



中國通信服務
CHINA COMSERVICE

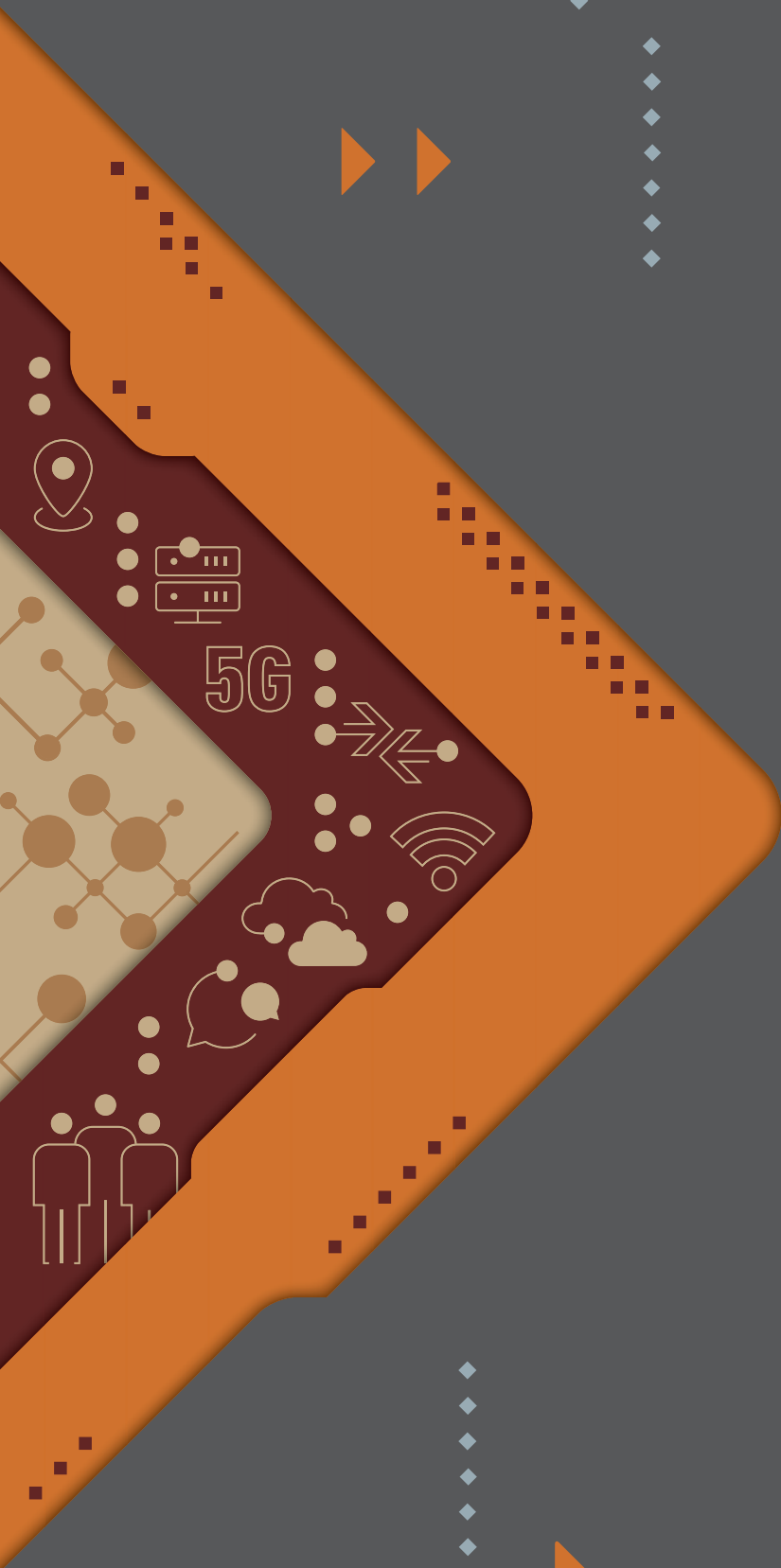
China Communications Services
Corporation Limited

中國通信服務股份有限公司

(A joint stock limited company incorporated in the
People's Republic of China with limited liability)

(於中華人民共和國註冊成立之股份有限公司)

Stock code 股份代號 : 552



REFORM AND
INNOVATION
VALUE CREATION

改革創新 創造價值

INTERIM REPORT
中期報告 2022

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▶▶ REFORM
改革

▶▶ INNOVATION
創新

▶▶ VALUE
CREATION
創造價值

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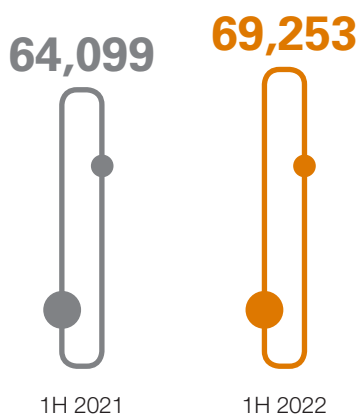
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HIGHLIGHTS

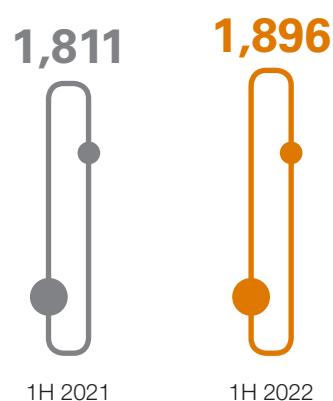
- The Group overcame the impact of the pandemic and achieved favourable growth in its operating results.
 - Total revenues were RMB69,253 million, up by 8.0%.
 - Profit for the period (including non-controlling interests) was RMB1,957 million, up by 7.4%, with profit margin remaining stable.
 - Profit attributable to equity shareholders of the Company was RMB1,896 million, up by 4.6%.
- The Group seized the opportunity in the upgrading of industries through intelligentization, and continued to enhance its technological innovation capabilities, thus driving consistent rapid growth of revenue from applications, content and other services, with its growth rate reached approximately 30%, making such business segment the most crucial driver of overall revenue growth for the first time.
- The Group maintained relatively fast growth in the domestic telecommunications operator market, with revenue up by 9.2%.
- The Group pursued high-quality development in the domestic non-operator market, with revenue up by 6.5%.
- The Group will forge ahead with the strategic position of “1 Positioning, 4 Roles” consistently to seize important strategic opportunities such as the national digital economy, East-To-West Computing Resource Transfer and Dual Carbon.

	Six months ended 30 June		
	2022	2021	Change
Revenues (RMB million)	69,253	64,099	8.0%
Gross profit (RMB million)	7,293	6,833	6.7%
Profit attributable to equity shareholders of the Company (RMB million)	1,896	1,811	4.6%
Basic earnings per share (RMB)	0.274	0.262	4.6%
Free cash flow ¹ (RMB million)	(2,607)	(1,515)	—

Revenues (RMB million)



Profit Attributable to Equity Shareholders of the Company (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 2022, with the robust development of the digital economy in China, and digital industrialization as well as industrial digitalization transformation entering a new stage, the Group firmly seized the strategic opportunities of digitalization revolution in society by actively leveraging its advantages as a “New Generation Integrated Smart Service Provider”. Amid the concurrent spread of the pandemic in multiple regions and the protracted impact of the pandemic in some key areas, the Group achieved favourable results by focusing on its value creation and accelerating the enhancement of its capabilities in market competitiveness, technological innovation, reform impetus, ecosystem collaboration and risk control, and continued to promote its high-quality development. The Group actively engaged in project construction and communications support services in “Beijing 2022 Winter Olympic and Paralympic Winter Games”. By committing itself to the national strategy of “Carbon Peak, Carbon Neutrality” (“Dual Carbon”), and actively fulfilling its social responsibility, the Group continued to create more value for its shareholders, customers and society.

I FAVOURABLE OPERATING PERFORMANCE IN THE FIRST HALF OF THE YEAR DEMONSTRATED RESILIENCE AMID THE PANDEMIC

By grasping the opportunities arising from the acceleration in digital infrastructure construction and promotion of the integrated development of digital economy and real economy in China, the Group expanded its businesses actively and overcame the negative impacts brought by the concurrent spread of pandemic in multiple regions and the protracted impact of the pandemic in some key regions. As such, the Group achieved overall steady growth in the first half of the year. In the first half of the year, the Group's total revenues were RMB69,253 million, representing a year-on-year increase of 8.0%. Cost of revenues was RMB61,960 million, representing a year-on-year increase of 8.2%. Gross profit was RMB7,293 million, representing a year-on-year increase of 6.7%. Gross profit margin was 10.5%, representing a moderated decline.

Selling, general and administrative expenses were RMB5,920 million, accounting for 8.5% of the total revenues, representing a year-on-year decrease of 0.1 percentage point. Profit attributable to the equity shareholders of the Company was RMB1,896 million, representing a year-on-year increase of 4.6%. Net profit margin was 2.7%. Profit for the period including non-controlling interests¹ was RMB1,957 million, representing a year-on-year increase of 7.4%, and profit margin was 2.8%, which remained largely stable year-on-year. Basic earnings per share were RMB0.274, representing a year-on-year increase of 4.6%.

¹ Since China Comservice Supply Chain Management Company Ltd., a subsidiary of the Group, introduced strategic investors in June 2021, the Group's equity shareholding decreased from 100% to 73.985%. The change in noncontrolling interests impacted net profit.

CHAIRMAN'S STATEMENT (CONTINUED)

II "1 POSITIONING, 4 ROLES" STRATEGIC POSITION DROVE HIGH-QUALITY DEVELOPMENT

In the first half of the year, the Group adhered to its strategic positioning as a "New Generation Integrated Smart Service Provider", actively leveraged advantages of "Builder of Digital Infrastructure", "Provider of Smart Products and Platforms", "Service Provider of Data Production" and "Guard of Smart Operation", focusing on developing key areas, including 5G, digital information infrastructure construction, digital government, smart city and smart transportation. Apart from making progress and enhancing quality amid steady growth, the Group's corporate strength and brand image received wider recognition from customers.

(a) Favourable Growth Achieved in Three Major Markets

- 1. New progress made in penetrating the key areas in domestic non-telecom operator ("domestic non-operator") market.** Riding on the social and technological development trend, the Group stepped up investment in research and development (R&D) and the commercialization of R&D results. To this end, the Group utilized the advantages of "Consultant + Staff + Housekeeper"² service model and the strengths of its integrated capabilities in "Platform + Software + Service"³ to upgrade and conduct the iteration of its integrated smart services continuously. In the first half of the year, the Group's revenue from the domestic non-operator market was RMB31,173 million, representing an increase of 6.5%, accounting for 45.0% of the total revenues. Benefitting from the important opportunities arising from industrial digitalization, new infrastructure and green and low-carbon, the Group achieved high growths in its applications, content and other ("ACO") services and the important business focus in high-value fields such as data centers, smart products, and "Dual Carbon" in such market, fully demonstrating the advantages of the Group as the "Builder of Digital Infrastructure", "Provider of Smart Products and Platforms" and "Service Provider of Data Production".
- 2. Domestic telecommunications operator market drove growth in the overall results.** The Group adhered to the development strategy of "CAPEX + OPEX + Smart Applications"⁴, seized opportunities from "East-To-West Computing Resources Transfer", the change of focus of domestic telecommunications operator customers from traditional network infrastructure construction to new digital infrastructure construction, and their move to accelerate the development of new businesses such as industrial digitalization. Besides, the Group vigorously enhanced its capabilities in general contracting services, "Dual Carbon" (energy-saving and retrofit) and cybersecurity, thus making domestic telecommunications operator market the major driver of growth in the Group's overall results. In the first half of the year, the Group's revenue from the domestic telecommunications operator market was RMB36,529 million, representing a year-on-year increase of 9.2%, accounting for 52.8% of the total revenues, which increased by 0.6 percentage point year-on-year. The Group put great effort in the development of ACO services such as system integration and software development in domestic telecommunications operator market, resulting in further optimization of its revenue structure in such market, which fully demonstrated the Group's value as the "Builder of Digital Infrastructure" and "Guard of Smart Operation".

² "Consultant + Staff + Housekeeper" service model is a unique business model adopted by the Group in recent years. "Consultant" means that the Group acts as the "Consultant" to help its customers through leveraging its talents and product advantages, so as to turn customers' needs into feasible solutions or projects. "Staff" means that the Group, as appointed by its customers, assists them in the capacity of "Staff" in coordinating other stakeholders of the project, so as to promote the smooth implementation of the project and ensure that its customers' expectation could be achieved. "Housekeeper" means the Group provides full life cycle management and accompanying service of the relevant business and creates values for customers.

³ "Platform + Software + Service" capabilities: utilize core foundation platforms, including cybersecurity and IoT, focus on various smart applications for customer scenarios and the integrated service capabilities covering consultation and planning, project construction, operation and maintenance, to provide customers with customized integrated solutions.

⁴ "CAPEX + OPEX + Smart Applications": CAPEX refers to the capital expenditure of domestic telecommunications operators while OPEX refers to the operating expenditure of domestic telecommunications operators.

CHAIRMAN'S STATEMENT (CONTINUED)

- 3. Achieving growth in overseas market despite risks and challenges.** In the first half of the year, the Group endeavoured to overcome the impacts of the protracted pandemic as well as the political and economic risks overseas, and conducted businesses safely and prudently in the overseas market. Major projects of the Group in regions such as the Middle East, Southeast Asia achieved good results steadily. The Group's revenue from the overseas market was RMB1,551 million, representing a year-on-year increase of 12.7%, accounting for 2.2% of the total revenues.

(b) Rapid Development of Industrial Digitalization-related Businesses

By paying close attention to the demand of industrial digitalization upgrade, the Group developed markets such as those for digital transformation and the upgrading of infrastructure through intelligentization, strengthened the iterative development of smart products and solutions, expedited the commercialization of R&D results, thus leading to the growth of related businesses.

Revenue from telecommunications infrastructure ("TIS") services recorded steady growth and amounted to RMB35,049 million in the first half of the year, representing an increase of 1.5% year-on-year, accounting for 50.6% of total revenues. Revenue from business process outsourcing ("BPO") services grew steadily and amounted to RMB21,537 million, representing an increase of 8.8% year-on-year, accounting for 31.1% of total revenues.

Revenue from ACO services, which has the closest relation with industrial digitalization, grew rapidly and amounted to RMB12,667 million, representing a fast, year-on-year increase of 29.7%, accounting for 18.3% of total revenues, up by 3.1 percentage points year-on-year, making such business the most crucial growth driver of the Group's revenue. Among which, the revenue from system integration increased rapidly by 34.5% year-on-year, and the revenue from software development and system support increased rapidly by 26.6% year-on-year. The Group successfully won the tender for various large-scale software development projects such as Chongqing Big Data and Applications Platform and the Technological Development Project of China Southern Airlines Product Centre, indicating the remarkable enhancement of the Group's enterprise software capability.

(c) "1 Positioning, 4 Roles" Drove Development

- 1. Penetrating "Digital Infrastructure" to realize rapid growth.** The Group actively aligned its business development with the national strategies of "East-to-West Computing Resources Transfer" and "Dual Carbon". As a result, the value of the Group's new contracts signed for data centers and electricity industry increased by more than 30% and approximately 30% year-on-year, respectively. General contracting projects for large-scale data centers undertaken by the Group, including the Data Room of Big Data Industrial Park in Lanzhou New District of Gansu Province and JD Cloud & AI Hybrid Cloud Computing Center, were well-received by important customers. China Telecom (National) Digital Qinghai Green Big Data Center, the Group's general contracting project, was the first 100% traceable clean energy green big data center in China, which was also the first big data center as an exemplary model built with source-grid-load-storage integration, green energy and smart supply system.

CHAIRMAN'S STATEMENT (CONTINUED)

- Achieving breakthroughs in the capability of developing “Smart Products and Platforms”.** The Group intensively developed the markets of several key fields by announcing and launching its proprietary and controllable R&D and technology middle platforms such as R&D Innovation Middle Platform and Open IoT Platform. In respect of cybersecurity, the Group released platforms such as Enterprise Asset Security Management Platform and Internet Exposure Surveying and Mapping Operation Platform, and has gradually built up a system of cybersecurity products and services which was proprietary, controllable and specialized, thus becoming a participant in the field of cybersecurity. In terms of emergency management, the Group forged the Emergency Management and Rescue Command Platform as well as the Safe Production Monitoring and Risk Warning Platform, and the sales of such proprietary products drove up the value of the contracts from emergency informatization and other businesses to more than RMB1 billion.
- Promoting “Data Production Service” to develop benchmark projects.** The Group put in extensive efforts to promote smart products and solutions such as smart city, smart education and smart park. The value of the new contracts signed regarding the relevant businesses increased by more than 20% year-on-year in the first half of the year. Successful benchmark cases of integrated smart services continued to rise. For example, the Group supported the New Smart City Construction in Wuchuan County, Guangdong Province, built Smart Campus for the Tianfu Campus of the Civil Aviation Flight University of China and Smart Industrial Park for the Guanggu Nanda Health Industrial Park in Wuhan, Hubei Province.
- Excelling in “Guarding Smart Operation” to gain market recognition.** The Group continued to provide services such as smart supply chain, smart maintenance and smart property management. In the first half of the year, the value of new contracts signed regarding the supply chain business increased by more than 20% year-on-year. The Group provided supply chain services to domestic telecommunications operators, including warehousing, logistics and distribution, participated in IT distribution of relevant well-known e-commerce companies and provided integrated supply chain services, including platform operation, customer service, logistics and distribution, sales and marketing of products in subdivided industries, which were well recognized by customers.

CHAIRMAN'S STATEMENT (CONTINUED)

III FOCUSING ON “FIVE CAPABILITIES” TO BUILD CORE COMPETENCE IN “1 POSITIONING, 4 ROLES”

The Group, as a leading “New Generation Integrated Smart Service Provider” in the industry, further demonstrated its core competence as the “Builder of Digital Infrastructure”, “Provider of Smart Products and Platforms”, “Service Provider of Data Production” and “Guard of Smart Operation” by enhancing its capabilities in market competitiveness, technological innovation, reform impetus, ecosystem collaboration, and risk control. This drove value creation, revenue growth, and promoted high-quality development.

- 1. Enhancing market competitiveness to bring new growth momentum.** The Group focused on business expansion in areas such as data center and “Dual Carbon”, and continued to develop integrated general contracting capabilities; it continued to strengthen the synergy in key regions, namely the Beijing-Tianjin-Hebei Area, the Yangtze River Delta, the Guangdong-Hong Kong-Macao Area, and Chengdu-Chongqing Area; it also enhanced its integrated service capability according to customers’ needs and demand; it set up service centers for key customers and strengthened sales and marketing strategies targeted at leading customers in key industries; it further optimized the three-tier marketing system of “province-city-county” to build a professional marketing and sales team; it established a professional team for value enhancement to strengthen subcontracting management and enhance high-quality project delivery capability. The Group also focused on strategically important opportunities arising from “East-to-West Computing Resource Transfer”, and leveraged its advantages of integrating multiple professions and the interconnection of multiple areas by utilizing its consultation capability based on its BIM, and green and low-carbon capabilities, to successfully develop general contracting projects, including Hubei (National) Broadband Research and Development Centre, Data Center Project for Shaanxi Balasu Mine and Coal Preparation Plant, and Anhui Hua’an Securities Building Data Room Project in Binhu.
- 2. Boosting technological innovation capability to add new impetus to development.** The Group directed its technological innovation according to strategic planning, continued to step up investment in technology research and development, and optimized research and development management system and production system. In the first half of the year, the Group’s investment in research and development increased by over 18% year-on-year. The research and development effort became an important contributor to revenue growth. The Group founded industrial research institutions in various fields, including smart sport, blockchain, digital infrastructure and emergency management, and built a think tank, a prime team, digitalized platforms, products and solutions to serve the industry. The Group forged and launched capabilities middle platforms to promote the digital transformation of technological innovation, which enhanced the management efficiency and quality of production. The Group sought to strengthen the research and development of a series of industrial applications and products, including cybersecurity, digital government, smart education, smart transportation and smart park, to serve customers’ needs. The Group undertook projects such as BMW Brilliance Automotive Distributed Photovoltaic Power Generation Project in its new plant in Shenyang, Liaoning Province, and China Telecom (Hunan) Photovoltaic Energy Storage System Construction General Contracting Project, to help customers reduce energy consumption substantially, save energy and reduce emissions. The Group participated in the compilation and drafting of the “Construction Plan of National Hub Node Integrated Computing Power Network in Yangtze River Delta Region” which was approved by relevant government authority.

CHAIRMAN'S STATEMENT (CONTINUED)

- 3. Adding impetus to reform and inducing vitality for development.** The Group continued to optimize the modern enterprise system and deepen the reform of both China Comservice Supply Chain Management Company Ltd., a subsidiary of the Group, and of its property business. The Group continued to improve the market-oriented business operation mechanism by thoroughly carrying out subdivision assessment and providing incentives for operating units at basic level and further facilitating centralized procurement; the Group pressed on with the reform of human resources system through optimizing its incentive mechanism and building up a team of core young talents. As directed by results contribution, the Group comprehensively implemented the tenure system and contract management measures for the management level, as well as the Share Appreciation Rights Incentive Scheme. Such initiatives were directed at key talents, technology talents and experts who had made distinguished contribution. This helped to create a people-oriented and talent-oriented working environment.
- 4. Bolstering collaboration with ecosystem to build new drivers of development.** The Group continued to strengthen the synergy within the enterprise, the industry, the value chain of the industry and the supply chain. The Group sought to foster effective collaboration with telecommunications operator customers, non-operator customers and business partners along the value chain of the industry in various areas, including data center construction, 5G applications, and green and low-carbon practices. The Group actively formed partnerships with companies which were competitive with unique technological advantages to build integrated service capabilities as new driver of development and to promote the building of a unified, open, and orderly competitive value chain and ecosystem. The Group also entered into strategic cooperation agreement with multiple partners within the ecosystem of cybersecurity to jointly provide smart solutions.
- 5. Enhancing risk control capability to take up new challenges in development.** The Group continued to implement risk prevention measures prudently and precisely. Among which, the Group sought to improve the risk prevention system and work mechanism throughout the whole process and the whole value chain of its business. The Group put effort to strengthen its fundamental management, refine policies and mechanisms, improve internal control processes, as well as to enhance its capability to prevent and control operational risks. The Group strove to mitigate the risks brought by dynamic changes in business conditions, the concurrent pandemic outbreak in multiple regions and instability in some overseas regions to ensure stable development.

IV ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

As a "New Generation Integrated Smart Service Provider", the Group persisted in integrating ESG responsibilities into its corporate production and operation management by strictly complying with laws and regulations, standardizing operation, and adopting green practices in operation to ensure its healthy and sustainable development.

While actively participating in the project construction and the provision of key communications support services to the "Beijing 2022 Winter Olympic and Paralympic Winter Games", the Group was committed to providing communications support for key events, including the meeting celebrating the 25th anniversary of Hong Kong's return to the motherland and the inaugural ceremony of the sixth-term government of the Hong Kong Special Administrative Region and the flight of China's new carrier rocket, Long March-8.

CHAIRMAN'S STATEMENT (CONTINUED)

The Group actively responded to the requirements of the national “Dual Carbon” strategy, formulating and implementing a plan for green, low-carbon practices and related action plans. The Group provided energy-saving retrofit services for China Telecom Beijing Yongfeng IDC Data Center, which was expected to reduce energy consumption by more than 20%.

The Group actively participated in community voluntary services and provided emergency services such as communications network operation and maintenance services, maintenance services for online platforms for pandemic prevention and module hospitals communications network construction services in regions that were affected by the sudden spread of pandemic, including Shanghai, Guangdong and Hong Kong. The Group assisted in pandemic precise prevention as well as the resumption of work and production by developing “Digital Sentinel” and other anti-epidemic informatization products and services. The Group promptly provided emergency communications support services and emergency repair of communications network in major natural disaster incidents such as the earthquake that struck Ya’an in Sichuan, the flood that hit Qiandongnan Prefecture in Guizhou, and in emergency incidents such as the China Eastern Airlines Flight MU5735 aircraft accident.

The Group strengthened the effective coordination between poverty alleviation and rural revitalization, and assisted the development of special industries of the rural villages in poverty alleviation areas. By facilitating the key work of digital village construction, carrying out poverty alleviation work through stimulating consumption, the Group took initiatives in the matching of production and marketing activities.

By means of prompt and full settlement of outstanding payables, rent concession, fee reduction and quality improvement, the Group effectively helped small and medium-sized enterprises to alleviate financial difficulties, reduce operating costs and get through the difficult times amid the pandemic.

The Group attaches great importance to corporate governance, and keeps strengthening board practices as well as improving corporate governance. The Group has won recognition of the capital market for its good performance in corporate governance. The Group ranked 102th in the “2022 FORTUNE China 500” and ranked 1,649th in the “2022 Forbes Global 2000”. It was awarded the title of “Most Honored Company” in the “2022 Asia Executive Team Rankings” by *Institutional Investor*, in the telecommunications sector in the Overall (Small & Midcap) category, and ranked first in a few award categories, including “Best CEO” and “Best CFO”.

CHAIRMAN'S STATEMENT (CONTINUED)

V OUTLOOK

Currently, digital economy is driving a profound reform in the mode of production, lifestyle and governance, which has become a powerful driver of the sustainable and healthy development of the economy and society. Adhering to the strategic position of “1 Positioning, 4 Roles” and being committed to its corporate mission of “Building Smart Society, Boosting Digital Economy, Serving a Good Life”, the Group will participate in the digitalization revolution more actively, continue to seek new opportunities in the new development phase, fulfil new development mission, and form new landscape of development. By adhering to its overall roadmap of “value-driven, seeking steady yet progressive growth and high-quality development”, the Group continues to optimize its market deployment, focus on high-value customers and expand into high-value fields. As a customer-centric company, the Group will satisfy customers’ demand for professional, integrated and customized services, and continue to strengthen its efficient and high-quality integrated service capabilities. By forging ahead with technological innovation as the key to its development, increasing investment in research and development, optimizing technological innovation system, and focusing on developing proprietary technology of digital applications, the Group will accelerate its transformation towards technology-oriented enterprise. The Group will strive to achieve breakthroughs in the proprietary applications of technologies such as cloud, big data, IoT and artificial intelligence, as well as integrated solutions applicable to social, industrial and enterprise transformation. The Group will continue to refine its core enterprise platforms such as platforms for emergency and cybersecurity, keep exporting its expertise, keep innovating proprietary technologies of conventional fields such as engineering and design and speed up the construction of research institutes that specialized in blockchain, smart city, data center and green technology for dual carbon. The Group will also optimize its deployment in ecosystem, further enrich the connotation of a “New Generation Integrated Smart Service Provider” and improve its capabilities so as to create more value for shareholders, customers, employees and society at large.

Last but not least, 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 care and support, and deeply thank all of our employees for their continued dedication and hard work. I would also like to express my sincere gratitude to Mr. Mai Yanzhou, who resigned as non- executive director, Mr. Wu Taishi and Mr. Liu Linfei, who resigned as the independent non-executive directors, Mr. Hai Liancheng, the resigned independent supervisor and Mr. Si Jianfei, the resigned employee representative supervisor, for their remarkable and outstanding contribution to the development of the Group during their tenure; I would also like to extend my sincere welcome to Mr. Wang Qi and Mr. Wang Chungue who have joined the Board, and Ms. Cai Manli and Ms. Liu Lian who have joined the Supervisory Committee, respectively.



Liu Guiqing
Chairman

Beijing, PRC
25 August 2022

FINANCIAL REVIEW

TOTAL REVENUES

In the first half of 2022, the Group continued to adhere to the overall roadmap of “value-driven, seeking steady yet progressive growth and high-quality development” and positioned itself as a “New Generation Integrated Smart Service Provider”. While facing the complicated dynamics at home and abroad, the Group seized significant strategic opportunities from national digital economy, East-To-West Computing Resource Transfer and Dual Carbon, overcame the impacts of the pandemic, thus realizing favourable growth of operating results, with the total revenues amounting to RMB69,253 million, representing an increase of 8.0% compared to RMB64,099 million in the first half of 2021.

Revenue by Business

In the first half of the year, the revenue from telecommunications infrastructure (“TIS”) services was RMB35,049 million, representing a year-on-year increase of 1.5%. Revenue from business process outsourcing (“BPO”) services was RMB21,537 million, representing a year-on-year increase of 8.8%. Revenue from applications, content and other (“ACO”) services was RMB12,667 million, representing a year-on-year increase of 29.7%.

During the first half of the year, the resurgence of the pandemic in many cities of China had caused relatively large impact on businesses such as construction, so the growth of TIS revenue slowed down. In response to the pandemic, the Group proactively pressed on with the resumption of work and production on the premise of ensuring safe production. The Group grasped the demand in industrial digitalization firmly and seized development opportunities of traditional industrial digitalization and intelligentization reform, and made effort to strengthen innovation as well as research and development continuously by iterative upgrade on its smart products and solutions. The above efforts stimulated our business development, such as system integration and software development businesses, thus making ACO services continued to be our fastest-growing business and became the biggest contribution to overall operating revenue increment. Among which, revenue from system integration business amounted to RMB8,360 million, representing a rapid year-on-year increase of 34.5%; revenue from software development and system support businesses amounted to RMB1,987 million, representing a rapid year-on-year increase of 26.6% and maintaining a more than 20% growth for three consecutive years.

Revenue by Market

During the first half of 2022, the Group’s revenue from the domestic telecommunications operator market amounted to RMB36,529 million, representing a year-on-year increase of 9.2%. Revenue from the domestic non-operator market amounted to RMB31,173 million, representing a year-on-year increase of 6.5%. Revenue from the overseas market amounted to RMB1,551 million, representing a year-on-year increase of 12.7%.

During the first half of 2022, the Group persisted in the “CAPEX + OPEX + Smart Applications” development strategy and seized business opportunities from domestic telecommunications operators in their expansion on government and enterprise businesses as well as the development on industrial digitalization business. The Group proactively engaged in the whole process of operators’ transformation and strengthened its market competitiveness, thus making domestic telecommunications operator market contributed meaningfully to the results growth of the Group. Meanwhile, the Group continued to advance on the expansion of domestic non-operator market, optimize business structure, transform development towards high-value fields and strengthen growth momentum, hence revenue from such market maintained a steady growth.

FINANCIAL REVIEW (CONTINUED)

COST OF REVENUES

In the first half of 2022, the cost of revenues of the Group amounted to RMB61,960 million, representing a year-on-year increase of 8.2%. Among which, direct personnel costs amounted to RMB4,030 million, representing a decrease of 2.3% from RMB4,123 million in the first half of 2021; subcontracting charges amounted to RMB38,063 million, representing an increase of 9.5% from RMB34,747 million in the first half of 2021; materials costs amounted to RMB10,896 million, representing an increase of 23.4% from RMB8,830 million in the first half of 2021. The Group strictly controlled its costs and initiated measures for efficiency enhancement effectively, and allocated controllable costs proactively and reasonably with its business development needs and enhanced effectiveness and efficiency with the same amount of resources input. The reason for the relatively fast increase in materials costs was mainly due to the optimization of the Group's business model and its initiative in undertaking major projects in general contracting model. Besides, the fast growth of system integration business, which involved relatively more material costs, also drove the rise of materials costs.

GROSS PROFIT

In the first half of 2022, the Group recorded gross profit of RMB7,293 million, representing an increase of 6.7% from RMB6,833 million in the first half of 2021. The Group's gross profit margin in the first half of 2022 was 10.5%, representing a decrease of 0.2 percentage point from 10.7% in the first half of 2021. As affected by multiple factors, including the decrease of business unit price, impact posed by the pandemic and the increase of rigid costs of the Group, gross profit margin of the Group in the first half of the year decreased. Meanwhile, the Group endeavoured to improve its gross profit margin through uplifting its business value creation capabilities, continuous enhancement of project management and cost control, as well as the implementation of cost reduction and efficiency enhancement measures. As a result, the decline of gross profit margin moderated compared with that in the previous year. With the Group's deployment in digital economy, smart society and new infrastructure areas starting to bear fruit, and the further implementation of efficiency enhancement tasks, it is expected that the Group's gross profit margin will be stabilized in the future.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

In the first half of 2022, the selling, general and administrative expenses of the Group were RMB5,920 million, representing an increase of 7.7% from RMB5,497 million in the first half of 2021. The growth rate of selling, general and administrative expenses was lower than the growth rate of the cost of revenues since the Group undertook effective cost reduction and efficiency enhancement measures. The selling, general and administrative expenses of the group accounted for 8.5% of the total revenues, representing a decrease of 0.1 percentage point over the same period of the last year.

PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

In the first half of 2022, profit attributable to equity shareholders of the Company was RMB1,896 million, representing an increase of 4.6% from RMB1,811 million in the first half of 2021.

FINANCIAL REVIEW (CONTINUED)

CASH FLOW

The Group recorded a net cash outflow of RMB3,170 million in the first half of 2022, as compared to a net cash outflow of RMB3,154 million in the first half of 2021. The changes in the macroeconomic environment and the pandemic impact caused delay in accounts receivables settlement from the Group's customers, and led to an increase in cash outflow from operating activities. The Group persists in enhancing its working capital management and will continue to strengthen relating measures to maintain cash flow at a healthy level.

ASSETS AND LIABILITIES

The Group continued to maintain its solid financial position. As of 30 June 2022, the Group's total assets was RMB107,005 million, representing an increase of RMB6,977 million from RMB100,028 million as of 31 December 2021. Total liabilities was RMB66,497 million, representing an increase of RMB6,079 million from RMB60,418 million as of 31 December 2021. The liabilities-to-assets ratio was 62.1%, which slightly increased compared with that as of 31 December 2021.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



羅兵咸永道

TO THE BOARD OF DIRECTORS OF CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

(incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 15 to 44, which comprises the interim condensed consolidated statement of financial position of China Communications Services Corporation Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2022 and the condensed consolidated statement of profit or loss, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and notes, comprising significant accounting policies and other explanatory information. The 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”. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information 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 International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information 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 International Standard 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 the interim financial information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 25 August 2022

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2022

	Notes	Six months ended 30 June	
		2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Revenues	5	69,253,054	64,099,151
Cost of revenues	6	(61,959,523)	(57,266,212)
Gross Profit		7,293,531	6,832,939
Other income	7	940,290	842,304
Selling, general and administrative expenses		(5,920,198)	(5,496,844)
Other expenses		(76,212)	(64,766)
Finance costs	8	(42,401)	(33,761)
Share of profits of associates and joint ventures		39,125	34,370
Profit before tax	9	2,234,135	2,114,242
Income tax	10	(277,051)	(291,795)
Profit for the period		1,957,084	1,822,447
Attributable to:			
Equity shareholders of the Company		1,895,576	1,811,462
Non-controlling interests		61,508	10,985
Profit for the period		1,957,084	1,822,447
Basic/diluted earnings per share (RMB)	13	0.274	0.262

The above condensed consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	Notes	Six months ended 30 June	
		2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Profit for the period		1,957,084	1,822,447
Other comprehensive income/ (expense) (after tax)	11		
Item that will not be reclassified to profit or loss (after tax):			
Equity instruments at fair value through other comprehensive income:			
Net movements in the fair value reserve		122,096	(158,839)
Item that may be subsequently reclassified to profit or loss (after tax):			
Exchange differences on translation of financial statements of subsidiaries outside Mainland China		17,275	(7,444)
		139,371	(166,283)
Total comprehensive income for the period		2,096,455	1,656,164
Attributable to:			
Equity shareholders of the Company		2,034,744	1,645,209
Non-controlling interests		61,711	10,955
Total comprehensive income for the period		2,096,455	1,656,164

The above condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

	Notes	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Non-current assets			
Property, plant and equipment, net		6,164,781	6,212,786
Right-of-use assets		2,537,728	2,422,952
Investment properties		1,730,765	1,729,906
Construction in progress		433,691	576,405
Goodwill		103,005	103,005
Intangible assets		663,123	683,477
Interests in associates and joint ventures		1,258,020	1,285,547
Financial assets at fair value through profit or loss		160,556	111,330
Equity instruments at fair value through other comprehensive income		3,834,500	3,672,472
Deferred tax assets		899,759	758,187
Other non-current assets	14	5,863,968	3,196,158
Total non-current assets		23,649,896	20,752,225
Current assets			
Inventories		1,537,739	1,492,011
Accounts and bills receivable, net	15	23,154,299	18,254,155
Contract assets, net	16	24,608,942	21,534,745
Prepayments and other current assets		13,210,413	11,102,020
Financial assets at fair value through profit or loss		1,457,250	3,364,554
Restricted deposits		1,346,727	2,357,234
Cash and cash equivalents	17	18,039,422	21,171,025
Total current assets		83,354,792	79,275,744
Total assets		107,004,688	100,027,969
Current liabilities			
Interest-bearing borrowings	18	761,037	723,024
Accounts and bills payable	19	42,849,020	36,319,980
Current portion of lease liabilities		450,386	490,859
Contract liabilities	20	8,922,978	11,449,171
Accrued expenses and other payables	21	10,854,061	9,090,865
Income tax payable		361,390	239,624
Total current liabilities		64,198,872	58,313,523
Net current assets		19,155,920	20,962,221
Total assets less current liabilities		42,805,816	41,714,446

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2022

	Notes	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Non-current liabilities			
Interest-bearing borrowings	18	88,930	89,808
Lease liabilities		1,227,778	1,071,944
Other non-current liabilities	22	217,792	197,623
Deferred tax liabilities		764,113	744,951
Total non-current liabilities		2,298,613	2,104,326
Total liabilities		66,497,485	60,417,849
Equity			
Share capital	23	6,926,018	6,926,018
Reserves		32,316,353	31,481,196
Equity attributable to equity shareholders of the Company		39,242,371	38,407,214
Non-controlling interests		1,264,832	1,202,906
Total equity		40,507,203	39,610,120
Total liabilities and equity		107,004,688	100,027,969

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

The condensed consolidated financial information on pages 15 to 44 were approved and authorised for issue by the board of directors on 25 August 2022 and are signed on its behalf by:

Liu Guiqing
Chairman

Zhang Xu
Executive Vice President and Chief Financial Officer,
Executive Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

Equity attributable to equity shareholders of the Company												
Notes	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory			Exchange reserve RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
				surplus reserve RMB'000	Specific reserve RMB'000	Fair value reserve RMB'000						
Balance as at 1 January 2022 (audited)	6,926,018	4,529,310	2,036,326	1,706,073	359,093	2,149,333	(47,892)	(68,310)	20,817,263	38,407,214	1,202,906	39,610,120
Changes in equity for the six months ended 30 June 2022												
Profit for the period	-	-	-	-	-	-	-	-	1,895,576	1,895,576	61,508	1,957,084
Other comprehensive income for the period	-	-	-	-	-	122,096	17,072	-	-	139,168	203	139,371
Total comprehensive income for the period	-	-	-	-	-	122,096	17,072	-	1,895,576	2,034,744	61,711	2,096,455
Dividend declared	12(b)	-	-	-	-	-	-	-	(1,199,587)	(1,199,587)	-	(1,199,587)
Appropriation of specific reserve		-	-	-	339,720	-	-	-	(339,720)	-	-	-
Utilisation of specific reserve		-	-	-	(307,860)	-	-	-	307,860	-	-	-
Capital contribution from non-controlling interests		-	-	-	-	-	-	-	-	-	215	215
Balance as at 30 June 2022 (unaudited)	6,926,018	4,529,310	2,036,326	1,706,073	390,953	2,271,429	(30,820)	(68,310)	21,481,392	39,242,371	1,264,832	40,507,203
Balance as at 1 January 2021 (audited)	6,926,018	4,529,310	1,851,748	1,560,954	313,782	2,666,260	(22,635)	(68,310)	18,960,557	36,717,684	469,290	37,186,974
Changes in equity for the six months ended 30 June 2021												
Profit for the period	-	-	-	-	-	-	-	-	1,811,462	1,811,462	10,985	1,822,447
Other comprehensive expense for the period	-	-	-	-	-	(158,839)	(7,414)	-	-	(166,253)	(30)	(166,283)
Total comprehensive (expense)/ income for the period	-	-	-	-	-	(158,839)	(7,414)	-	1,811,462	1,645,209	10,955	1,656,164
Dividend declared	12(b)	-	-	-	-	-	-	-	(1,109,548)	(1,109,548)	-	(1,109,548)
Appropriation of specific reserve		-	-	-	342,693	-	-	-	(342,693)	-	-	-
Utilisation of specific reserve		-	-	-	(316,429)	-	-	-	316,429	-	-	-
Capital contribution from non-controlling interests		-	-	185,191	-	-	-	-	-	185,191	714,809	900,000
Others		-	-	-	-	750	-	-	(750)	-	(264)	(264)
Balance as at 30 June 2021 (unaudited)	6,926,018	4,529,310	2,036,939	1,560,954	340,046	2,508,171	(30,049)	(68,310)	19,635,457	37,438,536	1,194,790	38,633,326

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Operating activities		
Income tax paid	(305,303)	(264,802)
Other cash flows used in operating activities	(2,026,454)	(504,739)
Net cash used in operating activities	(2,331,757)	(769,541)
Investing activities		
Payment on acquisition of property, plant and equipment, construction in progress, intangible assets and right-of-use assets	(413,393)	(984,344)
Payments for acquisition of wealth management products and structured deposits	—	(4,688,000)
Proceeds from disposal of wealth management products and structured deposits	1,972,212	2,515,501
Payments for acquisition of deposits at financial institutions with original maturity more than one year	(2,530,000)	—
Proceeds from disposal of deposits at financial institutions with original maturity more than one year	500,000	—
Other cash flows generated (used in)/from investing activities	(160,261)	17,115
Net cash used in investing activities	(631,442)	(3,139,728)
Financing activities		
Proceeds from bank and other loans	134,254	121,886
Capital injection from non-controlling interests	215	900,000
Other cash flows used in financing activities	(341,292)	(266,752)
Net cash (used in)/ generated from financing activities	(206,823)	755,134
Net decrease in cash and cash equivalents	(3,170,022)	(3,154,135)
Cash and cash equivalents at the beginning of period	21,171,025	21,008,490
Effect of foreign exchange rate changes	38,419	(12,114)
Cash and cash equivalents at the end of period	18,039,422	17,842,241

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2022

1. PRINCIPAL ACTIVITIES

China Communications Services Corporation Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) is a leading service provider in the People’s Republic of China (the “PRC”) that provides integrated comprehensive smart solutions in the field of informatization and digitalization. The Group offers telecommunications infrastructure services, including design, construction and project supervision and management; business process outsourcing services, including management of infrastructure for information technology, general facilities management, supply chain and products distribution; and applications, content and other services, including system integration, software development and system support, and value-added services.

2. BASIS OF PREPARATION

The condensed consolidated interim financial information 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 2021 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 condensed consolidated interim financial information 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 condensed consolidated interim financial information has been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The condensed consolidated interim financial information 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 2021, except as described below.

In the current interim period, the Group has applied the following amendments to IFRSs, for the first time:

Amendments to IFRS3	Reference to the Conceptual Framework
Amendments to IAS16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to IAS37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018–2020

The adoption of above amendments in the current period has had no material effect on the Group’s condensed consolidated interim financial information.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

4. SEGMENT REPORTING

The Group principally has one operating segment, which is the provision of integrated comprehensive smart solutions in the field of informatization and digitalization. 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 comprehensive smart solutions.

The Group's revenues by business nature can be summarised as follows:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Revenue from telecommunications infrastructure services	35,049,501	34,547,384
Revenue from business process outsourcing services	21,536,968	19,787,107
Revenue from applications, content and other services	12,666,585	9,764,660
	69,253,054	64,099,151

The Group's major customers are telecommunications operators which include China Telecommunications Corporation and its subsidiaries (excluding the Group) ("CTC Group") and China Mobile Communications Group Co., Ltd. and its subsidiaries ("CM Group"). Revenues from the provision of integrated telecommunications support services to CTC Group and CM Group for the six months ended 30 June 2022 amounted to RMB22,725 million and RMB8,978 million, respectively (six months ended 30 June 2021: RMB19,121 million and RMB9,481 million, respectively), being 32.8% and 13.0% of the Group's total revenues, respectively (six months ended 30 June 2021: 29.8% and 14.8%, respectively). The revenues derived from areas outside Mainland China for the six months ended 30 June 2022 amounted to RMB1,551 million (six months ended 30 June 2021: RMB1,377 million).

For the six months ended 30 June 2022, the Group's top three business lines that contributed to the overall revenues were construction included in telecommunications infrastructure services, management of infrastructure for information technology included in business process outsourcing services and system integration included in applications, content and other services, the revenues derived from which amounted to RMB28,608 million, RMB8,910 million and RMB8,360 million, respectively (six months ended 30 June 2021: the Group's top three businesses that contributed to the overall revenues were construction included in telecommunications infrastructure services, management of infrastructure for information technology and supply chain service included in business process outsourcing services, the revenues derived from which amounted to RMB27,480 million, RMB7,914 million and RMB6,433 million, respectively). Revenues from contracts with non-telecom operators for construction included in telecommunications infrastructure services amounted to RMB15,300 million (six months ended 30 June 2021: RMB15,017 million).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

6. COST OF REVENUES

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Subcontracting charges	38,063,019	34,747,460
Materials costs	10,896,460	8,830,182
Direct personnel costs	4,029,803	4,123,111
Direct costs of products distribution	2,032,762	2,026,751
Expense relating to short-term leases and leases of low-value assets	580,360	550,050
Depreciation and amortisation	469,534	428,022
Others	5,887,585	6,560,636
	61,959,523	57,266,212

7. OTHER INCOME

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Interest income	247,017	164,260
Dividend income from equity instruments	176,683	161,695
Management fee income	151,853	152,906
Input tax credits	129,156	116,807
Government grants	124,164	116,117
Investment income and fair value gains on wealth management products and structured deposits	44,185	82,545
Gain on disposal of property, plant and equipment, intangible assets and right of assets	7,067	5,755
Penalty income	4,852	1,821
Others	55,313	40,398
	940,290	842,304

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

8. FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Interest on bank and other borrowings	13,126	9,310
Interest on lease liabilities	29,275	24,451
	42,401	33,761

For the six months ended 30 June 2022, no borrowing costs were capitalised in relation to construction in progress (six months ended 30 June 2021: nil).

9. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
(a) Staff costs:		
Salaries, wages and other benefits	7,310,779	7,071,360
Contributions to defined contribution retirement schemes	817,487	794,734
	8,128,266	7,866,094
(b) Other items:		
Amortisation	82,822	81,519
Depreciation	704,451	647,712
Materials costs	10,896,460	8,830,182
Direct costs of products distribution	2,032,762	2,026,751
Inventory write-down and losses, net of reversals	21,575	21,885
Impairment losses recognised and reversed on accounts receivable, other receivables, contract assets and others, net	118,247	47,723
Expense relating to short-term leases and leases of low-value assets	663,808	632,176

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

9. PROFIT BEFORE TAX (CONTINUED)

The selling expenses, general and administrative expenses, research and development costs and others of the Group are RMB1,119 million, RMB2,576 million, RMB1,924 million and RMB301 million (six months ended 30 June 2021: RMB1,132 million, RMB2,519 million, RMB1,623 million and RMB223 million) respectively for the six months ended 30 June 2022.

10. INCOME TAX

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Current tax	439,393	285,405
Deferred tax	(162,342)	6,390
Total income tax	277,051	291,795

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

10. INCOME TAX (CONTINUED)

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

	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Profit before tax	2,234,135	2,114,242
Expected income tax expense at a statutory tax rate of 25% (six months ended 30 June 2021: 25%)	558,534	528,561
Differential/preferential tax rates on subsidiaries' income (note (i)(ii))	(141,584)	(143,929)
Non-deductible expenses (note (iii))	75,743	59,641
Non-taxable income	(94,392)	(68,144)
Tax losses not recognised	42,032	62,471
Utilisation of previously unrecognised tax losses	(4,085)	(21,006)
Over provision in respect of prior years	(14,203)	(16,476)
Additional deduction of research and development expenses (note (iv))	(144,994)	(109,323)
Income tax	277,051	291,795

Notes:

- (i) The provision for income tax of the Group is calculated based on a statutory tax rate of 25% of the assessable profit of the Group as determined in accordance with the relevant PRC income tax rules and regulations for six months ended 30 June 2022 and 2021, except for certain domestic subsidiaries of the Group, which are taxed at preferential rates (refer to note ii below) where applicable; and for certain overseas subsidiaries of the Group, which are taxed at their respective statutory rates.
- (ii) According to the PRC enterprise income tax law and its relevant regulations, certain subsidiaries that are qualified as High and New Technology Enterprise, enterprises under the Western Region Development Program, and Small and Micro enterprises as defined under the tax law are entitled to a preferential income tax rate of 15%, 15% and 20% (six months ended 30 June 2021: 15%, 15%, 10%).
- (iii) The amounts represent staff costs in excess of the statutory deductible limits for tax reporting purposes and other non-deductible expenses.
- (iv) According to the PRC enterprise income tax law and its relevant regulations, certain research and development expenses of the Group's PRC subsidiaries are qualified for 75% (six months ended 30 June 2021: 75%) additional deduction for tax reporting purpose.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

11. OTHER COMPREHENSIVE INCOME/(EXPENSE)

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Changes in fair value of equity instruments at fair value through other comprehensive income/(expense) recognised during the period	162,028	(211,655)
Net deferred tax (charged)/credited to other comprehensive income/(expense)	(39,932)	52,816
Exchange differences on translation of financial statements	17,275	(7,444)
Other comprehensive income/(expense) for the period	139,371	(166,283)

12. DIVIDENDS

(a) Dividends attributable to the period

The Board of Directors did not propose the payment of an interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: nil).

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved during the period of RMB0.1641 per share (2021: RMB0.1335 per share)	1,136,560	924,623
Special dividend in respect of the previous financial year, approved during the period of RMB0.0091 per share (2021: RMB0.0267 per share)	63,027	184,925
	1,199,587	1,109,548

No final dividend or special dividend was paid during the six months ended 30 June 2022 and 2021.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

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 2022 of RMB1,896 million (six months ended 30 June 2021: RMB1,811 million) and the number of shares in issue during the six months ended 30 June 2022 of 6,926,018 thousand shares (six months ended 30 June 2021: 6,926,018 thousand shares).

Diluted earnings per share is the same as basic earnings per share as there were no potential dilutive ordinary shares outstanding during both periods.

14. OTHER NON-CURRENT ASSETS

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Deposits at financial institutions with original maturity more than one year	4,985,412	2,563,841
Long-term receivables	720,493	515,280
Others	158,063	117,037
	5,863,968	3,196,158

15. ACCOUNTS AND BILLS RECEIVABLE, NET

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Bills receivable	428,060	405,956
Accounts receivable	24,489,294	19,542,192
	24,917,354	19,948,148
Less: allowance for credit losses	(1,763,055)	(1,693,993)
	23,154,299	18,254,155

- (a) The amounts due from CTC Group, associates of the Group and associates of CTC Group (see note 26) are unsecured, interest-free and are expected to be recovered within one year.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

15. ACCOUNTS AND BILLS RECEIVABLE, NET (CONTINUED)

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

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Current	1,753,522	1,112,606
Within 1 year	18,414,908	14,636,676
After 1 year but less than 2 years	2,217,577	1,729,092
After 2 years but less than 3 years	515,151	542,481
After 3 years but less than 4 years	124,203	99,950
After 4 years but less than 5 years	35,557	36,257
Over 5 years	93,381	97,093
	23,154,299	18,254,155

16. CONTRACT ASSETS, NET

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Telecommunications infrastructure services	20,074,999	17,771,357
Business process outsourcing services	1,411,211	1,381,365
Applications, content and other services	3,398,840	2,621,771
	24,885,050	21,774,493
Less: allowance for credit losses	(276,108)	(239,748)
	24,608,942	21,534,745

The contract assets relate to the rights of the Group to considerations receivable for work completed and not billed because the rights are conditional upon the Group's future performance in achieving specified milestones 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 when the specific milestones are met.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

17. CASH AND CASH EQUIVALENTS

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Cash at bank and in hand	15,722,729	15,116,312
Cash at China Telecom Group Finance Co., Ltd ("China Telecom Finance")	2,069,728	5,964,400
Deposits at bank with original maturity less than three months	246,965	90,313
Cash and cash equivalents	18,039,422	21,171,025

18. INTEREST-BEARING BORROWINGS

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

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
RMB denominated		
Loan from CTC Group		
– unsecured	—	13,280
Borrowings from banks		
– unsecured	61,830	33,330
– secured	—	21,033
USD denominated		
Borrowings from banks		
– unsecured	575,825	528,514
– secured	19,348	18,478
Other denominated		
Borrowings from banks		
– unsecured	104,034	108,389
	761,037	723,024

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

18. INTEREST-BEARING BORROWINGS (CONTINUED)

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

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
RMB denominated		
Loan from CTC Group		
— unsecured	N/A	2.39%
Borrowings from banks		
— unsecured	1.50%–3.50%	1.50%
— secured	N/A	4.00%
USD denominated		
Borrowings from banks		
— unsecured	2.50%–2.56%	2.50%
— secured	3.50%	3.50%
— unsecured (floating interest rate)	London Interbank Offered Rate ("Libor") +1.00%–1.35%	Libor +1.00%–1.35%
Other denominated		
Borrowings from banks		
— unsecured	6.25%	6.25%–8.57%
— unsecured (floating interest rate)	Base Rate of Nepal Rastra Bank + 3%	N/A

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

18. INTEREST-BEARING BORROWINGS (CONTINUED)

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

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
USD denominated		
Borrowings from banks		
— secured	88,930	89,808

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

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
USD denominated		
Borrowings from banks		
— secured	3.50%	3.50%

The Group's borrowings were repayable as follows:

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Within 1 year	761,037	723,024
After 1 year but within 2 years	19,329	18,362
After 2 years but within 5 years	69,601	71,446
	849,967	812,832

As at 30 June 2022, no borrowings from bank were subject to financial covenants (31 December 2021: nil).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

19. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Accounts payable	39,475,734	32,759,611
Bills payable	3,373,286	3,560,369
	42,849,020	36,319,980

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

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Within 1 year	40,192,344	34,147,550
After 1 year but less than 2 years	1,680,958	1,226,760
After 2 years but less than 3 years	439,137	459,884
Over 3 years	536,581	485,786
	42,849,020	36,319,980

The amounts due to CTC Group, associates of the Group and associates of CTC Group (see note 26) are unsecured, interest-free and are expected to be settled within one year.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

20. CONTRACT LIABILITIES

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Telecommunications infrastructure services	6,831,599	8,626,944
Other services	2,091,379	2,822,227
	8,922,978	11,449,171

When the Group receives advance payments from customers before the performance obligation is satisfied, the amounts will give rise to contract liabilities, until the performance obligation is satisfied.

21. ACCRUED EXPENSES AND OTHER PAYABLES

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Wages and welfare payable	2,304,370	1,570,459
Amounts due to CTC Group, associates of the Group and associates of CTC Group (note (i))	1,103,979	415,858
Advanced lease payments received	30,500	44,633
Other taxes payable	574,343	692,149
Dividend payable (note (ii))	614,904	11,716
Payables for construction and purchase of property, plant and equipment	37,761	40,582
Output VAT payable	1,381,632	1,318,720
Others (note (iii))	4,806,572	4,996,748
	10,854,061	9,090,865

Notes:

- (i) The amounts due to CTC Group, associates of the Group and associates of CTC Group (see note 26) are unsecured, interest-free and are expected to be settled within one year, among which dividend payable balance is RMB607 million (31 December 2021: RMB19 million).
- (ii) No final dividend or special dividend was paid during the six months ended 30 June 2022 and 2021.
- (iii) The amounts mainly include payables to suppliers for purchases on behalf of CTC Group, deposits received from subcontractors and others.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

22. OTHER NON-CURRENT LIABILITIES

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

23. SHARE CAPITAL

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Registered, issued and fully paid:		
4,534,598,160 (31 December 2021: 4,534,598,160) Domestic shares of RMB1.00 each	4,534,598	4,534,598
2,391,420,240 (31 December 2021: 2,391,420,240) H shares of RMB1.00 each	2,391,420	2,391,420
	6,926,018	6,926,018

24. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

As at 30 June 2022, the Group had capital commitments for acquisition and construction of property, plant and equipment and other non-current assets as follows:

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Contracted for but not provided	239,597	160,510

(b) Contingent liabilities

As at 30 June 2022, the Group had no material contingent liabilities and financial guarantees issued.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

25. 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).

	At 30 June 2022			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
Financial Assets				
Equity instruments at fair value through other comprehensive income (note (i))	447,731	—	3,386,769	3,834,500
Financial assets at fair value through profit or loss				
— Wealth management products and structured deposits (note (ii))	—	—	1,375,914	1,375,914
— Equity instruments at fair value through profit or loss	47,715	—	194,177	241,892

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	At 31 December 2021			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
Financial Assets				
Equity instruments at fair value through other comprehensive income (note (i))	435,963	—	3,236,509	3,672,472
Financial assets at fair value through profit or loss				
— Wealth management products and structured deposits (note (ii))	—	—	3,303,941	3,303,941
— Equity instruments at fair value through profit or loss	—	—	171,943	171,943

Notes:

- (i) One of the invested entities was listed on Shanghai Stock Exchange in 2018 and the Group is contractually prevented from selling the shares held immediately following the initial public offering for a period of 5 years. At the end of each reporting period, the Group appointed an external valuer to determine the fair value of the listed equity security which was still within the restriction period. Based on the quoted price of the identical unrestricted shares traded on the stock exchange, adjusted to reflect the effect of restriction computed based on a discount rate determined by the external valuer. An increase in the discount rate attributable to lack of marketability used in isolation would result in a decrease in the fair value measurement of this equity instrument and vice versa, and the discount rate is 5.80% (At 31 December 2021: 8.50%). At 30 June 2022, 90% of the shares held by the Group was still within the restriction period, and the carrying amount is RMB3,371 million (At 31 December 2021: RMB3,222 million) and a 5% increase in the discount rate, holding all other variables constant, would have decreased the carrying amount of this equity instrument by RMB10 million (At 31 December 2021: RMB15 million) as at 30 June 2022.
- (ii) At the end of each reporting period, the Group determined the fair value of the wealth management products and structured deposits by estimating the discounted cash flow derived from them. The future cash flows had been estimated based on expected returns, and discounted at a rate that reflects the credit risk of various counterparties.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

(ii) Reconciliation of level 3 fair value measurement

	Equity instruments at fair value through other comprehensive income RMB'000	Wealth management products and structured deposits RMB'000	Equity instruments at fair value through profit or loss RMB'000
As at 1 January 2022	3,236,509	3,303,941	171,943
Purchases	—	—	69,850
Settlements	—	(1,972,212)	—
Transferred to level 1 (note (i))	—	—	(47,715)
Total gains/(losses)			
— in profit or loss	—	44,185	99
— in other comprehensive income	150,260	—	—
As at 30 June 2022	3,386,769	1,375,914	194,177
	Equity instruments at fair value through other comprehensive income RMB'000	Wealth management products and structured deposits RMB'000	Equity instruments at fair value through profit or loss RMB'000
As at 1 January 2021	4,316,673	3,098,634	64,567
Purchases	—	7,588,000	76,575
Disposals/settlements	(750)	(7,566,024)	—
Transferred to level 1 (note (i))	(430,260)	—	—
Total gains/(losses)			
— in profit or loss	—	183,331	30,801
— in other comprehensive income	(649,154)	—	—
As at 31 December 2021	3,236,509	3,303,941	171,943

Note:

- (i) The shares of entities invested by the Group was classified as level 3 when it was within restriction period, and was transferred to level 1 when the restriction had been unlocked.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

(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.

26. RELATED PARTIES

The Group has undertaken significant transactions and maintained relationships with members of CTC Group, the material related party transactions are as below:

(a) Transactions with CTC Group

Because of the relationship between the Group and the CTC Group, the terms of these transactions were negotiated between the Group with CTC Group.

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Engineering related services revenue (note (i))	7,888,403	6,895,821
IT application services revenue (note (ii))	2,554,057	1,514,408
Provision of ancillary telecommunications services revenue (note (iii))	8,950,481	7,996,006
Provision of operation support services revenue (note (iv))	1,839,050	1,489,044
Supplies procurement services revenue (note (v))	1,416,392	1,173,060
Property leasing revenue (note (vi))	76,494	52,369
Management fee income (note (vii))	151,853	152,906
Property leasing charges (note (viii))	91,647	57,082
IT application services charges (note (ix))	42,448	23,333
Operation support services charges (note (x))	423,962	372,452
Supplies procurement services charges (note (xi))	1,151,909	987,965
Interest expenses (note (xii))	16,903	12,566
Net withdrawal placed with China Telecom Finance (note (xiii))	(3,894,672)	(2,722,130)
Interest income of deposits placed with China Telecom Finance (note (xiv))	8,133	6,154
Net lending funds (note (xv))	—	57,500
Interest income of lending funds (note (xvi))	1,188	648

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

26. RELATED PARTIES (CONTINUED)

(a) Transactions with CTC Group (Continued)

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 channels, fixed line and wireless value-added service, internet content and information services provided to CTC Group.
- (iv) The amount represents the facilities management, advertising, conferencing services and certain repair and leasing of equipment services provided to CTC Group.
- (v) The amount represents supplies procurement service such as warehousing, transportation and 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 short-term 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, labor 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 and payable to CTC Group in respect of the loans and lease liabilities from CTC Group.
- (xiii) The amount represents net withdrawal under deposit services provided by China Telecom Finance.
- (xiv) The amount represents the interest income from deposit services provided by China Telecom Finance.
- (xv) The amount represents the net lending of funds to CTC Group.
- (xvi) The amount represents the interest income arising from lending funds to CTC Group.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

26. RELATED PARTIES (CONTINUED)

(a) Transactions with CTC Group (Continued)

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

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Cash and cash equivalents	2,069,728	5,964,400
Accounts and bills receivable, net	8,353,378	7,259,911
Contract assets, net	10,728,693	9,947,108
Prepayments and other current assets	2,157,881	1,216,411
Other non-current assets	133,934	213,503
Total amounts due from CTC Group	23,443,614	24,601,333
Interest-bearing borrowings	—	13,280
Accounts and bills payable	533,951	261,457
Contract liabilities	579,324	845,854
Accrued expenses and other payables	1,041,929	335,403
Current portion of lease liabilities	170,581	161,904
Lease liabilities	711,645	699,814
Total amounts due to CTC Group	3,037,430	2,317,712

As at 30 June 2022, the credit losses balance in respect of amounts due from CTC Group is of RMB402 million(31 December 2021: RMB391 million).

For the six months ended 30 June 2022, additional amount of RMB92 million of right-of-use assets had been recognised under new lease contracts entered into with CTC Group (six months ended 30 June 2021: RMB496 million).

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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

26. 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	
	2022	2021
	RMB'000	RMB'000
Engineering related service revenue (note (i))	1,751,740	2,203,037
IT application service revenue (note (ii))	137,441	131,733
Provision of ancillary telecommunications service revenue (note (iii))	920,797	792,803
Provision of operation support service revenue (note (iv))	59,029	68,884
Supplies procurement service revenue (note (v))	81,884	130,413
Property leasing service revenue (note (vi))	1,930	1,375
Property leasing service charges (note (vii))	220	1,507
IT application service charges (note (viii))	118,758	111,317
Operation support service charges (note (ix))	1,035,168	951,642
Supplies procurement service charges (note (x))	217	28,352
Interest expenses (note (xi))	2	12

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 telecommunications network support services, software and hardware development and other IT related services provided to associates of the Group and 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 channels; fixed line and wireless value-added services; internet content and information services provided to associates of the Group and associates of CTC Group.
- (iv) The amount represents 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 services such as warehousing, transportation and installation and other related services provided to associates of the Group and associates of CTC Group.
- (vi) The amount represents rental received/receivable from operating leases in respect of business premises entered into with associates of CTC Group.
- (vii) The amount represents rentals from short-term leases in respect of business premises paid and payable to associates of the Group.
- (viii) The amount represents charges paid and payable to associates of the Group and associates of CTC Group for basic telecommunications services, value-added services and information application services.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

26. RELATED PARTIES (CONTINUED)

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

Notes: (Continued)

- (ix) The amount represents the charges paid and payable to associates of the Group and associates of CTC Group for logistics, labour resources, cultural, educational, hygiene and other supporting services.
- (x) The amount represents the charges paid and payable to associates of the Group and associates of CTC Group for supplies procurement services, warehousing, transportation and installation services.
- (xi) The amount represents interest paid and payable to associates of CTC Group in respect of lease liabilities due to associates of CTC Group.

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

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Accounts and bills receivable, net	468,920	250,307
Contract assets, net	393,163	292,757
Prepayments and other current assets	1,272,303	894,883
Other non-current assets	58	363
Total amounts due from associates of the Group and associates of CTC Group	2,134,444	1,438,310
Accounts and bills payable	1,420,180	1,009,561
Contract liabilities	252,729	391,765
Current portion of lease liabilities	63	104
Lease liabilities	154	206
Accrued expenses and other payables	62,050	80,455
Total amounts due to associates of the Group and associates of CTC Group	1,735,176	1,482,091

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

26. RELATED PARTIES (CONTINUED)

(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 through government authorities, agencies, affiliations and other organisations (collectively referred to as “government-related entities”).

Apart from transactions with parent company and its affiliates (note 26(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
- Leasing of assets
- Depositing and borrowing money
- Use of public utilities

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

(d) Transactions with key management personnel

Remuneration for key management personnel is as follows:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Salaries and other emoluments	3,543	3,388
Retirement benefits	1,280	1,281
Discretionary bonuses	6,094	5,905
	10,917	10,574

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

OTHER INFORMATION

CHANGES IN DIRECTORS, SUPERVISORS AND THEIR BIOGRAPHICAL INFORMATION

On 17 June 2022, the term of office of the fifth session of the Board of Directors and the Supervisory Committee of the Company expired. Except for Mr. Wu Taishi and Mr. Liu Linfei who retired as independent non-executive directors of the Company, the remaining directors of the fifth session of the Board of Directors were re-elected as directors of the sixth session of the Board of Directors at the annual general meeting held on that date. Mr. Liu Guiqing was newly appointed as an executive director of the Company, and Mr. Wang Qi and Mr. Wang Chungue were newly appointed as independent non-executive directors of the Company.

Besides, except for Mr. Hai Liancheng who retired as a supervisor of the Company, the remaining supervisor (other than employee representative supervisor) of the fifth session of the Supervisory Committee was re-elected as supervisor of the sixth session of the Supervisory Committee at the annual general meeting held on that date, and Ms. Cai Manli was newly appointed as a supervisor of the Company. On 17 June 2022, Mr. Si Jianfei, an employee representative supervisor, resigned from his relevant positions, and on the same day, Ms. Liu Lian was elected as an employee representative supervisor of the Company at the employees' congress of the Company.

Except for the above, changes in the directors and supervisors of the Company and their biographical information since the date of the Company's 2021 Annual Report are set out below:

- Mr. Mai Yanzhou resigned as a non-executive director of the Company.
- Mr. Siu Wai Keung, Francis, an independent non-executive director of the Company, resigned as an independent non-executive director of China International Capital Corporation Limited. Besides, Mr. Siu was appointed as an independent non-executive director of Morgan Stanley Securities (China) Co., Ltd.

AUDIT COMMITTEE

The audit committee has reviewed with management and the Company's international auditor, PricewaterhouseCoopers, 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 2022, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

OTHER INFORMATION (CONTINUED)

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 supervisors of the Company. The Company has made specific enquiries to the directors and supervisors, and each of the directors and 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 2022.

COMPLIANCE WITH APPENDIX 16 TO THE LISTING RULES

According to paragraph 40 of Appendix 16 to 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 changed significantly from the information disclosed in the Company’s 2021 Annual Report.

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

As at 30 June 2022, 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 2022, 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.

OTHER INFORMATION (CONTINUED)

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

As at 30 June 2022, 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	3,393,362,496 (L)	74.83	48.99
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
Hermes Investment Management Ltd	H shares	Investment manager	191,356,334 (L)	8.00	2.76
Citigroup Inc.	H shares	4,145,183 shares as interests of controlled corporations and 126,138,259 shares as approved lending agent	130,283,442 (L)	5.44	1.88
	H shares	Interests of controlled corporations	4,034,418 (S)	0.16	0.06
BlackRock, Inc.	H shares	Approved lending agent	126,138,259 (P)	5.27	1.82
	H shares	Interests of controlled corporations	121,284,457 (L)	5.07	1.75
FMR LLC	H shares	Interests of controlled corporations	119,776,004 (L)	5.01	1.73

Note:

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

OTHER INFORMATION (CONTINUED)

Save as stated above, as at 30 June 2022 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 2022, 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, among others, the change of macroeconomic environment, natural disaster, the growth of the relevant industries, 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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