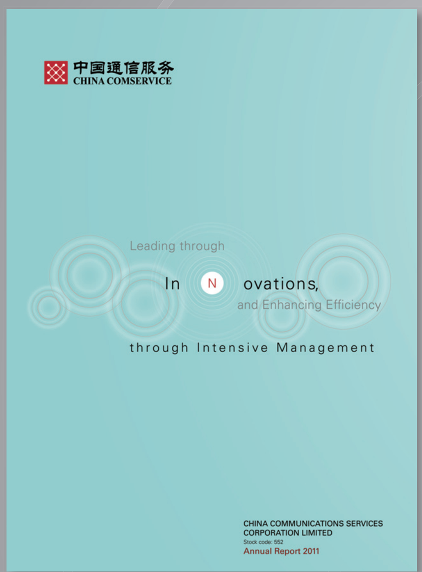
中国通信服务
CHINA COMSERVICE

Interim Report 2012 中期報告

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

Stock Code 股份代號：552



Five Years of Glorious Moments Witnessing Together

As implied from the five halo rings gleaming on the cover of 2011 annual report, we have witnessed such glorious moments together with all investors during the past five years of outstanding achievements since listing.

At the beginning of its second five-year period, the Company follows the strategy of "Leading through Innovation and Enhancing Efficiency through Intensive Management" and aims to achieve its vision of becoming the "Hundred-Billion Enterprise with Excellent Performance".

"Leading through Innovation"
Through the renovation of markets, businesses and products, the Company will satisfy the demands from its customers and achieve a breakthrough in its scale.

"Enhancing Efficiency through Intensive Management"
Through operations such as collaboration, central allocation of resources and professional management, the Company will effectively control the risks and enhance its overall efficiency and competitiveness.

五年輝煌 共同見證

正如2011年年報封面上閃耀的五個光環所寓意，我們與所有的投資者共同見證了公司自上市以來光輝燦爛， 成績斐然的五年。

在第二個五年的開局之際，公司堅持創新引領、集約提效的策略指導，以實現「千億級卓越績效企業」願景為目標。

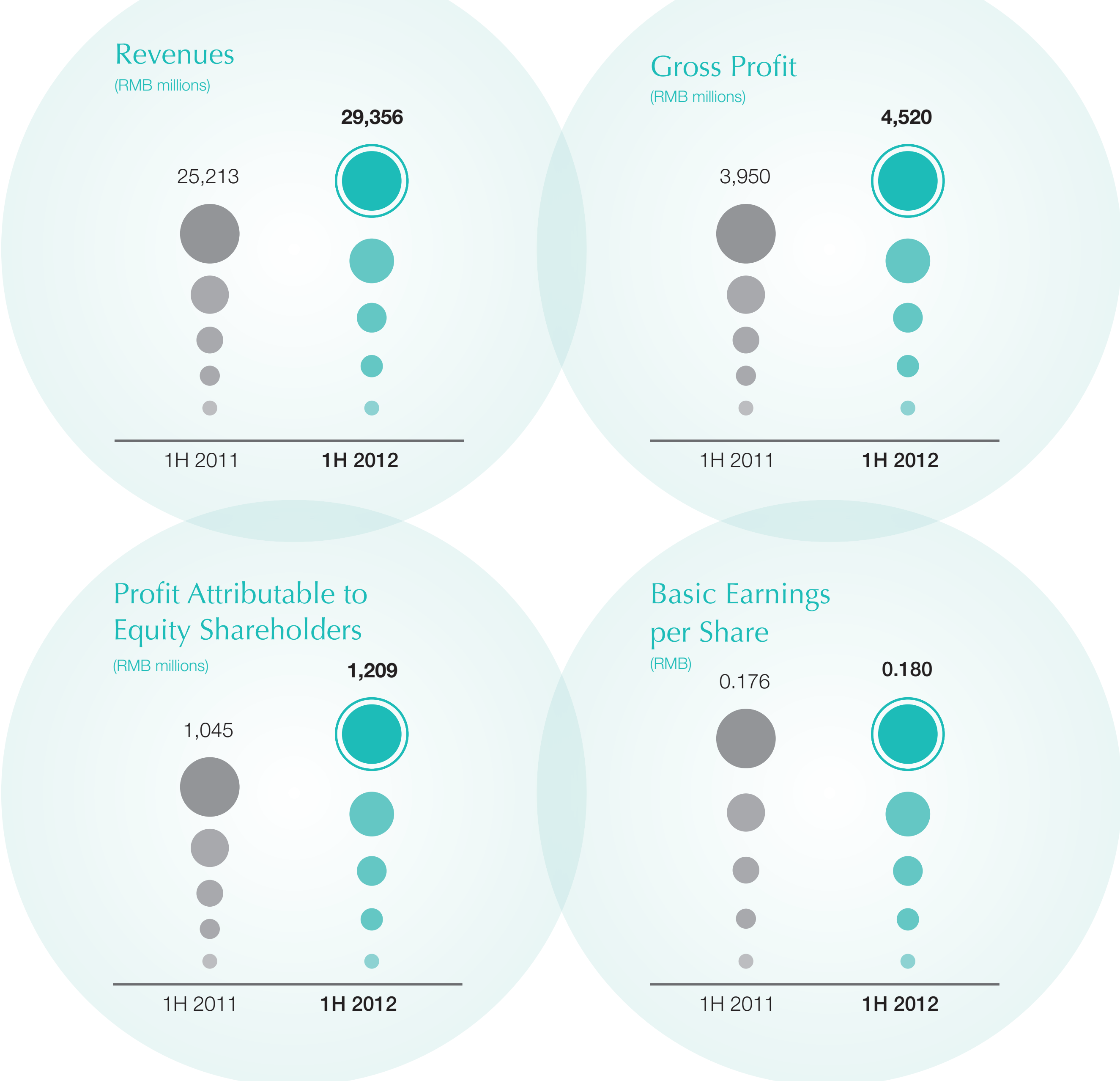
創新引領
通過對公司市場、業務以及產品等的變革，滿足客戶需求，實現規模突破。

集約提效
通過相互協同、資源集中配置和專業管理等運作方式，有效控制風險，提高公司整體效益和競爭能力。

Contents

Financial Highlights

	Six months ended 30 June 2011 (Restated)[1]	Six months ended 30 June **2012**	Change
Revenues (RMB millions)	25,213	**29,356**	16.4%
Gross profit (RMB millions)	3,950	**4,520**	14.4%
Profit attributable to equity shareholders (RMB millions)	1,045	**1,209**	15.7%
Basic earnings per share (RMB)	0.176[2]	**0.180**	2.3%



(1) The interim financial data for 2011 have been restated due to the newly acquired companies and the adoption of amendment to IFRS 1. Please refer to note 2 of the unaudited financial statements for details.

(2) Basic earnings per share for the six months ended 30 June 2011 have been restated pursuant to factors set out in (1) as well as the rights issue of the Company in February 2012. Please refer to note 13 of the unaudited financial statements for details.

Chairman's Statement

Dear Shareholders,

In the first half of 2012, the Group firmly captured market opportunities and adhered to its customer-focused innovative service strategy. Following the principle of "leading through innovation and enhancing efficiency through intensive management", the Group enhanced its management capability and continued to achieve satisfactory results in the challenging market, recording rapid growth of both total revenues and net profit. As a result, the Group is well positioned to embrace the second five-year period since its listing.

Financial Review

In the first half of 2012, the Group recorded continuous and rapid growth of total revenues, which amounted to RMB29,356 million, representing an increase of 16.4% over the same period last year. Cost of revenues amounted to RMB24,836 million, representing an increase of 16.8% over the same period last year. Gross profit grew by 14.4% over the same period last year to RMB4,520 million. During the period, with the enhanced cost management, the Group managed to maintain its gross profit margin and net profit margin at relatively steady levels of 15.4% and 4.1%, respectively. Profit attributable to equity shareholders of the Company grew by 15.7% over the same period last year to RMB1,209 million. Basic earnings per share were RMB0.180.

Business Review

In the first half of 2012, telecommunications infrastructure ("TIS") services sustained its sound growth momentum, and revenues from TIS services amounted to RMB13,812 million, representing an increase of 13.1% over the same period last year and accounting for 47.0% of total revenues. By firmly capturing the opportunity of steadily increasing capital expenditure from domestic telecommunications operators, the Group focused on key investment areas such as the upgrade and expansion of broadband and mobile network, which further reinforced its market leading position. The TIS revenues from domestic telecommunications operators achieved a rapid growth of 20.7% over the same period last year, and were the major driving force for the growth of TIS business during the period.

In the first half of 2012, revenues from business process outsourcing ("BPO") services amounted to RMB12,886 million, representing an increase of 22.9% over the same period last year and accounting for 43.9% of total revenues. During the period, due to the continuous expansion of networks, the outsourcing demand for network services from domestic telecommunications operators continued to increase. Taking advantage of such market opportunities, the Group continued to maintain a rapid growth in its revenues from network maintenance services, representing an increase of 27.7% over the same period last year. In addition, the Group reinforced its capability to deliver integrated services by offering ancillary services such as the distribution of telecommunications machineries and products as well as the collaborative logistics services in response to customer requirements. The Group's revenues from the distribution of telecommunications services and products increased by 23.0% over the same period last year.

In the first half of 2012, revenues from applications, content and other ("ACO") services amounted to RMB2,658 million, representing an increase of 5.5% over the same period last year and accounting for 9.1% of total revenues. During the period, the Group further increased its investment in the research and development for its core technologies and products, and gradually improved a model of open innovation. We believe that, after incubation for a period of time, ACO business will be able to achieve a breakthrough in the future as driven by the accelerating industrial developments such as informatization of the community and mobile Internet.

Chairman's Statement (Continued)

In the first half of 2012, the Group continued to focus on three major markets and allocated its resources in an adaptive manner. As a result, revenues from the domestic telecommunications operator market amounted to RMB19,055 million, representing an increase of 19.4% over the same period last year and accounting for 64.9% of total revenues. In particular, the revenue from China Telecom increased by 20.6% over the same period last year, accounting for 41.7% of total revenues, and revenues from China Mobile and China Unicom in aggregate increased by 17.5% over the same period last year and the proportion of these revenues to total revenues increased to 23.2%, which reflected the continuous improvement of the Group's service quality. Our business in the domestic non-operator market recorded steady growth, with revenues of RMB9,138 million, representing an increase of 14.6% over the same period last year and accounting for 31.1% of total revenues. The Group has been expanding into overseas market in a proactive and prudent manner. Revenues from overseas market amounted to RMB1,163 million, representing a decrease of 9.8% over the same period last year and accounting for 4.0% of total revenues. The decrease in revenues from overseas market in the first half of the year was mainly due to the delayed construction of certain large turnkey projects and the Group's increasing emphasis on efficiency development and proactive risk management. Meanwhile, the Group continued to focus on key overseas markets such as Congo-Kinshasa, Tanzania and Saudi Arabia, and has achieved promising progress in the exploration and cultivation of turnkey projects, which laid a solid foundation for its further scale development in overseas market.

After successful completion of the rights issue, the Group acquired equity interests and assets in relation to several telecommunications infrastructure service companies in Ningxia and Xinjiang as well as 51% equity interests in Sino-British Submarine System Co., Ltd. ("SBSS")[1] in the first half of the year. These acquisitions enabled the Group to further expand its business coverage in the domestic market, enhance its servicing ability in the overseas businesses and add new source of income from the construction and maintenance of submarine fiber-optic cable. The Group has applied its proceeds from the rights issue as planned in various areas, including expansion into domestic non-operator market and overseas market, strategic acquisition and joint ventures, as well as research and development, which will push forward the Group's transformation into a management and technology oriented enterprise and create greater value for our shareholders.

Corporate Management

The Group further promoted high-efficiency management practices focusing on six core areas, including collaboration management, management of construction service procurement, human resource management, fund management, project management and contract management, and strengthened its internal control and risk management procedures to enhance the overall operational efficiency and management capability. During the period, the Group further strengthened its operation and management of collaboration units in the design business and other professional areas. Meanwhile, the Group also promoted centralized fund management, which effectively saved finance costs. In addition, the Group strived to build up and develop a team of talents who are adaptive to the swiftly changing market. In order to achieve sustainable development, the Group further optimized the human resources structure and adopted incentive mechanisms to motivate its core talents.

1 Please refer to the announcement of the Company dated 20 June 2012 for details of the acquisitions. As at 30 June 2012, the acquisition of equity interests and assets in relation to several telecommunications infrastructure service companies in Ningxia and Xinjiang were completed, and the relevant results have been consolidated into the financial statements and historical figures before acquisition have been restated according to relevant accounting standards. Acquisition of equity interest in SBSS was completed on 26 July 2012 and the relevant results have not been consolidated into the financial statements of the Group as at 30 June 2012.

Chairman's Statement (Continued)

Corporate Social Responsibility

The Group has always been committed to corporate social responsibility. On the one hand, the Group provided reliable communications rescue and relief services to its customers and the society in the event of natural disasters. On the other hand, the Group also promoted energy saving and emission reduction and actively developed certain energy saving products and technologies for the establishment of an energy-efficient community. All of these demonstrated a high degree of corporate social responsibility.

Prospects

Looking forward, the PRC government will push forward the development of the information industry through promoting the integration of informatization and industrialization as part of its initiatives under the "12th Five-Year Plan". The PRC government has also clearly indicated to launch the "Broadband China" strategy and promote the commercialization of LTE. All of these will bring valuable business opportunities to the Group. In addition, the accelerating informatization in China, the further construction of "Smart City", the rapid development of mobile Internet and the huge demand for telecommunications construction from overseas emerging markets also present broader market space and stronger growth momentum for the Group. Meanwhile, the Group faces certain challenges including volatile macro-economy and more intense market competition. Nevertheless, the Group is confident about the future. The Group will further reinforce its leading position in the domestic telecommunications operator market while also vigorously expand into the domestic non-operator market as well as the overseas market. With these measures, the Group aims to build up a "hundred-billion enterprise" with excellent performance, which has strong capabilities in capturing market opportunities, outstanding core competencies, integrated efficient operation and steady value growth, and to create greater value for its customers and shareholders.

On 28 June 2012, the Company successfully completed the election of the directors for the third session of the Board. On behalf of the Board, I would like to express my sincere gratitude to Mr. Wu Shangzhi and Mr. Hao Weimin, who retired as directors upon expiry of their terms of office, and Mr. Chan Mo Po, Paul, who resigned as an independent non-executive director of the Company, for their valuable contributions to the Group. In addition, I would like to take this opportunity to welcome Mr. Wei Leping and Mr. Siu Wai Keung, Francis to join the Company as independent non-executive directors. Finally, on behalf of the Board, I would like to express my sincere gratitude to all of the Group's shareholders, customers and all sectors of society for their long-standing care and support to the Group.

Li Ping
Chairman

Beijing, PRC
29 August 2012

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 33 which comprises the consolidated balance sheet of China Communications Services Corporation Limited as at 30 June 2012, and the related consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim financial reporting,* issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2012 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

29 August 2012

Consolidated Income Statement — Unaudited

For the six months ended 30 June 2012
(Expressed in Renminbi)

	Note	Six months ended 30 June 2012 RMB'000	2011 RMB'000 (Restated)
Revenues	5	**29,355,630**	25,212,626
Cost of revenues	6	**(24,835,651)**	(21,262,788)
Gross profit		**4,519,979**	3,949,838
Other operating income	7	**309,883**	263,354
Selling, general and administrative expenses		**(3,297,153)**	(2,841,189)
Other operating expenses		**(22,657)**	(30,992)
Finance costs	8	**(14,175)**	(31,920)
Share of losses of associates		**(2,752)**	(543)
Profit before tax	9	**1,493,125**	1,308,548
Income tax	10(a)	**(283,739)**	(270,045)
Profit for the period		**1,209,386**	1,038,503
Attributable to:			
Equity shareholders of the Company		**1,208,714**	1,044,525
Non-controlling interests		**672**	(6,022)
Profit for the period		**1,209,386**	1,038,503
Basic and diluted earnings per share (RMB)	13	**0.180**	0.176

The notes on pages 14 to 33 form part of this interim financial report.

Consolidated Statement of Comprehensive Income — Unaudited

For the six months ended 30 June 2012
(Expressed in Renminbi)

	Note	Six months ended 30 June 2012 RMB'000	2011 RMB'000 (Restated)
Profit for the period		**1,209,386**	1,038,503
Other comprehensive income for the period (after tax)			
Exchange differences on translation of financial statements of subsidiaries outside Mainland China		**(3,997)**	6,676
Available-for-sale securities: net movement in the fair value reserve	11	**2,618**	(9,075)
		(1,379)	(2,399)
Total comprehensive income for the period		**1,208,007**	1,036,104
Attributable to:			
Equity shareholders of the Company		**1,207,335**	1,042,126
Non-controlling interests		**672**	(6,022)
Total comprehensive income for the period		**1,208,007**	1,036,104

The notes on pages 14 to 33 form part of this interim financial report.

Consolidated Balance Sheet — Unaudited

At 30 June 2012
(Expressed in Renminbi)

	Note	30 June 2012 RMB'000	31 December 2011 RMB'000 (Restated)
Non-current assets			
Property, plant and equipment, net	14	3,912,405	3,932,853
Investment properties		771,700	729,045
Construction in progress		281,903	227,858
Lease prepayments		935,737	935,659
Goodwill		103,005	103,005
Other intangible assets		170,160	144,128
Interests in associates		59,908	62,661
Other investments		666,607	663,116
Deferred tax assets		173,207	196,330
Other non-current assets		10,913	28,876
Total non-current assets		7,085,545	7,023,531
Current assets			
Inventories		1,893,846	1,692,653
Accounts and bills receivable, net	15	21,259,361	17,304,225
Prepayments and other current assets		4,980,005	4,633,667
Restricted deposits		631,369	320,039
Cash and cash equivalents	16	8,430,356	7,309,431
Total current assets		37,194,937	31,260,015
Total assets		44,280,482	38,283,546
Current liabilities			
Interest-bearing borrowings	17	263,746	998,335
Accounts and bills payable	18	14,162,048	12,766,401
Receipts in advance for contract work		1,682,521	1,150,095
Accrued expenses and other payables		8,366,148	6,814,795
Income tax payable		200,529	305,190
Total current liabilities		24,674,992	22,034,816
Net current assets		12,519,945	9,225,199
Total assets less current liabilities		19,605,490	16,248,730

The notes on pages 14 to 33 form part of this interim financial report.

Consolidated Balance Sheet — Unaudited (Continued)

At 30 June 2012
(Expressed in Renminbi)

	Note	30 June 2012 RMB'000	31 December 2011 RMB'000 (Restated)
Non-current liabilities			
Other non-current liabilities		**73,740**	60,156
Deferred tax liabilities		**10,899**	23,485
Total non-current liabilities		**84,639**	83,641
Total liabilities		**24,759,631**	22,118,457
Equity			
Share capital	19	**6,926,018**	5,771,682
Reserves		**12,399,620**	10,272,147
Equity attributable to equity shareholders of the Company		**19,325,638**	16,043,829
Non-controlling interests		**195,213**	121,260
Total equity		**19,520,851**	16,165,089
Total liabilities and equity		**44,280,482**	38,283,546

The notes on pages 14 to 33 form part of this interim financial report.

Consolidated Statement of Changes in Equity — Unaudited

For the six months ended 30 June 2012
(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 b) RMB'000	Revaluation reserve (note c) RMB'000	Statutory surplus reserve (note d) RMB'000	Fair value reserve (note e) RMB'000	Exchange reserve (note f) 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 2012		5,771,682	2,727,647	1,846,468	–	428,707	22,654	(9,589)	33,918	5,222,342	16,043,829	121,260	16,165,089
Changes in equity for the six months ended 30 June 2012													
Consideration for the acquisition of the Target Interests (as defined in note 2)	2	–	–	–	–	–	–	–	(53,709)	–	(53,709)	–	(53,709)
Issuance of shares	19	1,154,336	1,801,663	–	–	–	–	–	–	–	2,955,999	–	2,955,999
Capital injection by non-controlling owners to subsidiaries		–	–	–	–	–	–	–	18,496	–	18,496	73,281	91,777
Dividend declared	12(b)	–	–	–	–	–	–	–	–	(846,359)	(846,359)	–	(846,359)
Others		–	–	–	–	–	–	–	47	–	47	–	47
Profit for the period		–	–	–	–	–	–	–	2,350	1,206,364	1,208,714	672	1,209,386
Other comprehensive income	11	–	–	–	–	–	2,618	(3,997)	–	–	(1,379)	–	(1,379)
Total comprehensive income for the period		–	–	–	–	–	2,618	(3,997)	2,350	1,206,364	1,207,335	672	1,208,007
Balance as at 30 June 2012		6,926,018	4,529,310	1,846,468	–	428,707	25,272	(13,586)	1,102	5,582,347	19,325,638	195,213	19,520,851
Balance as at 1 January 2011 as previously reported		5,771,682	2,727,647	932,621	415,557	326,318	40,959	(6,164)	57,809	3,954,613	14,221,042	132,802	14,353,844
Change in accounting policy		–	–	913,847	(415,557)	–	–	–	(85,205)	(17,513)	395,572	(168)	395,404
Adjustment in relation to the acquisition of the Target Interests (as defined in note 2)		–	–	–	–	–	–	–	19,236	–	19,236	–	19,236
Balance as at 1 January 2011 as adjusted		5,771,682	2,727,647	1,846,468	–	326,318	40,959	(6,164)	(8,160)	3,937,100	14,635,850	132,634	14,768,484
Changes in equity for the six months ended 30 June 2011													
Contribution from then shareholders in relation to the acquired Target Interests		–	–	–	–	–	–	–	13,234	–	13,234	–	13,234
Acquisition of non-controlling interests		–	–	–	–	–	–	–	(759)	–	(759)	(2,891)	(3,650)
Dividend declared	12(b)	–	–	–	–	–	–	–	–	(727,232)	(727,232)	–	(727,232)
Distribution to non-controlling owners		–	–	–	–	–	–	–	–	–	–	(1,522)	(1,522)
Profit for the period		–	–	–	–	–	–	–	1,587	1,042,938	1,044,525	(6,022)	1,038,503
Other comprehensive income	11	–	–	–	–	–	(9,075)	6,676	–	–	(2,399)	–	(2,399)
Total comprehensive income for the period		–	–	–	–	–	(9,075)	6,676	1,587	1,042,938	1,042,126	(6,022)	1,036,104
Balance as at 30 June 2011		5,771,682	2,727,647	1,846,468	–	326,318	31,884	512	5,902	4,252,806	14,963,219	122,199	15,085,418
Changes in equity for the six months ended 31 December 2011													
Contribution from then shareholders in relation to the acquired Target Interests		–	–	–	–	–	–	–	5,078	–	5,078	–	5,078
Capital injection by a non-controlling owner to a subsidiary		–	–	–	–	–	–	–	–	–	–	20,000	20,000
Acquisition of non-controlling interests		–	–	–	–	–	–	–	299	–	299	(878)	(579)
Appropriation		–	–	–	–	102,389	–	–	–	(102,389)	–	–	–
Others		–	–	–	–	–	–	–	21,512	–	21,512	–	21,512
Distribution to non-controlling owners		–	–	–	–	–	–	–	–	–	–	(17,092)	(17,092)
Profit for the period		–	–	–	–	–	–	–	1,127	1,071,925	1,073,052	(2,969)	1,070,083
Other comprehensive income		–	–	–	–	–	(9,230)	(10,101)	–	–	(19,331)	–	(19,331)
Total comprehensive income for the period		–	–	–	–	–	(9,230)	(10,101)	1,127	1,071,925	1,053,721	(2,969)	1,050,752
Balance as at 31 December 2011		5,771,682	2,727,647	1,846,468	–	428,707	22,654	(9,589)	33,918	5,222,342	16,043,829	121,260	16,165,089

The notes on pages 14 to 33 form part of this interim financial report.

Consolidated Statement of Changes in Equity — Unaudited (Continued)

For the six months ended 30 June 2012
(Expressed in Renminbi)

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 in 2006 and subsequent share issuances in 2008 and 2012 (see note 19) respectively.

(b) Capital reserve

The capital reserve represents the difference between the total amount of the par value of shares issued and the amount of the net assets transferred from China Telecommunications Corporation ("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 Target Business and the net assets value of the Target Business in 2007 and subsequent common control acquisition net balances. As a result of the adoption of amendment to IFRS 1, the capital reserve has been restated.

(c) Revaluation reserve

As required by the relevant PRC rules and regulations with respect to the Restructuring and the acquisition of the Target Business, revaluations were carried out by independent valuers registered in the PRC, on a depreciated replacement cost basis. The revaluation reserve represents the surpluses arising from these valuations of the Group's assets amounting to RMB294 million and RMB121 million in respect of the Restructuring and the acquisition of the Target Business, respectively, which have been credited to owner's equity. As a result of the adoption of amendment to IFRS 1, the revaluation reserve has been reversed.

(d) 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.

(e) Fair value reserve

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

(f) Exchange reserve

The exchange reserve represents all foreign exchange differences arising from the translation of the financial statements of subsidiaries located outside of Mainland China.

The notes on pages 14 to 33 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement – Unaudited

For the six months ended 30 June 2012
(Expressed in Renminbi)

	Note	Six months ended 30 June 2012 RMB'000	2011 RMB'000 (Restated)
Net cash used in operating activities		**(931,100)**	(1,060,578)
Net cash used in investing activities		**(279,917)**	(197,725)
Net cash generated from/(used in) financing activities		**2,338,048**	(458,872)
Net increase/(decrease) in cash and cash equivalents		**1,127,031**	(1,717,175)
Cash and cash equivalents at the beginning of period		**7,309,431**	8,482,997
Effect of foreign exchange rate changes		**(6,106)**	(5,414)
Cash and cash equivalents at the end of period	16	**8,430,356**	6,760,408

The notes on pages 14 to 33 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

1 Principal activities

China Communications Services Corporation Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") is a leading integrated service provider to the telecommunications, media and technology industries in the People's Republic of China (the "PRC"). Its principal activities comprise provision of a full range of telecommunications support services in the PRC and overseas, including (i) telecommunications infrastructure design, construction and 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.

2 Basis of preparation

Pursuant to the Equity Transfer Agreements entered into by the Group and CTC's subsidiaries ("Transferors") on 20 June 2012, the Group completed acquisition on 30 June 2012 of (i) 100% equity interest in each of Ningxia Communications Constructions Co., Ltd. ("Ningxia Construction") and Ningxia Telecom Constructions Supervision Consultancy Co., Ltd. ("Ningxia Supervision"); and (ii) 100% equity interest in Xinjiang Communications Planning & Designing Institute Co., Ltd. ("Xinjiang Planning & Designing") (collectively the "Target Interests"), for a consideration of RMB51.07 million, payable in cash. Pursuant to the Equity Transfer Agreements, the net profit or loss made by the Target Interests between the period from the respective valuation dates (31 October 2011 for Ningxia Construction and Ningxia Supervision and 30 June 2011 for Xinjiang Planning & Designing) to 30 June 2012 is attributable to the Transferors. Accordingly, an additional RMB2.64 million is to be paid to the Transferors.

Since the Group and the Target Interests are under common control of CTC, the Equity 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.

The Group adopted the amendment to International Financial Reporting Standard ("IFRS") 1 in the second half year of 2011, and retrospectively adjusted the comparative figures of its 2011 annual financial statements. Details of the change in accounting policy related to the adoption of the amendment to IFRS 1 has been included in the 2011 annual financial statements of the Group. As the amendment to IFRS 1 had not yet been adopted in the 2011 interim financial statements, the results of operations for the six months ended 30 June 2011 have been restated to reflect this change in accounting policy.

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

2 Basis of preparation (Continued)

The results of operations for the six months ended 30 June 2011, the balance as at 31 December 2011 and the cash flow effect for the six months ended 30 June 2011 previously reported by the Group have been restated to reflect the acquisition of the Target Interests and the retrospective adjustments that have been made in accordance with the amendment to IFRS 1 are set out below:

	The Group (as previously reported) RMB'000	Change in accounting policy RMB'000	Target Interests acquired RMB'000	Combined RMB'000
Results of operations for the six months ended 30 June 2011				
Revenues	25,189,276	—	23,350	25,212,626
Gross profit	3,948,400	(2,825)	4,263	3,949,838
Profit for the period	1,047,259	(10,341)	1,585	1,038,503
Basic and diluted earnings per share (in RMB)	0.182			0.176
Balance as at 31 December 2011				
Total assets	38,196,675	—	86,871	38,283,546
Total liabilities	22,071,848	—	46,609	22,118,457
Total equity	16,124,827	—	40,262	16,165,089
Cash flow effect for the six months ended 30 June 2011				
Net cash used in operating activities	(1,049,940)	—	(10,638)	(1,060,578)
Net cash used in investing activities	(197,626)	—	(99)	(197,725)
Net cash used in financing activities	(472,408)	—	13,536	(458,872)

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

This interim financial report has been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim financial reporting*, issued by the International Accounting Standards Board ("IASB") and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. It was authorised for issuance on 29 August 2012.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2011 annual financial statements, except for the accounting policies changes that are expected to be reflected in the 2012 annual financial statements. Details of these changes in accounting policies are set out in note 3.

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

2 Basis of preparation (Continued)

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 2011 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 2011 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 2011 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 29 March 2012.

3 Changes in accounting policies

The IASB has issued a few amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following development is relevant to the Group's financial statements:

Amendments to IFRS 7, Financial instruments: Disclosures — Transfers of financial assets

The amendments to IFRS 7 require certain disclosures to be included in the annual financial statements in respect of all transferred financial assets that are not derecognised and for any continuing involvement in a transferred asset existing at the reporting date, irrespective of when the related transfer transaction occurred. However, an entity need not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

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

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

4 Segment reporting

The Group principally has one reportable segment, which is the provision of integrated telecommunications support services in the informatization sector. Therefore, no additional reportable segment has been presented. Additional information about major customers and geographical areas of the Group has been disclosed in note 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	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Revenue from telecommunications infrastructure services	**13,811,780**	12,209,454
Revenue from business process outsourcing services	**12,885,641**	10,482,981
Revenue from applications, content and others	**2,658,209**	2,520,191
	29,355,630	25,212,626

The Group's major customers are telecommunications operators which include CTC and its subsidiaries ("CTC Group") and China Mobile Communications Corporation and its subsidiaries ("CM Group"), each contributing a revenue exceeding 10% of the Group's total revenues. Revenues from the provision of integrated telecommunications support services to CTC Group and CM Group for the six months ended 30 June 2012 amounted to RMB12,255 million and RMB5,597 million respectively (six months ended 30 June 2011: RMB10,164 million (as restated) and RMB4,645 million (as restated) respectively), being 41.7% and 19.1% of the Group's total revenues respectively (six months ended 30 June 2011: 40.3% (as restated) and 18.4% (as restated) respectively). In addition, the revenue derived from areas outside Mainland China for the six months ended 30 June 2012 amounted to RMB1,163 million (six months ended 30 June 2011: RMB1,290 million).

6 Cost of revenues

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Depreciation and amortisation	**194,622**	184,467
Direct personnel costs	**4,192,667**	3,783,891
Operating lease charges	**439,609**	408,336
Purchase of materials and telecommunications products	**8,927,661**	7,604,619
Subcontracting charges	**8,868,013**	7,318,814
Others	**2,213,079**	1,962,661
	24,835,651	21,262,788

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

7 Other operating income

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Interest income	**42,959**	39,295
Dividend income from unlisted securities	**68,129**	37,637
Government grants	**64,056**	50,987
Gain on disposal of property, plant and equipment	**1,181**	1,965
Penalty income	**1,132**	1,152
Management fee income	**114,902**	116,710
Write-off of non-payable liabilities	**1,169**	971
Others	**16,355**	14,637
	309,883	263,354

8 Finance costs

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Interest on bank advances and other borrowings wholly repayable within five years	**14,175**	31,920

For the periods ended 30 June 2012 and 2011, no borrowing costs were capitalised in relation to construction in progress.

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

9 Profit before tax

	Six months ended 30 June 2012 RMB'000	2011 RMB'000 (Restated)
(a) Staff costs:		
Salaries, wages and other benefits	**5,805,247**	5,088,833
Contributions to defined contribution retirement schemes	**474,568**	409,577
	6,279,815	5,498,410
(b) Other items:		
Amortisation	**34,236**	34,543
Cost of inventories	**8,927,661**	7,604,619
Depreciation	**310,759**	299,178
Inventory write-down and losses, net of reversals	**4,309**	1,027
Impairment losses on accounts and other receivables	**33,826**	53,821
Reversal of impairment losses on accounts and other receivables	**(12,005)**	(1,486)
Operating lease charges	**532,108**	497,389
Research and development costs	**380,880**	238,879
Share of an associate's taxation	**94**	158

Research and development costs include RMB345 million (six months ended 30 June 2011: RMB212 million) relating to staff costs, which amount is also included in the staff cost disclosed in note 9(a).

10 Income tax

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

	Six months ended 30 June 2012 RMB'000	2011 RMB'000 (Restated)
Current tax		
Income tax	**293,404**	257,768
Deferred tax		
Origination and reversal of temporary differences	**(9,665)**	12,277
Total income tax	**283,739**	270,045

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

10 Income tax (Continued)

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

	Six months ended 30 June 2012 RMB'000	2011 RMB'000 (Restated)
Profit before tax	**1,493,125**	1,308,548
Expected income tax expense at a statutory tax rate of 25% (six months ended 30 June 2011: 25%)	**373,281**	327,137
Differential tax rates on subsidiaries' profits (note (i))	**(88,532)**	(78,540)
Non-deductible expenses (note (ii))	**6,299**	12,150
Non-taxable income	**(17,128)**	(10,154)
Tax losses not recognised	**23,297**	28,306
Utilisation of previously unrecognised tax losses	**(13,478)**	(3,151)
Effect on opening deferred tax resulting from a reduction in PRC statutory tax rate (note (iii))	**—**	(5,703)
Income tax	**283,739**	270,045

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 2012 and 2011, except for certain domestic subsidiaries of the Group, which are taxed at a preferential rate of 15%, where applicable; and for certain overseas subsidiaries of the Group, which are taxed at respective statutory rates.

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

(iii) The amount for the six months ended 30 June 2011 represents 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 concerned. The deferred tax assets were remeasured for the change in applicable tax rates.

11 Other comprehensive income

Available-for-sale securities

	Six months ended 30 June 2012 RMB'000	2011 RMB'000
Changes in fair value recognised during the period	**3,491**	(12,100)
Net deferred tax charged to other comprehensive income	**(873)**	3,025
Net movement in the fair value reserve during the period recognised in other comprehensive income	**2,618**	(9,075)

Notes to the Unaudited Interim Financial Report (Continued)

(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 2012 (six months ended 30 June 2011: 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	
	2012	2011
	RMB'000	RMB'000
Final dividend in respect of the financial year ended 31 December 2011, declared during the interim period of RMB0.1222[1] per share (six months ended 30 June 2011: RMB0.1260 per share)	**846,359**	727,232

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

No final dividend was paid during the six months ended 30 June 2012 and 2011.

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 2012 of RMB1,209 million (six months ended 30 June 2011: RMB1,045 million (as restated)) and the weighted average number of shares in issue during the six months ended 30 June 2012 of 6,716,818 thousand shares (six months ended 30 June 2011: 5,949,749 thousand shares). As described in Note 19, the Company completed the rights issue in February 2012. In calculating earnings per share, the weighted average number of shares outstanding during the periods ended 30 June 2012 and 2011 were calculated as if the bonus elements without consideration included in the rights issue had existed from the beginning of the comparative period.

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 2012, additions of property, plant and equipment (including direct purchase, transfer from construction in progress and investment properties) of the Group amounted to RMB305 million (six months ended 30 June 2011: RMB229 million (as restated)). Items of property, plant and equipment with net book value totalling RMB3 million were disposed of during the six months ended 30 June 2012 (six months ended 30 June 2011: RMB7 million (as restated)).

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

15 Accounts and bills receivable, net

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000 (Restated)
Bills receivable	147,707	318,955
Unbilled revenue for contract work	7,924,295	4,698,824
Trade receivables	13,646,367	12,723,595
	21,718,369	17,741,374
Less: impairment losses	(459,008)	(437,149)
	21,259,361	17,304,225

(a) Included in accounts and bills receivable are amounts due from fellow subsidiaries of RMB9,105 million as at 30 June 2012 (31 December 2011: RMB7,600 million (as 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.

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

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000 (Restated)
Current	8,844,266	6,791,692
Within 1 year	10,678,335	8,941,249
After 1 year but less than 2 years	1,235,624	1,158,233
After 2 years but less than 3 years	342,843	298,345
After 3 years	158,293	114,706
Amount past due	12,415,095	10,512,533
	21,259,361	17,304,225

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

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 2012 RMB'000	At 31 December 2011 RMB'000 (Restated)
At 1 January	**437,149**	395,797
Impairment loss recognised	**34,258**	84,904
Reversal of impairment loss previously recognised	**(12,399)**	(38,212)
Uncollectible amounts written off	**—**	(5,340)
At 30 June/31 December	**459,008**	437,149

At 30 June 2012, the Group's accounts and bills receivable of RMB337 million were individually determined to be impaired (31 December 2011: RMB346 million (as restated)). 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 RMB268 million were recognised (31 December 2011: RMB266 million (as restated)). The Group does not hold any collateral over these balances.

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

15 Accounts and bills receivable, net (Continued)

(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 2012 RMB'000	At 31 December 2011 RMB'000 (Restated)
Neither past due nor impaired	**8,844,266**	6,791,692
Within 1 year	**10,675,311**	8,922,927
After 1 year but less than 2 years	**803,325**	882,393
After 2 years but less than 3 years	**172,764**	222,100
After 3 years	**91,147**	41,966
At 30 June/31 December	**20,586,813**	16,861,078

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 2012 RMB'000	At 31 December 2011 RMB'000 (Restated)
Cash at bank and in hand	**8,281,875**	6,854,370
Deposits with banks and other financial institutions	**148,481**	455,061
Cash and cash equivalents	**8,430,356**	7,309,431

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

17 Interest-bearing borrowings

The Group's short-term borrowings comprise the following:

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
RMB denominated		
Borrowings from banks		
— unsecured	–	8,000
Loans from ultimate holding company		
— unsecured	–	800,000
Loans from fellow subsidiaries		
— unsecured	13,280	13,280
US Dollar denominated		
Borrowings from banks		
— unsecured	250,466	177,055
	263,746	998,335

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

	At 30 June 2012	At 31 December 2011
RMB denominated		
Borrowings from banks		
— unsecured	–	6.06%
Loans from ultimate holding company		
— unsecured	–	4.88%
Loans from fellow subsidiaries		
— unsecured	2.39%	2.39%
US Dollar denominated		
Borrowings from banks		
— unsecured	2.23%–4.00%	1.55%–3.71%

As at 30 June 2012, no borrowings from banks were subject to financial covenants.

The loans from ultimate holding company as at 31 December 2011 were repaid in 2012.

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

18 Accounts and bills payable

Accounts and bills payable comprise:

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000 (Restated)
Accounts payable	**12,372,675**	10,696,775
Bills payable	**1,789,373**	2,069,626
	14,162,048	12,766,401

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

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000 (Restated)
Within 1 year	**13,034,481**	11,871,053
After 1 year but less than 2 years	**735,782**	623,612
After 2 years but less than 3 years	**175,816**	178,110
After 3 years	**215,969**	93,626
	14,162,048	12,766,401

Included in accounts and bills payable are amounts due to fellow subsidiaries of RMB1,097 million as at 30 June 2012 (31 December 2011: RMB813 million (as restated)). 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 2012 RMB'000	At 31 December 2011 RMB'000
Registered, issued and fully paid:		
4,534,598,160 (31 December 2011: 3,778,831,800) domestic shares of RMB1.00 each	**4,534,598**	3,778,832
2,391,420,240 (31 December 2011: 1,992,850,200) H shares of RMB1.00 each	**2,391,420**	1,992,850
	6,926,018	5,771,682

	2012 Thousand shares	2011 Thousand shares
At 1 January	**5,771,682**	5,771,682
Issue of domestic shares	**755,766**	—
Issue of H shares	**398,570**	—
At 30 June/31 December	**6,926,018**	5,771,682

On 8 February 2012, the Company issued 398,570,040 H shares on the basis of 2 H rights shares for every 10 existing H shares at HK$3.19 per H rights share, and issued 755,766,360 domestic shares on the basis of 2 domestic rights shares for every 10 existing domestic shares at RMB2.59 per domestic rights share. The total gross proceeds raised under the rights issue were RMB2,991 million, and the net proceeds raised under the rights issue were RMB2,956 million, after deduction of issuing expenses amounted to approximately RMB35 million. The rights issue increased RMB1,154 million of the Company's share capital and RMB1,802 million of the Company's share premium.

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

20 Commitments and contingent liabilities

(a) Capital commitments

As at 30 June 2012, the Group had capital commitments for acquisition and construction of property, plant and equipment and other assets, as well as capital commitments to CTC Group for acquisition of equity interest in SBSS as follows:

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Authorised and contracted for	**363,769**	93,431
Authorised but not contracted for	**108,214**	61,516

(b) Operating lease commitments

As at 30 June 2012, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Within 1 year	**244,797**	185,647
After 1 year but within 5 years	**365,462**	234,415
After 5 years	**92,272**	48,634
	702,531	468,696

The Group leases a number of properties under operating leases. The leases typically run for a period of one year to twenty 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 2012, the Group had no material contingent liabilities and no material financial guarantees issued.

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

21 Related parties

The Group is part of a larger group of companies under CTC and has significant transactions and relationships with members of CTC. Apart from the transactions and balances disclosed in the interim financial report set out above, there are the following related party transactions:

(a) Transactions with CTC Group

Companies are considered to be related if one company has the ability, directly or indirectly, to control or jointly control the other company or have significant influence over the other company in making financial and operating decisions. Companies are also considered to be related if they are subject to common control.

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

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

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Income from related parties:		
Engineering related services (note (i))	**5,867,248**	4,911,021
IT application services (note (ii))	**478,054**	477,042
Provision of ancillary telecommunications services (note (iii))	**2,807,309**	2,458,096
Provision of operation support services (note (iv))	**921,772**	827,084
Supplies procurement service (note (v))	**2,156,489**	1,465,914
Property leasing (note (vi))	**24,452**	25,320
Management fee income (note (vii))	**114,902**	116,710
Expenses paid/payable to related parties:		
Property leasing charges (note (viii))	**52,547**	55,808
IT application service charges (note (ix))	**76,734**	126,164
Operation support service charges (note (x))	**236,257**	118,938
Supplies procurement service charges (note (xi))	**1,206,249**	523,420
Interest paid/payable (note (xii))	**4,609**	21,666

Notes:

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

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

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

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

21 Related parties (Continued)

(a) Transactions with CTC Group (Continued)

Notes: (Continued)

(iv) The amount represents the facilities management, advertising, conferencing services and certain repair and leasing of 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.

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

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000 (Restated)
Accounts and bills receivable, net	**9,104,981**	7,600,352
Prepayments and other current assets	**1,381,413**	1,240,284
Other non-current assets	**3,134**	3,134
Total amounts due from CTC Group	**10,489,528**	8,843,770
Interest-bearing borrowings	**13,280**	813,280
Accounts and bills payable	**1,097,011**	812,570
Receipts in advance for contract work	**57,684**	43,642
Accrued expenses and other payables	**1,816,988**	1,004,031
Total amounts due to CTC Group	**2,984,963**	2,673,523

As at 30 June 2012, impairment losses for bad and doubtful debts of RMB7 million (31 December 2011: RMB7 million) were recorded in respect of amounts due from CTC Group.

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

21 Related parties (Continued)

(a) Transactions with CTC Group (Continued)

On 20 June 2012, the Company entered into an equity transfer agreement with China Telecommunications Corporation Industrial Assets Management Centre, a directly wholly-owned subsidiary of CTC, to acquire 51% equity interest in SBSS and all the associated rights and obligations for a total consideration of RMB265 million. Pursuant to the equity transfer agreement, the transfer is conditional upon approval by the relevant government authorities of SBSS. The Company obtained the approval from the relevant government authorities on 26 July 2012 (Hu Shang Wai Zi Pi [2012] No. 2433) and the equity transfer agreement became effective accordingly. The equity transfer agreement was disclosed as a capital commitment as at 30 June 2012.

As at 30 June 2012, the Group had capital commitments to CTC Group for acquisition of equity interest in SBSS (31 December 2011: capital commitments to CTC Group for acquisition and construction of property, plant and equipment and other assets) as follows:

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Authorised and contracted for	**264,601**	6,545

As at 30 June 2012, the Group's total future minimum lease payments to CTC Group under non-cancellable operating leases were payable as follows:

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Within 1 year	**64,639**	43,587
After 1 year but within 5 years	**81,741**	68,978
After 5 years	**61,342**	31,687
	207,722	144,252

On 20 June 2012, the Group entered into a series of equity transfer and asset acquisition agreements with CTC Group to acquire (i) the Target Interests (as defined in note 2); (ii) certain assets owned by Ningxia Telecommunications Industrial Company Limited; and (iii) certain assets owned by Guangdong Telecom Industry Group Corporation and/or its subsidiary for a total consideration of RMB152 million.

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

21 Related parties (Continued)

(a) Transactions with CTC Group (Continued)

On 10 April 2011, the Company, through Zhejiang Communications Services Company Limited ("Zhejiang CCS'), a direct wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with the Difo Telecommunications Group Limited ("Difo Telecom"), an indirect wholly-owned subsidiary of CTC pursuant to which Zhejiang CCS agreed to sell, and the Difo Telecom agreed to acquire 100% equity interest in Zhejiang Nantian Post and Communications Technology Company Limited ("Zhejiang Nantian") for a total consideration of RMB194 million payable in cash. After the completion of the disposal, Zhejiang Nantian ceased to be a subsidiary of the Company.

(b) Transactions with other government-related entities in the PRC

The Group is a state-controlled enterprise and operates in an economic regime currently dominated by entities directly or indirectly controlled by the People's Republic of China through government authorities, agencies, affiliations and other organisations (collectively referred to as "government-related entities").

Apart from transactions with parent company and its affiliates (note 21(a)), the Group has collectively, but not individually significant transactions with other government-related entities, which include but are not limited to the following:

- Rendering and receiving services, including but not limited to telecommunications services
- Sales and purchases of goods, properties and other assets
- Lease of assets
- Depositing and borrowing money
- Use of public utilities

These transactions are conducted in the ordinary course of the Group's business on terms comparable to the terms of transactions with other entities that are not government-related. The Group prices its telecommunications services and products based on government-regulated tariff rates, where applicable, or based on commercial negotiations. The Group has also established its procurement policies and approval processes for purchases of products and services, which do not depend on whether the counterparties are government-related entities or not.

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

21 Related parties (Continued)

(c) Transactions with key management personnel

Remuneration for key management personnel is as follows:

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Salaries and other emoluments	**2,228**	2,094
Retirement benefits	**933**	778
Bonus	**4,297**	3,987
	7,458	6,859

Total remuneration is included in "Staff costs" in note 9(a).

(d) Contributions to defined contribution retirement plans

In accordance with the labour regulations of the PRC, the Group participates in various defined contribution retirement schemes organised by the municipal and provincial governments for its employees. The Group is required to make contributions to the retirement schemes at rates ranging from 20% to 22% of the salaries, bonuses and certain allowances of the employees. A member of the scheme is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date. The Group has no other material obligation for the payment of pension benefits associated with these schemes beyond the annual contributions described above.

As at 30 June 2012 and 31 December 2011, there was no material outstanding contribution to post-employment benefit plans.

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

22 Non-adjusting events after the reporting period

On 20 June 2012, the Company entered into an equity transfer agreement with China Telecommunications Corporation Industrial Assets Management Centre. Pursuant to the agreement, the Company shall acquire 51% equity interest in SBSS and all the associated rights and obligations for a total consideration of RMB265 million, payable in cash, and the agreement will become effective when all relevant conditions precedent to the completion are fulfilled.

The acquisition was completed on 26 July 2012.

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 2011 Annual Report.

Changes in Directors, Supervisors and their Biographical Information

On 28 June 2012, the term of office of the second session of the Board of Directors and the Supervisory Committee of the Company expired. Except for Mr. Wu Shangzhi and Mr. Hao Weimin who retired as Independent Non-Executive Directors of the Company, the remaining Directors of the second session of the Board of Directors were re-elected as Directors of the third session of the Board of Directors at the annual general meeting held on the same day. Mr. Wei Leping and Mr. Siu Wai Keung, Francis were newly appointed as Independent Non-Executive Directors of the Company. On the other hand, all supervisors of the second session of the Supervisory Committee were re-elected as Supervisors of the third session of the Supervisory Committee.

Mr. Yuan Jianxing, an Executive Director and Executive Vice President of the Company, resigned as chairman of China Satcom Guomai Communications Co., Ltd.[1] on 30 May 2012, but still serves as its director.

Mr. Chan Mo Po, Paul resigned as an Independent Non-Executive Director of the Company on 28 July 2012.

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 2012.

Compliance with the Corporate Governance Code

Throughout the six months ended 30 June 2012, the Company has complied with the code provisions as set out in the former Code on Corporate Governance Practices and the new Corporate Governance Code (effective from 1 April 2012) contained in Appendix 14 of the Listing Rules.

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 2012 to 30 June 2012.

1. China Satcom Guomai Communications Co., Ltd. was renamed to Besttone Holding Co., Ltd. on 20 August 2012.

Other Information (Continued)

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

As at 30 June 2012, none of the Directors, Supervisors or the Chief Executive of the Company 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 2012, 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 2012, 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	3,559,362,496 (L)	78.49	51.39
China Mobile Communications Corporation	Domestic shares	Beneficial owner	608,256,000 (L)	13.41	8.78
China United Network Communications Group Company Limited	Domestic shares	Beneficial owner	236,300,000 (L)	5.21	3.41
Commonwealth Bank of Australia	H shares	Interest of corporation controlled by the substantial shareholder	451,936,553 (L)	18.90	6.53

Remarks: (L) — Long Position

Save as stated above, as at 30 June 2012, 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 2012, neither the Company nor any of its subsidiaries 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, which are beyond our control. Potential risks and uncertainties include those concerning the continued growth of the telecommunications market in China, the development of the regulatory environment and our abilities 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.

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

Level 5, No. 2 and B
Fuxingmen South Avenue
Xicheng District
Beijing, PRC, 100032

中國北京市西城區
復興門南大街2號及乙5層
郵編：100032

website 網址：www.chinaccs.com.hk

MIX
Paper from responsible sources
FSC™ C105708

Designed and produced by: EDICO Financial Press Services Limited
設計及製作：鉅京財經印刷服務有限公司