Notes to the Unaudited Interim Financial Report

(Expressed in Renminbi)

1 Principal activities

China Communications Services Corporation Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) is a leading integrated service provider to the telecommunications, media and technology industries in the People’s Republic of China (the “PRC”). Its principal activities comprise provision of a full range of telecommunications support services in the PRC and overseas, including (i) telecommunications infrastructure design, construction and supervision and management; (ii) business process outsourcing (including network maintenance, facilities management, distribution of telecommunications service and products); and (iii) a variety of other services including applications, content and others.

2 Basis of preparation

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

Since the Group and the Target Interests are under common control of CTC, the Equity Interests have been accounted for as a combination of entities under common control in a manner similar to pooling-of-interests. Accordingly, the assets and liabilities of the Target Interests have been accounted for at historical costs and the consolidated financial statements of the Company prior to the acquisition of the Target Interests have been restated to include the results of operations and assets and liabilities of the Target Interests on a combined basis. The considerations paid by the Company for the acquisitions of the Target Interests were accounted for as an equity transaction in the consolidated statement of changes in equity.

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

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

2 Basis of preparation (Continued)

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

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

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

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

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

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

2 Basis of preparation (Continued)

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

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2011 annual financial statements. The condensed consolidated interim financial statements and notes thereto do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs"). IFRSs include all applicable IFRSs, IASs and related interpretations.

The interim financial report is unaudited, but has been reviewed by the Audit Committee of the Company. The interim financial report has also been reviewed by the Company's international auditors, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the Board of Directors is included on page 6.

The financial information relating to the financial year ended 31 December 2011 that is included in the interim financial report as being previously reported information does not constitute the Group's annual financial statements prepared under IFRSs for that financial year but is derived from those financial statements. Annual financial statements for the year ended 31 December 2011 are available from the Company's registered office. The Company's international auditors have expressed an unqualified opinion on those financial statements in their report dated 29 March 2012.

3 Changes in accounting policies

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

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

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

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

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

4 Segment reporting

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

5 Revenues

Revenues are derived from the provision of integrated telecommunications support services, net of sales taxes and after allowance for trade discounts. The Group's revenues by business nature can be summarised as follows:

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
		(Restated)
Revenue from telecommunications infrastructure services	**13,811,780**	12,209,454
Revenue from business process outsourcing services	**12,885,641**	10,482,981
Revenue from applications, content and others	**2,658,209**	2,520,191
	29,355,630	25,212,626

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

6 Cost of revenues

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

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

7 Other operating income

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

8 Finance costs

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

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

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

9 Profit before tax

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

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

10 Income tax

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

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

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

10 Income tax (Continued)

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

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

Notes:

(i) The provision for income tax of the Group is calculated based on a statutory rate of 25% of the assessable profit of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the six months ended 30 June 2012 and 2011, except for certain domestic subsidiaries of the Group, which are taxed at a preferential rate of 15%, where applicable; and for certain overseas subsidiaries of the Group, which are taxed at respective statutory rates.

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

(iii) The amount for the six months ended 30 June 2011 represents the tax effect on opening balances of deferred tax assets arising from the change in the enterprise income tax rate applicable to certain subsidiaries due to changes in preferential tax qualification during the periods concerned. The deferred tax assets were remeasured for the change in applicable tax rates.

11 Other comprehensive income

Available-for-sale securities

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

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

12 Dividends

(a) Interim dividend

The directors do not propose the payment of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: RMB nil).

(b) Dividend payable to equity shareholders of the Company attributable to the previous financial year, approved during the period

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

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

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

13 Earnings per share

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

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

14 Property, plant and equipment, net

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

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

15 Accounts and bills receivable, net

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

(a) Included in accounts and bills receivable are amounts due from fellow subsidiaries of RMB9,105 million as at 30 June 2012 (31 December 2011: RMB7,600 million (as restated)). The amounts due from fellow subsidiaries are unsecured, interest free and are expected to be recovered within one year.

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

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

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

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

15 Accounts and bills receivable, net (Continued)

(d) Impairment of accounts and bills receivable

Impairment losses in respect of accounts and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against accounts and bills receivable directly.

The movement in allowance for doubtful debts during the period, including both specific and collective loss components, is as follows:

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

At 30 June 2012, the Group's accounts and bills receivable of RMB337 million were individually determined to be impaired (31 December 2011: RMB346 million (as restated)). The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific impairment losses of RMB268 million were recognised (31 December 2011: RMB266 million (as restated)). The Group does not hold any collateral over these balances.

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

15 Accounts and bills receivable, net (Continued)

(e) Accounts and bills receivable that are not impaired

The ageing analysis of accounts and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

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

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

Receivables that were past due but not impaired relate to major telecommunications service providers and a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

16 Cash and cash equivalents

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000 (Restated)
Cash at bank and in hand	**8,281,875**	6,854,370
Deposits with banks and other financial institutions	**148,481**	455,061
Cash and cash equivalents	**8,430,356**	7,309,431

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

17 Interest-bearing borrowings

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

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

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

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

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

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

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

18 Accounts and bills payable

Accounts and bills payable comprise:

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

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

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

Included in accounts and bills payable are amounts due to fellow subsidiaries of RMB1,097 million as at 30 June 2012 (31 December 2011: RMB813 million (as restated)). The amounts due to fellow subsidiaries are unsecured, interest free and are expected to be settled within one year.

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

19 Share capital

	At 30 June 2012 RMB'000	At 31 December 2011 RMB'000
Registered, issued and fully paid:		
4,534,598,160 (31 December 2011: 3,778,831,800) domestic shares of RMB1.00 each	**4,534,598**	3,778,832
2,391,420,240 (31 December 2011: 1,992,850,200) H shares of RMB1.00 each	**2,391,420**	1,992,850
	6,926,018	5,771,682

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

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

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

20 Commitments and contingent liabilities

(a) Capital commitments

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

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

(b) Operating lease commitments

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

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

The Group leases a number of properties under operating leases. The leases typically run for a period of one year to twenty years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

(c) Contingent liabilities

As at 30 June 2012, the Group had no material contingent liabilities and no material financial guarantees issued.

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

21 Related parties

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

(a) Transactions with CTC Group

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

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

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

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

Notes:

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

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

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

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

21 Related parties (Continued)

(a) Transactions with CTC Group (Continued)

Notes: (Continued)

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

(v) The amount represents supplies procurement service such as supplies procurement service, management of biddings warehousing, transportation and installation services.

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

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

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

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

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

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

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

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

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

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

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

21 Related parties (Continued)

(a) Transactions with CTC Group (Continued)

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

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

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

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

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

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

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

21 Related parties (Continued)

(a) Transactions with CTC Group (Continued)

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

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

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

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

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

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

Notes to the Unaudited Interim Financial Report (Continued)

(Expressed in Renminbi)

21 Related parties (Continued)

(c) Transactions with key management personnel

Remuneration for key management personnel is as follows:

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

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

(d) Contributions to defined contribution retirement plans

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

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

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

22 Non-adjusting events after the reporting period

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

The acquisition was completed on 26 July 2012.