中国通信服务
CHINA COMSERVICE

CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED
中國通信服務股份有限公司

Stock code 股份代號：552

Service provider for telecommunications, media and technology companies

信息與媒體運營商的服務商

Interim Report 2009 中期報告

Accelerating ACO business development

加快ACO業務發展

Focusing on customers

聚焦客戶

Scaling-up, Integrated

規模化一體化

Neutral, Professional

中立化專業化

Developing overseas businesses

拓展海外業務

We are a service provider for telecommunications, media and technology companies. We have years of experience in providing services for telecommunications operators, government agencies, enterprises and other customers. These services include telecommunications infrastructure services covering planning, consulting, design, engineering and construction and project supervision and management, business process outsourcing services covering maintenance, distribution of telecommunications products and services, and facilities management, as well as applications, content and other services. We provide integrated services covering the key activities of the value chain of telecommunications operators and we have the ability to provide integrated solutions to our customers.

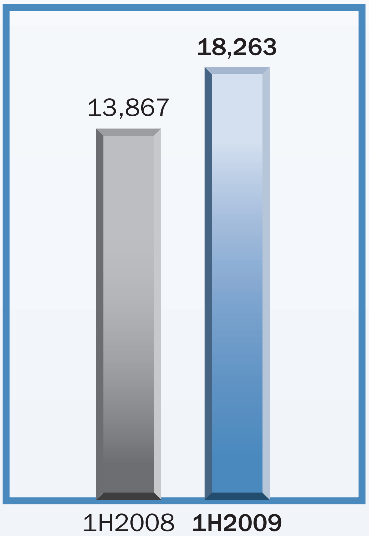
本集團為信息與媒體運營商的服務商。長久以來，我們為電信運營商、政府機構、企業及其他客戶提供從規劃、諮詢、設計、工程施工到項目監理的電信基建服務，同時也提供包括維護、電信產品與服務分銷和設施管理在內的業務流程外判服務，以及應用、內容及其他服務。我們提供的一體化服務覆蓋了電信運營商價值鏈的主要環節，有能力為客戶提供綜合解決方案。

Contents

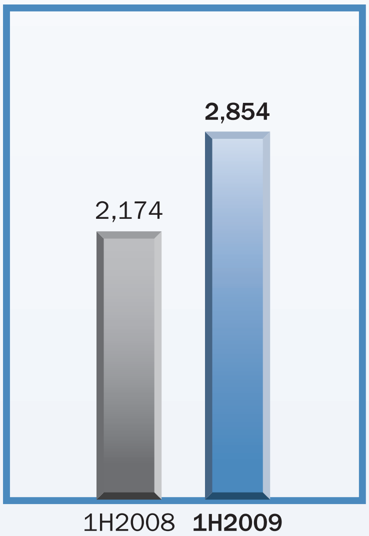
Financial Highlights

	Six months ended 30 June 2008	2009	Change
Revenues (RMB millions)	13,867	**18,263**	31.7%
Gross profit (RMB millions)	2,174	**2,854**	31.3%
Profit attributable to equity shareholders (RMB millions)	569	**758**	33.3%
Basic earnings per share (RMB)	0.102	**0.131**	28.4%
Free cash flow[1] (RMB millions)	(1,146)	**(1,054)**	N/A

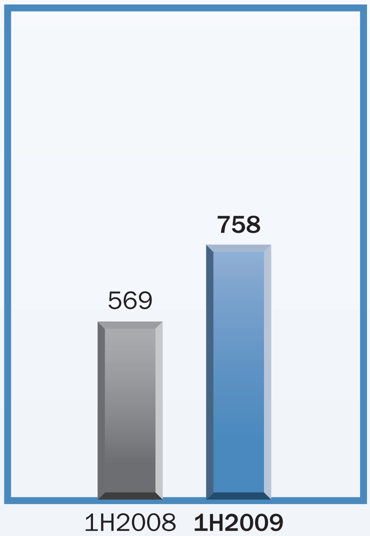
Revenues
(RMB millions)



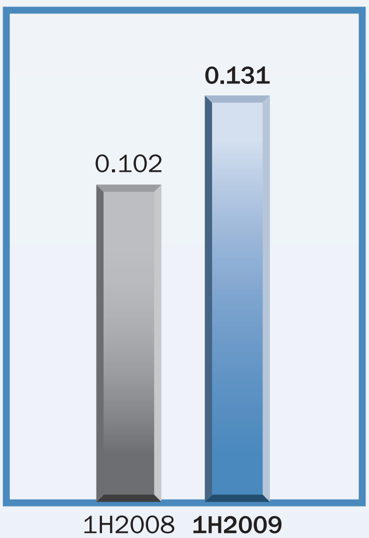
Gross Profit
(RMB millions)



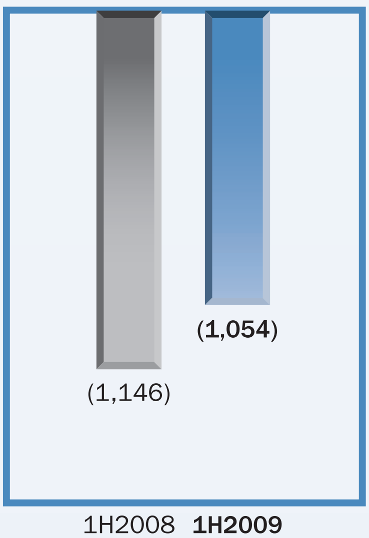
Profit Attributable to Equity Shareholders
(RMB millions)



Basic Earnings per Share
(RMB)



Free Cash Flow[1]
(RMB millions)



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

Chairman's Statement

Dear shareholders,

During the first half of 2009, despite the international financial crisis continuing to entwine and the obvious slowdown of development in the domestic telecommunications industry, the Group was able to achieve rapid growth in both its revenue and profits by implementing our established strategies effectively and grasping the precious opportunities brought by the increases in network investments by domestic telecommunications operators after industry restructuring and the issuance of 3G licence. We also continued to attain further progress in areas such as external acquisition, internal integration and capability enhancement, thereby laying a strong foundation for our future development.

Financial Review

In the first half of 2009, the Group recorded revenues of RMB18,263 million, representing an increase of 31.7% over the same period last year. Cost of revenues amounted to RMB15,409 million, representing an increase of 31.8% over the same period last year. Gross profit grew by 31.3% over the same period last year to RMB2,854 million, and profit attributable to equity shareholders grew by 33.3% over the same period last year to RMB758 million. Basic earnings per share were RMB0.131.

Since the beginning of the second half of last year, domestic telecommunications operators have significantly increased their network investments. With the rapid growth of our business volume, we recruited temporary workers and outsourced part of our low-end businesses to cope with the increase in workload, in order to respond promptly to our customers' tight schedule requests and at the same time control headcount. These measures led to the higher increases in direct personnel costs and subcontracting charges, growing by 35.3% and 45.6% respectively over the same period last year.

Since the Group initiated the centralized cash management system last year, we have achieved progress for improving cash utilization efficiency. By repaying part of the bank loans from funds made available through the centralized cash management system, our net financing expense in the first half of 2009 decreased by 39.5% over the same period last year.

Business Review

In the first half of 2009, our revenue from telecommunications infrastructure services was RMB8,771 million, an increase of 48.8% over the same period last year, and representing 48.0% of our total revenues. In the first half year, the Group continued to implement our CTW program[1] and quickly responded to the needs of our three telecommunications operator customers regarding network construction, especially in 3G network construction. Revenue from telecommunications infrastructure services contributed by our three telecommunications operator customers increased by 56.4% over the same period last year. At the same time, the Group also captured the opportunities provided by the growth of government investment in public infrastructural facilities and actively undertook construction projects in communications and information facilities, such as subways, highways and the Shanghai World Expo Park. As such, revenue from the telecommunications infrastructure services contributed by customers other than our three telecommunications operator customers also achieved a growth of 27.5%.

1 CTW refers to the mobile technologies adopted by our three telecommunications operator customers, CDMA of China Telecom, TD-SCDMA of China Mobile and WCDMA of China Unicom respectively.

Chairman's Statement
(continued)

In the first half of 2009, revenue from business process outsourcing services was RMB7,764 million, an increase of 23.6% over the same period last year, and representing 42.5% of our total revenues. Among the businesses, maintenance business mainly benefited from the operators' expanding network scale and increasing proportion of network maintenance outsourcing, and recorded a robust growth of 68.9%. The Group will leverage our strength on integrated service capabilities in network construction, maintenance and optimization to continue pursuing more network maintenance outsourcing projects. Due to the gradual launch of 3G services by telecommunications operators, the businesses on terminal sales and logistics services also increased accordingly, and revenue from the distribution of telecommunications services and products increased by 17.1% over the same period last year.

In the first half of 2009, revenue from applications, content and other services was RMB1,728 million, an increase of 2.3% over the same period last year and representing 9.5% of our total revenues. During the first half of 2009, we carried on our cooperation with strategic partners as scheduled and continued to enhance our core service capabilities and brand value.

In the first half of 2009, we fully implemented our CTW program and focused on the needs of telecommunications operators in constructing massive 3G networks and providing a full range of services. Revenue from our three telecommunications operator customers was RMB11,557 million, an increase of 44.5% over the same period last year. Among the revenue from our three telecommunications operator customers, revenue from China Telecom increased by 35.1%; revenue from China Mobile and China Unicom increased by 68.1%, which accounted for 20.9% of our total revenues, and an increase of 4.5 percentage points over the same period last year, clearly demonstrating that we achieved favorable result in market development and further optimized our revenue structure.

In the first half of 2009, our projects in which we acted as the principal contractors in the overseas market were executed smoothly, with revenue from overseas reaching RMB595 million, doubling that of the same period last year. The Group deepened co-operation with equipment vendors, operators and domestic financial institutions, complementing each other's advantages, supporting one another and developing overseas markets together. On top of the outsourcing projects, we will focus on joint tenders with equipment vendors so as to jointly explore and develop large-scale projects in which we will act as principal contractor. The Group will strive to control risks, rationalize resource allocation and continue to promote our overseas development strategies.

Acquisition and Integration

In the first half of 2009, the Group completed the acquisitions of a 51% equity interest in Guoxin Lucent Technologies Network Technologies Co., Ltd., a 95.945% equity interest in Shanghai Tongmao Import & Export Co., Ltd. and a 40% equity interest in Shenzhen Telecom Engineering Co. Limited (the "Acquisitions") respectively. The Acquisitions facilitate the further integration and enhancement of our current businesses on comprehensive logistic services and the development of operation support systems, enabling us to provide more premium and comprehensive services to our customers. In the future, the Group will look more closely for appropriate external growth opportunities.

The Group will continue to optimize resource allocation through internal integration. Our current focus is to formulate a group of Strategic Business Units (SBU) and optimize and enhance branded products and services, for the purpose of enhancing our corporate operational efficiency and core competitiveness.

Corporate Governance and Human Resources Development

Upon the expiry of the first session of the Board, the Company conducted re-election of directors and approval was granted at its general meeting. All of the members of the first session, including three executive directors, two non-executive directors and five independent directors, continue to hold offices for the second session of the Board.

In the first half of 2009, the Group continued to adhere to the human resources development strategy of "controlling total headcount and optimizing structure". Through various measures such as internal exchanges and centralized training, we focused on the development of leadership skills for management staff and execution abilities for general staff. We shall continue to improve corporate and staff capabilities, thereby providing support to the versatile market environment.

Prospects

In the first half of 2009, by adopting a scientific development approach, the Group implemented a learning and practice program named "Quality Customer Services, Immaculate Enterprise Operation". This program aimed at further aligning different views and identifying opportunities and challenges that were encountered by us. Currently, there are signs of gradual recovery in the macroeconomic environment, but the upward trend is not yet stable. The development momentum of the domestic telecommunications industry is still slow, and objectively speaking, there are cyclical fluctuations in the network investment scale by operators. All the above will bring challenges to the Group in our future development.

On the other hand, we also envisage that operators' demands in such areas as network maintenance and optimization, product and service distribution, and value-added business development will be sustainable. The evolution of technologies and the ever-emerging new models in the telecommunications industry will continue to provide new opportunities for the Group. With the continued enhancement of national informatization, our positioning as the "service provider for telecommunications, media and technology companies" shall allow the Group to reap the benefits of the overall national economic development and gain a sustainable momentum for development. Through a global perspective, there are tremendous opportunities in overseas markets. In the future, the Group will continue to implement the CTW program, serving the operator market well, and thereby solidifying our leading position in the industry. We will also strive to develop the markets for government agencies and corporate customers as well as overseas markets, so as to achieve further breakthroughs.

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

Li Ping
Chairman

Beijing, PRC
1 September 2009

Independent Review Report

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 7 to 38 which comprises the consolidated balance sheet of China Communications Services Corporation Limited ("the Company") as at 30 June 2009, and the related consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and 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 2009 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

1 September 2009

Consolidated Income Statement — Unaudited

For the six months ended 30 June 2009
(Expressed in Renminbi)

	Note	Six months ended 30 June 2009 RMB'000	2008 RMB'000 (restated – note 1(b))
Revenues	5	18,262,862	13,866,565
Cost of revenues	6	(15,409,136)	(11,692,870)
Gross profit		2,853,726	2,173,695
Other operating income	7	166,550	170,873
Selling, general and administrative expenses		(1,997,229)	(1,519,036)
Other operating expenses		(10,986)	(7,396)
Net financing expense	8	(23,092)	(38,190)
Share of profits of associate		412	690
Profit before tax	9	989,381	780,636
Income tax	10(a)	(229,003)	(207,212)
Profit for the period		760,378	573,424
Attributable to:			
Equity shareholders of the Company		758,338	568,787
Minority interests		2,040	4,637
Profit for the period		760,378	573,424
Basic and diluted earnings per share (RMB)	13	0.131	0.102

The notes on pages 15 to 38 form part of this interim financial report.

Consolidated Statement of Comprehensive Income — Unaudited

For the six months ended 30 June 2009
(Expressed in Renminbi)

	Note	Six months ended 30 June 2009 RMB'000	2008 RMB'000
Profit for the period		**760,378**	573,424
Other comprehensive income/(expenses) for the period (after tax)			
Exchange differences on translation of financial statements of subsidiaries outside Mainland China		**7**	(2,445)
Effect on opening deferred tax balances resulting from a change in tax rate		**—**	1,426
Available-for-sale securities: net movement in the fair value reserve	11	**20,956**	(30,005)
		20,963	(31,024)
Total comprehensive income for the period		**781,341**	542,400
Attributable to:			
Equity shareholders of the Company		**779,301**	537,763
Minority interests		**2,040**	4,637
Total comprehensive income for the period		**781,341**	542,400

The notes on pages 15 to 38 form part of this interim financial report.

Consolidated Balance Sheet — Unaudited

At 30 June 2009
(Expressed in Renminbi)

	Note	30 June 2009 RMB'000	31 December 2008 RMB'000 (restated – note 1(b))
Non-current assets			
Property, plant and equipment, net	14	3,694,831	3,642,735
Investment properties		699,785	707,215
Construction in progress		171,979	231,008
Lease prepayments		422,056	431,291
Goodwill		103,005	103,005
Other intangible assets		123,801	115,581
Interests in associate		13,314	12,902
Other investments		297,117	269,788
Deferred tax assets		119,707	117,616
Total non-current assets		5,645,595	5,631,141
Current assets			
Inventories		1,740,867	1,182,471
Accounts and bills receivable, net	15	11,645,958	9,330,772
Prepayments and other current assets		3,223,786	2,975,964
Restricted deposits		175,067	178,312
Cash and cash equivalents	16	7,082,875	8,538,142
Total current assets		23,868,553	22,205,661
Total assets		29,514,148	27,836,802
Current liabilities			
Interest-bearing borrowings	17	1,817,425	1,993,426
Accounts and bills payable	18	8,589,479	7,746,787
Receipts in advance for contract work		717,478	808,196
Accrued expenses and other payables		5,824,094	4,826,825
Income tax payable		165,955	186,525
Total current liabilities		17,114,431	15,561,759
Net current assets		6,754,122	6,643,902
Total assets less current liabilities		12,399,717	12,275,043

Consolidated Balance Sheet — Unaudited
(continued)

At 30 June 2009
(Expressed in Renminbi)

	Note	30 June 2009 RMB'000	31 December 2008 RMB'000 (restated – note 1(b))
Non-current liabilities			
Deferred tax liabilities		36,899	31,453
Total non-current liabilities		36,899	31,453
Total liabilities		17,151,330	15,593,212
Equity			
Share capital	19	5,771,682	5,771,682
Reserves		6,466,859	6,315,179
Equity attributable to equity shareholders of the Company		12,238,541	12,086,861
Minority interests		124,277	156,729
Total equity		12,362,818	12,243,590
Total liabilities and equity		29,514,148	27,836,802

The notes on pages 15 to 38 form part of this interim financial report.

Consolidated Statement of Changes in Equity — Unaudited

For the six months ended 30 June 2009
(Expressed in Renminbi)

		Equity attributable to equity shareholders of the Company											
	Note	Share capital RMB'000	Share premium (note g) RMB'000	Capital reserve (note i) RMB'000	Revaluation reserve RMB'000	Statutory surplus reserve (note h) RMB'000	Fair value reserve (note j) RMB'000	Exchange reserve (note k) RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
Balance as at 1 January 2009		5,771,682	2,727,647	917,666	415,557	162,158	22,381	(5,448)	206,382	1,868,836	12,086,861	156,729	12,243,590
Changes in equity for the six months ended 30 June 2009													
Consideration for the acquisition of the Target Interests (as defined in note 1(b))	(See note 1(b))	—	—	—	—	—	—	—	(98,081)	—	(98,081)	—	(98,081)
Transfer from retained earnings to other reserve	(a)	—	—	—	—	—	—	—	2,187	(2,187)	—	—	—
Transfer from other reserve to capital reserve	(b)	—	—	96	—	—	—	—	(96)	—	—	—	—
Acquisition of minority interests		—	—	—	—	—	—	—	(2,585)	—	(2,585)	(13,524)	(16,109)
Dividend declared	12(b)	—	—	—	—	—	—	—	—	(526,955)	(526,955)	—	(526,955)
Distribution to minority shareholders		—	—	—	—	—	—	—	—	—	—	(20,968)	(20,968)
Total comprehensive income for the period		—	—	—	—	—	20,956	7	—	758,338	779,301	2,040	781,341
Balance as at 30 June 2009		5,771,682	2,727,647	917,762	415,557	162,158	43,337	(5,441)	107,807	2,098,032	12,238,541	124,277	12,362,818

Consolidated Statement of Changes in Equity — Unaudited
(continued)

For the six months ended 30 June 2009
(Expressed in Renminbi)

		Equity attributable to equity shareholders of the Company											
	Note	Share capital RMB'000	Share premium (note g) RMB'000	Capital reserve (note i) RMB'000	Revaluation reserve RMB'000	Statutory surplus reserve (note h) RMB'000	Fair value reserve (note j) RMB'000	Exchange reserve (note k) RMB'000	Other reserve (restated – note 1(b)) RMB'000	Retained earnings (restated – note 1(b)) RMB'000	Total (restated – note 1(b)) RMB'000	Minority interests (restated – note 1(b)) RMB'000	Total equity (restated – note 1(b)) RMB'000
Balance as at 1 January 2008 as previously reported		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
Adjusted for acquisition of Target Interests (as defined in note 1(b))		—	—	—	—	—	—	—	109,526	—	109,526	34,382	143,908
Balance as at 1 January 2008, restated		5,444,986	1,557,783	917,666	415,557	97,826	61,075	(3,062)	176,277	1,002,196	9,670,304	111,812	9,782,116
Changes in equity for the six months ended 30 June 2008													
Issuance of shares	19	326,696	1,169,864	—	—	—	—	—	—	—	1,496,560	—	1,496,560
Transfer from retained earnings to other reserve	(c)	—	—	—	—	—	—	—	1,766	(1,766)	—	—	—
Profit distribution	(d)	—	—	—	—	—	—	—	(15,658)	—	(15,658)	(662)	(16,320)
Contributions	(e)	—	—	—	—	—	—	—	—	8,335	8,335	—	8,335
Capital injection by minority shareholder to subsidiary	(f)	—	—	—	—	—	—	—	46,567	—	46,567	24,893	71,460
Acquisition of minority interests		—	—	—	—	—	—	—	(863)	—	(863)	(1,335)	(2,198)
Total comprehensive income for the period		—	—	—	—	—	(30,005)	(2,445)	1,426	568,787	537,763	4,637	542,400
Dividend declared	12(b)	—	—	—	—	—	—	—	—	(393,629)	(393,629)	—	(393,629)
Balance as at 30 June 2008 and 1 July 2008		5,771,682	2,727,647	917,666	415,557	97,826	31,070	(5,507)	209,515	1,183,923	11,349,379	139,345	11,488,724
Capital injection by minority shareholder to subsidiary		—	—	—	—	—	—	—	—	—	—	1,000	1,000
Increase in minority interest		—	—	—	—	—	—	—	—	—	—	12,475	12,475
Transfer from retained earnings to other reserve	(c)	—	—	—	—	—	—	—	8,738	(8,738)	—	—	—
Profit distribution	(d)	—	—	—	—	—	—	—	(8,380)	—	(8,380)	(354)	(8,734)
Distribution to minority shareholders		—	—	—	—	—	—	—	—	—	—	(7,974)	(7,974)
Total comprehensive income for the period		—	—	—	—	—	(8,689)	59	(3,491)	757,983	745,862	12,237	758,099
Appropriation		—	—	—	—	64,332	—	—	—	(64,332)	—	—	—
Balance as at 31 December 2008		5,771,682	2,727,647	917,666	415,557	162,158	22,381	(5,448)	206,382	1,868,836	12,086,861	156,729	12,243,590

Notes:

(a) Transfer from retained earnings to other reserve during the six months ended 30 June 2009 represents the net profit of the Target Interests (as defined in note 1(b)) for the period from 1 January 2009 to 26 May 2009, which was included in the consideration for the acquisition of the Target Interests.

(b) Transfer from other reserve to capital reserve during the six months ended 30 June 2009 represents the difference between the consideration for the acquisition of the Target Interests and the net assets value of the Target Interests.

Consolidated Statement of Changes in Equity — Unaudited
(continued)

For the six months ended 30 June 2009
(Expressed in Renminbi)

Notes: (continued)

(c) Transfer from retained earnings to other reserve in 2008 represented the net profit of the Target Interests for the period from 1 January 2008 to 31 December 2008, which was included in the consideration for the acquisition of the Target Interests.

(d) Profit distribution in 2008 represented the appropriation made and dividend declared by a subsidiary within the Target Interests prior to the acquisition of the Target Interests by the Group.

(e) The capital contribution during the six months ended 30 June 2008 represented the profit distribution to a subsidiary of China Telecommunications Corporation ("CTC") by the Target Business (as defined in note (i) below), which was subsequently waived by the subsidiary.

(f) Capital injection by minority shareholder during the six months ended 30 June 2008 represented a minority shareholder injected US$10 million to acquire 30% equity interest in a subsidiary, Zhejiang Freeland New Media Co., Ltd, of the Group at a premium. The Company's share portion of the premium has been recorded in other reserve.

(g) 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.

(h) Statutory surplus reserve

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 PRC Accounting Rules and Regulations to its statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, or to expand the Company's business, and may be converted into share capital by the issuance 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.

(i) 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. Then, the capital reserve was net off by the difference between the consideration for the acquisition of 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 equity interests in Guangdong Nanfang Communication GSM Intelligent Card System Co., Ltd and Ningbo Public Information Industry Co., Ltd (the "Target Business") and the net assets value of the Target Business in 2007.

(j) Fair value reserve

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

(k) Exchange reserve

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

The notes on pages 15 to 38 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement — Unaudited

For the six months ended 30 June 2009
(Expressed in Renminbi)

	Note	Six months ended 30 June 2009 RMB'000	2008 RMB'000 (restated – note 1(b))
Net cash used in operating activities		**(779,853)**	(998,559)
Net cash (used in)/generated from investing activities		**(417,317)**	332,755
Net cash (used in)/generated from financing activities		**(256,968)**	1,389,960
Net (decrease)/increase in cash and cash equivalents		**(1,454,138)**	724,156
Cash and cash equivalents at the beginning of period		**8,538,142**	6,769,326
Effect of foreign exchange rate changes		**(1,129)**	(2,135)
Cash and cash equivalents at the end of period	16	**7,082,875**	7,491,347

The notes on pages 15 to 38 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

1 Principal activities 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 telecommunications 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) Basis of presentation

Pursuant to the Equity Transfer Agreements entered into by the Company and China Telecommunications Corporation and its subsidiaries ("CTC Group") on 26 May 2009, the Company acquired 95.945% and 51% equity interests in Shanghai Tongmao Import & Export Co. Ltd ("Tongmao") and Guoxin Lucent Technologies Network Technologies Co., Ltd ("Guoxin Lucent") (collectively the "Target Interests") respectively for a total purchase price of RMB98.05 million.

Since the Group and the Target Interests are under common control of CTC, the Target Interests have been accounted for as a combination of entities under common control in a manner similar to pooling-of-interests. Accordingly, the assets and liabilities of the Target Interests have been accounted for at historical costs and the consolidated financial statements of the Company prior to the acquisition of the Target Interests have been restated to include the results of operations and assets and liabilities of the Target Interests on a combined basis. The considerations paid by the Company for the acquisitions of the Target Interests were accounted for as an equity transaction in the consolidated statement of changes in equity.

1 Principal activities and basis of presentation (continued)

(b) Basis of presentation (continued)

The results of operations for the six months ended 30 June 2008, the financial position as at 31 December 2008 and the cash flow effect for the six months ended 30 June 2008 previously reported by the Group have been restated to include the results of the Target Interests as set out below:

	The Group (as previously reported) RMB'000	Target Interests RMB'000	Combined adjustments RMB'000	Combined RMB'000
Results of operations for the six months ended 30 June 2008				
Revenues	13,628,673	259,074	(21,182)	13,866,565
Gross profit	2,145,336	29,439	(1,080)	2,173,695
Profit/(loss) for the period	574,325	(901)	—	573,424
Basic earnings per share (in RMB)	0.101	—	—	0.102
Financial position as at 31 December 2008				
Total assets	27,459,220	395,293	(17,711)	27,836,802
Total liabilities	15,346,526	264,397	(17,711)	15,593,212
Total equity	12,112,694	130,896	—	12,243,590
Cash flow effect for the six months ended 30 June 2008				
Net cash used in operating activities	(901,885)	(96,674)	—	(998,559)
Net cash generated from/(used in) investing activities	333,628	(873)	—	332,755
Net cash generated from financing activities	1,351,550	38,410	—	1,389,960

For the periods presented, all significant balances and transactions between the Group and the Target Interests have been eliminated on combination.

(Expressed in Renminbi)

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,* issued by the International Accounting Standards Board ("IASB"). It was authorised for issuance on 1 September 2009.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2008 annual financial statements, except for the accounting policies changes that are expected to be reflected in the 2009 annual financial statements. Details of these changes in accounting policies are set out in note 3.

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 2008 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 IFRS, 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. KPMG's independent review report to the Board of Directors is included on page 6.

The financial information relating to the financial year ended 31 December 2008 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 2008 are available from the Company's registered office. The Company's international auditors have expressed an unqualified opinion on those financial statements in their report dated 2 April 2009.

(Expressed in Renminbi)

3 Changes in accounting policies

The IASB has issued one new IFRS, a number of amendments to IFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 8, *Operating segments*

- IAS 1 (revised 2007), *Presentation of financial statements*

- Revised IAS 23, *Borrowing costs*

- Amendments to IAS 27, *Consolidated and separate financial statements — cost of an investment in a subsidiary, jointly controlled entity or associate*

- Amendment to IFRS 2, *Share-based payment — vesting conditions and cancellations*

- Amendments to IFRS 7, *Financial instruments: Disclosures — improving disclosures about financial instruments*

- Improvements to IFRSs (2008)

The amendments to IFRS 2, IAS 23 and improvements to IFRSs (2008) have had no material impact on the Group's financial statements as the amendments were consistent with policies already adopted by the Group. In addition, the amendments to IFRS 7 do not contain any additional disclosure requirements specifically applicable to the interim financial report. The impact of the remainder of these developments on the interim report is as follows:

- As a result of the adoption of IAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

- IFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. As the Group principally has one reportable segment, such change has no material impact to the presentation of this interim financial information. For additional information about segment reporting, please refer to note 4.

(Expressed in Renminbi)

3 Changes in accounting policies (continued)

- The amendments to IAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009, all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognised in the Group's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividends. In such cases, in addition to recognising dividend income in profit or loss, the Group would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

4 Segment reporting

The Group principally has one reportable segment, which is the provision of integrated telecommunications support services in the PRC. Therefore, no additional reportable segment has been presented. Additional information about major customers and geographical areas of the Group has been disclosed in note 5.

5 Revenues

Revenues are derived from the provision of integrated telecommunications support services and net of sales taxes. The Group's revenues by business nature can be summarised as follows:

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000 (restated – note 1(b))
Revenue from telecommunications infrastructure services	**8,770,533**	5,895,007
Revenue from business process outsourcing services	**7,764,049**	6,281,531
Revenue from applications, content and others	**1,728,280**	1,690,027
	18,262,862	13,866,565

The Group's major customers are telecommunications operators which include CTC Group and China Mobile Communications Corporation and its subsidiaries ("CM Group"), both with revenue exceeding 10% of the Group's total revenue. Revenues from the provision of integrated telecommunications support services to CTC Group and CM Group for the six months ended 30 June 2009 amount to RMB7,742 million and RMB3,068 million respectively (six months ended 30 June 2008: RMB5,730 million and RMB1,936 million respectively), being 42.4% and 16.8% of the Group's total revenue respectively (six months ended 30 June 2008: 41.3% and 14.0% respectively). In addition, the revenue derived from areas outside Mainland China for the six months ended 30 June 2009 amounts to RMB 595 million (six months ended 30 June 2008: RMB270 million).

Notes to the Unaudited Interim Financial Report
(continued)

(Expressed in Renminbi)

6 Cost of revenues

	Six months ended 30 June 2009 RMB'000	2008 RMB'000 (restated – note 1(b))
Depreciation and amortisation	**168,534**	169,941
Direct personnel costs	**3,202,816**	2,366,834
Operating lease charges	**264,242**	171,883
Purchase of materials and telecommunications products	**6,015,321**	5,002,863
Subcontracting charges	**4,235,494**	2,908,350
Others	**1,522,729**	1,072,999
	15,409,136	11,692,870

7 Other operating income

	Six months ended 30 June 2009 RMB'000	2008 RMB'000 (restated – note 1(b))
Dividend income from unlisted securities	**1,440**	—
Government grants	**49,180**	51,319
Gain on disposal of investments	**—**	7,143
Gain on disposal of property, plant and equipment	**3,282**	104
Penalty income	**953**	799
Management fee income	**96,041**	89,832
Write-off of non-payable liabilities	**437**	7,835
Others	**15,217**	13,841
	166,550	170,873

(Expressed in Renminbi)

8 Net financing expense

	Six months ended 30 June 2009 RMB'000	2008 RMB'000 (restated – note 1(b))
Interest income	30,515	49,701
Net foreign exchange (loss)/gain	(5,719)	2,591
Net change in fair value of financial assets at fair value through profit or loss	—	(103)
Change in fair value of derivative financial instruments	—	(4,733)
Interest on bank advances and other borrowings wholly repayable within five years and others	(47,888)	(85,646)
	(23,092)	(38,190)

For the periods ended 30 June 2009 and 2008, no borrowing costs were capitalised in relation to construction in progress.

9 Profit before tax

	Six months ended 30 June 2009 RMB'000	2008 RMB'000 (restated – note 1(b))
(a) Staff costs:		
Salaries, wages and other benefits	3,950,950	2,936,006
Contributions to defined contribution retirement schemes	378,352	281,159
	4,329,302	3,217,165
(b) Other items:		
Amortisation	18,321	18,436
Cost of inventories	6,015,321	5,002,863
Depreciation	275,709	259,623
Inventory write-down and losses, net of reversals	3,754	8,682
Impairment losses on accounts and other receivables	4,433	14,003
Reversal of impairment losses on accounts and other receivables	(2,632)	(1,817)
Operating lease charges	324,401	227,141
Research and development costs	68,910	8,338
Share of associates' taxation	137	230

Notes to the Unaudited Interim Financial Report
(continued)

(Expressed in Renminbi)

10 Income tax

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

	Six months ended 30 June 2009 RMB'000	2008 RMB'000 (restated – note 1(b))
Current tax		
PRC enterprise income tax	231,478	226,932
Deferred tax		
Origination and reversal of temporary differences	(2,475)	(19,720)
Total income tax	229,003	207,212

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

	Six months ended 30 June 2009 RMB'000	2008 RMB'000 (restated – note 1(b))
Profit before tax	989,381	780,636
Expected PRC enterprise income tax expense at a statutory tax rate of 25%	247,345	195,159
Differential tax rates on subsidiaries' profits (note (i))	(52,644)	(16,414)
Non-deductible expenses (note (ii))	13,975	15,058
Non-taxable income	(2,805)	(8,183)
Tax losses not recognised	19,376	28,851
Effect on opening deferred tax resulting from a change in preferential tax qualification (note (iii))	3,756	(7,259)
Income tax	229,003	207,212

(Expressed in Renminbi)

10 Income tax (continued)

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

Notes:

(i) The provision for PRC income tax of the Group is calculated based on a statutory rate of 25% of the assessable profit of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the six months ended 30 June 2009 and the six months ended 30 June 2008, except for certain subsidiaries of the Group, which are taxed at preferential rates of 15% or 20%.

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

(iii) The amount in the six months ended 30 June 2009 and 2008 represented the tax effect on opening balances of deferred tax assets arising from the change in the enterprise income tax rate applicable to certain subsidiaries due to changes in preferential tax qualification during the periods. The deferred tax assets were remeasured for the change in applicable tax rates.

11 Other comprehensive income/(expenses)

Available-for-sale securities

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Changes in fair value recognised during the period	**26,786**	(40,007)
Net deferred tax (charged)/credited to other comprehensive income	**(5,830)**	10,002
Net movement in the fair value reserve during the period recognised in other comprehensive income/(expenses)	**20,956**	(30,005)

(Expressed in Renminbi)

12 Dividends

(a) Interim dividend

The directors do not propose the payment of an interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: RMB nil).

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

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Final dividend in respect of the financial year ended 31 December 2008 and 2007, declared during the following interim period of RMB0.0913 per share (six months ended 30 June 2008: RMB0.0682 per share)	**526,955**	393,629

No final dividend was paid during the six months ended 30 June 2009 and six months ended 30 June 2008.

13 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 2009 of RMB758 million (six months ended 30 June 2008: RMB569 million) and the weighted average number of shares in issue during the six months ended 30 June 2009 of 5,771,682 thousand shares (six months ended 30 June 2008: 5,592,179 thousand shares).

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

	Six months ended 30 June	
	2009	2008
	Thousand shares	Thousand shares
Ordinary share issued at 1 January	**5,771,682**	5,444,986
Effect of shares issued in April 2008 (See note 19)	**—**	147,193
	5,771,682	5,592,179

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

Notes to the Unaudited Interim Financial Report
(continued)

(Expressed in Renminbi)

14 Property, plant and equipment, net

During the six months ended 30 June 2009, additions of property, plant and equipment (including direct purchase, transfer from construction in progress and investment properties) of the Group amounted to RMB339 million (six months ended 30 June 2008: RMB492 million (restated)). Items of property, plant and equipment with net book value totalling RMB7 million were disposed of during the six months ended 30 June 2009 (six months ended 30 June 2008: RMB8 million).

15 Accounts and bills receivable, net

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000 (restated – note 1(b))
Bills receivable	**44,358**	146,577
Unbilled revenue for contract work	**3,662,715**	2,620,511
Trade receivables	**8,240,620**	6,864,788
	11,947,693	9,631,876
Less: impairment losses	**(301,735)**	(301,104)
	11,645,958	9,330,772

(a) Included in accounts and bills receivable are amounts due from fellow subsidiaries of RMB5,882 million as at 30 June 2009 (31 December 2008: RMB5,332 million (restated)). 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.

(Expressed in Renminbi)

15 Accounts and bills receivable, net (continued)

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

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000 (restated – note 1(b))
Current	6,562,690	4,364,365
Within 1 year	4,428,741	4,320,944
After 1 year but less than 2 years	460,921	459,572
After 2 years but less than 3 years	113,078	119,212
After 3 years	80,528	66,679
Amount past due	5,083,268	4,966,407
	11,645,958	9,330,772

(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 2009 RMB'000	At 31 December 2008 RMB'000 (restated – note 1(b))
At 1 January	301,104	73,514
Acquisition of subsidiaries (note (i))	—	202,334
Impairment loss recognised	3,574	40,647
Reversal of impairment loss previously recognised	(2,590)	(8,089)
Uncollectible amounts written off	(353)	(7,302)
At 30 June/31 December	301,735	301,104

(Expressed in Renminbi)

15 Accounts and bills receivable, net (continued)

(d) Impairment of accounts and bills receivable (continued)

(i) Included in impairment losses are impairment loss of RMB202.3 million recognised before the acquisition date by China International Telecommunications Construction Corporation and its subsidiaries ("CITCC") which were acquired by the Group in 2008.

At 30 June 2009, the Group's accounts and bills receivable of RMB256.1 million were individually determined to be impaired (31 December 2008: RMB256.9 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 RMB211.1 million were recognised (31 December 2008: RMB213.2 million including acquired from CITCC). 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 are as follows:

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000 (restated – note 1(b))
Neither past due nor impaired	6,562,690	4,364,365
Within 1 year	4,391,723	4,319,752
After 1 year but less than 2 years	380,757	283,800
After 2 years but less than 3 years	70,435	77,571
After 3 years	25,759	18,442
At 30 June/31 December	11,431,364	9,063,930

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

Receivables that were past due but not impaired relate to major telecommunications service providers and a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance 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.

(Expressed in Renminbi)

16 Cash and cash equivalents

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000 (restated – note 1(b))
Cash at bank and in hand	**5,406,645**	7,143,953
Highly liquid investments	**70,000**	245,000
Deposits with banks and other financial institutions	**1,606,230**	1,149,189
Cash and cash equivalents	**7,082,875**	8,538,142

17 Interest-bearing borrowings

The Group's short-term borrowings are comprised of:

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000 (restated – note 1(b))
RMB denominated		
Borrowings from banks		
— collateralised	**—**	15,212
— unsecured	**850,000**	282,488
Loans from ultimate holding company		
— unsecured	**300,000**	1,000,000
Loans from fellow subsidiaries		
— unsecured	**566,280**	645,780
Loans from third parties		
— unsecured	**18,500**	39,000
Current portion of long-term borrowings from banks		
— collateralised	**—**	940
United States dollar denominated		
Borrowings from banks		
— collateralised	**—**	10,006
— unsecured	**82,645**	—
	1,817,425	1,993,426

(Expressed in Renminbi)

17 Interest-bearing borrowings (continued)

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

	At 30 June 2009	At 31 December 2008 (restated – note 1(b))
RMB denominated		
Borrowings from banks		
— collateralised	—	3.30%
— unsecured	2.30% – 3.62%	6.03% – 7.47%
Loans from ultimate holding company		
— unsecured	3.89%	4.03%
Loans from fellow subsidiaries		
— unsecured	2.39% – 4.82%	3.00% – 5.26%
Loans from third parties		
— unsecured	4.37% – 5.83%	5.83% – 5.91%
United States dollar denominated		
Borrowings from banks		
— collateralised	—	2.25%
— unsecured	2.36% – 3.61%	—

As at 30 June 2009, no borrowings from banks were subject to financial covenants. The loan from ultimate holding company as at 30 June 2009 is unsecured and repayable on 9 December 2009.

(Expressed in Renminbi)

18 Accounts and bills payable

Accounts and bills payable comprise:

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000 (restated – note 1(b))
Accounts payable	**7,251,809**	6,190,058
Bills payable	**1,337,670**	1,556,729
	8,589,479	7,746,787

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

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000 (restated – note 1(b))
Within 1 year	**7,951,355**	7,356,165
After 1 year but less than 2 years	**512,651**	267,125
After 2 years but less than 3 years	**79,160**	84,554
After 3 years	**46,313**	38,943
	8,589,479	7,746,787

Included in accounts and bills payable are amounts due to fellow subsidiaries of RMB349 million as at 30 June 2009 (31 December 2008: RMB254 million). 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
(continued)

(Expressed in Renminbi)

19 Share capital

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Registered, issued and fully paid:		
3,778,831,800 domestic state-owned ordinary shares of RMB1.00 each	3,778,831	3,778,831
1,992,850,200 H shares of RMB1.00 each	1,992,851	1,992,851
	5,771,682	5,771,682

	For the six months ended 30 June 2009 Thousand shares	For the year ended 31 December 2008 Thousand shares
At 1 January	5,771,682	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	5,771,682

On 9 April 2008, the Company completed 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 the existing domestic legal person shares by the National Council for Social Security Fund of the PRC. The net proceeds from the placing, after deducting share issue expenses of RMB45,309 thousand, amounted to RMB1,496,560 thousand, of which RMB326,696 thousand and RMB1,169,864 thousand were credited to the Company's paid up capital and share premium reserve respectively.

(Expressed in Renminbi)

20 Commitments and contingent liabilities

(a) Capital commitments

As at 30 June 2009, the Group has capital commitments for acquisition and construction of property, plant and equipment and other assets as follows:

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Authorised and contracted for	**162,609**	163,397
Authorised but not contracted for	**133,780**	189,877

(b) Operating lease commitments

As at 30 June 2009, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000 (restated – note 1(b))
Within 1 year	**138,597**	98,362
After 1 year but within 5 years	**125,124**	112,878
After 5 years	**6,552**	5,998
	270,273	217,238

The Group leases a number of properties under operating leases. The leases typically 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

As at 30 June 2009, the Group had no material contingent liabilities and no financial guarantees issued.

(Expressed in Renminbi)

21 Related parties

The Group is part of a large group of companies under CTC Group and has significant transactions and relationships with members of CTC Group. 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 the 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:

	For the six months ended 30 June	
	2009	2008
	RMB'000	RMB'000 (restated – note 1(b))
Income from related parties:		
Engineering related services (note (i))	**4,152,205**	2,529,440
IT application services (note (ii))	**369,910**	174,049
Provision of ancillary telecommunications services (note (iii))	**2,463,669**	2,260,059
Provision of operation support services (note (iv))	**732,712**	734,311
Property leasing (note (v))	**23,673**	32,095
Management fee income (note(vi))	**96,041**	89,832
Expenses paid/payable to related parties:		
Property leasing charges (note (vii))	**52,389**	45,384
IT application service charges (note (viii))	**26,895**	84,736
Operation support service charges (note (ix))	**416,232**	187,849
Interest paid/payable (note (x))	**24,976**	63,746

(Expressed in Renminbi)

21 Related parties (continued)

(a) Transactions with CTC Group (continued)

Notes:

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

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

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

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

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

(vi) The amount represents management fee income in respect of Centralised Services provided to CTC Group.

(vii) The amount represents rentals from 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 CTC and fellow subsidiaries.

(Expressed in Renminbi)

21 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 2009 RMB'000	At 31 December 2008 RMB'000 (restated – note 1(b))
Accounts and bills receivable, net	5,882,277	5,331,861
Prepayments and other current assets	378,708	502,996
Total amounts due from CTC Group	6,260,985	5,834,857
Interest-bearing borrowings	866,280	1,645,780
Accounts and bills payable	349,364	253,724
Receipts in advance for contract work	45,827	41,732
Accrued expenses and other payables	1,909,114	1,503,672
Total amounts due to CTC Group	3,170,585	3,444,908

As at 30 June 2009 and 31 December 2008, 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.

(Expressed in Renminbi)

21 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 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.

(Expressed in Renminbi)

21 Related parties (continued)

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

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 2009 RMB'000	At 31 December 2008 RMB'000 (restated – note 1(b))
Cash and cash equivalents	6,553,283	7,982,351
Interest-bearing borrowings	850,000	207,706

	Six months ended 30 June	
	2009 RMB'000	2008 RMB'000 (restated – note 1(b))
Interest income	30,226	44,049
Interest expenses	11,059	13,913

(c) Transactions with key management personnel

Remuneration for key management personnel is as follows:

	Six months ended 30 June	
	2009 RMB'000	2008 RMB'000
Salaries and other emoluments	1,273	1,249
Retirement benefits	564	581
Bonus	2,305	2,432
	4,142	4,262

Total remuneration is included in "Staff costs" in note 9.

(Expressed in Renminbi)

21 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 18% to 22% of the salaries, bonuses and certain allowances of the employees. A member of the scheme is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date. The Group has no other material obligation for the payment of pension benefits associated with these schemes beyond the annual contributions described above.

As at 30 June 2009 and 31 December 2008, 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 RMB13,044 million for the six months ended 30 June 2009 (six months ended 30 June 2008: RMB8,669 million).

Transactions with Group's ten largest suppliers, which are state-controlled entities, amounting to RMB920 million for the six months ended 30 June 2009 (six months ended 30 June 2008: RMB249 million).

22 Comparative figures

As a result of the application of IAS 1 (revised 2007), *Presentation of financial statements*, certain comparative figures have been adjusted to conform to current period's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 3. In addition, as stated in note 1(b), as a result of the acquisition of Target Interests, comparative figures have been restated.

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 2008 Annual Report.

Changes in Biographical Information of Directors and Supervisors

Pursuant to Rule 13.51B(1) of the Listing Rules, changes in biographical information of directors and supervisors since the date of the Company's 2008 Annual Report are set out below:

Mr. Liu Aili:	a non-executive director of the Company, has ceased as the Chairman of CMPak Limited, Pakistan.
Mr. Wang Jun:	an independent non-executive director of the Company, has been appointed as the Chairman of the advisory committee of CCT Resources Holdings Limited.
Mr. Chan Mo Po, Paul:	an independent non-executive director of the Company, has been appointed as the Chairman of Legal Aid Services Council.
Mr. Zhao Chunjun:	an independent non-executive director of the Company, has been appointed as independent non-executive director of Dongfang Electric Corporation Limited and has ceased as independent non-executive director of Daheng New Epoch Technology, Inc.
Ms. Xia Jianghua:	a Chairperson of supervisory committee of the Company, has ceased as supervisor of China Telecom Group North Corporation.

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 period ended 30 June 2009.

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 2009.

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 2009 to 30 June 2009.

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

As at 30 June 2009, 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 2009, 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 2009, the interests or the short positions of persons (excluding the Directors and Supervisors) 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 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	Domestic shares	Beneficial owner	3,035,651,800 (L)	80.33	52.60
China Mobile Communications Corporation	Domestic shares	Beneficial owner	506,880,000 (L)	13.30	8.78
China United Network Communications Group Company Limited	Domestic shares	Beneficial owner	236,300,000 (L)	6.25	4.09
Commonwealth Bank of Australia	H shares	Interest of corporation controlled by the substantial shareholder	205,506,164 (L)	10.31	3.56
JPMorgan Chase & Co.	H shares	Beneficial owner	3,820,500 (L)		
		Custodian corporation/ approved lending agent	179,274,132 (L)		
			183,094,632 (L)	9.19	3.17
		Beneficial owner	1,000,000 (S)	0.05	0.02
		Custodian corporation/ approved lending agent	179,274,132 (P)	8.99	3.11
Schroder Investment Management Limited	H shares	Investment manager	139,762,000 (L)	7.01	2.42
Invesco Hong Kong Limited	H shares	Investment manager	107,927,000 (L)	5.41	1.87
Morgan Stanley	H shares	Interest of corporation controlled by the substantial shareholder	99,906,564 (L) 2,549,480 (S)	5.01 0.13	1.73 0.04

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

Save as stated above, as at 30 June 2009, 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, 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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