CHINA COMSERVICE

中国通信服务

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

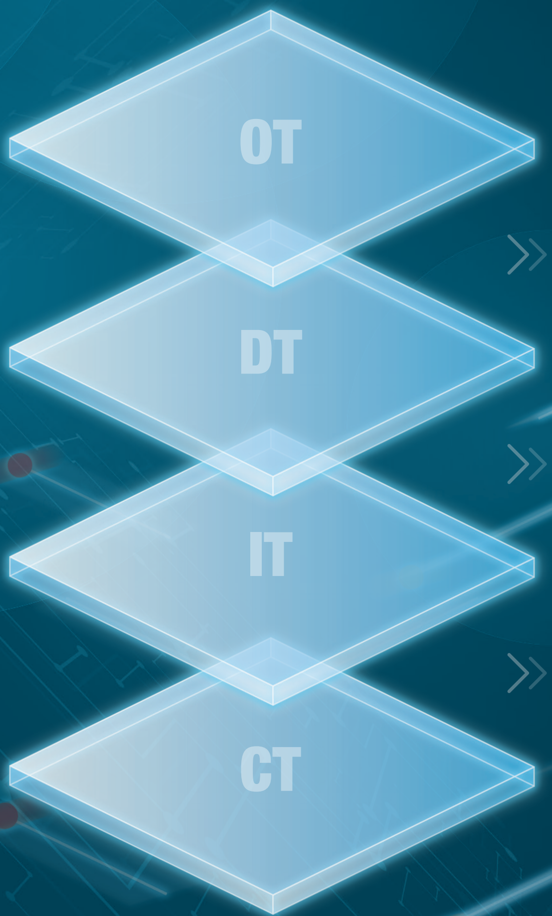
INTERIM REPORT
中期報告 2020

New Generation | 新一代

Integrated Smart Service Provider | 綜合智慧服務商

Integrate 4T capabilities and position itself as **"New Generation Integrated Smart Service Provider"**

融合4T能力，定位為「新一代綜合智慧服務商」



Utilize Mature Capability in
Operational Technology (OT)
發揮成熟的**運營技術**能力

Equipped with Strengthening Capabilities
in **Information Technology (IT)** and
Data Technology (DT)
具備不斷增强的
信息技術能力和**數據技術**能力

Possess Solid Capability in
Communications Technology (CT)
擁有雄厚的**通信技術**能力

CONTENTS

HIGHLIGHTS

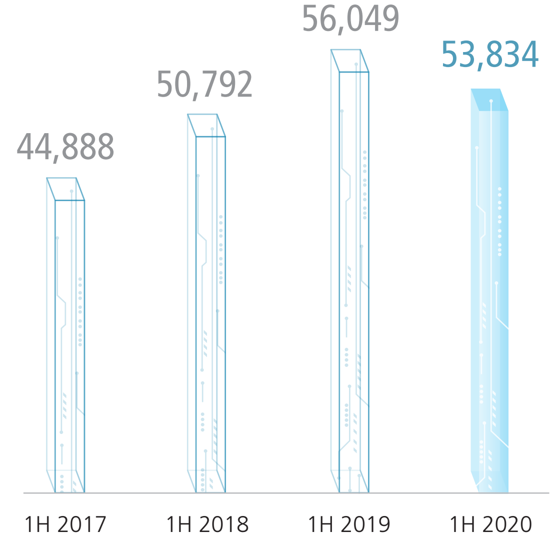
- **In the first half of 2020, the pandemic brought unprecedented pressure and challenges to the Group's operation, which resulted in short-term impact on its operating results.**
- **The Group took various measures proactively to cope with the impact of the pandemic, which facilitated a noticeable rebound of its operations in the second quarter of the year; but this recovery has not fully mitigated the impact brought by the pandemic at the beginning of the year.**
- **The Group seized opportunities from the 5G construction by domestic telecommunications operators, as it cultivated and leveraged its edges in general contracting capabilities to consolidate its leading market position.**
- **Domestic non-operator market continued to be the main growth driver for the overall development, and contributed over 40% of total revenues for the first time with further improving development quality.**
- **The Group continuously increased R&D investment to upgrade software service capabilities, and ACO business maintained a sustained and rapid growth, with its revenue contributed approximately 15% of total revenues.**
- **The pandemic facilitated the development of New Infrastructure and digital transformation of enterprises, and brought various new opportunities. The Group, with its businesses and capabilities tallying with the overall development demand of New Infrastructure, will seize new opportunities and further promote its high-quality and sustainable development.**

Financial Highlights

	Six months ended 30 June		
	2020	2019	Change
Revenues (RMB million)	**53,834**	56,049	–4.0%
Gross profit (RMB million)	**5,903**	6,300	–6.3%
Profit attributable to equity shareholders of the Company (RMB million)	**1,588**	1,712	–7.2%
Basic earnings per share (RMB)	**0.229**	0.247	–7.2%
Free cash flow[1] (RMB million)	**(1,596)**	(425)	–

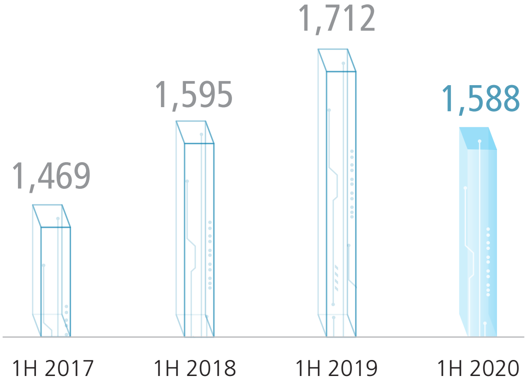
Revenues

(RMB million)



Profit Attributable to Equity Shareholders of the Company

(RMB million)



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

CHAIRMAN'S STATEMENT

Dear Shareholders,

In the first half of 2020, the novel coronavirus (the "COVID-19") pandemic made a huge impact on the overall social economic development, in which the Group also faced unprecedented pressure and challenges on its operation. Due to the pandemic, we faced difficulties including deferred tendering from our major customers, delay in the commencement of work and project delivery as well as the constraints on cross-regional works. In particular for the first quarter, it was a critical period in China for fighting against the pandemic and most of the Group's businesses could not be carried out normally. Meanwhile, rigid costs were incurred while anti-pandemic expenses increased, and there was an overall dislocation of our operation, leading to immense pressure on its revenue and profit.

Facing the challenges brought by the pandemic, the Group put the lives, health and safety of its employees as first priority and took measures to fight against the pandemic, thus no transmission occurred within the Group. The Group was determined to assume corporate social responsibility, and gave its best effort to provide communications support during the anti-pandemic work and in assisting the society and industries to prevent the pandemic with smart measures, contributing to the pandemic prevention and control across the nation.

The Group seized the accelerating informatization construction such as "Emergency Management", "5G construction", "Digital Society", and also the demand on "New Infrastructure" prompted by the pandemic. The Group sought to overcome challenges by broadening the sources of revenue while cutting costs and adopting various measures to proactively promote resumption of work and production. With the pandemic situation in China turned relatively stable in the second quarter, the Group's overall operating performance was marked with a recovering year-on-year growth.

The Group has been adhering to the "value-driven" principle since 2015 with continuous investment and experience accumulation on the informatization for serving the society, which helped us overcome the challenges and quickly resume normal operating conditions in an effective manner during this extraordinary period in history. In view of this, the Group is confident with the outlook for the second half of this year, as well as the sustainable and healthy development in the future.

Operating Performance

In the first half of 2020, the Group's total revenues recorded RMB53,834 million, representing a year-on-year decrease of 4.0%. Revenue from Core Businesses[1] accounted for 96.6% of the total revenues, representing a year-on-year increase of 0.7 percentage point. Cost of revenues recorded RMB47,931 million, representing a year-on-year decrease of 3.7%. Gross profit recorded RMB5,903 million, representing a year-on-year decrease of 6.3%. Gross profit margin was 11.0%, representing a year-on-year decrease of 0.2 percentage point. With the benefits from developing high-margin businesses, optimizing business structure, controlling costs and enhancing efficiency, the Group effectively mitigated the impact of the pandemic on its gross profit margin, thus the decline of the gross profit margin slowed down noticeably[2]. Having considered both the pandemic situation and the needs for its own development, the Group sped up the pace of its digital transformation and leveraged various supplemental measures such as "online" and "remote" to promote sales and marketing and strengthen communications, thereby enhancing operating and management efficiency. As a result, selling,

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

2 In the first half of 2019, the gross profit margin of the Group was 11.2% and recorded a year-on-year decrease of 1.0 percentage point.

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general and administrative expenses amounted to RMB4,785 million, representing a year-on-year decrease of 4.0% and accounting for 8.9% of total revenues, which remained at the same level as compared with the same period of last year. Profit attributable to equity shareholders of the Company was RMB1,588 million, representing a year-on-year decrease of 7.2%; net profit margin was 2.9%, representing a year-on-year decrease of 0.2 percentage point. Basic earnings per share amounted to RMB0.229, representing a year-on-year decrease of 7.2%. Free cash flow[3] was RMB–1,596 million.

Market Expansion

In the first half of 2020, notwithstanding the onslaught of the pandemic, the Group overcame difficulties and challenges resulting from the sharp decline in tenders and business volume, and project suspension brought by the pandemic. By focusing on key operation aspects, namely, key regions, major customers, tender volume, key projects, new contracts, and production volume since work resumption ("the Six Key Focuses"), the Group endeavored to resume work and production while combating the pandemic, thus safeguarding the stable fundamentals for its development and laying a solid foundation for the year's operating performance.

Domestic non-telecom operator ("domestic non-operator") customers, as the Group's largest customer group[4], maintained the growth momentum and played a decisive role in stabilizing the overall operating performance in the first half of 2020. Revenue generated from such market recorded RMB21,851 million, representing a year-on-year increase of 3.7%. The contribution to the total revenues from the domestic non-operator market exceeded 40% for the first time and reached 40.6%. Among which, the Core Businesses revenue recorded a year-on-year increase of 5.9% and accounted for 93.4% of the overall revenue from such market, representing a year-on-year increase of 1.9 percentage points. The Group took up the mission of "Building Smart Society, Boosting Digital Economy, Serving a Good Life", strived to look into the needs of customers in the vertical industries and leveraged its unique "Consultant + Staff + Housekeeper" service model[5] and "Platform + Software + Service" competitive capabilities[6] to provide its customers with vast variety of smart products and solutions. The Group achieved major breakthroughs in the fields of Emergency Management, Data Center, Digital Government, Smart Game and Smart Airport. The proportion of new contracts in the domestic non-operator market with a size of over RMB100 million (per contract) increased from 8% in 2019 to 14% in the first half of 2020. The new contract value for the Core Businesses in the domestic non-operator market increased by 6.7% year-on-year.

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

4 Customers here are classified into four categories, including the domestic non-operator customers, China Telecom, other domestic telecommunications operator customers and overseas customers.

5 "Consultant + Staff + Housekeeper" service model is a unique business model adopted by the Group in recent years. "Consultant" means that the Group acts as the "Consultant" to help its customers through leveraging its talents and product advantages, so as to turn customers' needs into feasible solutions or projects. "Staff" means that the Group, as appointed by its customers, assists them in the capacity of "Staff" in coordinating other stakeholders of the project, so as to promote the smooth implementation of the project and ensure that its customers' expectation could be achieved. "Housekeeper" means the Group provides full life cycle management and accompanying service of the relevant business and creates values for customers.

6 "Platform + Software + Service" capabilities: utilize core foundation platforms, including Cloud and IoT, focus on the application of various smart applications for customer scenarios and the integrated service capabilities covering consultation and planning, project construction, operation and maintenance, to provide customers with customized integrated solutions.

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Owing to the pandemic, the bidding and tendering process and project commencement of the domestic telecommunications operators were behind schedule early in the year, and the Group's performance in the domestic telecommunications operator market experienced some fluctuation. Revenue from such market recorded RMB30,546 million, representing a year-on-year decrease of 9.2% and accounting for 56.7% of total revenues; among which, revenue from China Telecom amounted to RMB17,162 million, representing a year-on-year decrease of 6.5% while accounting for 31.9% of the total revenues. Revenue from domestic telecommunications operators other than China Telecom recorded RMB13,384 million, representing a year-on-year decrease of 12.5% while accounting for 24.8% of the total revenues. Although the development in the first half was affected by the pandemic, the Group continued to persist in its "Dual Growth Drivers+"[7] development strategy, and supported its customers' 5G development and cloud-network integration construction. In addition, pursuant to the change in our customers' needs, the Group made use of the EPC general contracting service model to support our customers' constructions such as 5G, and the relevant business volume increased steadily.

The Group's revenue from the overseas market recorded RMB1,437 million in the first half of 2020, representing a year-on-year increase of 7.3% and accounting for 2.7% of the total revenues. Benefiting from the smooth execution of projects in Nepal, Saudi Arabia, etc., and revenue from the respective projects being recognized in phases, overseas business achieved growth amid the headwind in the first half of 2020. The Group strictly implemented the scientific prevention and control measures for the pandemic, and its staff stationed in overseas business regions recorded zero infection in the first half of 2020.

Business Development

In the first half of 2020, the impact brought by the pandemic on domestic construction projects was particularly evident. The Group's revenue from telecommunications infrastructure ("TIS") services recorded RMB29,037 million, representing a year-on-year decrease of 5.7% and accounting for 53.9% of the total revenues. Among which, TIS revenue from domestic non-operator customers amounted to RMB11,185 million, representing a year-on-year increase of 4.9%. TIS revenue from overseas customers amounted to RMB1,108 million, recording a robust year-on-year growth of 18.3%. TIS revenue from domestic telecommunications operators amounted to RMB16,744 million, representing a year-on-year decrease of 12.8%.

Revenue from business process outsourcing ("BPO") services recorded RMB16,959 million, representing a year-on-year decrease of 6.4% and accounting for 31.5% of the total revenues. Among which, revenue from network maintenance business decreased by 0.4% year-on-year, and revenue from general facilities management (property management) business increased by 4.7% year-on-year. The impact inflicted by the pandemic on the supply chain business was relatively more apparent and revenue from such business recorded a decrease of 13.9% year-on-year. The Group continued to exercise proactive control over its products distribution business, with the revenue from such business recording a decrease of 20.3% year-on-year, and accounting for 3.4% of the total revenues, which represented a decrease of 0.7 percentage point year-on-year.

7 "Dual Growth Drivers+" refers to CAPEX and OPEX + Smart Applications. CAPEX refers to the capital expenditure of domestic telecommunications operators while OPEX refers to the operating expenditure of domestic telecommunications operators.

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Revenue from applications, content and other ("ACO") services amounted to RMB7,838 million, representing a year-on-year increase of 10.1% and accounting for 14.6% of the total revenues, up by 1.9 percentage points. Among which, revenue from system integration business recorded a year-on-year increase of 15.6%, whereas revenue from software development and system support business recorded a year-on-year increase of 21.1%. The rapid growth of ACO services and its positive contribution to the overall operating performance reflected the favorable results of the early deployment of the Group's software and digital service capabilities in recent years, which also facilitated the development of its traditional TIS business.

Identification of and Adaptation to Changes

Currently, the "New Infrastructure" led by 5G is making an impressive debut. 5G is not only the key task of the "New Infrastructure", but also serves as a growth driver to support the elevated development on digitalization, cyberization, and intelligentization of industries and society. 5G also promotes the high-quality development of other industries, and provides "technology support" for the shift from old to new growth momentums. The new market environment has exposed the Group to new demand, with the 5G era calling for integrated service providers of digital infrastructure. Acting as a "Builder of Digital Infrastructure", the Group has been devoted to seizing the opportunities arising from 5G investment and co-build and co-share by domestic telecommunications operators. The Group has set up dedicated project management teams, strengthened its capabilities, and expanded the 5G construction business by adopting a new general contracting model. For instance, the Group has adopted the 5G general contracting model in 27 provinces when serving China Telecom, of which the proportion of contracts that utilized the general contracting model accounted for more than 50% in 12 provinces.

Given the arrival of 5G and the accelerated digitalization of society, this will lead to new demand for Internet of Everything, the Group's maintenance business will be seeing an explosive growth opportunity. Acting as the "Guard of Smart Operation", the Group adapts to the changes in market trends by building up China Comservice Maintenance Cloud Platform, and expediting the enhancement of our digital maintenance capabilities. The Group will utilize Cloud Computing and IoT technologies to provide customers with multi-dimensional, integrated, efficient and predictive smart maintenance service. Through consolidation and synergistic operation, the Group's supply chain business also shows favorable development potential. In the first half of 2020, a subsidiary of the Group, China Comservice Supply Chain Management Company Ltd., was selected as one of the top 50 logistics enterprises in the country. It serves as the Group's digital centralized procurement center, and opens up a new path for the Group to improve operating efficiency.

The pandemic has accelerated the pace of digitalization, cyberization, and intelligentization of society, and brought defining changes to both social governance models and people's way of living. The popularization of the new generation information technology promotes the deep integration of digital economy and real economy. Acting as the "Service Provider of Data Production" and "Provider of Smart Products and Platforms", the Group has focused on the changes in industries and customers' demand, and achieved major breakthroughs and was rewarded with achievements in the fields of Emergency Management, Data Center, Digital Government, Smart Game and Smart Airport, with our brand awareness and reputation further elevated. In order to better cope with the profound changes in technologies and markets, and to achieve the strategic goal of high-quality development for the enterprise, the Group has stepped up its R&D and innovation efforts. By setting up China Comservice General Research Institute, the Group would be able to enhance its dispersed research and development system and leverage its Cloud Computing, Big Data and IoT technologies to forge its

CHAIRMAN'S STATEMENT

innovative capabilities platforms (including CCSYUN (our cloud service) Platform, CCS IoT Platform[8], Network Security Service Platform, etc.), promoting the cloud migration of R&D and operation of its smart products. Meanwhile, as it faces the changing development needs of markets and customers, the Group will provide integrated and innovative services to help customers achieve digital transformation and upgrade.

Corporate Governance

The Group's good corporate governance work and governance standards have always been recognized by the capital market. In the first half of 2020, the Group ranked 86th in *Fortune China*'s "2020 Fortune China 500" and 1,488th in *Forbes*' "2020 Forbes Global 2000 — The World's Largest Public Companies". The Group was named as "Honored Companies in Asia" in *Institutional Investor*'s 2020 "All-Asia Executive Team" Rankings for the first time. Mr. Si Furong, the President, and Ms. Zhang Xu, the Chief Financial Officer, ranked third in the "Best CEO" and "Best CFO" respectively in the relevant rankings in the telecommunications sector. In addition, the Group also received accolades for "Best ESG" and in the field of investor relations. The Group places great importance on system construction in respect of our own transformation and development. In the first half of 2020, prompted by the State-owned Enterprise Reform "Double-hundred Action", the Group undertook an in-depth review of its corporate governance structure, talent incentive mechanism and professional talent team building and began making long-term preparations to improve them.

Social Responsibility

In the first half of 2020, against the backdrop of the COVID-19, the Group courageously assumed the responsibility of a state-owned enterprise and hastened to the frontline of combating the pandemic. In just three days, the Group rapidly completed planning and construction of the 4G/5G wireless network for Huoshenshan Hospital and Leishenshan Hospital in Wuhan. The Group also provided various medical institutions, including Beijing Xiaotangshan Hospital, West China Hospital of Sichuan University, Xixi Hospital of Hangzhou and the temporary treatment base for COVID-19 patients in Jingzhou, with emergency communication construction and support to ensure smooth communication at the frontline of the fight against the pandemic.

Meanwhile, in response to the anti-pandemic demands from governments, communities, enterprises and relevant industries, the Group has capitalized on the strength of its dispersed research and development system. It swiftly developed and promoted more than 40 smart applications for pandemic prevention based on its foundation platforms, including CCSYUN (our cloud service) platform and CCS IoT platform. Among them, the "Health Declaration and Enquiry System for Migrant Workers of Sichuan Province" received recognition from society and the public.

In the first half of 2020, the Group proactively sourced supplies and donated these to Hubei and other pandemic-ridden areas. These supplies included approximately 30,000 N95 masks, 200,000 medical masks and other protective masks, 1,400 sets of protective clothing, 10,000 protective glasses, 155,000 pairs of gloves and various disinfection products. The Group praised the staff working on the frontline, and recognized them as "the most respectable rescuers" for their spirit of selfless dedication and bravery in fighting against the pandemic. The spreading of such positive energy boosted staff morale, conjuring up spiritual power for the company's sustainable development in the future.

8 CCS IoT Platform was honored with the "2020 Best Platform for New Infrastructure and Industry Innovative Application" award, hosted by China Industrial Cooperation Association and with other units in July 2020.

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In the first half of 2020, many Southern provinces in China experienced multiple floods which were caused by disastrous rainstorm. The Group proactively participated in the rescue effort, providing disaster relief and communication support by engaging hundreds of thousands of person-times and more than one hundred thousand vehicle-times to repair approximately 180,000 communication facilities.

Future Outlook

The Group fully understands that, although the COVID-19 has had a relatively large impact on both society and the economy, there is no change in the fundamental development trends for China's macro-economy, which is still heading for long-term prosperity, steady improvement and high-quality development. China is continuing its determination to provide policy support in promoting synergistic development among industries and facilitating innovation and transformation of enterprises. There is no change on the penetrative and extensive implementation of the "Belt and Road". The advent of the pandemic brings both crises and opportunities, including the acceleration in the progress of digitalization, cyberization and intelligentization of society, the acceleration in the development of New Infrastructure as represented by 5G, and the acceleration in the process of upgrading social governance as represented by Emergency Management. All of the above opportunities will expedite the process of deep integration of digital economy and real economy. As a "New Generation Integrated Smart Service Provider", the Group will implement the government's requirement for "stability on the six fronts" and "security in the six areas" and focus on its "three main tracks of development"[9] to seize opportunities brought by the government's new growth momentum as leveraged and cultivated by informatization and intelligentization. Meanwhile, we will proactively explore the vast development potential brought by the deep integration of the digital and real economies, whilst accelerating our transformation and upgrade, and facilitating integration into the digital society ecosystem, with a view to achieving high-quality development of the Group.

In the domestic non-operator market, the Group will grasp the window of opportunity in the post-pandemic era and focus on new market potential, including the "New Infrastructure" represented by 5G, modern Smart City upgrade, Digital Governance and the digitalization of industries. Besides, we will be focusing on the massive potential for incremental business volume brought by the integration and upgrade of traditional infrastructure with the digital technologies and accelerating our deployment in this area. Meanwhile, the Group will focus on the key sectors such as government, transportation, electricity and games, and provide our customers with a rich portfolio of products and services such as smart solutions, emergency management and security. As such, we would be able to realize the in-depth promotion of our smart business and market share expansion leading to another breakthrough in the domestic non-operator market.

9 "Three main tracks of development" refer to the domestic telecommunications operator market, the domestic non-operator market, and the overseas market.

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In the domestic telecommunications operator market, the Group will continue the "Dual Growth Drivers+" development strategy. By focusing on the CAPEX investment planning of the domestic telecommunications operators and adapting to the demand of the acceleration in 5G construction and the change in construction model, the Group will undertake projects using the general contracting model and take full advantage of the CAPEX opportunities. Meanwhile, the Group will focus on OPEX business opportunities and help customers to build competitive edges by consolidating and improving their network operation and service capabilities. The Group will seize the window of opportunity regarding our customers' transformation, leveraging its unique position in terms of smart applications, industry solutions, network information security and project implementation to fully support the cloud-network integration of our customers, proactively integrating into the customers' value chain and symbiotic ecosystem. We will jointly expand the new ICT market with customers while expanding our own value to ensure the sustainable and stable development of the domestic telecommunications operator market.

In the overseas market, the Group will seize opportunities from the continuous opening-up of China and in-depth promotion of the "Belt and Road" to accelerate the transformation and upgrade of its "EPC+F+I+O+S"[10] model. The Group will accelerate its business expansion by focusing on key regions including Southeast Asia, the Middle East and Africa and developing key businesses including "New Infrastructure" overseas represented by 5G, maintenance, data center and electricity. At the same time, by integrating digitalization demand from overseas customers, the Group will promote the launch of smart products and services in overseas market. Meanwhile, the Group will enhance its collaboration with domestic telecommunications operators and "Go Abroad" Chinese enterprises to explore new room for development in overseas business.

Meanwhile, pursuant to the needs of its market and customers, the Group will continue to enhance its core capabilities and build a business system that could better fulfill its customers' demand and value, conform with its internal development needs and the capital market's requirements. Leveraging the opportunities provided by general contracting for 5G from domestic telecommunications operators, the Group will strengthen its EPC general contracting capabilities for the digital infrastructure and expand construction opportunities, including enterprise dedicated networks, data centers, and industrial ICT. The Group will continue to increase its R&D investment. Capitalizing on the establishment of the China Comservice General Research Institute, the Group will enhance its dispersed R&D system, expedite the R&D and construction of the CCSYUN (our cloud service) Platform, CCS IoT Platform, and Network Security Service Platform to accelerate its digital transformation, and build smart products based on cloud-native ecosystem, thus improving service capabilities and standards for different customers under various business scenarios. The Group will strive to enhance the construction of ecosystem and optimize its internal ecosystem whilst building a symbiotic ecosystem with our business partners to facilitate capabilities accumulation and capabilities enabling to realize the rapid iteration and upgrade of technology and R&D, as well as the rapid penetration into local markets. The Group will make the best use of capital resources and promote the integration of finance with industrial development through capital investment and innovative business models for external co-operation to create value for corporate development. We will continue to strengthen the training and recruitment of high-technology talents, and nurture core experts and talent teams in design and consultation, product R&D, project management, sales and marketing, delivery and implementation, with a view to enhancing the core competitiveness of our technologies and talents.

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

CHAIRMAN'S STATEMENT

Though the impact posed by the pandemic on the overall economy in China is still present, it is generally under control. The Group will seize the opportunities to accelerate its business development with full force and restore the pace of its operation. The Group will continue to focus on "the Six Key Focuses", strengthening online marketing and riding on the trend, turning crises into opportunities, and striving to accomplish the full-year goals and tasks. We will exercise resilience and confidence, diligence and perseverance to press ahead with development and transformation, thus facilitating the Group in marching towards high-quality development.

Last but not least, on behalf of the Board, I would like to express my sincere gratitude to our shareholders, customers and all sectors of society for their long-term attention and support, and deeply thank all our employees for their continued dedication and hard work. I would also like to extend my sincere welcome to Mr. Gao Tongqing and Mr. Mai Yanzhou who have joined the Board as non-executive directors.

Zhang Zhiyong
Chairman

Beijing, PRC
26 August 2020

FINANCIAL REVIEW

Total Revenues

In the first half of 2020, the Group adhered to the overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" and positions itself as "New Generation Integrated Smart Service Provider". To overcome the pressure posed by the pandemic and seize development opportunities, the Group persisted in placing equal importance on fighting the pandemic and production, which ensured stable fundamentals for development of the Group. The Group recorded total revenues of RMB53,834 million, representing a decrease of 4.0% compared to RMB56,049 million in the first half of 2019.

Revenue by Businesses

In the first half of the year, the revenue from telecommunications infrastructure ("TIS") services was RMB29,037 million, representing a year-on-year decrease of 5.7%. Revenue from business process outsourcing ("BPO") services was RMB16,959 million, representing a year-on-year decrease of 6.4%, of which the revenue from Core BPO services (i.e. excluding products distribution business) was RMB15,143 million, representing a year-on-year decrease of 4.4%. Revenue from applications, content and other ("ACO") services was RMB7,838 million, representing a year-on-year increase of 10.1%.

In the first half of the year, most of the Group's business development suffered from the sudden outbreak of the pandemic. In particular, infrastructure and construction businesses were relatively severely affected. Amidst the pandemic, the Group responded promptly and took various measures such as providing anti-pandemic guidance, making comprehensive plans and giving priority to those in need. On the condition that production safety was guaranteed, the Group vigorously promoted the resumption of work and production. As a result, the Group's operating performance was significantly boosted and rebounded noticeably in the second quarter as compared to the first quarter. Though the improved performance in the second quarter did not fully compensate the impact caused by the decreased revenue for the first quarter, it significantly mitigated the impact of the pandemic on our operating performance in the first half of the year. Meanwhile, by firmly seizing the business opportunities arising from digital transformation of enterprises and informatization construction such as Emergency Management and Smart City upgrade amid the pandemic, the Group was able to achieve sustained growth in revenue from ACO services. Of which, revenue from system integration, software development and system support businesses amounted to RMB4,893 million and RMB1,278 million, representing a rapid year-on-year increase of 15.6% and 21.1%, respectively.

Revenue by Markets

In the first half of the year, the revenue from the domestic non-telecom operator (the "domestic non-operator") market amounted to RMB21,851 million, representing a year-on-year increase of 3.7%, in which, revenue from the Core Businesses of such market amounted to RMB20,401 million, representing a year-on-year increase of 5.9%. Revenue from the domestic telecommunications operator market amounted to RMB30,546 million, representing a year-on-year decrease of 9.2%. Revenue from the overseas market amounted to RMB1,437 million, representing a year-on-year increase of 7.3%.

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During the first half of 2020, the pandemic impacted upon the pace of investment by domestic telecommunications operators, leading to a decrease in the Group's revenue in such market. By coordinating the allocation of resources, paying close attention to the 5G construction and transformation demand of operators and improving delivery capability and service quality, the Group strived to minimize the impact of the pandemic on the domestic telecommunications operator market. Meanwhile, by focusing on the demand for constructing New Infrastructure, Digital Infrastructure and Smart Society and providing comprehensive integrated smart services, the Group has vigorously expanded the domestic non-operator market which has enabled the revenue from such market to maintain growth.

Cost of Revenues

In the first half of 2020, the cost of revenues of the Group amounted to RMB47,931 million, representing a year-on-year decrease of 3.7%, of which direct personnel costs amounted to RMB3,670 million, representing a decrease of 9.1% from RMB4,040 million in the first half of 2019. Subcontracting charges amounted to RMB30,126 million, representing a decrease of 3.4% from RMB31,188 million in the first half of 2019. The Group strictly controlled its costs by proactively and reasonably allocating controllable costs with its business development needs to mitigate the impact of the pandemic on the Company's operating efficiency. As a result, direct personnel costs, subcontracting charges, direct costs of products distribution as well as other expenses decreased by different degrees.

Gross Profit

In the first half of 2020, the Group recorded gross profit of RMB5,903 million, representing a decrease of 6.3% from RMB6,300 million in the first half of 2019. The Group's gross profit margin in the first half of 2020 was 11.0%, representing a decrease of 0.2 percentage point from 11.2% in the first half of 2019. Amid the impact from the negative revenue growth caused by the pandemic, there was additional pressure on gross profit due to the rigid costs and the additional anti-pandemic costs. However, benefiting from the Group's efforts to expand high-margin business, optimize business structure and control costs strictly, it effectively alleviated the impact of the pandemic on the gross profit margin, which showed a noticeably moderating decline.

Selling, General and Administrative Expenses

In the first half of 2020, the selling, general and administrative expenses of the Group were RMB4,785 million, representing a decrease of 4.0% from RMB4,985 million in the first half of 2019. As the Group continued to increase its investment in research and development, the research and development costs under the selling, general and administrative expenses recorded a year-on-year increase. In addition, there were relative high portion of rigid costs within the selling, general and administrative expenses and so the negative growth in the total revenues caused by the pandemic in the first half of the year also affected the selling, general and administrative expenses as a percentage of the total revenues. However, the Group took various control measures proactively and reduced the administrative and management expenses by enhancing its management and cutting down costs. As such, selling, general and administrative expenses as a percentage of the total revenues remained at 8.9% in the first half of the year, which remained stable compared to same period last year.

FINANCIAL REVIEW

Profit Attributable to Equity Shareholders of the Company

In the first half of 2020, profit attributable to equity shareholders of the Company was RMB1,588 million, representing a decrease of 7.2% from RMB1,712 million in the first half of 2019.

Cash Flow

The Group recorded a net cash outflow of RMB3,773 million in the first half of 2020, as compared to a net cash outflow of RMB2,489 million in the first half of 2019. This increase in cash outflow was mainly attributable to the fact that the pandemic has affected the cash flow from operating activities in the first half of the year. On one hand, the pandemic widened the gap between the Group's receivables and payables during the reporting period and affected the advance payment from and prepayment to construction projects. On the other hand, the Group purchased anti-pandemic supplies to secure the employees' health and safe production in fighting against the pandemic. These expenses led to further increase in cash outflow.

Assets and Liabilities

The Group continued to maintain its solid financial position. As of 30 June 2020, the Group's total assets was RMB88,224 million, representing an increase of RMB683 million from RMB87,541 million as of 31 December 2019. Total liabilities were RMB53,033 million, representing an increase of RMB530 million from RMB52,503 million as of 31 December 2019. The liabilities-to-assets ratio was 60.1%, which remained at approximately the same level compared to 31 December 2019.

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 15 to 46, which comprise the consolidated statement of financial position as of 30 June 2020 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

26 August 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

	Notes	Six months ended 30 June 2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Revenues	5	**53,834,218**	56,049,087
Cost of revenues	6	**(47,931,179)**	(49,748,991)
Gross profit		**5,903,039**	6,300,096
Other operating income	7	**742,241**	684,892
Selling, general and administrative expenses		**(4,785,261)**	(4,984,907)
Other operating expenses		**(63,108)**	(62,560)
Finance costs	8	**(31,524)**	(32,731)
Share of profits of associates and joint ventures		**62,464**	67,440
Profit before tax	9	**1,827,851**	1,972,230
Income tax	10	**(239,235)**	(271,085)
Profit for the period		**1,588,616**	1,701,145
Attributable to:			
Equity shareholders of the Company		**1,588,031**	1,711,578
Non-controlling interests		**585**	(10,433)
Profit for the period		**1,588,616**	1,701,145
Basic earnings per share (RMB)	13	**0.229**	0.247

The notes on pages 22 to 46 form part of this interim financial report.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Note	Six months ended 30 June	
		2020	2019
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Profit for the period		**1,588,616**	1,701,145
Other comprehensive (expense)/income 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 movements in the fair value reserve	11	**(322,849)**	357,655
Item that may be subsequently reclassified to profit or loss (after tax):			
Exchange differences on translation of financial statements of subsidiaries outside Mainland China		**(15,353)**	3,191
		(338,202)	360,846
Total comprehensive income for the period		**1,250,414**	2,061,991
Attributable to:			
Equity shareholders of the Company		**1,249,872**	2,072,404
Non-controlling interests		**542**	(10,413)
Total comprehensive income for the period		**1,250,414**	2,061,991

The notes on pages 22 to 46 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	Notes	**30 June 2020 RMB'000 (unaudited)**	31 December 2019 RMB'000 (audited)
Non-current assets			
Property, plant and equipment, net	14	**4,175,882**	4,369,251
Right-of-use assets		**1,878,886**	1,895,996
Investment properties		**541,977**	563,820
Construction in progress		**308,296**	282,365
Goodwill		**103,005**	103,005
Other intangible assets		**484,527**	505,278
Interests in associates and joint ventures		**468,211**	418,336
Financial assets at fair value through profit or loss		**818,268**	818,268
Equity instruments at fair value through other comprehensive income		**3,658,235**	4,088,204
Deferred tax assets		**718,719**	690,341
Other non-current assets		**844,443**	553,819
Total non-current assets		**14,000,449**	14,288,683
Current assets			
Inventories		**1,825,418**	1,974,150
Accounts and bills receivable, net	15	**21,010,610**	19,092,825
Contract assets, net	16	**18,296,428**	17,153,529
Prepayments and other current assets		**9,555,144**	8,771,768
Financial assets at fair value through profit or loss		**6,060,953**	4,567,824
Restricted deposits		**2,039,714**	2,471,515
Cash and cash equivalents	17	**15,435,280**	19,220,764
Total current assets		**74,223,547**	73,252,375
Total assets		**88,223,996**	87,541,058
Current liabilities			
Interest-bearing borrowings	18	**623,332**	511,234
Accounts and bills payable	19	**32,155,815**	30,674,619
Current portion of lease liabilities		**345,429**	343,281
Contract liabilities	20	**7,421,857**	10,087,102
Accrued expenses and other payables	21	**10,436,372**	8,730,235
Income tax payable		**319,322**	337,372
Total current liabilities		**51,302,127**	50,683,843
Net current assets		**22,921,420**	22,568,532
Total assets less current liabilities		**36,921,869**	36,857,215

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	Notes	**30 June 2020 RMB'000 (unaudited)**	31 December 2019 RMB'000 (audited)
Non-current liabilities			
Lease liabilities		**704,600**	690,172
Other non-current liabilities	22	**300,771**	295,527
Deferred tax liabilities		**725,942**	833,744
Total non-current liabilities		**1,731,313**	1,819,443
Total liabilities		**53,033,440**	52,503,286
Equity			
Share capital	23	**6,926,018**	6,926,018
Reserves		**27,789,990**	27,637,892
Equity attributable to equity shareholders of the Company		**34,716,008**	34,563,910
Non-controlling interests		**474,548**	473,862
Total equity		**35,190,556**	35,037,772
Total liabilities and equity		**88,223,996**	87,541,058

The notes on pages 22 to 46 form part of this interim financial report.

Zhang Zhiyong
Chairman

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Notes	Equity attributable to equity shareholders of the Company											
		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 1 January 2020 (audited)		**6,926,018**	**4,529,310**	**1,851,748**	**1,339,541**	**270,274**	**2,460,685**	**12,867**	**(68,310)**	**17,241,777**	**34,563,910**	**473,862**	**35,037,772**
Changes in equity for the six months ended 30 June 2020													
Profit for the period		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,588,031**	**1,588,031**	**585**	**1,588,616**
Other comprehensive expense for the period		**–**	**–**	**–**	**–**	**–**	**(322,849)**	**(15,310)**	**–**	**–**	**(338,159)**	**(43)**	**(338,202)**
Total comprehensive (expense)/income for the period		**–**	**–**	**–**	**–**	**–**	**(322,849)**	**(15,310)**	**–**	**1,588,031**	**1,249,872**	**542**	**1,250,414**
Dividend declared	12(b)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,097,774)**	**(1,097,774)**	**–**	**(1,097,774)**
Appropriation of specific reserve		**–**	**–**	**–**	**–**	**279,031**	**–**	**–**	**–**	**(279,031)**	**–**	**–**	**–**
Utilisation of specific reserve		**–**	**–**	**–**	**–**	**(243,511)**	**–**	**–**	**–**	**243,511**	**–**	**–**	**–**
Capital contribution from non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**144**	**144**
Balance as at 30 June 2020 (unaudited)		**6,926,018**	**4,529,310**	**1,851,748**	**1,339,541**	**305,794**	**2,137,836**	**(2,443)**	**(68,310)**	**17,696,514**	**34,716,008**	**474,548**	**35,190,556**
Balance as at 1 January 2019 (audited)		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		–	–	–	–	–	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 (unaudited)		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
Changes in equity for the six months ended 31 December 2019													
Profit for the period		–	–	–	–	–	–	–	–	1,337,651	1,337,651	(8,997)	1,328,654
Other comprehensive (expense)/income for the period		–	–	–	–	–	(94,203)	(5,879)	–	–	(100,082)	42	(100,040)
Total comprehensive (expense)/income for the period		–	–	–	–	–	(94,203)	(5,879)	–	1,337,651	1,237,569	(8,955)	1,228,614
Distribution to non-controlling interests		–	–	–	–	–	–	–	–	–	–	(4,155)	(4,155)
Appropriation		–	–	–	119,831	–	–	–	–	(119,831)	–	–	–
Appropriation of specific reserve		–	–	–	–	372,138	–	–	–	(372,138)	–	–	–
Utilisation of specific reserve		–	–	–	–	(357,991)	–	–	–	357,991	–	–	–
Others		–	–	(188)	–	–	–	–	–	–	(188)	188	–
Balance as at 31 December 2019 (audited)		6,926,018	4,529,310	1,851,748	1,339,541	270,274	2,460,685	12,867	(68,310)	17,241,777	34,563,910	473,862	35,037,772

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

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 mainly 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 22 to 46 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Operating activities		
Income tax paid	**(266,329)**	(293,855)
Other cash flows (used in)/generated from operating activities	**(1,336,778)**	312
Net cash used in operating activities	**(1,603,107)**	(293,543)
Investing activities		
Payment on acquisition of property, plant and equipment, construction in progress, other intangible assets and right-of-use assets	**(190,337)**	(433,967)
Payments for acquisition of wealth management products and structured deposits	**(7,300,000)**	(5,450,000)
Proceeds from disposal of wealth management products and structured deposits	**5,800,000**	4,200,000
Other cash flows used in investing activities	**(402,634)**	(365,258)
Net cash used in investing activities	**(2,092,971)**	(2,049,225)
Financing activities		
Proceeds from bank loans	**252,805**	63,489
Other cash flows used in financing activities	**(330,107)**	(209,856)
Net cash used in financing activities	**(77,302)**	(146,367)
Net decrease in cash and cash equivalents	**(3,773,380)**	(2,489,135)
Cash and cash equivalents at the beginning of period	**19,220,764**	16,106,246
Effect of foreign exchange rate changes	**(12,104)**	(2,151)
Cash and cash equivalents at the end of period	**15,435,280**	13,614,960

The notes on pages 22 to 46 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2020

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 smart solutions in the field of informatization and digitalization. The Group offers telecommunications infrastructure services, including design, construction and project supervision and management; business process outsourcing services, including management of infrastructure for information technology, general facilities management, supply chain and products distribution; and applications, content and other services, including system integration, software development and system support, and value-added services.

2. Basis of Preparation

The 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 2019 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.

Significant events and transactions in the current interim period

Most of the Group's operations are located in China, due to the outbreak of the 2019 Novel Coronavirus ("Covid-19") in China and the subsequent quarantine measures imposed by the PRC government, the Group complied with government policy guidelines and stopped certain of its operation activities, which have had an impact on the Group's business. With the adjustment of government quarantine measures, the Group had resumed operation activities successively since March 2020. On the other hand, the PRC government has announced certain financial measures and supports for corporates to overcome the negative impact arising from the pandemic. Overall, in the first half of 2020, the financial positions and performance of the Group were affected by the pandemic, primarily manifested in revenue reduction. The Group will keep continuous attention on the developments of and changes in this situation, timely assess and actively respond to its impacts on the financial position, operating results and other aspects of the Group.

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 2019, except as described below.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2020

3. Principal Accounting Policies (Continued)

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in IFRS Standards and the following amendments to IFRSs, for the first time, which are mandatory effective for the annual period beginning on or after 1 January 2020 for the preparation of the interim financial report:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

In addition, the Group has early applied the Amendment to IFRS 16 "Covid-19-Related Rent Concessions".

Except as described below, the application of the Amendments to References to the Conceptual Framework in IFRS Standards and the amendments to IFRSs in the current period has had no material effect on the Group's interim financial report.

3.1 Impacts and accounting policies on early application of Amendment to IFRS 16 "Covid-19-Related Rent Concessions"

3.1.1 Accounting policies

Leases

Covid-19-related rent concessions

Rent concessions relating to lease contracts that occurred as a direct consequence of the Covid-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying IFRS 16 "Leases" if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

3.1.2 Transition and summary of effects

The Group has early applied the amendment in the current interim period. The application has no impact to the opening retained earnings at 1 January 2020. The Group recognised changes in lease payments that resulted from rent concessions of RMB5 million in the profit or loss for the current interim period.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2020

4. Segment Reporting

The Group principally has one operating segment, which is the provision of integrated comprehensive smart solutions in the field of informatization and digitalization. Therefore, no additional segment information has been presented. Additional information about major customers and geographical areas of the Group has been disclosed in note 5.

5. Revenues

Revenues are derived from the provision of integrated comprehensive smart solutions, 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	
	2020	2019
	RMB'000	RMB'000
Revenue from telecommunications infrastructure services	**29,036,839**	30,801,124
Revenue from business process outsourcing services	**16,959,567**	18,128,043
Revenue from applications, content and other services	**7,837,812**	7,119,920
	53,834,218	56,049,087

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 2020 amounted to RMB17,162 million and RMB9,286 million, respectively (six months ended 30 June 2019: RMB18,351 million and RMB11,524 million, respectively), being 31.9% and 17.2% of the Group's total revenues, respectively (six months ended 30 June 2019: 32.7% and 20.6%, respectively). The revenues derived from areas outside Mainland China for the six months ended 30 June 2020 amounted to RMB1,437 million (six months ended 30 June 2019: RMB1,339 million).

For the six months ended 30 June 2020, 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 RMB22,610 million, RMB7,320 million and RMB4,984 million, respectively (six months ended 30 June 2019: RMB23,875 million, RMB7,349 million and RMB5,788 million, respectively).

The Group's rental income for the six months ended 30 June 2020 amounted to RMB291 million (six months ended 30 June 2019: RMB342 million).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2020

6. Cost of Revenues

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Depreciation and amortisation	**395,003**	350,801
Direct personnel costs	**3,670,291**	4,039,918
Lease charges	**491,617**	547,818
Materials costs	**6,155,087**	5,904,176
Direct costs of products distribution	**1,718,323**	2,175,381
Subcontracting charges	**30,126,247**	31,187,998
Others	**5,374,611**	5,542,899
	47,931,179	49,748,991

7. Other Operating Income

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Interest income	**132,930**	100,320
Dividend income from equity instruments	**161,106**	141,733
Government grants	**119,252**	126,489
Gain on disposal of property, plant and equipment, other intangible assets and termination of lease contracts	**1,144**	31,475
Penalty income	**1,575**	1,698
Management fee income	**124,462**	122,752
Investment income and fair value gains on wealth management products and structured deposits	**99,395**	117,745
Others	**102,377**	42,680
	742,241	684,892

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2020

8. Finance Costs

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Interest on bank and other borrowings	**12,751**	15,534
Interest on lease liabilities	**18,773**	17,197
	31,524	32,731

For the six months ended 30 June 2020 and 2019, no borrowing costs were capitalised in 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	
		2020	2019
		RMB'000	RMB'000
(a)	Staff costs:		
	Salaries, wages and other benefits	**6,452,296**	6,596,366
	Contributions to defined contribution retirement schemes	**463,139**	716,028
		6,915,435	7,312,394
(b)	Other items:		
	Amortisation	**70,662**	60,923
	Depreciation	**578,834**	517,851
	Materials costs	**6,155,087**	5,904,176
	Direct costs of products distribution	**1,718,323**	2,175,381
	Inventory write-down and losses, net of reversals	**15,362**	10,532
	Impairment losses on accounts receivable, other receivables and contract assets	**165,181**	185,795
	Reversal of impairment losses on accounts receivable, other receivables and contract assets	**(84,766)**	(46,349)
	Investment income and fair value gains of financial instruments at fair value through profit or loss	**99,285**	116,822
	Lease charges	**582,448**	651,141
	Research and development costs	**1,387,407**	1,327,656

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2020

9. Profit Before Tax (Continued)

The selling expenses, general and administrative expenses and other expenses of the Group are RMB915 million, RMB3,652 million and RMB218 million (six months ended 30 June 2019: RMB903 million, RMB3,731 million and RMB351 million) respectively for the six months ended 30 June 2020. Research and development costs include staff costs of RMB1,111 million (six months ended 30 June 2019: RMB1,064 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	
	2020	2019
	RMB'000	RMB'000
Current tax		
Income tax	**268,295**	295,662
Deferred tax		
Origination and reversal of temporary differences	**(29,060)**	(24,577)
Total income tax	**239,235**	271,085

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2020

10. Income Tax (Continued)

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Profit before tax	**1,827,851**	1,972,230
Expected income tax expense at a statutory tax rate of 25% (six months ended 30 June 2019: 25%) (note (i))	**456,963**	493,058
Differential tax rates on subsidiaries' profits (note (i))	**(137,207)**	(129,300)
Non-deductible expenses (note (ii))	**79,906**	32,527
Non-taxable income	**(77,965)**	(56,482)
Tax losses not recognised	**30,169**	34,505
Utilisation of previously unrecognised tax losses	**(6,955)**	(10,283)
Over provision in respect of prior years	**(14,024)**	(19,225)
Effect of tax exemptions	**(158)**	(160)
Others (note (iii))	**(91,494)**	(73,555)
Income tax	**239,235**	271,085

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 2020 and 2019, 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

For the six months ended 30 June 2020

11. Other Comprehensive (Expense)/Income

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Changes in fair value of equity instruments at fair value through other comprehensive income recognised during the period	**(429,969)**	476,227
Net deferred tax credited/(charged) to other comprehensive income	**107,120**	(118,572)
Net movements in the fair value reserve during the period recognised in other comprehensive (expense)/income	**(322,849)**	357,655

12. Dividends

(a) Dividends attributable to the period

The Board of Directors did not propose the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved during the period of RMB0.1321 per share (2019: RMB0.1257 per share)	**914,927**	870,601
Special dividend in respect of the previous financial year, approved during the period of RMB0.0264 per share (2019: RMB0.0251 per share)	**182,847**	173,843
	1,097,774	1,044,444

No final dividend or special dividend was paid during the six months ended 30 June 2020 and 2019.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2020

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 2020 of RMB1,588 million (six months ended 30 June 2019: RMB1,712 million) and the number of shares in issue during the six months ended 30 June 2020 of 6,926,018 thousand shares (six months ended 30 June 2019: 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 2020, 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 2019: RMB152 million). Items of property, plant and equipment with carrying amount totalling RMB10 million were disposed of during the six months ended 30 June 2020 (six months ended 30 June 2019: RMB10 million).

15. Accounts and Bills Receivable, Net

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Bills receivable	**495,121**	363,350
Accounts receivable	**22,144,583**	20,287,259
	22,639,704	20,650,609
Less: allowance for credit losses	**(1,629,094)**	(1,557,784)
	21,010,610	19,092,825

(a) Included in accounts and bills receivable are amounts due from CTC Group , associates of the Group and associates of CTC Group of RMB9,433 million as at 30 June 2020 (31 December 2019: RMB9,286 million), which are unsecured, interest-free and are expected to be recovered within one year.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2020

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 2020 RMB'000	At 31 December 2019 RMB'000
Current	**2,276,543**	844,908
Within 1 year	**15,964,352**	15,413,416
After 1 year but less than 2 years	**1,891,248**	2,038,087
After 2 years but less than 3 years	**512,976**	454,502
After 3 years	**365,491**	341,912
	21,010,610	19,092,825

16. Contract Assets, Net

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Telecommunications infrastructure services	**15,171,757**	14,540,160
Business process outsourcing services	**808,346**	671,738
Applications, content and other services	**2,561,744**	2,201,628
	18,541,847	17,413,526
Less: allowance for credit losses	**(245,419)**	(259,997)
	18,296,428	17,153,529

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, 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

For the six months ended 30 June 2020

17. Cash and Cash Equivalents

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Cash at bank and in hand	**14,792,645**	16,276,210
Cash at China Telecom Group Finance Co., Ltd ("China Telecom Finance")	**562,524**	2,147,014
Deposits at bank with original maturity less than three months	**80,111**	797,540
Cash and cash equivalents	**15,435,280**	19,220,764

18. Interest-Bearing Borrowings

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

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
RMB denominated		
Loan from CTC Group		
— unsecured	**13,280**	13,280
USD denominated		
Borrowings from banks		
— unsecured	**498,963**	350,903
Other denominated		
Borrowings from banks		
— unsecured	**111,089**	147,051
	623,332	511,234

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2020

18. Interest-Bearing Borrowings (Continued)

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

	At 30 June 2020	At 31 December 2019
RMB denominated		
Loan from CTC Group		
— unsecured	**2.39%**	2.39%
USD denominated		
Borrowings from banks		
— unsecured (fixed interest rate)	**3.83%**	3.43%–4.90%
— unsecured (floating interest rate)	**London Interbank Offered Rate ("Libor") +1.10%–1.35%**	Libor +1.00%–1.70%
Other denominated		
Borrowings from banks		
— unsecured (fixed interest rate)	**2.80%–7.50%**	2.91%–10.63%
— unsecured (floating interest rate)	**Nepal Rastra Bank Base Rate +3.00%**	N/A
	N/A	Karachi Interbank Offered Rate +1.00%

As at 30 June 2020 and 31 December 2019, no borrowings from bank were subject to financial covenants.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2020

19. Accounts and Bills Payable

Accounts and bills payable comprise:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Accounts payable	**30,409,768**	28,773,659
Bills payable	**1,746,047**	1,900,960
	32,155,815	30,674,619

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

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Within 1 year	**30,039,135**	28,596,463
After 1 year but less than 2 years	**1,348,316**	1,363,485
After 2 years but less than 3 years	**478,929**	433,210
After 3 years	**289,435**	281,461
	32,155,815	30,674,619

Included in accounts and bills payable are amounts due to CTC Group, associates of the Group and associates of CTC Group of RMB1,536 million as at 30 June 2020 (31 December 2019: RMB1,447 million), which are unsecured, interest-free and are expected to be settled within one year.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT
For the six months ended 30 June 2020

20. Contract Liabilities

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Telecommunications infrastructure services	**5,323,334**	7,286,501
Other services	**2,098,523**	2,800,601
	7,421,857	10,087,102

When the Group receives an advance payment before the performance obligation is satisfied, this will give rise to contract liabilities, until the operating revenues recognised on the relevant contract exceed the amount of the advance payment.

21. Accrued Expenses and Other Payables

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Wages and welfare payable	**2,203,483**	1,561,988
Amounts due to CTC Group, associates of the Group and associates of CTC Group (note (i))	**1,047,292**	467,791
Advance lease payments received	**34,571**	42,274
Other taxes payable	**478,041**	591,905
Special dividend and profit distribution payable to CTC Group	**29,300**	29,300
Dividend payable	**549,511**	15,896
Others (note (ii))	**6,094,174**	6,021,081
	10,436,372	8,730,235

Notes:

(i) The amounts due to CTC Group, associates of the Group and associates of CTC Group are unsecured, interest-free and are expected to be settled within one year.

(ii) The amounts mainly include payables to suppliers for purchases on behalf of CTC Group, deposits received from subcontractors and others.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2020

22. Other Non-Current Liabilities

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

23. Share Capital

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Registered, issued and fully paid:		
4,534,598,160 (31 December 2019: 4,534,598,160) Domestic shares of RMB1.00 each	**4,534,598**	4,534,598
2,391,420,240 (31 December 2019: 2,391,420,240) H shares of RMB1.00 each	**2,391,420**	2,391,420
	6,926,018	6,926,018

24. Capital Commitments and Contingent Liabilities

(a) Capital commitments

As at 30 June 2020, the Group had capital commitments for acquisition and construction of property, plant and equipment and other non-current assets as follows:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Contracted for but not provided	**84,824**	543,676

(b) Contingent liabilities

As at 30 June 2020, the Group had no material contingent liabilities and no material financial guarantees issued.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2020

25. Fair Value Measurements of Financial Instruments

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

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

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 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 2020			
	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))	43,618	–	3,614,617	3,658,235
Financial assets at fair value through profit or loss				
— Wealth management products and structured deposits (note (ii))	–	–	6,060,953	6,060,953
— Equity instruments at fair value through profit or loss	–	–	818,268	818,268

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For the six months ended 30 June 2020

25. Fair Value Measurements of Financial Instruments (Continued)

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

	At 31 December 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))	47,339	–	4,040,865	4,088,204
Financial assets at fair value through profit or loss				
— Wealth management products and structured deposits (note (ii))	–	–	4,567,824	4,567,824
— Equity instruments at fair value through profit or loss	–	–	818,268	818,268

Notes:

(i) One of the invested entities was listed on Shanghai Stock Exchange in 2018 and the Group is contractually prevented from selling the shares 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, and the discount rate is 9.55% (At 31 December 2019: 11.50%). A 5% increase in the discount rate holding all other variables constant would decrease the carrying amount of this equity instrument by RMB19 million (At 31 December 2019: RMB26 million) as at 30 June 2020.

(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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2020

25. Fair Value Measurements of Financial Instruments (Continued)

(ii) Reconciliation of level 3 fair value measurement

	Equity instruments at fair value through other comprehensive income RMB'000	**Wealth management products and structured deposits RMB'000**	**Equity instruments at fair value through profit or loss RMB'000**
As at 1 January 2020	**4,040,865**	**4,567,824**	**818,268**
Purchases	**–**	**7,300,000**	**–**
Settlements	**–**	**(5,800,000)**	**–**
Total losses			
— in profit or loss	**–**	**(6,871)**	**–**
— in other comprehensive income	**(426,248)**	**–**	**–**
As at 30 June 2020	**3,614,617**	**6,060,953**	**818,268**

	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	–	9,950,000	64,430
Transferred from deposit paid	–	–	750,000
Settlements	–	(10,450,000)	–
Total gains			
— in profit or loss	–	20,926	3,838
— in other comprehensive income	345,996	–	–
As at 31 December 2019	4,040,865	4,567,824	818,268

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2020

25. Fair Value Measurements of Financial Instruments (Continued)

(iii) Fair values of financial instruments carried at other than fair value

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

26. Related Parties

The Group 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	
	2020	2019
	RMB'000	RMB'000
Engineering related services revenue (note (i))	**6,793,836**	7,242,485
IT application services revenue (note (ii))	**1,221,895**	1,088,000
Provision of ancillary telecommunications services revenue (note (iii))	**6,610,949**	7,203,768
Provision of operation support services revenue (note (iv))	**1,391,280**	1,432,044
Supplies procurement services revenue (note (v))	**1,098,771**	1,342,806
Property leasing services revenue (note (vi))	**45,114**	42,124
Management fee income (note (vii))	**124,462**	122,752
Property leasing services charges (note (viii))	**56,594**	85,130
IT application services charges (note (ix))	**45,812**	68,988
Operation support services charges (note (x))	**202,349**	135,528
Supplies procurement services charges (note (xi))	**298,441**	577,536
Interest expenses (note (xii))	**8,798**	9,364
Net (withdrawal) deposit to China Telecom Finance (note (xiii))	**(1,584,490)**	297,403
Interest income of deposits to China Telecom Finance (note (xiv))	**2,905**	162

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2020

26. Related Parties (Continued)

(a) Transactions with CTC Group (Continued)

Notes:

(i) The amount represents telecommunications infrastructure services such as design, construction and project management provided to CTC Group.

(ii) The amount represents the telecommunications network support services, software and hardware development and other IT related services provided to CTC Group.

(iii) The amount represents ancillary telecommunications services such as maintenance of network facilities (including optical ducts and cables, exchange buildings and base stations); operation of distribution 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 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 and payable to CTC Group in respect of the loans and lease liabilities from CTC Group.

(xiii) The amount represents net (withdrawal) deposit 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

For the six months ended 30 June 2020

26. Related Parties (Continued)

(a) Transactions with CTC Group (Continued)

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

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Cash and cash equivalents	**562,524**	2,147,014
Accounts and bills receivable, net	**8,801,573**	8,863,454
Contract assets, net	**8,853,797**	8,760,826
Prepayments and other current assets	**671,648**	759,769
Total amounts due from CTC Group	**18,889,542**	20,531,063
Interest-bearing borrowings	**13,280**	13,280
Accounts and bills payable	**542,698**	608,905
Contract liabilities	**624,089**	550,012
Accrued expenses and other payables	**1,015,076**	409,680
Current portion of lease liabilities	**130,471**	123,506
Lease liabilities	**302,982**	314,655
Total amounts due to CTC Group	**2,628,596**	2,020,038

As at 30 June 2020, the Group has recognised credit losses of RMB366 million (31 December 2019: RMB349 million) in respect of amounts due from CTC Group.

As at 30 June 2020, the Group has recognised right-of-use assets of RMB392 million under lease contracts with CTC Group (31 December 2019: RMB394 million). For the six months ended 30 June 2020, the amount of lease payment made to CTC Group was RMB64 million (six months ended 30 June 2019: RMB39 million).

As at 30 June 2020 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 2020 RMB'000	At 31 December 2019 RMB'000
Contracted for but not provided	**9,479**	459,437

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.

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For the six months ended 30 June 2020

26. Related Parties (Continued)

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

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Engineering related services revenue (note (i))	**1,706,325**	1,533,605
IT application services revenue (note (ii))	**43,956**	47,128
Provision of ancillary telecommunications services revenue (note (iii))	**827,980**	739,487
Provision of operation support services revenue (note (iv))	**30,583**	35,989
Supplies procurement services revenue (note (v))	**126,334**	89,871
Property leasing services revenue (note (vi))	**1,490**	1,069
Property leasing services charges (note (vii))	**34,818**	1,431
IT application services charges (note (viii))	**55,395**	59,557
Operation support services charges (note (ix))	**782,095**	556,262
Supplies procurement services charges (note (x))	**1,023**	–
Interest expenses (note (xi))	**4**	–

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 the Group and associates of CTC Group.

(iii) The amount represents ancillary telecommunications services such as maintenance of network facilities (including optical ducts and cables, exchange buildings and base stations); operation of distribution services; fixed line and wireless value-added service; internet contents and information services provided to associates of the Group and associates of CTC Group.

(iv) The amount represents the facilities management, advertising, conferencing services and certain repair and leasing of equipment services provided to associates of the Group and associates of CTC Group.

(v) The amount represents supplies procurement service such as warehousing, transportation and installation and other related services provided to associates of the Group and associates of CTC Group.

(vi) The amount represents rentals from operating leases in respect of business premises leased to associates of CTC Group.

(vii) The amount represents rentals from leases in respect of business premises paid and payable to associates of the Group and associates of CTC 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2020

26. Related Parties (Continued)

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

Notes: (Continued)

(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.

(x) The amount represents the charge paid and payable to associates of the Group for supplies procurement services, warehousing, transportation and installation services.

(xi) The amount represents the interest paid and payable associates of CTC Group in respect of lease liabilities from associates of CTC Group.

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

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Accounts and bills receivable, net	**631,478**	422,635
Contract assets, net	**251,864**	225,008
Prepayments and other current assets	**1,279,724**	1,200,915
Total amounts due from associates of the Group and associates of CTC Group	**2,163,066**	1,848,558
Accounts and bills payable	**993,310**	838,139
Contract liabilities	**613,375**	742,458
Current portion of lease liabilities	**130**	125
Lease liabilities	**489**	113
Accrued expenses and other payables	**61,516**	87,411
Total amounts due to associates of the Group and associates of CTC Group	**1,668,820**	1,668,246

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For the six months ended 30 June 2020

26. Related Parties (Continued)

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

As at 30 June 2020, the Group has recognised right-of-use assets of RMB635 thousand (31 December 2019: RMB216 thousand) under lease contracts with associates of CTC Group. For the six months ended 30 June 2020, the amount of lease payment made to associates of CTC Group was RMB92 thousand (six months ended 30 June 2019: nil).

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

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

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

Apart from transactions with parent company and fellow subsidiaries (note 26(a)), the Group has collectively, but not individually significant transactions with other government-related entities, which include but are not limited to the following:

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

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2020

26. Related Parties (Continued)

(d) Transactions with key management personnel

Remuneration for key management personnel is as follows:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Salaries and other emoluments	**3,533**	3,260
Retirement benefits	**1,061**	1,164
Discretionary bonus	**6,166**	6,347
	10,760	10,771

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

(e) Contributions to defined contribution retirement plans

In accordance with the labour regulations of the PRC, the Group participates in various defined contribution retirement schemes organised by the municipal and provincial governments for its employees. The Group is required to make contributions to the retirement schemes at rates ranging from 10% to 19% 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 2020 and 31 December 2019, 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.

27. Event After the Reporting Period

On 31 July 2020, the Group (as purchaser) entered into the Property Purchase Agreement with Great Wall Guofu Real Estate (Beijing) Co., Ltd. (as vendor) and the Ancillary Facilities Purchase Agreement with Great Wall Glory Securities Co., Ltd. (as vendor) to acquire the property and related ancillary facilities to serve as the bases for the smart production, operation and R&D of the Group, at the consideration of RMB3,317.15 million and RMB42.85 million, respectively. Up to the date of issuance of the interim financial statements, the acquisition has not yet been completed.

OTHER INFORMATION

Changes in Directors, Supervisors and their Biographical Information

Changes in the directors and supervisors of the Company and their biographical information since the date of the Company's 2019 Annual Report are set out below:

— Mr. Si Furong no longer held the position of the managing director of the Sideline Industrial Management Department of China Telecommunications Corporation.

— Mr. Gao Tongqing was appointed as a non-executive director of the Company.

— Mr. Mai Yanzhou was appointed as a non-executive director of the Company.

— Mr. Siu Wai Keung, Francis resigned as an independent non-executive director of CGN Power Co., Limited.

— Mr. Lv Tingjie resigned as an independent director of Gohigh Data Networks Technology Co., Ltd. and an independent director of BOE Technology Group Co., Ltd.

— Ms. Han Fang was appointed as president of the Audit Department of China Telecommunications Corporation (She used to serve as the vice president of the Audit Department).

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") but also has abided by the PRC Company Law and the applicable laws, regulations and regulatory requirements of Hong Kong and the PRC as the basic guidelines for the Company's corporate governance. Throughout the six months ended 30 June 2020, 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 supervisors of the Company. The Company has made specific enquiries to the directors and supervisors, and each of the directors and supervisors has confirmed his/her compliance with the Model Code in connection with the transactions of the Company's securities for the six months ended 30 June 2020.

OTHER INFORMATION

Compliance with Appendix 16 to the Listing Rules

According to paragraph 40 of Appendix 16 to the Listing Rules, save as disclosed in this Interim Report, the Company confirms that the Company's current information in relation to those matters set out in paragraph 32 of Appendix 16 has not been changed significantly from the information disclosed in the Company's 2019 Annual Report.

Interests and Short Positions of Directors, Supervisors and Chief Executive in Shares, Underlying Shares and Debentures

As at 30 June 2020, 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 2020, 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 2020, 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

OTHER INFORMATION

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 (%)
Hermes Investment Management Ltd	H shares	Investment manager	238,676,000 (L)	9.98	3.45
Citigroup Inc.	H shares	64,000 shares as person having a security interest in shares; 1,819,274 shares as interests of controlled corporations and 218,251,549 shares as approved lending agent	220,134,823 (L)	9.20	3.18
	H shares	Approved lending agent	218,251,549 (P)	9.12	3.15
BlackRock, Inc.	H shares	Interests of controlled corporations	166,471,488 (L)	6.96	2.40
	H shares	Interests of controlled corporations	874,000 (S)	0.04	0.01

Remark

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

Save as stated above, as at 30 June 2020, 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.

OTHER INFORMATION

Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended 30 June 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Forward-Looking Statements

The Company would also like to caution readers about the forward-looking nature of certain of the above statements. These forward-looking statements are subject to risks, uncertainties and assumptions, which are beyond our control. Potential risks and uncertainties include those concerning, among others, the change of macroeconomic environment, 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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