NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

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, media and technology industries in the People's Republic of China (the "PRC"). Its principal activities comprise provision of a full range of telecommunications support services in the PRC and overseas, including (i) telecommunications infrastructure design, construction and project 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, 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, 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 project 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 RMB1.00 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 project 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. PRINCIPAL ACTIVITIES AND ORGANISATION (continued)

(b) Organisation (continued)

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

In December 2006, the Company issued 1,291,293,000 H shares with a par value of RMB1.00 each, at a price of HKD2.20 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 HKD2.20 per H share upon the exercise of the overallotment 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 SSF was converted into H shares. 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 a price of HKD3.19 per H rights share, and issued 755,766,360 domestic shares on the basis of 2 domestic rights shares for every 10 existing domestic shares at a price of RMB2.59 per domestic rights share. A total of 2,391,420,240 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 ("Shanghai 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") for a total purchase price of RMB98.05 million.

Pursuant to the Equity Transfer Agreements entered into by the Group and CTC's subsidiaries on 20 June 2012, the Group completed acquisition on 30 June 2012 of (i) 100% equity interest in each of Ningxia Communications Constructions Co., Ltd. ("Ningxia Construction") and Ningxia Telecom Constructions Supervision Consultancy Co., Ltd. ("Ningxia Supervision"); and (ii) 100% equity interest in Xinjiang Communications Planning & Designing Institute Co., Ltd. ("Xinjiang Planning & Designing") (collectively the "Target Interests"), for a consideration of RMB51.07 million.

Pursuant to the Equity Transfer Agreements entered into by the Group and China Telecommunications Corporation Industrial Assets Management Centre (a directly wholly-owned subsidiary of CTC) on 20 June 2012, the Group completed acquisition on 26 July 2012 of 51% equity interest in Sino-British Submarine Systems Co., Ltd. ("SBSS") and all the associated rights and obligations for a total consideration of RMB264.60 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

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") as issued by the International Accounting Standards Board ("IASB"). IFRSs include all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and related interpretations. These 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.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current year of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior years reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2013 comprise the Group and its interests in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities:

– Financial derivatives and 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 capital reserve. The combination date is the date on which one combining enterprise effectively obtains control of the other combining enterprises.

(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 before 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

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

a. has power over the investee;

b. is exposed, or has rights, to variable returns from its involvement with the investee; and

c. has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another IFRS.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment losses (see note 2(l)).

(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. 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 note 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 statement of profit or loss, 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 profit or loss and other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

(iv) Associates (continued)

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

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

In the Company's statement of financial position, investments in associates are stated at cost less impairment losses (see note 2(l)).

(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 profit or loss as a gain on a bargain purchase.

Goodwill is stated 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, which is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(l)).

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

(e) Other investments in debt and equity securities

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 statement of financial position at cost less impairment losses (see note 2(l)).

Investments in securities which do not fall into the above category are classified as available-for-sale securities. At each end of the reporting period 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 statement of financial position 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 profit or loss 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 evidenced by end of owner-occupation or when an investment property commencement of owner-occupation and reclassified as property, plant and equipment, its costs at the date of reclassification becomes its cost for accounting purposes.

(g) Property, plant and equipment

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment (continued)

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss 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
Building improvements	5 years
Motor vehicles	5–10 years
Furniture, fixtures and other equipment	5–20 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 government authorities. Land use rights are carried at cost and are charged to profit or loss 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.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

a. the technical feasibility of completing the intangible asset so that it will be available for use or sale;

b. the intention to complete the intangible asset and use or sell it;

c. the ability to use or sell the intangible asset;

d. how the intangible asset will generate probable future economic benefits;

e. the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

f. the ability to measure reliably the expenditure attributable to the intangible asset during its development.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads and borrowing costs, where applicable (see note 2(z)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(l)). Other development expenditure is recognised as an expense in the period in which it is incurred.

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

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

Both the period and method of amortisation are reviewed annually.

(k) Leased assets

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

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

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal installments 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 profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss 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 amortized cost or are classified as available-for-sale securities are reviewed at each end of the reporting period 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;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of assets (continued)

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

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

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

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

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

– For unquoted equity securities carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

– For trade receivables and other financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

  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 profit or loss. 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 profit or loss. The amount of the cumulative loss that is recognised in profit or loss 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 profit or loss.

  Impairment losses recognised in profit or loss in respect of available for – sale equity securities are not reversed through profit or loss. 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 profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of assets (continued)

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade debtors and bills receivable, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade debtors and bills receivable are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each end of the reporting period 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; and

– investments in subsidiaries.

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 of disposal 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss 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 of disposal, or value in use, if determinable.

– *Reversals of impairment losses*

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

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss 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 end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Construction contracts (continued)

Construction contracts in progress at the end of the reporting period 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 "Unbilled revenues for contract work" under "Accounts and bills receivable, net" (as an asset) or the "Amounts due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included under " Accounts and bills receivable, net". Amounts received before the related work is performed are presented as "Receipts in advance for contract work".

(o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortized cost using the effective interest method, 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 amortized cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss 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 amortized 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 end of the reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Employee benefits (continued)

(ii) Share appreciation rights scheme

Compensation expense under the Group's share appreciation rights scheme is measured as the amount by which the quoted market price of the Company's H shares exceeds the exercise price. Compensation expense in respect of the share appreciation rights granted is accrued as a charge to profit or loss 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 end of the reporting period with the effect of changes in the fair value of the liability is charged or credited to profit or loss. Further details of the Group's share appreciation rights scheme are set out in note 40.

(iii) Termination benefits

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognised any related restructuring costs.

(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 profit or loss 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 end of the reporting period, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Income tax (continued)

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 end of the reporting period. Deferred tax assets and liabilities are not discounted.

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

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

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

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

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

  – the same taxable entity; or

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

(v) Provisions and contingent liabilities

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Revenue recognition

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

(i) Contract revenue

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

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

(ii) Services rendered

Revenue from design services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the end of the reporting period.

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 profit or loss in equal installments 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 profit or loss 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Government grants

Government grants are recognised in the consolidated statement of financial position 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 profit or loss 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 recognised in profit or loss over the useful life of the asset by way of reduced depreciation expenses.

(y) Translation of foreign currencies

The functional and presentation currency of the Group's is Renminbi ("RMB"). Foreign currency transactions during the year are translated into RMB at the applicable rates of exchange quoted by the People's Bank of China ("PBOC") prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into RMB at the applicable rates ruling at the end of the reporting period. Foreign currency differences, other than those capitalised as construction in progress (see note 2(h)), are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

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. Statement of financial position items are translated into RMB at the foreign exchange rates ruling at the end of the reporting period. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Segment reporting

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

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

The Group principally has one business segment and hence no segment information is provided (see note 46).

(bb) Dividends or profit distributions

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

(cc) Related parties

(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 of 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. CHANGES IN ACCOUNTING POLICIES

The IASB has issued several new or revised IFRSs that are first effective for the current year of the Group and the Company. Of these, the following development is relevant to the Group's financial statements:

IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
IFRS 13	Fair Value Measurement
IAS 19 (Revised 2011)	Employee Benefits
IAS 27 (Revised 2011)	Separate Financial Statements
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures
Amendments to IFRS 7	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 1	Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income
Amendments to IFRSs	Annual Improvements to IFRSs 2009-2011 Cycle

IFRS 13 Fair Value Measurement

The Group has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements.

The scope of IFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. Except for the disclosures of fair value information set out in the notes to the financial statements, the application of IFRS 13 has no significant impact on the Group's financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. CHANGES IN ACCOUNTING POLICIES (continued)

Amendments to IAS 1 Presentation of Financial Statements – Presentation of items of Other Comprehensive Income

The Group has applied the amendments to IAS 1 Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income for the first time in the current year. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the "statement of comprehensive income" is renamed as the "statement of profit or loss and other comprehensive income" and the "income statement" is renamed as the "statement of profit or loss". The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Except for the impact on the application of IFRS 13 and Amendments to IAS 1, the application of the other new or revised IFRSs as mentioned above in the current year has had no material effect on the amounts reported and/or disclosures set out in the financial statements.

The Group has not applied any new or revised IFRSs that is not yet effective for the current year.

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:

	2013 RMB'000	2012 RMB'000
Revenue from telecommunications infrastructure services	**32,036,241**	28,413,360
Revenue from business process outsourcing services	**29,011,577**	26,304,137
Revenue from applications, content and other services	**7,411,278**	6,799,878
	68,459,096	61,517,375

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 2013 amount to RMB29,231 million and RMB11,906 million respectively (2012: RMB26,080 million and RMB11,222 million respectively), being 42.7% and 17.4% of the Group's total revenues respectively (2012: 42.4% and 18.2% respectively). In addition, the revenues derived from areas outside of Mainland China for the year ended 31 December 2013 amounts to RMB3,812 million (2012: RMB3,411 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

5. COST OF REVENUES

	2013 RMB'000	2012 RMB'000
Depreciation and amortisation	**462,103**	439,095
Direct personnel costs	**9,251,872**	9,229,460
Operating lease charges	**1,103,242**	928,795
Purchase of materials and telecommunications products	**19,804,087**	17,645,654
Subcontracting charges	**21,873,785**	18,447,867
Others	**5,586,018**	5,041,137
	58,081,107	51,732,008

6. OTHER OPERATING INCOME

	2013 RMB'000	2012 RMB'000
Interest income	**90,435**	104,699
Dividend income from listed securities	**848**	1,217
Dividend income from unlisted securities	**54,042**	68,129
Government grants	**227,066**	187,995
Gain on disposal of other investments and partial disposal of an associate	**50,090**	20,309
Gain on disposal of property, plant and equipment and other intangible assets	**8,957**	97,477
Penalty income	**3,717**	1,565
Management fee income	**319,701**	315,634
Write-back of non-payable liabilities	**17,232**	21,138
Others	**30,128**	33,173
	802,216	851,336

7. OTHER OPERATING EXPENSES

	2013 RMB'000	2012 RMB'000
Impairment losses on property, plant and equipment	**1,563**	7,067
Impairment loss on other investments	**–**	517
Loss on disposal of property, plant and equipment and other intangible assets	**10,635**	6,627
Donations	**439**	373
Penalty charge	**20,100**	9,616
Net foreign exchange loss	**38,845**	6,720
Others	**45,042**	38,338
	116,624	69,258

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

8. FINANCE COSTS

	2013 RMB'000	2012 RMB'000
Interest on bank and other borrowings wholly repayable within five years	**11,232**	26,030

For the years ended 31 December 2013 and 2012, no borrowing costs were capitalised in relation to construction in progress.

9. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging (crediting) the following items:

		2013 RMB'000	2012 RMB'000
(a)	Staff costs:		
	Salaries, wages and other benefits	**13,404,619**	12,805,944
	Contributions to defined contribution retirement schemes	**1,087,269**	1,006,851
		14,491,888	13,812,795
(b)	Other items:		
	Depreciation		
	– Property, plant and equipment	**677,116**	644,561
	– Investment properties (note 18)	**42,431**	40,890
	Amortisation		
	– Lease prepayments (note 20)	**28,517**	28,613
	– Other intangible assets (note 22)	**50,634**	44,724
	Auditors' remuneration	**32,320**	40,085
	Cost of inventories (note 28)	**19,804,087**	17,645,654
	Write-down of inventories (note 28)	**13,847**	17,843
	Reversal of write-down of inventories (note 28)	**(3,437)**	(3,117)
	Impairment losses on accounts and bills and other receivables	**157,963**	108,087
	Reversal of impairment losses on accounts and bills and other receivables	**(37,374)**	(54,379)
	Changes in fair value of financial derivatives	**(154)**	–
	Operating lease charges	**1,367,171**	1,137,790
	Research and development costs	**1,517,739**	1,193,138
	Share of associates' taxation	**5,061**	1,274

Research and development costs include RMB1,201 million (2012: RMB930 million) relating to staff costs, amount of which is also included in the staff cost disclosed in note 9(a).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

10. INCOME TAX

(a) Income tax in the consolidated statement of profit or loss represents:

	2013 RMB'000	2012 RMB'000
Current tax		
PRC enterprise income tax	**563,337**	575,697
Overseas enterprise income tax	**19,559**	19,580
Deferred tax		
Origination and reversal of temporary differences (note 26)	**(89,775)**	(9,763)
Total income tax	**493,121**	585,514

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

	2013 RMB'000	2012 RMB'000
Profit before tax	**2,778,501**	3,031,378
Expected income tax expense at a statutory tax rate of 25% (2012: 25%) (note (i))	**694,625**	757,845
Differential tax rates on subsidiaries' income (note (i))	**(223,815)**	(221,631)
Non-deductible expenses (note (ii))	**47,452**	77,434
Non-taxable income	**(31,740)**	(37,375)
Tax losses not recognised	**22,826**	29,671
Utilisation of previously unrecognised tax losses	**(10,425)**	(23,365)
Others	**(5,802)**	2,935
Income tax	**493,121**	585,514

Notes:

(i) The provision for 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 years ended 31 December 2013 and 2012, except for certain domestic subsidiaries of the Group, which are taxed at preferential rates of 20%, 15% and 10%, where applicable; and for certain overseas subsidiaries of the Group, which are taxed at respective statutory rates.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

11. OTHER COMPREHENSIVE INCOME

Available-for-sale securities

	2013 RMB'000	2012 RMB'000
Changes in fair value recognised during the year	**7,069**	(303)
Net deferred tax credited to other comprehensive income	**1,238**	203
Net movement in the fair value reserve during the year recognised in other comprehensive income	**8,307**	(100)

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 2013 are as follows:

	Fee RMB'000	**Salaries, allowances and other benefits in kind RMB'000**	**Discretionary bonus RMB'000**	**Pension scheme contribution RMB'000**	**Share appreciation rights RMB'000**	**2013 Total RMB'000**
Directors and supervisors						
Li Ping	–	–	–	–	–	–
Zheng Qibao (resigned on 19 December 2013)	–	198	541	67	938	1,744
Yuan Jianxing (resigned on 8 August 2013)	–	180	703	63	613	1,559
Hou Rui	–	139	487	61	813	1,500
Li Zhengmao	–	–	–	–	–	–
Zhang Junan	–	–	–	–	–	–
Wang Jun	200	–	–	–	–	200
Zhao Chunjun	150	–	–	–	–	150
Wei Leping	150	–	–	–	–	150
Siu Wai Keung, Francis	240	–	–	–	–	240
Xia Jianghua	–	–	–	–	–	–
Hai Liancheng	75	–	–	–	–	75
Yan Dong (resigned on 18 June 2013)	–	116	478	55	349	998
Si Jianfei (appointed on 18 June 2013)	–	119	450	55	349	973
	815	752	2,659	301	3,062	7,589

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

The names of the directors and the supervisors of the Company and their remuneration for the year ended 31 December 2012 are as follows:

	Fee RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000	Pension scheme contribution RMB'000	2012 Total RMB'000
Directors and supervisors					
Li Ping	–	–	–	–	–
Zheng Qibao	–	172	535	60	767
Yuan Jianxing	–	154	480	59	693
Hou Rui	–	113	482	54	649
Liu Aili (resigned on 11 September 2012)	–	–	–	–	–
Li Zhengmao	–	–	–	–	–
Zhang Junan	–	–	–	–	–
Wang Jun	200	–	–	–	200
Chan Mo Po, Paul (resigned on 28 July 2012)	114	–	–	–	114
Zhao Chunjun	150	–	–	–	150
Wu Shangzhi (resigned on 28 June 2012)	75	–	–	–	75
Hao Weimin (resigned on 28 June 2012)	75	–	–	–	75
Wei Leping	76	–	–	–	76
Siu Wai Keung, Francis	122	–	–	–	122
Xia Jianghua	–	–	–	–	–
Hai Liancheng	75	–	–	–	75
Yan Dong	–	92	341	50	483
	887	531	1,838	223	3,479

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

13. INDIVIDUALS WITH HIGHEST EMOLUMENTS AND SENIOR MANAGEMENT'S REMUNERATION

(a) The five highest paid employees of the Group

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

	2013	2012
Directors and supervisors	**1**	–
Non-director and non-supervisor employees	**4**	5
	5	5

The remuneration paid to the above highest paid employees are as follows:

	2013 RMB'000	2012 RMB'000
Salaries, allowances and other benefits in kind	**897**	680
Bonuses	**3,353**	3,946
Pension scheme contributions	**506**	437
	4,756	5,063
Share appreciation rights	**3,440**	–
	8,196	5,063

The number of these highest paid employees whose remuneration fell within the following bands:

	2013	2012
RMB equivalent		
Nil to 1,000,000	**–**	2
1,000,001 to 1,500,000	**–**	3
1,500,001 to 2,000,000	**5**	–

(b) Senior management's remuneration

The number of the senior management whose remuneration fell within the following bands:

	2013	2012
RMB equivalent		
Nil to 1,000,000	**4**	18
1,000,001 to 1,500,000	**14**	2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

14. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB1,234 million (2012: RMB1,127 million) which has been dealt with in the financial statements of the Company.

15. DIVIDENDS

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

	2013 **RMB'000**	2012 RMB'000
Final dividend proposed after the end of the reporting period RMB0.1293 per share (2012: RMB0.1390 per share)	**895,534**	962,717

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

	2013 **RMB'000**	2012 RMB'000
Final dividend in respect of the financial year ended 31 December 2012, approved during the year, of RMB0.1390 per share (2011: RMB0.1222[i] per share)	**962,717**	846,359

(i) Calculated on the basis of the total share capital of the Company after the rights issue on 8 February 2012 (see note 38).

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 2013 of RMB2,238,351 thousand (2012: RMB2,406,792 thousand) and number of shares in issue during the year ended 31 December 2013 of 6,926,018 thousand shares (2012: the weighted average of 6,821,990 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

For the year ended 31 December 2013

17. PROPERTY, PLANT AND EQUIPMENT, NET

The Group

	Buildings RMB'000	Building improvements RMB'000	Motor vehicles RMB'000	Furniture, fixtures and other equipment RMB'000	Total RMB'000
Cost:					
As at 1 January 2013	2,857,147	370,536	1,514,847	3,324,542	8,067,072
Transfer to investment properties (note 18)	(26,057)	–	–	–	(26,057)
Transfer from investment properties (note 18)	10,864	–	–	–	10,864
Transfer from construction in progress (note 19)	290,609	44,062	765	18,526	353,962
Additions	29,504	55,113	167,906	276,838	529,361
Disposals	(3,025)	(3,413)	(89,875)	(219,672)	(315,985)
As at 31 December 2013	3,159,042	466,298	1,593,643	3,400,234	8,619,217
Accumulated depreciation and impairment losses:					
As at 1 January 2013	729,446	247,195	779,294	1,793,383	3,549,318
Transfer to investment properties (note 18)	(5,263)	–	–	–	(5,263)
Transfer from investment properties (note 18)	1,376	–	–	–	1,376
Depreciation charge	121,983	46,333	148,208	360,592	677,116
Written back on disposals	(1,924)	(2,228)	(80,155)	(207,407)	(291,714)
Impairment loss	–	–	–	1,563	1,563
Eliminated on disposals	–	–	–	(132)	(132)
As at 31 December 2013	845,618	291,300	847,347	1,947,999	3,932,264
Net carrying value:					
As at 31 December 2013	2,313,424	174,998	746,296	1,452,235	4,686,953
As at 1 January 2013	2,127,701	123,341	735,553	1,531,159	4,517,754

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For the year ended 31 December 2013

17. PROPERTY, PLANT AND EQUIPMENT, NET (continued)

The Group (continued)

	Buildings RMB'000	Building improvements RMB'000	Motor vehicles RMB'000	Furniture, fixtures and other equipment RMB'000	Total RMB'000
Cost:					
As at 1 January 2012	2,843,578	321,459	1,365,316	3,092,247	7,622,600
Transfer to investment properties (note 18)	(44,729)	–	–	–	(44,729)
Transfer from investment properties (note 18)	487	–	–	–	487
Transfer from construction in progress (note 19)	39,273	20,673	130	32,763	92,839
Additions	66,866	29,080	215,337	338,825	650,108
Disposals	(48,328)	(676)	(65,936)	(139,293)	(254,233)
As at 31 December 2012	2,857,147	370,536	1,514,847	3,324,542	8,067,072
Accumulated depreciation and impairment losses:					
As at 1 January 2012	638,538	213,768	707,730	1,566,982	3,127,018
Transfer to investment properties (note 18)	(12,387)	–	–	–	(12,387)
Transfer from investment properties (note 18)	134	–	–	–	134
Depreciation charge	126,071	34,103	133,480	351,054	644,708
Written back on disposals	(22,910)	(676)	(62,103)	(131,533)	(217,222)
Impairment loss	–	–	187	6,880	7,067
As at 31 December 2012	729,446	247,195	779,294	1,793,383	3,549,318
Net carrying value:					
As at 31 December 2012	2,127,701	123,341	735,553	1,531,159	4,517,754
As at 1 January 2012	2,205,040	107,691	657,586	1,525,265	4,495,582

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For the year ended 31 December 2013

17. PROPERTY, PLANT AND EQUIPMENT, NET (continued)

The Company

	Furniture, fixtures and other equipment RMB'000
Cost:	
As at 1 January 2013	15,556
Additions	307
As at 31 December 2013	15,863
Accumulated depreciation:	
As at 1 January 2013	5,515
Charge for the year	2,897
As at 31 December 2013	8,412
Cost:	
As at 1 January 2012	14,393
Additions	483
Transfer from construction in progress (note 19)	680
As at 31 December 2012	15,556
Accumulated depreciation:	
As at 1 January 2012	2,760
Charge for the year	2,755
As at 31 December 2012	5,515
Net carrying value:	
As at 31 December 2013	7,451
As at 31 December 2012	10,041
As at 1 January 2012	11,633

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

(b) As at 31 December 2013, certain banking facilities and borrowings from banks of the Group were secured by property, plant and equipment with carrying amount of RMB385 million (2012: RMB408 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 RMB507 million as at 31 December 2013 (2012: RMB377 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

18. INVESTMENT PROPERTIES

	The Group	
	2013 **RMB'000**	2012 RMB'000
COST:		
As at 1 January	**1,065,649**	976,476
Transfer from property, plant and equipment (note 17)	**26,057**	44,729
Transfer to property, plant and equipment (note 17)	**(10,864)**	(487)
Additions	**171**	45,354
Disposals	**–**	(423)
As at 31 December	**1,081,013**	1,065,649
ACCUMULATED DEPRECIATION:		
As at 1 January	**300,574**	247,431
Transfer from property, plant and equipment (note 17)	**5,263**	12,387
Transfer to property, plant and equipment (note 17)	**(1,376)**	(134)
Depreciation charge	**42,431**	40,890
As at 31 December	**346,892**	300,574
NET CARRYING VALUE:		
As at 31 December	**734,121**	765,075
As at 1 January	**765,075**	729,045
Fair value	**2,022,296**	1,508,792

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

The fair value of all the Group's investment properties derives from prices for similar assets in active markets. So the fair value measurement of the Group's investment properties is categorized into Level 2 of fair value measurement.

The current use of the investment properties is their highest and best use.

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 end of the reporting period, the Group's total future minimum lease payments under non-cancellable operating leases were receivable as follows:

	The Group	
	2013 **RMB'000**	2012 RMB'000
Within 1 year	**111,141**	97,183
After 1 year but within 5 years	**157,232**	139,801
After 5 years	**17,710**	13,886
As at 31 December	**286,083**	250,870

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

18. INVESTMENT PROPERTIES (continued)

During the year ended 31 December 2013, RMB132 million (2012: RMB109 million) has been recognised as rental income in the consolidated statement of profit or loss and RMB31 million (2012: RMB28 million) in respect of direct operating expenses relating to investment properties has been recognised as expenses in the consolidated statement of profit or loss.

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 RMB54 million as at 31 December 2013 (2012: RMB60 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**	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Cost:				
As at 1 January	**387,190**	229,348	**3,503**	5,489
Additions	**188,133**	263,812	**3,491**	2,623
Disposals	**(512)**	(581)	**–**	–
Transfer to other intangible assets (note 22)	**(13,738)**	(12,550)	**(1,200)**	(3,929)
Transfer to property, plant and equipment (note 17)	**(353,962)**	(92,839)	**–**	(680)
As at 31 December	**207,111**	387,190	**5,794**	3,503

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For the year ended 31 December 2013

20. LEASE PREPAYMENTS

	The Group	
	2013	2012
	RMB'000	RMB'000
Cost:		
As at 1 January	**1,091,554**	1,064,958
Additions	**5,400**	27,286
Disposals	**(13,957)**	(690)
As at 31 December	**1,082,997**	1,091,554
Accumulated depreciation:		
As at 1 January	**157,857**	129,299
Amortisation charge	**28,517**	28,613
Written back on disposals	**(1,204)**	(55)
As at 31 December	**185,170**	157,857
Net carrying value:		
As at 31 December	**897,827**	933,697
As at 1 January	**933,697**	935,659

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 14 to 66 years as at 31 December 2013.

The Group's prepaid lease payments comprise:

	2013	2012
	RMB'000	RMB'000
Long lease	**55,415**	57,222
Medium-term lease	**842,412**	876,475
	897,827	933,697

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For the year ended 31 December 2013

21. GOODWILL

	2013	2012
	RMB'000	RMB'000
Cost and carrying amount	**103,005**	103,005

	2013	2012
	RMB'000	RMB'000
Impairment tests for cash-generating units containing goodwill		
China International Telecommunications Construction Corporation ("CITCC")	**103,005**	103,005

The recoverable amounts of goodwill arising from the acquisition of CITCC are determined based on value in use calculation. The calculation use cash flow projection based on financial budget approved by management covering a one-year period and pre-tax discount rates is 14.79% (2012: 12.66%).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

22. OTHER INTANGIBLE ASSETS

	The Group		The Company	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Cost:				
As at 1 January	**380,435**	342,111	**17,706**	13,754
Additions	**66,993**	65,773	**–**	23
Transfer from construction in progress (note 19)	**13,738**	12,550	**1,200**	3,929
Disposals	**(2,310)**	(39,999)	**–**	–
As at 31 December	**458,856**	380,435	**18,906**	17,706
Accumulated amortisation:				
As at 1 January	**210,330**	197,672	**7,850**	5,481
Amortisation charge	**50,634**	44,724	**2,743**	2,369
Written back on disposals	**(2,201)**	(32,066)	**–**	–
As at 31 December	**258,763**	210,330	**10,593**	7,850
Net carrying value:				
As at 31 December	**200,093**	170,105	**8,313**	9,856
As at 1 January	**170,105**	144,439	**9,856**	8,273

Other intangible assets mainly represent computer software used in telecommunications infrastructure projects.

23. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2013 RMB'000	2012 RMB'000
Unlisted investments, at cost	**12,617,534**	12,017,339

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For the year ended 31 December 2013

23. INVESTMENTS IN SUBSIDIARIES (continued)

The following list contains only the particulars of subsidiaries at 31 December 2013 which principally affected the results, assets or liabilities of the Group.

Name of company	Type of legal entity	Place of incorporation/ establishment	Proportion of ownership interest and voting rights held by the Company				Issued and fully paid up/ registered capital	Principal activities
			31 December 2013		31 December 2012			
			Directly %	**Indirectly %**	Directly %	Indirectly %		
Guangdong Communications Services Company Limited	Limited Liability Company	The PRC	**100**	**–**	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**	**–**	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**	**–**	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**	**–**	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**	**–**	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**	**–**	100	–	RMB678 million	Provision of integrated telecommunications support services through its subsidiaries in Jiangsu Province
Anhui Communications Services Company Limited	Limited Liability Company	The PRC	**100**	**–**	100	–	RMB420 million	Provision of integrated telecommunications support services through its subsidiaries in Anhui Province

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23. INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Type of legal entity	Place of incorporation/ establishment	Proportion of ownership interest and voting rights held by the Company 31 December 2013 Directly %	Indirectly %	31 December 2012 Directly %	Indirectly %	Issued and fully paid up/ registered capital	Principal activities
Jiangxi Communications Services Company Limited	Limited Liability Company	The PRC	**100**	**–**	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**	**–**	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**	**–**	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**	**–**	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**	**–**	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**	**–**	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**	**–**	100	–	RMB238 million	Provision of integrated telecommunications support services through its subsidiaries in Yunnan Province
Shaanxi Communications Services Company Limited	Limited Liability Company	The PRC	**100**	**–**	100	–	RMB145 million	Provision of integrated telecommunications support services through its subsidiaries in Shaanxi Province

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23. INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Type of legal entity	Place of incorporation/ establishment	Proportion of ownership interest and voting rights held by the Company 31 December 2013 Directly %	31 December 2013 Indirectly %	31 December 2012 Directly %	31 December 2012 Indirectly %	Issued and fully paid up/ registered capital	Principal activities
Gansu Communications Services Company Limited	Limited Liability Company	The PRC	**100**	**–**	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**	**–**	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**	**–**	100	–	RMB195 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**	**–**	100	–	RMB550 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**	**–**	100	–	HKD846.87 million	Provision of integrated telecommunications support services through its subsidiaries in Hong Kong
Zhongshutong Information Co., Ltd.	Limited Liability Company	The PRC	**60.38**	**–**	60.38	–	RMB120 million	Provision of integrated telecommunications support services
China Comservice Software Tech. Co., Ltd	Limited Liability Company	The PRC	**60**	**–**	60	–	USD25 million	Provision of integrated telecommunications support services
Ningxia Hui Autonomous Region Communications Industrial Services Company Limited	Limited Liability Company	The PRC	**100**	**–**	100	–	RMB106 million	Provision of integrated telecommunications support services through its subsidiaries in Ningxia Hui Autonomous Region

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For the year ended 31 December 2013

23. INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Type of legal entity	Place of incorporation/ establishment	Proportion of ownership interest and voting rights held by the Company 31 December 2013 Directly %	31 December 2013 Indirectly %	31 December 2012 Directly %	31 December 2012 Indirectly %	Issued and fully paid up/ registered capital	Principal activities
Shandong Communications Services Company Limited	Limited Liability Company	The PRC	**100**	**–**	100	–	RMB100 million	Provision of integrated telecommunications support services in Shandong Province
Sino-British Submarine System Co., Ltd.	Limited Liability Company	The PRC	**51**	**–**	51	–	RMB327 million	Provision of submarine cable installation and other related services
Hainan Communications Services Company Limited	Limited Liability Company	The PRC	**100**	**–**	–	100	RMB141 million	Provision of integrated telecommunications support services through its subsidiaries in Hainan Province

Sino-British Submarine System Co., Ltd., China Comservice Software Tech. Co., Ltd., and Zhongshutong Information Co., Ltd. are non-wholly owned subsidiaries of the Group. The Group's cumulative non-controlling interest is RMB515 million as at 31 December 2013 (2012: RMB499 million). The non-controlling interests are individually and in aggregate not material to the Group's financial condition or results of operation for the current year.

24. INTERESTS IN ASSOCIATES

	The Group 2013 RMB'000	The Group 2012 RMB'000	The Company 2013 RMB'000	The Company 2012 RMB'000
Share of net assets	**71,581**	52,106	**–**	–

As at 31 December 2013, the Group's associates are unlisted, established and operated in the PRC. The Group's interests in associates are individually and in aggregate not material to the Group's financial condition or results of operation for the year.

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For the year ended 31 December 2013

25. OTHER INVESTMENTS

	The Group	
	2013 **RMB'000**	2012 RMB'000
At cost/fair value:		
Unlisted equity securities, at cost	**619,920**	627,930
Listed equity securities, at quoted market price	**41,439**	34,370
	661,359	662,300

26. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net balance	
	31 December 2013 RMB'000	31 December 2012 RMB'000	**31 December 2013 RMB'000**	31 December 2012 RMB'000	**31 December 2013 RMB'000**	31 December 2012 RMB'000
Impairment losses, primarily receivables and inventories	**94,008**	80,406	**–**	–	**94,008**	80,406
Revaluation of other investments	**–**	–	**–**	(1,058)	**–**	(1,058)
Revaluation of property, plant and equipment	**–**	–	**(12,195)**	(13,937)	**(12,195)**	(13,937)
Unused tax losses (note (i))	**28,015**	13,818	**–**	–	**28,015**	13,818
Change in fair value (note (ii))	**–**	–	**(4,697)**	(5,935)	**(4,697)**	(5,935)
Unpaid expenses	**169,755**	110,579	**–**	–	**169,755**	110,579
Deferred tax assets and (liabilities)	**291,778**	204,803	**(16,892)**	(20,930)	**274,886**	183,873

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

26. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Movements in deferred tax assets and liabilities for the year ended 31 December 2013 and 2012 are as follows:

The Group

	As at 1 January 2013 RMB'000	**Recognised in profit or loss RMB'000 (note 10(a))**	**Recognised in other comprehensive income RMB'000**	**As at 31 December 2013 RMB'000**
Impairment losses, primarily for receivables and inventories	**80,406**	**13,602**	**–**	**94,008**
Revaluation of other investments	**(1,058)**	**1,058**	**–**	**–**
Revaluation of property, plant and equipment	**(13,937)**	**1,742**	**–**	**(12,195)**
Unused tax losses (note (i))	**13,818**	**14,197**	**–**	**28,015**
Change in fair value (note (ii))	**(5,935)**	**–**	**1,238**	**(4,697)**
Unpaid expenses	**110,579**	**59,176**	**–**	**169,755**
Deferred tax assets and (liabilities)	**183,873**	**89,775**	**1,238**	**274,886**

	As at 1 January 2012 RMB'000	Recognised in profit or loss RMB'000 (note 10(a))	Recognised in other comprehensive income RMB'000	As at 31 December 2012 RMB'000
Impairment losses, primarily for receivables and inventories	75,487	4,919	–	80,406
Revaluation of other investments	(1,188)	130	–	(1,058)
Revaluation of property, plant and equipment	(16,159)	2,222	–	(13,937)
Unused tax losses (note (i))	10,414	3,404	–	13,818
Change in fair value (note (ii))	(6,138)	–	203	(5,935)
Unpaid expenses	111,491	(912)	–	110,579
Deferred tax assets and (liabilities)	173,907	9,763	203	183,873

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

26. DEFERRED TAX ASSETS AND LIABILITIES (continued)

The Group (continued)

Notes:

(i) Expiry of recognised tax losses

	2013 **RMB'000**	2012 RMB'000
Year of expiry		
2013	**–**	–
2014	**–**	–
2015	**–**	–
2016	**–**	9,152
2017	**88,731**	46,118
2018	**74,681**	–
	163,412	55,270

(ii) As at 31 December 2013, the Group's listed 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 RMB1.2 million (2012: RMB0.20 million) related to the change in fair value of available-for-sale investments was recognised in other comprehensive income.

(iii) As at 31 December 2013, the Group has not recognised deferred tax assets in respect of tax losses of RMB358.5 million (2012: RMB361.1 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 2014 to 2018.

27. OTHER NON-CURRENT ASSETS

Other non-current assets mainly represent the long-term receivables arising from provision of telecommunications infrastructure services and prepaid rent for buildings and equipment.

28. INVENTORIES

	The Group	
	2013 **RMB'000**	2012 RMB'000
Construction materials	**286,154**	259,219
Finished goods	**1,879,266**	1,603,775
Spare parts and consumables	**62,794**	31,831
	2,228,214	1,894,825

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For the year ended 31 December 2013

28. INVENTORIES (continued)

The analysis of the amount of inventories recognised as costs and expenses is as follows:

	The Group	
	2013 RMB'000	2012 RMB'000
Carrying amount of inventories consumed and sold	**19,804,087**	17,645,654
Reversal of write-down of inventories	**(3,437)**	(3,117)
Write-down of inventories	**13,847**	17,843
	19,814,497	17,660,380

29. ACCOUNTS AND BILLS RECEIVABLE, NET

	The Group	
	2013 RMB'000	2012 RMB'000
Bills receivable	**747,894**	610,038
Unbilled revenues for contract work	**6,980,370**	6,264,423
Trade receivables	**18,072,367**	14,922,933
	25,800,631	21,797,394
Less: impairment losses	**(372,576)**	(475,439)
	25,428,055	21,321,955

(a) Included in accounts and bills receivable are amounts due from fellow subsidiaries of RMB11,749 million (2012: RMB9,599 million) as at 31 December 2013. 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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For the year ended 31 December 2013

29. ACCOUNTS AND BILLS RECEIVABLE, NET (continued)

(c) The ageing analysis of accounts and bills receivable (net of impairment losses) based on the invoice date is as follows:

	The Group	
	2013 RMB'000	2012 RMB'000
Current (note)	**11,130,426**	10,142,555
Within 1 year	**12,144,551**	9,119,059
After 1 year but less than 2 years	**1,682,667**	1,567,009
After 2 years but less than 3 years	**384,019**	400,854
After 3 years	**86,392**	92,478
Amount past due	**14,297,629**	11,179,400
	25,428,055	21,321,955

Note: Including unbilled revenues for contract work.

(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	
	2013 RMB'000	2012 RMB'000
At 1 January	**475,439**	437,149
Impairment loss recognised	**132,457**	94,323
Reversal of impairment loss previously recognised	**(36,432)**	(50,683)
Uncollectible amounts written off	**(198,888)**	(5,350)
At 31 December	**372,576**	475,439

At 31 December 2013, the Group's accounts and bills receivable of RMB2,169 million (2012: RMB427 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 RMB164 million (2012: RMB320 million) were recognised. The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

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	
	2013	2012
	RMB'000	RMB'000
Neither past due nor impaired	**11,130,426**	10,142,555
Within 1 year	**10,467,514**	9,102,624
After 1 year but less than 2 years	**956,992**	1,184,804
After 2 years but less than 3 years	**208,349**	329,012
After 3 years	**67,372**	80,462
At 31 December	**22,830,653**	20,839,457

Receivables that were neither past due nor impaired mainly relate to major telecommunications 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 2013 are RMB10,757 million (2012: RMB10,093 million).

In respect of construction contacts in progress at the end of the reporting period, the amounts of retentions held by customers for contract work, recorded within "Accounts and bills receivable, net" at 31 December 2013 are RMB26 million (2012: RMB24 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

31. PREPAYMENTS AND OTHER CURRENT ASSETS

	The Group		The Company	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Advances to staff	**227,837**	210,911	**–**	83
Amounts due from CTC Group and an associate of the Group	**1,600,326**	1,316,856	**37,158**	96,591
Amounts due from subsidiaries	**–**	–	**710,443**	165,603
Prepayments in connection with construction work and equipment purchases	**1,861,759**	2,149,850	**–**	–
Prepaid expenses and deposits	**447,342**	292,107	**455**	1,011
Dividends receivable	**–**	–	**1,196,773**	1,088,732
Others	**890,141**	803,745	**3,401**	8,600
	5,027,405	4,773,469	**1,948,230**	1,360,620

The amounts due from CTC Group and an associate of the Group are unsecured, interest-free and are expected to be recovered within one year.

32. RESTRICTED DEPOSITS

Restricted deposits represent cash pledged as deposits for bills payable and cash held in dedicated bank accounts for certain construction projects, and deposits with maturity over three months.

33. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
Cash at bank and in hand	**6,027,934**	6,046,031	**387,674**	382,455
Deposits with banks and other financial institutions	**732,303**	2,833,460	**285,125**	1,640,610
Cash and cash equivalents	**6,760,237**	8,879,491	**672,799**	2,023,065

RMB 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

34. INTEREST-BEARING BORROWINGS

The Group's short-term interest-bearing borrowings comprise:

	2013 RMB'000	2012 RMB'000
RMB denominated		
Loan from a fellow subsidiary		
– unsecured	**13,280**	13,280
HKD denominated		
Borrowings from banks		
– unsecured	**–**	185,684
USD denominated		
Borrowings from banks		
– secured	**17,315**	17,851
– unsecured	**23,306**	192,990
	53,901	409,805

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

	2013	2012
RMB denominated		
Loan from a fellow subsidiary		
– unsecured	**2.39%**	2.39%
HKD denominated		
Borrowings from banks		
– unsecured	**1.45%–1.95%**	1.95%
USD denominated		
Borrowings from banks		
– secured	**5.30%**	5.30%
– unsecured	**1.77%–3.80%**	2.24%–2.46%

The Group's long-term interest-bearing borrowings comprise:

	2013 RMB'000	2012 RMB'000
USD denominated		
Borrowings from banks		
– secured	**51,580**	89,883

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

34. INTEREST-BEARING BORROWINGS (continued)

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

	2013	2012
USD denominated		
Borrowings from banks		
– secured	**5.30%**	5.30%

The Group's borrowings were repayable as follows:

	2013 RMB'000	2012 RMB'000
Within 1 year	**53,901**	409,805
After 1 year but within 2 years	**17,315**	17,851
After 2 years but within 5 years	**34,265**	53,553
After 5 years	**–**	18,479
	105,481	499,688

As at 31 December 2013, certain borrowings from banks of the Group were secured by property, plant and equipment with carrying amount of RMB379 million (2012: RMB402 million). Such banking facilities amounted to RMB131 million (2012: RMB131 million). The facilities were utilised to the extent of RMB69 million (2012: RMB131 million).

As at 31 December 2013, no borrowings from bank were subject to financial covenants.

35. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	The Group	
	2013 RMB'000	2012 RMB'000
Accounts payable	**14,651,217**	12,439,999
Bills payable	**2,429,567**	2,403,935
	17,080,784	14,843,934

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

35. ACCOUNTS AND BILLS PAYABLE (continued)

The ageing analysis of accounts and bills payable based on the invoice date is as follows:

	The Group	
	2013 **RMB'000**	2012 RMB'000
Within 1 year	**15,862,539**	13,686,729
After 1 year but less than 2 years	**793,208**	724,781
After 2 years but less than 3 years	**214,060**	197,282
After 3 years	**210,977**	235,142
	17,080,784	14,843,934

Included in accounts and bills payable are amounts due to CTC Group and an associate of the Group of RMB1,794 million (2012: RMB1,245 million) as at 31 December 2013. The amounts due to CTC Group and an associate of the Group are unsecured, interest-free and are expected to be settled within one year.

36. ACCRUED EXPENSES AND OTHER PAYABLES

	The Group		The Company	
	2013 **RMB'000**	2012 RMB'000	**2013** **RMB'000**	2012 RMB'000
Wages and welfare payable	**1,482,876**	1,480,656	**20,905**	17,951
Amounts due to CTC Group and an associate of the Group (note i)	**692,804**	770,720	**280**	62,772
Advances received	**715,214**	570,401	**–**	–
Other taxes payable	**715,852**	613,507	**4,064**	3,589
Special dividend and profit distribution payable to CTC Group (note ii)	**110,062**	136,365	**–**	–
Dividend payable	**39,578**	30,293	**–**	–
Payables for construction and purchase of fixed assets	**202,465**	204,067	**–**	–
Others	**3,167,646**	2,957,243	**1,593**	10,006
	7,126,497	6,763,252	**26,842**	94,318

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

36. ACCRUED EXPENSES AND OTHER PAYABLES (continued)

Notes:

(i) The amounts due to CTC group and an associate of the Group are unsecured, interest-free and are expected to be settled within one year.

(ii) Special dividend and profit distribution payable to CTC Group

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 RMB520 million special dividend to CTC and its subsidiaries by 31 December 2013.

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 RMB122 million has been paid to CTC and its subsidiaries by 31 December 2013.

Pursuant to the Equity Transfer Agreements entered into by the Group and CTC and its subsidiaries on 20 June 2012 in relation to the acquisitions of the Target Interests and SBSS, the net profit or loss made by the Target Interests and SBSS between the period from the respective valuation dates (31 October 2011 for Ningxia Construction and Ningxia Supervision and 30 June 2011 for Xinjiang Planning & Designing and SBSS) to 30 June 2012 (for the Target Interests) and 26 July 2012 (for SBSS) should be distributed in form of cash to CTC and its subsidiaries amounting to RMB26 million in total, of which RMB6 million has been paid to CTC and its subsidiaries by 31 December 2013.

37. OTHER NON-CURRENT LIABILITIES

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

38. SHARE CAPITAL

	2013 **RMB'000**	2012 RMB'000
Registered, issued and fully paid:		
4,534,598,160 (31 December 2012: 4,534,598,160) domestic shares of RMB1.00 each	**4,534,598**	4,534,598
2,391,420,240 (31 December 2012: 2,391,420,240) H shares of RMB1.00 each	**2,391,420**	2,391,420
	6,926,018	6,926,018

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38. SHARE CAPITAL (continued)

	2013 Thousand shares	2012 Thousand shares
At 1 January	**6,926,018**	5,771,682
Issue of domestic shares	**–**	755,766
Issue of H shares	**–**	398,570
At 31 December	**6,926,018**	6,926,018

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 a price of HKD3.19 per H rights share, and issued 755,766,360 domestic shares on the basis of 2 domestic rights shares for every 10 existing domestic shares at a price of 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.

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 monitors 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 2013 was 0.5% (2012: 2.4%). 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.

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% (2012: 20% to 22%) of the salaries, bonuses and certain allowances of the employees.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

40. SHARE APPRECIATION RIGHTS SCHEME

The Group implemented a share appreciation rights scheme for members of its management to provide incentives to them. Under this plan, share appreciation rights are granted in units with each unit representing one H share. No shares will be issued under the share appreciation rights scheme. Upon exercise of the share appreciation rights, a recipient will receive, subject to any applicable withholding tax, a cash payment in RMB, translated from the Hong Kong dollars amount equal to the product of the number of share appreciation rights exercised and the difference between the exercise price and market price of the Company's H shares at the date of exercise based on the applicable exchange rate between RMB and Hong Kong 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 first phase 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 HKD4.92 per unit.

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 first phase 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 HKD4.53 per unit.

In August 2011, the Company's remuneration committee approved the granting of share appreciation right units to new eligible employees (second batch of first phase 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.

In January 2012, the Company's remuneration committee approved the granting of 198.3 million share appreciation right units to eligible employees (the second phase share appreciation rights). Under the terms of this grant, all share appreciation rights have a contractual life of five years from date of grant and an exercise price of HKD3.41 per unit.

A recipient of share appreciation rights cannot 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 cannot in aggregate exceed one-third, two-third and 100%, respectively, of the total share appreciation rights granted to such person.

In March 2012, the Company's Board of Directors approved the adjustment of the exercise price of the first batch of the first phase share appreciation rights from HKD4.92 per unit to HKD4.66 per unit and of the granted amount to 39.3 million share appreciation right units, and approved the adjustment of the exercise price of the second batch of the first phase share appreciation rights from HKD4.53 per unit to HKD4.28 per unit and of the granted amount to 74.1 million share appreciation right units.

During the year ended 31 December 2013, RMB131 million was charged (2012: RMB102 million charged) to profit or loss arising from the fair value remeasurement of the accrued compensation liability at the end of the reporting period. At 31 December 2013, the Group has recorded liabilities of RMB140 million (2012: RMB133 million).

During the year ended 31 December 2013, the total of 113.4 million share appreciation right units of the first phase share appreciation rights have been exercised in 2013, and the second phase share appreciation rights are not vested and have not been fully granted to each eligible employee. As such, compensation expense of the second phase share appreciation rights over the applicable vesting period recognised has not been fully allocated to each eligible employees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

41. NOTES TO CONSOLIDATED STATEMENT OF CASH FLOWS

Acquisitions of the Target Interests and SBSS in 2012

During the year ended 31 December 2012, the Group acquired entire equity interests of the Target Interests (see note 1) for a total cash consideration of RMB51.07 million, of which RMB50.33 million has paid to CTC and its subsidiaries by 31 December 2012.

During the year ended 31 December 2012, the Group acquired the 51% equity interest of SBSS and all the associated rights and obligations (see note 1) for a total cash consideration of RMB264.60 million, of which RMB264.60 million has been paid to CTC and its subsidiaries by 31 December 2012.

42. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

As at 31 December 2013, the Group and the Company had capital commitments for acquisition and construction of property, plant and equipment and other assets as follows:

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Authorised and contracted for	**283,654**	96,168	**4,851**	2,804
Authorised but not contracted for	**334,807**	94,489	**–**	–

(b) Operating lease commitments

As at 31 December 2013, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Within 1 year	**276,463**	233,698
After 1 year but within 5 years	**317,779**	345,111
After 5 years	**94,851**	90,758
	689,093	669,567

The Group leases a number of properties under operating leases. The leases typically run for period of 1 year to 20 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 2013, the Group had no material contingent liabilities and no material financial guarantees issued.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposure to credit risks is monitored on an ongoing basis. 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 major customers accounted for 66% of the total accounts and bills receivable as at 31 December 2013 (2012: 64%). 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 minimize investments on these assets. The Group's available-for-sale investments are less than 2% of its total assets for both 2013 and 2012.

The amounts of cash and cash equivalents, restricted deposits, accounts and bills receivable, other receivables and available-for-sale investments in the statement of financial position 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 and long-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

For the year ended 31 December 2013

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 end of the reporting period 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 end of the reporting period) and the earliest date the Group and the Company can be required to pay:

The Group

	2013		2012	
	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	**Statement of financial position carrying amount RMB'000**	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	Statement of financial position carrying amount RMB'000
Short-term interest-bearing borrowings (note 34)	**57,636**	**53,901**	412,145	409,805
Account and bills payable (note 35)	**17,080,784**	**17,080,784**	14,843,934	14,843,934
Receipt in advance for contract work	**1,164,029**	**1,164,029**	1,386,805	1,386,805
Accrued expenses and other payables (note 36)	**7,126,497**	**7,126,497**	6,763,252	6,763,252
	25,428,946	**25,425,211**	23,406,136	23,403,796

The Company

	2013		2012	
	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	**Statement of financial position carrying amount RMB'000**	Contractual undiscounted cash outflow within 1 year or on demand RMB'000	Statement of financial position carrying amount RMB'000
Accrued expenses and other payables (note 36)	**26,482**	**26,482**	94,318	94,318

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

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 respective functional currencies of Group entities. 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, Saudi Arabian Riyal and Ethiopian Birr. 93.4% (2012: 89.3%) of the Group's cash and cash equivalents and 12.6% (2012: 2.7%) of the Group's short-term debt and long-term debt as at 31 December 2013 are denominated in RMB.

The following table details the Group's and the Company's exposure at the end of the reporting period 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) 2013					
	United States dollars RMB'000	**Hong Kong dollars RMB'000**	**Nigerian Naira RMB'000**	**Saudi Arabian Riyal RMB'000**	**Ethiopian Birr RMB'000**	**Others RMB'000**
Cash and cash equivalents	**165,371**	**29,924**	**69,938**	**24,711**	**4,988**	**151,957**
Accounts receivable	**388,265**	**58,657**	**49,007**	**166,127**	**76,451**	**726,394**
Accounts payable	**(161,406)**	**(30,673)**	**(37,827)**	**(45,943)**	**(22,073)**	**(457,609)**
Short-term interest-bearing borrowings	**(40,621)**	**–**	**–**	**–**	**–**	**–**
Long-term interest-bearing borrowings	**(51,580)**	**–**	**–**	**–**	**–**	**–**
Overall net exposure	**300,029**	**57,908**	**81,118**	**144,895**	**59,366**	**420,742**

	Exposure to foreign currencies (expressed in RMB) 2012					
	United States dollars RMB'000	Hong Kong dollars RMB'000	Nigerian Naira RMB'000	Saudi Arabian Riyal RMB'000	Ethiopian Birr RMB'000	Others RMB'000
Cash and cash equivalents	206,503	560,110	31,797	–	–	1,421
Accounts receivable	329,119	6,455	–	–	9	139,044
Accounts payable	(105,913)	(4,692)	–	–	–	(79)
Short-term interest-bearing borrowings	(210,841)	(185,684)	–	–	–	–
Long-term interest-bearing borrowings	(89,883)	–	–	–	–	–
Overall net exposure	128,985	376,189	31,797	–	9	140,386

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

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)			
	2013		2012	
	United States dollars RMB'000	**Hong Kong dollars RMB'000**	United States dollars RMB'000	Hong Kong dollars RMB'000
Cash and cash equivalents	**11**	**1,229**	13	528,000

The following significant exchange rates applied during the year:

The Group

	Average rate		Spot rate	
	2013	2012	**2013**	2012
United States dollars	**6.19**	6.29	**6.10**	6.29
Hong Kong dollars	**0.80**	0.81	**0.79**	0.81
Nigerian Naira	**0.04**	0.04	**0.04**	0.04
Ethiopian Birr	**1.65**	0.35	**1.62**	0.34
Saudi Arabian Riyal	**0.33**	1.67	**0.32**	1.66

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

Sensitivity analysis

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

The Group

	2013			2012		
	Increase/ (decrease) in foreign exchange rate	**Effect on profit after tax and retained profits RMB'000**	**Effect on other components of equity RMB'000**	Increase/ (decrease) in foreign exchange rate	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
United States dollars	**5%**	**11,251**	**–**	5%	4,837	–
	(5)%	**(11,251)**	**–**	(5)%	(4,837)	–
Hong Kong dollars	**5%**	**2,172**	**–**	5%	14,107	–
	(5)%	**(2,172)**	**–**	(5)%	(14,107)	–
Nigerian Naira	**5%**	**3,042**	**–**	5%	1,192	–
	(5)%	**(3,042)**	**–**	(5)%	(1,192)	–
Ethiopian Birr	**5%**	**2,226**	**–**	5%	–	–
	(5)%	**(2,226)**	**–**	(5)%	–	–
Saudi Arabian Riyal	**5%**	**5,434**	**–**	5%	–	–
	(5)%	**(5,434)**	**–**	(5)%	–	–

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

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, include inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or 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 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(e) Equity price risk

The Group is exposed to equity price changes arising from listed 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 end of the reporting period 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 2013, it is estimated that an increase/(decrease) of 5% (2012: 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 (decreased)/increased the Group's profit after tax (and retained profits) and other components of consolidated equity as follows:

The Group

	2013			2012		
	Increase/ (decrease) in equity price	**Effect on profit after tax and retained profits RMB'000**	**Effect on other components of equity RMB'000**	Increase/ (decrease) in equity price	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
Changes in the relevant equity price risk variable:						
Increase	**5%**	**(13,333)**	**1,554**	5%	(14,250)	1,289
Decrease	**(5)%**	**12,852**	**(1,554)**	(5)%	14,250	(1,289)

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 end of the reporting period and had been applied to remeasure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. 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 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(f) Fair value

(i) Financial instruments carried at fair value

Some of the Group's financial instruments are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial instruments are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	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	**41,439**	**–**	**–**	**41,439**
Trading financial assets				
– Foreign currency forward contract	**–**	**85**	**–**	**85**

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

The fair values of cash and cash equivalents, accounts and bills receivable, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(g) Estimation of fair values

The following summarises 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 end of the reporting period. 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.

(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 instrument, 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 end of the reporting period. 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 end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

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 ageing of the accounts receivable 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 other than good will

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 fair value less costs of disposal 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 with finite useful lives are depreciated/amortised 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/amortisation 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 statement of financial position. 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

For the year ended 31 December 2013

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 and the Group's associates

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 and the Group's associates which were carried out in the ordinary course of business are as follows:

	2013	2012
	RMB'000	RMB'000
Income from related parties:		
Engineering related services (note (i))	**14,436,240**	12,431,287
IT application services (note (ii))	**1,637,462**	1,400,908
Provision of ancillary telecommunications services (note (iii))	**6,639,560**	6,151,153
Provision of operation support services (note (iv))	**2,271,582**	2,134,579
Supplies procurement service (note (v))	**4,162,827**	3,898,977
Property leasing (note (vi))	**83,858**	62,695
Management fee income (note (vii))	**319,701**	315,634
Expenses paid to related parties:		
Property leasing charges (note (viii))	**148,867**	141,543
IT application service charges (note (ix))	**247,582**	197,471
Operation support service charges (note (x))	**614,845**	571,426
Supplies procurement service charges (note (xi))	**2,995,688**	2,535,073
Interest paid (note (xii))	**147**	849

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

45. RELATED PARTIES (continued)

(a) Transactions with CTC Group and the Group's associates (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 equipment services provided to CTC Group.

(v) The amount represents supplies procurement service such as supplies procurement service, management of 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 and an associate of the Group for logistics, labor resources, cultural, educational, hygiene and other supporting services.

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

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

Amounts due from/to CTC Group and the Group's associates included in respective balances are summarised as follows:

	2013 RMB'000	2012 RMB'000
Accounts and bills receivable, net	**11,748,984**	9,599,241
Prepayments and other current assets	**1,600,326**	1,316,856
Total amounts due from CTC Group and the Group's associates	**13,349,310**	10,916,097
Interest-bearing borrowings	**13,280**	13,280
Accounts and bills payable	**1,793,968**	1,244,697
Receipts in advance for contract work	**42,612**	61,446
Accrued expenses and other payables	**802,866**	907,085
Total amounts due to CTC Group and the Group's associates	**2,652,726**	2,226,508

As at 31 December 2013, the Group has recognised impairment losses of RMB8 million (2012: RMB8 million) for bad and doubtful debts in respect of amounts due from CTC Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

45. RELATED PARTIES (continued)

(a) Transactions with CTC Group and the Group's associates (continued)

As at 31 December 2013, the Group has capital commitments to CTC Group for acquisition and construction of property, plant and equipment and other assets as follows:

	2013 **RMB'000**	2012 RMB'000
Authorised and contracted for	**5,032**	2,804

As at 31 December 2013, the Group total future minimum lease payments to CTC Group under non-cancellable operating leases were payable as follows:

	2013 **RMB'000**	2012 RMB'000
Within 1 year	**58,618**	69,847
After 1 year but within 5 years	**101,576**	143,119
After 5 year	**70,504**	74,595
	230,698	287,561

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

In connection with the Restructuring, the Company and CTC entered into a number of agreements effective as at November 16, 2006 to take up the existing agreements signed between the Predecessor Operations and CTC as set out in items (i), (ii) and (iii) below, together with a new agreement governing the provision of headquarter management function by the Company as set out in item (iv). 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 (v) 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. On 14 November 2011, the Company announced to propose the increase of annual caps for service charges payable to CTC Group under the Supplies Procurement Services Framework Agreement to RMB2,100 million and RMB2,600 million respectively, for the two years ending 31 December 2011 and 2012. On 20 September 2012, the Company announced to propose the increase of annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under Operation Support Services Framework Agreement for the year ending 31 December 2012 to RMB2,300 million and to RMB600 million, respectively, and the annual cap for the service charges receivable by the Company from CTC Group under the Supplies Procurement Services Framework Agreement for the year ending 31 December 2012 to RMB4,400 million, and signed Supplement Agreements which extended the expiry date of all agreements to 31 December 2015 and increased annual caps of several framework agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

45. RELATED PARTIES (continued)

(a) Transactions with CTC Group and the Group's associates (continued)

According to these Supplement Agreements for the year ended 31 December 2013, (i) the annual cap for the service charges receivable by the Company from CTC Group under the Engineering Related Services Framework Agreement was RMB17,000 million; (ii) the annual cap for the service charges receivable by the Company from CTC Group under the Ancillary Telecommunications Services Framework Agreement was RMB9,000 million; (iii) the annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under the Operation Support Services Framework Agreement wear RMB2,800 million and RMB650 million; (iv) the annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under the IT Application Services Framework Agreement wear RMB2,000 million and RMB430 million; (v) the annual cap for the service charges receivable by the Company from CTC Group under the Centralised Services Framework Agreement was RMB400 million; (vi) the annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under the Property Leasing Services Framework Agreement wear RMB166 million and RMB160 million; (vii) the annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under the Supplies Procurement Services Framework Agreement wear RMB4,600 million and RMB3,100 million. 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 price is to be agreed between the relevant parties, which shall be based on the cost incurred in providing the services plus a reasonable profit margin.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

45. RELATED PARTIES (continued)

(a) Transactions with CTC Group and the Group's associates (continued)

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

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

- maximum 1% of the contract value for procurement services on imported telecommunication supplies;
- maximum 3% of the contract value for procurement services on domestic telecommunication and non-telecommunication supplies and materials;
- government prescribed price;
- where there is no government prescribed prices but where there is a government guided price, the government guided price will apply;
- where there is neither a government prescribed price nor a government guided price, the market price will apply; and
- where none of the above is available, the price is to be agreed between the relevant parties, which shall be based on the cost incurred in providing the services plus a reasonable profit margin.

(6) On 20 June 2012, the Company entered into a series of equity transfer and asset acquisition agreements with CTC's subsidiaries (the "Transferors") to acquire (i) the Target Interests and SBSS (as defined in note 1(b)); (ii) certain assets owned by Ningxia Telecom Industrial; and (iii) certain assets owned by Guangdong Telecom Industrial and/or its subsidiary for a total consideration of RMB416 million. As the Transferors are all subsidiaries of CTC which is the controlling shareholding of the Company, so the Transferors are connected persons of the Company under the Listing Rules. Accordingly, the equity transfers and asset acquisitions constituted connected transactions of the Company. The Company has complied with the relevant Listing Rules requirements in respect of such connected transactions and made corresponding announcement on 20 June 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

45. RELATED PARTIES (continued)

(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

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:

	2013 RMB'000	2012 RMB'000
Salaries and other emoluments	**5,325**	5,265
Retirement benefits	**3,111**	2,183
Bonuses	**16,373**	14,596
Share appreciation rights	**16,804**	–
	41,613	22,044

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

45. RELATED PARTIES (continued)

(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 2013 and 2012, there was no material outstanding contribution to post-employment benefit plans.

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

(e) Applicability of the Listing Rules relating to connected transactions

The related party transactions with CTC Group disclosed in note 45(a) above constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. The applicable disclosures required by Chapter 14A of the Listing Rules are provided in the "Continuing Connected Transactions" section of the report of the directors on pages 55 to 60.

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 2013 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 2013	6,926,018	4,529,310	1,968,351	541,379	1,365,048	15,330,106
Price paid in the acquisition of Hainan Communications Services Company Limited	–	–	(2,058)	–	–	(2,058)
Profit for the year	–	–	–	–	1,234,219	1,234,219
Distribution of dividend (see note 15(b))	–	–	–	–	(962,717)	(962,717)
Appropriation	–	–	–	123,422	(123,422)	–
At 31 December 2013	6,926,018	4,529,310	1,966,293	664,801	1,513,128	15,599,550

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

47. DISTRIBUTABLE RESERVES (continued)

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

	2013 **RMB'000**	2012 RMB'000
At 31 December	**572,401**	357,138

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

Notes:

(i) The share premium represents the difference between the total amount of the par value of shares issued and the amount of the net proceeds received from the initial public offering in 2006 and subsequent share issuance in 2008 and 2012 (see note 38) respectively.

(ii) The capital reserve mainly 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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

48. POSSIBLE IMPACT OF AMENDMENT TO STANDARDS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2013

Up to the date of issue of these financial statements, the IASB has issued a number of amendments to standards, new standards and interpretation which are not yet effective for the year ended 31 December 2013 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[1]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle[2]
IFRS 9	Financial Instruments[3]
IFRS 14	Regulatory Deferral Accounts[5]
IFRIC 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Available for application – the mandatory effective date will be determined when the outstanding phases of IFRS 9 are finalised
4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions
5 Effective for first annual IFRS financial statements beginning on or after 1 January 2016

The Group is in the process of making an assessment of what the impact of these amendments to standards, new standards and interpretation 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. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2013, the directors of the Company 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.