中国通信服务
CHINA COMSERVICE

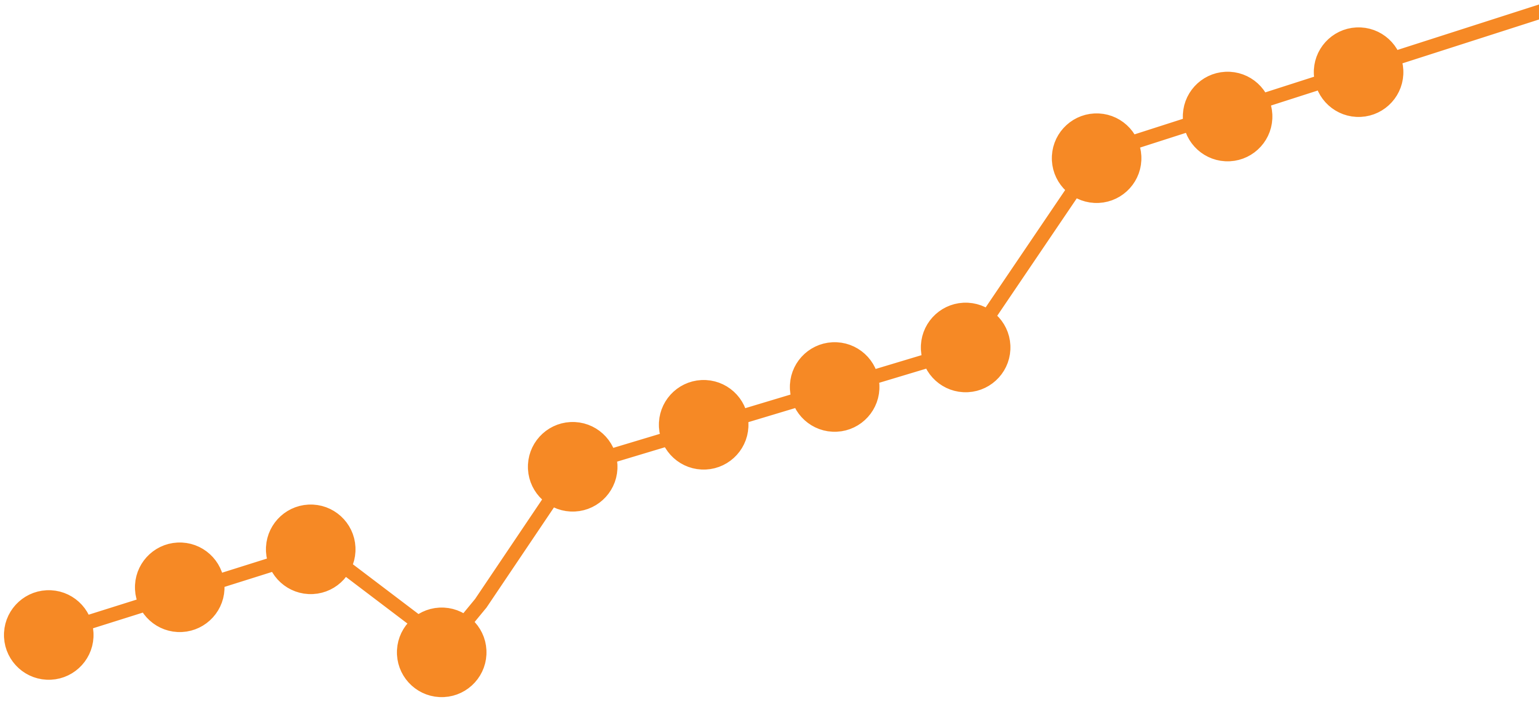
China Communications Services
Corporation Limited
中國通信服務股份有限公司
Stock Code 股份代號: 552

Innovation and Transformation
STEADY GROWTH
Efficient Development

創新轉型 **穩中求進** 實現有效益發展

INTERIM
REPORT
中期報告

2015



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Financial Highlights

	Six months ended 30 June		
	2014	**2015**	Change
Revenues (RMB millions)	33,743	**37,563**	11.3%
Gross profit (RMB millions)	4,823	**5,176**	7.3%
Profit attributable to equity shareholders of the Company (RMB millions)	1,238	**1,271**	2.7%
Basic earnings per share (RMB)	0.179	**0.184**	2.7%

Revenues
(RMB millions)

Gross Profit
(RMB millions)

Profit Attributable to Equity Shareholders of the Company
(RMB millions)

Basic Earnings per Share
(RMB)

Chairman's Statement

Dear Shareholders,

During the first half of 2015, following the national initiatives of comprehensively deepening reforms and securing stable economic growth through structural adjustment, the Group fully adopted the management philosophy of "innovation and transformation, seeking steady development, and pursuing efficient development". While persisting in the development of the "Two New Markets[1]", the Group properly allocated its resources and captured the rare opportunity in the development of domestic telecommunications operator market by leveraging its competence and competitiveness in providing integrated services, which resulted in a remarkable results in the complicated and ever-changing market. The growth of the total revenues accelerated, net profit resumed steady growth and free cash flow achieved a significant improvement compared to the previous year. Meanwhile, the Group insisted on deepening reforms, continuously promoted innovation in operational management and business model, and strengthened the impetus for subsequent development, which laid a solid foundation for its sustainable development.

Operating Results

During the first half of 2015, the Group fully captured business opportunities from domestic telecommunications operators, such as 4G network construction, speed enhancement of fiber optic broadband and maintenance and optimization of networks, and provided its customers with integrated services of "construction and maintenance", resulting in a significant improvement in operating results. The Group achieved total revenues of RMB37,563 million, representing a year-on-year increase of 11.3% and a remarkable growth in terms of growth rate[2]. The cost of revenues was RMB32,387 million, representing a year-on-year increase of 12.0%. As a result of the decrease in service charges and increase in labour-related cost, the gross profit was RMB5,176 million, representing a year-on-year increase of 7.3%, while the gross profit margin was 13.8%, representing a year-on-year decrease of 0.5 percentage point. The Group strictly implemented cost control in selling, general and administrative expenses and such expenses was RMB3,930 million, accounting for 10.5% of the total revenues and representing a year-on-year decrease of 0.6 percentage point. Profit attributable to the equity shareholders of the Company was RMB1,271 million, resuming a steady growth with a growth rate of 2.7%. The net profit margin was 3.4% and the basic earnings per share amounted to RMB0.184. As a result of the ongoing enhancement of working capital management, turnover days of accounts and bills receivable were 140 days, reversing the growth trend and achieving a year-on-year decrease. Free cash flow[3] amounted to RMB151 million, achieving a positive indicator value for a first half-year period for the first time since the listing of the Company.

1 Two New Markets refer to domestic non-operator market and overseas market.
2 In the first half of 2014, the total revenues of the Group were RMB33,743 million, representing a year-on-year increase of 4.3%.
3 Free cash flow = Profit for the year + Depreciation and amortisation – Changes in working capital – Capital expenditure

Chairman's Statement

Business Development

During the first half of 2015, the Group's operating results was characterized by the increase in both the capital expenditure and operating expenditure of domestic telecommunications operators. The issuance of the 4G (LTE FDD) license led to the continuous growth in fixed asset investment of domestic telecommunications industry[4]. The Group captured this opportunity and achieved revenue from telecommunications infrastructure services of RMB18,022 million, representing a year-on-year increase of 16.6%, with a significant increase in the growth rate as compared with the same period last year[5] and accounting for 48.0% of the total revenues. Among that, the revenue generated from the domestic telecommunications operators[6] grew even more rapidly with a growth rate of 25.6%. We focused on the opportunities brought by the increase in the operating expenditure of domestic telecommunications operators and helped our customers to enhance their network quality and responsiveness, and the Group's revenue from business process outsourcing services amounted to RMB16,050 million, representing a year-on-year increase of 7.6% and accounting for 42.7% of the total revenues, among which the revenue from management of infrastructure for information technology business ("Network Maintenance") achieved a year-on-year increase of 14.6%. The Group's revenue from applications, content and other services was RMB3,491 million, representing a year-on-year increase of 3.3% and accounting for 9.3% of the total revenues, and indicating that innovation and transformation achieved a preliminary result. We focused on the informatization demand of the government and industrial customers and strongly promoted high-valued products and services such as "Smart City", "Smart Security", "Smart Industrial Park" and "Smart Home". Meanwhile, the Group intensified efforts in expansion of "Success Factors", a human resources management solution, and "Gripay", an Internet mobile financial service platform, resulting in a greater breakthrough in the number of users.

4 In the first half of 2015, fixed asset investment in domestic telecommunications industry was RMB143.73 billion, representing a year-on-year increase of 5.6%. (Source: Ministry of Industry and Information Technology of the People's Republic of China)

5 In the first half of 2014, the Group's revenue of telecommunications infrastructure services was RMB15,453 million, representing a year-on-year increase of 0.7%.

6 The Tower Company (full name: China Tower Corporation Limited) was jointly established by the three domestic telecommunications operators in July 2014. Since 2015, the Group's revenue from the Tower Company is temporarily classified as revenue from the domestic telecommunications operator market.

Chairman's Statement

The Group has fully leveraged the development trend in the domestic telecommunications industry, and allocated resources and provided services according to the market demand. During the first half of 2015, revenue from the domestic telecommunications operator market was RMB23,802 million, representing a year-on-year increase of 15.9% and accounting for 63.4% of the total revenues. Among that, revenue from China Telecom was RMB15,850 million, representing a year-on-year increase of 25.4% and accounting for 42.2% of the total revenues. We seized the opportunity arising from the increase in the operating expenditure of the domestic telecommunications operators and the aggregate revenues from sources other than China Telecom[7] was RMB7,952 million, representing a year-on-year steady increase of 0.6% and accounting for 21.2% of the total revenues. In accordance with the arrangements of preferential treatment and non-competition made with the Tower Company, the Group commenced to undertake business from the Tower Company and further reached consensus on cooperation during the first half of this year, making full preparation to serve the customers comprehensively.

During the first half of this year, the Group's revenue from the domestic non-operator market was RMB12,177 million, representing a year-on-year increase of 6.3% and accounting for 32.4% of the total revenues. The Group identified six major group-level products[8], put in more marketing efforts and successfully realized cross-region promotion of its products. The Group focused more in expanding market coverage, resulting in an initial breakthrough in industries such as electricity and transportation. The Group strengthened cooperation with domestic telecommunications operators to jointly develop projects in the domestic non-operator market, with the revenue generated therefrom amounting to approximately RMB700 million. During the first half of 2015, the Group's revenue from the overseas market was RMB1,584 million, representing a year-on-year decrease of 9.2% and accounting for 4.2% of the total revenues. Although there was a decline in overseas revenue due to the Group's initiative to scale down business with low operating efficiency and the cyclical fluctuations of large projects and implementation timing of projects, we strengthened our development efforts in overseas turnkey projects and continuously optimized the revenue structure in overseas market, and the proportion of the revenue from turnkey projects increased to 69% of revenue from overseas market.

7 Revenues from sources other than China Telecom include revenue from China Mobile, China Unicom and the Tower Company.

8 Six major group-level products include "Smart City", "Smart Security", "Intelligent Building", "Smart Industrial Park", "Cloud Computing" and "E-certification".

Chairman's Statement

Corporate Management and Governance

During the first half of 2015, the Group was awarded "5A" qualification certificate as a logistics enterprise by China Federation of Logistics & Purchasing, becoming the only enterprise awarded with the "5A" logistics qualification in the telecommunications industry. The Group further established China Comservice Supply Chain Management Ltd. in July 2015 to further integrate resources to actively explore professional logistics business. Also, we commenced to explore the feasibility of professional operation for the traditional business segments and improved the standard in synergistic operation. Regarding the fundamental management, the Group continued to optimize the organization structure, streamlined administrative staff, increased manpower for frontline marketing activities, and facilitated cost-effectiveness.

During the first half of 2015, the Group was again awarded "Best CFO" and "Best Investor Relations" in the 5th session of the Asian Excellence Recognition Awards 2015 by *Corporate Governance Asia*, a renowned journal on corporate governance in Asia.

Corporate Social Responsibility

The Group has always focused on environmental protection, energy conservation and emission reduction, actively participated in various disaster relief and charitable activities so as to fulfill the social responsibility and actively contribute to the society. The Group insists on promoting energy-saving products and services and assists domestic telecommunications operators to handle redundant assets and save operating cost through contracted energy management platform and other innovative methods. During the first half of this year, after the occurrence of a magnitude 8.1 earthquake in Nepal, the Group immediately joined the international disaster relief by assisting the local operators and the PRC Embassy in restoring the communications network and aid supply delivery, which demonstrated social responsibility and international humanity of the PRC enterprises. After the sinking of the cruise ship Eastern Star in the Yangtze River Basin and the disaster brought by Typhoon Chan-hom, the Group actively assisted the operator customers to ensure the normal operation of the communications network and received extensive praises from customers and the society.

Chairman's Statement

Prospects

Against the backdrop of slow recovery in global economy and with China's economy entering into a "new normal" phase, the Group is encountering many new situations and changes in its development. The strong promotion by the government in areas, such as the "Internet+", "Broadband China", "Made in China 2025", "One Belt, One Road", "Information Security", "Utility Tunnel System" construction, and "enhancement of the speed and quality of operators", will expand the market potential for the Group. Meanwhile, factors such as slowdown of the macroeconomic growth, low development rate of the communications industry, decrease in service charges and changes in regulatory policies also brought many challenges to the Group. We will capture the opportunity arising from domestic telecommunications operators' construction of 4G and fiber optic broadband network, continuously seek new business opportunities in the internet-oriented transformation of domestic telecommunications operators and step up efforts in the expansion of northern China market, with a view to maintaining a stable fundamental of our operation. Meanwhile, the Group will strengthen the value-driven principle, deepen innovation and transformation, and facilitate the development through innovation. Firstly, the Group will optimize the structure of its businesses and customers. The Group will continuously pursue opportunity arising from the increase in the operating expenditure of domestic telecommunications operators, strongly expand the businesses that foster customers' loyalty, such as maintenance and logistics, and also the high-valued businesses such as "Smart City", "Smart Security", "Smart Industrial Park" and "Smart Home". The Group will also capture the opportunity in the industrial Internet and speed up the development in major sectors, such as government, electricity, water conservancy, transportation and municipal infrastructure to realize the scale development in the domestic non-operator market. Leveraging on the opportunity of the "One Belt, One Road", the Group will pursue breakthrough in the turnkey projects in overseas market. Secondly, the Group will optimize its operating model. The Group will actively explore the operating model in combination of investment and financing, undertake large turnkey projects under the BT/BOT model on a trial basis, accelerate integration of the new technology with traditional business and promote cross-sector operation. The Group will gradually promote the appropriate integration within professions such as logistics, distribution, design and construction, and strengthen synergistic operation. Thirdly, the Group will optimize its internal management. The Group will further build a flat organization structure to increase management efficiency, sub-divide performance evaluation unit to match resources precisely and strengthen the foundation management to prevent various risks. Through continuous optimization, the Group can speed up its transformation towards high-end areas and continually create higher values for its shareholders and customers.

Finally, on behalf of the Board, I would like to express my sincere gratitude to Mr. Wei Leping, who resigned as an independent non-executive director of the Company in June 2015, for his outstanding contributions to the Group and express my sincere welcome to Mr. Lv Tingjie and Mr. Wu Taishi for joining the Board. I would also like to take this opportunity 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.

Sun Kangmin
Chairman

Beijing, PRC
26 August 2015

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 9 to 36, which comprises the consolidated statement of financial position as of 30 June 2015 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

26 August 2015

Consolidated Statement of Profit or Loss (Unaudited)

For the six months ended 30 June 2015

	Notes	Six months ended 30 June 2015 RMB'000	2014 RMB'000
Revenues	5	37,562,595	33,742,897
Cost of revenues	6	(32,387,089)	(28,919,619)
Gross profit		5,175,506	4,823,278
Other operating income	7	377,505	414,977
Selling, general and administrative expenses		(3,930,101)	(3,729,968)
Other operating expenses		(59,192)	(33,926)
Finance costs	8	(23,765)	(5,075)
Share of profits of associates		12,444	11,462
Profit before tax	9	1,552,397	1,480,748
Income tax	10	(281,542)	(237,913)
Profit for the period		1,270,855	1,242,835
Attributable to:			
Equity shareholders of the Company		1,271,070	1,237,571
Non-controlling interests		(215)	5,264
Profit for the period		1,270,855	1,242,835
Basic earnings per share (RMB)	13	0.184	0.179

The notes on pages 16 to 36 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 2015

	Notes	Six months ended 30 June 2015 RMB'000	2014 RMB'000
Profit for the period		**1,270,855**	1,242,835
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		**(8,359)**	938
Available-for-sale securities:			
Net movement in the fair value reserve	11	**26,815**	(2,782)
		18,456	(1,844)
Total comprehensive income for the period		**1,289,311**	1,240,991
Attributable to:			
Equity shareholders of the Company		**1,289,526**	1,235,727
Non-controlling interests		**(215)**	5,264
Total comprehensive income for the period		**1,289,311**	1,240,991

The notes on pages 16 to 36 form part of this interim financial report.

Consolidated Statement of Financial Position (Unaudited)

At 30 June 2015

	Notes	30 June 2015 RMB'000	31 December 2014 RMB'000 (audited)
Non-current assets			
Property, plant and equipment, net	14	4,297,497	4,538,844
Investment properties		678,859	682,289
Construction in progress		274,830	234,890
Lease prepayments		828,202	872,348
Goodwill		103,005	103,005
Other intangible assets		250,896	249,618
Interests in associates		79,655	67,211
Available-for-sale financial assets		870,325	838,778
Deferred tax assets		343,563	331,854
Other non-current assets		700,538	634,084
Total non-current assets		8,427,370	8,552,921
Current assets			
Inventories		2,484,062	2,420,898
Accounts and bills receivable, net	15	29,988,007	27,441,198
Prepayments and other current assets		6,457,043	5,883,187
Restricted deposits		2,203,937	1,119,411
Cash and cash equivalents	16	6,251,197	7,313,515
Total current assets		47,384,246	44,208,209
Total assets		55,811,616	52,761,130
Current liabilities			
Interest-bearing borrowings	17	192,817	246,818
Accounts and bills payable	18	20,118,602	18,815,568
Receipts in advance for contract work		1,404,264	1,578,088
Accrued expenses and other payables		8,817,335	7,424,966
Income tax payable		268,876	312,796
Total current liabilities		30,801,894	28,378,236
Net current assets		16,582,352	15,829,973
Total assets less current liabilities		25,009,722	24,382,894

Consolidated Statement of Financial Position (Unaudited)

At 30 June 2015

	Notes	30 June 2015 RMB'000	31 December 2014 RMB'000 (audited)
Non-current liabilities			
Interest-bearing borrowings	17	**35,497**	38,708
Other non-current liabilities	19	**783,904**	787,642
Deferred tax liabilities		**17,853**	13,357
Total non-current liabilities		**837,254**	839,707
Total liabilities		**31,639,148**	29,217,943
Equity			
Share capital	20	**6,926,018**	6,926,018
Reserves		**16,748,569**	16,103,855
Equity attributable to equity shareholders of the Company		**23,674,587**	23,029,873
Non-controlling interests		**497,881**	513,314
Total equity		**24,172,468**	23,543,187
Total liabilities and equity		**55,811,616**	52,761,130

The notes on pages 16 to 36 form part of this interim financial report.

Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 June 2015

		Equity attributable to equity shareholders of the Company											
	Notes	Share capital RMB'000 (note a)	Share premium RMB'000 (note b)	Capital reserve RMB'000 (note c)	Statutory surplus reserve RMB'000 (note d)	Specific reserve RMB'000 (note e)	Fair value reserve RMB'000 (note f)	Exchange reserve RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance as at 1 January 2015		**6,926,018**	**4,529,310**	**1,846,468**	**751,084**	**103,450**	**30,861**	**(27,041)**	**(68,310)**	**8,938,033**	**23,029,873**	**513,314**	**23,543,187**
Changes in equity for the six months ended 30 June 2015													
Profit for the period		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,271,070**	**1,271,070**	**(215)**	**1,270,855**
Other comprehensive income	11	**–**	**–**	**–**	**–**	**–**	**26,815**	**(8,359)**	**–**	**–**	**18,456**	**–**	**18,456**
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**26,815**	**(8,359)**	**–**	**1,271,070**	**1,289,526**	**(215)**	**1,289,311**
Dividend declared	12(b)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(644,812)**	**(644,812)**	**–**	**(644,812)**
Distribution to non-controlling owners		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(15,218)**	**(15,218)**
Appropriation of specific reserve		**–**	**–**	**–**	**–**	**159,628**	**–**	**–**	**–**	**(159,628)**	**–**	**–**	**–**
Utilisation of specific reserve		**–**	**–**	**–**	**–**	**(131,024)**	**–**	**–**	**–**	**131,024**	**–**	**–**	**–**
Balance as at 30 June 2015		**6,926,018**	**4,529,310**	**1,846,468**	**751,084**	**132,054**	**57,676**	**(35,400)**	**(68,310)**	**9,535,687**	**23,674,587**	**497,881**	**24,172,468**
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 specific reserve		–	–	–	–	129,779	–	–	–	(129,779)	–	–	–
Utilisation of specific reserve		–	–	–	–	(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
Changes in equity for the six months ended 31 December 2014													
Profit for the period		–	–	–	–	–	–	–	–	912,687	912,687	12,276	924,963
Other comprehensive income		–	–	–	–	–	2,782	(109)	–	–	2,673	114	2,787
Total comprehensive income		–	–	–	–	–	2,782	(109)	–	912,687	915,360	12,390	927,750
Distribution to non-controlling owners		–	–	–	–	–	–	–	–	–	–	(7,750)	(7,750)
Appropriation		–	–	–	86,283	–	–	–	–	(86,283)	–	–	–
Appropriation of specific reserve		–	–	–	–	203,495	–	–	–	(203,495)	–	–	–
Utilisation of specific reserve		–	–	–	–	(190,848)	–	–	–	190,848	–	–	–
Others		–	–	–	–	–	–	–	–	1,557	1,557	–	1,557
Balance as at 31 December 2014		6,926,018	4,529,310	1,846,468	751,084	103,450	30,861	(27,041)	(68,310)	8,938,033	23,029,873	513,314	23,543,187

Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 June 2015

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.

The amount represents the statutory surplus reserve appropriated by the Company and the statutory surplus reserve appropriated by the Company's subsidiaries is not presented.

(d) Specific reserve

Pursuant to the relevant PRC regulations, the Group appropriated and utilized the provision for production safety. The Group is required to make a transfer for the provision for production safety from retained earnings to a specific reserve. The provision for production safety could be utilised when expenses or capital expenditures on production safety measures are incurred. The amount of the provision for production safety 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 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 16 to 36 form part of this interim financial report.

Condensed Consolidated Statement of Cash Flows (Unaudited)

For the six months ended 30 June 2015

	Notes	Six months ended 30 June 2015 RMB'000	2014 RMB'000
Operating activities			
Income tax paid		**(329,233)**	(333,342)
Other cash flows generated from (used in) operating activities		**661,003**	(727,673)
Net cash generated from (used in) operating activities		**331,770**	(1,061,015)
Investing activities			
Payment on acquisition of property, plant and other assets		**(262,780)**	(290,723)
Other cash flows (used in) generated from investing activities (note (i))		**(1,045,534)**	292,837
Net cash (used in) generated from investing activities		**(1,308,314)**	2,114
Financing activities			
Proceeds from bank and other loans		**76,001**	83,776
Other cash flows used in financing activities		**(150,259)**	(59,335)
Net cash (used in) generated from financing activities		**(74,258)**	24,441
Net decrease in cash and cash equivalents		**(1,050,802)**	(1,034,460)
Cash and cash equivalents at the beginning of period		**7,313,515**	6,760,237
Effect of foreign exchange rate changes		**(11,516)**	9,641
Cash and cash equivalents at the end of period	16	**6,251,197**	5,735,418

Note:

(i) Placement of bank deposits with original maturity of more than three months amounting to RMB1,660 million (six months ended 30 June 2014: RMB334 million) and retrieval of bank deposits with original maturity of more than three months amounting to RMB479 million (six months ended 30 June 2014: RMB415 million) for the six months ended 30 June 2015 are included in other cash flows (used in) generated from investing activities.

The notes on pages 16 to 36 form part of this interim financial report.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2015

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 services (including management of infrastructure for information technologies business, general 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 2014, except as described below.

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

Amendments to IAS 19	Defined Benefit Plans: Employee Contributions
Amendments to IFRSs	Annual Improvements to IFRSs 2010–2012 Cycle
Amendments to IFRSs	Annual Improvements to IFRSs 2011–2013 Cycle

The application of the 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.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2015

3. Principal Accounting Policies (Continued)

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2014 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 independent review report to the Board of Directors of the Company is included on page 8.

The financial information relating to the financial year ended 31 December 2014 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 2014 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 25 March 2015.

4. Segment Reporting

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

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2015

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	
	2015	2014
	RMB'000	RMB'000
Revenue from telecommunications infrastructure services	**18,022,125**	15,453,038
Revenue from business process outsourcing services	**16,049,450**	14,910,717
Revenue from applications, content and other services	**3,491,020**	3,379,142
	37,562,595	33,742,897

The Group's major customers are telecommunications operators which include CTC and its subsidiaries (excluding the Group) ("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 2015 amounted to RMB15,850 million and RMB6,853 million respectively (six months ended 30 June 2014: RMB12,637 million and RMB6,847 million respectively), being 42.2% and 18.2% of the Group's total revenues respectively (six months ended 30 June 2014: 37.4% and 20.3% respectively). In addition, the revenue derived from areas outside Mainland China for the six months ended 30 June 2015 amounted to RMB1,584 million (six months ended 30 June 2014: RMB1,744 million).

6. Cost of Revenues

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Depreciation and amortisation	**221,780**	223,136
Direct personnel costs	**4,237,545**	4,220,593
Operating lease charges	**568,720**	514,827
Purchase of materials and telecommunications products	**10,135,019**	9,586,244
Subcontracting charges	**14,376,892**	11,841,419
Others	**2,847,133**	2,533,400
	32,387,089	28,919,619

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2015

7. Other Operating Income

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Interest income	66,348	47,952
Dividend income from listed securities	94	–
Dividend income from unlisted securities	62,775	53,940
Government grants	89,328	83,366
Gain on disposal of investments	–	69,411
Gain on disposal of property, plant and equipment	4,085	1,346
Gain on disposal of intangible assets	31,000	–
Penalty income	681	1,309
Management fee income	111,274	127,273
Others	11,920	30,380
	377,505	414,977

8. Finance Costs

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Interest on bank and other borrowings wholly repayable within five years	11,269	5,075
Interest for convertible preference shares and preference shares (note (i))	12,496	–
	23,765	5,075

For the six months ended 30 June 2015 and 2014, no borrowing costs were capitalised in relation to construction in progress.

Note:

(i) Details of convertible preference shares and preference shares are discussed in note 19.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2015

9. Profit Before Tax

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

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
(a) Staff costs:		
Salaries, wages and other benefits	**6,368,423**	6,134,625
Contributions to defined contribution retirement schemes	**520,393**	509,992
	6,888,816	6,644,617
(b) Other items:		
Amortisation	**51,350**	43,945
Cost of inventories	**10,135,019**	9,586,244
Depreciation	**357,612**	360,686
Inventory write-down and losses, net of reversals	**13,523**	3,943
Impairment losses on accounts and other receivables	**124,148**	71,386
Reversal of impairment losses on accounts and other receivables	**(13,559)**	(9,308)
Changes in fair value of financial derivatives	**(2,836)**	450
Operating lease charges	**695,406**	649,764
Research and development costs	**776,601**	658,257

Research and development costs include staff costs of RMB620 million (six months ended 30 June 2014: RMB526 million), which is also included in the staff cost disclosed in note 9(a).

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2015

10. Income Tax

(a) Income tax in the consolidated statement of profit or loss represents:

	Six months ended 30 June 2015 RMB'000	Six months ended 30 June 2014 RMB'000
Current tax		
Income tax	293,487	237,377
Deferred tax		
Origination and reversal of temporary differences	(11,945)	536
Total income tax	281,542	237,913

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

	Six months ended 30 June 2015 RMB'000	Six months ended 30 June 2014 RMB'000
Profit before tax	1,552,397	1,480,748
Expected income tax expense at a statutory tax rate of 25% (six months ended 30 June 2014: 25%)	388,099	370,187
Differential tax rates on subsidiaries' profits (note (i))	(107,065)	(84,042)
Non-deductible expenses (note (ii))	40,699	12,716
Non-taxable income	(28,317)	(29,617)
Tax losses not recognised	43,400	35,884
Utilisation of previously unrecognised tax losses	(7,600)	(1,284)
Over provision in respect of prior years	(11,451)	(19,312)
Effect of tax exemptions	(216)	(10,189)
Others (note (iii))	(36,007)	(36,430)
Income tax	281,542	237,913

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2015

10. Income Tax (Continued)

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

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 2015 and 2014, 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	
	2015	2014
	RMB'000	RMB'000
Changes in fair value recognised during the period	**31,547**	(3,273)
Net deferred tax charged to other comprehensive income	**(4,732)**	491
Net movement in the fair value reserve during the period recognised in other comprehensive income	**26,815**	(2,782)

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2015

12. Dividends

(a) Interim dividend

The directors do not propose the payment of an interim dividend for the six months ended 30 June 2015 (six months ended 30 June 2014: 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	
	2015	2014
	RMB'000	RMB'000
Final dividend in respect of the financial year ended 31 December 2014, declared during the current interim period of RMB0.0931 per share (six months ended 30 June 2014: RMB0.1293 per share)	**644,812**	895,534

No final dividend was paid during the six months ended 30 June 2015 and 2014.

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 2015 of RMB1,271 million (six months ended 30 June 2014: RMB1,238 million) and the number of shares in issue during the six months ended 30 June 2015 of 6,926,018 thousand shares (six months ended 30 June 2014 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 2015, additions of property, plant and equipment (including direct purchase, transfer from construction in progress) of the Group amounted to RMB136 million (six months ended 30 June 2014: RMB127 million). Items of property, plant and equipment with carrying amount totalling RMB18 million were disposed of during the six months ended 30 June 2015 (six months ended 30 June 2014: RMB8 million).

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2015

15. Accounts and Bills Receivable, Net

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Bills receivable	**354,028**	431,134
Unbilled revenue for contract work	**8,886,853**	7,856,102
Trade receivables	**21,474,692**	19,778,338
	30,715,573	28,065,574
Less: impairment losses	**(727,566)**	(624,376)
	29,988,007	27,441,198

(a) Included in accounts and bills receivable are amounts due from CTC Group of RMB15,885 million as at 30 June 2015 (31 December 2014: RMB13,612 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.

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

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Current (note)	**14,059,119**	13,536,273
Within 1 year	**12,981,886**	11,228,501
After 1 year but less than 2 years	**1,982,784**	1,938,198
After 2 years but less than 3 years	**790,127**	648,426
After 3 years	**174,091**	89,800
Amount past due	**15,928,888**	13,904,925
	29,988,007	27,441,198

Note: Included unbilled revenue for contract work.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2015

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 2015 RMB'000	At 31 December 2014 RMB'000
At 1 January	624,376	372,576
Impairment loss recognised	115,786	295,706
Reversal of impairment loss previously recognised	(12,325)	(34,208)
Uncollectible amounts written off	(271)	(9,698)
At 30 June/31 December	727,566	624,376

At 30 June 2015, the impairment losses of accounts and bills receivable of RMB2,745 million were individually determined (31 December 2014: RMB2,152 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 RMB270 million were recognised (31 December 2014: RMB317 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 2015 RMB'000	At 31 December 2014 RMB'000
Neither past due nor impaired	14,059,119	13,536,273
Within 1 year	11,040,285	10,127,135
After 1 year but less than 2 years	995,158	938,591
After 2 years but less than 3 years	451,786	245,510
After 3 years	90,645	39,114
At 30 June/31 December	26,636,993	24,886,623

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

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2015

15. Accounts and Bills Receivable, Net (Continued)

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

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 2015 RMB'000	At 31 December 2014 RMB'000
Cash at bank and in hand	5,138,917	6,331,789
Deposits at bank with original maturity less than three months	1,112,280	981,726
Cash and cash equivalents	6,251,197	7,313,515

17. Interest-Bearing Borrowings

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

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
RMB denominated		
Borrowings from banks — unsecured	32,953	–
Loan from CTC Group — unsecured	38,280	13,280
US Dollar denominated		
Borrowings from banks		
— secured	15,528	17,378
— unsecured	106,056	216,160
	192,817	246,818

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2015

17. Interest-Bearing Borrowings (Continued)

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

	At 30 June 2015	At 31 December 2014
RMB denominated		
Borrowings from banks		
— unsecured	5.36%–5.60%	–
Loan from CTC Group		
— unsecured	2.39%–6.00%	2.39%
US Dollar denominated		
Borrowings from banks		
— secured	5.30%	5.30%
— unsecured	2.06%–3.50%	2.06%–4.70%

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

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
US Dollar denominated		
Borrowings from banks		
— secured	27,511	34,389
— unsecured	7,986	4,319
	35,497	38,708

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

	At 30 June 2015	At 31 December 2014
US Dollar denominated		
Borrowings from banks		
— secured	5.30%	5.30%
— unsecured	Libor+4.00%	Libor+4.00%

As at 30 June 2015, no borrowings from banks were subject to financial covenants.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2015

18. Accounts and Bills Payable

Accounts and bills payable comprise:

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Accounts payable	**17,965,182**	16,366,810
Bills payable	**2,153,420**	2,448,758
	20,118,602	18,815,568

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

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Within 1 year	**18,511,362**	17,370,714
After 1 year but less than 2 years	**976,167**	994,309
After 2 years but less than 3 years	**347,264**	237,301
After 3 years	**283,809**	213,244
	20,118,602	18,815,568

Included in accounts and bills payable are amounts due to CTC Group and an associate of the Group of RMB2,598 million as at 30 June 2015 (31 December 2014: RMB2,239 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. Other Non-Current Liabilities

	The Group	
	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Convertible preference shares and preference shares (note (i))	**611,360**	611,900
Others (note (ii))	**172,544**	175,742
	783,904	787,642

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2015

19. Other Non-Current Liabilities (Continued)

Notes:

(i) On 25 July 2014, a subsidiary of the Company has placed 66,670,000 convertible preference shares and 33,330,000 preference shares to an independent third party at par value of US$1 for each of the convertible preference share and preference share. According to the agreement, the subsidiary of the Company has the right, at its discretion, to defer the annual interest payment and also to redeem the convertible preference share and preference share eight years after the delivery date. However, the Group has obligation to pay the amount if the subsidiary of the Company defer the payment. Therefore, the directors of the Company consider that the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation arising from this agreement. Moreover, according to the agreement, the preference shareholder has the option to convert the convertible preference shares into ordinary shares from 2017 onwards. In the opinion of the directors of the Company, the number of ordinary shares can be converted, from the Group's perspective, is subject to negotiation between the Group and the preference shareholder at a fair value basis. Therefore, in the consolidated statement of financial position of the Group, it was recognized as a financial liability.

The annual interest rate is 3.7% plus the average six-month dollar interest rate of Libor for six months before each interest payment date, and should be adjusted on the first interest payment eight years after the settlement date. The adjusted interest rate should not be less than 8% per annum, and will automatically increase 1% every year after then.

(ii) Others represent the deferred revenue arising from government grants and warranty provisions.

20. Share Capital

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Registered, issued and fully paid:		
4,534,598,160 (31 December 2014: 4,534,598,160) domestic shares of RMB1.00 each	4,534,598	4,534,598
2,391,420,240 (31 December 2014: 2,391,420,240) H shares of RMB1.00 each	2,391,420	2,391,420
	6,926,018	6,926,018

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2015

21. Commitments and Contingent Liabilities

(a) Capital commitments

As at 30 June 2015, the Group had capital commitments for acquisition and construction of property, plant and equipment and other assets as follows:

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Authorised and contracted for	225,846	118,586
Authorised but not contracted for	331,287	331,339

(b) Operating lease commitments

As at 30 June 2015, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Within 1 year	298,063	304,985
After 1 year but within 5 years	360,470	370,586
After 5 years	132,025	111,339
	790,558	786,910

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 2015, the Group had no material contingent liabilities and no material financial guarantees issued.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2015

22. 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 2015			
	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Assets				
Available-for-sale securities				
— Listed equity securities	**83,219**	**–**	**–**	**83,219**
Trading financial assets included in prepayments and other current assets				
— Foreign currency forward contract	**–**	**32**	**–**	**32**
Liabilities				
Trading financial liabilities included in accrued expenses and other payables				
— Foreign currency forward contract	**–**	**61**	**–**	**61**

	At 31 December 2014			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale securities				
— Listed equity securities	51,672	–	–	51,672
Trading financial assets included in prepayments and other current assets				
— Foreign currency forward contract	–	143	–	143
Liabilities				
Trading financial liabilities included in accrued expenses and other payables				
— Foreign currency forward contract	–	1,574	–	1,574

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.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2015

23. Related Parties

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

(a) Transactions with CTC Group and other related parties

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

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

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Income from related parties:		
Engineering related services (note (i))	**8,404,077**	5,322,232
IT application services (note (ii))	**604,690**	515,616
Provision of ancillary telecommunications services (note (iii))	**3,634,287**	3,486,254
Provision of operation support services (note (iv))	**894,832**	1,028,671
Supplies procurement service (note (v))	**2,226,172**	2,218,636
Property leasing (note (vi))	**78,163**	66,341
Management fee income (note (vii))	**111,274**	127,273
Expenses paid to related parties:		
Property leasing charges (note (viii))	**62,733**	101,095
IT application service charges (note (ix))	**118,924**	71,365
Operation support service charges (note (x))	**253,585**	270,779
Supplies procurement service charges (note (xi))	**1,479,738**	1,357,947
Interest paid (note (xii))	**707**	159

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2015

23. Related Parties (Continued)

(a) Transactions with CTC Group and other related parties (Continued)

Notes:

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

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

(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 and other related parties.

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

(v) The amount represents supplies procurement service such as supplies procurement service, management of biddings warehousing, transportation and installation services provided to CTC Group and other related parties.

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

(vii) The amounts represent management fee income in respect of headquarters management function services ("Centralised Services") provided to CTC Group.

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

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

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

(xi) The amount represents the charge paid and payable to CTC Group and other related parties 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.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2015

23. Related Parties (Continued)

(a) Transactions with CTC Group and other related parties (Continued)

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

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Accounts and bills receivable, net	**15,922,908**	13,612,267
Prepayments and other current assets	**1,357,841**	1,468,131
Total amounts due from CTC Group and other related parties	**17,280,749**	15,080,398
Interest-bearing borrowings	**38,280**	13,280
Accounts and bills payable	**2,597,613**	2,238,518
Receipts in advance for contract work	**112,839**	81,079
Accrued expenses and other payables	**1,195,325**	780,636
Total amounts due to CTC Group and other related parties	**3,944,057**	3,113,513

As at 30 June 2015, impairment losses for bad and doubtful debts of RMB28 million (31 December 2014: RMB26 million) were recorded in respect of amounts due from CTC Group.

As at 30 June 2015 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 2015 RMB'000	At 31 December 2014 RMB'000
Authorised and contracted for	**27,223**	4,863

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2015

23. Related Parties (Continued)

(a) Transactions with CTC Group and other related parties (Continued)

As at 30 June 2015, the Group's total future minimum lease payments to CTC Group under non-cancellable operating leases were payable as follows:

	At 30 June 2015 RMB'000	At 31 December 2014 RMB'000
Within 1 year	83,836	90,095
After 1 year but within 5 years	129,889	160,735
After 5 years	100,325	89,141
	314,050	339,971

(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 23(a)), the Group has collectively, but not individually significant transactions with other government-related entities, which include but are not limited to the following:

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

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

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2015

23. Related Parties (Continued)

(c) Transactions with key management personnel

Remuneration for key management personnel is as follows:

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Salaries and other emoluments	**2,912**	2,750
Retirement benefits	**1,362**	1,377
Bonus	**4,277**	4,830
	8,551	8,957

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

As at 30 June 2015 and 31 December 2014, 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 to 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 changed significantly from the information disclosed in the Company's 2014 Annual Report.

Changes in Directors, Supervisors and their Biographical Information

On 26 June 2015, the term of office of the third session of the Board of Directors and the Supervisory Committee of the Company expired. Except for Mr. Wei Leping who retired as an independent non-executive director of the Company, the remaining directors of the third session of the Board of Directors were re-elected as directors of the fourth session of the Board of Directors at the annual general meeting held on that date. Mr. Lv Tingjie and Mr. Wu Taishi were newly appointed as independent non-executive directors of the Company. Besides, all supervisors of the third session of the Supervisory Committee were re-elected as the supervisors of the fourth session of the Supervisory Committee.

Except for the above, changes in the directors and supervisors of the Company and their biographical information since the date of the Company's 2014 Annual Report are set out below:

— Mr. Zhao Chunjun, an independent non-executive director of the Company, resigned as an independent non-executive director of Dongfang Electric Corporation Limited.

— Mr. Siu Wai Keung, Francis, an independent non-executive director of the Company, resigned as an independent non-executive director of Hop Hing Group Holdings Limited, Shunfeng International Clean Energy Limited, and China Huishan Dairy Holdings Company Limited. Besides, Mr. Siu was appointed as an independent non-executive director of China International Capital Corporation Limited and Beijing Gao Hua Securities Company Limited.

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 2015.

Compliance with the Corporate Governance Code

Throughout the six months ended 30 June 2015, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

Other Information

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 to 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 transactions of Company's securities for the period from 1 January 2015 to 30 June 2015.

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

As at 30 June 2015, 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 2015, 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 2015, 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

Other Information

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 (%)
BlackRock, Inc.	H shares	Interest of corporation controlled by the substantial shareholder	169,000,752 (L)	7.07	2.44
JPMorgan Chase & Co.	H shares	13,432,669 shares as beneficial owner; 1,923,600 shares as investment manager and 128,573,936 shares as custodian corporation/ approved lending agent	143,930,205 (L)	6.01	2.08
		Beneficial owner	5,052,343 (S)	0.21	0.07
		Custodian corporation/ approved lending agent	128,573,936 (P)	5.37	1.86
The Bank of New York Mellon Corporation	H shares	Interest of corporation controlled by the substantial shareholder	130,768,464 (L)	5.47	1.89
		Custodian corporation/ approved lending agent	85,095,464 (P)	3.56	1.23

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

Save as stated above, as at 30 June 2015, in the register required to be maintained under Section 336 of the SFO, no other persons were recorded to hold any interests or short positions in the shares or underlying shares of the equity derivatives of the Company.

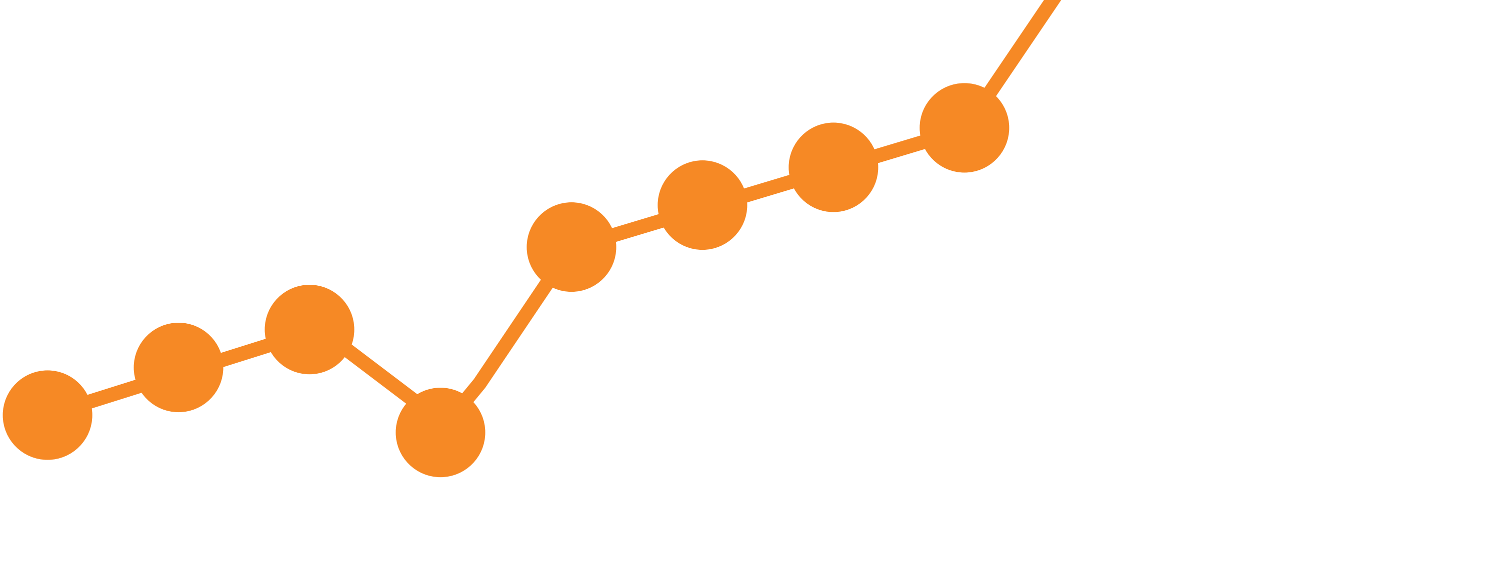
Other Information

Purchase, Sale or Redemption of Securities

During the six months ended 30 June 2015, 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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