

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.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2019

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2019

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.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2019

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2019

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.



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2019

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2019

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2019

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2019

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2019

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 RMB'000	2018 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).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2019

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2019

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).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2019

10. INCOME TAX

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

	Six months ended 30 June	
	2019 RMB'000	2018 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 RMB'000	2018 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2019

11. OTHER COMPREHENSIVE INCOME/(EXPENSE)

Equity instruments at fair value through other comprehensive income

	Six months ended 30 June	
	2019 RMB'000	2018 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 RMB'000	2018 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2019

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2019

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2019

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2019

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2019

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2019

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	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2019

23. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

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

	At 31 December 2018			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2019

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2019

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	–

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2019

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2019

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2019

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 RMB'000	2018 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2019

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2019

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).



NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

For the six months ended 30 June 2019

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.