000	2011 Effect on other components of equity '000	2010 Increase/ (decrease) In foreign exchange rates	2010 Effect on profit after tax and retained profits '000	2010 Effect on other components of equity '000
United States dollars	**5%**	**2,918**	**–**	5%	9,644	–
	(5)%	**(2,918)**	**–**	(5)%	(9,644)	–
Hong Kong dollars	**5%**	**2,426**	**–**	5%	5,493	–
	(5)%	**(2,426)**	**–**	(5)%	(5,493)	–
Nigerian Naira	**5%**	**1,730**	**–**	5%	2,160	–
	(5)%	**(1,730)**	**–**	(5)%	(2,160)	–
Ethiopian Birr	**5%**	**3,545**	**–**	5%	83	–
	(5)%	**(3,545)**	**–**	(5)%	(83)	–
Saudi Arabian Riyal	**5%**	**1,274**	**–**	5%	453	–
	(5)%	**(1,274)**	**–**	(5)%	(453)	–

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 2010.

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43 Financial risk management and fair values (continued)

(e) Equity price risk

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

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

The Group is also exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of other financial liabilities of the Group. As at the balance sheet date the Group is exposed to this risk through the share appreciation rights scheme issued by the Company as disclosed in note 40.

At 31 December 2011, it is estimated that an increase/(decrease) of 5% (2010: 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

	2011			2010		
	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
Changes in the relevant equity price risk variable:						
Increase	**5%**	**(4,640)**	**1,300**	5%	(5,016)	1,916
Decrease	**(5)%**	**4,640**	**(1,300)**	(5)%	5,016	(1,916)

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 2010.

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43 Financial risk management and fair values (continued)

(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 RMB'000	**Level 2** RMB'000	**Level 3** RMB'000	**Total** RMB'000
Assets				
Available-for-sale securities				
– Listed equity securities	34,673	–	–	34,673
Other non-current assets	–	28,876	–	28,876
Liabilities				
Share appreciation rights	–	30,789	–	30,789
Other non-current liabilities	–	9,982	–	9,982

	The Company			
	Level 1 RMB'000	**Level 2** RMB'000	**Level 3** RMB'000	**Total** RMB'000
Assets				
Available-for-sale securities				
– Listed equity securities	–	–	–	–
Liabilities				
Share appreciation rights	–	3,314	–	3,314

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43 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.

44 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 30 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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(Expressed in Renminbi)

44 Significant accounting estimates and judgements (continued)

(b) Impairment for trade and other receivables

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

(c) Impairment of long-lived assets

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

(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.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

45 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

Companies are considered to be related if one company has the ability, directly or indirectly, to control or jointly control the other company or have significant influence over the other company in making financial and operating decisions. Companies are also considered to be related if they are subject to common control.

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:

	2011 RMB'000	2010 RMB'000
Income from related parties:		
Engineering related services (note (i))	**10,968,423**	9,901,200
IT application services (note (ii))	**1,354,958**	1,155,592
Provision of ancillary telecommunications services (note (iii))	**5,389,628**	4,519,671
Provision of operation support services (note (iv))	**1,903,269**	1,753,276
Supplies procurement service (note (v))	**3,280,890**	2,570,424
Property leasing (note (vi))	**58,644**	24,532
Management fee income (note (vii))	**309,211**	285,915
Expenses paid to related parties:		
Property leasing charges (note (viii))	**140,157**	117,373
IT application service charges (note (ix))	**164,755**	178,137
Operation support service charges (note (x))	**463,818**	278,662
Supplies procurement service charges (note (xi))	**1,638,763**	447,754
Interest paid (note (xii))	**51,021**	31,728

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

45 Related parties (continued)

(a) Transactions with CTC Group (continued)

Notes:

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

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

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

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

(v) The amount represents supplies procurement service such as supplies procurement service, management of biddings warehousing, transportation and installation services.

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

(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.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

45 Related parties (continued)

(a) Transactions with CTC Group (continued)

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

	2011 RMB'000	2010 RMB'000
Accounts and bills receivable, net	**7,578,394**	6,950,121
Prepayments and other current assets	**1,227,264**	1,364,133
Other non-current assets	**3,314**	–
Total amounts due from CTC Group	**8,808,792**	8,314,254
Interest-bearing borrowings	**813,280**	1,028,509
Accounts and bills payable	**807,506**	231,136
Receipts in advance for contract work	**43,642**	50,154
Accrued expenses and other payables	**1,003,844**	993,963
Total amounts due to CTC Group	**2,668,272**	2,303,762

As at 31 December 2011, the Group has recognised impairment losses of RMB7,472 thousand (2010: RMB3,295 thousand) for bad and doubtful debts in respect of amounts due from CTC Group.

As at 31 December 2011, the Group has capital commitments to CTC Group for acquisition and construction of property, plant and equipment and other assets as follows:

	2011 RMB'000	2010 RMB'000
Authorised and contracted for	**6,545**	5,835

As at 31 December 2011, the Group total future minimum lease payments to CTC Group under non-cancellable operating leases were payable as follows:

	2011 RMB'000	2010 RMB'000
Within 1 year	**43,587**	36,254
After 1 year but within 5 years	**68,978**	27,926
After 5 year	**31,687**	33,710
	144,252	97,890

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.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

45 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.

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

45 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.

(6) On 10 April 2011, the Company, through Zhejiang Communications Services Company Limited ("Zhejiang CCS"), a direct wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with the Difo Telecommunications Group Limited ("Difo Telecom"), an indirect wholly-owned subsidiary of CTC pursuant to which Zhejiang CCS agrees to sell, and the Difo Telecom agrees to acquire 100% equity interest in Zhejiang Nantian Post and Communications Technology Company Limited ("Zhejiang Nantian") for a total consideration of RMB194 million payable in cash. After the completion of the Disposal, Zhejiang Nantian will cease to be a subsidiary of the Company. Difo Telecom is an indirect wholly-owned subsidiary of CTC which is the controlling shareholder of the Company, so Difo Telecom was a connected person of the Company under the Listing Rules. Accordingly, the disposal constituted a connected transaction of the Company. The Company has complied with the relevant Listing Rules requirements in respect of such connected transaction and made corresponding announcement on 11 April 2011.

On 5 September 2011, Tianxun Ruida Communications Technology Company Limited ("Tianxun Ruida"), an indirectly wholly-owned subsidiary of the Company, entered into the Asset and Business Acquisition Agreement with E-Surfing Electronic Commerce Company Limited ("E-Surfing Electronic"), an indirectly wholly-owned subsidiary of CTC. Pursuant to the Asset and Business Acquisition Agreement, Tianxun Ruida will sell, and E-Surfing Electronic will acquire the assets and business in relation to the payment business of Tianxun Ruida, which include all the assets, liabilities, rights and obligations associated with the payment business, for a total consideration of RMB15 million payable in cash, subject to adjustment. E-Surfing Electronic is an indirect wholly-owned subsidiary of CTC which is the controlling shareholder of the Company, so E-Surfing Electronic was a connected person of the Company under the Listing Rules. Accordingly, the disposal constituted a connected transaction of the Company. The Company has complied with the relevant Listing Rules requirements in respect of such connected transaction and made corresponding announcement on 5 September 2011.

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(Expressed in Renminbi)

45 Related parties (continued)

(a) Transactions with CTC Group (continued)

(6) On 29 November 2011, Hongbo Information Company Limited ("Hongbo Information"), an indirectly wholly-owned subsidiary of the Company, entered into the Video Business and Asset Acquisition Agreement with E-Surfing Video Media Company Limited ("E-Surfing Video"), an indirect subsidiary of CTC, pursuant to which, Hongbo Information has agreed to sell, and E-Surfing Video has agreed to acquire, the target video business and asset for a total consideration of RMB32 million, subject to adjustment. E-Surfing Video is an indirect wholly-owned subsidiary of CTC which is the controlling shareholder of the Company, so E-Surfing Video was a connected person of the Company under the Listing Rules. Accordingly, the disposal constituted a connected transaction of the Company. The Company has complied with the relevant Listing Rules requirements in respect of such connected transaction and made corresponding announcement on 29 November 2011.

On 8 December 2011, the Company entered into the Equity Transfer Agreement with Hunan Telecommunications Industrial (Group) Company Limited ("Hunan Industrial"), a wholly-owned subsidiary of CTC pursuant to which, the Company has agreed to sell, and Hunan Industrial has agreed to acquire 100% equity interest in the Hunan New Nantian Real Property Company Limited, a wholly-owned subsidiary of the Company, for a total consideration of RMB40 million. Hunan Industrial is an indirect wholly-owned subsidiary of CTC which is the controlling shareholder of the Company, so Hunan Industrial was a connected person of the Company under the Listing Rules. Accordingly, the disposal constituted a connected transaction of the Company. The Company has complied with the relevant Listing Rules requirements in respect of such connected transaction and made corresponding announcement on 8 December 2011.

(b) Transactions with other government-related entities in the PRC

The Group is a state-controlled enterprise and operates in an economic regime currently dominated by entities directly or indirectly controlled by the People's Republic of China through government authorities, agencies, affiliations and other organisations (collectively referred to as "government-related entities").

Apart from transactions with parent company and its affiliates (note 45(a)),the Group has collectively, but not individually significant transactions with other government-related entities, which include but are not limited to the following:

– Rendering and receiving services, including but not limited to telecommunications services

– Sales and purchases of goods, properties and other assets

– Lease of assets

– Depositing and borrowing money

– Use of public utilities

Notes To The Consolidated Financial Statements

(Expressed in Renminbi)

45 Related parties (continued)

(b) Transactions with other government-related entities in the PRC (continued)

These transactions are conducted in the ordinary course of the Group's business on terms comparable to the terms of transactions with other entities that are not government-related. The Group prices its telecommunications services and products based on government-regulated tariff rates, where applicable, or based on commercial negotiations. The Group has also established its procurement policies and approval processes for purchases of products and services, which do not depend on whether the counterparties are government-related entities or not.

The directors believe the above information provides meaningful disclosure of related party transactions.

(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:

	2011 **RMB'000**	2010 RMB'000
Salaries and other emoluments	**4,108**	4,053
Retirement benefits	**1,583**	1,447
Bonuses	**9,680**	8,269
	15,371	13,769

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

(d) Contributions to defined contribution retirement plans

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 20% 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.

As at 31 December 2011 and 2010, there was no material outstanding contribution to post-employment benefit plans.

The directors believe the above information provides meaningful disclosure of related party transactions.

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(Expressed in Renminbi)

46 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.

47 Distributable reserves

The movements of shareholders' equity of the Company for 2010 and 2011 are as follows:

	Share capital RMB'000 (note 38)	**Share premium** RMB'000 (note i)	**Capital reserve** RMB'000 (note ii)	**Statutory surplus reserve** RMB'000 (note iii)	**Retained earnings** RMB'000	**Total** RMB'000
At 1 January 2010 as previously reported	5,771,682	2,727,647	991,189	239,377	860,545	10,590,440
Change in accounting policy (see note 3)	–	–	1,011,229	–	–	1,011,229
At 1 January 2010, as restated	5,771,682	2,727,647	2,002,418	239,377	860,545	11,601,669
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, as restated	5,771,682	2,727,647	2,002,418	326,318	1,003,517	11,831,582
At 1 January 2011 as previously reported	**5,771,682**	**2,727,647**	**991,189**	**326,318**	**1,003,517**	**10,820,353**
Change in accounting policy (see note 3)	**–**	**–**	**1,011,229**	**–**	**–**	**1,011,229**
At 1 January 2011, as restated	**5,771,682**	**2,727,647**	**2,002,418**	**326,318**	**1,003,517**	**11,831,582**
Profit for the year	**–**	**–**	**–**	**–**	**1,023,460**	**1,023,460**
Distribution of dividend (see note 15(b))	**–**	**–**	**–**	**–**	**(727,232)**	**(727,232)**
Appropriation	**–**	**–**	**–**	**102,389**	**(102,389)**	**–**
At 31 December 2011	**5,771,682**	**2,727,647**	**2,002,418**	**428,707**	**1,197,356**	**12,127,810**

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.

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(Expressed in Renminbi)

47 Distributable reserves (continued)

	2011 **RMB'000**	2010 RMB'000
At 31 December	**305,805**	231,091

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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48 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ended 31 December 2011

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 2011 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting period beginning on or after
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
Amendments to IAS 1, Presentation of financial statements – Presentation of Items of Other Comprehensive Income	1 July 2012
IFRS 10, Consolidated Financial Statements	1 January 2013
IFRS 11, Joint Arrangements	1 January 2013
IFRS 12, Disclosure of Interests in Other Entities	1 January 2013
IFRS 13, Fair Value Measurement	1 January 2013
IAS 27, Separate Financial Statements (2011)	1 January 2013
IAS 28, Investments in Associates and Joint Ventures (2011)	1 January 2013
Revised IAS 19, Employee Benefits	1 January 2013
IFRS 9, Financial Instruments	1 January 2015

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.

49 Non-adjusting events after the reporting period

On 8 February 2012, the Company issued 398,570,040 H shares on the basis of 2 H rights shares for every 10 existing H shares at HK$3.19 per H rights share, and issued 755,766,360 domestic rights share on the basis of 2 domestic rights shares for every 10 existing domestic shares at RMB2.59 per domestic rights share. The total gross proceeds raised under the rights issue were RMB2,991 million, and the net proceeds raised under the rights issue were RMB2,956 million, after deduction of issuing expenses amounted to approximately RMB35 million. The rights issue increased RMB1,154 million of the Company's share capital and RMB1,802 million of the Company's share premium.

50 Immediate and ultimate controlling party

At 31 December 2011, 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.

51 Comparative figures

As a result of the adoption of amendments to IFRS 1, certain comparative figures have been adjusted to conform to current year's presentation. Further details of this development are disclosed in note 3.