中国通信服务
CHINA COMSERVICE

穩健根基 發展無限
Solid Foundation Expand Infinity

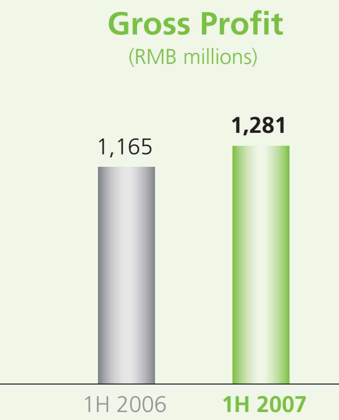
中國通信服務股份有限公司
China Communications Services Corporation Limited
(股份代號 Stock Code: 552)

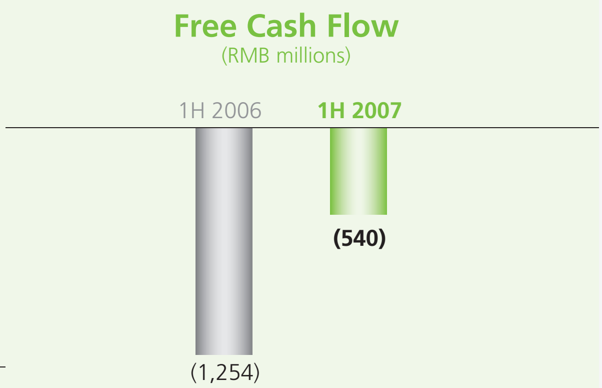
二零零七年中期報告
Interim Report 2007

Contents

Financial Highlights

	Six months ended 30 June 2006	2007	Change
Revenues (RMB millions)	6,372	**7,365**	15.6%
Gross profit (RMB millions)	1,165	**1,281**	10.0%
Profit attributable to equity shareholders/owner (RMB millions)	194	**374**	92.8%[1]
Basic earnings per share (RMB)	0.049	**0.069**	40.8%
Free cash flow[2] (RMB millions)	(1,254)	**(540)**	N.A.





(1) Excluding the asset revaluation deficit of RMB105 million pursuant to the restructuring in 2006, profit attributable to equity shareholders/owner up by 25.0%

(2) Free cash flow = Profit for the period + Depreciation and amortization – Changes in working capital – Capital expenditure

Chairman's Statement

Dear shareholders,

It is very encouraging to see a sustainable, steady and healthy development in the first half of 2007. We successfully carried out the acquisition plan from our parent company which fully demonstrated the superior decision making ability of our Board and excellent execution capability of our management team. Meanwhile, as market demand for specialized telecommunications support services remained strong, we leveraged on our unique integrated one-stop services business model and strong customer base, and achieved favourable results through strengthening internal resources integration and further improvement of our service standard.

By pursuing the complementary development strategies of organic and external growth, the Company commenced preparatory work during the interim period for, and completed its acquisition from its parent company, China Telecommunications Corporation, of the assets comprising the business of specialized telecommunications support services in 13 provinces (municipality and autonomous regions) on 31 August 2007. This strategic acquisition has extended our business coverage from the original 6 provinces (municipality) to 19 provinces (municipality and autonomous regions), favoring a larger scale of operations nation-wide, and further reinforcing and consolidating our leading position. The majority of the newly acquired assets and businesses are located in the middle and western provinces areas of the PRC with rapid economic growth prospects and huge potential for sustainable development. During the restructuring stage of the acquisition, we implemented a series of measures in areas such as management system, organizational structure, business processes and financial management in order to integrate the acquired assets. Through the optimization of resource allocation and adjustments to business structure, we aim to realize synergies and enhance operational efficiency on a nation-wide scale within a shorter timeframe. In future, we will continue to explore other acquisition opportunities with synergy potential, with a view to enhancing enterprise value.

In the first half of 2007, the development of 3G in mainland China has entered into a new stage of expanded trial network construction and the number of cities participating the trial implementation increased from 3 to 10. Amid enormous business opportunities, as early as 2006, the Company has already provided telecommunications operators integrated service solutions including planning, design, construction, maintenance and content development so as to involve in various aspects of the 3G market. Our participation have made meaningful contribution to the telecommunications operators in reducing their project management difficulties, enhancing efficiency and shortening construction time. Since 2007, we have actively participated in the expanded TD-SCDMA trial network projects in more than half of the participating cities in mainland China, and engaged in businesses such as design, supervision, management and network optimization of a number of base stations and networks. Moving ahead, we will capitalize on our experience and further enhance our integrated service capabilities in order to be better positioned to seize a larger share in the future 3G market.

A sound corporate governance structure has afforded our Company enhanced transparency. Our Board and specialized Board committees have strictly complied with the relevant laws, regulations and procedures in the acquisition of assets from our parent company to ensure major decisions were sound and independent, and thereby effectively protecting interests of the public shareholders. Pursuant to relevant regulatory requirements and with emphasis on better internal management standards, we have established internal control and risk management system at the outset of the establishment of the Company. We aim to create a long-term mechanism to avoid and guard against risks to enable effective implementation of our existing strategies and further improve our operational effectiveness and efficiency.

Looking ahead, with China's rapid economic growth, there is great development potential for the PRC telecommunications industry. The PRC government's strong initiative to foster "informationalization" and the tremendous market demand for telecommunications infrastructure services and IT solutions will offer us promising prospects for continual development. Through further optimization of our resource allocation, active expansion on external markets, continual enhancement of our service and management standards and continual consolidation of our strategic cooperation relationships with telecommunications operators and equipment vendors, we will further enhance the value of our Company and create higher returns for our shareholders.

Finally, on behalf of the Company, I would like to express my heartfelt gratitude to all our staff for their hard work and to the directors and shareholders for their unwavering trust and support for the Company.

Wang Xiaochu
Chairman

Beijing, PRC
5 September 2007

Chief Executive Officer's Statement

Dear shareholders,

In the first half of 2007, our Company achieved robust operating results, with sustained stable growth in revenue and profit, further optimized business structure, and achieved initial success on external market expansion. In addition, in the first half of 2007 we commenced work on the acquisition from our parent company the assets providing the specialized telecommunications services in the 13 provinces (municipality and autonomous regions) and completed the acquisition on 31 August 2007, thereby strengthening our operational synergies and further consolidating our leading position in the industry.

Financial Results

In the first half of 2007, the Company's operating revenue reached RMB7,365.12 million, representing an increase of 15.6% over the same period last year. In particular, revenue from our customers, excluding China Telecom Group amounted to RMB4,007.06 million, or 54.4% of the total revenue, up 5.8 percentage points from the same period last year, indicating an improved revenue structure of the Company. Operating costs amounted to RMB6,084.27 million, representing a 16.8% growth from the same period last year. Gross profit was RMB1,280.85 million, up 10.0% year-on-year. Selling, general and administrative expenses was RMB820.61 million or a growth of 3.7% year-on-year, accounting for 11.1% of our total revenue, a decrease of 1.3 percentage points from the same period last year. With the effective implementation of our existing cost control measures, EBITDA[1] margin was 10.0%, remaining unchanged from the same period last year. Profit attributable to equity holders of the Company was RMB374.21 million, which was 92.8% higher than the same period last year. The substantial growth in profit was primarily attributable to stable revenue growth, and the deficit on revaluation of assets of RMB105.30 million incurred during our restructuring in preparation for listing in 2006. Excluding the effects of deficit on revaluation of assets, profit attributable to equity holders of the Company was 25.0% higher than the same period last year. Basic earnings per share was RMB0.069. Free cash flow was an outflow of RMB540.45 million, which represented an improvement in comparison with outflow of RMB1,254.10 million for the same period last year.

Business Performance

In the first half of the year, we recorded a favorable growth in our telecommunications infrastructure services, business process outsourcing services and applications, content and others services businesses. Telecommunications infrastructure services developed at a steady pace and remained the Company's major source of revenue. Revenue for the first half of the year was RMB3,677.29 million or 16.9% growth from the same period last year, representing 49.9% of our total revenues. Construction services and design services accounted for 37.0% and 10.8% of our total revenue respectively, ranking the first and the third respectively in terms of revenue contribution to the Company. In anticipation of the continual CAPEX control by fixed line operators, we endeavoured to improve our service standard and actively explored business opportunities with other telecommunications operators, thereby successfully maintaining the continual growth in this area.

Benefiting from telecommunications operators' tendency to outsource their non-core businesses, revenue from the business process outsourcing services demonstrated an upward trend. Revenue in the first half of the year was RMB2,739.82 million, an increase of 11.5% from the same period last year, representing 37.2% of our total revenue. Of which, revenue from distribution of telecommunications services and products accounted for 22.0% of our total revenues and ranked the second in terms of revenue contribution. Steady revenue growth in the business process outsourcing services was mainly attributable to the expanded market for network maintenance business as China Telecom actively engaged in its outsourcing initiative, and mobile operators conducted network capacity expansion and optimization, and our active initiatives in developing facilities management business for the high-end services and government and corporate customers.

1 EBITDA = Gross profit + Other operating income – Selling, general and administrative expenses – Other operating expenses + Depreciation and amortization

For the first half of the year, revenue from applications, content and others services and its percentage over the total revenue recorded an increase. Its revenue amounted to RMB948.02 million, or 23.3% growth from the same period last year, accounting for 12.9% of our total revenue. The favourable revenue growth was attributable to the successful business development on the market of government agencies and corporate customers, as well as the rapid cross-regional replication of high value products, such as the replication of the "e-touch" city security network platform and "Net CA" certificate authentication platform in provinces such as Hubei. In spite of the long nurturing period and uncertainty of revenue contribution from applications, content and others services, we believe that with our further nurturing and consolidation efforts, these businesses will gradually become the Company's new growth driver in future.

In the first half of the year, telecommunications operator customers are still the major contributors to our revenues. Total revenue from the three major telecommunications operators amounted to RMB4,695.67 million, representing 63.8% of our total revenues, in which revenues from China Telecom, China Mobile and China Unicom accounted for 45.6%, 14.8% and 3.4% respectively. After our listing, we fully utilized our service neutral and specialized services advantages, and promptly responded to customer needs. As a result, revenue growth from government agencies and corporate customers and other telecommunications operators excluding China Telecom, was accelerated, with revenue from these customers increased by 28.9% year-on-year, and our revenue structure was further optimized.

Our Company further enhanced our strategic cooperation with telecommunications equipment vendors. In the emerging telecommunications markets including South-East Asia and Africa, we cooperated with ZTE Corporation, Nokia, Motorola and others in various projects including telecommunications infrastructure construction. Although our overseas business development is still at its initial stages, we believe that contribution from overseas markets will continue to increase and become a new driver for our future growth through our efforts in the integration of resources and enhancement of service quality and standard.

Internal Operation and Management

In the first half of 2007, our comprehensive budget management system has been improved to be more scientific, accurate and uniform. We strengthened our performance review system to ensure the attainment of all performance indicators. We also raised our management efforts on investments, fixed assets and property right, so that the operations and management of our Company are more regulated. Our IT management system was further upgraded to become a key platform for management and operations, enabling the centralization of data in areas such as accounting and human resources, as well as the analysis and management of key indicators. Our overall management standard is therefore improved.

Adhering to the corporate culture stressing the welfare of our staff, we endeavoured to create a harmonious and passionate environment for our employees to maximize their potential. While optimizing our staffing structure, we stringently controlled the growth of the size of our workforce and increased the productivity of our staff. To grasp the opportunities of 3G development, we devoted more efforts to recruit and retain employees with 3G technical and business capabilities, and our human resources structure was further improved. In the first half of the year, the Share Appreciation Rights Scheme has been approved by shareholders in the shareholder meeting. Pursuant to the implementation of such incentive scheme according to the relevant policies for management staff and core staff members, it will provide us an effective measure to attract and retain talents.

Prospects

For the second half of 2007, we are optimistic about our prospects. The continual development of the telecommunications industry and the government's strong initiative to accelerate the informationalisation of the PRC will provide ample opportunities for our future development. The completion of asset acquisition from our parent company has also provided more room for our development. Meanwhile, we will further diversify our revenue sources from different customers and businesses, further enhance our operating efficiency, and further integrate our newly acquired businesses and assets to provide better synergies. By these measures, we will form a strong foundation for our sustainable, steady and healthy future development.

Amid opportunities and challenges, we will continue to adhere to our existing development strategies, leveraging on our one-stop service business model, and enhance the quality and standard of our services to meet our customer needs. We will also enhance the unified planning and management of our strategies and brand names, and accelerate the cross-regional replication for successful products and services, in order to consolidate our leading position in the market. By optimizing our resource allocation and speeding up our business integration, we will enhance our economies of scale and operational efficiency to further improve the core competitiveness of the Company.

We are fully confident about our future. We strongly believe that with the sound decision-making capabilities from the Board, extensive management experience and excellent execution capabilities of our management team, and the joint efforts of all employees, we will continue to grow and develop and create better returns for our shareholders.

Finally, I would like to express my gratitude to our shareholders, directors and our staff for their persistent support to the Company.

Li Ping
Vice Chairman and Chief Executive Officer

Beijing, PRC
5 September 2007

Independent Review Report

To the board of directors
China Communications Services Corporation Limited
(Established in The People's Republic of China with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 8 to 28 which comprises the consolidated balance sheet of China Communications Services Corporation Limited ("the Company") as of 30 June 2007, and the related consolidated income statement, the consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim financial reporting" issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2007 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim financial reporting".

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

5 September 2007

Consolidated Income Statement – Unaudited

for the six months ended 30 June 2007
(Expressed in Renminbi)

	Note	Six months ended 30 June 2007 RMB'000	2006 RMB'000
Revenues	3	**7,365,124**	6,372,225
Cost of revenues	4	**(6,084,272)**	(5,207,579)
Gross profit		**1,280,852**	1,164,646
Other operating income	5	**95,665**	81,290
Selling, general and administrative expenses		**(820,605)**	(791,252)
Other operating expenses		**(4,631)**	(2,976)
Deficit on revaluation of property, plant and equipment	6	**—**	(105,299)
Net financing income	7	**27,193**	7,657
Share of profits less (losses) of associates		**414**	(1,085)
Negative goodwill		**—**	4,039
Profit before tax	8	**578,888**	357,020
Income tax	9	**(194,096)**	(147,197)
Profit for the period		**384,792**	209,823
Attributable to:			
Equity shareholders/owner		**374,210**	194,083
Minority interests		**10,582**	15,740
Profit for the period		**384,792**	209,823
Basic and diluted earnings per share (RMB)	11	**0.069**	0.049

The notes on pages 14 to 28 form part of this interim financial report.

Consolidated Balance Sheet – Unaudited

at 30 June 2007
(Expressed in Renminbi)

	Note	30 June 2007 RMB'000	31 December 2006 RMB'000
Non-current assets			
Property, plant and equipment, net	12	**2,322,464**	2,232,848
Investment properties		**298,251**	286,892
Construction in progress		**112,743**	265,804
Lease prepayments		**101,699**	103,190
Intangible assets		**37,315**	32,968
Interests in associates		**7,902**	7,927
Other investments		**170,129**	138,475
Deferred tax assets		**45,038**	74,221
Total non-current assets		**3,095,541**	3,142,325
Current assets			
Trading securities		**8,236**	—
Inventories		**688,083**	828,124
Accounts and bills receivable, net	13	**4,165,244**	3,351,262
Prepayments and other current assets		**806,465**	938,640
Cash and cash equivalents	14	**6,926,387**	7,071,029
Total current assets		**12,594,415**	12,189,055
Total assets		**15,689,956**	15,331,380
Current liabilities			
Interest-bearing borrowings		**113,000**	95,500
Accounts and bills payable	15	**2,907,067**	2,860,065
Receipts in advance for contract work		**349,203**	612,818
Accrued expenses and other payables		**2,754,983**	2,069,705
Income tax payable		**108,126**	110,202
Total current liabilities		**6,232,379**	5,748,290
Net current assets		**6,362,036**	6,440,765
Total assets less current liabilities		**9,457,577**	9,583,090

Consolidated Balance Sheet – Unaudited (Continued)

at 30 June 2007
(Expressed in Renminbi)

	Note	**30 June 2007 RMB'000**	31 December 2006 RMB'000
Non-current liabilities			
Deferred tax liabilities		**8,524**	—
Total non-current liabilities		**8,524**	—
Total liabilities		**6,240,903**	5,748,290
Equity			
Share capital		**5,444,986**	5,444,986
Reserves		**3,902,612**	4,036,323
Equity attributable to equity shareholders of the Company		**9,347,598**	9,481,309
Minority interests		**101,455**	101,781
Total equity		**9,449,053**	9,583,090
Total liabilities and equity		**15,689,956**	15,331,380

The notes on pages 14 to 28 form part of this interim financial report.

Consolidated Statement of Changes in Equity – Unaudited

for the six months ended 30 June 2007
(Expressed in Renminbi)

		Equity attributable to equity shareholders of the Company											
	Note	Share capital RMB'000	Share premium (note f) RMB'000	Capital reserve (note g) RMB'000	Revaluation reserve RMB'000	Statutory surplus reserve (note e) RMB'000	Fair value reserve (note h) RMB'000	Exchange reserve (note i) RMB'000	Other reserve RMB'000	Retained earnings/ shareholders' equity RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
As at 1 January 2006		—	—	—	—	—	—	—	—	6,772,775	6,772,775	520,421	7,293,196
Contributions	(a)	—	—	—	—	—	—	—	—	478,335	478,335	—	478,335
Acquisition of minority interests through contributions from CTC		—	—	—	—	—	—	—	—	315,957	315,957	(315,957)	—
Profit distributions	(b)	—	—	—	—	—	—	—	—	(655,027)	(655,027)	(126,769)	(781,796)
Distributions	(c)	—	—	—	—	—	—	—	—	(834,638)	(834,638)	—	(834,638)
Net assets distributed to CTC in connection with the Restructuring	(d)	—	—	—	—	—	—	—	—	(1,660,674)	(1,660,674)	—	(1,660,674)
Recognition of deferred tax assets		—	—	—	—	—	—	—	42,507	—	42,507	—	42,507
Revaluation of property, plant and equipment		—	—	—	294,442	—	—	—	—	—	294,442	1,131	295,573
Profit for the period		—	—	—	—	—	—	—	—	194,083	194,083	15,740	209,823
As at 30 June 2006		—	—	—	294,442	—	—	—	42,507	4,610,811	4,947,760	94,566	5,042,326
As at 1 January 2007		**5,444,986**	**1,557,783**	**1,413,776**	**294,442**	**69,969**	**—**	**—**	**42,507**	**657,846**	**9,481,309**	**101,781**	**9,583,090**
Profit distributions	10(a)	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(535,011)**	**(535,011)**	**(10,908)**	**(545,919)**
Changes in fair value of available-for-sale securities	(h)	**—**	**—**	**—**	**—**	**—**	**42,616**	**—**	**—**	**—**	**42,616**	**—**	**42,616**
Recognition of deferred tax liabilities		**—**	**—**	**—**	**—**	**—**	**(8,524)**	**—**	**—**	**—**	**(8,524)**	**—**	**(8,524)**
Exchange differences on translation of financial statements of a subsidiary in Hong Kong	(i)	**—**	**—**	**—**	**—**	**—**	**—**	**(1,541)**	**—**	**—**	**(1,541)**	**—**	**(1,541)**
Profit for the period		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**374,210**	**374,210**	**10,582**	**384,792**
Effect on opening deferred tax balances resulting from a decrease in future tax rate		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(5,461)**	**—**	**(5,461)**	**—**	**(5,461)**
As at 30 June 2007		**5,444,986**	**1,557,783**	**1,413,776**	**294,442**	**69,969**	**34,092**	**(1,541)**	**37,046**	**497,045**	**9,347,598**	**101,455**	**9,449,053**

Consolidated Statement of Changes in Equity – Unaudited (Continued)

for the six months ended 30 June 2007
(Expressed in Renminbi)

Notes:

(a) *The capital contributions during the six months ended 30 June 2006 represent the injection of cash and other assets, including property, plant and equipment and the increase in shareholdings in the subsidiaries.*

(b) *Profit distributions during the six months ended 30 June 2006 represent the appropriation made and dividend declared by certain of the subsidiaries of the Group prior to the establishment of the Company.*

(c) *The distributions during the six months ended 30 June 2006 represent the reduction in capital of certain subsidiaries and distributions of cash and other assets, including property, plant and equipment by certain subsidiaries upon transformation into limited liability companies.*

(d) *Pursuant to the Restructuring (as defined in note 1(b)), certain assets and liabilities of the Predecessor Operations (as defined in note 1(b)) were not transferred to the Group and were reflected as distributions to the then owner in the consolidated statement of changes in equity for the six months ended 30 June 2006.*

(e) *Statutory surplus reserves*
According to the Company's Articles of Association, the Company is required to transfer 10% of its net profit as determined in accordance with the People's Republic of China 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 issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

(f) *Share premium*
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.

(g) *Capital reserve*
The capital reserve represents the difference between the total amount of the par value of shares issued and the amount of the net assets transferred from China Telecom Corporation, Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation upon the formation of the Company.

(h) *Fair value reserve*
The fair value reserve represents the net change in the fair value of available-for-sale securities in other investments held at the balance sheet date.

(i) *Exchange reserve*
The exchange reserve represents all foreign exchange differences arising from the translation of the financial statements of a subsidiary located in Hong Kong.

The notes on pages 14 to 28 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement – Unaudited

for the six months ended 30 June 2007
(Expressed in Renminbi)

		Six months ended 30 June	
	Note	**2007**	2006
		RMB'000	RMB'000
Net cash used in operating activities		**(388,957)**	(827,275)
Net cash used in investing activities		**(98,759)**	(3,996)
Net cash generated from/(used in) financing activities		**343,074**	(409,796)
Net decrease in cash and cash equivalents		**(144,642)**	(1,241,067)
Cash and cash equivalents at the beginning of period		**7,071,029**	3,685,916
Cash and cash equivalents at the end of period	*14*	**6,926,387**	2,444,849

The notes on pages 14 to 28 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

for the six months ended 30 June 2007
(Expressed in Renminbi)

1 Principal activities and organisation

(a) Principal activities

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

(b) Organisation

The Company was established in the PRC on 30 August 2006 as a joint stock limited company under the Company Law of the PRC as part of the Restructuring (as defined below) of China Telecommunications Corporation ("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 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 way of asset injection of those subsidiaries carrying on the Predecessor Operations in consideration of approximately 3,623.4 million ordinary shares with a par value of RMB1 each.

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

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

1 Principal activities 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 HK$2.20 per H share by way of an initial public offering ("IPO") to Hong Kong and overseas investors. In connection with the IPO, 129,129,300 domestic state-owned shares of RMB1.00 each owned by CTC and its subsidiaries were converted into H shares and transferred to the National Council for Social Security Fund of the PRC ("SSF"). In December 2006, the Company also issued 193,693,000 H shares with a par value of RMB1.00 each, at a price of HK$2.20 per H share upon the exercise of the over-allotment option. In connection with the exercise of the over-allotment option, 19,369,300 domestic state-owned shares of RMB1.00 each owned by CTC and its subsidiaries were converted into H shares and transferred to SSF. A total of 1,633,484,600 H shares were listed on the Stock Exchange of Hong Kong Limited.

2 Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34 "Interim financial reporting" adopted by the International Accounting Standards Board ("IASB"). It was authorised for issuance on 5 September 2007.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2006 annual financial statements.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2006 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs"). IFRSs include all applicable individual International Financial Reporting Standards, IASs and related interpretations.

The interim financial report is unaudited, but has been reviewed by the Audit Committee of the Company. The interim financial report has also been reviewed by the Company's international auditors, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants.

2 Basis of preparation (Continued)

The financial information relating to the financial year ended 31 December 2006 that is included in the interim financial report as being previously reported information does not constitute the Group's annual financial statements prepared under IFRSs for that financial year but is derived from those financial statements. Annual financial statements for the year ended 31 December 2006 are available from the Company's registered office. The Company's international auditors have expressed an unqualified opinion on the forgoing annual financial statements for the year ended 31 December 2006 in their reports dated 17 April 2007.

The financial information relating to the six months ended 30 June 2006 that is included in the interim financial report as being previously reported information does not constitute the Group's financial statements for that financial period but is derived from the financial information included in the Accountant's Report in Appendix I of the Company's Prospectus dated 27 November 2006 (the "Prospectus"). The Prospectus is available from the Company's registered office.

3 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:

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Revenue from telecommunications infrastructure services	**3,677,285**	3,145,606
Revenue from business process outsourcing services	**2,739,816**	2,457,462
Revenue from applications, content and others	**948,023**	769,157
	7,365,124	6,372,225

4 Cost of revenues

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Depreciation and amortisation	**123,622**	119,399
Direct personnel costs	**1,311,943**	1,121,294
Operating lease charges	**95,424**	87,269
Purchase of materials and telecommunications products	**2,384,055**	2,170,256
Subcontracting charges	**1,484,744**	1,163,317
Others	**684,484**	546,044
	6,084,272	5,207,579

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5 Other operating income

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Dividend income from unlisted securities	**13,940**	20,993
Government grants	**35,569**	19,173
Net gain on disposal of investments	**8,445**	20,809
Net gain on disposal of property, plant and equipment	**—**	7,139
Penalty income	**556**	851
Management fee income (note i)	**31,183**	—
Write-off of non-payable liabilities	**—**	268
Others	**5,972**	12,057
	95,665	81,290

Note:

(i) The amount represents management fee income in respect of centralised management services provided to CTC.

6 Deficit on revaluation of property, plant and equipment

Deficit on revaluation of property, plant and equipment is the deficit arising from the valuation of property, plant and equipment pursuant to the Restructuring.

7 Net financing income

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Interest income	**55,096**	16,974
Net foreign exchange (loss)/gain	**(21,284)**	1,083
Net change in fair value of financial assets at fair value through profit or loss	**(898)**	—
Interest on bank advances and other borrowings wholly repayable within five years	**(5,721)**	(10,400)
	27,193	7,657

For the periods ended 30 June 2007 and 2006, no borrowing costs were capitalised in relation to construction in progress.

8 Profit before tax

	Six months ended 30 June 2007 RMB'000	2006 RMB'000
Profit before taxation is arrived at after charging:		
(a) Staff costs:		
Salaries, wages and other benefits	**1,633,416**	1,438,188
Contributions to defined contribution retirement schemes	**141,233**	138,963
	1,774,649	1,577,151
(b) Other items:		
Depreciation and amortisation	**183,133**	186,910
Cost of inventories	**2,384,055**	2,170,256
Impairment losses on trade and other receivables	**2,737**	2,045
Operating lease charges	**126,128**	114,760
Research and development costs	**5,054**	5,625
Share of associates' taxation	**131**	—

9 Income tax

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

	Six months ended 30 June 2007 RMB'000	2006 RMB'000
Current tax		
PRC enterprise income tax	**170,374**	152,130
Deferred tax		
Origination and reversal of temporary differences	**23,722**	(4,933)
Total income tax	**194,096**	147,197

9 Income tax (Continued)

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

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Profit before tax	**578,888**	357,020
Expected PRC enterprise income tax expense at a statutory tax rate of 33% (note (i))	**191,033**	117,817
Differential tax rates on subsidiaries' income (note (i))	**(41,504)**	(40,081)
Non-deductible expenses (note (ii))	**16,738**	77,637
Non-taxable income (note (iii))	**(8,315)**	(15,450)
Tax losses not recognised (note (iv))	**10,613**	7,274
Reversal of previously recognised tax losses (note (v))	**17,585**	—
Effect on opening deferred tax resulting from a reduction in PRC statutory tax rate (note (vi))	**7,946**	—
Income tax	**194,096**	147,197

Notes:

(i) *The provision of PRC enterprise income tax of the Group is calculated based on a statutory rate of 33% of the assessable profit of the Group as determined in accordance with the relevant PRC enterprise income tax rules and regulations for the periods ended 30 June 2007 and 2006 except for certain subsidiaries of the Group, which are taxed at preferential rate of 15%.*

(ii) *The amounts include personnel and other miscellaneous expenses in excess of statutory deductible limits for tax purpose. The amounts for the period ended 30 June 2006 also include the deficit on revaluation of property, plant and equipment.*

(iii) *Non-taxable income mainly represents dividend income.*

(iv) *The amount includes deferred tax assets not recognised amounting to RMB Nil (31 December 2006: RMB4.8 million) in respect of the tax losses of the entities distributed to the then owner pursuant to the Restructuring.*

(v) *The amount represents the reversal of deferred tax assets relating to tax losses previously recognised as the Group re-assessed and considered that future taxable income would not be sufficient for those tax losses to be utilised.*

(vi) *The amount represents tax effect on opening balances of deferred tax assets. On 16 March 2007, the Corporate Income Tax Law of the People's Republic of China ("new tax law") has been passed by the Fifth Plenary Session of the Tenth National People's Congress and will take effect on 1 January 2008. According to the new tax law, except for certain subsidiaries of the Company which are taxed at preferential rates, the enterprise income tax rate applicable to the Group will be reduced from 33% to 25% from 1 January 2008.*

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10 Dividends

(a) Special dividend

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Special dividend approved	**535,011**	—

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 of Hong Kong Limited (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 (being the distributable profit of the Group for the period from 1 April 2006 to 7 December 2006). The Company will pay the 2006 Special Dividend to CTC and its subsidiaries in a series of payments commencing in July 2007.

(b) Interim dividend

The directors do not propose the payment of an interim dividend for the six months ended 30 June 2007 (six months ended 30 June 2006: RMB Nil).

11 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the six months ended 30 June 2007 of RMB374,210,000 and the number of shares in issue during the six months ended 30 June 2007 of 5,444,986,000.

Upon incorporation on 30 August 2006, the Company issued 3,960,000,000 shares at par value RMB1 each to CTC, Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation. Basic earnings per share for the six months ended 30 June 2006 was computed by dividing the net profit attributable to equity owner of RMB194,083,000 by 3,960,000,000 shares at par value RMB1 each, as if these shares had been issued as at 1 January 2006.

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

12 Property, plant and equipment, net

During the six months ended 30 June 2007, the addition of property, plant and equipment (including transfer from construction in progress) of the Group amounted to RMB277 million (31 December 2006: RMB869 million). Items of property, plant and equipment with net book value totalling RMB3 million were disposed of during the six months ended 30 June 2007 (31 December 2006: RMB215 million).

13 Accounts and bills receivable, net

	At 30 June 2007 RMB'000	At 31 December 2006 RMB'000
Bills receivable	**18,117**	58,675
Unbilled revenue for contract work	**956,873**	376,409
Trade receivables	**3,190,254**	2,916,178
	4,165,244	3,351,262

(a) Included in accounts and bills receivable are amounts due from fellow subsidiaries of RMB1,950 million as at 30 June 2007 (31 December 2006: RMB1,740 million). The amounts due from fellow subsidiaries are unsecured, interest free and are expected to be recovered within one year.

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

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

	At 30 June 2007 RMB'000	At 31 December 2006 RMB'000
Within 1 year	**3,933,207**	3,171,309
After 1 year but less than 2 years	**204,452**	157,771
After 2 years but less than 3 years	**21,294**	16,583
After 3 years	**6,291**	5,599
	4,165,244	3,351,262

14 Cash and cash equivalents

	At 30 June 2007 RMB'000	At 31 December 2006 RMB'000
Cash at bank and in hand	**3,796,332**	6,934,427
Highly liquid investments	**3,000,000**	—
Deposits with banks and other financial institutions	**130,055**	136,602
Cash and cash equivalents	**6,926,387**	7,071,029

15 Accounts and bills payable

Accounts and bills payable comprise:

	At 30 June 2007 RMB'000	At 31 December 2006 RMB'000
Trade payable	**2,837,950**	2,697,409
Bills payable	**69,117**	162,656
	2,907,067	2,860,065

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

	At 30 June 2007 RMB'000	At 31 December 2006 RMB'000
Within 1 year	**2,447,654**	2,784,827
After 1 year but less than 2 years	**444,472**	69,504
After 2 years but less than 3 years	**9,386**	3,368
After 3 years	**5,555**	2,366
	2,907,067	2,860,065

Included in accounts and bills payable are amounts due to fellow subsidiaries of RMB148 million as at 30 June 2007 (31 December 2006: RMB110 million). The amounts due to fellow subsidiaries are unsecured, interest free and are expected to be settled within one year.

16 Commitments and contingent liabilities

(a) Capital commitments

As at 30 June 2007, the Group has capital commitment for acquisition and construction of property, plant and equipment as follows:

	At 30 June 2007 RMB'000	At 31 December 2006 RMB'000
Authorised and contracted for	**68,715**	75,184
Authorised but not contracted for	**33,847**	36,969

(b) Operating lease commitments

As at 30 June 2007, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	At 30 June 2007 RMB'000	At 31 December 2006 RMB'000
Within 1 year	**101,498**	58,832
After 1 year but within 5 years	**159,987**	104,802
After 5 years	**4,285**	7,615
	265,770	171,249

(c) Contingent liabilities

The Group had no material contingent liabilities and no financial guarantees issued.

17 Related parties

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

(a) Transactions with CTC Group

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

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17 Related parties (Continued)

(a) Transactions with CTC Group (Continued)

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

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Income from related parties:		
Engineering related services (note (i))	**1,608,325**	1,730,638
IT application services (note (ii))	**80,463**	40,421
Provision of ancillary telecommunications services (note (iii))	**1,066,787**	1,029,468
Provision of operation support services (note (iv))	**580,808**	443,961
Property leasing (note (v))	**21,684**	17,889
Management fee income (note (vi))	**31,183**	—
Expenses paid to related parties:		
Property leasing charges (note (vii))	**19,941**	22,498
IT application service charges (note (viii))	**63,852**	82,824
Operational support charges (note (ix))	**63,680**	53,712
Interest expenses (note (x))	**270**	2,116

Notes:

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

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

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

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

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

(vi) The amounts represent management fee income in respect of centralised management services provided to CTC Group.

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

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

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

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

17 Related parties (Continued)

(a) Transactions with CTC Group (Continued)

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

	At 30 June 2007 RMB'000	At 31 December 2006 RMB'000
Accounts and bills receivable, net	**1,950,446**	1,740,358
Prepayments and other current assets	**139,680**	252,729
Total amounts due from CTC Group	**2,090,126**	1,993,087
Interest-bearing borrowings	**113,000**	—
Accounts and bills payable	**147,961**	110,036
Receipts in advance for contact work	**72,545**	82,105
Accrued expenses and other payables	**1,499,614**	465,788
Total amounts due to CTC Group	**1,833,120**	657,929

As at 30 June 2007 and 31 December 2006, no impairment losses for bad and doubtful debts were recorded in respect of amounts due from CTC Group.

Include in the balance of prepayments and other current assets as at 30 June 2007 is tax liabilities paid in connection with the Restructuring amounting to RMB23.2 million, which should be borne by CTC Group in accordance with the arrangement of the Restructuring.

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.

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

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

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

— rendering and receiving services;

— depositing and borrowing money; and

— use of public utilities.

17 Related parties (Continued)

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

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

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

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

	At 30 June 2007 RMB'000	At 31 December 2006 RMB'000
Cash and cash equivalents	**6,800,254**	3,913,664

	Six months ended 30 June	
	2007 RMB'000	2006 RMB'000
Interest income	**16,665**	16,974

(c) Transactions with key management personnel

Remuneration for key management personnel is as follows:

	Six months ended 30 June	
	2007 RMB'000	2006 RMB'000
Salaries and other emoluments	**395**	376
Retirement benefits	**916**	307
Bonus	**140**	888
	1,451	1,571

Total remuneration is included in "Staff costs" in Note 8.

17 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 16.5% to 20% of the salaries, bonuses and certain allowances of the employees. A member of the scheme is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date. The Group has no other material obligation for the payment of pension benefits associated with these schemes beyond the annual contributions described above.

As at 30 June 2007 and 31 December 2006, there was no material outstanding contribution to post-employment benefit plans.

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

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

Transactions with the ten largest customers of the Group, which are state-controlled entities, amounting to approximately RMB5,035 million for the period ended 30 June 2007 (six months ended 30 June 2006: RMB4,407 million).

Transactions with the ten largest suppliers of the Group, which are state-controlled entities, amounting to RMB304 million for the period ended 30 June 2007 (six months ended 30 June 2006: RMB278 million).

18 Segmental reporting

For the periods ended 30 June 2007 and 2006, the Group principally has one business segment, the provision of integrated telecommunications service to the telecommunications industry in the PRC. The Group mainly operates in the PRC. Accordingly, no business and geographical segment information are presented.

19 Comparative figures

Subcontracting charges of RMB185 million in 30 June 2006 have been reclassified to direct personnel costs to conform with the current period's presentation.

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20 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ending 31 December 2007

Up to the date of issue of this interim financial report, the IASB has issued amendments, new standards and interpretations which are not yet effective for the accounting year ending 31 December 2007 and which have not been adopted in the interim financial report.

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

Of these developments, the following relate to matters they may be relevant to the operations and the financial statements of the Group:

		Effective for accounting periods beginning on or after
IFRS 8	Operating segments	1 January 2009
IAS 23	Borrowing costs	1 January 2009

21 Post balance sheet events

Pursuant to the acquisition agreement dated 15 June 2007 (the "Acquisition Agreement") entered into between the Company and CTC, the Company will acquire 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. and other assets (the "Acquisition") from CTC for a consideration of RMB4,630 million in total. The Acquisition has been completed as at the date of this report.

Other Information

Management Discussion and Analysis

Pursuant to the acquisition agreement on 15 June 2007 entered into between the Company and its controlling shareholder and promoter, China Telecommunications Corporation, the Company planned to acquire the companies and business assets which comprise the leading providers of specialized telecommunications support services in 13 provinces (municipality and autonomous regions), including 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 in the PRC and certain other assets (as described in the Company's announcement dated 15 June 2007 and circular dated 20 June 2007) at a consideration of RMB4,630 million. The Independent Shareholders of the Company have passed the relevant resolutions related to the acquisition at the Extraordinary General Meeting of the Company held on 7 August 2007 and the acquisition was completed on 31 August 2007.

According to paragraph 40 of Appendix 16 of the the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), save as disclosed in this interim report, the Company confirms that the Company's current information in relation to those matters set out in paragraph 32 of Appendix 16 has not been changed significantly from the information disclosed in the Company's 2006 Annual Report.

Audit Committee

The audit committee has reviewed with management and the Company's international auditors, KPMG, the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the Interim Report for the six months period ended 30 June 2007.

Compliance with the Code on Corporate Governance Practices

The Company is in compliance with the principles and provisions of the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules throughout the six months period ended 30 June 2007.

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules to govern securities transactions by Directors. Having made specific enquiries to the Directors, each of the Directors has confirmed his compliance with the Model Code in connection with the Company's securities for the period from 1 January 2007 to 30 June 2007.

Directors' and Supervisors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2007, none of the Directors or Supervisors had any interests or short positions in any shares, underlying shares of equity derivatives or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code. As at 30 June 2007, the Company has not granted its Directors or Supervisors, or their respective spouses or children below the age of 18 any rights to subscribe for the shares or debentures of the Company or any of its associated corporations and none of them has ever exercised any such right to subscribe for the shares or debentures.

Material Interests and Short Positions in Shares and Underlying Shares of the Company

As at 30 June 2007, the interests or the short position of persons who are entitled to exercise or control the exercise of 5% or more of the voting power at any of the Company's general meetings (excluding the Directors and Supervisors) in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be maintained under Section 336 of the SFO are as follows:

Name of shareholder	Number of shares held	Type of shares	Percentage of the respective type of shares (%)	Percentage of the total number of shares in issue (%)	Capacity
China Telecommunications Corporation(1) (2)	3,811,501,400	Domestic shares	100.00	70.00	Beneficial Owner
China Mobile Communications Corporation(2)	506,880,000	Domestic shares	13.30	9.31	Beneficial Owner
Guangdong Telecom Industry Group Corporation(1)	236,313,086	Domestic shares	6.20	4.34	Beneficial Owner
Cisco Systems International B.V.	176,676,000(L)	H shares	10.82	3.24	Beneficial Owner
JPMorgan Chase & Co.	126,253,000(L) 89,628,000(P)	H shares H shares	7.73 5.49	2.32 1.65	Beneficial Owner, Investment Manager, Custodian Corporation/ Approved Lending Agent
Citigroup Inc.	116,762,400(L) 34,616,400(S)	H shares H shares	7.15 2.12	2.14 0.64	Person having a security interest in shares, Interest of Corporation controlled by the Substantial Shareholder
INVESCO Hong Kong Limited (previously known as INVESCO Asia Limited)	112,755,000(L)	H shares	6.90	2.07	Investment Manager

Remarks: (L)-Long Position, (S)-Short Position, (P)-Lending Pool

(1) Since China Telecommunications Corporation ("China Telecom") indirectly holds all of the shares in Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation, the 236,313,086 and 87,664,532 domestic shares held by Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation respectively are considered and aggregated as the equity interest of China Telecom.

Material Interests and Short Positions in Shares and Underlying Shares of the Company (Continued)

(2) Pursuant to the equity transfer arrangement entered into between China Telecom, China Mobile Communications Corporation ("China Mobile") and China United Telecommunications Corporation ("China Unicom"), China Telecom agreed to transfer 506,880,000 domestic shares and no more than 4.5% of the issued share capital of the Company immediately after the global offering of the Company in 2006 (assuming no over-allotment option is exercised) to China Mobile and China Unicom respectively. China Telecom will hold the said portion of shares until the date on which the conditions precedent to the equity transfer are met. The equity transfer is conditional upon the equity transfer agreement having been executed, the lapse of at least one year from the listing date and the transfer having been approved by the State-Owned Assets Supervision and Administration Commission of the PRC and the name of the transferee being registered in the Company's share register. Details of the equity transfer agreement are disclosed in the Company's prospectus dated 27 November 2006.

Save as stated above, as at 30 June 2007, in the register required to be maintained under Section 336 of the SFO, no other persons were recorded to hold any interests or short positions in the shares or underlying shares of the equity derivatives of the Company.

Purchase, Sale or Redemption of Securities

During the period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Forward-looking Statements

The Company would also like to caution readers about the forward-looking nature of certain of the above statements. These forward-looking statements are subject to risks and uncertainties and assumptions, some of which are beyond our control. Potential risks and uncertainties include those concerning the continued growth of the telecommunications industry in China, the development of the regulatory environment and our ability to successfully execute our business strategies. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. We do not intend to update these forward-looking statements. Actual results may differ materially from the information contained in the forward-looking statements as a result of a number of factors.

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中國通信服務股份有限公司
China Communications Services Corporation Limited

中國北京市西城區復興門南大街 2 號及乙 5 層 郵編: 100032
Level 5, No.2 and B, Fuxingmen South Avenue,
Xicheng District, Beijing, PRC, 100032

網址 website: www.chinaccs.com.hk