

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2017

1. PRINCIPAL ACTIVITIES

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

2. BASIS OF PREPARATION

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

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

3. PRINCIPAL ACCOUNTING POLICIES

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

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

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

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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

4. SEGMENT REPORTING

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

5. REVENUES

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

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

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

6. COST OF REVENUES

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

7. OTHER OPERATING INCOME

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

8. FINANCE COSTS

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

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

9. PROFIT BEFORE TAX

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

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

10. INCOME TAX

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

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

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

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

Notes:

- (i) The provision for income tax of the Group is calculated based on a statutory rate of 25% of the assessable profit of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the six months ended 30 June 2017 and 2016, except for certain domestic subsidiaries of the Group, which are taxed at a preferential rate of 20%, 15% and 10%, where applicable; and for certain overseas subsidiaries of the Group, which are taxed at respective statutory rates.
- (ii) The amounts represent staff cost and miscellaneous expenses in excess of statutory deductible limits for tax purpose.
- (iii) The amounts primarily represent the effect of additional deductions in research and development expense.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

11. OTHER COMPREHENSIVE INCOME

Available-for-sale securities

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

12. DIVIDENDS

(a) Dividends attributable to the period

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

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

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

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

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the six months ended 30 June 2017 of RMB1,469 million (six months ended 30 June 2016: RMB1,386 million) and the number of shares in issue during the six months ended 30 June 2017 of 6,926,018 thousand shares (six months ended 30 June 2016 of 6,926,018 thousand shares).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

14. PROPERTY, PLANT AND EQUIPMENT, NET

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

15. ACCOUNTS AND BILLS RECEIVABLE, NET

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

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

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

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

15. ACCOUNTS AND BILLS RECEIVABLE, NET (Continued)

(c) Impairment of accounts and bills receivable

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

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

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

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

(d) Accounts and bills receivable that are not impaired

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

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

15. ACCOUNTS AND BILLS RECEIVABLE, NET (Continued)

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

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

16. CASH AND CASH EQUIVALENTS

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

17. INTEREST-BEARING BORROWINGS

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

17. INTEREST-BEARING BORROWINGS (Continued)

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

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

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

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

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

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

18. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

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

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

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

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

19. OTHER NON-CURRENT LIABILITIES

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

19. OTHER NON-CURRENT LIABILITIES (Continued)

Notes:

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

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

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

20. SHARE CAPITAL

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

21. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

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

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

(b) Operating lease commitments

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

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

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

(c) Contingent liabilities

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

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

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

23. RELATED PARTIES

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

(a) Transactions with CTC Group

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

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

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

23. RELATED PARTIES (Continued)

(a) Transactions with CTC Group (Continued)

Notes:

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

23. RELATED PARTIES (Continued)

(a) Transactions with CTC Group (Continued)

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

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Accounts and bills receivable, net	20,305,732	18,004,426
Prepayments and other current assets	726,079	870,759
Total amounts due from CTC Group	21,031,811	18,875,185
Interest-bearing borrowings	13,280	13,280
Accounts and bills payable	751,155	379,136
Receipts in advance for contract work	172,802	307,703
Accrued expenses and other payables	974,938	569,945
Total amounts due to CTC Group	1,912,175	1,270,064

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

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

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

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

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

23. RELATED PARTIES (Continued)

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

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
<i>Income from related parties:</i>		
Engineering related services (note (i))	1,570,945	1,044,634
IT application services (note (ii))	19,511	16,540
Provision of ancillary telecommunications services (note (iii))	525,071	283,887
Provision of operation support services (note (iv))	25,177	14,260
Supplies procurement services (note (v))	129,434	80,576
Property leasing services (note (vi))	1,186	978
<i>Expenses paid to related parties:</i>		
Property leasing services (note (vii))	1,778	1,274
IT application services (note (viii))	646	468
Operation support services (note (ix))	25,859	13,897

Notes:

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

23. RELATED PARTIES (Continued)

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

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

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

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

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

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

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

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2017

23. RELATED PARTIES (Continued)

(d) Transactions with key management personnel

Remuneration for key management personnel is as follows:

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

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

(e) Contributions to defined contribution retirement plans

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

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

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