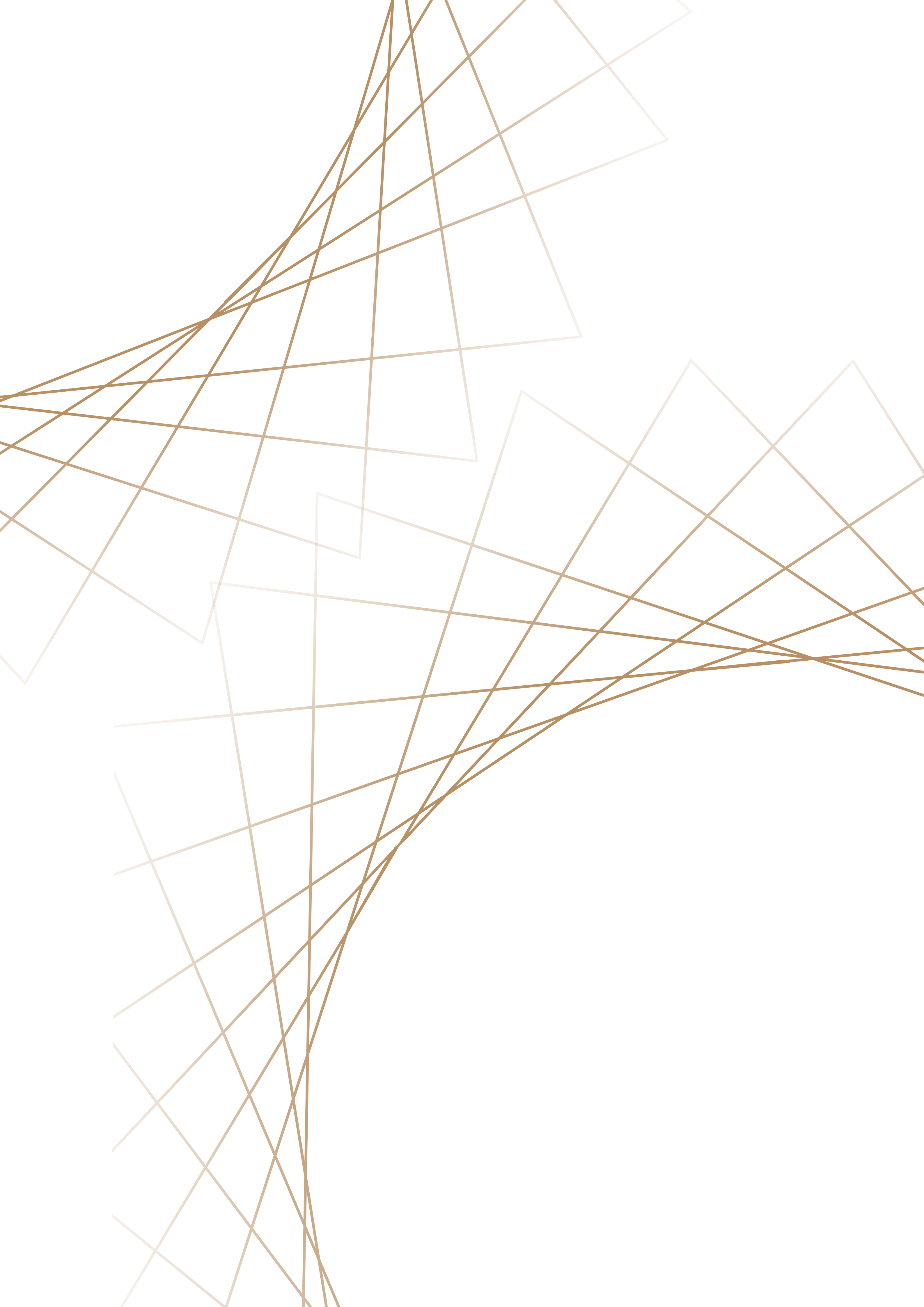
CHINA COMSERVICE

CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED
中國通信服務股份有限公司

Stock Code 股份代號: 552

Innovation and Transformation
創新轉型

INTERIM REPORT
中期報告 2017



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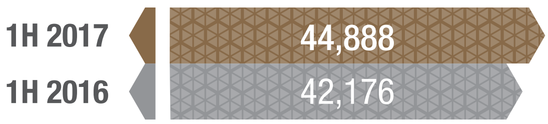
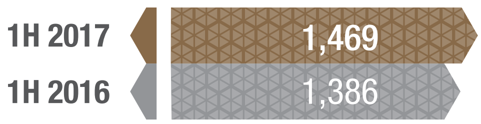
FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2017	2016	Change
Revenues (RMB million)	**44,888**	42,176	6.4%
Gross profit (RMB million)	**5,709**	5,392	5.9%
Profit attributable to equity shareholders of the Company (RMB million)	**1,469**	1,386	5.9%
Basic earnings per share (RMB)	**0.212**	0.200	5.9%
Free cash flow[1] (RMB million)	**2,002**	2,385	–16.0%

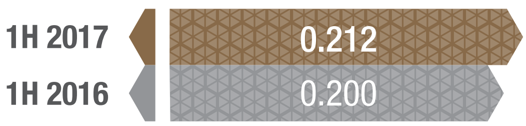
Revenues
(RMB million)



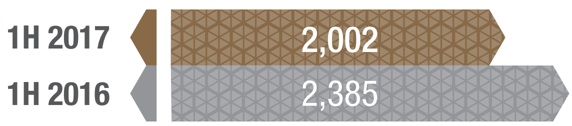
Profit Attributable to Equity Shareholders of the Company
(RMB million)



Basic Earnings per Share
(RMB)



Free Cash Flow
(RMB million)



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

Dear Shareholders,

In the first half of 2017, the Group achieved solid operating performance and gradually enhanced operating efficiency by adhering to the overall philosophy of "value-driven, seeking steady yet progressive growth and efficient development" and the principle of "market-oriented, creating value for customers". Through capturing the window of opportunity from network construction of domestic telecommunications operators, continuing to focus on the "Two New Markets"[1] , and further controlling the development of businesses with lower efficiency, the Group realized steady growth in revenue and profits, continued optimization in business structure, maintained largely stable profit margins, and its free cash flow[2] continued to sustain at a healthy level. The above indicated the quality of the Group's development was further reinforced, and new impetus for future development are emerging.

Overall Performance

During the first half of 2017, the Group overcame the challenges brought by the overall decline in the network construction investment of the telecommunications industry and maintained a stable fundamental operating performance by focusing on both the "CAPEX and OPEX-driven"[3] businesses and firmly capturing the various opportunities in the domestic telecommunications operator market. At the same time, the Group also strived to expand the domestic non-operator market while proactively controlled the products distribution business. As a result, the Group realized total revenues of RMB44,888 million, representing a year-on-year growth of 6.4%. Cost of revenues was RMB39,179 million, up by 6.5% compared to that of last year. Gross profit was RMB5,709 million, representing a year-on-year increase of 5.9%. Benefitting from the effective control of the products distribution business with lower efficiency and encouraging growth of high-value businesses, gross profit margin was 12.7% with a moderated downward trend. Selling, general and administrative expenses were RMB4,347 million, accounting for 9.7% of the total revenues and represented a continuous decline further from the corresponding period last year. Profit attributable to the equity shareholders of the Company was RMB1,469 million, representing a year-on-year growth of 5.9%, and net profit margin was 3.3%, maintaining at the same level as compared to the corresponding period last year. Basic earnings per share amounted to RMB0.212. Free cash flow sustained at a high and healthy level and amounted to RMB2,002 million.

Structure Optimization

During the first half of 2017, although the revenue from the products distribution business recorded a year-on-year decrease of over 30%, the Group's revenue from its Core Businesses, which includes telecommunications infrastructure ("TIS") services, core business process outsourcing ("BPO") services[4], as well as applications, content and other ("ACO") services, amounted to RMB41,073 million, representing a year-on-year growth of 12.0%. The revenue proportions of Core Businesses to the total revenues increased by 4.5 percentage points to 91.5%. The Group's overall business structure was further optimized, and demonstrated remarkable results in its innovation and transformation.

[1] Two New Markets refer to domestic non-operator market and overseas market.

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

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

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

Business Development

During the first half of 2017, the Group's revenue from TIS services amounted to RMB24,071 million, representing a year-on-year growth of 11.0% and accounting for 53.6% of the total revenues. We developed the domestic telecommunications operator market vigorously by capturing the important opportunities from the three domestic telecommunications operators including the window of opportunity for the construction of 4G network and fiber optic broadband network, etc., which assisted our customers to build superior and intelligentized networks, as well as capturing the construction and maintenance opportunities from China Tower[5]. By focusing on the flourishing demand from informatization construction of various industry sectors in China, we stepped up our effort to develop the TIS business of the domestic non-operator customers through cross-sector operation and cooperation among businesses. Among the revenue from TIS services, the revenue from China Telecom recorded a year-on-year growth of 16.9%, and the revenue from domestic telecommunications operator customers other than China Telecom recorded a year-on-year growth of 6.4%, while the revenue from domestic non-operator customers recorded a year-on-year growth of 20.3%. Rapid growth of the revenue of TIS services from domestic non-operator customers strongly supported the favourable overall development of such business, and such customer is becoming the new impetus for the future growth of the overall TIS business.

During the first half of 2017, the Group's revenue from BPO services amounted to RMB15,864 million, representing a year-on-year decrease of 1.7% and accounting for 35.4% of the total revenues. The decrease was mainly due to the Group's persistence in transformation towards high-end businesses and continuous proactive control on the development of the products distribution business, which caused the revenue from such business to record a year-on-year decrease of 30.6%. Excluding such factor, the OPEX-related businesses, which has been the Group's development focus, recorded favourable development, and the revenue from the Core BPO services recorded a year-on-year growth of 13.2%, maintaining a double-digit growth momentum in the recent two years, and provided a stable source of revenue for the Group. Among that, the revenue from the maintenance business recorded a year-on-year growth of 17.0%, and the revenue from the supply chain business also recorded a year-on-year growth of 10.2%.

During the first half of 2017, the Group's revenue from ACO services amounted to RMB4,953 million, representing a year-on-year growth of 14.0% and accounting for 11.0% of the total revenues. The Group seized the intelligentization and informatization opportunities from customers, placed a strong emphasis on the development of high-value businesses and continued to facilitate the operation of its innovation fund. The commercialization of projects such as Smart Security, Smart Industrial Park, Cloud Security, etc., has achieved initial success. We proactively cooperated with external parties to create industrial ecosystem, and cooperated with renowned domestic and international manufacturers and organizations to jointly develop the big data business. We also had strategic cooperation with the government and industry partners in the quantum communications market of front edge technology.

Customer Development

During the first half of 2017, the Group leveraged on both "CAPEX and OPEX-driven" businesses as the dual growth drivers, and the revenue from the domestic telecommunications operator market amounted to RMB29,758 million, representing a year-on-year growth of 9.2% and accounting for 66.3% of the total revenues. Among that, the revenue from China Telecom was RMB18,273 million, representing a year-on-year growth of 11.2% and accounting for 40.7% of the total revenues. Attributable to the revenue from China Tower recording a robust year-on-year growth of 57.7%, the revenue from domestic telecommunications operator market other than China Telecom increased by 6.3% compared to the same period of last year and amounted to RMB11,485 million, accounting for 25.6% of the total revenues which remained at the same level compared to the corresponding period of last year.

5 The full name of China Tower is China Tower Corporation Limited.

During the first half of 2017, the Group's revenue from the domestic non-operator market was RMB13,748 million, representing a year-on-year increase of 7.5% and accounting for 30.6% of the total revenues. In particular, the revenue from the Core Businesses from domestic non-operator market recorded a year-on-year increase of 20.3%, accounting for 81.5% of the total revenues from such customer and representing an increase of approximately 8.7 percentage points compared to that of last year. During the first half of the year, while the revenue from products distribution business of such customer decreased by 26.7%, the Core Businesses of such customer recorded rapid growth, contributing to almost 70% of the Group's overall incremental revenues during the first half of 2017. Businesses with traditional advantages and businesses with potential both achieved favourable development in the domestic non-operator market and provided new impetus for the continuous growth of the Group's performance. In respect of our market expansion, we focused on key industries including government, transportation, Internet & IT, electricity, construction and property, etc., and obtained 170 large-scale projects with a scale of more than tens of millions of renminbi each, demonstrating a continued breakthrough from the existing business scale. The Group's effort in allocating resources to the targeted industries, further optimization of the sales and marketing mechanism, strengthening cooperation with operators to enhance our capabilities in synergistic development, has been bearing fruit gradually.

Due to the enhanced risk management of overseas businesses and active control of the development of overseas businesses with low efficiency by the Group, and impacts from cyclical fluctuations of overseas projects, the development of the Group's overseas business experienced temporary fluctuations. During the first half of 2017, revenue from overseas business amounted to RMB1,382 million, representing a year-on-year decrease of 35.8% and accounting for 3.1% of the total revenues. Despite the temporary decrease in revenue from overseas business, the Group continued to build project reserves proactively for turnkey projects in Africa and the Middle East, featuring FTTH, education network, and the upgrade and transformation of power networks. The preparation work for the trials in the four East African countries on the "China-Africa Partnership Program in Trans Africa Information Superhighway" Project has also been progressing.

Innovation and Transformation

The Group is committed to innovation and transformation. During the first half of 2017, we focused on the OPEX-driven maintenance business and launched the "Comservice Craftsmanship" competition to facilitate maintenance skills enhancement and promote integrated maintenance business vigorously. The Group continued to enlarge the scale of distribution chain stores, and the number of stores in China exceeded 1,000, while the number of stores under the unified brand of "中通福" (ZhongTongFu) increased further. The Group also unified the brand for the facilities management business and completed the trademark registration for "中通服置業" (ZhongTongFu Zhiye) and "中通服物業" (ZhongTongFu Wuye). In addition, the establishment of Comservice Capital Holding Company Limited (通服資本控股有限公司) indicated a meaningful step for the Group in entering the finance sector related businesses to facilitate the consolidation of internal financial resources, improvement in capital utilization efficiency and the integration of finance with industrial development which ultimately push forward project development through investment and financing.

Corporate Governance

The Group's standardized and effective corporate governance standards have always been highly recognized in the capital market. In the "7th Asian Excellence Recognition Awards" organized by *Corporate Governance Asia*, a renowned corporate governance journal in Asia, myself and Ms. Hou Rui, the Chief Financial Officer and Executive Vice President of the Company, were once again awarded the "Best CEO" and "Best CFO" respectively. Meanwhile, the Group also won the "Best Investor Relations" Award. In 2017, the Group ranked 79th in the "2017 FORTUNE China 500" released by *FORTUNE China.*

Social Responsibilities

As a leading service provider in the informatization sector in China, the Group has always endeavoured to fulfil its social responsibilities, taking practical action to reward customers and the society.

In April 2017, the 2017 Global Future Network Development Summit was held in Nanjing. Acting as the communications security unit for this Summit, the Group deployed staff of construction, maintenance, and security for approximately 300 person-times to test and optimize the communication network of the conference venue and its surrounding areas to ensure stable network operation and normal communication signal coverage in key areas. Our work was highly recognized by the organizer of the Summit.

The Group has always fought on the frontline for communications restoration in disaster relief. In the first half of 2017, shortly after Typhoon Merbok made landfall in Guangdong and floods occurred in the Jiangxi, Hunan, and Guangxi region, the Group promptly initiated contingency plans, organized manpower to commence repair works, and restored a total of nearly 2,800 communications facilities.

Prospects

2017 marks a significant year for the Group's innovation and transformation. Society informatization develops rapidly, industrial internet brings new opportunities, and operators' transformation towards its ecosystem indicates that the ecological competition has become a prominent trend. Adhering to our overall philosophy of "value-driven, seeking steady yet progressive growth and efficient development", we will transform our impetus of growth in accordance with changes in the market environment, accelerate business deployment, solidify the foundation for development through promoting corporate vitality, enhancing capabilities and strengthening executions of the Group, thereby grasping the new opportunities brought by the intelligent informatization era.

The domestic telecommunications operator market is the Group's business development fundamentals. To secure a stable fundamental operating performance, we will adhere to the direction of the government's supply-side structural reform, adjust our mindset of development, closely follow the opportunities brought by the transformations of operators, capture the window of opportunity from CAPEX and leverage OPEX as the driving force for growth. At the same time, we will focus on expanding high-value integrated maintenance business and assist operators to build intelligentized and superior networks. The Group will also seize the opportunities from integrated construction and maintenance of China Tower and reinforce its market share in such market. Through the provision of maintenance services and penetration into the operators' ecosystem of businesses, the Group could facilitate the enhancement of our service value and customer loyalty. Meanwhile, the Group will extend its maintenance capabilities and experience of serving operators to speed up business deployment over other aspects, innovate business model, thus laying the foundation for future businesses expansion.

The domestic non-operator market is one of the new growth engines for the Group's future development, and we will put more emphases of our development on such market. We will continue to leverage on our existing business capabilities into the development of such market, devote more efforts on resource allocation, optimize the sales and marketing mechanism and strengthen cooperation in wider aspects and cross-sector operation. We will focus on achieving breakthroughs in key customers as represented by the industry sectors such as electricity, transportation, information security, etc., with a view to enlarging revenue scale, nurturing pan-operators customer, as well as developing sustainable and recurrent businesses. In order to adapt to new market demands, we will continue to integrate resources, actively develop group-level products, and facilitate the commercialization of our projects and services, with a view to building our brand in the emerging ICT sector.

In terms of overseas market development, the Group believes that national policies support becomes more explicit as the implementation of the "Belt and Road" Initiative deepens, which implies a huge development potential for the future. We will capture the opportunities, especially those arising from Africa, the Middle East and Southeast Asia, and strive to develop businesses with competitive advantages. The Group will leverage on existing experience and project cases to develop the overseas market of various industries such as electricity, education, etc. With the goal to increase overseas market revenue scale and expedite the Group's development, we will strengthen cooperation with financial partners and continue to push forward our "China-Africa Partnership Program in Trans Africa Information Superhighway" Project.

The Group will remain committed to the innovation of its system and mechanism and the enhancement of management efficiencies by continuous optimization of its organizational structure and construction of a flat structure. The Group will commence in-depth integration of its specialized subsidiaries and broaden the scope of its synergistic business operation to raise operating capabilities. Through the "value-driven" appraisal system and market-oriented remuneration mechanism, the Group will stimulate vitality among its employees and within the Group. We will show our care and share our fruits of development with employees to increase their sense of belonging.

We will seize the most opportune time for development, rise up to challenges, and create a favourable foundation for the future, with a view to generating sound performance in return for the support of our shareholders.

Finally, on behalf of the Board, I would like to express my sincere welcome to Mr. Shao Guanglu for joining the Board in June this year. I would also like to take this opportunity to express my sincere gratitude to the shareholders and customers of the Group and all sectors of society for their long-standing care and support to the Group.

Sun Kangmin
Chairman

Beijing, PRC
30 August 2017

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF
CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED
(Established in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the interim financial report of China Communications Services Corporation Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 9 to 35, which comprises the consolidated statement of financial position as of 30 June 2017 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). The directors of the Company are responsible for the preparation and presentation of this interim financial report in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial report based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of this interim financial report consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that this interim financial report is not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

30 August 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

For the six months ended 30 June 2017

	Notes	Six months ended 30 June **2017** **RMB'000**	 2016 RMB'000
Revenues	5	**44,888,394**	42,175,618
Cost of revenues	6	**(39,178,948)**	(36,784,008)
Gross profit		**5,709,446**	5,391,610
Other operating income	7	**412,110**	431,791
Selling, general and administrative expenses		**(4,346,851)**	(4,136,824)
Other operating expenses		**(32,592)**	(40,135)
Finance costs	8	**(21,904)**	(20,967)
Share of profits of associates		**25,624**	35,144
Profit before tax	9	**1,745,833**	1,660,619
Income tax	10	**(270,658)**	(269,603)
Profit for the period		**1,475,175**	1,391,016
Attributable to:			
Equity shareholders of the Company		**1,468,668**	1,386,347
Non-controlling interests		**6,507**	4,669
Profit for the period		**1,475,175**	1,391,016
Basic earnings per share (RMB)	13	**0.212**	0.200

The notes on pages 16 to 35 form part of this interim financial report.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)

For the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
	Notes	**RMB'000**	RMB'000
Profit for the period		**1,475,175**	1,391,016
Other comprehensive (expense)/income for the period (after tax)			
Items that may be subsequently reclassified to profit or loss (after tax):			
Exchange differences on translation of financial statements of subsidiaries outside Mainland China		**(18,471)**	9,248
Available-for-sale securities:			
Net movement in the fair value reserve	11	**(3,126)**	(10,919)
		(21,597)	(1,671)
Total comprehensive income for the period		**1,453,578**	1,389,345
Attributable to:			
Equity shareholders of the Company		**1,447,115**	1,384,642
Non-controlling interests		**6,463**	4,703
Total comprehensive income for the period		**1,453,578**	1,389,345

The notes on pages 16 to 35 form part of this interim financial report.

At 30 June 2017

	Notes	**30 June 2017 RMB'000 (unaudited)**	31 December 2016 RMB'000 (audited)
Non-current assets			
Property, plant and equipment, net	14	**3,956,753**	4,215,616
Investment properties		**628,188**	607,923
Construction in progress		**489,127**	454,339
Lease prepayments		**749,278**	760,240
Goodwill		**103,005**	103,005
Other intangible assets		**252,265**	271,193
Interests in associates		**214,639**	144,405
Available-for-sale financial assets		**883,021**	866,386
Deferred tax assets		**550,119**	479,996
Other non-current assets		**565,946**	149,525
Total non-current assets		**8,392,341**	8,052,628
Current assets			
Inventories		**2,086,219**	2,221,334
Accounts and bills receivable, net	15	**33,215,318**	29,362,985
Prepayments and other current assets		**6,937,353**	6,740,547
Restricted deposits		**2,593,160**	2,892,408
Cash and cash equivalents	16	**14,773,187**	13,324,079
Total current assets		**59,605,237**	54,541,353
Total assets		**67,997,578**	62,593,981
Current liabilities			
Interest-bearing borrowings	17	**59,004**	46,697
Accounts and bills payable	18	**24,231,356**	20,399,409
Receipts in advance for contract work		**3,544,345**	4,046,097
Accrued expenses and other payables		**11,250,238**	9,730,662
Income tax payable		**348,396**	351,647
Total current liabilities		**39,433,339**	34,574,512
Net current assets		**20,171,898**	19,966,841
Total assets less current liabilities		**28,564,239**	28,019,469

At 30 June 2017

	Notes	**30 June 2017 RMB'000 (unaudited)**	31 December 2016 RMB'000 (audited)
Non-current liabilities			
Interest-bearing borrowings	17	**18,968**	17,343
Other non-current liabilities	19	**944,278**	942,076
Deferred tax liabilities		**12,482**	12,268
Total non-current liabilities		**975,728**	971,687
Total liabilities		**40,409,067**	35,546,199
Equity			
Share capital	20	**6,926,018**	6,926,018
Reserves		**20,181,677**	19,647,411
Equity attributable to equity shareholders of the Company		**27,107,695**	26,573,429
Non-controlling interests		**480,816**	474,353
Total equity		**27,588,511**	27,047,782
Total liabilities and equity		**67,997,578**	62,593,981

The notes on pages 16 to 35 form part of this interim financial report.

For the six months ended 30 June 2017

		Equity attributable to equity shareholders of the Company											
	Notes	Share capital RMB'000	Share premium RMB'000 (note a)	Capital reserve RMB'000 (note b)	Statutory surplus reserve RMB'000 (note c)	Specific reserve RMB'000 (note d)	Fair value reserve RMB'000 (note e)	Exchange reserve RMB'000 (note f)	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance as at 1 January 2017		**6,926,018**	**4,529,310**	**1,852,461**	**951,760**	**178,525**	**47,118**	**38,589**	**(68,310)**	**12,117,958**	**26,573,429**	**474,353**	**27,047,782**
Changes in equity for the six months ended 30 June 2017													
Profit for the period		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,468,668**	**1,468,668**	**6,507**	**1,475,175**
Other comprehensive expense for the period	11	**–**	**–**	**–**	**–**	**–**	**(3,126)**	**(18,427)**	**–**	**–**	**(21,553)**	**(44)**	**(21,597)**
Total comprehensive (expense)/income for the period		**–**	**–**	**–**	**–**	**–**	**(3,126)**	**(18,427)**	**–**	**1,468,668**	**1,447,115**	**6,463**	**1,453,578**
Dividend declared	12(b)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(912,849)**	**(912,849)**	**–**	**(912,849)**
Appropriation of specific reserve		**–**	**–**	**–**	**–**	**201,661**	**–**	**–**	**–**	**(201,661)**	**–**	**–**	**–**
Utilisation of specific reserve		**–**	**–**	**–**	**–**	**(179,193)**	**–**	**–**	**–**	**179,193**	**–**	**–**	**–**
Balance as at 30 June 2017		**6,926,018**	**4,529,310**	**1,852,461**	**951,760**	**200,993**	**43,992**	**20,162**	**(68,310)**	**12,651,309**	**27,107,695**	**480,816**	**27,588,511**
Balance as at 1 January 2016		6,926,018	4,529,310	1,846,468	856,150	137,377	44,726	434	(68,310)	10,488,640	24,760,813	448,796	25,209,609
Changes in equity for the six months ended 30 June 2016													
Profit for the period		–	–	–	–	–	–	–	–	1,386,347	1,386,347	4,669	1,391,016
Other comprehensive (expense)/income for the period	11	–	–	–	–	–	(10,919)	9,214	–	–	(1,705)	34	(1,671)
Total comprehensive (expense)/income for the period		–	–	–	–	–	(10,919)	9,214	–	1,386,347	1,384,642	4,703	1,389,345
Dividend declared	12(b)	–	–	–	–	–	–	–	–	(770,173)	(770,173)	–	(770,173)
Appropriation of specific reserve		–	–	–	–	197,962	–	–	–	(197,962)	–	–	–
Utilisation of specific reserve		–	–	–	–	(172,239)	–	–	–	172,239	–	–	–
Balance as at 30 June 2016		6,926,018	4,529,310	1,846,468	856,150	163,100	33,807	9,648	(68,310)	11,079,091	25,375,282	453,499	25,828,781
Changes in equity for the six months ended 31 December 2016													
Profit for the period		–	–	–	–	–	–	–	–	1,149,902	1,149,902	12,277	1,162,179
Other comprehensive income for the period		–	–	–	–	–	13,311	28,941	–	–	42,252	79	42,331
Total comprehensive income for the period		–	–	–	–	–	13,311	28,941	–	1,149,902	1,192,154	12,356	1,204,510
Capital contribution from non-controlling interests		–	–	5,993	–	–	–	–	–	–	5,993	12,565	18,558
Distribution to non-controlling interests		–	–	–	–	–	–	–	–	–	–	(4,067)	(4,067)
Appropriation		–	–	–	95,610	–	–	–	–	(95,610)	–	–	–
Appropriation of specific reserve		–	–	–	–	262,033	–	–	–	(262,033)	–	–	–
Utilisation of specific reserve		–	–	–	–	(246,608)	–	–	–	246,608	–	–	–
Balance as at 31 December 2016		6,926,018	4,529,310	1,852,461	951,760	178,525	47,118	38,589	(68,310)	12,117,958	26,573,429	474,353	27,047,782

Notes:

(a) Share premium

The share premium represents the difference between the total amount of the par value of shares issued and the amount of the net proceeds received from the initial public offering in 2006 and subsequent share issuance in 2008 and 2012 respectively.

(b) Capital reserve

The capital reserve represents the difference between the total amount of the par value of shares issued and the amount of the net assets transferred from China Telecommunications Corporation ("CTC"), Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation upon the formation of the Company. Then, the capital reserve was net off by the difference between the consideration for the acquisition of the telecommunications infrastructure services, business process outsourcing services and applications, content and other services located in Jiangsu Province, Anhui Province, Jiangxi Province, Hunan Province, Guangxi Zhuang Autonomous Region, Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province and Xinjiang Uygur Autonomous Region, together with the equity interests in Guangdong Nanfang Communication GSM Intelligent Card System Co., Ltd and Ningbo Public Information Industry Co., Ltd (the "Target Business") and the net assets value of the Target Business in 2007.

(c) Statutory surplus reserve

According to the People's Republic of China (the "PRC") Company Law and the Articles of Association of the Company and its PRC subsidiaries, these companies are required to transfer 10% of their respective net profit as determined in accordance with the PRC Accounting Rules and Regulations to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, or to expand the Company's business, and may be converted into share capital by the issuance of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

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

(d) Specific reserve

Pursuant to the relevant PRC regulations, the Group appropriated and utilized the provision for production safety. The Group is required to make a transfer for the provision for production safety from retained earnings to a specific reserve. The provision for production safety could be utilised when expenses or capital expenditures on production safety measures are incurred. The amount of the provision for production safety utilised would be transferred from the specific reserve back to retained earnings.

(e) Fair value reserve

The fair value reserve represents the net change in the fair value of available-for-sale securities held at the end of the reporting period.

(f) Exchange reserve

The exchange reserve represents all foreign exchange differences arising from the translation of the financial statements of subsidiaries located outside Mainland China.

The notes on pages 16 to 35 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the six months ended 30 June 2017

	Notes	Six months ended 30 June 2017 RMB'000	2016 RMB'000
Operating activities			
Income tax paid		**(358,895)**	(403,279)
Other cash flows generated from operating activities		**2,476,442**	2,956,286
Net cash generated from operating activities		**2,117,547**	2,553,007
Investing activities			
Payment on acquisition of property, plant and equipment and other intangible assets		**(257,514)**	(260,748)
Other cash flows used in investing activities		**(401,672)**	(192,315)
Net cash used in investing activities		**(659,186)**	(453,063)
Financing activities			
Proceeds from bank and other loans		**32,507**	24,385
Other cash flows used in financing activities		**(20,690)**	(203,172)
Net cash generated from/(used in) financing activities		**11,817**	(178,787)
Net increase in cash and cash equivalents		**1,470,178**	1,921,157
Cash and cash equivalents at the beginning of period		**13,324,079**	9,535,851
Effect of foreign exchange rate changes		**(21,070)**	29,331
Cash and cash equivalents at the end of period	16	**14,773,187**	11,486,339

The notes on pages 16 to 35 form part of this interim financial report.

1. PRINCIPAL ACTIVITIES

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

2. BASIS OF PREPARATION

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2016 annual financial statements. The condensed consolidated financial statements and notes thereof do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs"). IFRSs include all applicable IFRSs, International Accounting Standards ("IASs") and related interpretations.

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and IAS 34, Interim Financial Reporting.

3. PRINCIPAL ACCOUNTING POLICIES

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

The interim financial report has been prepared in accordance with the same accounting policies and methods of computation adopted in the consolidated financial statements of the Group for the year ended 31 December 2016, except as described below.

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

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS12	As part of the Annual Improvements to IFRSs 2014–2016 Cycle

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

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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

4. SEGMENT REPORTING

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

5. REVENUES

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Revenue from telecommunications infrastructure services	**24,071,435**	21,686,537
Revenue from business process outsourcing services	**15,863,997**	16,143,790
Revenue from applications, content and other services	**4,952,962**	4,345,291
	44,888,394	42,175,618

The Group's major customers are telecommunications operators which include CTC and its subsidiaries (excluding the Group) ("CTC Group") and China Mobile Communications Corporation and its subsidiaries ("CM Group"), each contributing a revenue exceeding 10% of the Group's total revenues. Revenues from the provision of integrated telecommunications support services to CTC Group and CM Group for the six months ended 30 June 2017 amounted to RMB18,273 million and RMB7,876 million respectively (six months ended 30 June 2016: RMB16,435 million and RMB7,842 million respectively), being 40.7% and 17.5% of the Group's total revenues respectively (six months ended 30 June 2016: 39.0% and 18.6% respectively). The revenue derived from areas outside Mainland China for the six months ended 30 June 2017 amounted to RMB1,382 million (six months ended 30 June 2016: RMB2,152 million).

For the six months ended 30 June 2017, the Group's first three businesses that contributed to the overall revenues were construction, management of infrastructure for information technology and design, the revenues from which amounted to RMB17,235 million, RMB5,802 million and RMB5,089 million, respectively (six months ended 30 June 2016: The Group's first three businesses that contributed to the overall revenues were construction, products distribution and management of infrastructure for information technology, the revenues from which amounted to RMB16,042 million, RMB5,496 million and RMB4,958 million, respectively).

6. COST OF REVENUES

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Depreciation and amortisation	**237,939**	222,605
Direct personnel costs	**4,101,251**	3,952,385
Operating lease charges	**619,995**	587,603
Materials costs	**4,124,385**	4,279,181
Direct costs of products distribution	**3,519,540**	5,114,033
Subcontracting charges	**22,423,871**	19,413,318
Others	**4,151,967**	3,214,883
	39,178,948	36,784,008

7. OTHER OPERATING INCOME

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Interest income	**94,740**	84,426
Dividend income from unlisted securities	**76,813**	50,628
Government grants	**111,266**	105,835
Gain on disposal of investments	**–**	35,822
Gain on disposal of property, plant and equipment	**1,451**	1,631
Penalty income	**1,242**	1,566
Management fee income	**104,528**	123,694
Others	**22,070**	28,189
	412,110	431,791

8. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Interest on bank and other borrowings	**4,707**	5,761
Interest for convertible preference shares and preference shares (note 19)	**17,197**	15,206
	21,904	20,967

For the six months ended 30 June 2017 and 2016, no borrowing costs were capitalised in relation to construction in progress.

9. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
(a) Staff costs:		
Salaries, wages and other benefits	**6,403,460**	6,189,190
Contributions to defined contribution retirement schemes	**586,113**	547,808
	6,989,573	6,736,998
(b) Other items:		
Amortisation	**72,832**	56,467
Depreciation	**352,002**	362,153
Materials costs	**4,124,385**	4,279,181
Direct costs of products distribution	**3,519,540**	5,114,033
Inventory write-down and losses, net of reversals	**18,622**	3,065
Impairment losses on accounts and other receivables	**100,264**	122,496
Reversal of impairment losses on accounts and other receivables	**(26,432)**	(33,265)
Changes in fair value of financial derivatives	**1,015**	1,370
Operating lease charges	**744,173**	721,432
Research and development costs	**1,012,452**	887,391

The selling expenses, general and administrative expenses and other expenses of the Group are RMB658 million, RMB3,414 million and RMB275 million (six months ended 30 June 2016: RMB638 million, RMB3,278 million and RMB221 million) respectively for the six months ended 30 June 2017. Research and development costs include staff costs of RMB816 million (six months ended 30 June 2016: RMB686 million), which is also included in the staff cost disclosed in note 9(a).

10. INCOME TAX

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Current tax		
Income tax	**340,015**	311,820
Deferred tax		
Origination and reversal of temporary differences	**(69,357)**	(42,217)
Total income tax	**270,658**	269,603

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Profit before tax	**1,745,833**	1,660,619
Expected income tax expense at a statutory tax rate of 25% (six months ended 30 June 2016: 25%)	**436,458**	415,155
Differential tax rates on subsidiaries' profits (note (i))	**(135,192)**	(131,635)
Non-deductible expenses (note (ii))	**25,711**	32,645
Non-taxable income	**(27,518)**	(27,340)
Tax losses not recognised	**41,397**	51,302
Utilisation of previously unrecognised tax losses	**(6,300)**	(10,100)
Over provision in respect of prior years	**(12,120)**	(10,396)
Effect of tax exemptions	**(70)**	(2,690)
Others (note (iii))	**(51,708)**	(47,338)
Income tax	**270,658**	269,603

Notes:

(i) The provision for income tax of the Group is calculated based on a statutory rate of 25% of the assessable profit of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the six months ended 30 June 2017 and 2016, except for certain domestic subsidiaries of the Group, which are taxed at a preferential rate of 20%, 15% and 10%, where applicable; and for certain overseas subsidiaries of the Group, which are taxed at respective statutory rates.

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

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

11. OTHER COMPREHENSIVE INCOME

Available-for-sale securities

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Changes in fair value recognised during the period	**(3,678)**	(12,847)
Net deferred tax charged to other comprehensive income	**552**	1,928
Net movement in the fair value reserve during the period recognised in other comprehensive income	**(3,126)**	(10,919)

12. DIVIDENDS

(a) Dividends attributable to the period

The Board of Directors does not propose the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: nil).

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved during the period of RMB0.1098 per share (2016: RMB0.1011 per share)	**760,477**	700,220
Special dividend in respect of the previous financial year, approved during the period of RMB0.0220 per share (2016: RMB0.0101 per share)	**152,372**	69,953
	912,849	770,173

No final dividend or special dividend was paid during the six months ended 30 June 2017 and 2016.

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 2017 of RMB1,469 million (six months ended 30 June 2016: RMB1,386 million) and the number of shares in issue during the six months ended 30 June 2017 of 6,926,018 thousand shares (six months ended 30 June 2016 of 6,926,018 thousand shares).

14. PROPERTY, PLANT AND EQUIPMENT, NET

During the six months ended 30 June 2017, additions of property, plant and equipment (including direct purchase, transfer from construction in progress) of the Group amounted to RMB132 million (six months ended 30 June 2016: RMB202 million). Items of property, plant and equipment with carrying amount totalling RMB12 million were disposed of during the six months ended 30 June 2017 (six months ended 30 June 2016: RMB6 million).

15. ACCOUNTS AND BILLS RECEIVABLE, NET

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Bills receivable	**124,850**	74,620
Unbilled revenue for contract work	**8,315,916**	7,027,415
Trade receivables	**26,160,137**	23,587,948
	34,600,903	30,689,983
Less: impairment losses	**(1,385,585)**	(1,326,998)
	33,215,318	29,362,985

(a) Included in accounts and bills receivable are amounts due from CTC Group, associates of the Group and associates of CTC Group of RMB20,817 million as at 30 June 2017 (31 December 2016: RMB18,393 million), which are unsecured, interest-free and are expected to be recovered within one year.

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Current (note)	**13,848,703**	12,914,339
Within 1 year	**16,594,955**	14,027,398
After 1 year but less than 2 years	**1,818,574**	1,545,520
After 2 years but less than 3 years	**943,873**	875,728
After 3 years	**9,213**	—
Amount past due	**19,366,615**	16,448,646
	33,215,318	29,362,985

Note: Included revenues within the credit terms for contract work.

15. ACCOUNTS AND BILLS RECEIVABLE, NET (Continued)

(c) Impairment of accounts and bills receivable

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

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
At 1 January	**1,326,998**	1,081,377
Impairment loss recognised	**81,873**	416,452
Reversal of impairment loss previously recognised	**(22,313)**	(154,854)
Uncollectible amounts written off	**(973)**	(15,977)
At 30 June/31 December	**1,385,585**	1,326,998

At 30 June 2017, accounts and bills receivable of RMB2,270 million were individually determined to be impaired (31 December 2016: RMB1,322 million). The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific impairment losses of RMB617 million were recognised (31 December 2016: RMB671 million). The Group does not hold any collateral over these balances.

(d) Accounts and bills receivable that are not impaired

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Neither past due nor impaired	**13,848,703**	12,914,339
Past due but not impaired		
Within 1 year	**12,856,034**	13,064,706
After 1 year but less than 2 years	**929,985**	917,257
After 2 years but less than 3 years	**538,801**	531,054
After 3 years	**9,213**	—
	28,182,736	27,427,356

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

15. ACCOUNTS AND BILLS RECEIVABLE, NET (Continued)

(d) Accounts and bills receivable that are not impaired (Continued)

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

16. CASH AND CASH EQUIVALENTS

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Cash at bank and in hand	**13,193,140**	11,746,118
Deposits at bank with original maturity less than three months	**1,580,047**	1,577,961
Cash and cash equivalents	**14,773,187**	13,324,079

17. INTEREST-BEARING BORROWINGS

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
RMB denominated		
Loan from CTC Group		
— unsecured	**13,280**	13,280
USD denominated		
Borrowings from banks		
— unsecured	**36,349**	33,417
ZAR denominated		
Borrowings from banks		
— unsecured	**9,375**	—
	59,004	46,697

17. INTEREST-BEARING BORROWINGS (Continued)

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

	At 30 June 2017	At 31 December 2016
RMB denominated		
Loan from CTC Group		
— unsecured	**2.39%**	2.39%
USD denominated		
Borrowings from banks		
— unsecured (fixed interest rate)	**3.00%–4.14%**	2.30%–4.14%
— unsecured (floating interest rate)	**—**	Libor+4.00%
ZAR denominated		
Borrowings from banks		
— unsecured	**9.20%**	—

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
USD denominated		
Borrowings from banks		
— unsecured	**18,968**	17,343

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

	At 30 June 2017	At 31 December 2016
USD denominated		
Borrowings from banks		
— unsecured	**3.18%–4.14%**	3.53%–4.14%

As at 30 June 2017 and 31 December 2016, no borrowings from banks were subject to financial covenants.

18. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Accounts payable	**23,427,994**	18,850,843
Bills payable	**803,362**	1,548,566
	24,231,356	20,399,409

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within 1 year	**22,225,302**	18,582,995
After 1 year but less than 2 years	**1,316,708**	1,172,268
After 2 years but less than 3 years	**342,940**	357,027
After 3 years	**346,406**	287,119
	24,231,356	20,399,409

Included in accounts and bills payable are amounts due to CTC Group, associates of the Group and associates of CTC Group of RMB1,325 million as at 30 June 2017 (31 December 2016: RMB1,034 million), which are unsecured, interest free and are expected to be settled within one year.

19. OTHER NON-CURRENT LIABILITIES

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Convertible preference shares and preference shares (note (i))	**677,440**	693,700
Others (note (ii))	**266,838**	248,376
	944,278	942,076

19. OTHER NON-CURRENT LIABILITIES (Continued)

Notes:

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

The annual interest rate is 3.7% plus the average six-month dollar interest rate of Libor for six months before each interest payment date, and should be adjusted from the first interest payment eight years after the settlement date. The adjusted interest rate should not be less than 8% per annum, and will automatically increase 1% every year after then. The effective interest rate as at 30 June 2017 was 5.15% per annum.

(ii) Others represent the deferred income arising from government grants and long-term employee benefits payable.

20. SHARE CAPITAL

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Registered, issued and fully paid:		
4,534,598,160 (31 December 2016: 4,534,598,160)		
Domestic shares of RMB1.00 each	**4,534,598**	4,534,598
2,391,420,240 (31 December 2016: 2,391,420,240)		
H shares of RMB1.00 each	**2,391,420**	2,391,420
	6,926,018	6,926,018

21. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

As at 30 June 2017, the Group had capital commitments for acquisition and construction of property, plant and equipment and other intangible assets as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Contracted for but not provided	**351,600**	347,842

(b) Operating lease commitments

As at 30 June 2017, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within 1 year	**394,670**	347,316
After 1 year but within 5 years	**409,368**	389,977
After 5 years	**86,572**	113,988
	890,610	851,281

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

(c) Contingent liabilities

As at 30 June 2017, the Group had no material contingent liabilities and no material financial guarantees issued.

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Some of the Group's financial instruments are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial instruments are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

- Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	At 30 June 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Assets				
Available-for-sale securities				
— Listed equity securities	**67,485**	**–**	**–**	**67,485**
Trading financial assets				
— Foreign currency forward contract	**–**	**21**	**–**	**21**
Liabilities				
Trading financial liabilities				
— Foreign currency forward contract	**–**	**627**	**–**	**627**

	At 31 December 2016			
	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Available-for-sale securities				
— Listed equity securities	71,163	–	–	71,163

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.

23. RELATED PARTIES

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

(a) Transactions with CTC Group

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

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Income from related parties:		
Engineering related services (note (i))	**9,377,885**	8,021,500
IT application services (note (ii))	**801,726**	626,995
Provision of ancillary telecommunications services (note (iii))	**4,889,610**	4,011,730
Provision of operation support services (note (iv))	**1,144,570**	1,075,104
Supplies procurement services (note (v))	**2,014,419**	2,670,807
Property leasing services (note (vi))	**44,506**	28,969
Management fee (note (vii))	**104,528**	123,694
Expenses paid to related parties:		
Property leasing services (note (viii))	**77,070**	74,083
IT application services (note (ix))	**109,245**	81,018
Operation support services (note (x))	**473,075**	431,108
Supplies procurement services (note (xi))	**844,829**	1,200,648
Interest (note (xii))	**1,159**	604

23. 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 services; fixed line and wireless value-added service; internet contents and information services provided to CTC Group.

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

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

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

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

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

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

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

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

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

23. 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 2017 RMB'000	At 31 December 2016 RMB'000
Accounts and bills receivable, net	**20,305,732**	18,004,426
Prepayments and other current assets	**726,079**	870,759
Total amounts due from CTC Group	**21,031,811**	18,875,185
Interest-bearing borrowings	**13,280**	13,280
Accounts and bills payable	**751,155**	379,136
Receipts in advance for contract work	**172,802**	307,703
Accrued expenses and other payables	**974,938**	569,945
Total amounts due to CTC Group	**1,912,175**	1,270,064

As at 30 June 2017, impairment losses for bad and doubtful debts of RMB216 million (31 December 2016: RMB191 million) were recorded in respect of amounts due from CTC Group.

As at 30 June 2017 the Group has capital commitments to CTC Group for acquisition and construction of property, plant and equipment and other assets as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Contracted for but not provided	**285,108**	261,445

As at 30 June 2017, the Group's total future minimum lease payments to CTC Group under non-cancellable operating leases were payable as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within 1 year	**107,172**	74,820
After 1 year but within 5 years	**184,140**	134,647
After 5 years	**56,996**	62,275
	348,308	271,742

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.

23. 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	
	2017	2016
	RMB'000	RMB'000
Income from related parties:		
Engineering related services (note (i))	**1,570,945**	1,044,634
IT application services (note (ii))	**19,511**	16,540
Provision of ancillary telecommunications services (note (iii))	**525,071**	283,887
Provision of operation support services (note (iv))	**25,177**	14,260
Supplies procurement services (note (v))	**129,434**	80,576
Property leasing services (note (vi))	**1,186**	978
Expenses paid to related parties:		
Property leasing services (note (vii))	**1,778**	1,274
IT application services (note (viii))	**646**	468
Operation support services (note (ix))	**25,859**	13,897

Notes:

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

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

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

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

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

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

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

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

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

23. RELATED PARTIES (Continued)

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

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Accounts and bills receivable, net	**510,808**	388,196
Prepayments and other current assets	**734,257**	624,823
Total amounts due from associates of the Group and associates of CTC Group	**1,245,065**	1,013,019
Accounts and bills payable	**574,023**	654,646
Receipts in advance for contract work	**108,203**	126,517
Accrued expenses and other payables	**434,298**	568,940
Total amounts due to associates of the Group and associates of CTC Group	**1,116,524**	1,350,103

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

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

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

Apart from transactions with parent company and fellow subsidiaries (note 23(a)), the Group has collectively, but not individually significant transactions with other government-related entities, which include but are not limited to the following:

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

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

23. RELATED PARTIES (Continued)

(d) Transactions with key management personnel

Remuneration for key management personnel is as follows:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Salaries and other emoluments	**3,432**	3,208
Retirement benefits	**964**	931
Discretionary bonus	**7,116**	6,064
	11,512	10,203

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

(e) Contributions to defined contribution retirement plans

In accordance with the labour regulations of the PRC, the Group participates in various defined contribution retirement schemes organised by the municipal and provincial governments for its employees. The Group is required to make contributions to the retirement schemes at rates ranging from 18% to 22% of the salaries, bonuses and certain allowances of the employees. A member of the scheme is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date. The Group has no other material obligation for the payment of pension benefits associated with these schemes beyond the annual contributions described above.

As at 30 June 2017 and 31 December 2016, there was no material outstanding contribution to post-employment benefit plans.

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

MANAGEMENT DISCUSSION AND ANALYSIS

According to paragraph 40 of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), save as disclosed in this Interim Report, the Company confirms that the Company's current information in relation to those matters set out in paragraph 32 of Appendix 16 has not been changed significantly from the information disclosed in the Company's 2016 Annual Report.

CHANGES IN DIRECTORS, SUPERVISORS AND THEIR BIOGRAPHICAL INFORMATION

Changes in the directors and supervisors of the Company and their biographical information since the date of the Company's 2016 Annual Report are set out below:

— Mr. Shao Guanglu was appointed as a non-executive director of the Company.

AUDIT COMMITTEE

The audit committee has reviewed with management and the Company's international auditors, Deloitte Touche Tohmatsu, the accounting principles and practices adopted by the Group and discussed the risk management, internal control and financial reporting matters including the review of the Interim Report for the six months ended 30 June 2017.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

As a joint stock limited company incorporated in the PRC with limited liability and listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company has not only complied with the relevant provisions of the Listing Rules but also has abided by the PRC Company Law and the applicable laws, regulations and regulatory requirements of Hong Kong and the PRC as the basic guidelines for the Company's corporate governance. Throughout the six months ended 30 June 2017, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules to govern securities transactions by the directors and the supervisors of the Company. Having made specific enquiries by the Company, each of the directors and the supervisors has confirmed his/her compliance with the Model Code in connection with the transactions of the Company's securities for the six months ended 30 June 2017.

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

As at 30 June 2017, 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 2017, the Company has not granted its directors or supervisors, or their respective spouses or children below the age of 18 any rights to subscribe for the shares or debentures of the Company or any of its associated corporations and none of them has ever exercised any such right to subscribe for the above shares or debentures.

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

As at 30 June 2017, the interests or the short positions of persons (excluding the directors and supervisors of the Company) who are entitled to exercise or control the exercise of 5% or more of the voting power at any of the Company's general meetings in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be maintained under Section 336 of the SFO are as follows:

Name of shareholder	Class of shares	Capacity	Number of shares held	Percentage of the respective class of share (%)	Percentage of the total number of shares in issue (%)
China Telecommunications Corporation	Domestic shares	Beneficial owner	3,559,362,496 (L)	78.49	51.39
China Mobile Communications Corporation	Domestic shares	Beneficial owner	608,256,000 (L)	13.41	8.78
China United Network Communications Group Company Limited	Domestic shares	Beneficial owner	236,300,000 (L)	5.21	3.41
BlackRock, Inc.	H shares	Interest of corporation controlled by the substantial shareholder	212,682,928 (L)	8.89	3.07
JPMorgan Chase & Co.	H shares	33,151,826 shares as beneficial owner; 1,482,600 shares as investment manager and 133,458,800 shares as custodian corporation/approved lending agent	168,093,226 (L)	7.02	2.43
		Beneficial owner	11,680,000 (S)	0.48	0.17
		Custodian corporation/approved lending agent	133,458,800 (P)	5.58	1.93

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 (%)
Citigroup Inc.	H shares	7,002,400 shares as interest of corporation controlled by the substantial shareholder and 135,804,077 shares as custodian corporation/approved lending agent	142,806,477 (L)	5.97	2.06
		Interest of corporation controlled by the substantial shareholder	163,338 (S)	0.01	0.002
		Custodian corporation/approved lending agent	135,804,077 (P)	5.68	1.96

Remarks:

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

Save as stated above, as at 30 June 2017, 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 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

FORWARD-LOOKING STATEMENTS

The Company would also like to caution readers about the forward-looking nature of certain of the above statements. These forward-looking statements are subject to risks, uncertainties and assumptions, which are beyond our control. Potential risks and uncertainties include those concerning the growth of the telecommunications industry in China, the development of the regulatory environment and our ability to successfully execute our business strategies. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. We do not intend to update these forward-looking statements. Actual results of the Company may differ materially from the information contained in the forward-looking statements as a result of a number of factors.

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