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

INFORMATIZATION & DIGITALIZATION FUTURE

信息化與數字化未來

Interim Report 2018 中期報告

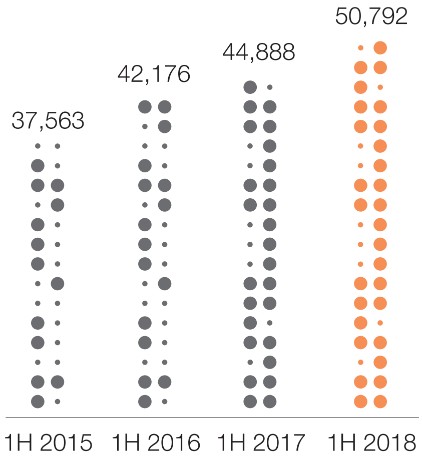
CONTENTS

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2018	2017	Change
Revenues (RMB million)	**50,792**	44,888	13.2%
Gross profit (RMB million)	**6,176**	5,709	8.2%
Profit attributable to equity shareholders of the Company (RMB million)	**1,595**	1,469	8.6%
Basic earnings per share (RMB)	**0.230**	0.212	8.6%
Free cash flow[1] (RMB million)	**877**	2,002	–56.2%

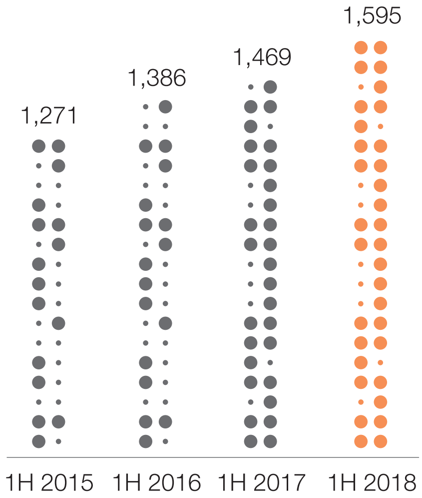
Revenues

(RMB million)



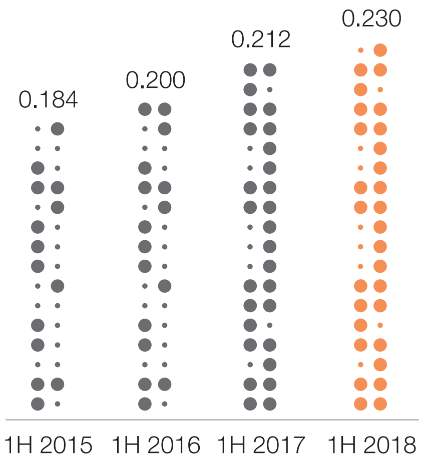
Profit Attributable to Equity Shareholders of the Company

(RMB million)



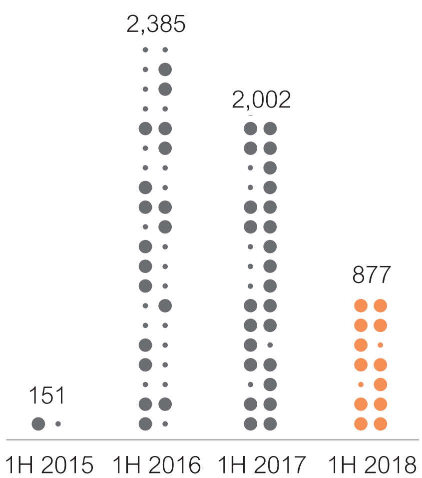
Basic Earnings per Share

(RMB)



Free Cash Flow

(RMB million)



[1] Free cash flow = Profit for the year + Depreciation and amortisation – Changes in working capital – Capital expenditure

CHAIRMAN'S STATEMENT

Dear Shareholders,

In the first half of 2018, the Group successfully transformed its growth momentum and achieved favourable operating results by adhering to the overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development", adapting to the development trend and expanding cooperation in ecosystems. The Group successfully overcame the adverse impacts of the declining investment in telecommunications industry for consecutive years through leveraging both domestic non-telecom operator market and domestic telecommunications operator market as the dual growth drivers, and total revenues of the Group realized double-digit growth, which hit 6-year high. The Group's net profit achieved high single-digit growth, and its free cash flow[1] sustained at a healthy level. Meanwhile, the further control on the products distribution business of lower efficiency and effective market expansion enabled the Group to further optimize its business and customer structures, in which the proportion of the Core Businesses[2] continuously increased and the mix of customer revenue became more balanced, further reduced reliance on a single customer. Focused on seizing development opportunities in China such as Digital Economy, Smart Society and 5G construction, the Group has clearly pinpointed "Smart" services as the main track of development. The Group will accelerate its transformation towards digital services, endeavour to enhance development quality and reinforce new growth momentum, with a view to laying a solid foundation for sustainable, healthy and high-quality development in the long run.

Operating Performance

During the first half of 2018, the Group endeavoured to expand the domestic non-telecom operator market, solidified the fundamental of the domestic telecommunications operator market and proactively controlled the development of the products distribution business. As a result, the Group realized total revenues of RMB50,792 million, representing a growth of 13.2% year-on-year, in which the Core Businesses revenue increased by 17.1% year-on-year. Cost of revenues amounted to RMB44,616 million, up by 13.9% year-on-year. Gross profit was RMB6,176 million, representing a year-on-year increase of 8.2%. Due to the decreased service prices and increased costs in relation to labour, gross profit margin was 12.2%, representing a 0.5 percentage point decrease year-on-year. With the Group's continued effort on controlling the selling, general and administrative expenses, such expenses amounted to RMB4,661 million and its percentage over the total revenues further decreased by 0.5 percentage point year-on-year to 9.2%. Profit attributable to equity shareholders of the Company grew by 8.6% year-on-year to RMB1,595 million, and the growth rate increased by 2.7 percentage points year-on-year. Net profit margin was 3.1%, decreased by 0.2 percentage point year-on-year. Basic earnings per share amounted to RMB0.230, representing a year-on-year growth of 8.6%. Due to the significant increase in free cash flow last year, free cash flow for the current period dropped from the same period of last year to RMB877 million, but still accounted for over 50% of the profit attributable to equity shareholders, which continued to stand at a healthy level.

[1] Free cash flow = Profit for the year + Depreciation and amortisation – Changes in working capital – Capital expenditure

[2] Core Businesses include telecommunications infrastructure ("TIS") services, business process outsourcing ("BPO") services (excluding products distribution), as well as applications, content and other ("ACO") services.

Market Expansion

During the first half of 2018, the Group reaped fruitful results in market development by seizing the crucial opportunities in the domestic non-telecom operator market, the domestic telecommunications operator market and the overseas market, and all the three markets showed a stronger development impetus compared to the same period of last year, among which the domestic non-telecom operator market and the domestic telecommunications operator market both realized a double-digit revenue growth, while the revenue from the overseas market stabilized and recovered. During the period, the Group's customer revenue mix continued to optimize. Among that, revenues contribution from both the domestic non-telecom operator market and the domestic telecommunications operators other than China Telecom continued to increase, and the proportion of Core Businesses revenues from these two markets over total Core Businesses revenue reached 30% for the first time, respectively.

The Group's revenue from the domestic non-telecom operator market increased by 19.3% year-on-year to RMB16,396 million, indicating a remarkable acceleration as compared to the same period of last year[3] and accounting for 32.3% of the total revenues. In the meantime, the Group continued to optimize its business structure. Excluding the products distribution business, revenue from the Core Businesses reported a rapid year-on-year increase of 29.0% to RMB14,448 million, accounting for over 88% of the revenue from such market. Internally, the Group carried out synergistic operation in research and development and launched more smart society products. Leveraging the "Capabilities Accumulation, Capabilities Enabling" initiative, the Group enriched integrated service capabilities for industry penetration through strengthening the collaboration among products, markets and businesses. Externally, the Group focused on key sectors such as government, electricity and transportation, endeavoured to broaden the cooperation for a continued "Capabilities Expansion", and strengthen the "Smart Service Industrial Ecosystem Alliance". By promoting its "Consultant + Staff" business model and demonstrating its integrated service capabilities, the Group leveraged its top-level design and high-end consultation to drive project development and achieved favourable results. The series of smart products, including the Smart City, Smart Town, Smart Park, Smart Security and Smart Highway, were successively launched in different regions across the nation, and the Group's branding and competitiveness in the industry have been effectively enhanced.

In the first half of 2018, the Group insisted on the "CAPEX and OPEX-driven"[4] businesses as the dual growth drivers to further penetrate and expand into the domestic telecommunications operator market, and consistently increased market share. Revenue from such market increased by 10.7% year-on-year to RMB32,950 million and accounted for 64.9% of the total revenues. Among that, revenue from China Telecom amounted to RMB18,368 million, representing a year-on-year growth of 0.5%, and accounting for 36.2% of the total revenues. Driven by the rapid revenue growth from domestic telecommunications operator customers other than China Telecom, aggregate revenue from those customers grew by 27.0% year-on-year to RMB14,582 million, with its percentage of the total revenues increased to 28.7%[5].

In the first half of 2018, the Group further optimized its overseas management structure by promoting the synergistic allocation of resources and enhancing service capabilities as well as risk prevention capabilities. With these efforts, the overseas market stabilized and revenue from such market resumed growth and increased by 4.6% year-on-year to RMB1,446 million, accounting for 2.8% of the total revenues. In tandem with developing traditional overseas telecommunications operator customers, the Group further expanded the overseas market of industrial customers by replicating its successful experience in China, in which key projects made a breakthrough and several large-scale projects in electricity, education and telecommunications, etc. in regions such as the Middle East and Southeast Asia made further progress.

3 In the first half of 2017, the revenue from domestic non-telecom operator customers increased by 7.5% year-on-year.

4 CAPEX and OPEX refer to the capital expenditure and operating expenditure of domestic telecommunications operators, respectively.

5 Based on the revenue from the Core Businesses (excluding the products distribution business), revenue from domestic telecommunications operator customers other than China Telecom accounted for 30.0%.

Business Development

In the first half of 2018, all three businesses of the Group showed a stronger development impetus compared to the same period of last year. Revenue from TIS services amounted to RMB28,330 million, representing an expedited growth[6] of 17.7% year-on-year, and accounting for 55.8% of the total revenues. For TIS services, the Group continuously improved its delivery quality and service capabilities, and captured the opportunities arising from the optimization of 4G network and the construction of broadband transmission infrastructures by domestic telecommunications operators, supporting them to build intelligent supreme networks with its high-quality integrated services. At the same time, focusing on the flourishing domestic demand for informatization construction, the Group stepped up its efforts in developing the TIS business of domestic non-telecom operator customers through cross-sector operation and penetration among businesses. Of the revenue from TIS services, the revenue from China Telecom recorded a year-on-year decline of 6.9%; the revenue from domestic telecommunications operator customers other than China Telecom had a rapid year-on-year growth of 31.6%; and the revenue from domestic non-telecom operator market grew sharply by 44.2% year-on-year, indicating a remarkable acceleration as compared to the same period of last year[7]. The rapid growth in revenue from TIS services for domestic non-telecom operator customers strongly bolsters the positive development of the business and has become a new impetus for future business growth.

In the first half of 2018, the Group's revenue from BPO services amounted to RMB16,608 million, representing a year-on-year increase of 4.7% and accounting for 32.7% of the total revenues. In pursuit of high-quality development, the Group continued to proactively control the products distribution business, and as a result, revenue from products distribution business decreased by 28.9% year-on-year and its proportion to the total revenues decreased to 5.3%. Excluding the impact of such factor, the Core BPO services[8] grew healthily and realized a revenue of RMB13,894 million, up by 15.3% year-on-year. The Group achieved breakthroughs in the areas of synergistic operation for logistic business, building integrated capabilities for distribution channels, constructing unified platform for property management and uplifting standard of its integrated maintenance capabilities continuously. All the above measures have accelerated the development of the Core BPO services.

In the first half of 2018, the Group's revenue from ACO services amounted to RMB5,854 million, indicating a rapid growth of 18.2% year-on-year and its proportion to the total revenues increased to 11.5%. During the period, the Group increased R&D investment, strengthened the competitiveness of its products including the software and industrial applications, launched a series of smart society products and focused on establishing industrial ecosystems. Leading by its design and consultation businesses as well as capitalizing on its core software products, the Group further promoted the development of other businesses by providing its customers with integrated solutions. The synergistic effect and mutual interaction created between businesses and cross-region operation have become increasingly prominent, allowing the ACO services to effectively drive sound development of both TIS services and BPO services.

6 In the first half of 2017, the revenue from TIS services increased by 11.0% year-on-year.

7 In the first half of 2017, the revenue from TIS services for domestic non-telecom operator market increased by 20.3% year-on-year.

8 Core BPO services include management of infrastructure for information technology (network maintenance), general facilities management and supply chain services.

Innovation and Transformation

The Group has been persistent in deepened reform in order to speed up its innovation and transformation towards smart and digital services. During the first half of 2018, the Group adopted a science-prioritized and technology-driven approach to promote business integration and consolidate its product capabilities, thus cultivating a series of products for smart society, building the "Big" Smart City IT structure, promoting product-oriented services such as Smart Safety and Smart Town, and initially establishing our cloud services (CCSYUN) and Internet of Things ("IoT") platforms. In May 2018, the Group formally introduced China Comservice Smart Society Products successfully in the "7th China International Big Data Industry Expo", which has been well recognized by the community and customers. In June 2018, China Information Technology Industry Federation ranked the Group 6th among "China's Top 100 Software Enterprises 2018", showcasing its entry to the software ecosystem and enhanced influence in the industry. Meanwhile, the Group is committed to the main development track of "Building Smart Society, Boosting Digital Economy, Serving a Good Life" for the domestic non-telecom operator market. The Group initiated the "Smart Service Industrial Ecosystem Alliance" through cooperation with the top scientific research institution in China, industrial partners and related technology and innovative enterprises, to consolidate resources along industry chain, accelerate the deployment of its financial segment, explore the integration of finance with industrial development, and jointly build a value-sharing ecosystem with its partners in an open, collaborative and win-win way, with a goal to boost development into a new phase.

Corporate Governance

The Company's standardized and effective corporate governance has always been highly recognized by the capital market. In the "8th Asian Excellence Recognition Awards" organized by *Corporate Governance Asia*, a renowned corporate governance journal in Asia, Mr. Si Furong, the Executive Director, President of the Company, and Ms. Hou Rui, the Executive Director, Chief Financial Officer and an Executive Vice President of the Company, were awarded the "Best CEO" and "Best CFO", respectively. Meanwhile, the Group also won the "Best Investor Relations" Award. In the "Tao Zhu Gong Awards" organized by *EuroFinance* and supported by the Association of International Certified Professional Accountants, the Company was awarded 2018 "Tao Zhu Gong Awards — Best Working Capital Management". In the "Asia's Best Managed Companies Poll 2018" organized by *FinanceAsia*, an authoritative financial magazine in Asia-Pacific, the Company was one of the companies in the top 10 list in various award categories for China, including the "Best Managed Company" and the "Most Committed to Corporate Governance". In 2018, the Company was ranked 81st on the "2018 FORTUNE China 500" released by *FORTUNE China*.

Social Responsibilities

The Group has always committed to the fulfillment of its corporate social responsibilities and rewarding its customers and the society through practical actions. In poverty alleviation, in order to actively implement the requirements of national policies, the Group carried out poverty alleviation programmes in different locations of Sichuan and Xinjiang. Such initiatives effectively improved the living standard of local people and was well recognized by the society. In combating natural disasters, the Group has always played an active role on the frontline. In 2018, Tropical Storm Ewiniar and Typhoon Maria made landfall over the regions in Guangdong, Jiangsu, Fujian and other places, and continuous and heavy rainfalls occurred in Sichuan, Guizhou and the neighbouring places, which triggered a number of flood disasters. The Group initiated contingency plans at once, organized manpower to commence repair works and more than 5,600 communications facilities were restored in total. In communications support, the Group acted as the communications support unit in the "Boao Forum for Asia Annual Conference 2018", deploying more than 100 person-time for construction, maintenance and support to conduct testing and optimization on the communications network near the conference venue. A total of 494 kilometres of communications lines were checked and more than 100 potential issues were eliminated. Stable network operation and normal communication signal coverage in key areas were thus ensured, and the Group's work was highly recognized by the organizer of the conference. Besides, the Group also proactively participated in the communications support work in events such as international marathons held in different regions of China.

Future Outlook

2018 is a crucial year for the Group's reform and development. New technologies such as IoT and Artificial Intelligence are integrating with traditional economy, and Digital Economy, Smart Society as well as 5G are going to create a vast market space. However, in the wake of situation such as the China-US trade dispute, the international economic environment has been getting more complicated and presented uncertainties to the economic development of China. Besides, under the above new situation, there will be dramatic changes in customer demand, market environment and business model. Facing opportunities and challenges, the Group will plan ahead and remain vigilant. By adhering to its overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" and persisting in its "main tracks" of development, the Group will grasp the opportunities arising from the reform, explore new market space for its digital services and accelerate its high-quality development.

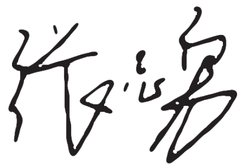
The domestic non-telecom operator market is the growth pole for the development of the Group's businesses. We will focus on the main track of "Building Smart Society, Boosting Digital Economy, Serving a Good Life". To achieve this, we will integrate internal and external resources and strengthen our collaboration with industrial partners. On top of continuously solidifying our product-oriented services, we will speed up our development of platform-oriented products, explore ways for constructing platforms and ecosystems and establish a new branding for Smart Comservice. We will continue to focus on key industries such as electricity, transportation and information security, enlarge the industry scale and deepen the industry penetration, so as to provide integrated service solutions to our customers.

The domestic telecommunications operator market remains a fundamental for the Group's business development, and we will focus on the main track of "Bolstering Cyberpower Strategy, Integrating into Ecosystem Construction, Serving Transformation and Upgrade". To achieve this, we will integrate ourselves into operators' ecosystem, keep abreast of the new technologies such as 5G and IoT and equip ourselves with accumulating technologies, resources and capabilities to enhance service quality, and further penetrate into CAPEX business and expand OPEX business. Meanwhile, we will seek to apply the new businesses and new models of the domestic non-telecom operator market to the development of the domestic telecommunications operator market, with a view to enhancing the capabilities to expand into the domestic telecommunications operator market and integrating ourselves into the new ecosystem for the domestic telecommunications operator market.

For the overseas market, we will focus on the main track of "Serving 'Belt and Road' Information Infrastructure Construction, Promoting Smart Society Construction Overseas". To achieve this, we will adapt to the political and environmental changes in domestic and international markets, strengthen the collaboration between our domestic product centres and external business partners, enhance cooperation with domestic operators and "Go Abroad" state-owned enterprises to jointly develop projects. We will leverage on different parties' resources, focus on large-scale projects, and extend our domestic smart products and capabilities overseas, striving to achieve transformation and upgrade of our overseas business.

Although the external macro-environmental changes will bring certain uncertainties to our operating environment, the development of Digital Economy and informatization as well as 5G construction in China are creating favourable opportunities for the future growth of the Group. Besides, in August 2018, the Company has been included by the State-owned Assets Supervision and Administration Commission of the State Council in the list of State-owned Enterprise Reform "Double-hundred Action" which provided good opportunities for further promoting deepened reform. The Group believes that the reform could further enhance its vibrancy and motivation, increase its operating efficiency and risk prevention capability, thereby promoting a healthier, sustainable and high-quality growth. Going forward, the Group will grasp the best window of opportunity for development, and overcome difficulties with its proactive attitude and unremitting efforts. The Group will persist in high-quality operation, foster high-quality features, realize high-quality management and establish high-quality team, with a view to laying solid foundation for the future and rewarding its shareholders and customers with better development and enhanced performance.

Finally, on behalf of the Board, I would like to express my sincere gratitude to our shareholders, customers and all sectors of society for their long-term attention and support. I would also like to deeply thank our employees for their continued dedication and hard work.



Zhang Zhiyong
Chairman

Beijing, PRC
30 August 2018

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 10 to 46, which comprises the consolidated statement of financial position as of 30 June 2018 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

30 August 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

For the six months ended 30 June 2018

	Notes	Six months ended 30 June 2018 RMB'000	2017 RMB'000
Revenues	5	**50,792,100**	44,888,394
Cost of revenues	6	**(44,616,496)**	(39,178,948)
Gross profit		**6,175,604**	5,709,446
Other operating income	7	**444,312**	412,110
Selling, general and administrative expenses		**(4,660,717)**	(4,346,851)
Other operating expenses		**(61,794)**	(32,592)
Finance costs	8	**(8,031)**	(21,904)
Share of profits of associates and joint ventures		**52,809**	25,624
Profit before tax	9	**1,942,183**	1,745,833
Income tax	10	**(338,685)**	(270,658)
Profit for the period		**1,603,498**	1,475,175
Attributable to:			
Equity shareholders of the Company		**1,595,476**	1,468,668
Non-controlling interests		**8,022**	6,507
Profit for the period		**1,603,498**	1,475,175
Basic earnings per share (RMB)	13	**0.230**	0.212

The notes on pages 17 to 46 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 2018

	Notes	Six months ended 30 June 2018 RMB'000	2017 RMB'000
Profit for the period		**1,603,498**	1,475,175
Other comprehensive (expense)/income for the period (after tax)			
Items that will not be reclassified to profit or loss (after tax):			
Equity instruments at fair value through other comprehensive income:			
Net movement in the fair value reserve	11	**(202,355)**	—
Items that may be subsequently reclassified to profit or loss (after tax):			
Exchange differences on translation of financial statements of subsidiaries outside Mainland China		**3,007**	(18,471)
Available-for-sale securities:			
Net movement in the fair value reserve	11	**—**	(3,126)
		(199,348)	(21,597)
Total comprehensive income for the period		**1,404,150**	1,453,578
Attributable to:			
Equity shareholders of the Company		**1,396,167**	1,447,115
Non-controlling interests		**7,983**	6,463
Total comprehensive income for the period		**1,404,150**	1,453,578

The notes on pages 17 to 46 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

At 30 June 2018

	Notes	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Non-current assets			
Property, plant and equipment, net	14	**4,328,033**	4,190,375
Investment properties		**631,860**	637,867
Construction in progress		**244,908**	539,359
Lease prepayments		**730,107**	738,886
Goodwill		**103,005**	103,005
Other intangible assets		**313,683**	325,690
Interests in associates and joint ventures		**303,526**	220,117
Available-for-sale financial assets		**—**	851,560
Equity instruments at fair value through other comprehensive income		**3,739,862**	—
Deferred tax assets		**625,421**	542,672
Other non-current assets		**450,512**	240,523
Total non-current assets		**11,470,917**	8,390,054
Current assets			
Inventories		**1,953,025**	2,275,735
Accounts and bills receivable, net	15	**20,447,008**	30,370,500
Contract assets, net	16	**15,548,567**	—
Prepayments and other current assets		**14,087,057**	11,815,129
Financial assets at fair value through profit or loss		**854,029**	1,262,514
Restricted deposits		**1,678,032**	3,354,288
Cash and cash equivalents	17	**13,069,466**	13,266,631
Total current assets		**67,637,184**	62,344,797
Total assets		**79,108,101**	70,734,851
Current liabilities			
Interest-bearing borrowings	18	**389,593**	308,876
Accounts and bills payable	19	**28,482,644**	24,600,681
Contract liabilities		**7,317,366**	—
Receipts in advance for contract work		**—**	4,997,284
Accrued expenses and other payables		**9,728,212**	11,320,729
Income tax payable		**400,305**	339,393
Total current liabilities		**46,318,120**	41,566,963
Net current assets		**21,319,064**	20,777,834
Total assets less current liabilities		**32,789,981**	29,167,888

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED) (Continued)

At 30 June 2018

	Notes	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Non-current liabilities			
Interest-bearing borrowings	18	**18,526**	17,642
Other non-current liabilities	20	**521,001**	328,859
Deferred tax liabilities		**746,203**	1,736
Total non-current liabilities		**1,285,730**	348,237
Total liabilities		**47,603,850**	41,915,200
Equity			
Share capital	21	**6,926,018**	6,926,018
Reserves		**24,095,783**	21,403,080
Equity attributable to equity shareholders of the Company		**31,021,801**	28,329,098
Non-controlling interests		**482,450**	490,553
Total equity		**31,504,251**	28,819,651
Total liabilities and equity		**79,108,101**	70,734,851

The notes on pages 17 to 46 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2018

	Notes	Equity attributable to equity shareholders of the Company											
		Share capital RMB'000	Share premium RMB'000 (note a)	Capital reserve RMB'000 (note b)	Statutory surplus reserve RMB'000 (note c)	Specific reserve RMB'000 (note d)	Fair value reserve RMB'000 (note e)	Exchange reserve RMB'000 (note f)	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance as at 31 December 2017 (audited)		6,926,018	4,529,310	1,852,461	1,051,256	198,140	34,515	5,619	(68,310)	13,800,089	28,329,098	490,553	28,819,651
Adjustments	3	–	–	–	–	–	2,367,784	–	–	(93,987)	2,273,797	(387)	2,273,410
Balance as at 1 January 2018 (restated)		6,926,018	4,529,310	1,852,461	1,051,256	198,140	2,402,299	5,619	(68,310)	13,706,102	30,602,895	490,166	31,093,061
Changes in equity for the six months ended 30 June 2018													
Profit for the period		–	–	–	–	–	–	–	–	1,595,476	1,595,476	8,022	1,603,498
Other comprehensive (expense)/income for the period	11	–	–	–	–	–	(202,355)	3,046	–	–	(199,309)	(39)	(199,348)
Total comprehensive (expense)/income for the period		–	–	–	–	–	(202,355)	3,046	–	1,595,476	1,396,167	7,983	1,404,150
Distribution to non-controlling interests		–	–	–	–	–	–	–	–	–	–	(9,933)	(9,933)
Dividend declared	12(b)	–	–	–	–	–	–	–	–	(977,261)	(977,261)	–	(977,261)
Appropriation of specific reserve		–	–	–	–	250,626	–	–	–	(250,626)	–	–	–
Utilisation of specific reserve		–	–	–	–	(232,857)	–	–	–	232,857	–	–	–
Others		–	–	–	–	–	–	–	–	–	–	(5,766)	(5,766)
Balance as at 30 June 2018		6,926,018	4,529,310	1,852,461	1,051,256	215,909	2,199,944	8,665	(68,310)	14,306,548	31,021,801	482,450	31,504,251
Balance as at 1 January 2017		6,926,018	4,529,310	1,852,461	951,760	178,525	47,118	38,589	(68,310)	12,117,958	26,573,429	474,353	27,047,782
Changes in equity for the six months ended 30 June 2017													
Profit for the period		–	–	–	–	–	–	–	–	1,468,668	1,468,668	6,507	1,475,175
Other comprehensive expense for the period	11	–	–	–	–	–	(3,126)	(18,427)	–	–	(21,553)	(44)	(21,597)
Total comprehensive (expense)/income for the period		–	–	–	–	–	(3,126)	(18,427)	–	1,468,668	1,447,115	6,463	1,453,578
Dividend declared	12(b)	–	–	–	–	–	–	–	–	(912,849)	(912,849)	–	(912,849)
Appropriation of specific reserve		–	–	–	–	201,661	–	–	–	(201,661)	–	–	–
Utilisation of specific reserve		–	–	–	–	(179,193)	–	–	–	179,193	–	–	–
Balance as at 30 June 2017		6,926,018	4,529,310	1,852,461	951,760	200,993	43,992	20,162	(68,310)	12,651,309	27,107,695	480,816	27,588,511
Changes in equity for the six months ended 31 December 2017													
Profit for the period		–	–	–	–	–	–	–	–	1,245,545	1,245,545	28,358	1,273,903
Other comprehensive expense for the period		–	–	–	–	–	(9,477)	(14,543)	–	–	(24,020)	(69)	(24,089)
Total comprehensive (expense)/income for the period		–	–	–	–	–	(9,477)	(14,543)	–	1,245,545	1,221,525	28,289	1,249,814
Distribution to non-controlling interests		–	–	–	–	–	–	–	–	–	–	(11,766)	(11,766)
Appropriation		–	–	–	99,496	–	–	–	–	(99,496)	–	–	–
Appropriation of specific reserve		–	–	–	–	276,513	–	–	–	(276,513)	–	–	–
Utilisation of specific reserve		–	–	–	–	(279,366)	–	–	–	279,366	–	–	–
Others		–	–	–	–	–	–	–	–	(122)	(122)	(6,786)	(6,908)
Balance as at 31 December 2017 (audited)		6,926,018	4,529,310	1,852,461	1,051,256	198,140	34,515	5,619	(68,310)	13,800,089	28,329,098	490,553	28,819,651

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

For the six months ended 30 June 2018

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 People's Republic of China (the "PRC") Company Law and the Articles of Association of the Company and its PRC subsidiaries, these companies are required to transfer 10% of their respective net profit as determined in accordance with the PRC Accounting Rules and Regulations to the 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 equity instruments 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 17 to 46 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the six months ended 30 June 2018

	Notes	Six months ended 30 June 2018 RMB'000	2017 RMB'000
Operating activities			
Income tax paid		**(341,768)**	(358,895)
Other cash flows generated from operating activities		**1,233,375**	2,476,442
Net cash generated from operating activities		**891,607**	2,117,547
Investing activities			
Payment on acquisition of property, plant and equipment and other intangible assets		**(296,426)**	(257,514)
Other cash flows used in investing activities		**(861,104)**	(401,672)
Net cash used in investing activities		**(1,157,530)**	(659,186)
Financing activities			
Proceeds from bank and other loans		**507,520**	32,507
Other cash flows used in financing activities		**(432,440)**	(20,690)
Net cash generated from financing activities		**75,080**	11,817
Net (decrease)/increase in cash and cash equivalents		**(190,843)**	1,470,178
Cash and cash equivalents at the beginning of period		**13,266,631**	13,324,079
Effect of foreign exchange rate changes		**(6,322)**	(21,070)
Cash and cash equivalents at the end of period	17	**13,069,466**	14,773,187

The notes on pages 17 to 46 form part of this interim financial report.

1. Principal Activities

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

2. Basis of Preparation

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 2017 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 International Financial Reporting Standards ("IFRSs"). IFRSs include all applicable IFRSs, International Accounting Standards ("IASs") and related interpretations.

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 IAS 34, Interim Financial Reporting.

3. Principal Accounting Policies

The interim financial report has been prepared on the historical cost 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 2017, except as described below.

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the interim financial report:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 28	As part of the Annual Improvements to IFRS Standards 2014–2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

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

3. Principal Accounting Policies (Continued)

Except for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers and the related Amendments, the application of the above amendments to IFRSs and interpretation has had no material effect on the Group's interim financial report.

IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers and the related Amendments have been applied in accordance with the relevant transition provision in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

The Group mainly recognises revenue from the following major sources:

(i) construction;

(ii) management of infrastructure for information technology; and

(iii) design.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contracts modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

3.1.1 Key changes in accounting policies resulting from application of IFRS 15

IFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation

3. Principal Accounting Policies (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 15 (Continued)

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of good or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

(i) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

(ii) the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

(iii) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

3. Principal Accounting Policies (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 15 (Continued)

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of a performance obligation is mainly measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

Warranties

If a customer has the option to purchase a warranty separately, the Group accounts for the warranty as a separate performance obligation and allocates a portion of the transaction price to that performance obligation.

If a customer does not have the option to purchase a warranty separately, the Group accounts for the warranty in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets unless the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specification (i.e. service-type warranties).

For service-type warranties, the promised service is a performance obligation. In that case, the Group allocates a portion of the transaction price to the warranty.

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contract where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

3.1.2 Summary of effects arising from initial application of IFRS 15

For the major service contracts of the Group, the timing of revenue recognition and the method to measure the progress towards complete satisfaction of the performance obligation generally remain the same under IFRS 15.

The Group assessed contracts with customers that were not completed at 1 January 2018. Certain contracts contained significant financing component under IFRS 15 and goods or services promised in certain contracts previously recognised separately under IAS 18 or IAS 11 were not distinct and accounted for as a single performance obligation under IFRS 15. The impacts of initial application of IFRS 15 on these contacts were neither individually nor collectively material.

The net effects arising from the initial application of IFRS 15 resulted in a decrease in the opening balance of retained earnings at an amount of approximately RMB2 million.

3. Principal Accounting Policies (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers (Continued)

3.1.2 Summary of effects arising from initial application of IFRS 15 (Continued)

The main adjustments made to the amounts recognised in the consolidated statement of financial position at 1 January 2018 were:

(i) At the date of initial application, unbilled revenues with net value of RMB7,550 million in respect of construction contracts previously included in unbilled revenues for contract work, and RMB4,137 million in respect of other service contracts previously included in accounts receivable were conditional on the Group's achieving specified milestone as stipulated in the contracts, and hence such balances were reclassified to contract assets;

(ii) As the date of initial application, advances from customers of RMB4,997 million in respect of construction contracts previously included in receipts in advances for contract work, and RMB3,293 million in respect of other service contracts previously included in accrued expenses and other payables, were reclassified to contract liabilities.

The impacts of applying IFRS 15 on the Group's consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income for the current interim period were not material.

The main impacts on the amounts recognised in the consolidated statement of financial position at 30 June 2018 were:

(i) At 30 June 2018, unbilled revenues with net value of RMB15,549 million were conditional on the Group's achieving specified milestone as stipulated in the contracts, and hence such balance was classified as contract assets under IFRS 15, in contrast to being classified as unbilled revenues for contract work or accounts receivable under IAS 11 or IAS 18.

(ii) At 30 June 2018, advances from customers of RMB7,317 million was classified as contract liabilities under IFRS 15. In contrast, RMB4,705 million in respect of construction contracts would have been classified as receipts in advances for contract work under IAS 11, and RMB2,612 million in respect of other service contracts would have been classified as accrued expenses and other payables under IAS 18.

3. Principal Accounting Policies (Continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments

In the current period, the Group has applied IFRS 9 Financial Instruments and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and other items (for example, contract assets and lease receivables) and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 Financial Instruments: Recognition and Measurement.

3.2.1 Key changes in accounting policies resulting from application of IFRS 9

Classification and measurement of financial assets

Accounts receivable arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognised financial assets that are within the scope of IFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under IAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 Business Combinations applies.

3. Principal Accounting Policies (Continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Classification and measurement of financial assets (Continued)

Equity instruments designated as at FVTOCI

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the fair value reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other operating income" line item in profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 3.2.2.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including accounts receivable and financial assets included in prepayments and other current assets), lease receivables and contract assets. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instruments. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for accounts receivable, lease receivables and contract assets. The ECL on these assets are assessed individually for debtors with significant balances and collectively using a provision matrix with appropriate groupings.

3. Principal Accounting Policies (Continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Impairment under ECL model (Continued)

For all other instruments, i.e. financial assets included in prepayments and other current assets, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in the measuring the lease receivable in accordance with IAS 17 Leases.

The Group recognises an impairment gain or loss in profit or by adjusting their carrying amount, with the exception of accounts receivable, contract assets and lease receivables where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets, contract assets and lease receivables for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. The results of the assessment and the impact thereof are detailed in Note 3.2.2.

3. Principal Accounting Policies (Continued)

3.2 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

3.2.2 Summary of effects arising from initial application of IFRS 9

The classification and measurement (including impairment) of financial assets and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018, are as followings.

(a) From available-for-sale financial assets to FVTOCI

The Group elected to present in OCI for the fair value changes of all its equity investments previously classified as available-for-sale financial assets. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of IFRS 9, RMB852 million were reclassified from available-for-sale investments to equity instruments at FVTOCI, of which RMB795 million related to unlisted equity securities previously measured at cost less impairment under IAS 39. The fair value gain of RMB3,157 million relating to those unlisted equity instruments previously carried at cost less impairment were adjusted to equity instruments at FVTOCI and fair value reserve, and a corresponding deferred tax liabilities of RMB789 million have been recognised against fair value reserve as at 1 January 2018. The fair value gain of RMB35 million relating to those investments previously carried at fair value continued to accumulate in fair value reserve.

(b) Financial assets at FVTPL and/or designated at FVTPL

At the date of initial application, the Group no longer applied designation as measured at FVTPL for the portfolio of wealth management products and structured deposits and these financial assets are mandatorily measured at FVTPL under IFRS 9, because the contractual terms of these financial assets do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. As a result, the fair value of these investments of RMB1,262 million were reclassified from financial assets designated at FVTPL to financial assets at FVTPL.

(c) Impairment under ECL model

The Group applied the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all accounts receivable, contract assets and lease receivables. To measure the ECL, accounts receivable and contract assets have been grouped based on shared credit risk characteristics. The contract assets relate to unbilled revenues and have substantially the same risk characteristics as the accounts receivable for the same type of contracts. The Group has therefore concluded that the expected loss rates for the accounts receivable are a reasonable approximation of the loss rates for the contract assets.

Loss allowance for other financial assets at amortised cost mainly comprise of restricted deposits, bank balances and amounts due from related parties, are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the additional credit loss allowance of RMB98 million related to accounts receivable and contract assets, and a corresponding deferred tax assets of RMB6 million have been recognised against retained earnings.

3. Principal Accounting Policies (Continued)

3.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each individual line item.

	31 December 2017 RMB'000 (audited)	IFRS 15 RMB'000	IFRS 9 RMB'000	1 January 2018 RMB'000 (restated)
Non-current assets				
Available-for-sale financial assets	851,560	—	(851,560)	—
Equity instruments at fair value through other comprehensive income	—	—	4,008,605	4,008,605
Deferred tax assets	542,672	—	5,818	548,490
Other non-current assets	240,523	3,493	—	244,016
Others with no adjustments	6,755,299	—	—	6,755,299
Total non-current asset	8,390,054	3,493	3,162,863	11,556,410
Current assets				
Inventories	2,275,735	10,314	—	2,286,049
Accounts and bills receivable, net	30,370,500	(11,703,674)	(47,257)	18,619,569
Contract assets, net	—	11,687,405	(50,473)	11,636,932
Others with no adjustments	29,698,562	—	—	29,698,562
Total current assets	62,344,797	(5,955)	(97,730)	62,241,112
Total assets	70,734,851	(2,462)	3,065,133	73,797,522

3. Principal Accounting Policies (Continued)

3.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards (Continued)

	31 December 2017 RMB'000 (audited)	IFRS 15 RMB'000	IFRS 9 RMB'000	1 January 2018 RMB'000 (restated)
Current liabilities				
Receipts in advance for contract work	4,997,284	(4,997,284)	—	—
Accrued expenses and other payables	11,320,729	(3,292,591)	—	8,028,138
Contract liabilities	—	8,289,875	—	8,289,875
Others with no adjustments	25,248,950	—	—	25,248,950
Total current liabilities	41,566,963	—	—	41,566,963
Net current assets	20,777,834	(5,955)	(97,730)	20,674,149
Total assets less current liabilities	29,167,888	(2,462)	3,065,133	32,230,559
Non-current liabilities				
Deferred tax liabilities	1,736	—	789,261	790,997
Others with no adjustments	346,501	—	—	346,501
Total non-current liabilities	348,237	—	789,261	1,137,498
Total liabilities	41,915,200	—	789,261	42,704,461
Equity				
Share capital	6,926,018	—	—	6,926,018
Reserves	21,403,080	(2,462)	2,276,259	23,676,877
Equity attributable to equity shareholders of the Company	28,329,098	(2,462)	2,276,259	30,602,895
Non-controlling interests	490,553	—	(387)	490,166
Total equity	28,819,651	(2,462)	2,275,872	31,093,061
Total liabilities and equity	70,734,851	(2,462)	3,065,133	73,797,522

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.

4. Segment Reporting

The Group principally has one operating and reportable segment, which is the provision of integrated telecommunications support services in the informatisation sector. Therefore, no additional segment information 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 sales discounts. The Group's revenues by business nature can be summarised as follows:

Disaggregation of revenue

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Revenue from telecommunications infrastructure services	**28,330,195**	24,071,435
Revenue from business process outsourcing services	**16,607,607**	15,863,997
Revenue from applications, content and other services	**5,854,298**	4,952,962
	50,792,100	44,888,394

The Group's major customers are telecommunications operators which include CTC and its subsidiaries (excluding the Group) ("CTC Group") and China Mobile Communications Group Co., Ltd. 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 2018 amounted to RMB18,368 million and RMB10,800 million respectively (six months ended 30 June 2017: RMB18,273 million and RMB7,876 million respectively), being 36.2% and 21.3% of the Group's total revenues respectively (six months ended 30 June 2017: 40.7% and 17.5% respectively). The revenue derived from areas outside Mainland China for the six months ended 30 June 2018 amounted to RMB1,446 million (six months ended 30 June 2017: RMB1,382 million).

For the six months ended 30 June 2018, the Group's first three businesses that contributed to the overall revenues were construction, management of infrastructure for information technology and design, the revenues from which amounted to RMB20,942 million, RMB6,604 million and RMB5,355 million, respectively (six months ended 30 June 2017: The Group's first three businesses that contributed to the overall revenues were construction, management of infrastructure for information technology and design, the revenues from which amounted to RMB17,235 million, RMB5,802 million and RMB5,089 million, respectively).

The Group's rental revenues for the six months ended 30 June 2018 amounted to RMB325 million (six months ended 30 June 2017: RMB309 million).

6. Cost of Revenues

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Depreciation and amortisation	**238,546**	237,939
Direct personnel costs	**3,958,562**	4,101,251
Operating lease charges	**689,747**	619,995
Materials costs	**5,007,925**	4,124,385
Direct costs of products distribution	**2,529,320**	3,519,540
Subcontracting charges	**27,413,721**	22,423,871
Others	**4,778,675**	4,151,967
	44,616,496	39,178,948

7. Other Operating Income

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Interest income	**92,614**	94,740
Dividend income from equity instruments	**1,029**	76,813
Government grants	**93,056**	111,266
Gain on disposal of property, plant and equipment	**4,045**	1,451
Penalty income	**2,790**	1,242
Management fee income	**119,179**	104,528
Investment income and fair value gains on wealth management products and structured deposits	**106,895**	—
Others	**24,704**	22,070
	444,312	412,110

8. Finance Costs

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Interest on bank and other borrowings	**8,031**	4,707
Interest for convertible preference shares and preference shares	**—**	17,197
	8,031	21,904

For the six months ended 30 June 2018 and 2017, no borrowing costs were capitalised in relation to construction in progress.

9. Profit Before Tax

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

		Six months ended 30 June	
		2018	2017
		RMB'000	RMB'000
(a)	Staff costs:		
	Salaries, wages and other benefits	**6,364,259**	6,403,460
	Contributions to defined contribution retirement schemes	**645,456**	586,113
		7,009,715	6,989,573
(b)	Other items:		
	Amortisation	**66,667**	72,832
	Depreciation	**358,320**	352,002
	Materials costs	**5,007,925**	4,124,385
	Direct costs of products distribution	**2,529,320**	3,519,540
	Inventory write-down and losses, net of reversals	**13,499**	18,622
	Impairment losses on accounts receivable, other receivables and contract assets	**172,037**	100,264
	Reversal of impairment losses on accounts receivable, other receivables and contract assets	**(89,449)**	(26,432)
	Investment income and fair value gains of financial instruments at fair value through profit or loss	**15,352**	1,015
	Operating lease charges	**822,796**	744,173
	Research and development costs	**1,134,619**	1,012,452

The selling expenses, general and administrative expenses and other expenses of the Group are RMB779 million, RMB3,580 million and RMB302 million (six months ended 30 June 2017: RMB658 million, RMB3,414 million and RMB275 million) respectively for the six months ended 30 June 2018. Research and development costs include staff costs of RMB947 million (six months ended 30 June 2017: RMB816 million), which is also included in the staff costs disclosed in note 9(a).

10. Income Tax

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Current tax		
Income tax	**394,022**	340,015
Deferred tax		
Origination and reversal of temporary differences	**(55,337)**	(69,357)
Total income tax	**338,685**	270,658

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Profit before tax	**1,942,183**	1,745,833
Expected income tax expense at a statutory tax rate of 25% (six months ended 30 June 2017: 25%)	**485,546**	436,458
Differential tax rates on subsidiaries' profits (note (i))	**(151,383)**	(135,192)
Non-deductible expenses (note (ii))	**52,908**	25,711
Non-taxable income	**(34,824)**	(27,518)
Tax losses not recognised	**50,646**	41,397
Utilisation of previously unrecognised tax losses	**(4,864)**	(6,300)
Over provision in respect of prior years	**(10,442)**	(12,120)
Effect of tax exemptions	**(15)**	(70)
Others (note (iii))	**(48,887)**	(51,708)
Income tax	**338,685**	270,658

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 2018 and 2017, except for certain domestic subsidiaries of the Group, which are taxed at a preferential rate of 15% and 10%, 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 purposes.

(iii) The amounts primarily represent the effect of additional deductions in research and development expense.

11. Other Comprehensive Expense

Available-for-sale securities

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Changes in fair value recognised during the period	**—**	(3,678)
Net deferred tax charged to other comprehensive income	**—**	552
Net movement in the fair value reserve during the period recognised in other comprehensive expense	**—**	(3,126)

Equity instruments at FVTOCI

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Changes in fair value recognised during the period	**(268,743)**	—
Net deferred tax charged to other comprehensive income	**66,388**	—
Net movement in the fair value reserve during the period recognised in other comprehensive expense	**(202,355)**	—

12. Dividends

(a) Dividends attributable to the period

The Board of Directors does not propose the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

(b) Dividends attributable to the previous financial year, approved during the period

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved during the period of RMB0.1176 per share (2017: RMB0.1098 per share)	**814,500**	760,477
Special dividend in respect of the previous financial year, approved during the period of RMB0.0235 per share (2017: RMB0.0220 per share)	**162,761**	152,372
	977,261	912,849

No final dividend or special dividend was paid during the six months ended 30 June 2018 and 2017.

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 2018 of RMB1,595 million (six months ended 30 June 2017: RMB1,469 million) and the number of shares in issue during the six months ended 30 June 2018 of 6,926,018 thousand shares (six months ended 30 June 2017 of 6,926,018 thousand shares).

14. Property, Plant and Equipment, Net

During the six months ended 30 June 2018, additions of property, plant and equipment (including direct purchase, transfer from construction in progress) of the Group amounted to RMB525 million (six months ended 30 June 2017: RMB132 million). Items of property, plant and equipment with carrying amount totalling RMB12 million were disposed of during the six months ended 30 June 2018 (six months ended 30 June 2017: RMB12 million).

15. Accounts and Bills Receivable, Net

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Bills receivable	**190,390**	119,314
Unbilled revenues for contract work	**—**	7,615,867
Accounts receivable	**21,569,519**	23,979,276
	21,759,909	31,714,457
Less: impairment losses	**(1,312,901)**	(1,343,957)
	20,447,008	30,370,500

(a) Included in accounts receivable and bills receivable are amounts due from CTC Group, associates of the Group and associates of CTC Group of RMB11,938 million as at 30 June 2018 (31 December 2017: RMB20,023 million), which are unsecured, interest-free and are expected to be recovered within one year.

(b) The ageing analysis of accounts receivable and bills receivable (net of impairment losses) based on credit terms is as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Current	**601,717**	12,865,705
Within 1 year	**17,379,824**	15,273,116
After 1 year but less than 2 years	**1,663,221**	1,529,211
After 2 years but less than 3 years	**482,426**	488,983
After 3 years	**319,820**	213,485
	20,447,008	30,370,500

16. Contract Assets, Net

The contract assets relate to the Group's rights to consideration for work completed and not billed because the rights are conditional on the Group's future performance in achieving specified milestones at the reporting date on construction, design and other service contracts. The contract assets are transferred to accounts receivable when the rights become unconditional. The Group typically transfers the contract assets to accounts receivable within one year. Accounting policies of contract assets are detailed in note 3.1.

17. Cash and Cash Equivalents

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Cash at bank and in hand	**12,646,986**	12,557,327
Deposits at bank with original maturity less than three months	**422,480**	709,304
Cash and cash equivalents	**13,069,466**	13,266,631

18. Interest-Bearing Borrowings

The Group's short-term interest-bearing borrowings comprise:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
RMB denominated		
Loan from CTC Group		
— unsecured	**13,280**	13,280
USD denominated		
Borrowings from banks		
— unsecured	**335,130**	284,218
Other denominated		
Borrowings from banks		
— unsecured	**41,183**	11,378
	389,593	308,876

18. Interest-Bearing Borrowings (Continued)

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

	At 30 June 2018	At 31 December 2017
RMB denominated		
Loan from CTC Group		
— unsecured	**2.39%**	2.39%
USD denominated		
Borrowings from banks		
— unsecured (fixed interest rate)	**3.43%–4.90%**	3.43%–4.08%
— unsecured (floating interest rate)	**London Interbank Offered Rate ("Libor") +3.50%–3.98%**	Libor+2.81%–3.31%
Other denominated		
Borrowings from banks		
— unsecured (fixed interest rate)	**6.92%–9.20%**	7.95%–9.20%
— unsecured (floating interest rate)	**Libor+2.45%**	—

The Group's long-term interest-bearing borrowings comprise:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
USD denominated		
Borrowings from banks		
— unsecured	**18,526**	17,642

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

	At 30 June 2018	At 31 December 2017
USD denominated		
Borrowings from banks		
— unsecured	**3.43%–3.87%**	3.43%–3.83%

As at 30 June 2018 and 31 December 2017, no borrowings from banks were subject to financial covenants.

19. Accounts and Bills Payable

Accounts and bills payable comprise:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Accounts payable	**27,738,805**	23,723,340
Bills payable	**743,839**	877,341
	28,482,644	24,600,681

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

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Within 1 year	**26,727,810**	22,989,350
After 1 year but less than 2 years	**1,080,412**	1,029,424
After 2 years but less than 3 years	**354,287**	308,399
After 3 years	**320,135**	273,508
	28,482,644	24,600,681

Included in accounts and bills payable are amounts due to CTC Group , associates of the Group and associates of CTC Group of RMB1,259 million as at 30 June 2018 (31 December 2017: RMB1,146 million), which are unsecured, interest-free and are expected to be settled within one year.

20. Other Non-Current Liabilities

Other non-current liabilities mainly represent the deferred income arising from government grants and termination benefits.

21. Share Capital

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Registered, issued and fully paid:		
4,534,598,160 (31 December 2017: 4,534,598,160) Domestic shares of RMB1.00 each	**4,534,598**	4,534,598
2,391,420,240 (31 December 2017: 2,391,420,240) H shares of RMB1.00 each	**2,391,420**	2,391,420
	6,926,018	6,926,018

22. Commitments and Contingent Liabilities

(a) Capital commitments

As at 30 June 2018, the Group had capital commitments for acquisition and construction of property, plant and equipment and other non-current assets as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Contracted for but not provided	**475,845**	421,950

According to the Capital Contribution Agreement with China Telecommunications Corporation and China Telecom Corporation Limited to jointly establish a finance company, as at 30 June 2018, the Company had commitment to contribute RMB750 million. The establishment of the company shall be subject to the approval of the relevant PRC government authorities.

22. Commitments and Contingent Liabilities (Continued)

(b) Operating lease commitments

As at 30 June 2018, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Within 1 year	**437,368**	430,716
After 1 year but within 5 years	**408,665**	438,698
After 5 years	**116,129**	93,711
	962,162	963,125

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 2018, the Group had no material contingent liabilities and no material financial guarantees issued.

23. Fair Value Measurements of Financial Instruments

(i) Financial instruments carried at fair value on a recurring basis

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).

23. Fair Value Measurements of Financial Instruments (Continued)

(i) Financial instruments carried at fair value on a recurring basis (Continued)

	At 30 June 2018			
	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Financial Assets				
Equity instruments at fair value through other comprehensive income				
— Listed equity securities	48,357	—	—	48,357
— Unlisted equity securities (note)	—	—	3,691,505	3,691,505
Financial assets at fair value through profit or loss				
— Wealth management products and structured deposits (note)	—	—	854,029	854,029

	At 31 December 2017			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial Assets				
Available-for-sale securities				
— Listed equity securities	56,337	—	—	56,337
Financial assets at fair value through profit or loss				
— Wealth management products and structured deposits (note)	—	—	1,262,409	1,262,409
— Trading financial assets				
— Foreign currency forward contract	—	105	—	105
Financial Liabilities				
Financial liabilities at fair value through profit or loss				
— Trading financial liabilities				
— Foreign currency forward contract	—	702	—	702

Note: At the end of each reporting period, the Group determines the fair value of the wealth management products and structured deposits by estimating their discounted cash flows. The future cash flows are estimated based on expected recoverable amounts, and discounted at a rate that reflects the credit risk of various counterparties.

At 30 June 2018, the Group performs a market approach valuation to determine the fair value of the unlisted equity securities by estimating the invested entities' value. The invested entities' value is estimated based on comparable companies' price/book value, and discounted at a rate that reflects the lack of marketability.

23. Fair Value Measurements of Financial Instruments (Continued)

(ii) Reconciliation of level 3 fair value measurement

	Wealth management products and structured deposits RMB'000
As at 1 January 2017	—
Purchases	1,250,000
Total gains	
— in profit or loss	12,409
As at 31 December 2017	1,262,409

	Unlisted equity securities RMB'000	Wealth management products and structured deposits RMB'000
As at 1 January 2018	3,952,268	1,262,409
Purchases	—	850,000
Settlements	—	(1,274,091)
Total gains (losses)		
— in profit or loss	—	15,711
— in other comprehensive income	(260,763)	—
As at 30 June 2018	3,691,505	854,029

(iii) Fair values of financial instruments carried at other than fair value

The fair values of financial assets and financial liabilities recorded at amortised cost are not materially different from their carrying amounts, which are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

24. Related Parties

The Group is part 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

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 which were carried out in the ordinary course of business are as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Income from related parties:		
Engineering related services (note (i))	**8,726,983**	9,377,885
IT application services (note (ii))	**779,694**	801,726
Provision of ancillary telecommunications services (note (iii))	**6,026,856**	4,889,610
Provision of operation support services (note (iv))	**1,279,644**	1,144,570
Supplies procurement services (note (v))	**1,507,767**	2,014,419
Property leasing services (note (vi))	**47,430**	44,506
Management fee (note (vii))	**119,179**	104,528
Expenses paid to related parties:		
Property leasing services (note (viii))	**93,063**	77,070
IT application services (note (ix))	**136,753**	109,245
Operation support services (note (x))	**361,631**	473,075
Supplies procurement services (note (xi))	**946,784**	844,829
Interest (note (xii))	**717**	1,159

Notes:

(i) The amount represents telecommunications infrastructure services such as design, construction and project management 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 services; fixed line and wireless value-added service; internet contents and information services provided to CTC Group.

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

24. Related Parties (Continued)

(a) Transactions with CTC Group (Continued)

Notes: (Continued)

(v) The amount represents supplies procurement service, warehousing, transportation, installation and other related services provided to CTC Group.

(vi) The amount represents rentals from operating leases in respect of business premises leased to CTC Group.

(vii) The amount represents management fee 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.

(ix) The amount represents the charge paid and payable to CTC Group for basic telecommunications service, value-added service and information application service.

(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, warehousing, transportation and installation services.

(xii) The amount represents the interest paid/payable to CTC Group in respect of the loans from CTC Group.

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

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Accounts and bills receivable, net	**11,436,973**	19,645,020
Contract assets, net	**9,068,733**	—
Prepayments and other current assets	**729,646**	1,028,318
Total amounts due from CTC Group	**21,235,352**	20,673,338
Interest-bearing borrowings	**13,280**	13,280
Accounts and bills payable	**697,323**	594,455
Contract liabilities	**552,602**	—
Receipts in advance for contract work	**—**	221,555
Accrued expenses and other payables	**869,191**	603,262
Total amounts due to CTC Group	**2,132,396**	1,432,552

As at 30 June 2018, impairment losses for bad and doubtful debts of RMB297 million (31 December 2017: RMB221 million) were recorded in respect of amounts due from CTC Group.

24. Related Parties (Continued)

(a) Transactions with CTC Group (Continued)

As at 30 June 2018 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 2018 RMB'000	At 31 December 2017 RMB'000
Contracted for but not provided	**403,139**	346,003

According to the Capital Contribution Agreement with China Telecommunications Corporation and China Telecom Corporation Limited to jointly establish a finance company, as at 30 June 2018, the Company had commitment to contribute RMB750 million. The establishment of the company shall be subject to the approval of the relevant PRC government authorities.

As at 30 June 2018, the Group's total future minimum lease payments to CTC Group under non-cancellable operating leases were payable as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Within 1 year	**131,821**	114,948
After 1 year but within 5 years	**170,938**	169,098
After 5 years	**47,928**	38,546
	350,687	322,592

The directors of the Company are of the opinion that the above transactions with related parties were conducted on normal commercial terms in the ordinary course of business and the terms are reasonable so far as the shareholders of the Company are concerned.

24. Related Parties (Continued)

(b) Transactions with associates of the Group and associates of CTC Group

The Group has entered into transactions with associates over which the Group or CTC Group can exercise significant influence. The transactions entered into by the Group and the associates are as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Income from related parties:		
Engineering related services (note (i))	**1,870,696**	1,570,945
IT application services (note (ii))	**26,755**	19,511
Provision of ancillary telecommunications services (note (iii))	**726,369**	525,071
Provision of operation support services (note (iv))	**29,106**	25,177
Supplies procurement services (note (v))	**78,009**	129,434
Property leasing services (note (vi))	**572**	1,186
Expenses paid to related parties:		
Property leasing services (note (vii))	**2,676**	1,778
IT application services (note (viii))	**1,512**	646
Operation support services (note (ix))	**21,213**	25,859

Notes:

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

(ii) The amount represents the telecommunications network support services, software and hardware development and other IT related services provided to associates of 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 services; fixed line and wireless value-added service; internet contents and information services provided to associates of the Group and associates of CTC Group.

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

(v) The amount represents supplies procurement service, warehousing, transportation, installation and other related services provided to associates of CTC Group.

(vi) The amount represents rentals from operating leases in respect of business premises leased to associates of CTC Group.

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

(viii) The amount represents the charge paid and payable to associates of the Group and associates of CTC Group for basic telecommunications service, value-added service and information application service.

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

24. Related Parties (Continued)

(b) Transactions with associates of the Group and associates of CTC Group (Continued)

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

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Accounts and bills receivable, net	**500,720**	378,224
Contract assets, net	**91,996**	—
Prepayments and other current assets	**883,642**	797,404
Total amounts due from associates of the Group and associates of CTC Group	**1,476,358**	1,175,628
Accounts and bills payable	**561,474**	551,232
Contract liabilities	**731,046**	—
Receipts in advance for contract work	**—**	235,263
Accrued expenses and other payables	**17,093**	861,817
Total amounts due to associates of the Group and associates of CTC Group	**1,309,613**	1,648,312

The directors of the Company are of the opinion that the above transactions with related parties were conducted on normal commercial terms in the ordinary course of business and the terms are reasonable.

(c) 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 PRC government authorities, agencies, affiliations and other organisations (collectively referred to as "government-related entities").

Apart from transactions with parent company and fellow subsidiaries (note 24(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

24. Related Parties (Continued)

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

These transactions are conducted in the ordinary course of the Group's business on terms comparable to the terms of transactions with other entities that are not government-related. The Group prices its telecommunications services and products sold based on government-regulated tariff rates (if 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.

(d) Transactions with key management personnel

Remuneration for key management personnel is as follows:

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Salaries and other emoluments	**3,699**	3,432
Retirement benefits	**1,119**	964
Discretionary bonus	**7,061**	7,116
	11,879	11,512

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

(e) 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 2018 and 31 December 2017, there was no material outstanding contribution to post-employment benefit plans.

The directors of the Company 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 to the Listing Rules has not been changed significantly from the information disclosed in the Company's 2017 Annual Report.

CHANGES IN DIRECTORS, SUPERVISORS AND THEIR BIOGRAPHICAL INFORMATION

Changes in the directors and supervisors of the Company and their biographical information since the date of the Company's 2017 Annual Report are set out below:

— Mr. Zhang Zhiyong was appointed as an executive vice president of China Telecom Corporation Limited and a non-executive director of China Tower Corporation Limited.

— Mr. Shao Guanglu was appointed as a non-executive director of China Tower Corporation Limited.

— Mr. Si Furong resigned as a director of China Tower Corporation Limited.

— Mr. Wu Taishi resigned as an independent director of Power Construction Corporation of China, Ltd.

AUDIT COMMITTEE

The audit committee has reviewed with management and the Company's international auditors, Deloitte Touche Tohmatsu, the accounting principles and practices adopted by the Group and discussed the risk management, internal control and financial reporting matters including the review of this Interim Report.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

As a joint stock limited company incorporated in the PRC with limited liability and listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company has not only complied with the relevant provisions of the Listing Rules but also has abided by the PRC Company Law and the applicable laws, regulations and regulatory requirements of Hong Kong and the PRC as the basic guidelines for the Company's corporate governance. Throughout the six months ended 30 June 2018, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

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 by the Company, each of the directors and the supervisors has confirmed his/her compliance with the Model Code in connection with the transactions of the Company's securities for the six months ended 30 June 2018.

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

As at 30 June 2018, 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 pursuant to the Model Code.

As at 30 June 2018, 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 above shares or debentures.

MATERIAL INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2018, 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	Class of shares	Capacity	Number of shares held	Percentage of the respective class of share (%)	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 Group Co., Ltd.	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
BlackRock, Inc.	H shares	Interests of controlled corporations	216,646,179 (L)	9.06	3.13
		Interests of controlled corporations	172,000 (S)	0.01	0.00

Name of shareholder	Class of shares	Capacity	Number of shares held	Percentage of the respective class of share (%)	Percentage of the total number of shares in issue (%)
JPMorgan Chase & Co.	H shares	22,088,491 shares as Beneficial owner; 112,000 shares as Investment manager and 193,133,730 shares as Approved lending agent	215,334,221 (L)	9.00	3.11
		Beneficial owner	8,570,748 (S)	0.35	0.12
		Approved lending agent	193,133,730 (P)	8.07	2.79
Citigroup Inc.	H shares	4,361,062 shares as Interests of controlled corporations; 10,754,000 shares as person having a security interest in shares and 150,604,251 shares as Approved lending agent	165,719,313 (L)	6.92	2.39
		Interests of controlled corporations	170,000 (S)	0.00	0.00
		Approved lending agent	150,604,251 (P)	6.29	2.17
Invesco Asset Management Limited	H shares	Investment manager	143,998,000 (L)	6.02	2.08

Remarks:

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

Save as stated above, as at 30 June 2018, in the register required to be maintained under Section 336 of the SFO, no other persons were recorded to hold any interests or short positions in the shares or underlying shares of the equity derivatives of the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2018, 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 growth of the telecommunications industry in China, the development of the regulatory environment and our ability 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 of the Company may differ materially from the information contained in the forward-looking statements as a result of a number of factors.

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