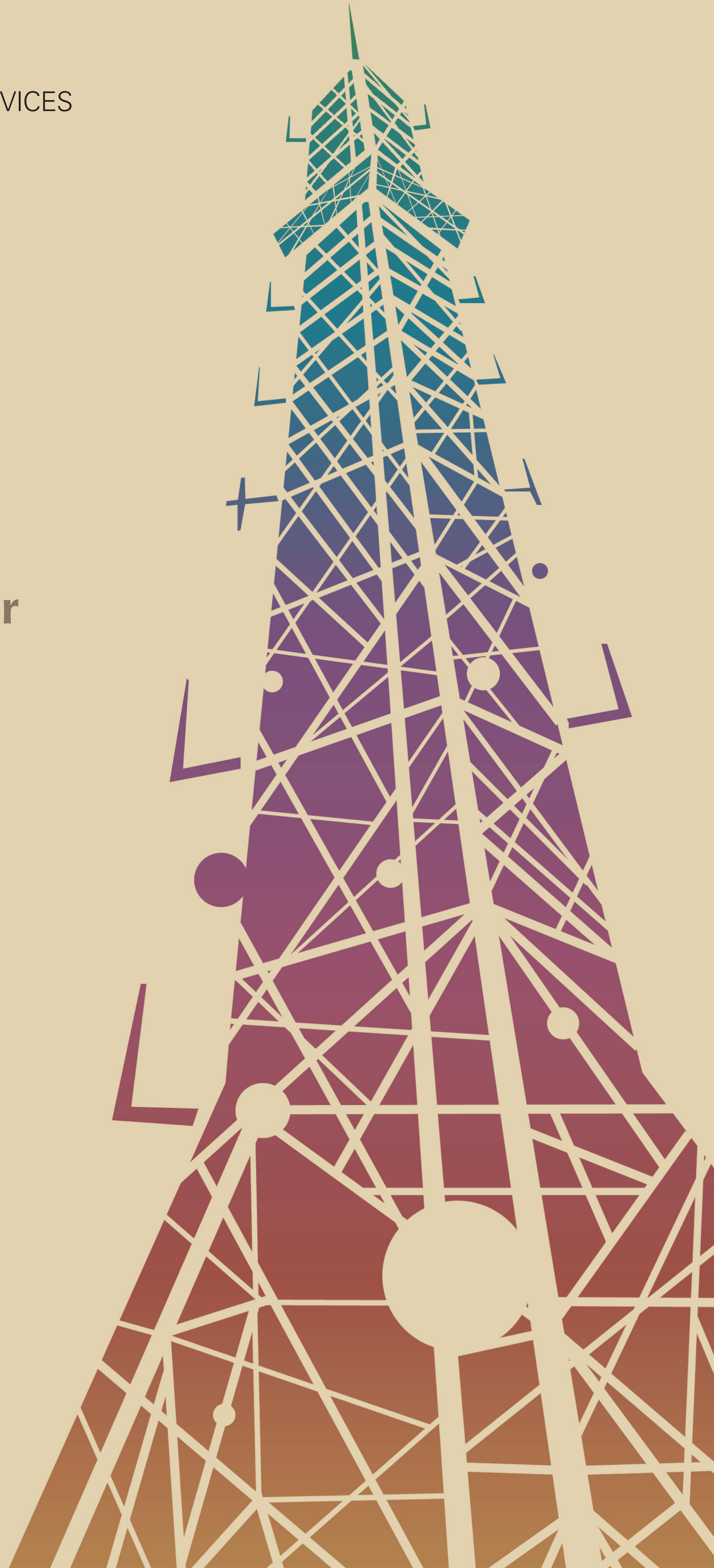
中国通信服务
CHINA COMSERVICE

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

STOCK CODE 股份代號：552



Network Builder for the World-Class Communications Infrastructure
世界級信息網絡的建設者

Interim Report 2013 中期報告

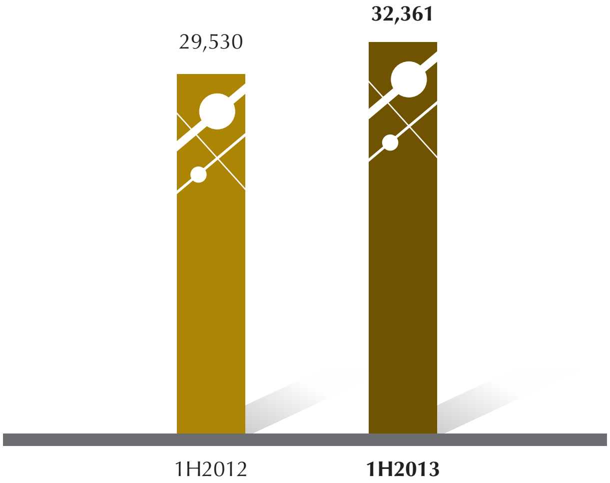
Contents

Financial Highlights

	Six months ended 30 June 2012 (Restated)[1]	2013	Change
Revenues (RMB millions)	29,530	**32,361**	9.6%
Gross profit (RMB millions)	4,581	**4,971**	8.5%
Profit attributable to equity shareholders (RMB millions)	1,221	**1,242**	1.7%
Basic earnings per share (RMB)	0.182	**0.179**	-1.6%

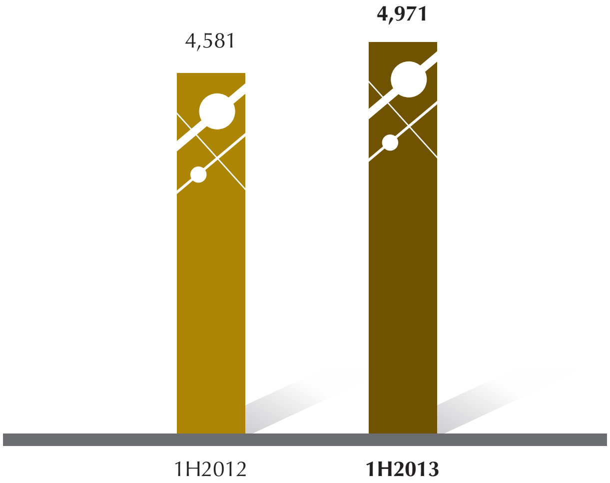
Revenues

(RMB millions)



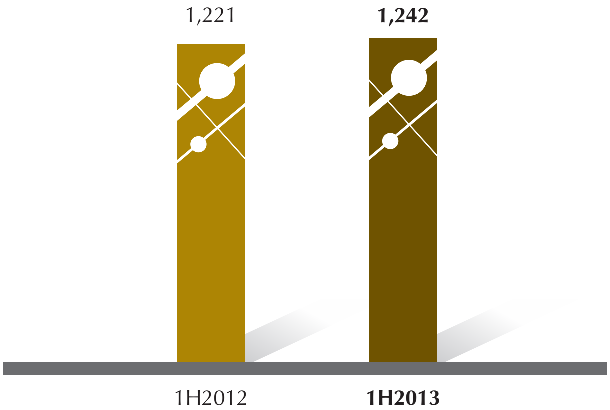
Gross Profit

(RMB millions)



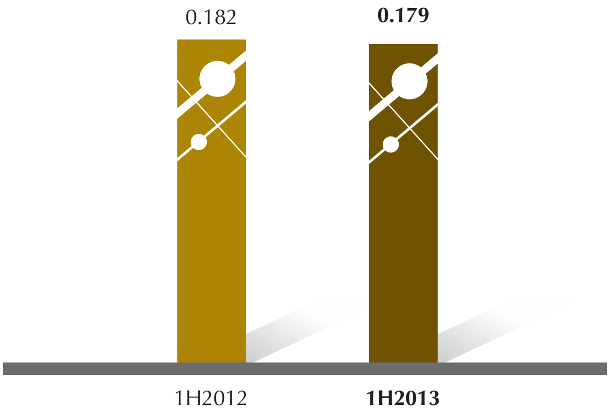
Profit Attributable to Equity Shareholders

(RMB millions)



Basic Earnings per Share

(RMB)



(1) The interim financial data for 2012 have been restated due to the newly acquired companies. Please refer to note 2 of the unaudited financial statements for details.

Chairman's Statement

Dear Shareholders,

During the first half of 2013, by making greater efforts to innovate and transform with firm confidence for development, the Group fortified its position in the domestic telecommunications operator market and expanded further into the domestic non-operator market and the overseas market with favorable results, and achieved further increase in revenue contributions from these two markets. As a result, the Group recorded a steady growth in operating results against a slowdown in overall capital expenditure of the telecommunications industry. Looking forward, investments to be triggered by the issuance of 4G licenses will bring new development opportunities for the Group.

Financial Review

The Group reported stable growth in total revenues for the first half of 2013, reaching RMB32,361 million, up by 9.6% over the same period last year.[1] Cost of revenues amounted to RMB27,390 million, representing an increase of 9.8% over the same period last year. Gross profit grew by 8.5% over the same period last year to RMB4,971 million. Gross profit margin was relatively stable at 15.4% as the Group attached great importance to efficiency of business development and strengthened cost management, and favorable quality of business development sustained. Due to the impact of fixed costs and the relatively rapid increase in selling, general and administrative expenses during the period, profit attributable to equity shareholders of the Company was RMB1,242 million, up by 1.7% over the same period last year, while net profit margin declined slightly to 3.8%. Basic earnings per share amounted to RMB0.179.

Business Development

During the first half of 2013, telecommunications infrastructure ("TIS") services achieved a stable growth and revenue from TIS services amounted to RMB15,339 million, representing an increase of 9.7% over the same period last year and accounting for 47.4% of total revenues. Despite the decline in overall capital expenditure of the domestic telecommunications industry during the period due to industry factors including the 4G licenses having not been issued, the Group still reported an 8.3% year-on-year growth in TIS revenues from domestic telecommunications operators by enhancing service capabilities. In addition, the Group made further progress in overseas turnkey projects development and TIS revenue from overseas market recorded a rapid growth of 58.9% over the same period last year, effectively driving growth of overall TIS revenue.

Revenue from business process outsourcing ("BPO") services for the first half of 2013 amounted to RMB14,035 million, representing an increase of 8.9% over the same period last year and accounting for 43.4% of total revenues. The Group has always been adhering to the principle of profitable business development and proactively managing the development of certain businesses with lower operating efficiency. The development of distribution of telecommunications services and products was effectively managed, and revenue growth decelerated to 10.4% as compared to the same period last year. The revenue growth of network maintenance services also slowed down to 4.2%.

Revenue from applications, content and other ("ACO") services for the first half of 2013 amounted to RMB2,987 million, representing an increase of 12.4% over the same period last year and accounting for 9.2% of total revenues. The Group focused on three types of domestic non-operator customers from government, key industries and small and medium-sized enterprises, and endeavored to develop large-scale turnkey projects, such as "Smart City" projects, industrial solutions and operation outsourcing projects. As a result, system integration business[2] grew rapidly with revenue increased by 31.3% over the same period last year. The Group will continue to deliver products and services with core competence by introducing strategic partners with strong brand names and technological edges, and leveraging its own local strengths.

1 On 26 July 2012, the Company completed the acquisition of the 51% equity interests in Sino-British Submarine System Co., Ltd. Relevant results were consolidated into the consolidated financial statements in accordance with the accounting standards and historical figures for periods preceding the acquisition were restated. For details please refer to the note to the unaudited financial statements.

2 Starting from 1 January 2013, the Company has adjusted the business classification among ACO in accordance with its business development focus. This change in classification has no effect on total revenues. The comparative figures have been reclassified to conform to current period's presentation.

Market Expansion

During the first half of 2013, the Group persisted in its focus on the three major markets. The Group continued to reinforce its leading position in the domestic telecommunications operator market during the period, and revenue from this market continued to grow by 7.1% against the backdrop of a slowdown in network construction investments by domestic telecommunications operators[3], reaching RMB20,416 million and accounting for 63.1% of total revenues. In particular, revenue from China Telecom increased by 8.6% over the same period last year, accounting for 41.1% of total revenues, while revenues from China Mobile and China Unicom increased by 4.5% in aggregate over the same period last year, accounting for 22.0% of total revenues. During the period, the Group actively participated in various work in relation to the LTE trial networks of the domestic telecommunications operators, including construction, network planning and design, in a move to prepare for opportunities arising from the issuance of 4G licenses.

The Group continued to vigorously expand into the domestic non-operator market and the overseas market, and revenues from such markets increased by 14.0% in aggregate over the same period last year, becoming the major growth driver for the total revenues in the first half of 2013. During the period, the Group adhered to its "Differentiation and Cooperation Strategy" in domestic non-operator market, and revenue from the domestic non-operator market increased by 11.8% over the same period last year to RMB10,266 million, accounting for 31.7% of total revenues. Meanwhile, the Group continued to implement its "Overseas-Focus and Four-Steps Strategy" and endeavored to develop overseas turnkey projects with favorable results. Revenue from overseas market grew to RMB1,679 million, representing a rapid increase of 30.0% and accounting for 5.2% of total revenues.

Corporate Governance and Management

The Group continued to strengthen its risk management and internal control, with a view to maintaining a high standard of corporate governance and enhancing corporate transparency on an ongoing basis. The Group's continued efforts were highly recognized in capital market in the first half of 2013. The Company ranked 3rd among the "Best Managed Company in China" in the 2013 "Asia's Best Managed Companies" hosted by *Finance Asia*, an authoritative financial magazine in Asia, and was also awarded among "The Best of Asia" and "Icon on Corporate Governance" elected by *Corporate Governance Asia*.

The Group continued to promote centralized efficient operations and enhance its management including the construction service procurement, human resources management, fund management, project management and contract management, so as to continuously improve its operating efficiency and management capability. During the period, the Group continued to optimize its human resources allocation and improve its market-oriented appraisal and incentive regime to support its business development. Meanwhile, the Group strengthened its management of account receivables while further centralizing its funds and optimizing the operation of its funding pool to offer strong support for its corporate development.

[3] According to data from Ministry of Industry and Information Technology of the PRC, fixed assets investment in the telecommunications industry for the first half of 2013 was RMB129.7 billion, decreased by 12.7% over the same period last year.

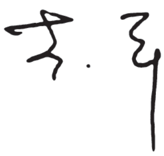
Corporate Social Responsibility

With its commitment to corporate social responsibility, the Group undertook the tasks of emergency communications for relief operations in the events of the earthquake in Ya'an, Sichuan and flood disasters, restoring a large number of damaged communications facilities in a timely manner to ensure uninterrupted communication in such areas. In addition, the Group actively engaged in energy conservation and emission reduction initiatives such as the development of energy-saving products and technologies, and contributed to the establishment of an energy-efficient community.

Prospects

Looking forward, new business opportunities are anticipated from the nation's move to bolster information consumption, promote in-depth integration of industrialization and informatization, implement the "Broadband China" strategy and accelerate the construction and upgrade of networks and communications infrastructures. In the telecommunications industry, particularly the investment to be brought by the upcoming issuance of 4G licenses will also create new opportunities for the Group's development in the domestic telecommunications operator market. Furthermore, the enormous demands for informatization services of society driven by urbanization, including projects related to "Smart City" and industry informatization, as well as the robust demand for communications construction in emerging overseas countries, will also provide the Group with favorable room for further development in the domestic non-operator market and the overseas market. Meanwhile, we are also facing challenges arising from changes in the industry landscape and regulatory policies as well as intensifying competition in the market, which will bring further pressure on the operating conditions of the Group. Nevertheless, we are confident about the future. While further strengthening its position in the domestic telecommunications operator market, the Group will continue to expand into the domestic non-operator market and the overseas market with vigorous efforts, striving to build a "hundred-billion enterprise" with superior performance and a culture of harmony and happiness, so as to deliver greater value to our customers and shareholders.

Finally, on behalf of the Board, I would like to express my sincere gratitude to Mr. Yuan Jianxing, who resigned as an Executive Vice President and Executive Director of the Company in August 2013, for his outstanding contributions to the Group. I would also like to express my sincere gratitude to all shareholders and customers of the Group and all sectors of society for their long-standing concern and support to the Group.



Li Ping
Chairman

Beijing, PRC
28 August 2013

Deloitte.
德勤

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 of China Communications Services Corporation Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 7 to 32, which comprises the consolidated statement of financial position as of 30 June 2013 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of this interim financial report in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial report based on our review, 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 this interim financial report consists of making inquiries, 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 this interim financial report is not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

28 August 2013

Consolidated Statement of Profit or Loss (Unaudited)

For the six months ended 30 June 2013

	Notes	Six months ended 30 June **2013** **RMB'000**	 2012 RMB'000 (Restated)
Revenues	5	**32,360,862**	29,530,385
Cost of revenues	6	**(27,390,313)**	(24,949,098)
Gross profit		**4,970,549**	4,581,287
Other operating income	7	**383,866**	310,807
Selling, general and administrative expenses		**(3,777,590)**	(3,326,415)
Other operating expenses		**(50,577)**	(23,230)
Finance costs	8	**(7,349)**	(17,854)
Share of profits/(losses) of associates		**248**	(2,752)
Profit before tax	9	**1,519,147**	1,521,843
Income tax	10(a)	**(261,494)**	(288,047)
Profit for the period		**1,257,653**	1,233,796
Attributable to:			
Equity shareholders of the Company		**1,242,363**	1,221,163
Non-controlling interests		**15,290**	12,633
Profit for the period		**1,257,653**	1,233,796
Basic and diluted earnings per share (RMB)	13	**0.179**	0.182

The notes on pages 14 to 32 form part of this interim financial report.

Consolidated Statement of Profit or Loss and Other Comprehensive Income (Unaudited)

For the six months ended 30 June 2013

	Notes	Six months ended 30 June 2013 RMB'000	2012 RMB'000 (Restated)
Profit for the period		**1,257,653**	1,233,796
Other comprehensive income (after tax)			
Items that may be subsequently reclassified to profit or loss (after tax):			
Exchange differences on translation of financial statements of subsidiaries outside Mainland China		**(4,170)**	(3,997)
Available-for-sale securities:			
Net movement in the fair value reserve	11	**(1,250)**	2,618
		(5,420)	(1,379)
Total comprehensive income for the period		**1,252,233**	1,232,417
Attributable to:			
Equity shareholders of the Company		**1,236,943**	1,219,784
Non-controlling interests		**15,290**	12,633
Total comprehensive income for the period		**1,252,233**	1,232,417

The notes on pages 14 to 32 form part of this interim financial report.

Consolidated Statement of Financial Position (Unaudited)

At 30 June 2013

	Notes	30 June 2013 RMB'000	31 December 2012 RMB'000
Non-current assets			
Property, plant and equipment, net	14	**4,359,170**	4,517,754
Investment properties		**755,898**	765,075
Construction in progress		**391,030**	387,190
Lease prepayments		**921,201**	933,697
Goodwill		**103,005**	103,005
Other intangible assets		**186,708**	170,105
Interests in associates		**41,460**	52,106
Other investments		**645,798**	662,300
Deferred tax assets		**237,121**	204,803
Other non-current assets		**27,631**	27,880
Total non-current assets		**7,669,022**	7,823,915
Current assets			
Inventories		**2,102,642**	1,894,825
Accounts and bills receivable, net	15	**25,118,162**	21,321,955
Prepayments and other current assets		**5,271,453**	4,773,469
Restricted deposits		**373,828**	266,979
Cash and cash equivalents	16	**6,860,083**	8,879,491
Total current assets		**39,726,168**	37,136,719
Total assets		**47,395,190**	44,960,634
Current liabilities			
Interest-bearing borrowings	17	**524,418**	409,805
Accounts and bills payable	18	**16,206,827**	14,843,934
Receipts in advance for contract work		**956,034**	1,386,805
Accrued expenses and other payables		**7,963,483**	6,763,252
Income tax payable		**232,654**	309,761
Total current liabilities		**25,883,416**	23,713,557
Net current assets		**13,842,752**	13,423,162
Total assets less current liabilities		**21,511,774**	21,247,077

The notes on pages 14 to 32 form part of this interim financial report.

Consolidated Statement of Financial Position (Unaudited) (Continued)

At 30 June 2013

	Notes	30 June 2013 RMB'000	31 December 2012 RMB'000
Non-current liabilities			
Interest-bearing borrowings	17	**67,224**	89,883
Other non-current liabilities		**136,503**	134,105
Deferred tax liabilities		**16,372**	20,930
Total non-current liabilities		**220,099**	244,918
Total liabilities		**26,103,515**	23,958,475
Equity			
Share capital	19	**6,926,018**	6,926,018
Reserves		**13,850,947**	13,576,721
Equity attributable to equity shareholders of the Company		**20,776,965**	20,502,739
Non-controlling interests		**514,710**	499,420
Total equity		**21,291,675**	21,002,159
Total liabilities and equity		**47,395,190**	44,960,634

The notes on pages 14 to 32 form part of this interim financial report.

Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 June 2013

		Equity attributable to equity shareholders of the Company											
	Notes	Share capital RMB'000	Share premium RMB'000 (note a)	Capital reserve RMB'000 (note b)	Statutory surplus reserve RMB'000 (note c)	Specific reserve RMB'000 (note d)	Fair value reserve RMB'000 (note e)	Exchange reserve RMB'000 (note f)	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 2013		**6,926,018**	**4,529,310**	**1,846,468**	**541,379**	**38,216**	**22,554**	**(13,813)**	**(68,310)**	**6,680,917**	**20,502,739**	**499,420**	**21,002,159**
Changes in equity for the six months ended 30 June 2013													
Dividend declared	12(b)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(962,717)**	**(962,717)**	**–**	**(962,717)**
Appropriation of maintenance and production funds		**–**	**–**	**–**	**–**	**129,388**	**–**	**–**	**–**	**(129,388)**	**–**	**–**	**–**
Utilisation of maintenance and production funds		**–**	**–**	**–**	**–**	**(97,717)**	**–**	**–**	**–**	**97,717**	**–**	**–**	**–**
Profit for the period		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,242,363**	**1,242,363**	**15,290**	**1,257,653**
Other comprehensive income	11	**–**	**–**	**–**	**–**	**–**	**(1,250)**	**(4,170)**	**–**	**–**	**(5,420)**	**–**	**(5,420)**
Total comprehensive income for the period		**–**	**–**	**–**	**–**	**–**	**(1,250)**	**(4,170)**	**–**	**1,242,363**	**1,236,943**	**15,290**	**1,252,233**
Balance as at 30 June 2013		**6,926,018**	**4,529,310**	**1,846,468**	**541,379**	**69,887**	**21,304**	**(17,983)**	**(68,310)**	**6,928,892**	**20,776,965**	**514,710**	**21,291,675**
Balance as at 1 January 2012		5,771,682	2,727,647	1,846,468	428,707	–	22,654	(9,505)	200,344	5,296,111	16,284,108	352,116	16,636,224
Changes in equity for the six months ended 30 June 2012													
Consideration for the acquisition of the Target Interests (as defined in note 2)		–	–	–	–	–	–	–	(53,709)	–	(53,709)	–	(53,709)
Issuance of shares		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		–	–	–	–	–	–	–	23,858	1,197,305	1,221,163	12,633	1,233,796
Other comprehensive income		–	–	–	–	–	2,618	(3,997)	–	–	(1,379)	–	(1,379)
Total comprehensive income for the period		–	–	–	–	–	2,618	(3,997)	23,858	1,197,305	1,219,784	12,633	1,232,417
Balance as at 30 June 2012 (Restated)		6,926,018	4,529,310	1,846,468	428,707	–	25,272	(13,502)	189,036	5,647,057	19,578,366	438,030	20,016,396
Changes in equity for the six months ended 31 December 2012													
Consideration for the acquisition of SBSS (as defined in note 2)		–	–	–	–	–	–	–	(286,992)	–	(286,992)	–	(286,992)
Capital injection by non-controlling owners to subsidiaries		–	–	–	–	–	–	–	28,765	–	28,765	51,257	80,022
Appropriation		–	–	–	112,672	–	–	–	–	(112,672)	–	–	–
Appropriation of maintenance and production funds		–	–	–	–	271,340	–	–	–	(271,340)	–	–	–
Utilisation of maintenance and production funds		–	–	–	–	(233,124)	–	–	–	233,124	–	–	–
Distribution to non-controlling owners		–	–	–	–	–	–	–	–	–	–	(16,306)	(16,306)
Profit for the period		–	–	–	–	–	–	–	881	1,184,748	1,185,629	26,439	1,212,068
Other comprehensive income		–	–	–	–	–	(2,718)	(311)	–	–	(3,029)	–	(3,029)
Total comprehensive income for the period		–	–	–	–	–	(2,718)	(311)	881	1,184,748	1,182,600	26,439	1,209,039
Balance as at 31 December 2012		6,926,018	4,529,310	1,846,468	541,379	38,216	22,554	(13,813)	(68,310)	6,680,917	20,502,739	499,420	21,002,159

The notes on pages 14 to 32 form part of this interim financial report.

Consolidated Statement of Changes in Equity (Unaudited) (Continued)

For the six months ended 30 June 2013

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 issuance in 2008 and 2012 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 telecommunications infrastructure services, business process outsourcing services and applications, content and other services located in Jiangsu Province, Anhui Province, Jiangxi Province, Hunan Province, Guangxi Zhuang Autonomous Region, Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province and Xinjiang Uygur Autonomous Region, together with the equity interests in Guangdong Nanfang Communication GSM Intelligent Card System Co., Ltd and Ningbo Public Information Industry Co., Ltd (the "Target Business") and the net assets value of the Target Business in 2007.

(c) Statutory surplus reserve

According to the Company's Article of Association, the Company is required to transfer 10% of its net profit as determined in accordance with the People's Republic of China (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.

(d) Specific reserve for maintenance and production funds

Pursuant to the relevant PRC regulations, provision for production maintenance, production safety and other related expenditures are accrued by the Group at fixed rates based on production volume (the "maintenance and production funds"). The Group is required to make a transfer for the provision of maintenance and production funds from retained earnings to a specific reserve. The maintenance and production funds could be utilised when expenses or capital expenditures on production maintenance and safety measures are incurred. The amount of maintenance and production funds utilised would be transferred from the specific reserve back to retained earnings.

(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 end of the reporting period.

(f) Exchange reserve

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

The notes on pages 14 to 32 form part of this interim financial report.

Condensed Consolidated Statement of Cash Flows (Unaudited)

For the six months ended 30 June 2013

	Notes	Six months ended 30 June 2013 RMB'000	2012 RMB'000 (Restated)
Net cash used in operating activities		**(1,968,671)**	(949,006)
Net cash used in investing activities		**(100,568)**	(292,978)
Net cash generated from financing activities		**77,346**	2,339,294
Net (decrease)/increase in cash and cash equivalents		**(1,991,893)**	1,097,310
Cash and cash equivalents at the beginning of period		**8,879,491**	7,380,435
Effect of foreign exchange rate changes		**(27,515)**	(6,045)
Cash and cash equivalents at the end of period	16	**6,860,083**	8,471,700

The notes on pages 14 to 32 form part of this interim financial report.

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 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 (as defined in the consolidated financial statements of the Group for the year ended 31 December 2012) entered into by the Group and CTC's subsidiaries 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. and Ningxia Telecom Constructions Supervision Consultancy Co., Ltd.; and (ii) 100% equity interest in Xinjiang Communications Planning & Designing Institute Co., Ltd. (collectively the "Target Interests"), for a consideration of RMB51.07 million, payable in cash.

Pursuant to the Equity Transfer Agreements entered into by the Group and China Telecommunications Corporation Industrial Assets Management Centre (a directly wholly-owned subsidiary of CTC) on 20 June 2012, the Group completed acquisition on 26 July 2012 of 51% equity interest in Sino-British Submarine Systems Co., Ltd. ("SBSS") and all the associated rights and obligations for a total consideration of RMB264.60 million.

Since the Group and SBSS are under common control of CTC, the acquisitions of SBSS 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 SBSS have been accounted for at historical costs and the condensed consolidated financial statements of the Group prior to the acquisition of SBSS have been restated to include the results of operations and assets and liabilities of SBSS on a combined basis. The consideration paid by the Company for the acquisition of SBSS was accounted for as an equity transaction in the consolidated statement of changes in equity.

2. Basis of Preparation (Continued)

The results of operations for the six months ended 30 June 2012, the cash flow effect for the six months ended 30 June 2012 previously reported by the Group have been restated to reflect the acquisitions of SBSS are set out below:

	The Group (as previously reported) RMB'000	SBSS acquired RMB'000	Combined RMB'000
Results of operations for the six months ended 30 June 2012			
Revenues	29,355,630	174,755	29,530,385
Gross profit	4,519,979	61,308	4,581,287
Profit for the period	1,209,386	24,410	1,233,796
Basic and diluted earnings per share (in RMB)	0.180		0.182
Cash flow effect for the six months ended 30 June 2012			
Net cash used in operating activities	(931,100)	(17,906)	(949,006)
Net cash used in investing activities	(279,917)	(13,061)	(292,978)
Net cash generated from financing activities	2,338,048	1,246	2,339,294

For the period presented, all significant balances and transactions between the Group and SBSS have been eliminated on consolidation.

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and International Accounting Standard ("IAS") 34, Interim financial reporting, issued by the International Accounting Standards Board ("IASB").

3. Principal Accounting Policies

The interim financial report has been prepared on the historical basis except for certain financial instruments, which are measured at fair values.

The interim financial report has been prepared in accordance with the same accounting policies and methods of computation adopted in the consolidated financial statements of the Group for the year ended 31 December 2012, except as described below.

In the current interim period, the Group has applied, for the first time, the following new or revised International Financial Reporting Standards ("IFRSs") issued by the IASB that are relevant for the preparation of the interim financial report:

IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
IFRS 13	Fair Value Measurement
IAS 19 (Revised 2011)	Employee Benefits
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures
Amendments to IFRS 7	Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 1	Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income
Amendments to IFRSs	Annual Improvements to IFRSs 2009-2011 Cycle

IFRS 13 Fair Value Measurement

The Group has applied IFRS 13 for the first time in the current period. IFRS 13 establishes a single source of guidance for fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements.

The scope of IFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. Consequential amendments have been made to IAS 34 to require certain disclosures required for financial instruments to be made in the interim financial report. Except for the disclosures of fair value information set out in the notes to the interim financial report, the application of IFRS 13 has no significant impact on the Group's interim financial report.

Except for the impact on the application of IFRS 13, the application of the other new or revised IFRSs as mentioned above in the current interim period has had no material effect on the amounts reported and/or disclosures set out in interim financial report.

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.

3. Principal Accounting Policies (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 2012 annual financial statements. The condensed consolidated interim financial statements and notes thereof do not include all of the information required for a full set of financial statements prepared in accordance with 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, Deloitte Touche Tohmatsu ("DTT"), 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. DTT'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 2012 that is included in the interim financial report as being previously reported 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 2012 are available from the Company's registered office. On 27 March 2013, KPMG have expressed an unqualified opinion on the consolidated financial statements of the Group for the year ended 31 December 2012.

4. Segment Reporting

The Group principally has one operating and reportable segment, which is the provision of integrated telecommunications support services in the information 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	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Revenue from telecommunications infrastructure services	**15,338,597**	13,982,261
Revenue from business process outsourcing services	**14,035,549**	12,889,915
Revenue from applications, content and others	**2,986,716**	2,658,209
	32,360,862	29,530,385

5. Revenues (Continued)

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 2013 amounted to RMB13,307 million and RMB5,919 million respectively (six months ended 30 June 2012: RMB12,255 million and RMB5,597 million respectively), being 41.1% and 18.3% of the Group's total revenues respectively (six months ended 30 June 2012: 41.5% (as restated) and 19.0% (as restated) respectively). In addition, the revenue derived from areas outside Mainland China for the six months ended 30 June 2013 amounted to RMB1,679 million (six months ended 30 June 2012: RMB1,291 million (as restated)).

6. Cost of Revenues

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Depreciation and amortisation	**214,882**	214,777
Direct personnel costs	**4,288,795**	4,224,881
Operating lease charges	**451,160**	440,947
Purchase of materials and telecommunications products	**9,695,533**	8,942,960
Subcontracting charges	**10,291,270**	8,868,805
Others	**2,448,673**	2,256,728
	27,390,313	24,949,098

7. Other Operating Income

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Interest income	**47,541**	43,508
Dividend income from unlisted securities	**54,706**	68,129
Government grants	**79,208**	64,056
Gain on partial disposal of an associate	**49,507**	–
Gain on disposal of property, plant and equipment	**1,801**	1,411
Penalty income	**2,444**	1,132
Management fee income	**133,150**	114,902
Others	**15,509**	17,669
	383,866	310,807

8. Finance Costs

	Six months ended 30 June 2013 RMB'000	2012 RMB'000 (Restated)
Interest on bank and other borrowings wholly repayable within five years	**7,349**	17,854

For the periods ended 30 June 2013 and 2012, no borrowing costs were capitalised in relation to construction in progress.

9. Profit Before Tax

Profit before tax has been arrived at after charging (crediting) the following items:

		Six months ended 30 June 2013 RMB'000	2012 RMB'000 (Restated)
(a)	Staff costs:		
	Salaries, wages and other benefits	**6,202,218**	5,846,882
	Contributions to defined contribution retirement schemes	**535,104**	476,683
		6,737,322	6,323,565
(b)	Other items:		
	Amortisation	**49,750**	34,264
	Cost of inventories	**9,695,533**	8,942,960
	Depreciation	**332,889**	333,562
	Inventory write-down and losses, net of reversals	**2,968**	4,309
	Impairment losses on accounts and other receivables	**40,586**	33,826
	Reversal of impairment losses on accounts and other receivables	**(3,876)**	(12,005)
	Operating lease charges	**566,628**	533,446
	Research and development costs	**573,636**	395,396
	Share of an associate's taxation	**83**	94

Research and development costs include RMB473 million (six months ended 30 June 2012: RMB346 million (as restated)) 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 statement of profit or loss represents:

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Current tax		
Income tax	**295,446**	297,712
Deferred tax		
Origination and reversal of temporary differences	**(33,952)**	(9,665)
Total income tax	**261,494**	288,047

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

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Profit before tax	**1,519,147**	1,521,843
Expected income tax expense at a statutory tax rate of 25% (six months ended 30 June 2012: 25%)	**379,787**	380,460
Differential tax rates on subsidiaries' profits (note (i))	**(138,387)**	(91,404)
Non-deductible expenses (note (ii))	**23,508**	6,300
Non-taxable income	**(13,493)**	(17,128)
Tax losses not recognised	**16,216**	23,297
Utilisation of previously unrecognised tax losses	**(6,137)**	(13,478)
Income tax	**261,494**	288,047

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 2013 and 2012, 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.

11. Other Comprehensive Income

Available-for-sale securities

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Changes in fair value recognised during the period	**(4,174)**	3,491
Net deferred tax charged to other comprehensive income	**2,924**	(873)
Net movement in the fair value reserve during the period recognised in other comprehensive income	**(1,250)**	2,618

12. Dividends

(a) Interim dividend

The directors do not propose the payment of an interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: 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	
	2013	2012
	RMB'000	RMB'000
Final dividend in respect of the financial year ended 31 December 2012, declared during the interim period of RMB0.1390 per share (six months ended 30 June 2012: RMB0.1222 per share)	**962,717**	846,359

No final dividend was paid during the six months ended 30 June 2013 and 2012.

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 2013 of RMB1,242 million (six months ended 30 June 2012: RMB1,221 million (as restated)) and the number of shares in issue during the six months ended 30 June 2013 of 6,926,018 thousand shares (six months ended 30 June 2012: weighted average number of shares of 6,716,818 thousand shares).

There was no 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 2013, additions of property, plant and equipment (including direct purchase, transfer from construction in progress) of the Group amounted to RMB191 million (six months ended 30 June 2012: RMB305 million (as restated)). Items of property, plant and equipment with carrying amount totalling RMB5 million were disposed of during the six months ended 30 June 2013 (six months ended 30 June 2012: RMB3 million (as restated)).

15 Accounts and Bills Receivable, Net

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Bills receivable	**540,331**	610,038
Unbilled revenue for contract work	**7,434,274**	6,264,423
Trade receivables	**17,655,194**	14,922,933
	25,629,799	21,797,394
Less: impairment losses	**(511,637)**	(475,439)
	25,118,162	21,321,955

(a) Included in accounts and bills receivable are amounts due from fellow subsidiaries of RMB11,279 million as at 30 June 2013 (31 December 2012: RMB9,599 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 2013 RMB'000	At 31 December 2012 RMB'000
Current (note)	**11,790,713**	10,142,555
Within 1 year	**11,663,741**	9,119,059
After 1 year but less than 2 years	**1,211,594**	1,567,009
After 2 years but less than 3 years	**346,513**	400,854
After 3 years	**105,601**	92,478
Amount past due	**13,327,449**	11,179,400
	25,118,162	21,321,955

Note: Included unbilled revenue for contract work.

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 2013 RMB'000	At 31 December 2012 RMB'000
At 1 January	**475,439**	437,149
Impairment loss recognised	**39,737**	94,323
Reversal of impairment loss previously recognised	**(3,320)**	(50,683)
Uncollectible amounts written off	**(219)**	(5,350)
At 30 June/31 December	**511,637**	475,439

At 30 June 2013, the Group's accounts and bills receivable of RMB527 million were individually determined to be impaired (31 December 2012: RMB427 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 RMB317 million were recognised (31 December 2012: RMB320 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 2013 RMB'000	At 31 December 2012 RMB'000
Neither past due nor impaired	**11,790,713**	10,142,555
Within 1 year	**11,257,473**	9,102,624
After 1 year but less than 2 years	**1,021,858**	1,184,804
After 2 years but less than 3 years	**269,923**	329,012
After 3 years	**80,527**	80,462
At 30 June/31 December	**24,420,494**	20,839,457

Receivables that were neither past due nor impaired mainly relate to 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 further 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 2013 RMB'000	At 31 December 2012 RMB'000
Cash at bank and in hand	**5,343,527**	6,046,031
Deposits with banks and other financial institutions	**1,516,556**	2,833,460
Cash and cash equivalents	**6,860,083**	8,879,491

17. Interest-Bearing Borrowings

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

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
RMB denominated		
Loans from fellow subsidiaries		
— unsecured	**13,280**	13,280
HK Dollar denominated		
Borrowings from banks		
— unsecured	**182,410**	185,684
US Dollar denominated		
Borrowings from banks		
— secured	**17,547**	17,851
— unsecured	**311,181**	192,990
	524,418	409,805

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

	At 30 June 2013	At 31 December 2012
RMB denominated		
Loans from fellow subsidiaries		
— unsecured	**2.39%**	2.39%
HK Dollar denominated		
Borrowings from banks		
— unsecured	**1.45%**	1.95%
US Dollar denominated		
Borrowings from banks		
— secured	**5.30%**	5.30%
— unsecured	**1.77%–2.87%**	2.24%–2.46%

17. Interest-Bearing Borrowings (Continued)

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

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
US Dollar denominated		
Borrowings from banks		
— secured	**67,224**	89,883
	67,224	89,883

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

	At 30 June 2013	At 31 December 2012
US Dollar denominated		
Borrowings from banks		
— secured	**5.30%**	5.30%

As at 30 June 2013, no borrowings from banks were subject to financial covenants.

18. Accounts and Bills Payable

Accounts and bills payable comprise:

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Accounts payable	**14,205,992**	12,439,999
Bills payable	**2,000,835**	2,403,935
	16,206,827	14,843,934

18. Accounts and Bills Payable (Continued)

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

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Within 1 year	**14,956,262**	13,686,729
After 1 year but less than 2 years	**819,743**	724,781
After 2 years but less than 3 years	**224,440**	197,282
After 3 years	**206,382**	235,142
	16,206,827	14,843,934

Included in accounts and bills payable are amounts due to fellow subsidiaries of RMB1,641 million as at 30 June 2013 (31 December 2012: RMB1,245 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 2013 RMB'000	At 31 December 2012 RMB'000
Registered, issued and fully paid:		
4,534,598,160 (31 December 2012: 4,534,598,160) domestic shares of RMB1.00 each	**4,534,598**	4,534,598
2,391,420,240 (31 December 2012: 2,391,420,240) H shares of RMB1.00 each	**2,391,420**	2,391,420
	6,926,018	6,926,018

	2013 Thousand shares	2012 Thousand shares
At 1 January	**6,926,018**	5,771,682
Issue of domestic shares	**–**	755,766
Issue of H shares	**–**	398,570
At 30 June/31 December	**6,926,018**	6,926,018

20. Commitments and Contingent Liabilities

(a) Capital commitments

As at 30 June 2013, the Group had capital commitments for acquisition and construction of property, plant and equipment and other assets as follows:

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Authorised and contracted for	**149,525**	96,168
Authorised but not contracted for	**81,735**	94,489

(b) Operating lease commitments

As at 30 June 2013, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Within 1 year	**284,889**	233,698
After 1 year but within 5 years	**315,458**	345,111
After 5 years	**92,370**	90,758
	692,717	669,567

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 2013, the Group had no material contingent liabilities and no material financial guarantees issued.

21. Fair Value Measurements of Financial Instruments

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

- Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	The Group			
	Level 1 RMB'000	**Level 2** RMB'000	**Level 3** RMB'000	**Total** RMB'000
Assets				
Available-for-sale securities				
— Listed equity securities	30,196	–	–	30,196

22. 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.

22. Related Parties (Continued)

(a) Transactions with CTC Group (Continued)

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

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Income from related parties:		
Engineering related services (note (i))	**6,382,680**	5,867,248
IT application services (note (ii))	**542,996**	478,054
Provision of ancillary telecommunications services (note (iii))	**3,003,007**	2,807,309
Provision of operation support services (note (iv))	**984,143**	921,772
Supplies procurement service (note (v))	**2,361,088**	2,156,489
Property leasing (note (vi))	**33,123**	24,452
Management fee income (note (vii))	**133,150**	114,902
Expenses paid/payable to related parties:		
Property leasing charges (note (viii))	**65,326**	52,547
IT application service charges (note (ix))	**102,426**	76,734
Operation support service charges (note (x))	**233,476**	236,257
Supplies procurement service charges (note (xi))	**1,859,347**	1,206,869
Interest paid/payable (note (xii))	**159**	4,609

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 the services rendered to CTC Group for the management of its assets related to the telecommunications support business in different provinces, municipalities and autonomous regions of 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.

22. Related Parties (Continued)

(a) Transactions with CTC Group (Continued)

Notes: (Continued)

(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 2013 RMB'000	At 31 December 2012 RMB'000
Accounts and bills receivable, net	**11,279,410**	9,599,241
Prepayments and other current assets	**1,200,759**	1,316,856
Total amounts due from CTC Group	**12,480,169**	10,916,097
Interest-bearing borrowings	**13,280**	13,280
Accounts and bills payable	**1,641,007**	1,244,697
Receipts in advance for contract work	**86,665**	61,446
Accrued expenses and other payables	**1,578,487**	907,085
Total amounts due to CTC Group	**3,319,439**	2,226,508

As at 30 June 2013, impairment losses for bad and doubtful debts of RMB7 million (31 December 2012: RMB8 million) were recorded in respect of amounts due from CTC Group.

As at 30 June 2013 the Group has capital commitments to CTC Group for acquisition and construction of property, plant and equipment and other assets as follows:

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Authorised and contracted for	**3,014**	2,804

22. Related Parties (Continued)

(a) Transactions with CTC Group (Continued)

As at 30 June 2013, the Group's total future minimum lease payments to CTC Group under non-cancellable operating leases were payable as follows:

	At 30 June 2013 RMB'000	At 31 December 2012 RMB'000
Within 1 year	**101,896**	69,847
After 1 year but within 5 years	**142,499**	143,119
After 5 years	**77,305**	74,595
	321,700	287,561

(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, jointly controlled, significantly influenced by the People's Republic of China through government authorities, agencies and other organisations (collectively referred to as "government-related entities").

Apart from transactions with parent company and fellow subsidiaries (note 22(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.

22. Related Parties (Continued)

(c) Transactions with key management personnel

Remuneration for key management personnel is as follows:

	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Salaries and other emoluments	**2,213**	2,228
Retirement benefits	**1,062**	933
Bonus	**4,695**	4,297
	7,970	7,458

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 2013 and 31 December 2012, there was no material outstanding contribution to post-employment benefit plans.

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

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 2012 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 2012 Annual Report are set out below:

— Mr. Yan Dong resigned as the Employee Representative Supervisor of the Company on 18 June 2013.

— Mr. Si Jianfei was elected as the Employee Representative Supervisor of the Company on 18 June 2013.

— Mr. Li Ping, the Chairman and an Executive Director of the Company, resigned as an executive vice president of China Telecom Corporation Limited on 21 June 2013.

— Mr. Siu Wai Keung, Francis, an Independent Non-Executive Director of the Company, was appointed as an independent non-executive director of Shunfeng Photovoltaic International Limited on 12 July 2013.

— Mr. Yuan Jianxing resigned as an Executive Director and Executive Vice President of the Company on 8 August 2013.

Audit Committee

The Audit Committee has reviewed with the management and the Company's international auditors, Deloitte Touche Tohmatsu, 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 2013.

Compliance with the Corporate Governance Code

Throughout the six months ended 30 June 2013, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules, except for Mr. Li Ping, the Chairman of the Company, was unable to attend the 2012 Annual General Meeting due to his business trip.

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 2013 to 30 June 2013.

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

As at 30 June 2013, 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 2013, 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 2013, 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 2013, in the register required to be maintained under Section 336 of the SFO, no other persons were recorded to hold any interests or short positions in the shares or underlying shares of the equity derivatives of the Company.

Purchase, Sale or Redemption of Securities

During the six months ended 30 June 2013, 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.

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