



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



ACHIEVE
HIGH-QUALITY DEVELOPMENT
FORGE NEW GROWTH CURVE

實現**高質量發展** 打造**新增長曲線**

INTERIM REPORT 中期報告 2023

Aim to become a First-class Smart Service Innovative Enterprise
Adhering to the positioning of
New Generation Integrated Smart Service Provider
Provide Integrated Comprehensive Smart Solutions

以建設「一流智慧服務創新型企業」為目標
堅持「新一代綜合智慧服務商」定位
提供綜合一體化智慧解決方案



The Main Force in Digital
Infrastructure Construction
數字基礎建設主力軍



The Vanguard in
Smart City Services
智慧城市服務排頭兵



The Leading Enterprise
in Industrial
Digitalization Services
產數服務頭部企業



A Trusted Expert in
Smart Operation
智慧運營可信專家

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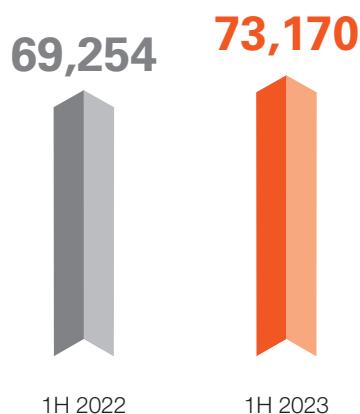
HIGHLIGHTS

- By progressively implementing its strategies, the Group achieved steady yet progressive business development and maintained high-quality operating results, among which, there was a continuous improvement in operating efficiency indicators such as gross profit margin, net profit margin and ROE, and an improvement in free cash flow.
 - Total revenues were RMB73,170 million, up by 5.7%.
 - Net profit was RMB2,034 million, up by 7.3%.
 - Gross profit margin was 10.7%, up by 0.2 percentage point. Net profit margin was 2.8%, up by 0.1 percentage point. Annualized ROE was 10.0%, up by 0.2 percentage point.
- The Group achieved relatively fast development in the domestic telecommunications operator market with revenue grew by 7.5%, and also optimization in business mix in the domestic non-operator market with revenue grew by 3.6%.
- The Group focused on strategic emerging industries such as digital infrastructure, smart city, green and low-carbon, with the new contracts value grew by more than 30%, accounting for more than 27% of the total new contracts value. Strategic emerging industries become a major contributor to the business growth.

	Six months ended 30 June		
	2023	2022	Change
Revenues (RMB million)	73,170	69,254	5.7%
Gross profit (RMB million)	7,834	7,294	7.4%
Profit attributable to equity shareholders of the Company (RMB million)	2,034	1,895	7.3%
Basic earnings per share (RMB)	0.294	0.274	7.3%
Free cash flow ¹ (RMB million)	(1,122)	(2,607)	—

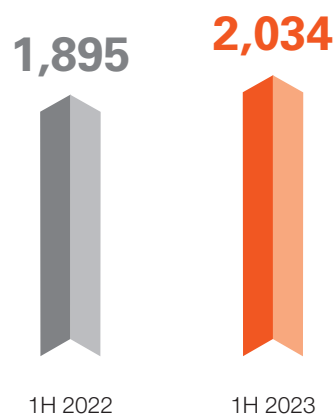
Revenues

(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 2023, the Chinese government accelerated the development of digital economy to promote the in-depth integration of the digital economy and the real economy. Leveraging its positioning as a “New Generation Integrated Smart Service Provider”, the Group aims to build itself as a “First-class Smart Service Innovative Enterprise”, focuses on strategic emerging businesses for future development, and strives to become the “Main Force in Digital Infrastructure Construction, Vanguard in Smart City Services, Leading Enterprise in Industrial Digitalization Services and Trusted Expert in Smart Operation”. With high-quality development as the principle and value creation as the focus, the Group was committed to pursuing the steady development of its fundamental businesses while expediting the business expansion in the strategic emerging industries, leveraging technological innovation as the lead, enhancing its product and service values, advancing reform in key areas, continuously enhancing its core competitiveness, thus achieving steady growth in its operating results.

I. STEADY YET IMPROVING OPERATING RESULTS ACHIEVED WITH CONTINUOUS IMPROVEMENT IN QUALITY AND EFFICIENCY

With the philosophy of “Effective Improvement in Quality and Reasonable Growth in Quantity”, the Group seized the opportunities arising from the construction of Digital China and achieved steady growth in revenue, continuous improvement in both gross profit margin and net profit margin, as well as a sustained positive trend in indicators such as cash flow and shareholders’ return. In the first half of the year, the Group’s total revenues amounted to RMB73,170 million, representing a year-on-year increase of 5.7%, among which, service revenue¹ amounted to RMB70,713 million, representing a year-on-year increase of 6.3%. Gross profit was RMB7,834 million, representing a year-on-year increase of 7.4%. Gross profit margin was 10.7%, representing a year-on-year increase of 0.2 percentage point, continuing the stabilization and recovery trend. Net profit² was RMB2,034 million, representing a year-on-year increase of 7.3%, and such growth rate continued to be higher than the revenue growth rate. Net profit margin was 2.8%, which stabilized and improved on a year-on-year basis. Free cash flow recorded a year-on-year improvement. Return on equity (ROE) was 10.0%³, representing a further enhancement on a year-on-year basis. Basic earnings per share were RMB0.294, representing a year-on-year increase of 7.3%.

1. Forging ahead with transformation and upgrade, the three major business segments maintained steady growth

During the first half of the year, benefited from the rapid growth of the digital infrastructure business, revenue from the Group’s telecommunications infrastructure (“TIS”) services amounted to RMB37,688 million, representing a year-on-year increase of 7.5%, accounting for 51.5% of total revenues, being the largest contributor to revenue growth by business segment in the first half of the year. Among which, the growth was steered by high-value consultation and design businesses, with the business quality of the segment improving continuously. Revenue from business process outsourcing (“BPO”) services was largely stable and increased slightly, and amounted to RMB21,729 million, representing a year-on-year increase of 0.9%, accounting for 29.7% of total revenues. Revenue from applications, content, and other (“ACO”) services amounted to RMB13,753 million, representing a year-on-year increase of 8.6%, accounting for 18.8% of total revenues, and maintained a favorable growth momentum. Among which, revenue from software development and system support grew rapidly by 31.5% year-on-year, signifying market recognition of the Group’s capability in terms of its software and digital services.

¹ Service Revenue = total revenues — revenue from products distribution — revenue from IT equipment supplies in system integration

² Net profit refers to profit attributable to the equity shareholders of the Company.

³ Return on equity is on an annualized basis.

CHAIRMAN'S STATEMENT (CONTINUED)

2. Integrating itself into the ecosystem of customers, the development in the three major markets remained robust

- (A) **Focusing on new businesses in domestic non-operator market and reinforcing its development quality.** The Group focused on strategic emerging industries and strengthened its core products, services and capabilities that fit the industry development and the ecosystem of customers. By deeply exploring the business needs such as digital government, digital transformation of enterprises, intelligent computing centers, electricity infrastructure and ancillary facilities as well as photovoltaic construction, and leveraging the Group's "Consultant + Staff + Housekeeper"⁴ service advantages and "Platform + Software + Service"⁵ capability advantages, the development quality of such market continued to be reinforced. In the first half of the year, revenue from the domestic non-telecom operator ("domestic non-operator") market⁶ amounted to RMB31,623 million, representing a year-on-year increase of 3.6%.
- (B) **Keeping abreast of the changing needs in domestic telecommunications operator market to drive revenue growth.** The Group actively responded to the changing needs of domestic telecommunications operator customers in data center, computing power network and industrial digitalization, and gave full play to the advantages of its differentiated capabilities in software research and development, system integration and support services, etc. The Group kept enhancing its proficiency in project management and in delivering projects in high quality to facilitate the transformation and upgrading of the operator customers, collaborating with operators to develop the incremental potential for digital economy and building a symbiotic and win-win ecosystem. In the first half of the year, revenue from domestic telecommunications operator market amounted to RMB39,977 million, representing a year-on-year increase of 7.5% and accounting for 54.7% of the total revenues, making it the largest contributor to revenue growth among all customer groups⁷.
- (C) **Steady growth achieved in overseas market through optimizing deployment and enhancing quality.** Centering on key regions along the "Belt and Road", the Group developed high-quality projects, proactively promoted the cooperation with Chinese companies in the ecosystem, and provided overseas customers with construction services of digital infrastructure, photovoltaic and new types of energy storage, resulting in a continuous increase in the proportion of high-value businesses and operating efficiency enhancement. Revenue from overseas market amounted to RMB1,570 million, representing a year-on-year increase of 1.2%.

⁴ "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' original expectation can be achieved. "Housekeeper" means that the Group provides a full life cycle management and accompanying service of the relevant businesses and creates values for customers.

⁵ "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.

⁶ Since 2023, the Group has reclassified its revenue from China Broadcasting Network from the domestic non-operator market to the domestic telecommunications operator market. The relevant historical data have been retrospectively adjusted in order to increase the comparability, and the overall revenue in the first half of 2022 was not affected as a result of such reclassification.

⁷ Customers here are classified into three categories, including the domestic non-operator customers, domestic telecommunications operator customers and overseas customers.

CHAIRMAN'S STATEMENT (CONTINUED)

II. FOCUSING ON NEW MOMENTUM, STRATEGIC EMERGING BUSINESSES ACHIEVED ROBUST DEVELOPMENT

As the construction of Digital China advanced at full speed and the industrial informatization market grew at a robust pace, the Group catered to the needs of the government, industry and enterprise customers, focused on expanding the strategic emerging industries, including digital infrastructure, smart city, green and low-carbon, and emergency management and security, and actively fostered new growth momentum. In the first half of the year, the value of the new contracts from strategic emerging industries recorded a year-on-year growth of over 30% and accounted for more than 27% of the total new contracts value, becoming a major contributor to total contracts growth.

In the field of digital infrastructure, the Group grasped the opportunities in respect of the construction of data centers, intelligent computing centers and supercomputing centers presented by the national “East-To-West Computing Resources Transfer” project and AIGC⁸. And it also closely followed the main development direction of clustering, low-carbon transformation and computerization of data centers, as well as the opportunities in the construction of operators' cloud and industrial cloud, with a focus on new digital infrastructure, including data center and computing power network, cloud business and enterprise-level 5G+. The Group established the Digital Infrastructure Industry Research Institute, conducted in-depth customer insights, and strengthened its products and solutions empowerment, enabling it to successfully undertake several general contracting projects with contract value of over RMB100 million each.

In the field of smart city, steered by the top-level design of smart cities, the Group capitalized on the advantages of its “Consultation + General Contracting + Software + Platform + Service” integrated service capability, and put extra efforts in the development of key areas such as digital government, enterprise digital transformation and smart transportation. The Group built professional teams that catered to customers' core needs, continuously improved quality of localized delivery and operation to form standardized cases and replicated and promoted such cases rapidly. The Group contributed to the intelligentization of urban management, and was shortlisted in the “2023 Digital Government Industry Mapping” published by the China Academy of Information and Communications Technology, demonstrating its growing brand influence.

In the new field of green and low-carbon, the Group remained committed to serving the national “Dual Carbon” strategic goal, and further developed the markets of different sub-sectors, including electricity infrastructure and ancillary facilities, photovoltaic construction, energy usage services and carbon management. By integrating 5G, Internet of Things (IoT), cloud computing, big data, artificial intelligence and other technologies as well as forging the Group's advantage in full life cycle integrated comprehensive services, it provided intelligentization and decarbonization services to customers in key industries, such as energy and electricity, transportation, real estate and construction, industrial manufacturing as well as information and communications. The Group commenced an all-round strategic collaboration with China Beijing Green Exchange in connection with the construction of green and safe data centers as well as informatized infrastructure network. Besides, it engaged 25 scientific research institutes and higher education institutions to carry out forward-looking joint cooperation between industries, universities and research institutes on “Dual Carbon”, in a bid to support China's goal of green development.

⁸ AIGC refers to Artificial Intelligence Generated Content.

CHAIRMAN'S STATEMENT (CONTINUED)

In the field of emergency management and security, the Group focused on the scenario-based needs of regulatory authorities and key industry customers, increased synergistic research and development efforts, strengthened resource coordination and sharing, and focused on developing core products such as asset surveying and mapping, situational awareness, safe production supervision, risk monitoring and early warning as well as emergency rescue command, etc. The Group stepped up the nationwide promotion of the products and achieved mutual facilitation between research and development and market. It was selected in the "China Cybersecurity Industry Panorama" by AQNIU⁹ and successfully shortlisted as a representative vendor in the "China Cybersecurity Industry Momentum List"¹⁰ by ROARTALK.

III. CONTINUING TO BUILD UP CORE CAPABILITIES AND DEVELOP A FIRST-CLASS SMART SERVICE INNOVATIVE ENTERPRISE

1. Strengthening the drive from technological innovation and enhancing product competitiveness

The Group strengthened the leading role of technological innovation and continuously enhanced its core capabilities to firmly support its expansion into the strategic emerging industries and its effort to build a technology-based enterprise. The Group continued to increase its investment in research and development, optimized its technological innovation system, focused on industrial digitalization application research and development, and core professional technical fields such as IoT, blockchain, dual carbon energy-saving technology and cybersecurity, to create benchmark solutions and core products as well as improving research and development efficiency. The Group enhanced the efficiency in the collaboration between the research and development team, the marketing team, and the delivery team, and thus rapidly improved the efficiency in product promotion. The Group vigorously introduced high-end expert teams and technology talents, continuously strengthened its core competitiveness, with a view to driving high-quality development with technological innovation.

2. Enhancing comprehensive integrated capabilities to provide customers with high-standard services

Amid the opportunities arising from the disruptive industrial transformation spawned by digitalization, the Group leveraged its positioning as a "New Generation Integrated Smart Service Provider" and integrated its 4T¹¹ capabilities to promote itself as a provider of premium service persistently. Adopting a customer-centric approach, the Group focused on customers' demand for digital transformation and gave full play to its advantages of comprehensive integrated services such as digitalization general integration, digital infrastructure general contracting, and also its edge in consultation and design. Besides, it continuously optimized marketing and operation and service system that adapts to new businesses and new models so as to enhance its comprehensive delivery capabilities for the whole value chain, with an aim to ensuring high-quality development through the provision of premium services.

⁹ "AQNIU" is an influential third-party professional media and flagship think-tank in the domestic cybersecurity sector.

¹⁰ "China Cybersecurity Industry Momentum List" (《中國網絡安全產業勢能榜》) is an authoritative industry report jointly published by ROARTALK Cybersecurity Research Institute (嘶吼安全產業研究院), an industry think-tank, and the National Cybersecurity Industrial Park (Tongzhou Park).

¹¹ 4T includes CT (Communications Technology), IT (Information Technology), DT (Data Technology) and OT (Operational Technology).

CHAIRMAN'S STATEMENT (CONTINUED)

3. Accelerating digital transformation to achieve high-efficiency operation

The Group regarded digitalization as the utmost important factor to enhancing its value creation capability. Steered by its overall planning, the Group pressed on the in-depth integration of digital technology with the management of its production and operation as well as its products and services, and drove the production model innovation as well as business and product innovation. The above measures will promote the building of a technology-oriented enterprise and the strengthening of the Group's capability in technological innovation for future development. The Group improved its mindset and sense of digital transformation, cultivated talents, strengthened the motivation for digital transformation and innovation, and concerned the enterprise's internal core needs and its experience on digitalization. The Group continued to promote digital transformation of its internal production and operation, accelerated the promotion of mature digitalization tools such as production efficiency enhancement platforms and project onsite management system, thereby enhancing its operating efficiency and data sharing capability, lowering production and operating costs, raising the perception of customers and promoting high-quality development by digitalization means.

4. Promoting reforms in key areas steadily to build industry-leading enterprises

The Group persisted in deepening reforms and continued to optimize its operation management system and mechanism with a view to achieving the goal of stimulating vitality, strengthening impetus and enhancing capability. The Group steadily promoted the consolidation of its professional subsidiaries, completed the shareholding reform of the subsidiary, China Comservice Supply Chain Co., Ltd. (formerly known as China Comservice Supply Chain Management Co., Ltd.), and completed one of the phases of the consolidation of China Comservice Smart Property Development Co., Ltd. The Group accelerated the cultivation of leading professional enterprises in consultation and design as well as application software, and built new competitive advantages in the value chain of the industry, elevated corporate governance level and operating efficiency, with a view to driving high-quality development through deepening reforms.

IV. ACTIVELY FULFILLING ENVIRONMENTAL AND SOCIAL RESPONSIBILITIES, MAINTAINING GOOD CORPORATE GOVERNANCE

In practicing the corporate mission of "Building Smart Society, Boosting Digital Economy, Serving a Good Life", the Group actively fulfilled its social responsibility, and persisted in standardized and green operation with a view to achieving healthy and sustainable corporate development.

Upholding the concept of green development, the Group consistently paid attention to risks in relation to climate change and enhanced its management capability regarding the environment. The Group stepped up the monitoring of energy consumption of its subsidiaries to reduce the impact of its production and operations on the environment. The Group established the "Zero Carbon Information and Communications Network Joint Laboratory" in collaboration with several institutions such as Tsinghua University and Chongqing University, and conducted comprehensive cooperation in many fields such as energy-saving, green energy, energy storage, and carbon asset management. It participated in the national project "Research on Key Measurement Technology and Standards for Quality Control of Carbon Emission Monitoring Data" to provide technical support for the management and decision making of "Dual Carbon". Taking full advantage of its technology and capabilities in the green and low-carbon field, the Group provided customers with clean, low-carbon and high-efficient services such as green data centers, integrated energy management platforms and comprehensive energy-saving retrofit of equipment, in order to support industries and the society to save energy and reduce carbon emissions.

CHAIRMAN'S STATEMENT (CONTINUED)

With its rich experience in communications construction and services, the Group actively shouldered social responsibility and remarkably completed the task of major event support, disaster relief and emergency rescue. It provided communications support services in a number of key national events including the first “China-Central Asia Summit” and the “31st summer edition of the FISU World University Games”, which were well recognized by customers. Confronted with the damages to communications facilities caused by forest fire in Yuxi, Yunnan Province as well as Typhoons Doksuri and Talim, the Group actively shouldered its responsibilities and took active measures to visit the disaster-stricken areas at once to ensure the smooth operation of communications lines.

The Group was committed to compliant and efficient operation and its high standard of corporate governance was recognized by the capital market. The Group ranked 98th in the “2023 FORTUNE China Listed Companies 500” and ranked 1,499th in the “2023 Forbes Global 2000”. The Group was awarded with awards including “Most Honored Company”, “Best CEO”, “Best CFO”, and “Best ESG” in the “2023 Asia Executive Team Rankings” by *Institutional Investor*. It also won awards such as “Asia’s Best CEO”, “Asia’s Best CFO”, “Best Investor Relations Company” and “Best Environmental Responsibility” in the “13th Asian Excellence Award” held by *Corporate Governance Asia*, a corporate governance magazine in Asia.

V. OUTLOOK

Currently, the construction of Digital China has become a key driver for promoting Chinese modernization, and new technologies such as artificial intelligence, big data and cloud computing are driving industrial development and reform, bringing a promising market potential for the strategic emerging industries.

The Group will continue to leverage its strengthening capabilities in the development of strategic emerging industries and focus on cultivating a new growth curve. The Group will enhance its integrated capabilities of consultation and design by speeding up the upgrade of its consultation and design businesses, increasing research and development investment, bringing in high-end experts, and thereby promoting digital transformation and upgrading as well as its business deployment in strategic emerging industries. The Group will strengthen its general contracting capabilities for infrastructure construction by actively pursuing large and high-value general contracting projects in the industry, focusing on cultivating an efficient general contracting project management team, creating cost advantages, and thereby comprehensively enhancing general contracting project management capabilities. By capitalizing on the strength of its brand, the Group will enhance its capabilities by solidifying its leading position in communications infrastructure construction and by accelerating the upgrading and transformation with a focus on areas such as smart city, industrial digitalization services and smart operations, thereby aiming to build a brand for the main force in digital infrastructure construction and become the industry’s first choice. The Group will enhance its ability in driving industry development through capital operations, utilize the role of capital as a link and build stronger industry ecosystem through investment, actively seeking opportunities for large projects, and thereby facilitating new business expansion and development quality enhancement. Looking ahead, the Group will accelerate the building of a “First-class Smart Service Innovative Enterprise” and effectively improve its core competencies constantly, and continue its new journey on the path of high-quality development together with the business partners in the industry, customers and society.

CHAIRMAN'S STATEMENT (CONTINUED)

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 attention and support to the development of the Group, and deeply thank all of our employees for their continued dedication and hard work. I would also like to extend my warm welcome to Mr. Tang Yongbo who has joined the Board.



Liu Guiqing

Executive Director and Chairman

Beijing, PRC

24 August 2023

FINANCIAL REVIEW

TOTAL REVENUES

In the first half of 2023, by consistently adhering to its overall roadmap of “value-driven, seeking steady yet progressive growth and high-quality development” and positioning itself as a “New Generation Integrated Smart Service Provider”, the Group strove to become “the Main Force in Digital Infrastructure Construction, the Vanguard in Smart City Services, the Leading Enterprise in Industrial Digitalization Services, and a Trusted Expert in Smart Operation”, and captured the key opportunities from digital economy, new infrastructure construction and industrial digitalization, thus realizing steady growth of operating results, with the total revenues amounting to RMB73,170 million, representing an increase of 5.7% compared to RMB69,254 million in the first half of 2022.

Revenue by Business

In the first half of 2023, the revenue from telecommunications infrastructure (“TIS”) services was RMB37,688 million, representing a year-on-year increase of 7.5%. Revenue from business process outsourcing (“BPO”) services was RMB21,729 million, representing a year-on-year increase of 0.9%. Revenue from applications, content and other (“ACO”) services was RMB13,753 million, representing a year-on-year increase of 8.6%.

With the in-depth promotion of the Digital China strategy and the acceleration of digital information infrastructure construction, the Group seized the opportunities arising from 5G, new infrastructure construction as well as industrial digitalization and enhanced its integrated comprehensive smart service capabilities, thus making TIS services the largest contributor in driving business growth. Among which, the revenue of design service amounted to RMB5,200 million, representing a year-on-year increase of 15.3%. The Group further consolidated its resources and promoted specialized operations, resulting in steady growth in BPO services that possess attributes such as strong customer loyalty and short cash conversion cycle. By strengthening innovation and research and development consistently and seizing the development opportunities from the acceleration of the digitalization and intelligentization retrofit in traditional industries, the Group carried out iterative upgrade on its smart products and solutions and effectively fulfilled the customers’ demand for digitalization, thus the revenue of ACO services maintained solid growth momentum. Among which, revenue from software development and system support businesses amounted to RMB2,613 million, representing a year-on-year increase of 31.5% and maintaining a growth of more than 20% for many consecutive years.

Revenue by Market

During the first half of 2023, the Group’s revenue from the domestic telecommunications operator market amounted to RMB39,977 million, representing a year-on-year increase of 7.5%. Revenue from the domestic non-operator market amounted to RMB31,623 million, representing a year-on-year increase of 3.6%. Revenue from the overseas market amounted to RMB1,570 million, representing a year-on-year increase of 1.2%.

In the first half of 2023, by persisting in the “CAPEX + OPEX + Smart Applications” development strategy in the domestic telecommunications operator market, the Group leveraged its advantages of differentiated capabilities and strengthened its market competitiveness, and actively responded to the domestic telecommunications operators’ changing demand for the construction of data centers and computing power networks as well as the industrial digitalization, 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, seized the strategic opportunities of the digital economy and industrial digitalization, and focused on the business demands of data center, digital government and enterprise digital transformation. The Group also continued to optimize its business mix and further expanded high-value business to reinforce the development quality, hence revenue from such market maintained a steady growth.

FINANCIAL REVIEW (CONTINUED)

COST OF REVENUES

In the first half of 2023, the cost of revenues of the Group amounted to RMB65,336 million, representing a year-on-year increase of 5.4%. Among which, direct personnel costs amounted to RMB3,871 million, representing a decrease of 3.9% from RMB4,030 million in the first half of 2022. The Group has always kept a reasonable control over its total headcount, continuously optimized the employee structure and reasonably controlled staff costs, resulting in a continuous decline in direct personnel costs. Subcontracting charges amounted to RMB40,303 million, representing an increase of 5.9% from RMB38,063 million in the first half of 2022. The Group further strengthened management over subcontracting and improved its self-sufficient delivery capabilities, thus making the growth of subcontracting charges under effective control. Materials costs amounted to RMB11,886 million, representing an increase of 9.1% from RMB10,896 million in the first half of 2022. The Group further strengthened the management of general contracting projects and enhanced the control of material costs through optimizing its internal procurement system and carrying out centralized procurement, resulting in a significant slowdown in the increase in material costs.

GROSS PROFIT

In the first half of 2023, the Group recorded gross profit of RMB7,834 million, representing an increase of 7.4% over RMB7,294 million in the first half of 2022. The Group's gross profit margin in the first half of 2023 was 10.7%, representing an increase of 0.2 percentage point from 10.5% in the first half of 2022, indicating that the stabilization and recovery of the gross profit margin was sustained. While balancing its development scale, the Group put stronger emphasis on improving quality and efficiency and guided the Group's subsidiaries to select and develop high-margin projects through appraisal. At the same time, the Group continuously strengthened project management and cost control and strived to enhance the value creation capability of its business. As a result of the above measures, gross profit margin continued to improve. With the Group's deepening deployment in digital economy, new infrastructure construction and industrial digitalization, the proportion of high-value businesses will gradually increase and thereby driving the Group's overall gross profit margin to maintain an upward trend.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

In the first half of 2023, the selling, general and administrative expenses of the Group were RMB6,353 million, representing an increase of 7.3% from RMB5,920 million in the first half of 2022. The selling, general and administrative expenses of the group accounted for 8.7% of the total revenues, representing an increase of 0.2 percentage point over the same period of the last year. Pursuant to the resumption of economic activities to normal, the selling, general and administrative expenses as a percentage of revenue increased slightly.

PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

In the first half of 2023, profit attributable to equity shareholders of the Company was RMB2,034 million, representing an increase of 7.3% from RMB1,895 million in the first half of 2022.

FINANCIAL REVIEW (CONTINUED)

CASH FLOW

The Group recorded a net cash outflow of RMB2,323 million in the first half of 2023, as compared to a net cash outflow of RMB3,170 million in the first half of 2022. The change was mainly attributable to the Group's persistence in the value-driven approach and strengthening the working capital management, resulting in an improvement in net cash flow from operations.

ASSETS AND LIABILITIES

The Group continued to maintain its solid financial position. As of 30 June 2023, the Group's total assets was RMB119,040 million, representing an increase of RMB8,771 million from RMB110,269 million as of 31 December 2022. Total liabilities was RMB76,330 million, representing an increase of RMB7,685 million from RMB68,645 million as of 31 December 2022. The liabilities-to-assets ratio was 64.1%, which slightly increased compared with that as of 31 December 2022.

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 14 to 43, which comprises the condensed consolidated statement of financial position of China Communications Services Corporation Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2023 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 selected explanatory notes. 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 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 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, 24 August 2023

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2023

	Notes	Six months ended 30 June	
		2023 RMB'000 (unaudited)	2022 RMB'000 (restated)
Revenues	5	73,169,553	69,253,532
Cost of revenues	6	(65,335,907)	(61,959,855)
Gross Profit		7,833,646	7,293,677
Other income	7	935,824	940,297
Selling, general and administrative expenses		(6,353,365)	(5,920,470)
Other expenses		(76,420)	(76,213)
Finance costs	8	(55,394)	(42,401)
Share of profits of associates and joint ventures		54,320	39,125
Profit before tax	9	2,338,611	2,234,015
Income tax	10	(226,337)	(277,051)
Profit for the period		2,112,274	1,956,964
Attributable to:			
Equity shareholders of the Company		2,034,456	1,895,456
Non-controlling interests		77,818	61,508
		2,112,274	1,956,964
Basic/diluted earnings per share (RMB)	11	0.294	0.274

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 2023

	Notes	Six months ended 30 June	
		2023 RMB'000 (unaudited)	2022 RMB'000 (restated)
Profit for the period		2,112,274	1,956,964
Other comprehensive income (after tax)	12		
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		372,161	122,096
Item that may be subsequently reclassified to profit or loss (after tax):			
Exchange differences on translation of financial statements of subsidiaries outside Mainland China		10,770	17,275
		382,931	139,371
Total comprehensive income for the period		2,495,205	2,096,335
Attributable to:			
Equity shareholders of the Company		2,417,251	2,034,624
Non-controlling interests		77,954	61,711
		2,495,205	2,096,335

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 2023

	Notes	30 June 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (restated)
Non-current assets			
Property, plant and equipment, net		5,961,935	6,269,961
Right-of-use assets		2,298,484	2,402,559
Investment properties		1,736,344	1,716,227
Construction in progress		497,448	427,691
Goodwill		103,005	103,005
Intangible assets		675,013	724,013
Interests in associates and joint ventures		1,287,963	1,307,945
Financial assets at fair value through profit or loss		305,374	275,804
Equity instruments at fair value through other comprehensive income		3,835,882	3,336,403
Deferred tax assets		972,451	941,879
Deposits at financial institutions with original maturity more than one year		8,097,097	7,651,866
Other non-current assets	14	947,344	908,016
Total non-current assets		26,718,340	26,065,369
Current assets			
Inventories		1,512,404	1,367,311
Accounts and bills receivable, net	15	26,013,722	20,310,265
Contract assets, net	16	29,456,433	25,268,821
Current portion of deposits at financial institutions with original maturity more than one year		107,410	221,188
Prepayments and other current assets		13,353,787	12,717,632
Financial assets at fair value through profit or loss		11,408	61,556
Short-term bank deposits and restricted cash		2,099,559	2,168,795
Cash and cash equivalents	17	19,766,956	22,087,661
Total current assets		92,321,679	84,203,229
Total assets		119,040,019	110,268,598
Current liabilities			
Interest-bearing borrowings	18	832,310	752,001
Accounts and bills payable	19	52,914,842	44,611,295
Current portion of lease liabilities		488,111	513,223
Contract liabilities	20	8,192,656	10,867,975
Accrued expenses and other payables	21	11,472,088	9,500,858
Income tax payable		305,943	351,105
Total current liabilities		74,205,950	66,596,457
Net current assets		18,115,729	17,606,772
Total assets less current liabilities		44,834,069	43,672,141

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2023

	Notes	30 June 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (restated)
Non-current liabilities			
Interest-bearing borrowings	18	140,472	129,120
Lease liabilities		1,024,888	1,066,892
Other non-current liabilities	22	194,468	219,457
Deferred tax liabilities		763,754	632,747
Total non-current liabilities		2,123,582	2,048,216
Total liabilities		76,329,532	68,644,673
Equity			
Share capital	23	6,926,018	6,926,018
Reserves		34,490,462	33,434,619
Equity attributable to equity shareholders of the Company		41,416,480	40,360,637
Non-controlling interests		1,294,007	1,263,288
Total equity		42,710,487	41,623,925
Total liabilities and equity		119,040,019	110,268,598

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

The condensed consolidated interim financial information on pages 14 to 43 were approved and authorised for issue by the board of directors on 24 August 2023 and are signed on its behalf by:

Liu Guiqing
Chairman and Executive Director

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 2023

	Notes	Equity attributable to equity shareholders of the Company										Non-controlling interests	Total equity
		Share capital	Share premium	Capital reserve	Statutory surplus reserve	Specific reserve	Fair value reserve	Exchange reserve	Other reserve	Retained earnings	Total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at 1 January 2023 (audited)		6,926,018	4,529,310	2,046,822	1,860,249	401,360	1,900,280	(22,103)	(68,310)	22,785,736	40,359,362	1,263,288	41,622,650
Adjusted for acquisition of Target Company	2	—	—	4,581	—	—	—	—	—	(3,306)	1,275	—	1,275
Balance as at 1 January 2023 (restated)		6,926,018	4,529,310	2,051,403	1,860,249	401,360	1,900,280	(22,103)	(68,310)	22,782,430	40,360,637	1,263,288	41,623,925
Changes in equity for the six months ended 30 June 2023													
Profit for the period		—	—	—	—	—	—	—	—	2,034,456	2,034,456	77,818	2,112,274
Other comprehensive income for the period		—	—	—	—	—	372,161	10,634	—	—	382,795	136	382,931
Total comprehensive income for the period		—	—	—	—	—	372,161	10,634	—	2,034,456	2,417,251	77,954	2,495,205
Dividend declared	13(b)	—	—	—	—	—	—	—	—	(1,342,955)	(1,342,955)	—	(1,342,955)
Distribution to non-controlling interests		—	—	—	—	—	—	—	—	—	—	(47,235)	(47,235)
Appropriation of specific reserve		—	—	—	—	32,295	—	—	—	(32,295)	—	—	—
Acquisition of Target Company	2	—	—	(18,453)	—	—	—	—	—	—	(18,453)	—	(18,453)
Balance as at 30 June 2023 (unaudited)		6,926,018	4,529,310	2,032,950	1,860,249	433,655	2,272,441	(11,469)	(68,310)	23,441,636	41,416,480	1,294,007	42,710,487
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
Adjusted for acquisition of Target Company	2	—	—	4,530	—	—	—	—	—	(4,712)	(182)	—	(182)
Balance as at 1 January 2022 (restated)		6,926,018	4,529,310	2,040,856	1,706,073	359,093	2,149,333	(47,892)	(68,310)	20,812,551	38,407,032	1,202,906	39,609,938
Changes in equity for the six months ended 30 June 2022													
Profit for the period		—	—	—	—	—	—	—	—	1,895,456	1,895,456	61,508	1,956,964
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	—	1,895,456	2,034,624	61,711	2,096,335
Dividend declared	13(b)	—	—	—	—	—	—	—	—	(1,199,587)	(1,199,587)	—	(1,199,587)
Appropriation of specific reserve		—	—	—	—	31,860	—	—	—	(31,860)	—	—	—
Capital contribution from non-controlling interests		—	—	—	—	—	—	—	—	—	—	215	215
Balance as at 30 June 2022 (restated)		6,926,018	4,529,310	2,040,856	1,706,073	390,953	2,271,429	(30,820)	(68,310)	21,476,560	39,242,069	1,264,832	40,506,901

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 2023

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(restated)
Operating activities		
Income tax paid	(275,077)	(305,303)
Other cash flows used in operating activities	(890,918)	(2,026,434)
Net cash used in operating activities	(1,165,995)	(2,331,737)
Investing activities		
Payment on acquisition of property, plant and equipment, construction in progress, intangible assets and right-of-use assets	(335,833)	(413,393)
Payments for acquisition of deposits at financial institutions with original maturity more than three months and less than one year	(525,110)	(70,000)
Payments for acquisition of deposits at financial institutions with original maturity more than one year	(400,000)	(2,530,000)
Proceeds from disposal of deposits at financial institutions with original maturity more than one year	200,000	500,000
Proceeds from disposal of wealth management products and structured deposits	—	1,972,212
Other cash flows generated from/(used in) investing activities	161,913	(90,261)
Net cash used in investing activities	(899,030)	(631,442)
Financing activities		
Proceeds from bank and other loans	358,813	134,254
Repayments of bank and other loans	(295,599)	(125,379)
Other cash flows used in financing activities	(321,033)	(215,698)
Net cash used in financing activities	(257,819)	(206,823)
Net decrease in cash and cash equivalents	(2,322,844)	(3,170,002)
Cash and cash equivalents at the beginning of period	22,087,661	21,172,860
Effect of foreign exchange rate changes	2,139	38,419
Cash and cash equivalents at the end of period	19,766,956	18,041,277

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 2023

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 2022 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.

Application of business combination under common control

Pursuant to the Equity Transfer Agreements entered into by one of the Company’s subsidiaries, China International Telecommunications Construction Corporation (“CITCC”), and China Telecom Industrial Asset Management Co., Ltd, a subsidiary of China Telecommunications Corporation, on 28 February 2023, CITCC acquired 100% equity interests in China Post and Telecommunication Translation Service Co., LTD (the “Target Company”) for a total purchase price of RMB18.45 million.

Since the Group and the Target Company are under common control of China Telecommunications Corporation, the assets and liabilities of the Target Company have been accounted for at historical costs and the consolidated financial statements of the Group prior to the acquisition of the Target Company have been restated to include the results of operations and assets and liabilities of the Target Company on a consolidated basis as if the Target Company had been consolidated at the previous end of the reporting period based on the Group’s accounting policies of business combinations involving enterprises under common control. The considerations paid by the CITCC for the acquisition of the Target Company were accounted for as an equity transaction in the consolidated statement of changes in equity.

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

For the six months ended 30 June 2023

2. BASIS OF PREPARATION (CONTINUED)

Application of business combination under common control (Continued)

The results of operations for the six months ended 30 June 2022, the financial position as at 31 December 2022 and the cash flows for the six months ended 30 June 2022 previously reported by the Group have been restated to include the results of the Target Company as set out below:

	The Group (as previously reported) RMB'000	Target Company RMB'000	Combined RMB'000
Results of operations for the six months ended 30 June 2022			
Revenues	69,253,054	478	69,253,532
Gross profit	7,293,531	146	7,293,677
Profit/(loss) for the period	1,957,084	(120)	1,956,964
Basic/diluted earnings per share (RMB)	0.274	—	0.274
Financial position as at 31 December 2022			
Total assets	110,264,105	4,493	110,268,598
Total liability	68,641,455	3,218	68,644,673
Total equity	41,622,650	1,275	41,623,925
Cash flows for the six months ended 30 June 2022			
Net cash used in operating activities	(2,331,757)	20	(2,331,737)
Net cash used in investing activities	(631,442)	—	(631,442)
Net cash used in financing activities	(206,823)	—	(206,823)

For the periods presented, the balances and transactions between the Group and the Target Company had no significant impact on the consolidated interim financial information.

The Target Company contributed revenues of RMB618 thousand and profit of RMB78 thousand to the Group for the six months ended 30 June 2023.

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

For the six months ended 30 June 2023

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 2022, except as described below.

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

IFRS 17	Insurance Contracts
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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

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	
	2023 RMB'000	2022 RMB'000 (restated)
Revenue from telecommunications infrastructure services	37,687,865	35,049,501
Revenue from business process outsourcing services	21,728,657	21,536,968
Revenue from applications, content and other services	13,753,031	12,667,063
	73,169,553	69,253,532

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

For the six months ended 30 June 2023

5. REVENUES (CONTINUED)

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 2023 amounted to RMB25,823 million and RMB8,301 million, respectively (six months ended 30 June 2022: RMB22,725 million (restated) and RMB8,978 million, respectively), being 35.3% and 11.3% of the Group's total revenues, respectively (six months ended 30 June 2022: 32.8% (restated) and 13.0%, respectively). The revenues derived from areas outside Mainland China for the six months ended 30 June 2023 amounted to RMB1,570 million (six months ended 30 June 2022: RMB1,551 million).

For the six months ended 30 June 2023, 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 RMB30,417 million, RMB9,086 million and RMB8,696 million, respectively (six months ended 30 June 2022: 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 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). From 1 January 2023, the Group has reclassified Chinese Radio and Television Network Co., Ltd. and its subsidiaries from non-telecom operators to telecommunications operators, the comparative information has been reclassified. Revenues from non-telecom operators for construction amounted to RMB15,582 million (six months ended 30 June 2022: RMB14,763 million).

6. COST OF REVENUES

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
		(restated)
Subcontracting charges	40,303,014	38,063,019
Materials costs	11,885,948	10,896,460
Direct personnel costs	3,871,293	4,029,976
Direct costs of products distribution	1,682,870	2,032,762
Expense relating to short-term leases and leases of low-value assets	581,799	580,360
Depreciation and amortisation	482,139	469,638
Others	6,528,844	5,887,640
	65,335,907	61,959,855

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

For the six months ended 30 June 2023

7. OTHER INCOME

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000 (restated)
Interest income	317,534	247,019
Dividend income from equity instruments	176,610	176,683
Management fee income	149,716	151,853
Government grants	111,838	124,169
Input tax credits	94,655	129,156
Gain on disposal of property, plant and equipment, intangible assets and right-of-use assets	3,391	7,067
Penalty income	1,698	4,852
Investment income and fair value gains on wealth management products and structured deposits	—	44,185
Others	80,382	55,313
	935,824	940,297

8. FINANCE COSTS

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Interest on bank and other borrowings	28,402	13,126
Interest on lease liabilities	26,992	29,275
	55,394	42,401

For the six months ended 30 June 2023, no borrowing costs were capitalised in relation to construction in progress (six months ended 30 June 2022: nil).

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

For the six months ended 30 June 2023

9. PROFIT BEFORE TAX

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

		Six months ended 30 June	
		2023	2022
		RMB'000	RMB'000 (restated)
(a)	Staff costs:		
	Salaries, wages and other benefits	7,179,537	7,311,157
	Contributions to defined contribution retirement schemes	1,059,917	817,545
		8,239,454	8,128,702
(b)	Other items:		
	Amortisation	98,229	82,822
	Depreciation	714,914	704,556
	Auditors' remuneration	7,009	6,623
	Materials costs	11,885,948	10,896,460
	Direct costs of products distribution	1,682,870	2,032,762
	Inventory write-down and losses, net of reversals	19,296	21,575
	Impairment losses recognised and reversed on accounts receivable, other receivables, contract assets and others, net	165,852	118,247
	Expense relating to short-term leases and leases of low-value assets	665,716	663,808

The selling expenses, general and administrative expenses, research and development costs and others of the Group are RMB1,180 million, RMB2,748 million, RMB2,082 million and RMB343 million (six months ended 30 June 2022: RMB1,119 million, RMB2,576 million (restated), RMB1,924 million and RMB301 million (restated)) respectively for the six months ended 30 June 2023.

10. INCOME TAX

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

		Six months ended 30 June	
		2023	2022
		RMB'000	RMB'000
	Current tax	252,167	439,393
	Deferred tax	(25,830)	(162,342)
	Total income tax	226,337	277,051

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

For the six months ended 30 June 2023

10. INCOME TAX (CONTINUED)

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

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000 (restated)
Profit before tax	2,338,611	2,234,015
Expected income tax expense at a statutory tax rate of 25% (six months ended 30 June 2022: 25%)	584,653	558,504
Differential/preferential tax rates on subsidiaries' income (note (i)(iii))	(127,406)	(141,584)
Non-deductible expenses (note (iii))	49,768	75,743
Non-taxable income	(57,904)	(94,392)
Tax losses not recognised	43,667	42,062
Utilisation of previously unrecognised tax losses	(5,782)	(4,085)
Over provision in respect of prior years	(2,002)	(14,203)
Additional deduction of research and development expenses (note (iv))	(258,657)	(144,994)
Income tax	226,337	277,051

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 2023 and 2022, 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 2022: 15%, 15%, 20%).
- (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 100% (six months ended 30 June 2022: 75%) additional deduction for tax reporting purpose.

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

For the six months ended 30 June 2023

11. 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 2023 of RMB2,034 million (six months ended 30 June 2022: RMB1,895 million(restated)) and the number of shares in issue during the six months ended 30 June 2023 of 6,926,018 thousand shares (six months ended 30 June 2022: 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.

12. OTHER COMPREHENSIVE INCOME

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Changes in fair value of equity instruments at fair value through other comprehensive income recognised during the period	498,426	162,028
Net deferred tax charged to other comprehensive income	(126,265)	(39,932)
Exchange differences on translation of financial statements	10,770	17,275
Other comprehensive income for the period	382,931	139,371

13. 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 2023 (six months ended 30 June 2022: nil).

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

	Six months ended 30 June	
	2023 RMB'000	2022 RMB'000
Final dividend in respect of the previous financial year, approved during the period of RMB0.1939 per share (2022: RMB0.1732 per share, including final dividend RMB0.1641 per share and special dividend RMB0.0091 per share)	1,342,955	1,199,587

No final dividend or special dividend was paid during the six months ended 30 June 2023 and 2022.

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

For the six months ended 30 June 2023

14. OTHER NON-CURRENT ASSETS

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Long-term receivables	606,685	586,620
Others	340,659	321,396
	947,344	908,016

15. ACCOUNTS AND BILLS RECEIVABLE, NET

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000 (restated)
Bills receivable	441,536	508,294
Accounts receivable	27,647,258	21,748,457
	28,088,794	22,256,751
Less: allowance for credit losses	(2,075,072)	(1,946,486)
	26,013,722	20,310,265

- (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 2023

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 2023 RMB'000	At 31 December 2022 RMB'000 (restated)
Current	1,619,305	1,897,638
Within 1 year	20,960,356	15,651,051
After 1 year but less than 2 years	2,569,742	2,026,546
After 2 years but less than 3 years	627,570	513,913
After 3 years but less than 4 years	144,017	139,131
After 4 years but less than 5 years	44,258	33,512
Over 5 years	48,474	48,474
	26,013,722	20,310,265

16. CONTRACT ASSETS, NET

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Telecommunications infrastructure services	24,486,094	21,099,704
Business process outsourcing services	1,596,019	1,114,789
Applications, content and other services	3,678,669	3,337,797
	29,760,782	25,552,290
Less: allowance for credit losses	(304,349)	(283,469)
	29,456,433	25,268,821

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 2023

17. CASH AND CASH EQUIVALENTS

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000 (restated)
Cash at bank and in hand	19,564,902	17,072,252
Cash at China Telecom Group Finance Co., Ltd ("China Telecom Finance")	178,871	5,013,633
Deposits at bank with original maturity less than three months	23,183	1,776
Cash and cash equivalents	19,766,956	22,087,661

18. INTEREST-BEARING BORROWINGS

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

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
RMB denominated		
Borrowings from banks		
— unsecured	99,114	77,017
— secured	50	8,055
Other RMB denominated borrowings		
— unsecured	7,269	8,634
USD denominated		
Borrowings from banks		
— unsecured	388,748	548,810
— secured	20,810	20,058
Other denominated		
Borrowings from banks		
— unsecured	311,618	84,906
Interest payable on short-term borrowings	4,701	4,521
	832,310	752,001

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

For the six months ended 30 June 2023

18. INTEREST-BEARING BORROWINGS (CONTINUED)

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

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
RMB denominated		
Borrowings from banks		
— unsecured	1.50%–4.10%	1.50%–3.80%
— secured	N/A	3.50%–3.90%
Other RMB denominated borrowings		
— unsecured	8.50%	8.50%
USD denominated		
Borrowings from banks		
— unsecured	N/A	4.53%
— secured	N/A	3.50%
— unsecured (floating interest rate)	London Interbank Offered Rate ("Libor") +1.35% AND Secured Overnight Financing Rate ("SOFR") +1.10%.p.a	London Interbank Offered Rate ("Libor") +1.00%–1.35% AND Secured Overnight Financing Rate ("SOFR") +1.10%.p.a
— secured (floating interest rate)	Secured Overnight Financing Rate ("SOFR") +2.45%	N/A
Other denominated		
Borrowings from banks		
— unsecured	3.75%–8.86%	7.88%
— unsecured (floating interest rate)	Base Rate of Nepal Rastra Bank +2.00%	Base Rate of Nepal Rastra Bank +3.00%

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

For the six months ended 30 June 2023

18. INTEREST-BEARING BORROWINGS (CONTINUED)

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

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
USD denominated		
Borrowings from banks		
— secured	161,282	149,178
Less: Current portion	(20,810)	(20,058)
	140,472	129,120

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

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
USD denominated		
Borrowings from banks		
— secured	N/A	3.50%
— secured (floating interest rate)	Secured Overnight Financing Rate ("SOFR") +2.45%	N/A

The Group's borrowings were repayable as follows:

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Within 1 year	832,310	752,001
After 1 year but within 2 years	21,112	20,058
After 2 years but within 5 years	119,360	109,062
	972,782	881,121

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

For the six months ended 30 June 2023

19. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Accounts payable	49,130,212	40,985,965
Bills payable	3,784,630	3,625,330
	52,914,842	44,611,295

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

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Within 1 year	50,368,332	42,062,776
After 1 year but less than 2 years	1,514,246	1,414,963
After 2 years but less than 3 years	454,736	450,309
Over 3 years	577,528	683,247
	52,914,842	44,611,295

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.

20. CONTRACT LIABILITIES

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Telecommunications infrastructure services	5,870,883	8,526,663
Other services	2,321,773	2,341,312
	8,192,656	10,867,975

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.

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

For the six months ended 30 June 2023

21. ACCRUED EXPENSES AND OTHER PAYABLES

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000 (restated)
Wages and welfare payable	2,464,050	1,551,118
Output VAT payable	1,364,693	1,441,097
Amounts due to CTC Group, associates of CTC Group and associates of the Group (note (i))	1,167,150	373,530
Dividend payable (note (ii))	691,163	7,156
Other taxes payable	537,214	710,543
Advance lease payments received	31,511	34,733
Payables for construction and purchase of property, plant and equipment	13,920	4,244
Others (note (iii))	5,202,387	5,378,437
	11,472,088	9,500,858

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 RMB678 million (31 December 2022: RMB19 million).
- (ii) No final dividend or special dividend was paid during the six months ended 30 June 2023 and 2022.
- (iii) The amounts mainly include payables to suppliers for purchases on behalf of CTC Group, deposits received from subcontractors and others.

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 2023 RMB'000	At 31 December 2022 RMB'000
Registered, issued and fully paid:		
4,534,598,160 (31 December 2022: 4,534,598,160) Domestic shares of RMB1.00 each	4,534,598	4,534,598
2,391,420,240 (31 December 2022: 2,391,420,240) H shares of RMB1.00 each	2,391,420	2,391,420
	6,926,018	6,926,018

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

For the six months ended 30 June 2023

24. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

As at 30 June 2023, the Group had capital commitments for acquisition and construction of property, plant and equipment and other non-current assets as follows:

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Contracted for but not provided	207,932	217,583

(b) Contingent liabilities

As at 30 June 2023, the Group had no material contingent liabilities and financial guarantees issued.

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

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

For the six months ended 30 June 2023

25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

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

- 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 2023			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial Assets				
Equity instruments at fair value through other comprehensive income (note (i))	429,244	—	3,406,638	3,835,882
Equity instruments at fair value through profit or loss	11,408	—	305,374	316,782

	At 31 December 2022			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial Assets				
Equity instruments at fair value through other comprehensive income (note (i))	395,680	—	2,940,723	3,336,403
Equity instruments at fair value through profit or loss	42,018	—	295,342	337,360

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 3.20% (At 31 December 2022: 4.10%). At 30 June 2023, 90% of the shares held by the Group was still within the restriction period, and the carrying amount is RMB3,389 million (At 31 December 2022: RMB2,925 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 RMB6 million (At 31 December 2022: RMB6 million) as at 30 June 2023.

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

For the six months ended 30 June 2023

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 2023	2,940,723	—	295,342
Purchases	1,053	—	29,570
Transferred to level 1 (note(i))	—	—	(19,538)
Total gains			
— in other comprehensive income	464,862	—	—
As at 30 June 2023	3,406,638	—	305,374

	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	—	—	147,390
Disposals/settlements	(409)	(3,355,829)	—
Transferred to level 1 (note(i))	—	—	(35,880)
Total gains/(losses)			
— in profit or loss	—	51,888	11,889
— in other comprehensive income	(295,377)	—	—
As at 31 December 2022	2,940,723	—	295,342

Note:

- (i) The shares of entities invested by the Group were classified as level 3 when they were within restriction period, and were 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 2023

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	
	2023	2022
	RMB'000	RMB'000 (restated)
Engineering related services revenue (note (i))	9,530,040	7,888,403
IT application services revenue (note (ii))	3,463,451	2,554,057
Provision of ancillary telecommunications services revenue (note (iii))	9,197,037	8,950,481
Provision of operation support services revenue (note (iv))	1,963,350	1,839,243
Supplies procurement services revenue (note (v))	1,584,354	1,416,392
Property leasing revenue (note (vi))	84,623	76,494
Management fee income (note (vii))	149,716	151,853
Property leasing charges (note (viii))	37,994	91,647
IT application services charges (note (ix))	166,245	42,448
Operation support services charges (note (x))	612,971	423,962
Supplies procurement services charges (note (xi))	1,647,882	1,151,909
Interest expenses (note (xii))	12,625	16,903
Net withdrawal placed with China Telecom Finance (note (xiii))	(4,429,762)	(3,894,672)
Interest income of deposits placed with China Telecom Finance (note (xiv))	30,132	8,133
Interest income of lending funds(note (xv))	4,074	1,188

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

For the six months ended 30 June 2023

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 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 2023

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 2023 RMB'000	At 31 December 2022 RMB'000 (restated)
Cash and cash equivalents	178,871	5,013,633
Short-term bank deposits and restricted cash	27,160	—
Accounts and bills receivable, net	9,477,651	7,562,052
Contract assets, net	12,846,641	11,549,415
Prepayments and other current assets	1,403,250	1,670,309
Deposits at financial institutions with original maturity more than one year	2,480,584	2,066,259
Other non-current assets	97,374	192,063
Total amounts due from CTC Group	26,511,531	28,053,731
Accounts and bills payable	937,013	500,729
Contract liabilities	498,358	595,613
Accrued expenses and other payables	1,063,903	288,931
Current portion of lease liabilities	165,404	172,001
Lease liabilities	598,016	614,489
Total amounts due to CTC Group	3,262,694	2,171,763

As at 30 June 2023, the credit losses balance in respect of amounts due from CTC Group is of RMB419 million (31 December 2022: RMB399 million).

For the six months ended 30 June 2023, additional amount of RMB58 million of right-of-use assets had been recognised under new lease contracts entered into with CTC Group (six months ended 30 June 2022: RMB92 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 2023

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	
	2023	2022
	RMB'000	RMB'000
Engineering related service revenue (note (i))	2,074,011	1,751,740
IT application service revenue (note (ii))	194,115	137,441
Provision of ancillary telecommunications service revenue (note (iii))	893,895	920,797
Provision of operation support service revenue (note (iv))	49,421	59,029
Supplies procurement service revenue (note (v))	101,630	81,884
Property leasing service revenue (note (vi))	1,394	1,930
Property leasing service charges (note (vii))	759	220
IT application service charges (note (viii))	505,927	118,758
Operation support service charges (note (ix))	1,538,539	1,035,168
Supplies procurement service charges (note (x))	96,035	217
Interest expenses (note (xi))	—	2

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 the Group and associates of CTC Group.

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

For the six months ended 30 June 2023

26. RELATED PARTIES (CONTINUED)

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

Notes (Continued):

- (vii) The amount represents rentals from short-term leases in respect of business premises paid and payable to associates of the Group and associates of CTC 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.
- (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 2023 RMB'000	At 31 December 2022 RMB'000
Accounts and bills receivable, net	492,093	282,770
Contract assets, net	472,250	375,710
Prepayments and other current assets	1,232,137	1,083,392
Other non-current assets	—	6
Total amounts due from associates of the Group and associates of CTC Group	2,196,480	1,741,878
Accounts and bills payable	2,136,889	1,451,956
Contract liabilities	156,065	343,193
Current portion of lease liabilities	23	85
Accrued expenses and other payables	103,247	84,599
Total amounts due to associates of the Group and associates of CTC Group	2,396,224	1,879,833

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 2023

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	
	2023 RMB'000	2022 RMB'000
Salaries and other emoluments	3,542	3,543
Stock Appreciation Rights	2,981	—
Retirement benefits	1,504	1,280
Discretionary bonuses	5,746	6,094
	13,773	10,917

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

OTHER INFORMATION

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 2022 Annual Report are set out below:

- Mr. Tang Yongbo was appointed as a non-executive director of the Company on 16 June 2023. Subsequently, Mr. Tang was appointed as a non-executive director of HKT Management Limited and HKT Limited on 2 August 2023, as well as a non-executive director and the deputy chairman of the board of PCCW Limited on 3 August 2023.

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. The Board believes that the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules for the six months ended 30 June 2023.

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 2023.

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 2022 Annual Report.

OTHER INFORMATION (CONTINUED)

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

As at 30 June 2023, 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 2023, 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 2023, 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
FMR LLC	H shares	Interests of controlled corporations	119,776,004 (L)	5.01	1.73

Note:

(L) — Long Position

OTHER INFORMATION (CONTINUED)

Save as stated above, as at 30 June 2023 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 2023, 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 change in 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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