

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2016

## 1. PRINCIPAL ACTIVITIES

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

## 2. BASIS OF PREPARATION

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2015 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 Standard (“IAS”) and related interpretations.

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

## 3. PRINCIPAL ACCOUNTING POLICIES

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

The interim financial report has been prepared in accordance with the same accounting policies and methods of computation adopted in the consolidated financial statements of the Group for the year ended 31 December 2015, except as described below.

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

Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 27	Equity Method in Separate Financial Statements
Amendments to IFRSs	Annual Improvements to IFRSs 2012–2014 Cycle
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception

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

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

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2016

### 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

### 4. SEGMENT REPORTING

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

### 5. REVENUES

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

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000
Revenue from telecommunications infrastructure services	<b>21,686,537</b>	18,022,125
Revenue from business process outsourcing services	<b>16,143,790</b>	16,049,450
Revenue from applications, content and other services	<b>4,345,291</b>	3,491,020
	<b>42,175,618</b>	37,562,595

The Group's major customers are telecommunications operators which include CTC and its subsidiaries (excluding the Group) ("CTC Group") and China Mobile Communications Corporation and its subsidiaries ("CM Group"), each contributing a revenue exceeding 10% of the Group's total revenues. Revenues from the provision of integrated telecommunications support services to CTC Group and CM Group for the six months ended 30 June 2016 amounted to RMB16,435 million and RMB7,842 million respectively (six months ended 30 June 2015: RMB15,850 million and RMB6,853 million respectively), being 39.0% and 18.6% of the Group's total revenues respectively (six months ended 30 June 2015: 42.2% and 18.2% respectively). The revenue derived from areas outside Mainland China for the six months ended 30 June 2016 amounted to RMB2,152 million (six months ended 30 June 2015: RMB1,584 million). In addition, revenues from products distribution for the six months ended 30 June 2016 amounted to RMB5,496 million (six months ended 30 June 2015: RMB6,887 million).

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2016

### 6. COST OF REVENUES

	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Depreciation and amortisation	<b>222,605</b>	221,780
Direct personnel costs	<b>3,952,385</b>	4,237,545
Operating lease charges	<b>587,603</b>	568,720
Materials	<b>4,279,181</b>	3,569,353
Direct costs of products distribution	<b>5,114,033</b>	6,565,666
Subcontracting charges	<b>19,413,318</b>	14,376,892
Others	<b>3,214,883</b>	2,847,133
	<b>36,784,008</b>	32,387,089

### 7. OTHER OPERATING INCOME

	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Interest income	<b>84,426</b>	66,348
Dividend income from listed securities	—	94
Dividend income from unlisted securities	<b>50,628</b>	62,775
Government grants	<b>105,835</b>	89,328
Gain on disposal of investments	<b>35,822</b>	—
Gain on disposal of property, plant and equipment	<b>1,631</b>	4,085
Gain on disposal of intangible assets	—	31,000
Penalty income	<b>1,566</b>	681
Management fee income	<b>123,694</b>	111,274
Others	<b>28,189</b>	11,920
	<b>431,791</b>	377,505

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2016

### 8. FINANCE COSTS

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000
Interest on bank and other borrowings	<b>5,761</b>	11,269
Interest for convertible preference shares and preference shares (note 19)	<b>15,206</b>	12,496
	<b>20,967</b>	23,765

For the six months ended 30 June 2016 and 2015, no borrowing costs were capitalised in relation to construction in progress.

### 9. PROFIT BEFORE TAX

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

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000
(a) Staff costs:		
Salaries, wages and other benefits	<b>6,189,190</b>	6,368,423
Contributions to defined contribution retirement schemes	<b>547,808</b>	520,393
	<b>6,736,998</b>	6,888,816
(b) Other items:		
Amortisation	<b>56,467</b>	51,350
Depreciation	<b>362,153</b>	357,612
Materials	<b>4,279,181</b>	3,569,353
Direct costs of products distribution	<b>5,114,033</b>	6,565,666
Inventory write-down and losses, net of reversals	<b>3,065</b>	13,523
Impairment losses on accounts and other receivables	<b>122,496</b>	124,148
Reversal of impairment losses on accounts and other receivables	<b>(33,265)</b>	(13,559)
Changes in fair value of financial derivatives	<b>1,370</b>	(2,836)
Operating lease charges	<b>721,432</b>	695,406
Research and development costs	<b>887,391</b>	776,601

The selling expenses, general and administrative expenses and other expenses of the Group are RMB638 million, RMB3,278 million and RMB221 million (six months ended 30 June 2015: RMB609 million, RMB3,153 million and RMB168 million) respectively for the six months ended 30 June 2016. Research and development costs include staff costs of RMB686 million (six months ended 30 June 2015: RMB620 million), which is also included in the staff cost disclosed in note 9(a).

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2016

## 10. INCOME TAX

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

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
<b>Current tax</b>		
Income tax	<b>311,820</b>	293,487
<b>Deferred tax</b>		
Origination and reversal of temporary differences	<b>(42,217)</b>	(11,945)
Total income tax	<b>269,603</b>	281,542

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

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Profit before tax	<b>1,660,619</b>	1,552,397
Expected income tax expense at a statutory tax rate of 25% (six months ended 30 June 2015: 25%)	<b>415,155</b>	388,099
Differential tax rates on subsidiaries' profits (note (i))	<b>(131,635)</b>	(107,065)
Non-deductible expenses (note (ii))	<b>32,645</b>	40,699
Non-taxable income	<b>(27,340)</b>	(28,317)
Tax losses not recognised	<b>51,302</b>	43,400
Utilisation of previously unrecognised tax losses	<b>(10,100)</b>	(7,600)
Over provision in respect of prior years	<b>(10,396)</b>	(11,451)
Effect of tax exemptions	<b>(2,690)</b>	(216)
Others (note (iii))	<b>(47,338)</b>	(36,007)
Income tax	<b>269,603</b>	281,542

Notes:

- (i) The provision for income tax of the Group is calculated based on a statutory rate of 25% of the assessable profit of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the six months ended 30 June 2016 and 2015, except for certain domestic subsidiaries of the Group, which are taxed at a preferential rate of 20%, 15% and 10%, where applicable; and for certain overseas subsidiaries of the Group, which are taxed at respective statutory rates.
- (ii) The amounts represent staff cost and miscellaneous expenses in excess of statutory deductible limits for tax purpose.
- (iii) The amounts primarily represent the effect of additional deductions in research and development expense.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2016

## 11. OTHER COMPREHENSIVE INCOME

### Available-for-sale securities

	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Changes in fair value recognised during the period	<b>(12,847)</b>	31,547
Net deferred tax charged to other comprehensive income	<b>1,928</b>	(4,732)
Net movement in the fair value reserve during the period recognised in other comprehensive income	<b>(10,919)</b>	26,815

## 12. DIVIDENDS

### (a) Dividends attributable to the period

The directors do not propose the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: nil).

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

	Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Final dividend in respect of the previous financial year, approved during the period of RMB0.1011 per share (2015: RMB0.0931 per share)	<b>700,220</b>	644,812
Special dividend in respect of the previous financial year, approved during the period of RMB0.0101 per share (2015: nil)	<b>69,953</b>	—
	<b>770,173</b>	644,812

No final dividend or special dividend was paid during the six months ended 30 June 2016 and 2015.

## 13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the six months ended 30 June 2016 of RMB1,386 million (six months ended 30 June 2015: RMB1,271 million) and the number of shares in issue during the six months ended 30 June 2016 of 6,926,018 thousand shares (six months ended 30 June 2015 of 6,926,018 thousand shares).

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2016

### 14. PROPERTY, PLANT AND EQUIPMENT, NET

During the six months ended 30 June 2016, additions of property, plant and equipment (including direct purchase, transfer from construction in progress) of the Group amounted to RMB202 million (six months ended 30 June 2015: RMB136 million). Items of property, plant and equipment with carrying amount totalling RMB6 million were disposed of during the six months ended 30 June 2016 (six months ended 30 June 2015: RMB18 million).

### 15. ACCOUNTS AND BILLS RECEIVABLE, NET

	<b>At 30 June 2016 RMB'000</b>	<b>At 31 December 2015 RMB'000</b>
Bills receivable	<b>210,174</b>	202,069
Unbilled revenue for contract work	<b>7,531,075</b>	7,864,033
Trade receivables	<b>23,396,617</b>	20,536,104
	<b>31,137,866</b>	28,602,206
Less: impairment losses	<b>(1,157,637)</b>	(1,081,377)
	<b>29,980,229</b>	27,520,829

(a) Included in accounts and bills receivable are amounts due from CTC Group, associates of the Group and associates of CTC Group of RMB17,311 million as at 30 June 2016 (31 December 2015: RMB16,155 million), which are unsecured, interest free and are expected to be recovered within one year.

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

	<b>At 30 June 2016 RMB'000</b>	<b>At 31 December 2015 RMB'000</b>
Current (note)	<b>12,362,428</b>	13,211,725
Within 1 year	<b>14,870,188</b>	11,666,256
After 1 year but less than 2 years	<b>2,096,393</b>	2,131,351
After 2 years but less than 3 years	<b>623,195</b>	511,497
After 3 years	<b>28,025</b>	—
Amount past due	<b>17,617,801</b>	14,309,104
	<b>29,980,229</b>	27,520,829

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

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2016

### 15. ACCOUNTS AND BILLS RECEIVABLE, NET (Continued)

#### (c) Impairment of accounts and bills receivable

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

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

	<b>At 30 June 2016 RMB'000</b>	At 31 December 2015 RMB'000
At 1 January	<b>1,081,377</b>	624,376
Impairment loss recognised	<b>109,676</b>	577,101
Reversal of impairment loss previously recognised	<b>(30,765)</b>	(101,648)
Uncollectible amounts written off	<b>(2,651)</b>	(18,452)
At 30 June/31 December	<b>1,157,637</b>	1,081,377

At 30 June 2016, the impairment losses of accounts and bills receivable of RMB1,708 million were individually determined (31 December 2015: RMB1,421 million). The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific impairment losses of RMB355 million were recognised (31 December 2015: RMB511 million). The Group does not hold any collateral over these balances.

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

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

	<b>At 30 June 2016 RMB'000</b>	At 31 December 2015 RMB'000
Neither past due nor impaired	<b>12,362,428</b>	13,211,725
Past due but not impaired		
Within 1 year	<b>11,251,002</b>	10,285,576
After 1 year but less than 2 years	<b>1,312,103</b>	1,000,787
After 2 years but less than 3 years	<b>281,398</b>	269,883
	<b>25,206,931</b>	24,767,971

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



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2016

### 15. ACCOUNTS AND BILLS RECEIVABLE, NET (Continued)

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

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

### 16. CASH AND CASH EQUIVALENTS

	<b>At 30 June 2016 RMB'000</b>	At 31 December 2015 RMB'000
Cash at bank and in hand	<b>10,551,334</b>	8,748,298
Deposits at bank with original maturity less than three months	<b>935,005</b>	787,553
Cash and cash equivalents	<b>11,486,339</b>	9,535,851

### 17. INTEREST-BEARING BORROWINGS

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

	<b>At 30 June 2016 RMB'000</b>	At 31 December 2015 RMB'000
<b>RMB denominated</b>		
Borrowings from banks		
— unsecured	—	32,953
Loan from CTC Group		
— unsecured	<b>13,280</b>	13,280
<b>USD denominated</b>		
Borrowings from banks		
— secured	—	17,013
— unsecured	<b>28,514</b>	109,590
<b>Other denominated</b>		
Borrowings from banks		
— unsecured	<b>4,492</b>	4,169
	<b>46,286</b>	177,005

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2016

## 17. INTEREST-BEARING BORROWINGS (Continued)

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

	At 30 June 2016	At 31 December 2015
<b>RMB denominated</b>		
Borrowings from banks		
— unsecured	—	5.60%—5.62%
Loan from CTC Group		
— unsecured	2.39%	2.39%
<b>USD denominated</b>		
Borrowings from banks		
— secured	—	5.30%
— unsecured	2.30%—4.14%	1.46%—4.14%
<b>Other denominated</b>		
Borrowings from banks		
— unsecured	9.20%	8.60%

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

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
<b>USD denominated</b>		
Borrowings from banks		
— unsecured	31,866	34,455
	31,866	34,455

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

	At 30 June 2016	At 31 December 2015
<b>USD denominated</b>		
Borrowings from banks		
— unsecured (fixed interest rate)	3.53%—4.14%	3.53%—4.14%
— unsecured (floating interest rate)	Libor+4.00%	Libor+4.00%

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

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2016

### 18. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	<b>At 30 June 2016 RMB'000</b>	At 31 December 2015 RMB'000
Accounts payable	<b>20,134,056</b>	17,429,304
Bills payable	<b>1,758,061</b>	2,270,081
	<b>21,892,117</b>	19,699,385

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

	<b>At 30 June 2016 RMB'000</b>	At 31 December 2015 RMB'000
Within 1 year	<b>20,197,464</b>	17,984,560
After 1 year but less than 2 years	<b>1,205,177</b>	1,191,927
After 2 years but less than 3 years	<b>267,223</b>	270,058
After 3 years	<b>222,253</b>	252,840
	<b>21,892,117</b>	19,699,385

Included in accounts and bills payable are amounts due to CTC Group, associates of the Group and associates of CTC Group of RMB2,023 million as at 30 June 2016 (31 December 2015: RMB1,777 million), which are unsecured, interest free and are expected to be settled within one year.

### 19. OTHER NON-CURRENT LIABILITIES

	<b>At 30 June 2016 RMB'000</b>	At 31 December 2015 RMB'000
Convertible preference shares and preference shares (note (i))	<b>663,120</b>	649,360
Others (note (ii))	<b>224,101</b>	216,420
	<b>887,221</b>	865,780

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2016

### 19. OTHER NON-CURRENT LIABILITIES (Continued)

Notes:

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

The annual interest rate is 3.7% plus the average six-month dollar interest rate of Libor for six months before each interest payment date, and should be adjusted from the first interest payment eight years after the settlement date. The adjusted interest rate should not be less than 8% per annum, and will automatically increase 1% every year after then. The effective interest rate as at 30 June 2016 was 4.62% per annum.

- (ii) Others represent the deferred income arising from government grants and warranty provisions.

### 20. SHARE CAPITAL

	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
<b>Registered, issued and fully paid:</b>		
4,534,598,160 (31 December 2015: 4,534,598,160)		
Domestic shares of RMB1.00 each	<b>4,534,598</b>	4,534,598
2,391,420,240 (31 December 2015: 2,391,420,240)		
H shares of RMB1.00 each	<b>2,391,420</b>	2,391,420
	<b>6,926,018</b>	6,926,018

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2016

### 21. COMMITMENTS AND CONTINGENT LIABILITIES

#### (a) Capital commitments

As at 30 June 2016, the Group had capital commitments for acquisition and construction of property, plant and equipment and other intangible assets as follows:

	<b>At 30 June 2016 RMB'000</b>	At 31 December 2015 RMB'000
Contracted for but not provided	<b>320,014</b>	317,445

#### (b) Operating lease commitments

As at 30 June 2016, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	<b>At 30 June 2016 RMB'000</b>	At 31 December 2015 RMB'000
Within 1 year	<b>373,127</b>	308,106
After 1 year but within 5 years	<b>380,637</b>	352,620
After 5 years	<b>104,465</b>	122,061
	<b>858,229</b>	782,787

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

#### (c) Contingent liabilities

As at 30 June 2016, the Group had no material contingent liabilities and no material financial guarantees issued.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2016

### 22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	At 30 June 2016			
	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Assets</b>				
Available-for-sale securities				
— Listed equity securities	<b>55,137</b>	—	—	<b>55,137</b>
Trading financial assets				
— Foreign currency forward contract	—	<b>16</b>	—	<b>16</b>
<b>Liabilities</b>				
Trading financial liabilities				
— Foreign currency forward contract	—	<b>562</b>	—	<b>562</b>

	At 31 December 2015			
	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Assets</b>				
Available-for-sale securities				
— Listed equity securities	67,984	—	—	67,984
Trading financial assets				
— Foreign currency forward contract	—	735	—	735
<b>Liabilities</b>				
Trading financial liabilities				
— Foreign currency forward contract	—	261	—	261

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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2016

### 23. RELATED PARTIES

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

#### (a) Transactions with CTC Group and other related parties

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

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

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

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000
<i>Income from related parties:</i>		
Engineering related services (note (i))	<b>9,066,134</b>	8,404,077
IT application services (note (ii))	<b>643,535</b>	604,690
Provision of ancillary telecommunications services (note (iii))	<b>4,295,617</b>	3,634,287
Provision of operation support services (note (iv))	<b>1,089,364</b>	894,832
Supplies procurement services (note (v))	<b>2,751,383</b>	2,226,172
Property leasing services (note (vi))	<b>29,947</b>	78,163
Management fee (note (vii))	<b>123,694</b>	111,274
<i>Expenses paid to related parties:</i>		
Property leasing services (note (viii))	<b>75,357</b>	62,733
IT application services (note (ix))	<b>81,486</b>	118,924
Operation support services (note (x))	<b>445,005</b>	253,585
Supplies procurement services (note (xi))	<b>1,200,648</b>	1,479,738
Interest (note (xii))	<b>604</b>	707

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2016

### 23. RELATED PARTIES (Continued)

#### (a) Transactions with CTC Group and other related parties (Continued)

Notes:

- (i) The amount represents telecommunications infrastructure services such as design, construction and project management provided to CTC Group and other related parties.
- (ii) The amount represents the telecommunications network support services, software and hardware development and other IT related services provided to CTC Group and other related parties.
- (iii) The amount represents ancillary telecommunications services such as maintenance of network facilities (including optical ducts and cables, exchange buildings and base stations); operation of distribution channels; fixed line and wireless value-added service; internet contents and information services provided to CTC Group and other related parties.
- (iv) The amount represents the facilities management, advertising, conferencing services and certain repair and leasing of equipment services provided to CTC Group and other related parties.
- (v) The amount represents supplies procurement service such as supplies procurement service, warehousing, transportation and installation services provided to CTC Group and other related parties.
- (vi) The amount represents rentals from operating leases in respect of business premises leased to CTC Group and other related parties.
- (vii) The amount represents management fee in respect of headquarters management function services ("Centralised Services") provided to CTC Group.
- (viii) The amount represents rentals from operating leases in respect of business premises paid and payable to CTC Group and other related parties.
- (ix) The amount represents the charge paid and payable to CTC Group and other related parties for basic telecommunications service, value-added service and information application service.
- (x) The amount represents the charge paid and payable to CTC Group and other related parties for logistics, labour resources, cultural, educational, hygiene and other supporting services.
- (xi) The amount represents the charge paid and payable to CTC Group and other related parties for supplies procurement services, warehousing, transportation and installation services.
- (xii) The amount represents the interest paid/payable to CTC Group in respect of the loans from CTC Group.



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2016

### 23. RELATED PARTIES (Continued)

#### (a) Transactions with CTC Group and other related parties (Continued)

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

	<b>At 30 June 2016 RMB'000</b>	At 31 December 2015 RMB'000
Accounts and bills receivable, net	<b>17,311,069</b>	16,155,020
Prepayments and other current assets	<b>1,007,179</b>	1,430,237
<b>Total amounts due from CTC Group and other related parties</b>	<b>18,318,248</b>	17,585,257
Interest-bearing borrowings	<b>13,280</b>	13,280
Accounts and bills payable	<b>2,023,001</b>	1,777,246
Receipts in advance for contract work	<b>308,529</b>	291,188
Accrued expenses and other payables	<b>1,365,241</b>	846,705
<b>Total amounts due to CTC Group and other related parties</b>	<b>3,710,051</b>	2,928,419

As at 30 June 2016, impairment losses for bad and doubtful debts of RMB176 million (31 December 2015: RMB152 million) were recorded in respect of amounts due from CTC Group and other related parties.

As at 30 June 2016 the Group has capital commitments to CTC Group and other related parties for acquisition and construction of property, plant and equipment and other assets as follows:

	<b>At 30 June 2016 RMB'000</b>	At 31 December 2015 RMB'000
Contracted for but not provided	<b>286,940</b>	280,373

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2016

### 23. RELATED PARTIES (Continued)

#### (a) Transactions with CTC Group and other related parties (Continued)

As at 30 June 2016, the Group's total future minimum lease payments to CTC Group and other related parties under non-cancellable operating leases were payable as follows:

	<b>At 30 June 2016 RMB'000</b>	At 31 December 2015 RMB'000
Within 1 year	<b>98,070</b>	62,310
After 1 year but within 5 years	<b>124,462</b>	122,553
After 5 years	<b>61,597</b>	88,103
	<b>284,129</b>	272,966

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

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

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

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

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

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2016

### 23. RELATED PARTIES (Continued)

#### (c) Transactions with key management personnel

Remuneration for key management personnel is as follows:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Salaries and other emoluments	<b>3,208</b>	2,912
Retirement benefits	<b>931</b>	1,362
Discretionary bonus	<b>6,064</b>	4,277
	<b>10,203</b>	8,551

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

#### (d) Contributions to defined contribution retirement plans

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

As at 30 June 2016 and 31 December 2015, there was no material outstanding contribution to post-employment benefit plans.

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