中国通信服务
CHINA COMSERVICE

China Communications Services Corporation Limited
中國通信服務股份有限公司

(A joint stock limited company incorporated in the People's Republic of China with limited liability)
（於中華人民共和國註冊成立之股份有限公司）
Stock code 股份代號 : 552

INTERIM REPORT 中期報告 2019

新時代 數字化
NEW ERA
OF DIGITALIZATION 千億級 企業
A HUNDRED BILLION
ENTERPRISE

GROWING INTO AN ENTERPRISE OF **A HUNDRED-BILLION** SCALE

成就**千億級**企業

MULTI-PROFESSION INTEGRATION, TO ENRICH SMART PRODUCT OFFERINGS

多專業一體化
豐富智慧產品

BUILDING ECOSYSTEMS TOGETHER IN OPEN COOPERATION

開放合作　共建生態

COMPREHENSIVE UPGRADE OF SYNERGISTIC EFFECT

協同效應　全面升級

DIVERSIFIED CUSTOMERS FOR NEW OPPORTUNITIES

多元化客戶
把握新機遇

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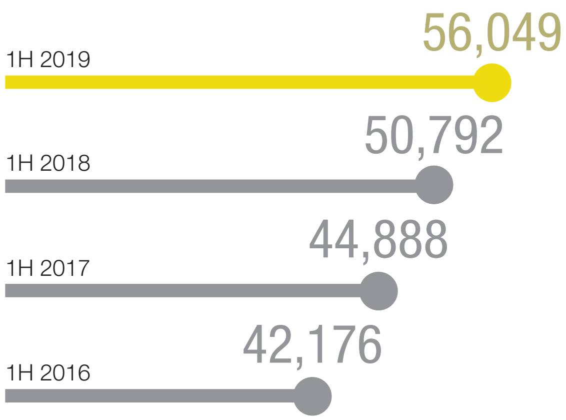
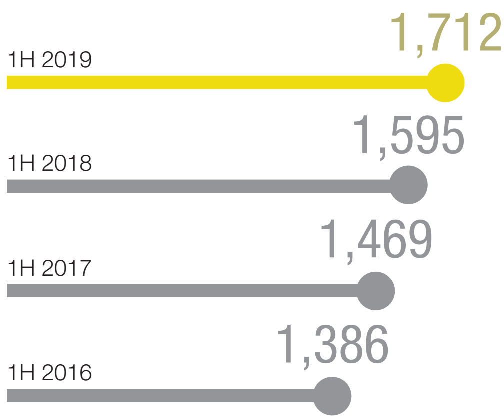
FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2019	2018	Change
Revenues (RMB million)	**56,049**	50,792	10.4%
Gross profit (RMB million)	**6,300**	6,176	2.0%
Profit attributable to equity shareholders of the Company (RMB million)	**1,712**	1,595	7.3%
Basic earnings per share (RMB)	**0.247**	0.230	7.3%
Free cash flow[1] (RMB million)	**(425)**	877	—

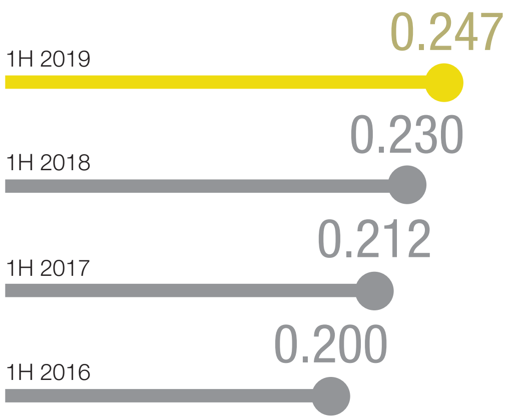
Revenues
(RMB million)



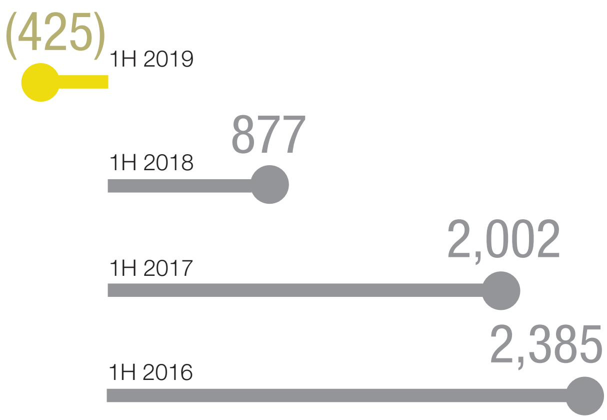
Profit Attributable to Equity Shareholders of the Company
(RMB million)



Basic Earnings per Share
(RMB)



Free Cash Flow
(RMB million)



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

CHAIRMAN'S STATEMENT

Dear Shareholders,

In the first half of 2019, against the backdrop of slower growth and even decrease in revenue in the domestic telecommunications industry, the Group adhered to the overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" and captured the opportunities from "Cyberpower", "Digital China" and "Smart Society", enabling the Group to achieve favourable operating results and noticeable transformation of growth momentum for its development. In particular, domestic non-telecom operator market, being the largest customer and revenue contributor of the Group for the first time, steered the Group's development. The sound development in the business process outsourcing ("BPO") services and the rapid growth in the applications, content and other ("ACO") services in the domestic telecommunications operator market supported the stable development in such market, and the fundamentals of the Group's operation remained solid. The favourable new growth momentum and robust operating fundamentals endowed new capabilities and vitalities to the Group, which effectively defend us against the pressure and risks arising from the economic restructuring and change in industrial cycle, boost the endogenous power for enterprise development, thus laying a solid foundation for the Group to keep striding towards high-quality development.

OPERATING PERFORMANCE

In the first half of 2019, the Group's total revenues amounted to RMB56,049 million, representing a year-on-year increase of 10.4%, among which, revenue from the Core Businesses[1] recorded a year-on-year increase of 11.8%, sustaining a favourable growth momentum. Cost of revenues was RMB49,749 million, representing a year-on-year increase of 11.5%. Gross profit was RMB6,300 million, representing a year-on-year increase of 2.0%. Due to factors including the further progression on the adjustment of the domestic economic structure, development of the domestic non-telecom operator market still being in the preliminary introductory phase and the rigidity of labour costs, the Group's gross profit margin was 11.2%, representing a year-on-year decrease of 1.0 percentage point. While increasing the investment in research and development, the Group enhanced its synergistic operation and continued to optimize resource allocation, and its selling, general and administrative expenses amounted to RMB4,985 million, accounting for 8.9% of total revenues and representing a year-on-year decrease of 0.3 percentage point. Profit attributable to equity shareholders of the Company was RMB1,712 million, representing a year-on-year increase of 7.3%, with net profit margin of 3.1%, which was largely the same as the same period of last year. Basic earnings per share amounted to RMB0.247, representing a year-on-year increase of 7.3%. Free cash flow[2] was RMB–425 million, mainly affected by the change in pace of collection and payment in the first half of the year.

1 Core Businesses include telecommunications infrastructure services, business process outsourcing services (excluding products distribution), as well as applications, content and other services.

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

MARKET EXPANSION

In the first half of 2019, the Group expedited the deployment in the domestic non-telecom operator market and effectively leveraged on its smart products and integrated solutions to realize rapid revenue growth in such market. Meanwhile, the Group accelerated its integration into the domestic telecommunications operators' ecosystems and realized a stable development in such market attributable to the OPEX-driven business, as well as smart application businesses.

The Group's revenue from the domestic non-telecom operator market amounted to RMB21,065 million, representing a rapid year-on-year increase of 28.5% and accounting for 37.6% of total revenues, making it the largest customer of the Group for the first time and contributing 88.8% of the total incremental revenues for the first half of the year. Revenue from the Core Businesses in the domestic non-telecom operator market increased at an even faster pace, of which the year-on-year growth rate was 33.3%, accounting for 91.5% of the revenue from such market which represented a year-on-year increase of 3.4 percentage points. Focusing on the key sectors including government, transportation, electricity, parks and intelligent building, the Group increased its investment in research and development, intensified its efforts in cultivating smart products, and continuously penetrated into industry opportunities by means of capabilities accumulation and capabilities enabling through its Ecosystem Alliances on Smart City, Internet of Things ("IoT"), Cloud Computing, etc., for the purpose of providing customers with integrated comprehensive solutions that support their informatization construction and create value for customer development. While promoting the transformation of its businesses, the Group also realized fast and sound development in such market.

In the domestic telecommunications operator market, the Group persisted in the development strategy of "CAPEX and OPEX-driven"[3] businesses as dual growth drivers, and not only captured the demand for network construction, but also expanded operation and maintenance support businesses vigorously. Besides, the Group combined traditional services with smart businesses to support the transformation and upgrade of domestic telecommunications operator customers and the development of new ICT businesses. Upon the issuance of 5G licenses by MIIT[4] in June 2019, domestic telecommunications operators further accelerated their deployment of 5G and adjusted their investment structure. However, operators' investment in 5G network has yet to come in scale. The revenue from such market maintained stable and recorded RMB33,645 million, representing a year-on-year increase of 2.1% and accounting for 60.0% of total revenues. Among that, revenue from China Telecom was RMB18,351 million, remained relatively at the same level as compared with the same period of last year and accounted for 32.7% of total revenues. Revenue from domestic telecommunications operator customers other than China Telecom was RMB15,294 million, representing a year-on-year increase of 4.9% and accounting for 27.3% of total revenues.

Affected by the progress of new overseas projects' commencement, revenue from overseas market of the Group amounted to RMB1,339 million, representing a year-on-year decrease of 7.4% and accounting for 2.4% of total revenues. The Group attaches great importance to overseas business development. By focusing on the opportunities from the "Belt and Road", the Group captured the demand for overseas network infrastructures and digitalization construction. By capitalizing on the cooperation opportunities with domestic telecommunications operators and "Go Abroad" Chinese enterprises, as well as the valuable experiences accumulated in the domestic non-telecom operator market, we continued to expand and increase the reserve of turnkey projects.

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

4 MIIT refers to the Ministry of Industry and Information Technology of the People's Republic of China.

BUSINESS DEVELOPMENT

In the first half of 2019, all the three businesses of the Group obtained favourable development. Revenue from telecommunications infrastructure ("TIS") services amounted to RMB30,801 million, representing a year-on-year increase of 8.7% and accounting for 55.0% of total revenues. We continued to seize the opportunities arising from the construction of Digital Economy and Smart Society in China, and penetrated into the full life cycle demands of domestic non-telecom operator customers by capitalizing on the "Consultant + Staff"[5] business model to provide them integrated informatization construction services including consultation, planning and construction, thereby driving the TIS revenue growth in such market. Revenue from TIS services in domestic non-telecom operator market amounted to RMB10,665 million, representing a year-on-year rapid increase of 46.6%, being the largest driving force of revenue growth for TIS services. In the first half of 2019, domestic telecommunications operators deployed 5G network construction while adjusting investment structure, and TIS revenue from domestic telecommunications operator market recorded a year-on-year decrease of 4.1% and amounted to RMB19,200 million.

In the first half of 2019, revenue from BPO services amounted to RMB18,128 million, representing a year-on-year increase of 9.2% and accounting for 32.3% of total revenues. Among that, Core BPO services[6] (i.e. BPO services excluding the products distribution business) progressed well and revenue from which recorded a year-on-year increase of 14.1%. The Group further enhanced the synergistic operation of general facilities management and supply chain businesses, both of which recorded a year-on-year increase of over 15%. Revenue from network maintenance business also increased by 11.3% year-on-year. Revenue from the products distribution business under continuous control by the Group recorded a year-on-year decrease of 16.0%, with its contribution to total revenues decreased by 1.2 percentage points to 4.1% as compared with the same period of last year.

In the first half of 2019, revenue from ACO services amounted to RMB7,120 million, representing a year-on-year increase of 21.6% and maintaining a good growth trend. The revenue contribution from ACO services to total revenues consistently increased in the past few years and reached 12.7% in the first half of 2019, which was 1.2 percentage points higher year-on-year. The Group adapted to the trend of Digital Economy, focused on the demand for informatization and intelligentization construction of industry customers and provided increasingly enriched and diversified smart products[7] and services to them. In addition, the Group's software service capabilities were enhanced continuously, driving the revenue of ACO Major businesses[8] to increase by 25.8% year-on-year, which surpassed the growth rate of national software business revenue[9].

5 "Consultant + Staff" model is a new business model adopted by the Group in recent years. "Consultant" means that the Group acts as the "Consultant" to help its customers through leveraging on its talents and products 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 a "Staff" in coordinating other stakeholders of the project, so as to promote the smooth implementation of the project and ensure that its customers' expectation could be achieved.

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

7 Currently, the number of group-level smart products has increased to over 30.

8 ACO Major businesses include system integration, software development & system support and value-added services.

9 According to information released by MIIT, national software business revenue recorded a year-on-year growth of 15.0% in the first half of 2019.

DEEPENING TRANSFORMATION

In the first half of 2019, facing the new trend of Digital Economy era, the Group put forward the new positioning of "New Generation Integrated Smart Service Provider" and continuously enhanced internal capabilities and strengthened development momentum.

The Group continued to promote the construction of foundation platform capabilities, increased the investment in research and development of "CCSYUN" (our cloud service) and IoT platforms and enhanced the promotion and application thereof. By utilizing its industrial alliances[10] and group-level research institutes, the Group improved the construction of internal and external ecosystems, and converged internal and external resources to enhance capability to respond and deploy new markets and new technologies in foresight. By fully promoting the "Consultant + Staff" business model, which is led by consulting and planning with smart products embedded, we enhanced the capabilities of promoting the sizable project expansion. The Group promoted the integration of financial solutions with industrial development, as well as strengthening business incubation and exploring new business model for such integration through Comservice Capital Holding Company Limited.

In addition, the Group's branding and industry influence was effectively enhanced. In the first half of 2019, the Group was ranked 5th in the "100 Most Competitive Software & IT Service Enterprises 2019", right after the leading enterprises in the field. By participating in various national expositions including China International Big Data Industry Expo, the Group's philosophy of cooperation and co-development was delivered to society and customers, and gained wide recognition.

CORPORATE GOVERNANCE

The Group continued to fortify its corporate governance, and in August 2019, the Board of Directors of the Company established the Strategy Committee to strengthen the study of corporate strategies and promote better implementation of such strategies, as well as continuously enhancing the capabilities for sustainable development. The Group's consistently sound corporate governance has been recognized by the capital market for consecutive years. In the 2019 "9th Asian Excellence Recognition Awards" organized by *Corporate Governance Asia*, an authoritative journal on corporate governance in Asia, Mr. Si Furong, an Executive Director and the President of the Company, was awarded the "Best CEO" and the Company was also awarded "Best Investor Relations". At the same time, the Group was ranked 86th in the "2019 FORTUNE China 500" released by *FORTUNE China*.

SOCIAL RESPONSIBILITIES

As a responsible listed company, the Group has always emphasized on the fulfilment of social responsibilities. In the first half of 2019, the Group executed various tasks thoroughly in relation to poverty alleviation in accordance with the government's work instruction, particularly in Xinjiang, Guangxi and Sichuan, and proactively facilitated the implementation of industrial poverty alleviation projects in local areas. The Group also organized its staff to make charitable donation and total donations during the year reached over RMB4 million.

10 Current industrial alliances of the Group include: Smart City Alliance, Cloud Computing Alliance, IoT Alliance, Network Security Alliance, Smart Transportation Alliance and Internet of Energy Alliance, etc.

Attributable to the Group's focus on energy-saving management, energy consumption per unit of revenue dropped continuously. The Group has promoted energy-saving products and services in the disposal of waste materials, contracted energy management and green IDC solutions, enabling customers to save energy, reduce emission and achieve green operation.

The Group has actively made best efforts in various rescue, relief and telecommunication support programs. During the first half of the year, the Group made its frontline presence in the disaster-stricken areas such as the earthquake in Yibin, the forest fire in Liangshan and the flood disasters caused by Typhoon Lekima to provide "lifeline" for communication. Meanwhile, as the general contractor for the Smart Expo, the Group provided integrated smart services for Beijing International Horticultural Exhibition. Acting as the essential support team, the Group also rendered telecommunication support services to events such as Boao Forum for Asia and China International Cultural Industries Fair and received recognition from government and relevant partners.

OUTLOOK

Currently, the macro-economy is growing steadily and progressively, the industry structural upgrade is accelerating, contribution from domestic demand is rising and the service sector commands vast market potential. Digital Economy becomes a new impetus for economic development with 5G, IoT, Cloud Computing, Artificial Intelligence as well as Big Data entering into the substantive development stage. China's expedition on the deployment for synergistic development of three major economic zones[11] and Yangtze River Economic Belt, further development along the "Belt and Road" and the vigorous demand for construction of a Smart Society in China and overseas, will all create new business opportunities. In view of the issuance of 5G licenses, the Company believes that it will not only bring traditional business opportunities to the Group including network infrastructure construction as well as operation and maintenance, but also give rise to new demands arising from digital transformation of industries, Industrial Internet and more maintenance, operation and support services in relation to IoT. The emergence of the above new demands, coupled with the Group's diversified smart solutions established and valuable practical experiences accumulated in various industries in recent years, is expected to bring sustainable and significant strategic opportunities for the Group in the future.

Focusing on the main development tracks, the Group will continue to upgrade its "cross-platform, cross-connection, cross-application, cross-region and cross-supplier" core service capabilities, as well as strengthening its effort on innovation and transformation with a view to promoting high-quality development.

The domestic non-telecom operator market is an important driver for the Group's business growth in the future. In this market, by capturing the opportunities of "Cyberpower", "Digital China" and "Smart Society", the Group will further penetrate into key sectors such as government, transportation and electricity, and accelerate the deployment of Industrial Internet. The Group will focus on the needs of customers, increase investment in research and development, improve the internal and external ecosystems, and build the core capabilities and brand influence as "New Generation Integrated Smart Service Provider" with a view to promoting fast, sustainable and healthy development of such market.

[11] Three major economic zones: Yangtze River Delta Economic Zone, Pearl River Delta Economic Zone and Bohai Rim Economic Zone.

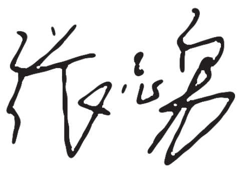
CHAIRMAN'S STATEMENT (CONTINUED)

The domestic telecommunications operator market is the fundamentals of the business development of the Group. By capturing the opportunities arising from 5G network construction, network information security as well as cloud-network integration, and integrating into the domestic operators' business ecosystems, the Group will deeply penetrate into CAPEX business, broaden OPEX business, and provide high-quality, standardized services to customers and support their transformation and upgrade, with a view to maintaining the Group's stable fundamentals.

In overseas market, we will capture the opportunities from the "Belt and Road", focus on "EPC+F+I+O+S"[12] model and strive to develop sizable turnkey projects. In response to the strong overseas demand for informatization, the Group will promote its smart products and services in overseas market to explore new drivers of growth. Meanwhile, the Group will strengthen its collaboration with domestic telecommunications operator customers, "Go Abroad" Chinese enterprises, and local partners to expand overseas market and seek new breakthroughs for the development of overseas business.

It is now a crucial period for economic transformation and upgrade as well as the industrial reform, and the new era signifies new opportunities to the Group. The Group, as a "New Generation Integrated Smart Service Provider", will leverage on State-owned Enterprise Reform to accelerate its pace on reform and commence a new round of transformation. We will adhere to the principle of value-driven, seeking steady yet progressive growth while striving towards high-quality development, and reward our shareholders and customers with better results and performance.

Finally, 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. I would also like to deeply thank all our employees for their continued dedication and hard work.



Zhang Zhiyong
Chairman

Beijing, PRC
27 August 2019

[12] EPC+F+I+O+S: EPC (Engineering, Procurement, Construction)+ Finance + Investment + Operation + Solution

REPORT ON REVIEW OF INTERIM FINANCIAL REPORT

Deloitte. 德勤

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

INTRODUCTION

We have reviewed the interim financial report of China Communications Services Corporation Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 10 to 46, which comprise the consolidated statement of financial position as of 30 June 2019 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of this interim financial report in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial report based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

27 August 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

For the six months ended 30 June 2019

	Notes	Six months ended 30 June **2019** **RMB'000**	 2018 RMB'000
Revenues	5	**56,049,087**	50,792,100
Cost of revenues	6	**(49,748,991)**	(44,616,496)
Gross profit		**6,300,096**	6,175,604
Other operating income	7	**684,892**	444,312
Selling, general and administrative expenses		**(4,984,907)**	(4,660,717)
Other operating expenses		**(62,560)**	(61,794)
Finance costs	8	**(32,731)**	(8,031)
Share of profits of associates and joint ventures		**67,440**	52,809
Profit before tax	9	**1,972,230**	1,942,183
Income tax	10	**(271,085)**	(338,685)
Profit for the period		**1,701,145**	1,603,498
Attributable to:			
Equity shareholders of the Company		**1,711,578**	1,595,476
Non-controlling interests		**(10,433)**	8,022
Profit for the period		**1,701,145**	1,603,498
Basic earnings per share (RMB)	13	**0.247**	0.230

The notes on pages 17 to 46 form part of this interim financial report.

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

For the six months ended 30 June 2019

	Note	Six months ended 30 June 2019 RMB'000	2018 RMB'000
Profit for the period		**1,701,145**	1,603,498
Other comprehensive income/(expense) for the period (after tax)			
Item that will not be reclassified to profit or loss (after tax):			
Equity instruments at fair value through other comprehensive income:			
Net movement in the fair value reserve	11	**357,655**	(202,355)
Item that may be subsequently reclassified to profit or loss (after tax):			
Exchange differences on translation of financial statements of subsidiaries outside Mainland China		**3,191**	3,007
		360,846	(199,348)
Total comprehensive income for the period		**2,061,991**	1,404,150
Attributable to:			
Equity shareholders of the Company		**2,072,404**	1,396,167
Non-controlling interests		**(10,413)**	7,983
Total comprehensive income for the period		**2,061,991**	1,404,150

The notes on pages 17 to 46 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

At 30 June 2019

	Notes	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
Non-current assets			
Property, plant and equipment, net	14	**4,191,554**	4,384,700
Right-of-use assets		**1,874,814**	–
Investment properties		**583,237**	606,065
Construction in progress		**359,187**	342,427
Lease prepayments		**–**	722,672
Goodwill		**103,005**	103,005
Other intangible assets		**408,319**	355,339
Interests in associates and joint ventures		**326,283**	318,059
Equity instruments at fair value through other comprehensive income		**4,213,780**	3,737,553
Deferred tax assets		**654,967**	622,202
Other non-current assets		**402,847**	1,220,145
Total non-current assets		**13,117,993**	12,412,167
Current assets			
Inventories		**2,410,428**	2,253,027
Accounts and bills receivable, net	15	**21,736,596**	18,668,024
Contract assets, net	16	**16,258,277**	15,664,758
Prepayments and other current assets		**9,344,587**	8,646,123
Financial assets at fair value through profit or loss		**7,071,320**	5,046,898
Restricted deposits		**2,180,263**	2,128,757
Cash and cash equivalents	17	**13,614,960**	16,106,246
Total current assets		**72,616,431**	68,513,833
Total assets		**85,734,424**	80,926,000
Current liabilities			
Interest-bearing borrowings	18	**471,761**	462,003
Accounts and bills payable	19	**31,776,704**	28,279,533
Current portion of lease liabilities		**267,969**	–
Contract liabilities		**6,912,753**	8,648,060
Accrued expenses and other payables		**10,021,568**	9,017,427
Income tax payable		**318,994**	323,514
Total current liabilities		**49,769,749**	46,730,537
Net current assets		**22,846,682**	21,783,296
Total assets less current liabilities		**35,964,675**	34,195,463

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED) (CONTINUED)

At 30 June 2019

	Notes	**30 June 2019 RMB'000 (unaudited)**	31 December 2018 RMB'000 (audited)
Non-current liabilities			
Interest-bearing borrowings	18	**4,125**	8,922
Lease liabilities		**747,567**	–
Other non-current liabilities	20	**536,200**	617,488
Deferred tax liabilities		**863,470**	740,192
Total non-current liabilities		**2,151,362**	1,366,602
Total liabilities		**51,921,111**	48,097,139
Equity			
Share capital	21	**6,926,018**	6,926,018
Reserves		**26,400,511**	25,405,305
Equity attributable to equity shareholders of the Company		**33,326,529**	32,331,323
Non-controlling interests		**486,784**	497,538
Total equity		**33,813,313**	32,828,861
Total liabilities and equity		**85,734,424**	80,926,000

The notes on pages 17 to 46 form part of this interim financial report.

Zhang Zhiyong
Chairman

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2019

		Equity attributable to equity shareholders of the Company											
	Notes	Share capital RMB'000	Share premium RMB'000 (note a)	Capital reserve RMB'000 (note b)	Statutory surplus reserve RMB'000 (note c)	Specific reserve RMB'000 (note d)	Fair value reserve RMB'000 (note e)	Exchange reserve RMB'000 (note f)	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance as at 31 December 2018 (audited)		**6,926,018**	**4,529,310**	**1,851,936**	**1,219,710**	**225,299**	**2,197,233**	**15,575**	**(68,310)**	**15,434,552**	**32,331,323**	**497,538**	**32,828,861**
Adjustments	3	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(32,754)**	**(32,754)**	**(341)**	**(33,095)**
Balance as at 1 January 2019 (restated)		**6,926,018**	**4,529,310**	**1,851,936**	**1,219,710**	**225,299**	**2,197,233**	**15,575**	**(68,310)**	**15,401,798**	**32,298,569**	**497,197**	**32,795,766**
Changes in equity for the six months ended 30 June 2019													
Profit for the period		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,711,578**	**1,711,578**	**(10,433)**	**1,701,145**
Other comprehensive income for the period	11	**–**	**–**	**–**	**–**	**–**	**357,655**	**3,171**	**–**	**–**	**360,826**	**20**	**360,846**
Total comprehensive income/(expense) for the period		**–**	**–**	**–**	**–**	**–**	**357,655**	**3,171**	**–**	**1,711,578**	**2,072,404**	**(10,413)**	**2,061,991**
Dividend declared	12(b)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,044,444)**	**(1,044,444)**	**–**	**(1,044,444)**
Appropriation of specific reserve		**–**	**–**	**–**	**–**	**309,787**	**–**	**–**	**–**	**(309,787)**	**–**	**–**	**–**
Utilisation of specific reserve		**–**	**–**	**–**	**–**	**(278,959)**	**–**	**–**	**–**	**278,959**	**–**	**–**	**–**
Balance as at 30 June 2019		**6,926,018**	**4,529,310**	**1,851,936**	**1,219,710**	**256,127**	**2,554,888**	**18,746**	**(68,310)**	**16,038,104**	**33,326,529**	**486,784**	**33,813,313**
Balance as at 1 January 2018		6,926,018	4,529,310	1,852,461	1,051,256	198,140	2,402,299	5,619	(68,310)	13,706,102	30,602,895	490,166	31,093,061
Changes in equity for the six months ended 30 June 2018													
Profit for the period		–	–	–	–	–	–	–	–	1,595,476	1,595,476	8,022	1,603,498
Other comprehensive (expense)/income for the period	11	–	–	–	–	–	(202,355)	3,046	–	–	(199,309)	(39)	(199,348)
Total comprehensive (expense)/income for the period		–	–	–	–	–	(202,355)	3,046	–	1,595,476	1,396,167	7,983	1,404,150
Distribution to non-controlling interests		–	–	–	–	–	–	–	–	–	–	(9,933)	(9,933)
Dividend declared	12(b)	–	–	–	–	–	–	–	–	(977,261)	(977,261)	–	(977,261)
Appropriation of specific reserve		–	–	–	–	250,626	–	–	–	(250,626)	–	–	–
Utilisation of specific reserve		–	–	–	–	(232,857)	–	–	–	232,857	–	–	–
Others		–	–	–	–	–	–	–	–	–	–	(5,766)	(5,766)
Balance as at 30 June 2018		6,926,018	4,529,310	1,852,461	1,051,256	215,909	2,199,944	8,665	(68,310)	14,306,548	31,021,801	482,450	31,504,251
Changes in equity for the six months ended 31 December 2018													
Profit for the period		–	–	–	–	–	–	–	–	1,305,848	1,305,848	18,553	1,324,401
Other comprehensive (expense)/income for the period		–	–	–	–	–	(2,711)	6,910	–	–	4,199	51	4,250
Total comprehensive (expense)/income for the period		–	–	–	–	–	(2,711)	6,910	–	1,305,848	1,310,047	18,604	1,328,651
Distribution to non-controlling interests		–	–	–	–	–	–	–	–	–	–	(3,656)	(3,656)
Appropriation		–	–	–	168,454	–	–	–	–	(168,454)	–	–	–
Appropriation of specific reserve		–	–	–	–	320,322	–	–	–	(320,322)	–	–	–
Utilisation of specific reserve		–	–	–	–	(310,932)	–	–	–	310,932	–	–	–
Others		–	–	(525)	–	–	–	–	–	–	(525)	140	(385)
Balance as at 31 December 2018 (audited)		6,926,018	4,529,310	1,851,936	1,219,710	225,299	2,197,233	15,575	(68,310)	15,434,552	32,331,323	497,538	32,828,861

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) (CONTINUED)

For the six months ended 30 June 2019

Notes:

(a) Share premium

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

(b) Capital reserve

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

(c) Statutory surplus reserve

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

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

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

(d) Specific reserve

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

(e) Fair value reserve

The fair value reserve represents the net change in the fair value of equity instruments at fair value through other comprehensive income held at the end of the reporting period.

(f) Exchange reserve

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

The notes on pages 17 to 46 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the six months ended 30 June 2019

	Note	Six months ended 30 June 2019 RMB'000	2018 RMB'000
Operating activities			
Income tax paid		**(293,855)**	(341,768)
Other cash flows generated from operating activities		**312**	1,233,375
Net cash (used in)/generated from operating activities		**(293,543)**	891,607
Investing activities			
Payment on acquisition of property, plant and equipment, other intangible assets and right-of-use assets		**(433,967)**	(296,426)
Payments for acquisition of wealth management products and structured deposits		**(5,450,000)**	(4,300,000)
Proceeds from disposal of wealth management products and structured deposits		**4,200,000**	2,800,000
Other cash flows (used in)/from investing activities		**(365,258)**	638,896
Net cash used in investing activities		**(2,049,225)**	(1,157,530)
Financing activities			
Proceeds from bank and other loans		**63,489**	507,520
Other cash flows used in financing activities		**(209,856)**	(432,440)
Net cash (used in)/generated from financing activities		**(146,367)**	75,080
Net decrease in cash and cash equivalents		**(2,489,135)**	(190,843)
Cash and cash equivalents at the beginning of period		**16,106,246**	13,266,631
Effect of foreign exchange rate changes		**(2,151)**	(6,322)
Cash and cash equivalents at the end of period	17	**13,614,960**	13,069,466

The notes on pages 17 to 46 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2019

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 PRC that provides integrated comprehensive solutions in the field of informatisation 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 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 2018 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 2018, except as described below.

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the interim financial report:

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015–2017 Cycle

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

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

Except for IFRS 16 Leases, the application of the above amendments to IFRSs and interpretation has had no material effect on the Group's interim financial report.

IFRS 16 Leases has been applied in accordance with the relevant transition provisions in the standard which results in changes in accounting policies, amounts reported and/or disclosures as described below.

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current interim period. IFRS 16 superseded IAS 17 Leases and the related interpretations.

3.1.1 Key changes in accounting policies resulting from application of IFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of IFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of buildings, motor vehicles and other equipment that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 16 (Continued)

As a lessee (Continued)

Right-of-use assets

Except for short-term leases and leases of low-value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 Financial Instruments and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

Except for short-term leases and leases of low-value assets, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at the commencement date of the lease. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 16 (Continued)

As a lessee (Continued)

Lease liabilities (Continued)

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review/ expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 16 (Continued)

As a lessee (Continued)

Lease modifications (Continued)

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

The tax deductions of the Group's leasing transactions are attributable to the lease liabilities. The Group applies IAS 12 Income Taxes requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

As a lessor

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies IFRS 15 Revenue from Contracts with Customers to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.2 Transition and summary of effects arising from initial application of IFRS 16

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease- by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of buildings, motor vehicles and other equipment in the PRC was determined on a portfolio basis; and

v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.2 Transition and summary of effects arising from initial application of IFRS 16 (Continued)

As a lessee (Continued)

On transition, the Group has made the following adjustments upon application of IFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and measured right-of-use assets at the carrying amounts as if IFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying IFRS 16 transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 3.6%.

	At 1 January 2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018	1,301,802
Lease liabilities discounted at relevant incremental borrowing rates	1,098,638
Less: Recognition exemption — short-term leases	132,759
Recognition exemption — low-value assets	509
Others	14,462
Lease liabilities relating to operating leases recognised upon application of IFRS 16	950,908
Lease liabilities as at 1 January 2019	950,908
Analysed as	
Current	269,303
Non-current	681,605
	950,908

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.2 Transition and summary of effects arising from initial application of IFRS 16 (Continued)

As a lessee (Continued)

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Note	**Right-of-use assets** RMB'000
Right-of-use assets relating to operating leases recognised upon application of IFRS 16		914,331
Reclassified from lease prepayments	(a)	722,672
Reclassified from prepayments and other current assets		22,578
		1,659,581
By class:		
Leasehold lands		722,672
Buildings		869,722
Motor vehicles		8,946
Furniture, fixtures and other equipment		58,241
		1,659,581

Note:

(a) Upfront payments for leasehold lands in the PRC were classified as lease prepayments as at 31 December 2018. Upon application of IFRS 16, lease prepayments amounting to RMB723 million were reclassified to right-of-use assets.

As a lessor

In accordance with the transitional provisions in IFRS 16, except for sub-leases in which the Group acts as an intermediate lessor, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application and comparative information has not been restated.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.2 Transition and summary of effects arising from initial application of IFRS 16 (Continued)

The net effects arising from the initial application of IFRS 16 resulted in a decrease in the opening balance of retained earnings at an amount of approximately RMB33 million.

As a result of the changes in the Group's accounting policies above, the consolidated statement of financial position at 1 January 2019 had to be restated. The following table shows the adjustments recognised for each of the line items affected.

	31 December 2018 RMB'000 (audited)	**Adjustments** RMB'000	**1 January 2019** RMB'000 (restated)
Non-current Assets			
Lease prepayments	722,672	(722,672)	–
Right-of-use assets	–	1,659,581	1,659,581
Deferred tax assets	622,202	3,482	625,684
Current Assets			
Prepayments and other current assets	8,646,123	(22,578)	8,623,545
Current liabilities			
Current portion of lease liabilities	–	269,303	269,303
Non-current liabilities			
Lease liabilities	–	681,605	681,605
Equity			
Equity attributable to equity shareholders of the Company	32,331,323	(32,754)	32,298,569
Non-controlling interests	497,538	(341)	497,197

4. SEGMENT REPORTING

The Group principally has one operating and reportable segment, which is the provision of integrated comprehensive solutions in the field of informatisation 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 solutions, net of sales taxes and after allowance for sales discounts. The Group's revenues by business nature can be summarised as follows:

Disaggregation of revenue

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Revenue from telecommunications infrastructure services	**30,801,124**	28,330,195
Revenue from business process outsourcing services	**18,128,043**	16,607,607
Revenue from applications, content and other services	**7,119,920**	5,854,298
	56,049,087	50,792,100

The Group's major customers are telecommunications operators which include CTC and its subsidiaries (excluding the Group) ("CTC Group") and China Mobile Communications Group Co., Ltd. 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 2019 amounted to RMB18,351 million and RMB11,524 million respectively (six months ended 30 June 2018: RMB18,368 million and RMB10,800 million respectively), being 32.7% and 20.6% of the Group's total revenues respectively (six months ended 30 June 2018: 36.2% and 21.3% respectively). The revenues derived from areas outside Mainland China for the six months ended 30 June 2019 amounted to RMB1,339 million (six months ended 30 June 2018: RMB1,446 million).

For the six months ended 30 June 2019, the Group's first three businesses that contributed to the overall revenues were construction, management of infrastructure for information technology and supply chain service, the revenues from which amounted to RMB23,875 million, RMB7,349 million and RMB5,788 million, respectively (six months ended 30 June 2018: The Group's first three businesses that contributed to the overall revenues were construction, management of infrastructure for information technology and telecommunications infrastructure design, the revenues from which amounted to RMB20,942 million, RMB6,604 million and RMB5,355 million, respectively).

The Group's rental income for the six months ended 30 June 2019 amounted to RMB342 million (six months ended 30 June 2018: RMB325 million).

6. COST OF REVENUES

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Depreciation and amortisation	**350,801**	238,546
Direct personnel costs	**4,039,918**	3,958,562
Lease charges (2018: Operating lease charges)	**547,818**	689,747
Materials costs	**5,904,176**	5,007,925
Direct costs of products distribution	**2,175,381**	2,529,320
Subcontracting charges	**31,187,998**	27,413,721
Others	**5,542,899**	4,778,675
	49,748,991	44,616,496

7. OTHER OPERATING INCOME

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Interest income	**100,320**	92,614
Dividend income from equity instruments	**141,733**	1,029
Government grants	**126,489**	93,056
Gain on disposal of property, plant and equipment and other intangible assets	**31,475**	4,045
Penalty income	**1,698**	2,790
Management fee income	**122,752**	119,179
Investment income and fair value gains on wealth management products and structured deposits	**117,745**	106,895
Others	**42,680**	24,704
	684,892	444,312

8. FINANCE COSTS

	Six months ended 30 June 2019 RMB'000	2018 RMB'000
Interest on bank and other borrowings	**15,534**	8,031
Interest on lease liabilities	**17,197**	–
	32,731	8,031

For the six months ended 30 June 2019 and 2018, 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 2019 RMB'000	2018 RMB'000
(a)	Staff costs:		
	Salaries, wages and other benefits	**6,596,366**	6,364,259
	Contributions to defined contribution retirement schemes	**716,028**	645,456
		7,312,394	7,009,715
(b)	Other items:		
	Amortisation	**60,923**	66,667
	Depreciation	**517,851**	358,320
	Materials costs	**5,904,176**	5,007,925
	Direct costs of products distribution	**2,175,381**	2,529,320
	Inventory write-down and losses, net of reversals	**10,532**	13,499
	Impairment losses on accounts receivable, other receivables and contract assets	**185,795**	172,037
	Reversal of impairment losses on accounts receivable, other receivables and contract assets	**(46,349)**	(89,449)
	Investment income and fair value gains of financial instruments at fair value through profit or loss	**116,822**	15,352
	Lease charges (2018: Operating lease charges)	**651,141**	822,796
	Research and development costs	**1,327,656**	1,134,619

The selling expenses, general and administrative expenses and other expenses of the Group are RMB903 million, RMB3,731 million and RMB351 million (six months ended 30 June 2018: RMB779 million, RMB3,580 million and RMB302 million) respectively for the six months ended 30 June 2019. Research and development costs include staff costs of RMB1,064 million (six months ended 30 June 2018: RMB947 million), which is also included in the staff costs disclosed in note 9(a).

10. INCOME TAX

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Current tax		
Income tax	**295,662**	394,022
Deferred tax		
Origination and reversal of temporary differences	**(24,577)**	(55,337)
Total income tax	**271,085**	338,685

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Profit before tax	**1,972,230**	1,942,183
Expected income tax expense at a statutory tax rate of 25% (six months ended 30 June 2018: 25%) (note (i))	**493,058**	485,546
Differential tax rates on subsidiaries' profits (note (i))	**(129,300)**	(151,383)
Non-deductible expenses (note (ii))	**32,527**	52,908
Non-taxable income	**(56,482)**	(34,824)
Tax losses not recognised	**34,505**	50,646
Utilisation of previously unrecognised tax losses	**(10,283)**	(4,864)
Over provision in respect of prior years	**(19,225)**	(10,442)
Effect of tax exemptions	**(160)**	(15)
Others (note (iii))	**(73,555)**	(48,887)
Income tax	**271,085**	338,685

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 2019 and 2018, except for certain domestic subsidiaries of the Group, which are taxed at a preferential rate of 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 purposes.

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

11. OTHER COMPREHENSIVE INCOME/(EXPENSE)

Equity instruments at fair value through other comprehensive income

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Changes in fair value recognised during the period	**476,227**	(268,743)
Net deferred tax charged to other comprehensive income/(expense)	**(118,572)**	66,388
Net movement in the fair value reserve during the period recognised in other comprehensive income/(expense)	**357,655**	(202,355)

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 2019 (six months ended 30 June 2018: nil).

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved during the period of RMB0.1257 per share (2018: RMB0.1176 per share)	**870,601**	814,500
Special dividend in respect of the previous financial year, approved during the period of RMB0.0251 per share (2018: RMB0.0235 per share)	**173,843**	162,761
	1,044,444	977,261

No final dividend or special dividend was paid during the six months ended 30 June 2019 and 2018.

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 2019 of RMB1,712 million (six months ended 30 June 2018: RMB1,595 million) and the number of shares in issue during the six months ended 30 June 2019 of 6,926,018 thousand shares (six months ended 30 June 2018 of 6,926,018 thousand shares).

The amount of diluted earnings per share is not presented as there were no potential ordinary shares in existence for the periods presented.

14. PROPERTY, PLANT AND EQUIPMENT, NET

During the six months ended 30 June 2019, additions of property, plant and equipment (including direct purchase, transfer from construction in progress) of the Group amounted to RMB152 million (six months ended 30 June 2018: RMB525 million). Items of property, plant and equipment with carrying amount totalling RMB10 million were disposed of during the six months ended 30 June 2019 (six months ended 30 June 2018: RMB12 million).

15. ACCOUNTS AND BILLS RECEIVABLE, NET

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Bills receivable	**229,246**	276,034
Accounts receivable	**23,024,879**	19,806,523
	23,254,125	20,082,557
Less: allowance for credit losses	**(1,517,529)**	(1,414,533)
	21,736,596	18,668,024

(a) Included in accounts and bills receivable are amounts due from CTC Group, associates of the Group and associates of CTC Group of RMB10,396 million as at 30 June 2019 (31 December 2018: RMB10,620 million), which are unsecured, interest-free and are expected to be recovered within one year.

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 2019 RMB'000	At 31 December 2018 RMB'000
Current	**285,890**	1,736,665
Within 1 year	**19,017,438**	14,839,588
After 1 year but less than 2 years	**1,655,964**	1,376,626
After 2 years but less than 3 years	**476,693**	435,583
After 3 years	**300,611**	279,562
	21,736,596	18,668,024

16. CONTRACT ASSETS, NET

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Telecommunications infrastructure services	**13,338,882**	13,219,615
Business process outsourcing services	**897,310**	647,111
Applications, content and other services	**2,268,769**	2,028,796
	16,504,961	15,895,522
Less: allowance for credit losses	**(246,684)**	(230,764)
	16,258,277	15,664,758

The contract assets relate to the Group's rights to consideration for work completed and not billed because the rights are conditional on the Group's future performance in achieving specified milestones at the reporting date on construction, telecommunications infrastructure 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.

17. CASH AND CASH EQUIVALENTS

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Cash at bank and in hand	**12,347,681**	16,011,556
Cash at China Telecom Group Finance Co., Ltd. ("China Telecom Finance")	**297,403**	–
Deposits at bank with original maturity less than three months	**969,876**	94,690
Cash and cash equivalents	**13,614,960**	16,106,246

18. INTEREST-BEARING BORROWINGS

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

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
RMB denominated		
Loan from CTC Group		
— unsecured	**13,280**	13,280
USD denominated		
Borrowings from banks		
— unsecured	**348,548**	393,947
Other denominated		
Borrowings from banks		
— unsecured	**109,933**	54,776
	471,761	462,003

18. INTEREST-BEARING BORROWINGS (Continued)

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

	At 30 June 2019	At 31 December 2018
RMB denominated		
Loan from CTC Group		
— unsecured	**2.39%**	2.39%
USD denominated		
Borrowings from banks		
— unsecured (fixed interest rate)	**3.43%–4.90%**	3.43%–4.90%
— unsecured (floating interest rate)	**London Interbank Offered Rate ("Libor") +1.00%–1.35%**	Libor +1.00%–1.35%
Other denominated		
Borrowings from banks		
— unsecured (fixed interest rate)	**3.16%–9.30%**	2.45%–9.24%
— unsecured (floating interest rate)	**Kiev Interbank Offered Rate ("Kibor") +1.00%**	N/A

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

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
USD denominated		
Borrowings from banks		
— unsecured	**4,125**	8,922

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

	At 30 June 2019	At 31 December 2018
USD denominated		
Borrowings from banks		
— unsecured	**3.83%**	3.43%–3.83%

As at 30 June 2019 and 31 December 2018, no borrowings from bank were subject to financial covenants.

19. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Accounts payable	**30,377,558**	27,067,452
Bills payable	**1,399,146**	1,212,081
	31,776,704	28,279,533

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

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Within 1 year	**29,851,554**	25,945,423
After 1 year but less than 2 years	**1,276,574**	1,651,120
After 2 years but less than 3 years	**299,632**	364,176
After 3 years	**348,944**	318,814
	31,776,704	28,279,533

Included in accounts and bills payable are amounts due to CTC Group, associates of the Group and associates of CTC Group of RMB1,411 million as at 30 June 2019 (31 December 2018: RMB1,118 million), which are unsecured, interest-free and are expected to be settled within one year.

20. OTHER NON-CURRENT LIABILITIES

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2019

21. SHARE CAPITAL

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Registered, issued and fully paid:		
4,534,598,160 (31 December 2018: 4,534,598,160) Domestic shares of RMB1.00 each	**4,534,598**	4,534,598
2,391,420,240 (31 December 2018: 2,391,420,240) H shares of RMB1.00 each	**2,391,420**	2,391,420
	6,926,018	6,926,018

22. CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

As at 30 June 2019, the Group had capital commitments for acquisition and construction of property, plant and equipment and other non-current assets as follows:

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Contracted for but not provided	**529,568**	500,340

(b) Contingent liabilities

As at 30 June 2019, the Group had no material contingent liabilities and no material financial guarantees issued.

23. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

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

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

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

	At 30 June 2019			
	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))	**47,531**	**–**	**4,166,249**	**4,213,780**
Financial assets at fair value through profit or loss				
— Wealth management products and structured deposits (note (ii))	**–**	**–**	**6,322,250**	**6,322,250**
— Equity instruments at fair value through profit or loss	**–**	**–**	**749,070**	**749,070**
Financial Liabilities				
Financial liabilities at fair value through profit or loss				
— Trading financial liabilities				
— Foreign currency forward contract	**–**	**185**	**–**	**185**

23. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

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

	At 31 December 2018			
	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))	42,684	–	3,694,869	3,737,553
Financial assets at fair value through profit or loss				
— Wealth management products and structured deposits (note (ii))	–	–	5,046,898	5,046,898
Financial Liabilities				
Financial liabilities at fair value through profit or loss				
— Trading financial liabilities				
— Foreign currency forward contract	–	192	–	192

Note:

(i) One of the invested entities was listed on Shanghai Stock Exchange in 2018 and the Group is contractually prevented from selling the shares immediately following the initial public offering. At the end of each reporting period, the Group involves external valuer to determine the fair value of the listed equity security that is within the restricted period, based on the quoted price of the identical unrestricted shares traded in stock exchange and adjusted to reflect the effect of restriction. An increase in the discount rate of lack of marketability used in isolation would result in a decrease in the fair value measurement of this equity instrument and vice versa. A 5% increase in the discount rate holding all other variables constant would decrease the carrying amount of this equity instrument by RMB32 million (At 31 December 2018: RMB30 million) as at 30 June 2019.

(ii) At the end of each reporting period, the Group determines the fair value of the wealth management products and structured deposits by estimating their discounted cash flows. The future cash flows are estimated based on expected recoverable amounts, and discounted at a rate that reflects the credit risk of various counterparties.

(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 2019	3,694,869	5,046,898	–
Purchases	–	5,450,000	750,000
Settlements	–	(4,200,000)	–
Total gains (losses)			
— in profit or loss	–	25,352	(930)
— in other comprehensive income	471,380	–	–
As at 30 June 2019	4,166,249	6,322,250	749,070

23. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

(ii) Reconciliation of level 3 fair value measurement (Continued)

	Equity instruments at fair value through other comprehensive income RMB'000	Wealth management products and structured deposits RMB'000
As at 1 January 2018	3,952,268	1,262,409
Purchases	–	10,650,000
Settlements	–	(6,900,000)
Total gains (losses)		
— in profit or loss	–	34,489
— in other comprehensive income	(257,399)	–
As at 31 December 2018	3,694,869	5,046,898

(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.

24. 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	
	2019	2018
	RMB'000	RMB'000
Engineering related services revenue (note (i))	**7,242,485**	8,726,983
IT application services revenue (note (ii))	**1,088,000**	779,694
Provision of ancillary telecommunications services revenue (note (iii))	**7,203,768**	6,026,856
Provision of operation support services revenue (note (iv))	**1,432,044**	1,279,644
Supplies procurement services revenue (note (v))	**1,342,806**	1,507,767
Property leasing services revenue (note (vi))	**42,124**	47,430
Management fee income (note (vii))	**122,752**	119,179
Property leasing services charges (note (viii))	**85,130**	93,063
IT application services charges (note (ix))	**68,988**	136,753
Operation support services charges (note (x))	**135,528**	361,631
Supplies procurement services charges (note (xi))	**577,536**	946,784
Interest expenses (note (xii))	**9,364**	717
Net deposit to China Telecom Finance (note (xiii))	**297,403**	–
Interest income of deposits to China Telecom Finance (note (xiv))	**162**	–

24. 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 represents management fee in respect of headquarters management function services ("Centralised Services") provided to CTC Group.

(viii) The amount represents rentals from leases (2018: 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 and lease liabilities from CTC Group.

(xiii) The amount represents net deposits under deposit services provided by China Telecom Finance.

(xiv) The amount represents the interest income from deposit services provided by China Telecom Finance.

24. 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 2019 RMB'000	At 31 December 2018 RMB'000
Cash and cash equivalents	297,403	–
Accounts and bills receivable, net	9,848,485	10,279,477
Contract assets, net	8,372,419	9,086,987
Prepayments and other current assets	748,754	776,901
Total amounts due from CTC Group	19,267,061	20,143,365
Interest-bearing borrowings	13,280	13,280
Accounts and bills payable	555,768	449,365
Contract liabilities	663,191	650,723
Accrued expenses and other payables	1,037,903	392,438
Current portion of lease liabilities	84,479	–
Lease liabilities	326,924	–
Total amounts due to CTC Group	2,681,545	1,505,806

As at 30 June 2019, the Group has recognised credit losses of RMB317 million (31 December 2018: RMB243 million) in respect of amounts due from CTC Group.

As at 30 June 2019, the Group has recognised right-of-use assets of RMB379 million under lease contracts with CTC Group. For the six months ended 30 June 2019, the amount of lease payment made to CTC Group was RMB39 million.

As at 30 June 2019 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 2019 RMB'000	At 31 December 2018 RMB'000
Contracted for but not provided	453,372	446,466

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.

24. 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	
	2019	2018
	RMB'000	RMB'000
Engineering related services revenue (note (i))	**1,533,605**	1,870,696
IT application services revenue (note (ii))	**47,128**	26,755
Provision of ancillary telecommunications services revenue (note (iii))	**739,487**	726,369
Provision of operation support services revenue (note (iv))	**35,989**	29,106
Supplies procurement services revenue (note (v))	**89,871**	78,009
Property leasing services revenue (note (vi))	**1,069**	572
Property leasing services charges (note (vii))	**1,431**	2,676
IT application services charges (note (viii))	**59,557**	1,512
Operation support services charges (note (ix))	**556,262**	21,213

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 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 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 such as warehousing, transportation and 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 CTC Group.

(vii) The amount represents rentals from leases (2018: 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 and associates of CTC 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 and associates of CTC Group for logistics, labour resources, cultural, educational, hygiene and other supporting services.

24. 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 2019 RMB'000	At 31 December 2018 RMB'000
Accounts and bills receivable, net	**547,980**	340,641
Contract assets, net	**244,250**	173,010
Prepayments and other current assets	**1,156,622**	950,097
Total amounts due from associates of the Group and associates of CTC Group	**1,948,852**	1,463,748
Accounts and bills payable	**855,312**	668,839
Contract liabilities	**598,501**	761,110
Accrued expenses and other payables	**33,760**	80,049
Total amounts due to associates of the Group and associates of CTC Group	**1,487,573**	1,509,998

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.

24. 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 government authorities, agencies, affiliations and other organisations (collectively referred to as "government-related entities").

Apart from transactions with parent company and fellow subsidiaries (note 24(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.

(d) Transactions with key management personnel

Remuneration for key management personnel is as follows:

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Salaries and other emoluments	**3,260**	3,699
Retirement benefits	**1,164**	1,119
Discretionary bonus	**6,347**	7,061
	10,771	11,879

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

24. RELATED PARTIES (Continued)

(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 10% to 20% 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 2019 and 31 December 2018, 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.

OTHER INFORMATION

MANAGEMENT DISCUSSION AND ANALYSIS

According to paragraph 40 of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), save as disclosed in this Interim Report, the Company confirms that the Company's current information in relation to those matters set out in paragraph 32 of Appendix 16 to the Listing Rules has not been changed significantly from the information disclosed in the Company's 2018 Annual Report.

CHANGES IN DIRECTORS, SUPERVISORS AND THEIR BIOGRAPHICAL INFORMATION

There are no changes in the directors and supervisors of the Company and their biographical information since the date of the Company's 2018 Annual Report.

AUDIT COMMITTEE

The audit committee has reviewed with management and the Company's international auditors, Deloitte Touche Tohmatsu, the accounting principles and practices adopted by the Group and discussed the risk management, internal control and financial reporting matters including the review of 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 Listing Rules but also has abided by the PRC Company Law and the applicable laws, regulations and regulatory requirements of Hong Kong and the PRC as the basic guidelines for the Company's corporate governance. Throughout the six months ended 30 June 2019, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules to govern securities transactions by the directors and the supervisors of the Company. Having made specific enquiries by the Company, each of the directors and the supervisors has confirmed his/her compliance with the Model Code in connection with the transactions of the Company's securities for the six months ended 30 June 2019.

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

As at 30 June 2019, 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 2019, 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 2019, the interests or the short positions of persons (excluding the directors and supervisors of the Company) who are entitled to exercise or control the exercise of 5% or more of the voting power at any of the Company's general meetings in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be maintained under Section 336 of the SFO are as follows:

Name of shareholder	Class of shares	Capacity	Number of shares held	Percentage of the respective class of share (%)	Percentage of the total number of shares in issue (%)
China Telecommunications Corporation	Domestic shares	Beneficial owner	3,559,362,496 (L)	78.49	51.39
China Mobile Communications 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
BlackRock, Inc.	H shares	Interests of controlled corporations	182,048,125 (L)	7.61	2.63
	H shares	Interests of controlled corporations	50,000 (S)	0.00	0.00

Name of shareholder	Class of shares	Capacity	Number of shares held	Percentage of the respective class of share (%)	Percentage of the total number of shares in issue (%)
Citigroup Inc.	H shares	2,740,447 shares as interests of controlled corporations and 176,382,242 shares as approved lending agent	179,122,689 (L)	7.49	2.59
	H shares	Interests of controlled corporations	282,000 (S)	0.01	0.00
	H shares	Approved lending agent	176,382,242 (P)	7.37	2.55
JPMorgan Chase & Co.	H shares	34,797,869 shares as interests of controlled corporations; 15,068,000 shares as investment manager; 11,499,407 shares as person having a security interest in shares and 79,627,251 shares as approved lending agent	140,992,527 (L)	5.89	2.04
	H shares	Interests of controlled corporations	20,106,433 (S)	0.84	0.29
	H shares	Approved lending agent	79,627,251 (P)	3.32	1.15
Hermes Investment Management Ltd	H shares	Investment manager	121,608,000 (L)	5.08	1.76

Remark

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

Save as stated above, as at 30 June 2019, 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 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

FORWARD-LOOKING STATEMENTS

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

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中國通信服務股份有限公司
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