

# 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.

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### 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.

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### 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 RMB'000	2019 RMB'000
Revenue from telecommunications infrastructure services	<b>29,036,839</b>	30,801,124
Revenue from business process outsourcing services	<b>16,959,567</b>	18,128,043
Revenue from applications, content and other services	<b>7,837,812</b>	7,119,920
	<b>53,834,218</b>	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).

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### 6. Cost of Revenues

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

### 7. Other Operating Income

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

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### 8. Finance Costs

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Interest on bank and other borrowings	12,751	15,534
Interest on lease liabilities	18,773	17,197
	<b>31,524</b>	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 RMB'000	2019 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
	<b>6,915,435</b>	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

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### 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 RMB'000	2019 RMB'000
<b>Current tax</b>		
Income tax	<b>268,295</b>	295,662
<b>Deferred tax</b>		
Origination and reversal of temporary differences	<b>(29,060)</b>	(24,577)
Total income tax	<b>239,235</b>	271,085

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### 10. Income Tax (Continued)

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

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

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## 11. Other Comprehensive (Expense)/Income

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Changes in fair value of equity instruments at fair value through other comprehensive income recognised during the period	<b>(429,969)</b>	476,227
Net deferred tax credited/(charged) to other comprehensive income	<b>107,120</b>	(118,572)
Net movements in the fair value reserve during the period recognised in other comprehensive (expense)/income	<b>(322,849)</b>	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 RMB'000	2019 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)	<b>914,927</b>	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)	<b>182,847</b>	173,843
	<b>1,097,774</b>	1,044,444

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



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### 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.

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### 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
	<b>21,010,610</b>	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
	<b>18,541,847</b>	17,413,526
Less: allowance for credit losses	<b>(245,419)</b>	(259,997)
	<b>18,296,428</b>	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.

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### 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
<b>RMB denominated</b>		
Loan from CTC Group — unsecured	13,280	13,280
<b>USD denominated</b>		
Borrowings from banks — unsecured	498,963	350,903
<b>Other denominated</b>		
Borrowings from banks — unsecured	111,089	147,051
	623,332	511,234

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### 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
<b>RMB denominated</b>		
Loan from CTC Group		
— unsecured	2.39%	2.39%
<b>USD denominated</b>		
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%
<b>Other denominated</b>		
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.

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### 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
	<b>32,155,815</b>	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
	<b>32,155,815</b>	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.

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### 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
	<b>7,421,857</b>	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
	<b>10,436,372</b>	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.

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### 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
<b>Registered, issued and fully paid:</b>		
4,534,598,160 (31 December 2019: 4,534,598,160)		
Domestic shares of RMB1.00 each	<b>4,534,598</b>	4,534,598
2,391,420,240 (31 December 2019: 2,391,420,240)		
H shares of RMB1.00 each	<b>2,391,420</b>	2,391,420
	<b>6,926,018</b>	6,926,018

### 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	<b>84,824</b>	543,676

#### (b) Contingent liabilities

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

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### 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	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Financial Assets</b>				
Equity instruments at fair value through other comprehensive income (note (i))	<b>43,618</b>	–	<b>3,614,617</b>	<b>3,658,235</b>
Financial assets at fair value through profit or loss				
— Wealth management products and structured deposits (note (ii))	–	–	<b>6,060,953</b>	<b>6,060,953</b>
— Equity instruments at fair value through profit or loss	–	–	<b>818,268</b>	<b>818,268</b>



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### 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
<b>Financial Assets</b>				
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.

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## 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

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

## 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

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 RMB'000	2019 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

## 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)

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 RMB'000	2019 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.