CHINA COMSERVICE
中国通信服务

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

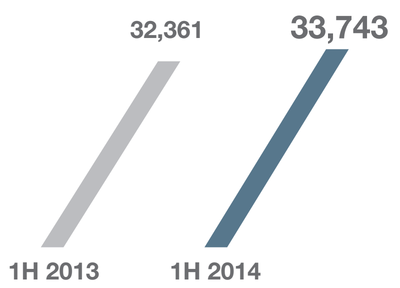
INTERIM REPORT 2014 中期報告

CONTENTS

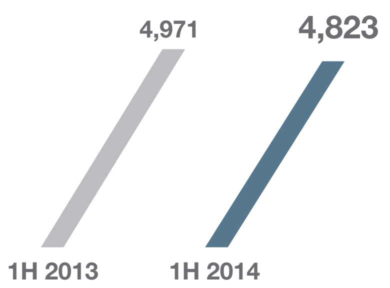
FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2013	2014	Change
Revenues (RMB millions)	32,361	**33,743**	4.3%
Gross profit (RMB millions)	4,971	**4,823**	–3.0%
Profit attributable to equity shareholders (RMB millions)	1,242	**1,238**	–0.4%
Basic earnings per share (RMB)	0.179	**0.179**	—

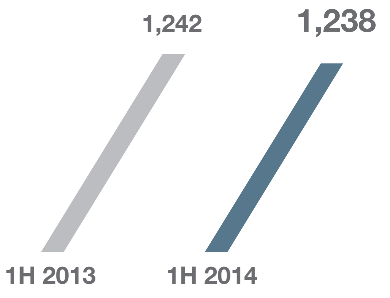
REVENUES
(RMB MILLIONS)



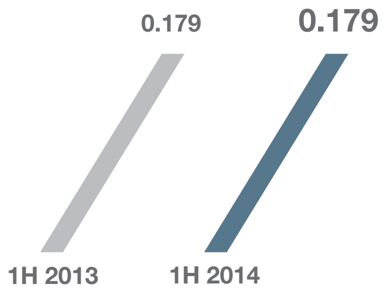
GROSS PROFIT
(RMB MILLIONS)



PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS
(RMB MILLIONS)



BASIC EARNINGS PER SHARE
(RMB)



CHAIRMAN'S STATEMENT

Dear Shareholders,

During the first half of 2014, in light of the government's initiatives in comprehensively deepening reforms, the Group's development was affected by various impacts brought by the changes in the internal and external operating environments. Among others, the introduction of industrial policies, including the 4G license issuance, was the critical factor affecting the Group's operating performance. During this period, leveraging on its experience, capabilities and resources accumulated throughout the years in the communications industry, the Group proactively responded to uncertainties by continuously implementing its "Customer-Focused and Service-Innovative Strategy" and strongly promoting its second round of innovation and transformation. As a result, the Group maintained its leading position in the domestic telecommunications operator market, drove its business development through the continuing expansion into the domestic non-operator market and overseas market, and achieved overall steady operating performance.

RESULTS PERFORMANCE

During the first half of 2014, the Group strived to overcome the impacts from the slow growth of overall capital expenditure of the domestic telecommunications operators[1] by actively implementing various strategies, including the "Strategy of Maintaining a Leading Position in the Domestic Telecommunications Operator Market", "Strategy of Differentiation and Cooperation in the Domestic Non-operator Market" and "Strategy of Overseas Market-Focused and Four-Step Approach"[2], and achieved steady operating results. Total revenues amounted to RMB33,743 million, up by 4.3% over the same period last year. Cost of revenues amounted to RMB28,920 million, representing an increase of 5.6% over the same period last year. Due to the slowdown of total revenues growth, the pressure from industry competition and relatively rapid increase in certain costs, gross profit decreased by 3.0% over the same period last year to RMB4,823 million. Gross profit margin was 14.3%, down by 1.1 percentage points over the same period last year. As the Group continued to strengthen its internal management, selling, general and administrative expenses amounted to RMB3,730 million, accounting for 11.1% of total revenues, decreased by 0.6 percentage points over the same period last year. Profit attributable to equity shareholders of the Company was RMB1,238 million, down by 0.4% over the same period last year, while net profit margin was 3.7%. Basic earnings per share amounted to RMB0.179. Due to the cyclical fluctuations of the Group's cash flow, the free cash flow[3] for the first half of 2014 amounted to RMB–1,077 million, representing an improvement of RMB928 million over the same period last year, which is attributable to the Group's strengthened working capital management.

BUSINESS DEVELOPMENT

Revenue from the Group's telecommunications infrastructure ("TIS") services for the first half of 2014 amounted to RMB15,453 million, representing an increase of 0.7% over the same period last year and accounting for 45.8% of total revenues. Due to the impact of the slowdown in progress of overall network investment by the domestic telecommunications operators, revenue from TIS services attributable to the three telecommunications operators decreased by 4.1% over the same period last year. Meanwhile, the Group actively expanded into the domestic non-operator market and overseas market, and aggregate revenues from TIS services in these two markets recorded a relatively rapid growth, up by 16.6% over the same period last year.

1 Telecommunications fixed assets investment for the first half of 2014 was RMB136.11 billion, increased by 5.0% over the same period last year. (Source: Ministry of Industry and Information Technology of the PRC)

2 The "Strategy of Overseas Market-Focused and Four-Step Approach" involves sub-contracting projects, turnkey projects, operation outsourcing and equity acquisition.

3 Free cash flow = Profit for the year + Depreciation and amortization – Changes in working capital – Capital expenditure

The Group endeavored to expand its maintenance business with a view to capture the opportunities arising from the continuously increasing operating expenditure of the domestic telecommunications operators and their demands for outsourcing. Meanwhile, the Group also provided differentiated products and services to domestic non-operator customers in response to the trend of "New Four Modernizations"[4], and thus the businesses of "business process outsourcing ("BPO") services" and "applications, content and other ("ACO") services" became the major growth drivers of the Group's development. Revenue from BPO services for the first half of 2014 amounted to RMB14,911 million, representing an increase of 6.2% over the same period last year and accounting for 44.2% of total revenues. Among which, the revenue from network maintenance services increased by 20.6%. The revenue from ACO services amounted to RMB3,379 million, increased by 13.1% over the same period last year and accounting for 10.0% of total revenues. Among which, revenue from the core ACO services[5] amounted to RMB2,635 million, increased by 14.3% over the same period last year, and such growth showed encouraging results from the Group's efforts to promote innovation and transformation and expand into high-value businesses.

During the first half of 2014, by leveraging on its integrated services advantages, the Group made dedicated efforts to achieve steady development notwithstanding the inconsistent progresses of network investment among the domestic telecommunications operators. Revenue from the domestic telecommunications operator market amounted to RMB20,539 million, representing a growth of 0.6% over the same period last year and accounting for 60.8% of total revenues. Among which, the revenue from China Telecom amounted to RMB12,637 million, representing a decrease of 5.0% over the same period last year and accounting for 37.4% of total revenues. The Group made sufficient preparation for 4G technology and changes of customer demands in advance and continued to enhance the service quality and responsiveness. Aggregate revenues from China Mobile and China Unicom totaled RMB7,902 million, representing a growth of 11.1% and an increase of 1.4 percentage points to 23.4% of total revenues over the same period last year.

During the first half of 2014, aggregate revenues from the Group's two "New Engines", namely the domestic non-operator market and overseas market, amounted to RMB13,204 million, representing a growth of 10.5% over the same period last year and accounting for 39.2% of total revenues and more than 90% of total incremental revenues. Among which, revenue from domestic non-operator customers amounted to RMB11,460 million, representing an increase of 11.6% over the same period last year and accounting for 34.0% of total revenues. Focusing on the governmental "Smart City", solutions and data centre construction for industrial customers, and the demand for informatization services from small and medium enterprises, the Group has achieved a breakthrough in the development of key businesses and large-scale turnkey projects and entered into strategic cooperation agreements with a number of well-known enterprises. The Group's revenue from overseas market amounted to RMB1,744 million, representing a growth of 3.9% over the same period last year and accounting for 5.2% of total revenues. The Group persistently optimized its overseas business structure by effectively controlling the development of certain businesses with relatively low efficiency and vigorously developing turnkey projects, and the proportion of revenue from turnkey projects to the revenue from overseas market increased to approximately 50%. During this period, the Group adopted a multi-level and multi-dimension marketing strategy and approach, and continued to expand its backlog for overseas turnkey projects. A number of large-scale turnkey projects are expected to be delivered in the second half of the year. During this period, the Group also made good attempts for external cooperation.

CORPORATE GOVERNANCE AND MANAGEMENT

In 2014, the Group was awarded "Best CFO" and "Best Investor Relations" of the Asian Excellence Recognition Awards by *Corporate Governance Asia*, a renowned journal on Corporate Governance in Asia, fully demonstrating the recognition of the Group's excellent performance in corporate governance and management by the capital market.

4 New Four Modernizations refer to new Industrialization, Informatization, Urbanization, and Agricultural Modernization with Chinese characteristics.

5 Core ACO services include system integration, software development and system support, and value added service.

The Group has newly appointed two executive vice presidents who have extensive experience in the telecommunications industry, and has also optimized its internal organization structure so as to better adapt to market changes and future development needs.

CORPORATE SOCIAL RESPONSIBILITY

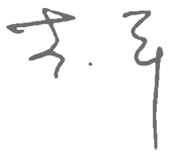
The Group has always attached great importance to corporate social responsibility. After typhoons in Hainan and certain regions of Guangxi and the earthquake in Ludian, Yunnan, the Group promptly took actions in relief work, such as organizing maintenance of telecommunications network and assisting the operators to ensure uninterrupted telecommunications network. Meanwhile, the Group adhered to its environmental protection philosophy and focused on energy conservation and emission reduction, providing its customers with energy-saving products and services.

PROSPECTS

The Group believes that the development of 4G licensing in China is getting more clarity, and capital expenditure will be further released following the increase in the number of pilot cities of 4G hybrid network in future. While focusing on the development of their core business, the domestic telecommunications operators will continue to outsource their maintenance business, which creates more opportunities for the Group to expand into the domestic telecommunications operator market. The Chinese government has been putting greater efforts to develop strategic emerging industries, strengthen the informatization of manufacturing industries and promote information consumption, which offers the Group with ample opportunities to expand into the markets of domestic non-operator customers and pan-operators[6]. The strong demand in overseas emerging countries for telecommunications construction and the Chinese government's policies of "go abroad" create huge business opportunities for the Group to expand into overseas markets. In addition, China Communications Facilities Services Corporation Limited (the "Tower Company") was established. The Tower Company has indicated to the Company the relevant arrangements of preferential treatment and non-competition, which will offer the Group with new business opportunities and market space.

Looking into the future, the Group will endeavor to overcome adverse influences, and leverage on its deepening reform measures to implement its second round of innovation and transformation, boost internal vitality and encourage innovation, so as to promote its sustainable development. The Group will actively promote the innovation of its business model and operational management model, utilize its financial leverage and operating leverage effectively and realize soft management through Internet-based operation with a view to cut cost and open up more income sources, and ultimately create more value for its customers and shareholders.

Finally, on behalf of the Board, I would also like to welcome Mr. Cheng Hongyan and Mr. Xu Chuguo in joining as new members of the Group's management in July this year. Furthermore, I would like to express my sincere gratitude to shareholders and customers of the Group and all sectors of society for their long-standing care and support to the Group.



Li Ping
Chairman

Beijing, PRC
28 August 2014

6 Pan-operators include without limitation to Internet companies and virtual operators.

REPORT ON REVIEW OF INTERIM FINANCIAL REPORT

Deloitte.
德勤

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 31, which comprises the consolidated statement of financial position as of 30 June 2014 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 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

For the six months ended 30 June 2014

		Six months ended 30 June	
	Notes	2014 RMB'000	2013 RMB'000
Revenues	5	**33,742,897**	32,360,862
Cost of revenues	6	**(28,919,619)**	(27,390,313)
Gross profit		**4,823,278**	4,970,549
Other operating income	7	**414,977**	383,866
Selling, general and administrative expenses		**(3,729,968)**	(3,777,590)
Other operating expenses		**(33,926)**	(50,577)
Finance costs	8	**(5,075)**	(7,349)
Share of profits of associates		**11,462**	248
Profit before tax	9	**1,480,748**	1,519,147
Income tax	10	**(237,913)**	(261,494)
Profit for the period		**1,242,835**	1,257,653
Attributable to:			
Equity shareholders of the Company		**1,237,571**	1,242,363
Non-controlling interests		**5,264**	15,290
Profit for the period		**1,242,835**	1,257,653
Basic earnings per share (RMB)	13	**0.179**	0.179

The notes on pages 14 to 31 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 2014

	Notes	Six months ended 30 June 2014 RMB'000	2013 RMB'000
Profit for the period		**1,242,835**	1,257,653
Other comprehensive income for the period (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		**938**	(4,170)
Available-for-sale securities:			
Net movement in the fair value reserve	11	**(2,782)**	(1,250)
		(1,844)	(5,420)
Total comprehensive income for the period		**1,240,991**	1,252,233
Attributable to:			
Equity shareholders of the Company		**1,235,727**	1,236,943
Non-controlling interests		**5,264**	15,290
Total comprehensive income for the period		**1,240,991**	1,252,233

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

At 30 June 2014

	Notes	30 June 2014 RMB'000	31 December 2013 RMB'000 (audited)
Non-current assets			
Property, plant and equipment, net	14	**4,434,262**	4,686,953
Investment properties		**730,280**	734,121
Construction in progress		**273,111**	207,111
Lease prepayments		**885,529**	897,827
Goodwill		**103,005**	103,005
Other intangible assets		**212,731**	200,093
Interests in associates		**52,973**	71,581
Other investments		**529,141**	661,359
Deferred tax assets		**291,268**	291,778
Other non-current assets		**365,465**	241,308
Total non-current assets		**7,877,765**	8,095,136
Current assets			
Inventories		**2,453,558**	2,228,214
Accounts and bills receivable, net	15	**28,453,654**	25,428,055
Prepayments and other current assets		**5,572,827**	5,027,405
Restricted deposits		**481,770**	712,259
Cash and cash equivalents	16	**5,735,418**	6,760,237
Total current assets		**42,697,227**	40,156,170
Total assets		**50,574,992**	48,251,306
Current liabilities			
Interest-bearing borrowings	17	**114,683**	53,901
Accounts and bills payable	18	**18,185,773**	17,080,784
Receipts in advance for contract work		**1,002,843**	1,164,029
Accrued expenses and other payables		**8,209,921**	7,126,497
Income tax payable		**219,348**	315,222
Total current liabilities		**27,732,568**	25,740,433
Net current assets		**14,964,659**	14,415,737
Total assets less current liabilities		**22,842,424**	22,510,873

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED) (CONTINUED)

At 30 June 2014

	Notes	**30 June 2014 RMB'000**	31 December 2013 RMB'000 (audited)
Non-current liabilities			
Interest-bearing borrowings	17	**44,989**	51,580
Other non-current liabilities		**159,378**	154,379
Deferred tax liabilities		**16,427**	16,892
Total non-current liabilities		**220,794**	222,851
Total liabilities		**27,953,362**	25,963,284
Equity			
Share capital	19	**6,926,018**	6,926,018
Reserves		**15,186,938**	14,846,745
Equity attributable to equity shareholders of the Company		**22,112,956**	21,772,763
Non-controlling interests		**508,674**	515,259
Total equity		**22,621,630**	22,288,022
Total liabilities and equity		**50,574,992**	48,251,306

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2014

	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
		Equity attributable to equity shareholders of the Company											
Balance as at 1 January 2014		6,926,018	4,529,310	1,846,468	664,801	72,142	30,861	(27,870)	(68,310)	7,799,343	21,772,763	515,259	22,288,022
Changes in equity for the six months ended 30 June 2014													
Profit for the period		–	–	–	–	–	–	–	–	1,237,571	1,237,571	5,264	1,242,835
Other comprehensive income	11	–	–	–	–	–	(2,782)	938	–	–	(1,844)	–	(1,844)
Total comprehensive income		–	–	–	–	–	(2,782)	938	–	1,237,571	1,235,727	5,264	1,240,991
Dividend declared	12(b)	–	–	–	–	–	–	–	–	(895,534)	(895,534)	–	(895,534)
Distribution to non-controlling owners		–	–	–	–	–	–	–	–	–	–	(11,849)	(11,849)
Appropriation of maintenance and production funds		–	–	–	–	129,779	–	–	–	(129,779)	–	–	–
Utilisation of maintenance and production funds		–	–	–	–	(111,118)	–	–	–	111,118	–	–	–
Balance as at 30 June 2014		6,926,018	4,529,310	1,846,468	664,801	90,803	28,079	(26,932)	(68,310)	8,122,719	22,112,956	508,674	22,621,630
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													
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		–	–	–	–	–	(1,250)	(4,170)	–	1,242,363	1,236,943	15,290	1,252,233
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	–	–	–
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
Changes in equity for the six months ended 31 December 2013													
Profit for the period		–	–	–	–	–	–	–	–	995,988	995,988	31,739	1,027,727
Other comprehensive income		–	–	–	–	–	9,557	(9,887)	–	–	(330)	–	(330)
Total comprehensive income		–	–	–	–	–	9,557	(9,887)	–	995,988	995,658	31,739	1,027,397
Distribution to non-controlling owners		–	–	–	–	–	–	–	–	–	–	(31,190)	(31,190)
Appropriation		–	–	–	123,422	–	–	–	–	(123,422)	–	–	–
Appropriation of maintenance and production funds		–	–	–	–	192,954	–	–	–	(192,954)	–	–	–
Utilisation of maintenance and production funds		–	–	–	–	(190,699)	–	–	–	190,699	–	–	–
Others		–	–	–	–	–	–	–	–	140	140	–	140
Balance as at 31 December 2013		6,926,018	4,529,310	1,846,468	664,801	72,142	30,861	(27,870)	(68,310)	7,799,343	21,772,763	515,259	22,288,022

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) (CONTINUED)

For the six months ended 30 June 2014

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 31 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the six months ended 30 June 2014

		Six months ended 30 June	
		2014	2013
	Notes	**RMB'000**	RMB'000
Operating activities			
Income tax paid		**(333,342)**	(370,361)
Other cash flows used in operating activities		**(727,673)**	(1,598,310)
Net cash used in operating activities		**(1,061,015)**	(1,968,671)
Investing activities			
Payment on acquisition of property, plant and other assets		**(290,723)**	(283,598)
Other cash flows generated from investing activities		**292,837**	183,030
Net cash generated from (used in) investing activities		**2,114**	(100,568)
Financing activities			
Proceeds from bank and other loans		**83,776**	481,648
Other cash flows used in financing activities		**(59,335)**	(404,302)
Net cash generated from financing activities		**24,441**	77,346
Net decrease in cash and cash equivalents		**(1,034,460)**	(1,991,893)
Cash and cash equivalents at the beginning of period		**6,760,237**	8,879,491
Effect of foreign exchange rate changes		**9,641**	(27,515)
Cash and cash equivalents at the end of period	16	**5,735,418**	6,860,083

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2014

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

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 2013, except as described below.

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

Amendments to IFRS 10, IFRS 12,and IAS 27	Investment Entities
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting
IFRIC 21	Levies

The application of the interpretation and amendments to IFRSs as mentioned above in the current period has had no material effect on the amounts reported and/or disclosures set out in the interim financial report.

The Group has not applied any new or revised IFRSs that is not yet effective for the current period.

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 2013 annual financial statements. The condensed consolidated 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 independent 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 review report to the Board of Directors is included on page 6.

The financial information relating to the financial year ended 31 December 2013 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 2013 are available from the Company's registered office. The Company's independent auditors have expressed an unqualified opinion on those financial statements in their report dated 26 March 2014.

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	
	2014	2013
	RMB'000	RMB'000
Revenue from telecommunications infrastructure services	**15,453,038**	15,338,597
Revenue from business process outsourcing services	**14,910,717**	14,035,549
Revenue from applications, content and others	**3,379,142**	2,986,716
	33,742,897	32,360,862

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 2014 amounted to RMB12,637 million and RMB6,847 million respectively (six months ended 30 June 2013: RMB13,307 million and RMB5,919 million respectively), being 37.4% and 20.3% of the Group's total revenues respectively (six months ended 30 June 2013: 41.1% and 18.3% respectively). In addition, the revenue derived from areas outside Mainland China for the six months ended 30 June 2014 amounted to RMB1,744 million (six months ended 30 June 2013: RMB1,679 million).

6. COST OF REVENUES

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Depreciation and amortisation	**223,136**	214,882
Direct personnel costs	**4,220,593**	4,288,795
Operating lease charges	**514,827**	451,160
Purchase of materials and telecommunications products	**9,586,244**	9,695,533
Subcontracting charges	**11,841,419**	10,291,270
Others	**2,533,400**	2,448,673
	28,919,619	27,390,313

7. OTHER OPERATING INCOME

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Interest income	**47,952**	47,541
Dividend income from unlisted securities	**53,940**	54,706
Government grants	**83,366**	79,208
Gain on disposal of investments	**69,411**	49,507
Gain on disposal of property, plant and equipment	**1,346**	1,801
Penalty income	**1,309**	2,444
Management fee income	**127,273**	133,150
Others	**30,380**	15,509
	414,977	383,866

8. FINANCE COSTS

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Interest on bank and other borrowings wholly repayable within five years	**5,075**	7,349

For the six months ended 30 June 2014 and 2013, 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	
		2014	2013
		RMB'000	RMB'000
(a)	Staff costs:		
	Salaries, wages and other benefits	**6,134,625**	6,202,218
	Contributions to defined contribution retirement schemes	**509,992**	535,104
		6,644,617	6,737,322
(b)	Other items:		
	Amortisation	**43,945**	49,750
	Cost of inventories	**9,586,244**	9,695,533
	Depreciation	**360,686**	332,889
	Inventory write-down and losses, net of reversals	**3,943**	2,968
	Impairment losses on accounts and other receivables	**71,386**	40,586
	Reversal of impairment losses on accounts and other receivables	**(9,308)**	(3,876)
	Changes in fair value of financial derivatives	**450**	—
	Operating lease charges	**649,764**	566,628
	Research and development costs	**658,257**	573,636
	Share of an associate's taxation	**3,821**	83

Research and development costs include RMB526 million (six months ended 30 June 2013: RMB473 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 statement of profit or loss represents:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Current tax		
Income tax	**237,377**	295,446
Deferred tax		
Origination and reversal of temporary differences	**536**	(33,952)
Total income tax	**237,913**	261,494

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Profit before tax	**1,480,748**	1,519,147
Expected income tax expense at a statutory tax rate of 25% (six months ended 30 June 2013: 25%)	**370,187**	379,787
Differential tax rates on subsidiaries' profits (note (i))	**(84,042)**	(138,387)
Non-deductible expenses (note (ii))	**12,716**	47,216
Non-taxable income	**(29,617)**	(13,493)
Tax losses not recognised	**35,884**	16,216
Utilisation of previously unrecognised tax losses	**(1,284)**	(6,137)
Over provision in respect of prior years	**(19,312)**	(5,547)
Effect of tax exemptions	**(10,189)**	(3,466)
Others (note (iii))	**(36,430)**	(14,695)
Income tax	**237,913**	261,494

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 2014 and 2013, except for certain domestic subsidiaries of the Group, which are taxed at a preferential rate of 20% and 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 amounts primarily represent the effect of research and development expense deduction.

11. OTHER COMPREHENSIVE INCOME

Available-for-sale securities

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Changes in fair value recognised during the period	**(3,273)**	(4,174)
Net deferred tax charged to other comprehensive income	**491**	2,924
Net movement in the fair value reserve during the period recognised in other comprehensive income	**(2,782)**	(1,250)

12. DIVIDENDS

(a) Interim dividend

The directors do not propose the payment of an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: 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	
	2014	2013
	RMB'000	RMB'000
Final dividend in respect of the financial year ended 31 December 2013, declared during the interim period of RMB0.1293 per share (six months ended 30 June 2013: RMB0.1390 per share)	**895,534**	962,717

No final dividend was paid during the six months ended 30 June 2014 and 2013.

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 2014 of RMB1,238 million (six months ended 30 June 2013: RMB1,242 million) and the number of shares in issue during the six months ended 30 June 2014 of 6,926,018 thousand shares (six months ended 30 June 2013 of 6,926,018 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 2014, additions of property, plant and equipment (including direct purchase, transfer from construction in progress) of the Group amounted to RMB127 million (six months ended 30 June 2013: RMB191 million). Items of property, plant and equipment with carrying amount totalling RMB8 million were disposed of during the six months ended 30 June 2014 (six months ended 30 June 2013: RMB5 million).

15. ACCOUNTS AND BILLS RECEIVABLE, NET

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Bills receivable	**736,946**	747,894
Unbilled revenue for contract work	**8,351,716**	6,980,370
Trade receivables	**19,783,550**	18,072,367
	28,872,212	25,800,631
Less: impairment losses	**(418,558)**	(372,576)
	28,453,654	25,428,055

(a) Included in accounts and bills receivable are amounts due from CTC Group of RMB12,102 million as at 30 June 2014 (31 December 2013: RMB11,749 million). The amounts due from CTC Group 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.

15. ACCOUNTS AND BILLS RECEIVABLE, NET (Continued)

(c) The ageing analysis of accounts and bills receivable (net of impairment losses) based on the invoice date is as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Current (note)	**13,014,646**	11,130,426
Within 1 year	**12,951,194**	12,144,551
After 1 year but less than 2 years	**1,802,404**	1,682,667
After 2 years but less than 3 years	**540,316**	384,019
After 3 years	**145,094**	86,392
Amount past due	**15,439,008**	14,297,629
	28,453,654	25,428,055

Note: Included unbilled revenue for contract work.

(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 2014 RMB'000	At 31 December 2013 RMB'000
At 1 January	**372,576**	475,439
Impairment loss recognised	**53,394**	132,457
Reversal of impairment loss previously recognised	**(7,086)**	(36,432)
Uncollectible amounts written off	**(326)**	(198,888)
At 30 June/31 December	**418,558**	372,576

15. ACCOUNTS AND BILLS RECEIVABLE, NET (Continued)

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

At 30 June 2014, the Group's accounts and bills receivable of RMB463 million were individually determined to be impaired (31 December 2013: RMB2,169 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 RMB189 million were recognised (31 December 2013: RMB164 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 2014 RMB'000	At 31 December 2013 RMB'000
Neither past due nor impaired	**13,014,646**	11,130,426
Within 1 year	**12,835,196**	10,467,514
After 1 year but less than 2 years	**1,280,266**	956,992
After 2 years but less than 3 years	**389,594**	208,349
After 3 years	**98,280**	67,372
At 30 June/31 December	**27,617,982**	22,830,653

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 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 2014 RMB'000	At 31 December 2013 RMB'000
Cash at bank and in hand	**5,234,393**	6,027,934
Deposits with banks and other financial institutions	**501,025**	732,303
Cash and cash equivalents	**5,735,418**	6,760,237

17. INTEREST-BEARING BORROWINGS

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

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
RMB denominated		
Loans from fellow subsidiaries		
— unsecured	**13,280**	13,280
US Dollar denominated		
Borrowings from banks		
— secured	**17,474**	17,315
— unsecured	**83,929**	23,306
	114,683	53,901

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

	At 30 June 2014	At 31 December 2013
RMB denominated		
Loans from fellow subsidiaries		
— unsecured	**2.39%**	2.39%
US Dollar denominated		
Borrowings from banks		
— secured	**5.30%**	5.30%
— unsecured	**1.73%–4.50%**	1.77%–3.80%

17. INTEREST-BEARING BORROWINGS (Continued)

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

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
US Dollar denominated		
Borrowings from banks		
— secured	43,315	51,580
— unsecured	1,674	—
	44,989	51,580

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

	At 30 June 2014	At 31 December 2013
US Dollar denominated		
Borrowings from banks		
— secured	5.30%	5.30%
— unsecured	4.32%	—

As at 30 June 2014, no borrowings from banks were subject to financial covenants.

18. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Accounts payable	16,097,034	14,651,217
Bills payable	2,088,739	2,429,567
	18,185,773	17,080,784

18. ACCOUNTS AND BILLS PAYABLE (Continued)

The ageing analysis of accounts and bills payable based on the invoice date is as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Within 1 year	**16,734,870**	15,862,539
After 1 year but less than 2 years	**955,686**	793,208
After 2 years but less than 3 years	**240,733**	214,060
After 3 years	**254,484**	210,977
	18,185,773	17,080,784

Included in accounts and bills payable are amounts due to CTC Group and an associate of the Group of RMB2,334 million as at 30 June 2014 (31 December 2013: RMB1,794 million). The amounts due to CTC Group and an associate of the Group are unsecured, interest free and are expected to be settled within one year.

19. SHARE CAPITAL

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Registered, issued and fully paid:		
4,534,598,160 (31 December 2013: 4,534,598,160) domestic shares of RMB1.00 each	**4,534,598**	4,534,598
2,391,420,240 (31 December 2013: 2,391,420,240) H shares of RMB1.00 each	**2,391,420**	2,391,420
	6,926,018	6,926,018

20. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

As at 30 June 2014, the Group had capital commitments for acquisition and construction of property, plant and equipment and other assets as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Authorised and contracted for	**246,304**	283,654
Authorised but not contracted for	**280,903**	334,807

(b) Operating lease commitments

As at 30 June 2014, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Within 1 year	**323,337**	276,463
After 1 year but within 5 years	**315,224**	317,779
After 5 years	**91,558**	94,851
	730,119	689,093

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 2014, 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 instruments 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 instruments 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).

	At 30 June 2014			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale securities classified as other investments				
— Listed equity securities	38,166	—	—	38,166
Liabilities				
Held-for-trading financial liabilities classified as accrued expenses and other payables				
— Foreign currency forward contract	—	175	—	175

	At 31 December 2013			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale securities classified as other investments				
— Listed equity securities	41,439	—	—	41,439
Held-for-trading financial assets classified as prepayments and other current assets				
— Foreign currency forward contract	—	85	—	85

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the interim financial report approximate their fair values.

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 and the Group's associates

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 and the Group's associates which were carried out in the ordinary course of business are as follows:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Income from related parties:		
Engineering related services (note (i))	**5,322,232**	6,382,680
IT application services (note (ii))	**515,616**	542,996
Provision of ancillary telecommunications services (note (iii))	**3,486,254**	3,003,007
Provision of operation support services (note (iv))	**1,028,671**	984,143
Supplies procurement service (note (v))	**2,218,636**	2,361,088
Property leasing (note (vi))	**66,341**	33,123
Management fee income (note (vii))	**127,273**	133,150
Expenses paid to related parties:		
Property leasing charges (note (viii))	**101,095**	65,326
IT application service charges (note (ix))	**71,365**	102,426
Operation support service charges (note (x))	**270,779**	233,476
Supplies procurement service charges (note (xi))	**1,357,947**	1,859,347
Interest paid (note (xii))	**159**	159

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 and an associate of the Group.

22. RELATED PARTIES (Continued)

(a) Transactions with CTC Group and the Group's associates (Continued)

Notes: (Continued)

(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 and an associate of the 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 and an associate of the Group.

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

(x) The amount represents the charge paid and payable to CTC Group and an associate of the 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 and the Group's associates included in respective balances are summarised as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Accounts and bills receivable, net	**12,102,385**	11,748,984
Prepayments and other current assets	**1,472,370**	1,600,326
Total amounts due from CTC Group and the Group's associates	**13,574,755**	13,349,310
Interest-bearing borrowings	**13,280**	13,280
Accounts and bills payable	**2,334,443**	1,793,968
Receipts in advance for contract work	**90,255**	42,612
Accrued expenses and other payables	**1,421,028**	802,866
Total amounts due to CTC Group and the Group's associates	**3,859,006**	2,652,726

As at 30 June 2014, impairment losses for bad and doubtful debts of RMB6 million (31 December 2013: RMB8 million) were recorded in respect of amounts due from CTC Group.

22. RELATED PARTIES (Continued)

(a) Transactions with CTC Group and the Group's associates (Continued)

As at 30 June 2014, 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 2014 RMB'000	At 31 December 2013 RMB'000
Authorised and contracted for	**4,641**	5,032

As at 30 June 2014, the Group's total future minimum lease payments to CTC Group under non-cancellable operating leases were payable as follows:

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Within 1 year	**91,726**	58,618
After 1 year but within 5 years	**111,489**	101,576
After 5 years	**80,225**	70,504
	283,440	230,698

(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 PRC 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

22. RELATED PARTIES (Continued)

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

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.

(c) Transactions with key management personnel

Remuneration for key management personnel is as follows:

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Salaries and other emoluments	**2,750**	2,213
Retirement benefits	**1,377**	1,062
Bonus	**4,830**	4,695
	8,957	7,970

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 2014 and 31 December 2013, 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 of the Listing Rules has not been changed significantly from the information disclosed in the Company's 2013 Annual Report.

CHANGES IN DIRECTORS, SUPERVISORS AND THEIR BIOGRAPHICAL INFORMATION

Changes in the directors and supervisors of the Company and their biographical information since the date of the Company's 2013 Annual Report are set out below:

— Mr. Si Furong, a director of the Company, was appointed as a director of China Communications Facilities Services Corporation Limited.

— Mr. Zhang Junan, a director of the Company, was appointed as an executive director of China Unicom (Hong Kong) Limited and a non-executive director of PCCW Limited.

— Mr. Wang Jun, a director of the Company, resigned as an executive director and chairman of the board of CITIC 21CN Company Limited.

— Mr. Hai Liancheng, a supervisor of the Company, ceased to be a senior advisor of China PnR Co., Ltd. upon the expiration of his term.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management and the Company's independent 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 2014.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the six months ended 30 June 2014, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

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 the directors and the supervisors of the Company. Having made specific enquiries to the directors and the supervisors, each of the directors and the supervisors has confirmed his/her compliance with the Model Code in connection with the Company's securities for the period from 1 January 2014 to 30 June 2014.

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

As at 30 June 2014, 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 2014, 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 2014, the interests or the short positions of persons (excluding the directors and supervisors of the Company) 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	187,880,036 (L)	7.85	2.71
Blackrock, Inc.	H shares	Interest of corporation controlled by the substantial shareholder	144,588,486 (L)	6.05	2.09
		Interest of corporation controlled by the substantial shareholder	200,000 (S)	0.01	0.00
JPMorgan Chase & Co.	H shares	Interest of corporation controlled by the substantial shareholder	120,334,959 (L)	5.03	1.74
		Interest of corporation controlled by the substantial shareholder	110,865,430 (P)	4.63	1.60

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

Save as stated above, as at 30 June 2014, 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 2014, 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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