中国通信服务
CHINA COMSERVICE

Stock Code 股份代號：552

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

Service provider for telecommunications, media and technology companies | 信息與媒體運營商的服務商

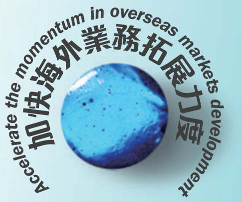
Interim Report 2010 中期報告

NetWork Optimization, Operation anD maintence services following network construction

聚焦網絡建設後的網優、運維等木本業務的需求

Aggressively provide ancillary informatization and communications facilities construction services to large-scale infrastructure and LAND construction projects

積極承接大型基建和土建項目中的配套信息化和通信設施建設



Leveraging on Chinese lower cost advantage and sufficient capital and cooperating with equipment vendors, operators and large scale state-owned enterprises to develop overSEAs markets together

發揮中國的成本和資本優勢，聯合設備製造商、運營商和大型國企共同拓展海外機遇

Establish branded enterprise Capture GOLDen opportunities arising from mobile Internet, Three Networks Convergence, etc.

打造品牌企業，抓住移動互聯網、三網融合等黃金機遇

Enhance resource allocation, speed up overseas market development, improve core capabilities and innovative drivers and deliver FIRE-cracking results

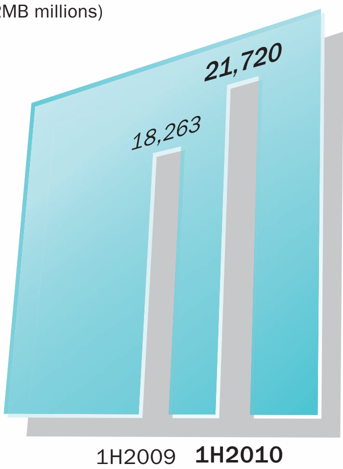
優化資源配置，加速海外市場拓展，提升核心能力和創新驅動力，實現火紅業績

Contents

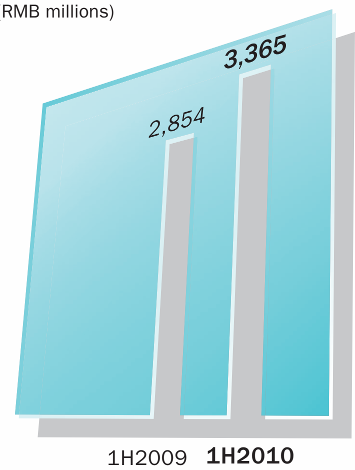
Financial Highlights

	Six months ended 30 June 2009	2010	Change
Revenues (RMB millions)	18,263	21,720	18.9%
Gross profit (RMB millions)	2,854	3,365	17.9%
Profit attributable to equity shareholders (RMB millions)	758	906	19.4%
Basic earnings per share (RMB)	0.131	0.157	19.4%

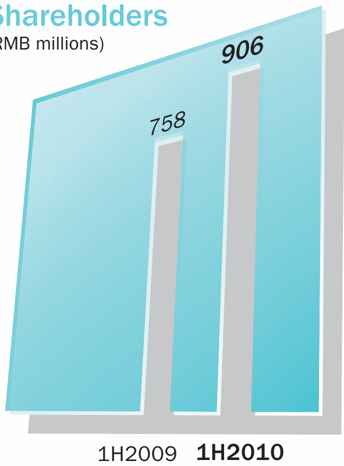
Revenues
(RMB millions)



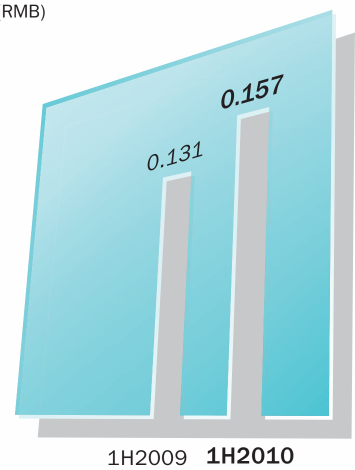
Gross Profit
(RMB millions)



Profit Attributable to Equity Shareholders
(RMB millions)



Basic Earnings per Share
(RMB)



Chairman's Statement

Dear Shareholders,

2010 is the first year after domestic investment in 3G peaked in 2009 and domestic telecommunications operators have more or less reduced their capital expenditure ("CAPEX"). However, the long-term strategic planning and the timely proactive measures of the Group have begun to produce positive effects, resulting in another rapid growth in operating performance in the first half of the year. The Group has not only successfully captured market opportunities other than those of telecommunications infrastructure services, but also further developed customers beyond telecommunications operators. Our customer and business portfolio is further optimized, thereby laying a stronger foundation for the continuous, steady and healthy development of the Group in the future. Meanwhile, the State is gradually promoting policies, including the "Three Networks Convergence", which create new opportunities for the future development of the Group.

Financial Review

In the first half of 2010, the Group recorded revenues of RMB21,720 million, representing an increase of 18.9% over the same period last year. Cost of revenues amounted to RMB18,355 million, representing an increase of 19.1% over the same period last year. Gross profit grew by 17.9% over the same period last year to RMB3,365 million. Due to the effective control over costs and human resources and the flexible subcontracting measures, the Group managed to achieve a relatively stable gross profit margin of 15.5% as compared to the same period last year. Profit attributable to equity shareholders of the Company grew by 19.4% over the same period last year to RMB906 million. Basic earnings per share were RMB0.157.

Business Review

In the first half of 2010, revenue from telecommunications infrastructure services ("TIS") was RMB10,352 million, achieving an increase of 18.0% over the same period last year and representing 47.7% of our total revenues. The Group achieved sustainable development in telecommunications infrastructure services through various measures, such as continuously expanding the market share of telecommunications operators, focusing on the business expansion in the northern regions and developing government agencies and corporate customers. TIS revenues from domestic telecommunications operators increased by 7.5% over the same period last year. TIS revenues from government agencies and corporate customers experienced a rapid growth of 54.2% over the same period last year. The further development of the government agencies and corporate customers market is conducive to the optimization of the customer portfolio and offsets the adverse effects from the reduction of CAPEX by domestic telecommunications operators. In addition, the Group undertook large-scale communications and ancillary information projects for power companies and metro companies as well as the Asian Games, which also contributed to the promotion of the Group's brand awareness.

In the first half of the year, revenues from business process outsourcing services ("BPO") amounted to RMB9,261 million, representing an increase of 19.3% over the same period last year and accounting for 42.6% of the total revenues. Benefitting from the increase in operating expenses ("OPEX") on network expansions and the enlarged business subcontracting from the domestic telecommunications operators, the Group experienced a rapid growth of over 20% in both maintenance business and the distribution of telecommunications services and products.

In the first half of the year, revenue from applications, content and other services ("ACO") was RMB2,107 million, representing an increase of 21.9% over the same period last year and accounting for 9.7% of the total revenues. Due to continuous resource integration, management innovations and efforts in exploring the government agencies and corporate customers market, ACO services demonstrated a favourable development momentum, where the revenue growth rate obviously accelerated as compared to previous years.

Chairman's Statement (continued)

In the first half of the year, the Group strengthened its business cooperation with domestic telecommunications operators and continued to fortify its leading market position. Revenue from domestic telecommunications operators amounted to RMB13,375 million in total, representing an increase of 15.7% over the same period last year, of which, revenue from China Telecom increased by 12.4%, accounting for 40.1% of the total revenues; revenue from China Mobile and China Unicom together increased by 22.5%, accounting for 21.5% of the total revenues. The continuous and rapid increase in the revenue from domestic telecommunications operators was mainly attributable to the further extension of the cooperation between the Group and the telecommunications operators to develop more BPO and other businesses. In addition to the domestic telecommunications operators market, the Group proactively developed the market of government agencies and corporate customers and made great achievements. In the first half of 2010, revenue from government agencies and corporate customers amounted to RMB8,345 million, representing an increase of 24.5% over the same period last year and accounting for 38.4% of the total revenues.

Overseas expansion is one of the Group's long-term development strategies and we have served more than 50 countries and regions all over the world. In the first half of 2010, with strong support from the policies of the State, the Group further improved overseas expansion mechanisms and strengthened our capability in service support and risk management in 22 overseas platforms. These efforts have laid a strong foundation for our stable and rapid development of overseas business. In the first half of the year, revenue from overseas market amounted to RMB1,098 million, achieving a continuous and rapid growth rate of 84.5% over the same period last year.

In the first half of 2010, in accordance with the Group's objective of business integration on ACO businesses and our development strategy, we completed the acquisition of the remaining 49% equity interest in Guoxin Lucent Technologies Network Technologies Co., Ltd. to make it a wholly-owned subsidiary of the Group. Together with the joint venture we formed with Accenture earlier for the development of OSS[1] business, relevant acquisitions and joint ventures help the Group to obtain core customer resources, the world's leading technological support, advanced management experience and prestigious brand equity, and, at the same time, have contributed to the Group's rapid establishment of branded enterprises with great potential in innovation and growth.

The Group has been focusing on the improvement of operation efficiency and the maximization of economies of scale. We continued to integrate internal resources and put more efforts on the establishment of strategic business units in respect of design and construction businesses. Through these efforts, we are able to have a lean management structure, optimize organizational structure for production, appropriately allocate resources, create synergy effects in different fields and regions and improve the Group's capabilities in overall operation and profitability.

Corporate Governance and Human Resources Development

In the first half of 2010, the Group put more efforts on strengthening internal control and the risk management system in accordance with the world's best governance practice and relevant regulatory rules in order to enhance transparency in corporate governance. During the period, Mr. Zheng Qibao was appointed as the new President of the Company as approved by the Board on 21 June 2010 and as an Executive Director of the Company as approved at the general meeting on 10 August 2010, respectively. Mr. Zheng Qibao has extensive management experience and valuable expertise and we believe that the Group will benefit a lot from his joining.

The Group adheres to the human resources development strategy of "controlling total headcount and optimizing structure" and seeks for innovations in nurturing professionals with strong focus on the fields of marketing and telecommunications to achieve a stable improvement in the working ability of our staff. Meanwhile, the Group formulates plans of talents nurturing, rewarding and retaining and opens up talents' career development path in order to support the full implementation of the Group's strategies.

(1) OSS means Operating Support System

Chairman's Statement (continued)

Corporate Social Responsibilities

In the first half of 2010, the sudden earthquake in Yushu County, Qinghai Province brought huge losses to certain regions in China. As a national telecommunications support services provider, we fixed a substantial number of damaged communications facilities to guarantee the smooth communication in the stricken area by leveraging on our cross-region support in critical time. We will continue to put efforts in the reconstruction work of the stricken area.

Prospects

Our strategic positioning as "service provider for telecommunications, media and technology companies" soon after the listing of the Group has supported our continuous development of customer base and the optimization of our business structure. The above strategy has also successfully addressed the challenges of the CAPEX reduction by domestic telecommunications operators in the first half of 2010. Looking forward, new industry opportunities, such as the "Three Networks Convergence" and the joint construction and sharing of telecommunications facilities, are emerging and maturing and will create new opportunities for the development of the Group. In particular, following the rapid implementation of the "Three Networks Convergence" policy, broadcasting and television enterprises are expected to grow with scale and position equivalent to telecommunications operators. To better capture such opportunities, we have established expert panels in some of the pilot provinces and have also closely monitored the latest progresses, such as two-way upgrades of broadcasting and television networks and the acceleration of broadband network speed of the telecommunications operators. We have proactively developed businesses in the above areas and achieved initial success. On the other hand, we will also steadily promote the pilot work of joint construction and sharing of telecommunications facilities in four provinces and one municipality and continue making efforts to obtain support from local governments, relevant regulatory authorities and telecommunications operators in order to develop an innovative business model and build up new business catalysts.

In the Information Age, the social demand for communications and information services will keep increasing and drive the rapid innovation of the communication technology and the further expansion of telecommunication and media operators. Meanwhile, the urbanization development of China and informatization of other customers in the community will also provide plenty of business opportunities. We believe that the Group will fully demonstrate collaborative advantages in establishing an internationally renowned enterprise with excellent performance in the future.

On behalf of the Board, I would like to express my deep gratitude to Mr. Zhang Zhiyong, the former President and Executive Director of the Company, who resigned in the first half of 2010, for his outstanding contributions to the Group and extend my sincere welcome to Mr. Zheng Qibao for his joining the Group to serve as President and Executive Director of the Company. Finally, I want to express heartfelt thanks to all of our shareholders and customers for their support to and trust in the Group.

Li Ping
Chairman

Beijing, PRC
31 August 2010

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 31 which comprises the consolidated balance sheet of China Communications Services Corporation Limited ("the Company") as at 30 June 2010, 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 2010 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

31 August 2010

Consolidated Income Statement — Unaudited

For the six months ended 30 June 2010
(Expressed in Renminbi)

	Note	Six months ended 30 June 2010 RMB'000	2009 RMB'000
Revenues	5	21,719,925	18,262,862
Cost of revenues	6	(18,354,716)	(15,409,136)
Gross profit		3,365,209	2,853,726
Other operating income	7	208,443	197,065
Selling, general and administrative expenses		(2,384,182)	(1,997,229)
Other operating expenses		(24,179)	(16,705)
Finance costs	8	(25,575)	(47,888)
Share of profit of an associate		837	412
Profit before tax	9	1,140,553	989,381
Income tax	10(a)	(230,882)	(229,003)
Profit for the period		909,671	760,378
Attributable to:			
Equity shareholders of the Company		905,684	758,338
Non-controlling interests		3,987	2,040
Profit for the period		909,671	760,378
Basic and diluted earnings per share (RMB)	13	0.157	0.131

The notes on pages 14 to 31 form part of this interim financial report.

Consolidated Statement of Comprehensive Income — Unaudited

For the six months ended 30 June 2010
(Expressed in Renminbi)

	Note	Six months ended 30 June 2010 RMB'000	2009 RMB'000
Profit for the period		**909,671**	760,378
Other comprehensive income for the period (after tax)			
Exchange differences on translation of financial statements of subsidiaries outside Mainland China		**280**	7
Available-for-sale securities: net movement in the fair value reserve	11	**2,116**	20,956
		2,396	20,963
Total comprehensive income for the period		**912,067**	781,341
Attributable to:			
Equity shareholders of the Company		**908,080**	779,301
Non-controlling interests		**3,987**	2,040
Total comprehensive income for the period		**912,067**	781,341

The notes on pages 14 to 31 form part of this interim financial report.

Consolidated Balance Sheet — Unaudited

At 30 June 2010
(Expressed in Renminbi)

	Note	30 June 2010 RMB'000	31 December 2009 RMB'000
Non-current assets			
Property, plant and equipment, net	14	3,815,768	3,912,721
Investment properties		669,987	685,959
Construction in progress		123,843	73,334
Lease prepayments		474,777	481,687
Goodwill		103,005	103,005
Other intangible assets		145,168	148,453
Interests in associate		13,798	12,960
Other investments		303,395	304,773
Deferred tax assets		136,108	140,552
Total non-current assets		5,785,849	5,863,444
Current assets			
Inventories		2,052,101	1,659,626
Accounts and bills receivable, net	15	13,353,319	10,467,689
Prepayments and other current assets		2,909,715	3,140,398
Restricted deposits		139,115	160,525
Cash and cash equivalents	16	7,794,621	8,870,424
Total current assets		26,248,871	24,298,662
Total assets		32,034,720	30,162,106
Current liabilities			
Interest-bearing borrowings	17	1,304,090	1,268,280
Accounts and bills payable	18	9,286,043	8,844,718
Receipts in advance for contract work		1,120,027	1,088,327
Accrued expenses and other payables		6,642,999	5,553,079
Income tax payable		169,088	194,701
Total current liabilities		18,522,247	16,949,105
Net current assets		7,726,624	7,349,557
Total assets less current liabilities		13,512,473	13,213,001

Consolidated
Balance Sheet — Unaudited (continued)

At 30 June 2010
(Expressed in Renminbi)

	Note	30 June 2010 RMB'000	31 December 2009 RMB'000
Non-current liabilities			
Deferred tax liabilities		35,495	35,769
Total non-current liabilities		35,495	35,769
Total liabilities		18,557,742	16,984,874
Equity			
Share capital	19	5,771,682	5,771,682
Reserves		7,555,911	7,297,004
Equity attributable to equity shareholders of the Company		13,327,593	13,068,686
Non-controlling interests		149,385	108,546
Total equity		13,476,978	13,177,232
Total liabilities and equity		32,034,720	30,162,106

The notes on pages 14 to 31 form part of this interim financial report.

Consolidated
Statement of Changes in Equity — Unaudited

For the six months ended 30 June 2010

(Expressed in Renminbi)

		Equity attributable to equity shareholders of the Company											
	Note	Share Capital RMB'000	Share premium (note a) RMB'000	Capital reserve (note c) RMB'000	Revaluation reserve RMB'000	Statutory surplus reserve (note b) RMB'000	Fair value reserve (note d) RMB'000	Exchange reserve (note e) RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance as at 1 January 2010		5,771,682	2,727,647	932,621	415,557	239,377	57,993	(6,772)	67,330	2,863,251	13,068,686	108,546	13,177,232
Changes in equity for the six months ended 30 June 2010													
Capital injection by non-controlling interests to subsidiary		—	—	—	—	—	—	—	—	—	—	68,276	68,276
Acquisition of non-controlling interests		—	—	—	—	—	—	—	(9,671)	—	(9,671)	(31,424)	(41,095)
Dividend declared	12(b)	—	—	—	—	—	—	—	—	(639,502)	(639,502)	—	(639,502)
Total comprehensive income for the period		—	—	—	—	—	2,116	280	—	905,684	908,080	3,987	912,067
Balance as at 30 June 2010		5,771,682	2,727,647	932,621	415,557	239,377	60,109	(6,492)	57,659	3,129,433	13,327,593	149,385	13,476,978
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))		—	—	—	—	—	—	—	(98,055)	—	(98,055)	—	(98,055)
Acquisition of non-controlling interests		—	—	—	—	—	—	—	(2,585)	—	(2,585)	(13,524)	(16,109)
Dividend declared	12(b)	—	—	—	—	—	—	—	—	(526,955)	(526,955)	—	(526,955)
Distribution to non-controlling interests		—	—	—	—	—	—	—	—	—	—	(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	917,666	415,557	162,158	43,337	(5,441)	105,742	2,100,219	12,238,567	124,277	12,362,844
Changes in equity for the six months ended 31 December 2009													
Adjustment of tax effect arising from Restructuring		—	—	14,955	—	—	—	—	—	—	14,955	—	14,955
Acquisition of non-controlling interests		—	—	—	—	—	—	—	(37,267)	—	(37,267)	(17,257)	(54,524)
Distribution to non-controlling interests		—	—	—	—	—	—	—	—	—	—	(8,083)	(8,083)
Total comprehensive income for the period		—	—	—	—	—	14,656	(1,331)	(1,145)	840,251	852,431	9,609	862,040
Appropriation		—	—	—	—	77,219	—	—	—	(77,219)	—	—	—
Balance as at 31 December 2009		5,771,682	2,727,647	932,621	415,557	239,377	57,993	(6,772)	67,330	2,863,251	13,068,686	108,546	13,177,232

Notes:

(a) 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.

(b) 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.

Consolidated
Statement of Changes in Equity — Unaudited (continued)

For the six months ended 30 June 2010
(Expressed in Renminbi)

Notes: (Continued)

(b) Statutory surplus reserve (Continued)

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.

(c) 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 netted 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 and subsequent common control acquisition net balances.

(d) 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.

(e) Exchange reserve

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

The notes on pages 14 to 31 form part of this interim financial report.

Condensed
Consolidated Cash Flow Statement — Unaudited

For the six months ended 30 June 2010
(Expressed in Renminbi)

	Note	Six months ended 30 June 2010 RMB'000	2009 RMB'000
Net cash used in operating activities		**(762,694)**	(779,853)
Net cash used in investing activities		**(313,574)**	(417,317)
Net cash generated from/(used in) financing activities		**153**	(256,968)
Net decrease in cash and cash equivalents		**(1,076,115)**	(1,454,138)
Cash and cash equivalents at the beginning of period		**8,870,424**	8,538,142
Effect of foreign exchange rate changes		**312**	(1,129)
Cash and cash equivalents at the end of period	16	**7,794,621**	7,082,875

The notes on pages 14 to 31 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 in the PRC and overseas, including (i) telecommunications infrastructure design, construction and supervision and management; (ii) business process outsourcing (including network maintenance, facilities management, distribution of telecommunications service and products); and (iii) a variety of other services including applications, content and others.

(b) 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 in the Company's 2009 consolidated financial statements. Accordingly, the assets and liabilities of the Target Interests were accounted for at historical costs and the consolidated financial statements of the Company prior to the acquisitions of the Target Interests were included the results of operations and assets and liabilities of the Target Interests on a combined basis. The considerations paid by the Group for the acquisitions of the Target Interests were accounted for as an equity transaction in the consolidated statement of changes in equity.

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 31 August 2010.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2009 annual financial statements, except for the accounting policies changes that are expected to be reflected in the 2010 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.

2 Basis of preparation (Continued)

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 2009 annual financial statements. The condensed consolidated interim financial statements and notes thereto 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 IFRSs, 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 2009 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 2009 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 30 March 2010.

3 Changes in accounting policies

The IASB has issued two revised IFRS, a number of amendments to IFRSs and one new interpretation 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 3 (revised 2008), *Business combinations*
- Amendments to IAS 27, *Consolidated and separate financial statements*
- Amendments to IFRS 5, *Non-current assets held for sale and discontinued operations — plan to sell the controlling interest in a subsidiary*
- Amendments to IAS 39, *Financial instruments: Recognition and measurement — eligible hedged items*
- Improvements to IFRSs (2009)
- International Financial Reporting Interpretations Committee ("IFRIC") 17, *Distributions of non-cash assets to owners*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 Changes in accounting policies (Continued)

The amendments to IAS 39 and improvements to IFRSs (2009) have had no material impact on the Group's financial statements as the amendments were consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on current or comparative periods, for the following reasons:

- The impact of the majority of the revisions to IFRS 3, IAS 27, IFRS 5 and IFRIC 17 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

- The impact of IFRS 3 (revised 2008) (in respect of recognition of acquiree's deferred tax assets) and the amendments to IAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interests) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

As a result of the adoption of IFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in IFRS 3 (revised 2008). These include the following changes in accounting policies:

- Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

- In addition to the Group's existing policy of measuring the non-controlling interests (previously known as the "minority interests") in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

As a result of the adoption of the amendments to IAS 27, it requires that if the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. The Group adopted such accounting treatment in previous years and no change in policies in this regard.

IFRIC 17 requires distributions of non-cash assets to owners to be measured at the fair value of the assets distributed. This will result in a gain or loss being recognised in profit or loss to the extent that the fair value of the assets is different from their carrying value. In accordance with the transitional provisions in IFRIC 17, this new accounting policy will be applied prospectively to distributions in current or future periods and therefore 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, 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	
	2010	2009
	RMB'000	RMB'000
Revenue from telecommunications infrastructure services	**10,351,840**	8,770,533
Revenue from business process outsourcing services	**9,260,938**	7,764,049
Revenue from applications, content and other services	**2,107,147**	1,728,280
	21,719,925	18,262,862

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 2010 amount to RMB8,702 million and RMB3,512 million respectively (six months ended 30 June 2009: RMB7,742 million and RMB3,068 million respectively), being 40.1% and 16.2% of the Group's total revenue respectively (six months ended 30 June 2009: 42.4% and 16.8% respectively). In addition, the revenue derived from areas outside Mainland China for the six months ended 30 June 2010 amounts to RMB1,098 million (six months ended 30 June 2009: RMB595 million).

6 Cost of revenues

	Six months ended 30 June 2010 RMB'000	2009 RMB'000
Depreciation and amortisation	174,440	168,534
Direct personnel costs	3,439,409	3,202,816
Operating lease charges	299,566	264,242
Purchase of materials and telecommunications products	7,010,617	6,015,321
Subcontracting charges	5,667,420	4,235,494
Others	1,763,264	1,522,729
	18,354,716	15,409,136

7 Other operating income

	Six months ended 30 June 2010 RMB'000	2009 RMB'000
Interest income	34,908	30,515
Dividend income from unlisted securities	—	1,440
Government grants	46,272	49,180
Gain on disposal of property, plant and equipment	1,515	3,282
Penalty income	2,747	953
Management fee income	102,930	96,041
Write-off of non-payable liabilities	2,005	437
Others	18,066	15,217
	208,443	197,065

8 Finance costs

	Six months ended 30 June 2010 RMB'000	2009 RMB'000
Interest on bank advances and other borrowings wholly repayable within five years and others	25,575	47,888

For the periods ended 30 June 2010 and 2009, no borrowing costs were capitalised in relation to construction in progress.

9 Profit before tax

	Six months ended 30 June 2010 RMB'000	2009 RMB'000
(a) Staff costs:		
Salaries, wages and other benefits	4,362,702	3,950,950
Contributions to defined contribution retirement schemes	398,061	378,352
	4,760,763	4,329,302
(b) Other items:		
Amortisation	25,550	18,321
Cost of inventories	7,010,617	6,015,321
Depreciation	282,237	275,709
Inventory write-down and losses, net of reversals	(3,765)	3,754
Impairment losses on accounts and other receivables	8,635	4,433
Reversal of impairment losses on accounts and other receivables	(7,507)	(2,632)
Operating lease charges	376,620	324,401
Research and development costs	155,467	68,910
Share of an associate's taxation	148	137

10 Income tax

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

	Six months ended 30 June 2010 RMB'000	2009 RMB'000
Current tax		
Income tax	228,682	231,478
Deferred tax		
Origination and reversal of temporary differences	2,200	(2,475)
Total income tax	230,882	229,003

10 Income tax (Continued)

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

	Six months ended 30 June 2010 RMB'000	2009 RMB'000
Profit before tax	1,140,553	989,381
Expected income tax expense at PRC income tax statutory tax rate of 25%	285,138	247,345
Differential tax rates on subsidiaries' profits (note (i))	(75,634)	(52,644)
Non-deductible expenses (note (ii))	11,620	14,693
Non-taxable income	(9,389)	(2,805)
Tax losses not recognised	22,845	19,376
Utilisation of previously unrecognised tax losses	(3,698)	(718)
Effect on opening deferred tax resulting from a change in preferential tax qualification	—	3,756
Income tax	230,882	229,003

Notes:

(i) The provision for income tax of the Group is calculated based on a statutory rate of 25% of the assessable profit of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the six months ended 30 June 2010 and the six months ended 30 June 2009, except for certain subsidiaries of the Group, which are taxed at preferential rates of 15% to 22%.

(ii) The amounts represent miscellaneous expenses in excess of statutory deductible limits for tax purpose.

11 Other comprehensive income

Available-for-sale securities

	Six months ended 30 June 2010 RMB'000	2009 RMB'000
Changes in fair value recognised during the period	3,186	26,786
Net deferred tax charged to other comprehensive income	(1,070)	(5,830)
Net movement in the fair value reserve during the period recognised in other comprehensive income	2,116	20,956

12 Dividends

(a) Interim dividend

The directors do not propose the payment of an interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: 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	
	2010	2009
	RMB'000	RMB'000
Final dividend in respect of the financial year ended 31 December 2009 and 2008, declared during the interim period of RMB0.1108 per share (six months ended 30 June 2009: RMB0.0913 per share)	**639,502**	526,955

No final dividend was paid during the six months ended 30 June 2010 and six months ended 30 June 2009.

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 2010 of RMB906 million (six months ended 30 June 2009: RMB758 million) and the weighted average number of shares in issue during the six months ended 30 June 2010 of 5,771,682 thousand shares (six months ended 30 June 2009: 5,771,682 thousand shares).

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

14 Property, plant and equipment, net

During the six months ended 30 June 2010, additions of property, plant and equipment (including direct purchase, transfer from construction in progress and investment properties) of the Group amounted to RMB184 million (six months ended 30 June 2009: RMB339 million). Items of property, plant and equipment with net book value totalling RMB13 million were disposed of during the six months ended 30 June 2010 (six months ended 30 June 2009: RMB7 million).

15 Accounts and bills receivable, net

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Bills receivable	52,350	101,718
Unbilled revenue for contract work	3,626,197	2,970,511
Trade receivables	10,006,576	7,727,589
	13,685,123	10,799,818
Less: impairment losses	(331,804)	(332,129)
	13,353,319	10,467,689

(a) Included in accounts and bills receivable are amounts due from fellow subsidiaries of RMB7,274 million as at 30 June 2010 (31 December 2009: RMB6,772 million). The amounts due from fellow subsidiaries are unsecured, interest free and are expected to be recovered within one year.

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

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

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Current	7,236,560	5,313,774
Within 1 year	5,310,270	4,320,911
After 1 year but less than 2 years	593,327	618,309
After 2 years but less than 3 years	128,847	130,957
After 3 years	84,315	83,738
Amount past due	6,116,759	5,153,915
	13,353,319	10,467,689

15 Accounts and bills receivable, net (Continued)

(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 2010 RMB'000	At 31 December 2009 RMB'000
At 1 January	332,129	301,104
Impairment loss recognised	7,107	46,077
Reversal of impairment loss previously recognised	(6,847)	(9,260)
Uncollectible amounts written off	(585)	(5,792)
At 30 June/31 December	331,804	332,129

At 30 June 2010, the Group's accounts and bills receivable of RMB282.2 million were individually determined to be impaired (31 December 2009: RMB290.3 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 RMB223.8 million were recognised (31 December 2009: RMB234.4 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 are as follows:

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Neither past due nor impaired	7,236,560	5,313,774
Within 1 year	5,310,270	4,320,911
After 1 year but less than 2 years	406,021	335,743
After 2 years but less than 3 years	64,571	64,262
After 3 years	27,161	22,005
	13,044,583	10,056,695

15 Accounts and bills receivable, net (Continued)

(e) Accounts and bills receivable that are not impaired (Continued)

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.

16 Cash and cash equivalents

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Cash at bank and in hand	6,656,259	7,420,776
Highly liquid investments	60,000	163,000
Deposits with banks and other financial institutions	1,078,362	1,286,648
Cash and cash equivalents	7,794,621	8,870,424

17 Interest-bearing borrowings

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

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
RMB denominated		
Borrowings from banks		
— unsecured	750,000	850,000
Loans from ultimate holding company		
— unsecured	300,000	300,000
Loans from fellow subsidiaries		
— unsecured	254,090	118,280
	1,304,090	1,268,280

17 Interest-bearing borrowings (Continued)

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

	At 30 June 2010	At 31 December 2009
RMB denominated		
Borrowings from banks		
— unsecured	3.51%	3.51%
Loans from ultimate holding company		
— unsecured	3.89%	3.89%
Loans from fellow subsidiaries		
— unsecured	2.39%–6.56%	2.39%–5.31%

As at 30 June 2010, no borrowings from banks were subject to financial covenants.

18 Accounts and bills payable

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Accounts payable	8,064,625	7,054,217
Bills payable	1,221,418	1,790,501
	9,286,043	8,844,718

18 Accounts and bills payable (Continued)

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

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Within 1 year	8,587,460	8,302,532
After 1 year but less than 2 years	548,902	407,273
After 2 years but less than 3 years	91,519	79,705
After 3 years	58,162	55,208
	9,286,043	8,844,718

Included in accounts and bills payable are amounts due to fellow subsidiaries of RMB299 million as at 30 June 2010 (31 December 2009: RMB283 million). The amounts due to fellow subsidiaries are unsecured, interest free and are expected to be settled within one year.

19 Share capital

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Registered, issued and fully paid:		
3,778,831,800 domestic state-owned ordinary shares of RMB1.00 each	3,778,832	3,778,832
1,992,850,200 H shares of RMB1.00 each	1,992,850	1,992,850
	5,771,682	5,771,682

20 Commitments and contingent liabilities

(a) Capital commitments

As at 30 June 2010, the Group has capital commitments for acquisition and construction of property, plant and equipment and other assets as follows:

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Authorised and contracted for	**106,731**	100,064
Authorised but not contracted for	**88,085**	117,019

(b) Operating lease commitments

As at 30 June 2010, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Within 1 year	**163,944**	114,187
After 1 year but within 5 years	**227,294**	120,369
After 5 years	**46,239**	6,608
	437,477	241,164

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 2010, the Group had no material contingent liabilities and no financial guarantees issued.

21 Related parties

The Group is part of a larger 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:

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Income from related parties:		
Engineering related services (note (i))	**4,260,828**	4,152,205
IT application services (note (ii))	**402,206**	369,910
Provision of ancillary telecommunications services (note (iii))	**2,151,386**	1,902,964
Provision of operation support services (note (iv))	**739,650**	732,712
Supplies procurement service (note (v))	**1,131,940**	560,705
Property leasing (note (vi))	**16,198**	23,673
Management fee income (note (vii))	**102,930**	96,041
Expenses paid/payable to related parties:		
Property leasing charges (note (viii))	**51,828**	52,389
IT application service charges (note (ix))	**80,176**	26,895
Operation support service charges (note (x))	**124,712**	129,810
Supplies procurement service charges (note (xi))	**142,114**	286,422
Interest paid/payable (note (xii))	**11,764**	24,976

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 supplies procurement service such as supplies procurement service, management of biddings, warehousing, transportation and installation services.

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

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

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

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

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

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

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

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 2010 RMB'000	At 31 December 2009 RMB'000
Accounts and bills receivable, net	7,274,037	6,771,830
Prepayments and other current assets	445,678	392,209
Total amounts due from CTC Group	7,719,715	7,164,039
Interest-bearing borrowings	554,090	418,280
Accounts and bills payable	299,080	282,570
Receipts in advance for contract work	64,431	56,569
Accrued expenses and other payables	1,952,060	1,605,436
Total amounts due to CTC Group	2,869,661	2,362,855

As at 30 June 2010, impairment losses for bad and doubtful debts of RMB2.7 million (31 December 2009: nil) were recorded in respect of amounts due from CTC Group.

(b) Transactions with key management personnel

Remuneration for key management personnel is as follows:

	Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Salaries and other emoluments	1,898	1,273
Retirement benefits	616	564
Bonus	3,316	2,305
	5,830	4,142

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

21 Related parties (Continued)

(c) 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 2010 and 31 December 2009, there was no material outstanding contribution to post-employment benefit plans.

(d) 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, amount to RMB13,499 million for the six months ended 30 June 2010 (six months ended 30 June 2009: RMB13,044 million).

Transactions with the Group's ten largest suppliers, which are state-controlled entities, amount to RMB467 million for the six months ended 30 June 2010 (six months ended 30 June 2009: RMB920 million).

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 herein, 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 2009 Annual Report.

Changes in Directors, Supervisors and Their Biographical Information

Changes in directors, supervisors and their biographical information since the date of the Company's 2009 Annual Report are set out below:

Mr. Zhang Zhiyong:	resigned as President and Executive Director of the Company
Mr. Zheng Qibao:	appointed as President and Executive Director of the Company
Mr. Zhao Chunjun:	an independent non-executive director of the Company, has ceased as Chairman of the Supervisory Committee of Tongfang Co., Ltd.

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 2010.

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 2010.

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. Specific enquiries have been made to the Directors, and 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 2010 to 30 June 2010.

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

As at 30 June 2010, 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 2010, 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 2010, 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) 108,899,720 (S)[1]	80.33 2.88	52.60 1.89
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	320,241,795 (L)	16.07	5.55
The Bank of New York Mellon Corporation	H shares	Interest of corporation controlled by the substantial shareholder	100,764,763 (L) 60,776,763 (P)	5.06 3.05	1.75 1.05
Matthews International Capital Management, LLC	H shares	Investment manager	100,032,000 (L)	5.01	1.73

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

(1) As disclosed in the announcement dated 21 June 2010 by the Company, China Telecommunications Corporation will transfer 108,899,720 domestic shares, accounting for 1.89% of the total issued shares of the Company, to China National Postal and Telecommunications Appliances Corporation (中國郵電器材集團公司). The completion of such share transfer will be conditional on, among other things, the approval by relevant state-owned assets supervision authorities of the PRC.

Save as stated above, as at 30 June 2010, 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.

Other Information (continued)

Purchase, Sale or Redemption of Securities

During the six months ended 30 June 2010, 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 statements above. 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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