中国通信服务
CHINA COMSERVICE

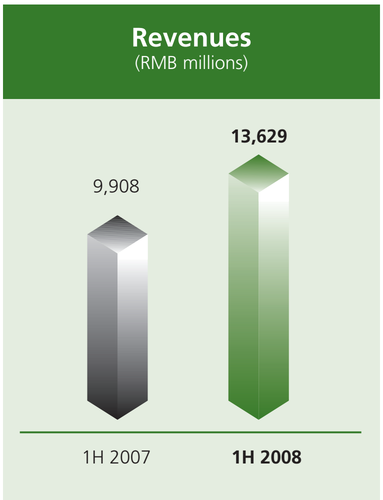
STRATEGY FOR FUTURE GROWTH 策略遠見 把握未來

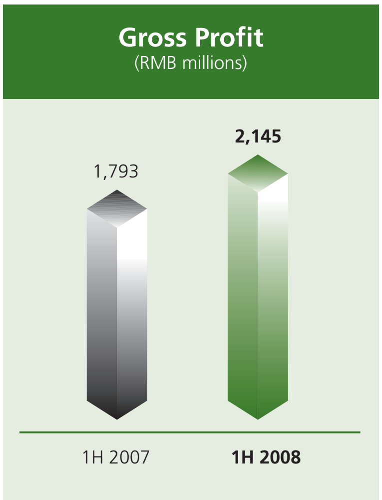
CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED
中國通信服務股份有限公司
Stock code 股份代號: 552

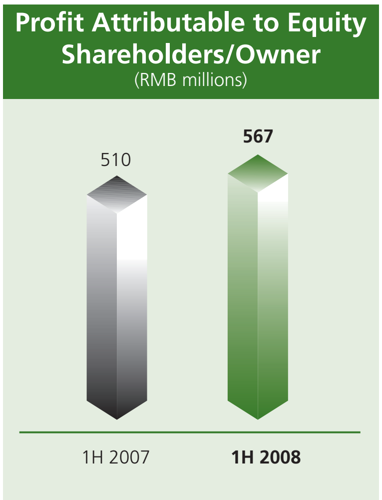
CONTENTS

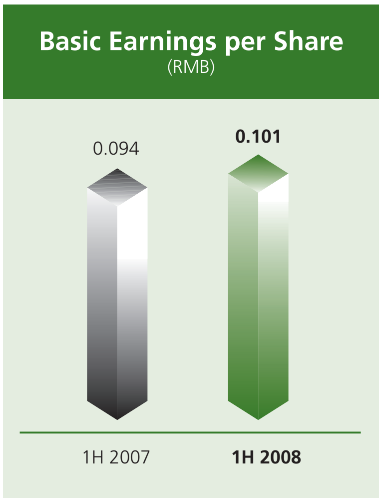
FINANCIAL HIGHLIGHTS

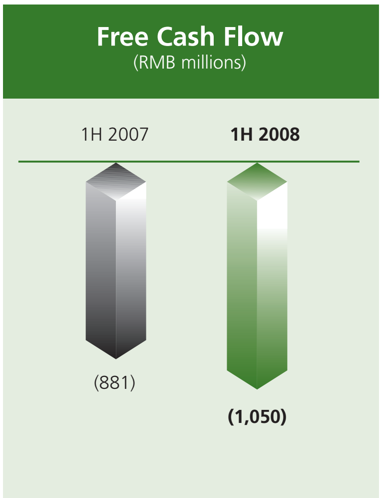
	Six months ended 30 June 2007	Six months ended 30 June 2008	Change
Revenues (RMB millions)	9,908	**13,629**	37.5%
Gross profit (RMB millions)	1,793	**2,145**	19.6%
Profit attributable to equity shareholders/owner (RMB millions)	510	**567**	11.3%
Basic earnings per share (RMB)	0.094	**0.101**	7.4%
Free cash flow[1] (RMB millions)	(881)	**(1,050)**	N/A











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

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

In the first half of 2008, the Group achieved sound operating results, with sustained growth in revenues and profit. Our efforts in market expansion achieved further success, resulting in an improving revenue structure. By pursuing the complementary development strategies of organic and external growth, the Group completed the acquisition of China International Telecommunications Construction Corporation ("CITCC"), which further enhanced our overall competitiveness and strengthened our capability in serving the markets in northern regions of China and overseas, thereby laying a solid foundation for our sustained growth in future.

FINANCIAL REVIEW

In the first half of 2008, the Group recorded revenues of RMB13,629 million, representing an increase of 37.5% over the same period last year. Cost of revenues amounted to RMB11,483 million, representing an increase of 41.5% over the same period last year. Gross profit grew by 19.6% over the same period last year to RMB2,145 million, and profit attributable to equity shareholders grew by 11.3% over the same period last year to RMB567 million. Basic earnings per share were RMB0.101.

In order to offer better integrated services to telecommunications operators, the Group further expanded the comprehensive logistics business relating to telecommunications equipments since the second half of 2007. Accordingly, the relevant revenue increased significantly as compared to the same period last year and the corresponding procurement costs of related equipments also grew significantly, contributing to the decline in our overall gross profit margin. In addition, inflation, particularly the rising costs of construction materials, had certain impact to our operating costs in the first half of 2008. The Group continued to adopt the subcontracting arrangement proactively and alleviated the impact of the rising costs of construction materials to a certain extent.

BUSINESS REVIEW

In the first half of 2008, revenue from telecommunications infrastructure services was RMB5,895 million, an increase of 9.7% from the same period last year, representing 43.3% of our total revenues. The major revenue source of telecommunications infrastructure services was still the three major telecommunications operator customers. In the first half of the year, the Group captured the opportunities in the network expansion and optimization of mobile operators, and actively implemented the customer-focused service strategy and competitive pricing strategy, thereby achieved satisfactory results in market expansion. Our infrastructure services business from mobile operators grew rapidly and offset the impact of the decreased network construction investments from fixed line operators.

In the first half of 2008, revenue from business process outsourcing services was RMB6,074 million, an increase of 83.7% from the same period last year, representing 44.6% of our total revenues. In particular, revenue from distribution of telecommunications services and products increased significantly from the same period last year, which was primarily driven by the further expansion of comprehensive logistics business of telecommunications equipments since the second half of 2007. The provision of logistics services allowed us to better satisfy our customer demand and increase customer loyalty, and had a positive contribution to profit growth. We anticipate that the demand from telecommunications operators for logistics services will be even greater as they commence their full-service operations. Going forward, the Group will endeavour to expand high-end businesses and optimize the business structure to ensure its profitability level.

CHAIRMAN'S STATEMENT

In the first half of 2008, revenue from applications, contents and other services was RMB1,660 million, an increase of 35.0% from the same period last year, representing 12.1% of our total revenues. In particular, revenue from IT applications, which mainly included system integration service, and revenue from voice VAS, which included call center service and ring-tone service, recorded a rapid growth. During the first half of 2008, we made further progress on our "Golden Seeds" projects as scheduled. We will continue to strengthen the cooperation with business partners so as to enhance our core capabilities in this area.

In the first half of 2008, by pursuing the customer-focused service strategy, we closely monitored our customer needs and implemented performance review and appraisal system for different classes of customers. Our efforts brought satisfactory results and revenue from telecommunications operators, government, corporate and other customers all recorded satisfactory growth. Revenue from our three major telecommunications operator customers was RMB7,982 million, an increase of 23.0% from the same period last year, representing 58.6% of our total revenues. Of which, revenue from China Telecom accounted for 41.9% of our total revenues and revenue from China Mobile and China Unicom accounted for 16.7% of our total revenues. Revenue from customers other than China Telecom amounted to RMB7,916 million, accounting for 58.1% of our total revenues and representing an increase of 6.1 percentage points over the same period last year. This indicated the continued improvement of our revenue structure.

On 30 May 2008, the Group completed the acquisition of CITCC, and the results of CITCC were included in the consolidated statements of the Group since June 2008. Immediately after the completion of acquisition, the Group started a comprehensive integration exercise in respect of marketing, financial management, human resources, IT system construction and risk management. In the first half of 2008, as symbolized by the optical fiber transmission project in Congo (K), CITCC made significant progress in overseas business development by leveraging on their strength and market expansion efforts in the overseas market. We believe that synergies will be further realized as integration proceeds further. The Group will continue to seek suitable external growth opportunities in future to generate greater returns for shareholders.

INDUSTRY RESTRUCTURING

In the first half of 2008, the telecommunications industry restructuring proposal in the PRC has been formally announced, which provided new opportunities for the industry development. In the coming two to three years, we expect that the 2G and 3G network construction, expansion and optimization by the telecommunications operators in the PRC will offer favourable growth potentials for our telecommunications infrastructure services business. There are also tremendous opportunities in businesses like network maintenance, distribution service and value-added service. The development of high-end businesses will further improve the Group's business structure. Meanwhile, the operator customers will be more demanding on our service support capabilities and nationwide responsiveness. In light of the demand, the Group has implemented a number of initiatives such as the establishment of dedicated support teams specializing in the projects of different operators. We closely monitor the demand and strategic moves of telecommunications operators and formulate project support proposals. At the same time, we also accelerate the integration of newly acquired businesses and strengthen our internal resources allocation, so as to provide neutral, professional and integrated comprehensive business support services.

CHAIRMAN'S STATEMENT

CORPORATE GOVERNANCE AND HUMAN RESOURCES DEVELOPMENT

In the first half of 2008, we continued to improve the internal control and risk management system with reference to the international best practices on corporate governance and the relevant regulations. We improved our IT management system to integrate our business development, performance review and risk management so as to enhance the overall operational management.

In the first half of 2008, the Group continued to adhere to the human resources development strategy of "controlling total headcounts and optimizing structure". We established a flat organizational structure, reduced the management hierarchy and implemented staff performance review to strictly control our personnel costs. During the period, the Group adopted an innovative human resources training approach to optimize human resources allocation which focused on the training and cultivation of 3G technical and business professionals and strengthened our efforts in the recruitment of quality personnel required by infrastructure service and outsourcing service, so as to build our talent reserve for further business development.

In 2008, the unexpected snowstorms and the Sichuan Earthquake have caused catastrophic losses to many southern provinces of China and telecommunications facilities were seriously damaged. Leveraging on our nationwide services support capabilities, the Group deployed resources like staff and equipments and participated in the front-line rescue to fully support the major operators in telecommunications network restoration and post-disaster network reconstruction. We took our social responsibilities and demonstrated our sound corporate image.

PROSPECTS

With the commencement of the telecommunications industry restructuring in China, the industry is expected to undergo a new round of large-scale network construction, and this will provide us with favourable growth potentials. As the leading provider in the telecommunications support service industry, we envisage a prosperous future and at the same time we also realize that we are facing certain challenges such as the change in industry landscape and inflation.

However, we believe that our opportunities outweigh challenges, and we are confident about the future. In the second half of 2008, the Group will continue to focus on the execution of its established strategies, enhance core competitiveness, focus on internal resource integration, and strengthen operational management so as to turn challenges into opportunities under the new environment. Looking forward, in the course of the large-scale 3G network construction, we will better coordinate with our major operator customers to offer neutral, professional and integrated support services, thereby achieving a win-win situation.

Being appointed as Chairman of the Company on 8 April, I will endeavour to actively monitor the operation and development of the Company, and make concerted efforts with the Board, management and all staff to generate greater returns for our shareholders.

Finally, I would like to express my sincere gratitude on behalf of the Board to all of our shareholders and customers for their support and trust to the Group.

Li Ping
Chairman

Beijing, PRC
8 September 2008

INDEPENDENT REVIEW REPORT

To the board of directors of
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 6 to 36 which comprises the consolidated balance sheet of China Communications Services Corporation Limited (the "Company") as of 30 June 2008, 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 requires the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim financial reporting" adopted 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 2008 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

8 September 2008

CONSOLIDATED INCOME STATEMENT – UNAUDITED

for the six months ended 30 June 2008
(Expressed in Renminbi)

	Note	Six months ended 30 June 2008 RMB'000	2007 RMB'000 (restated – note 1c)
Revenues	4	**13,628,673**	9,908,370
Cost of revenues	5	**(11,483,337)**	(8,115,242)
Gross profit		**2,145,336**	1,793,128
Other operating income	6	**169,323**	107,732
Selling, general and administrative expenses		**(1,493,408)**	(1,155,536)
Other operating expenses		**(7,372)**	(8,439)
Net financing (expense)/income	7	**(34,704)**	28,419
Share of profits of associates		**690**	342
Profit before tax	8	**779,865**	765,646
Income tax	9	**(205,540)**	(246,856)
Profit for the period		**574,325**	518,790
Attributable to:			
Equity shareholders/owner		**567,021**	509,655
Minority interests		**7,304**	9,135
Profit for the period		**574,325**	518,790
Basic and diluted earnings per share (RMB)	11	**0.101**	0.094

The notes on pages 13 to 36 form part of this financial report.

CONSOLIDATED BALANCE SHEET – UNAUDITED

as at 30 June 2008
(Expressed in Renminbi)

	Note	30 June 2008 RMB'000	31 December 2007 RMB'000
Non-current assets			
Property, plant and equipment, net	12	**3,584,299**	3,371,755
Investment properties		**642,202**	644,722
Construction in progress		**265,363**	228,174
Lease prepayments		**417,982**	371,799
Intangible assets		**159,437**	80,094
Interests in associates		**11,431**	11,064
Other investments		**294,862**	307,971
Deferred tax assets		**121,211**	96,371
Total non-current assets		**5,496,787**	5,111,950
Current assets			
Inventories		**1,401,508**	1,035,761
Accounts and bills receivable, net	13	**8,602,524**	6,627,607
Prepayments and other current assets		**3,371,445**	2,181,571
Restricted deposits		**458,313**	251,128
Cash and cash equivalents	14	**7,413,410**	6,632,252
Total current assets		**21,247,200**	16,728,319
Total assets		**26,743,987**	21,840,269
Current liabilities			
Interest-bearing borrowings	15	**3,621,527**	2,560,256
Accounts and bills payable	16	**5,485,551**	4,686,643
Receipts in advance for contract work		**608,008**	520,725
Accrued expenses and other payables		**5,469,621**	4,223,476
Income tax payable		**166,371**	198,360
Total current liabilities		**15,351,078**	12,189,460

CONSOLIDATED BALANCE SHEET – UNAUDITED

as at 30 June 2008
(Expressed in Renminbi)

	Note	30 June 2008 RMB'000	31 December 2007 RMB'000
Net current assets		**5,896,122**	4,538,859
Total assets less current liabilities		**11,392,909**	9,650,809
Non-current liabilities			
Long-term borrowings, less current portion		–	960
Deferred tax liabilities		**28,901**	11,641
Total non-current liabilities		**28,901**	12,601
Total liabilities		**15,379,979**	12,202,061
Equity			
Share capital	17	**5,771,682**	5,444,986
Reserves		**5,484,034**	4,115,792
Equity attributable to equity shareholders of the Company		**11,255,716**	9,560,778
Minority interests		**108,292**	77,430
Total equity		**11,364,008**	9,638,208
Total liabilities and equity		**26,743,987**	21,840,269

The notes on pages 13 to 36 form part of this financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

for the six months ended 30 June 2008

(Expressed in Renminbi)

		Equity attributable to equity shareholders of the Company											
	Note	Share capital (note 17) RMB'000	Share premium (note f) RMB'000	Capital reserve (note h) RMB'000	Revaluation reserve RMB'000	Statutory surplus reserve (note g) RMB'000	Fair value reserve (note i) RMB'000	Exchange reserve (note j) RMB'000	Other reserve RMB'000	Retained earnings/ shareholder's equity RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
Balance as at 1 January 2008		5,444,986	1,557,783	917,666	415,557	97,826	61,075	(3,062)	66,751	1,002,196	9,560,778	77,430	9,638,208
Issuance of shares	17	326,696	1,169,864	–	–	–	–	–	–	–	1,496,560	–	1,496,560
Contributions	(d)	–	–	–	–	–	–	–	–	10,306	10,306	–	10,306
Capital injection by minority shareholder to subsidiary	(e)	–	–	–	–	–	–	–	46,567	–	46,567	24,893	71,460
Acquisition of minority shares		–	–	–	–	–	–	–	(863)	–	(863)	(1,335)	(2,198)
Change in fair value of available-for-sale securities	(i)	–	–	–	–	–	(40,007)	–	–	–	(40,007)	–	(40,007)
Reversal of deferred tax liability		–	–	–	–	–	10,002	–	–	–	10,002	–	10,002
Exchange differences on translation of financial statement of subsidiaries outside Mainland PRC	(j)	–	–	–	–	–	–	(2,445)	–	–	(2,445)	–	(2,445)
Effect on opening deferred tax balances resulting from a change in tax rate		–	–	–	–	–	–	–	1,426	–	1,426	–	1,426
Dividend declared	10(b)	–	–	–	–	–	–	–	–	(393,629)	(393,629)	–	(393,629)
Profit for the period		–	–	–	–	–	–	–	–	567,021	567,021	7,304	574,325
Balance as at 30 June 2008		5,771,682	2,727,647	917,666	415,557	97,826	31,070	(5,507)	113,881	1,185,894	11,255,716	108,292	11,364,008

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

for the six months ended 30 June 2008
(Expressed in Renminbi)

		Equity attributable to equity shareholders of the Company											
	Note	Share capital (note 17) RMB'000	Share premium (note f) RMB'000	Capital reserve (note h) RMB'000	Revaluation reserve RMB'000	Statutory surplus reserve (note g) RMB'000	Fair value reserve (note i) RMB'000	Exchange reserve (note j) RMB'000	Other reserve RMB'000	Retained earnings/ shareholder's equity RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
Balance as at 1 January 2007		5,444,986	1,557,783	1,413,776	415,557	5,538	–	–	2,657,196	722,277	12,217,113	146,709	12,363,822
Contributions	(a)	–	–	–	–	–	–	–	698,222	–	698,222	–	698,222
Acquisition of minority interests		–	–	–	–	–	–	–	57,396	–	57,396	(57,396)	–
Profit distributions	(b)	–	–	–	–	–	–	–	–	(50,307)	(50,307)	(5,911)	(56,218)
Distributions	(c)	–	–	–	–	–	–	–	(237,863)	–	(237,863)	–	(237,863)
Recognition of deferred tax assets		–	–	–	–	–	–	–	24,234	–	24,234	–	24,234
Transfer from retained earnings to other reserve		–	–	–	–	–	–	–	84,612	(84,612)	–	–	–
Distribution of special dividend	10(c)	–	–	–	–	–	–	–	–	(530,225)	(530,225)	(4,786)	(535,011)
Change in fair value of available-for-sale securities	(i)	–	–	–	–	–	90,128	–	–	–	90,128	–	90,128
(Recognition)/reversal of deferred tax liabilities		–	–	–	–	–	(15,360)	–	18,473	–	3,113	–	3,113
Exchange differences on translation of financial statement of subsidiaries outside Mainland PRC	(j)	–	–	–	–	–	–	(2,151)	–	–	(2,151)	–	(2,151)
Profit for the period		–	–	–	–	–	–	–	–	509,655	509,655	9,135	518,790
Balance as at 30 June 2007		5,444,986	1,557,783	1,413,776	415,557	5,538	74,768	(2,151)	3,302,270	566,788	12,779,315	87,751	12,867,066

Notes:

(a) The capital contributions during the six months ended 30 June 2007 represent the injection of cash and other assets, including property, plant and equipment and investments related to the Target Business (as defined in note 1(c) to the unaudited interim financial report).

(b) Profit distributions represent the appropriation made and dividend declared by certain subsidiaries of the Target Business prior to the acquisition of the Target Business by the Group.

(c) The distributions represent the reduction in capital of certain entities included in the Target Business and distribution of cash and other assets, including property, plant and equipment prior to the acquisition of the Target Business by the Group.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

for the six months ended 30 June 2008
(Expressed in Renminbi)

Notes: (continued)

(d) The capital contribution during the six months ended 30 June 2008 represents the profit distribution to a subsidiary of China Telecommunications Corporation ("CTC") by the Target Business, which was subsequently waived by the subsidiary.

(e) Capital injection by minority shareholder represents a minority shareholder's injection of USD10 million to acquire 30% equity interest in a subsidiary, Zhejiang Freeland New Media Co., Ltd of the Group at a premium. The Company's shared portion of the premium has been recorded in other reserve.

(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 and subsequent share issuance.

(g) Statutory surplus reserve

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 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.

(h) 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 CTC, Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation upon the formation of the Company.

(i) Fair value reserve

The fair value reserve represents the net change in the fair value of available-for-sale securities at the balance sheet date.

(j) Exchange reserve

The exchange reserve represents all foreign exchange differences arising from the translation of the financial statements of subsidiaries located in Hong Kong, Nigeria and Tanzania.

The notes on pages 13 to 36 form part of this financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED

for the six months ended 30 June 2008
(Expressed in Renminbi)

	Note	Six months ended 30 June 2008 RMB'000	2007 RMB'000 (restated - note 1c)
Net cash used in operating activities		**(901,885)**	(675,392)
Net cash generated from/(used in) investing activities		**333,628**	(161,853)
Net cash generated from financing activities		**1,351,550**	745,912
Net increase/(decrease) in cash and cash equivalents		**783,293**	(91,333)
Cash and cash equivalents at the beginning of period		**6,632,252**	8,163,755
Effect of foreign exchange		**(2,135)**	(1,584)
Cash and cash equivalents at the end of period	14	**7,413,410**	8,070,838

The notes on pages 13 to 36 form part of this financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

1 PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PRESENTATION

(a) PRINCIPAL ACTIVITIES

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

(b) ORGANISATION

The Company was established in the PRC on 30 August 2006 as a joint stock limited company under the Company Law of the PRC as part of the Restructuring (as defined below) of CTC, a state-owned enterprise under the direct supervision of the State Council of the PRC. Pursuant to the Restructuring (as defined below), the Group assumed the telecommunications support services previously carried on by various subsidiaries wholly-owned or controlled by CTC in six provinces and municipality in the PRC, namely, Guangdong Province, Zhejiang Province, Shanghai Municipality, Fujian Province, Hubei Province and Hainan Province (collectively, the "Predecessor Operations") from CTC. The Company was founded by CTC, Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation by way of the injection of those subsidiaries carrying on the Predecessor Operations and cash contributions.

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

(i) CTC underwent a restructuring programme in connection with its full range of telecommunications related services, namely (1) telecommunications infrastructure design, construction and supervision and management; (2) business process outsourcing (including network maintenance, facilities management and distribution of telecommunications services and products); and (3) a variety of other services including applications, content and others.

(ii) The net assets were injected into the Company by ways of asset injection of those subsidiaries carrying on the Predecessor Operations in consideration of approximately 3,623.4 million ordinary shares with a par value of RMB1 each.

(iii) The Group, immediately after the Restructuring, 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

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

(b) ORGANISATION (Continued)

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

In December 2006, the Company issued 1,291,293,000 H shares with a par value of RMB1.00 each, at a price of HK$2.20 per H share by way of an initial public offering (the "IPO") to Hong Kong and overseas investors. In connection with the IPO, 129,129,300 domestic state-owned shares of RMB1.00 each owned by CTC and its subsidiaries were converted into H shares and transferred to the National Council for Social Security Fund of the PRC ("SSF"). In December 2006, the Company also issued 193,693,000 H shares with a par value of RMB1.00 each, at a price of HK$2.20 per H share upon the exercise of the over-allotment option. In connection with the exercise of the over-allotment option, 19,369,300 domestic state-owned shares of RMB1.00 each owned by CTC and its subsidiaries were converted into H shares and transferred to SSF.

A total of 1,992,850,200 H shares were listed as at 30 June 2008 on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

(c) BASIS OF PRESENTATION

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.

As the Target Business was under common control of CTC, the acquisition of the Target Business was reflected in the Company's 2007 consolidated financial statements as a combination of entities under common control and accounted for in a manner similar to pooling-of-interests. Accordingly, the assets and liabilities of the Target Business were accounted for at historical costs and consolidated financial statements of the Company prior to the foregoing acquisition were restated to include the results of operations and assets and liabilities of the Target Business on a combined basis. The consideration paid by the Company for the acquisition of the Target Business was accounted for as an equity transaction in the consolidated statement of changes in equity.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

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

(c) BASIS OF PRESENTATION (Continued)

The results of operations and the cash flow effect for the six months ended 30 June 2007 previously reported by the Group have been restated to include the results of the Target Business as set out below:

	The Group (as previously reported) RMB'000	Target Business RMB'000	Combination adjustments RMB'000 (note)	Combined RMB'000
Results of operations for the six months ended 30 June 2007				
Revenues	7,365,124	2,543,246	–	9,908,370
Gross profit	1,280,852	512,276	–	1,793,128
Profit for the period	384,792	135,738	(1,740)	518,790
Basic earnings per share	0.069	–	–	0.094
Cash flow effect for the six months ended 30 June 2007				
Net cash used in operating activities	(388,957)	(286,435)	–	(675,392)
Net cash used in investing activities	(98,759)	(63,094)	–	(161,853)
Net cash generated from financing activities	343,074	402,838	–	745,912

Note: Pursuant to the acquisition of the Target Business, the Group acquired the remaining equity interests in a non-wholly owned subsidiary of the Group, held by the Target Business, which was previously accounted for as an interest in an associate by the Target Business. Accordingly, adjustments have been made to eliminate the share of profit of the associate accounted for by the Target Business.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

2 ACQUISITION OF SUBSIDIARIES

On 30 May 2008, the Group acquired all of the shares in China International Telecommunications Construction Corporation ("CITCC") from China National Postal and Telecommunications Appliances Corporation (the "Vendor") for a consideration of RMB505.46 million. The cost of acquisition has been settled by cash payment of RMB201.48 million and the assumption of a debt of the Vendor due to CITCC of RMB303.98 million. For the period from the date of acquisition to 30 June 2008, CITCC contributed a profit of RMB4.31 million to the Group.

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

	Recognised values on acquisition RMB'000
Property, plant and equipment, net	308,255
Investment properties	10,479
Construction in progress	2,411
Lease prepayment	49,677
Intangible assets	2,405
Other investments	29,478
Deferred tax assets	3,748
Inventories	2,661
Accounts and bills receivable, net	825,994
Prepayments and other current assets	483,599
Cash and cash equivalents	814,282
Interest-bearing borrowings	(943,753)
Accounts and bills payable	(336,654)
Receipts in advance for contract work	(38,690)
Accrued expenses and other payables	(733,697)
Income tax payable	(10,195)
Deferred tax liabilities	(27,316)
Net identifiable assets and liabilities	442,684
Goodwill on acquisition	62,778
Total purchase consideration	505,462
Less: non-cash consideration	303,976
Consideration paid in cash	201,486
Less: Cash and cash equivalent balance acquired	814,282
Net cash inflow	612,796

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

2 ACQUISITION OF SUBSIDIARIES (Continued)

If the acquisition had occurred on 1 January 2008, management estimated that consolidated revenue would have been RMB15,308 million and consolidated profit for the period would have been RMB595 million.

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

The goodwill recognised on the acquisition is attributable mainly to the skills and technical talent of the acquired business's work force, and the synergies expected to be achieved from integrating CITCC into the Group's existing telecommunications support services. In accordance with the equity transfer agreement signed between the Group and the Vendor on 3 April 2008, the profit of CITCC for the period between 1 November 2007 to 30 May 2008 belongs to the Vendor. The goodwill related to the acquisition will be adjusted with this profit amount when determined.

3 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 8 September 2008.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2007 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.

In preparing this interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2007.

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 2007 annual financial statements. The condensed consolidated interim financial report 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 IFRS, IASs and related interpretations.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

3 BASIS OF PREPARATION (Continued)

IASB has issued a number of new and revised IFRS that are effective or available for early adoption for accounting periods beginning on or after 1 January 2008. The board of directors has determined the accounting policies to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2008, on the basis of IFRS currently in issue, which the directors believe, do not have a significant impact on the Group's prior year financial position and results of operations.

The IFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2008 may be affected by the issue of additional interpretation(s) or other changes announced by the IASB subsequent to the date of issuance of this interim financial report. Therefore, the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report. The Group has not applied any new standards or interpretations that are not yet effective for the current accounting period (see note 21).

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.

The financial information relating to the financial year ended 31 December 2007 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 2007 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 2007 in their report dated 8 April 2008.

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:

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000 (restated - note 1c)
Revenue from telecommunications infrastructure services	**5,895,007**	5,373,196
Revenue from business process outsourcing services	**6,074,173**	3,306,365
Revenue from applications, content and others	**1,659,493**	1,228,809
	13,628,673	9,908,370

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

5 COST OF REVENUES

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000 (restated - note 1c)
Depreciation and amortisation	**168,874**	160,068
Direct personnel costs	**2,345,592**	1,862,265
Operating lease charges	**170,816**	127,452
Purchase of materials and telecommunications products	**4,859,575**	2,935,899
Subcontracting charges	**2,906,615**	2,040,754
Others	**1,031,865**	988,804
	11,483,337	8,115,242

6 OTHER OPERATING INCOME

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000 (restated - note 1c)
Dividend income from unlisted securities	**–**	13,940
Government grants	**49,862**	42,676
Net gain on disposal of investments	**7,143**	8,445
Net gain on disposal of property, plant and equipment	**70**	1,091
Penalty income	**770**	984
Management fee income	**89,832**	31,183
Write-off of non-payable liabilities	**7,835**	–
Others	**13,811**	9,413
	169,323	107,732

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

7 NET FINANCING (EXPENSE)/INCOME

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000 (restated - note 1c)
Interest income	**49,326**	59,774
Net foreign exchange gain/(loss)	**2,775**	(21,286)
Net change in fair value of financial assets at fair value through profit or loss	**(103)**	(898)
Change in fair value of derivative financial instruments	**(4,733)**	–
Interest on bank advances and other borrowings wholly repayable within five years	**(81,969)**	(9,171)
	(34,704)	28,419

For the periods ended 30 June 2008 and 2007, no borrowing costs were capitalised in relation to construction in progress.

8 PROFIT BEFORE TAX

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000 (restated - note 1c)
(a) Staff costs:		
Salaries, wages and other benefits	**2,908,927**	2,295,868
Contributions to defined contribution retirement schemes	**278,566**	217,301
	3,187,493	2,513,169
(b) Other items:		
Depreciation and amortisation	**276,620**	244,877
Cost of inventories	**4,859,575**	2,935,899
Impairment losses on accounts and other receivables	**14,003**	11,285
Reversal of impairment losses on accounts and other receivables	**(1,817)**	(12,103)
Operating lease charges	**225,107**	164,208
Research and development costs	**8,338**	6,567
Share of associates' taxation	**230**	131

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

9 INCOME TAX

(a) INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT REPRESENTS:

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000 (restated - note 1c)
Current tax		
PRC enterprise income tax	**225,260**	217,923
Deferred tax		
Origination and reversal of temporary differences	**(19,720)**	28,933
Total income tax	**205,540**	246,856

(b) RECONCILIATION BETWEEN TAX EXPENSE AND ACCOUNTING PROFIT AT APPLICABLE TAX RATES:

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000 (restated - note 1c)
Profit before tax	**779,865**	765,646
Expected PRC enterprise income tax expense at a statutory tax rate of 25% (2007: 33%)	**194,966**	252,663
Differential tax rates on subsidiaries' income (note (i))	**(16,999)**	(64,766)
Non-deductible expenses (note (ii))	**15,040**	35,961
Non-taxable income	**(7,587)**	(17,640)
Tax losses not recognised	**27,379**	13,411
Reversal of previously recognised tax losses (note (iii))	**–**	18,146
Effect on opening deferred tax resulting from a change in PRC statutory tax rate (note (iv))	**(7,259)**	9,081
Income tax	**205,540**	246,856

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

9 INCOME TAX (Continued)

(b) RECONCILIATION BETWEEN TAX EXPENSE AND ACCOUNTING PROFIT AT APPLICABLE TAX RATES: (Continued)

Notes:

(i) The provision of PRC income tax of the Group is calculated based on a statutory rate of 25% and 33% of the assessable profit of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the six months ended 30 June 2008 and for the six months ended 30 June 2007 respectively, except for certain subsidiaries of the Group, which are taxed at preferential rates of 15% and 18%.

(ii) The amounts include personnel and other miscellaneous expenses in excess of statutory deductible limits for tax purpose.

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

(iv) The amount represents tax effect on opening balances of deferred tax assets resulted from a change in PRC statutory tax rate. On 16 March 2007, the Corporate Income Tax Law of the PRC ("new tax law") was passed by the Fifth Plenary Session of the Tenth National People's Congress and took 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 is reduced from 33% to 25% from 1 January 2008. The enterprise income tax rate applicable to certain subsidiaries taxed at preferential taxes is increased from 15% to 25%. The deferred tax assets have been remeasured for the change in applicable tax rates.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

10 DIVIDENDS

(a) INTERIM DIVIDEND

The directors do not propose the payment of an interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: nil).

(b) DIVIDEND ATTRIBUTABLE TO THE PREVIOUS FINANCIAL YEAR, DECLARED DURING THE INTERIM PERIOD:

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Final dividend in respect of the financial year ended 31 December 2007, declared during the following interim period, of RMB0.0682 per share (year ended 31 December 2006: nil)	**393,629**	–

No 2007 final dividend was paid during the six months ended 30 June 2008 (six months ended 30 June 2007: nil).

(c) SPECIAL DIVIDEND

	Six months ended 30 June	
	2008	2007
	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 (i.e. 7 December 2006) (together, the "2006 Special Dividend").

Pursuant to a resolution passed at a 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. The Company paid the 2006 Special Dividend to CTC and its subsidiaries in a series of payments commenced in July 2007.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

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 2008 of RMB567 million (30 June 2007: RMB510 million as restated) and the weighted average number of shares in issue during the six months ended 30 June 2008 of 5,592,179,000 (30 June 2007: 5,444,986,000).

The weighted average number of shares in issue is set out below:

	Six months ended 30 June	
	2008	2007
	Thousand Shares	Thousand Shares
Ordinary share issued at 1 January	**5,444,986**	5,444,986
Effect of shares issued in April 2008 (see note 17)	**147,193**	–
	5,592,179	5,444,986

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

12 PROPERTY, PLANT AND EQUIPMENT, NET

During the six months ended 30 June 2008, additions of property, plant and equipment through the acquisition of subsidiary amounted to RMB308 million (31 December 2007: nil). The other additions of property, plant and equipment (including transfer from construction in progress and investment properties) of the Group amounted to RMB183 million (31 December 2007: RMB1,115 million). Items of property, plant and equipment with net book value totalling RMB8 million were disposed of during the six months ended 30 June 2008 (31 December 2007: RMB133 million).

13 ACCOUNTS AND BILLS RECEIVABLE, NET

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Bills receivable	**42,768**	39,228
Unbilled revenue for contract work	**1,933,983**	1,050,796
Trade receivables	**6,913,022**	5,611,097
	8,889,773	6,701,121
Less: Impairment losses	**(287,249)**	(73,514)
	8,602,524	6,627,607

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

13 ACCOUNTS AND BILLS RECEIVABLE, NET (Continued)

(a) Included in accounts and bills receivable are amounts due from fellow subsidiaries of RMB3,969 million (31 December 2007: RMB3,344 million) as at 30 June 2008. 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 2008 RMB'000	At 31 December 2007 RMB'000
Current	**4,240,012**	3,616,471
Within 1 year	**3,504,688**	2,649,994
After 1 year but less than 2 years	**710,623**	309,942
After 2 years but less than 3 years	**118,542**	40,623
After 3 years	**28,659**	10,577
Amount past due	**4,362,512**	3,011,136
	8,602,524	6,627,607

(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.

The movement in allowance for doubtful debts during the period, including both specific and collective loss components, is as follows:

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
At 1 January	**73,514**	88,329
Impairment loss recognised	**14,003**	19,467
Reversal of impairment loss previously recognised	**(1,817)**	(30,695)
Uncollectible amounts written off	**(518)**	(3,587)
Acquisition of CITCC	**202,067**	–
At 30 June/31 December	**287,249**	73,514

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

13 ACCOUNTS AND BILLS RECEIVABLE, NET (Continued)

(d) IMPAIRMENT OF ACCOUNTS AND BILLS RECEIVABLE (Continued)

At 30 June 2008, the Group's accounts and bills receivable of RMB206.5 million were individually determined to be impaired (31 December 2007: RMB14.4 million). 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 RMB203.2 million were recognised. (31 December 2007: RMB12.5 million). The Group does not hold any collateral over these balances.

(e) ACCOUNTS AND BILLS RECEIVABLE THAT ARE NOT IMPAIRED

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

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Neither past due nor impaired	**4,240,012**	3,487,520
Within 1 year	**3,502,918**	2,555,504
After 1 year but less than 2 years	**280,333**	298,891
After 2 years but less than 3 years	**48,433**	39,175
After 3 years	**13,190**	10,200
At 30 June/31 December	**8,084,886**	6,391,290

Receivables that were neither past due nor impaired relate to major telecommunication service providers for whom there was no history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowances is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

14 CASH AND CASH EQUIVALENTS

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Cash at bank and in hand	**6,829,142**	6,161,208
Highly liquid investments	**160,000**	80,000
Deposits with banks and other financial institutions	**424,268**	391,044
Cash and cash equivalents	**7,413,410**	6,632,252

15 INTEREST-BEARING BORROWINGS

The Group's short-term borrowings consist of:

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
RMB denominated		
Borrowings from banks		
– guaranteed	**–**	5,000
– collateralised	**3,000**	8,000
– unsecured	**285,991**	–
Loans from ultimate holding company		
– unsecured	**1,600,000**	1,600,000
Loans from fellow subsidiaries		
– unsecured	**973,800**	734,000
Current portion of long-term borrowings		
– collateralised	**–**	2,020
United States dollar denominated		
Borrowings from banks		
– collateralised	**403,167**	211,236
– unsecured	**355,569**	–
	3,621,527	2,560,256

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

15 INTEREST-BEARING BORROWINGS (Continued)

The Group's interest rate per annum on short-term borrowings is:

	At 30 June 2008	At 31 December 2007
Fixed rate loan:		
RMB denominated		
Borrowings from banks		
– guaranteed	–	5.26%
– collateralised	7.29%	7.29% – 8.16%
– unsecured	6.57% – 7.47%	–
Loans from ultimate holding company		
– unsecured	5.18%	5.18%
Loans from fellow subsidiaries		
– unsecured	2.50% – 6.84%	3.00% – 6.84%
United States dollar denominated		
Borrowings from banks		
– collateralised	3.33% – 5.40%	5.38% – 5.64%
– unsecured	7.00%	–
Floating rate loan:		
United States dollar denominated		
Borrowings from banks		
– unsecured	7.78% – 8.28%	–

As at 30 June 2008, bank loan amounting to RMB3 million (31 December 2007: RMB11 million) and RMB403 million (31 December 2007: RMB211 million) were secured by certain property, plant and equipment of the Group with net book value of RMB4 million (31 December 2007: RMB80 million) and restricted deposits of RMB426 million (31 December 2007: RMB218 million) respectively.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

16 ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Accounts payable	**4,783,743**	4,060,211
Bills payable	**701,808**	626,432
	5,485,551	4,686,643

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

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Within 1 year	**4,930,707**	4,225,513
After 1 year but less than 2 years	**440,497**	368,011
After 2 years but less than 3 years	**68,557**	55,060
After 3 years	**45,790**	38,059
	5,485,551	4,686,643

Included in accounts and bills payable are amounts due to fellow subsidiaries of RMB291 million (31 December 2007: RMB205 million) as at 30 June 2008. The amounts due to fellow subsidiaries are unsecured, interest free and are expected to be settled within one year.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

17 SHARE CAPITAL

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Registered, issued and fully paid:		
At 30 June 2008: 3,778,831,800 (At 31 December 2007: 3,811,501,400) domestic state-owned ordinary shares of RMB1.00 each	**3,778,832**	3,811,501
At 30 June 2008: 1,992,850,200 (At 31 December 2007: 1,633,484,600) H shares of RMB1.00 each	**1,992,850**	1,633,485
	5,771,682	5,444,986

	For the six months ended 30 June 2008 Thousand Shares	For the year ended 31 December 2007 Thousand Shares
At 1 January	**5,444,986**	5,444,986
Conversion of domestic state-owned ordinary shares into H shares	**(32,670)**	–
Issue of H shares	**359,366**	–
At 30 June/31 December	**5,771,682**	5,444,986

On 9 April 2008, the Company completed the placing (the "Placing") of an aggregate of 359,365,600 new overseas-listed foreign-invested shares at a price of HK$5.25 per share (the "Placing Shares"). The Placing Shares comprise (1) 326,696,000 new H shares issued by the Company in connection with the Placing, and (2) 32,669,600 H shares issued by the Company upon the conversion of the same number of existing domestic legal person shares by SSF.

Except for the Special Dividend stated in note 10(c), 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

18 COMMITMENTS AND CONTINGENT LIABILITIES

(a) CAPITAL COMMITMENTS

As at 30 June 2008, the Group had capital commitment for acquisition and construction of property, plant and equipment as follows:

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Authorised and contracted for	**206,832**	9,714
Authorised but not contracted for	**28,065**	37,654

(b) OPERATING LEASE COMMITMENTS

As at 30 June 2008, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Within 1 year	**138,943**	119,888
After 1 year but within 5 years	**169,639**	161,355
After 5 years	**2,818**	5,118
	311,400	286,361

The Group leases a number of properties under operating leases. The leases run for a period of one year to six years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

(c) CONTINGENT LIABILITIES

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

19 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 in the interim financial report set out above, there are the following related party transactions:

(a) TRANSACTIONS WITH CTC GROUP

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

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

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000 (restated-note 1c)
Income from related parties:		
Engineering related services (note (i))	**2,529,440**	2,586,600
IT application services (note (ii))	**159,944**	96,676
Provision of ancillary telecommunications services (note (iii))	**2,255,558**	1,294,287
Provision of operation support services (note (iv))	**735,235**	747,906
Property leasing (note (v))	**32,095**	25,877
Management fee income (note (vi))	**89,832**	31,183
Expenses paid to related parties:		
Property leasing charges (note (vii))	**45,384**	30,014
IT application service charges (note (viii))	**84,736**	67,315
Operation support service charges (note (ix))	**187,849**	126,581
Interest paid (note (x))	**63,746**	1,274

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

19 RELATED PARTIES (Continued)

(a) TRANSACTIONS WITH CTC GROUP (Continued)

Notes: (Continued)

(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 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 paid/payable represents the interest paid or payable to CTC Group in respect of the loans from ultimate holding company and fellow subsidiaries.

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

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Accounts and bills receivable, net	**3,968,606**	3,344,339
Prepayments and other current assets	**533,803**	791,550
Total amounts due from CTC Group	**4,502,409**	4,135,889
Interest-bearing borrowings	**2,573,800**	2,334,000
Accounts and bills payable	**291,298**	205,137
Receipts in advance for contact work	**89,274**	61,039
Accrued expenses and other payables	**2,027,951**	1,678,088
Total amounts due to CTC Group	**4,982,323**	4,278,264

As at 30 June 2008 and 31 December 2007, no impairment losses for bad and doubtful debts were recorded in respect of amounts due from CTC Group.

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

19 RELATED PARTIES (Continued)

(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.

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 and interest-bearing borrowings with the state-controlled banks in the PRC and the interest income and interest expenses are as follows:

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Cash and cash equivalents	**5,905,529**	6,603,444
Interest-bearing borrowings	**699,119**	221,256

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000 (restated - noted 1c)
Interest income	**43,761**	20,737
Interest expenses	**13,913**	7,809

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

19 RELATED PARTIES (Continued)

(c) TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Remuneration for key management personnel is as follows:

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000 (restated - noted 1c)
Salaries and other emoluments	**1,249**	1,249
Retirement benefits	**581**	548
Bonus	**2,432**	2,512
	4,262	4,309

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

(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 2008 and 31 December 2007, there was no material outstanding contribution to post-employment benefit plans.

(e) TRANSACTIONS WITH TEN LARGEST STATE-CONTROLLED CUSTOMERS AND SUPPLIERS

The directors consider that the transactions with state-controlled entities which require disclosure in the 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 Group's ten largest customers, which are state-controlled entities, amounting to approximately RMB8,669 million for the period ended 30 June 2008 (six months ended 30 June 2007: RMB6,882 million as restated).

Transactions with Group's ten largest suppliers, which are state-controlled entities, amounting to RMB249 million for the period ended 30 June 2008 (six months ended 30 June 2007: RMB317 million as restated).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

20 SEGMENT REPORTING

For the periods ended 30 June 2008 and 2007, 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.

21 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDING 31 DECEMBER 2008

Up to the date of issue of this financial report, the IASB has issued amendments, new standards and interpretations which are not yet effective for the accounting year ending 31 December 2008 and which have not been adopted in the interim financial report. Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

		Effective for accounting periods beginning on or after
Amendment to IFRS 2	Share-based payment	1 January 2009
Revised IFRS 3	Business combinations	1 July 2009
IFRS 8	Operating segments	1 January 2009
Revised IAS 23	Borrowing costs	1 January 2009
Amendments to IAS 27	Consolidated and separate financial statements	1 July 2009

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

OTHER INFORMATION

MANAGEMENT DISCUSSION AND ANALYSIS

According to paragraph 40 of Appendix 16 of 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 2007 Annual Report.

AUDIT COMMITTEE

The audit committee has reviewed with the 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 ended 30 June 2008.

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 ended 30 June 2008.

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 2008 to 30 June 2008.

DIRECTORS' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2008, 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 2008, 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.

OTHER INFORMATION

MATERIAL INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2008, 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	Type of shares	Capacity	Number of shares held	Percentage of the respective type of shares (%)	Percentage of the total number of shares in issue (%)
China Telecommunications Corporation[(1) (2)]	Domestic shares	Beneficial owner	3,778,831,800	100.00	65.47
China Mobile Communications Corporation[(2)]	Domestic shares	Beneficial owner	506,880,000	13.30	8.78
Guangdong Telecom Industry Group Corporation[(1)]	Domestic shares	Beneficial owner	236,313,086	6.25	4.09
China United Telecommunications Corporation[(2)]	Domestic shares	Beneficial owner	236,300,000	6.20	4.09
Cisco Systems International B.V.	H shares	Beneficial owner	250,576,000 (L)	12.57	4.34
Commonwealth Bank of Australia	H shares	Interest of corporation controlled by the substantial shareholder	158,989,809 (L)	7.98	2.75
Invesco Hong Kong Limited	H shares	Investment manager	135,877,000 (L)	6.82	2.35
JP Morgan Chase & Co.	H shares	Beneficial owner	23,422,500 (L)		
		Custodian corporation/ approved lending agent	97,180,000 (L)		
			120,602,500 (L)	6.05	2.09
		Beneficial owner	15,086,000 (S)	0.76	0.26
		Custodian corporation/ approved lending agent	97,180,000 (P)	4.88	1.68
Mirae Asset Global Investments (Hong Kong) Limited	H shares	Investment manager	116,306,000 (L)	5.84	2.02

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

OTHER INFORMATION

MATERIAL INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY (Continued)

(1) Since China Telecommunications Corporation ("China Telecom") indirectly holds 100% 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 into the equity interest held by China Telecom.

(2) Pursuant to the equity transfer arrangements entered into between China Telecom, and China Mobile Communications Corporation ("China Mobile") and China United Telecommunications Corporation ("China Unicom"), China Telecom agreed to transfer 506,880,000 and 236,300,000 domestic shares 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, amongst others, the lapse of at least one year from the listing date, the transfer having been approved by the State-Owned Assets Supervision and Administration Commission of the PRC State Council and the name of the transferee being registered in the Company's share register. Details of the equity transfer arrangements are disclosed in the Company's prospectus dated 27 November 2006.

Save as stated above, as at 30 June 2008, 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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