

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2022

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 People’s Republic of China (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 condensed consolidated interim financial information 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 2021 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 condensed consolidated interim financial information has been prepared in accordance with the applicable disclosure provisions of the Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and IAS 34, Interim Financial Reporting.

3. PRINCIPAL ACCOUNTING POLICIES

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

The condensed consolidated interim financial information 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 2021, except as described below.

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

Amendments to IFRS3	Reference to the Conceptual Framework
Amendments to IAS16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to IAS37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018–2020

The adoption of above amendments in the current period has had no material effect on the Group’s condensed consolidated interim financial information.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

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.

The Group's revenues by business nature can be summarised as follows:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Revenue from telecommunications infrastructure services	35,049,501	34,547,384
Revenue from business process outsourcing services	21,536,968	19,787,107
Revenue from applications, content and other services	12,666,585	9,764,660
	69,253,054	64,099,151

The Group's major customers are telecommunications operators which include China Telecommunications Corporation and its subsidiaries (excluding the Group) ("CTC Group") and China Mobile Communications Group Co., Ltd. and its subsidiaries ("CM Group"). Revenues from the provision of integrated telecommunications support services to CTC Group and CM Group for the six months ended 30 June 2022 amounted to RMB22,725 million and RMB8,978 million, respectively (six months ended 30 June 2021: RMB19,121 million and RMB9,481 million, respectively), being 32.8% and 13.0% of the Group's total revenues, respectively (six months ended 30 June 2021: 29.8% and 14.8%, respectively). The revenues derived from areas outside Mainland China for the six months ended 30 June 2022 amounted to RMB1,551 million (six months ended 30 June 2021: RMB1,377 million).

For the six months ended 30 June 2022, the Group's top three business lines that contributed to the overall revenues were construction included in telecommunications infrastructure services, management of infrastructure for information technology included in business process outsourcing services and system integration included in applications, content and other services, the revenues derived from which amounted to RMB28,608 million, RMB8,910 million and RMB8,360 million, respectively (six months ended 30 June 2021: the Group's top three businesses that contributed to the overall revenues were construction included in telecommunications infrastructure services, management of infrastructure for information technology and supply chain service included in business process outsourcing services, the revenues derived from which amounted to RMB27,480 million, RMB7,914 million and RMB6,433 million, respectively). Revenues from contracts with non-telecom operators for construction included in telecommunications infrastructure services amounted to RMB15,300 million (six months ended 30 June 2021: RMB15,017 million).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

6. COST OF REVENUES

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Subcontracting charges	38,063,019	34,747,460
Materials costs	10,896,460	8,830,182
Direct personnel costs	4,029,803	4,123,111
Direct costs of products distribution	2,032,762	2,026,751
Expense relating to short-term leases and leases of low-value assets	580,360	550,050
Depreciation and amortisation	469,534	428,022
Others	5,887,585	6,560,636
	61,959,523	57,266,212

7. OTHER INCOME

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Interest income	247,017	164,260
Dividend income from equity instruments	176,683	161,695
Management fee income	151,853	152,906
Input tax credits	129,156	116,807
Government grants	124,164	116,117
Investment income and fair value gains on wealth management products and structured deposits	44,185	82,545
Gain on disposal of property, plant and equipment, intangible assets and right of assets	7,067	5,755
Penalty income	4,852	1,821
Others	55,313	40,398
	940,290	842,304

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

8. FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Interest on bank and other borrowings	13,126	9,310
Interest on lease liabilities	29,275	24,451
	42,401	33,761

For the six months ended 30 June 2022, no borrowing costs were capitalised in relation to construction in progress (six months ended 30 June 2021: nil).

9. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
(a) Staff costs:		
Salaries, wages and other benefits	7,310,779	7,071,360
Contributions to defined contribution retirement schemes	817,487	794,734
	8,128,266	7,866,094
(b) Other items:		
Amortisation	82,822	81,519
Depreciation	704,451	647,712
Materials costs	10,896,460	8,830,182
Direct costs of products distribution	2,032,762	2,026,751
Inventory write-down and losses, net of reversals	21,575	21,885
Impairment losses recognised and reversed on accounts receivable, other receivables, contract assets and others, net	118,247	47,723
Expense relating to short-term leases and leases of low-value assets	663,808	632,176

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

9. PROFIT BEFORE TAX (CONTINUED)

The selling expenses, general and administrative expenses, research and development costs and others of the Group are RMB1,119 million, RMB2,576 million, RMB1,924 million and RMB301 million (six months ended 30 June 2021: RMB1,132 million, RMB2,519 million, RMB1,623 million and RMB223 million) respectively for the six months ended 30 June 2022.

10. INCOME TAX

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Current tax	439,393	285,405
Deferred tax	(162,342)	6,390
Total income tax	277,051	291,795

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

10. INCOME TAX (CONTINUED)

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

	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
Profit before tax	2,234,135	2,114,242
Expected income tax expense at a statutory tax rate of 25% (six months ended 30 June 2021: 25%)	558,534	528,561
Differential/preferential tax rates on subsidiaries' income (note (i)(ii))	(141,584)	(143,929)
Non-deductible expenses (note (iii))	75,743	59,641
Non-taxable income	(94,392)	(68,144)
Tax losses not recognised	42,032	62,471
Utilisation of previously unrecognised tax losses	(4,085)	(21,006)
Over provision in respect of prior years	(14,203)	(16,476)
Additional deduction of research and development expenses (note (iv))	(144,994)	(109,323)
Income tax	277,051	291,795

Notes:

- (i) The provision for income tax of the Group is calculated based on a statutory tax rate of 25% of the assessable profit of the Group as determined in accordance with the relevant PRC income tax rules and regulations for six months ended 30 June 2022 and 2021, except for certain domestic subsidiaries of the Group, which are taxed at preferential rates (refer to note ii below) where applicable; and for certain overseas subsidiaries of the Group, which are taxed at their respective statutory rates.
- (ii) According to the PRC enterprise income tax law and its relevant regulations, certain subsidiaries that are qualified as High and New Technology Enterprise, enterprises under the Western Region Development Program, and Small and Micro enterprises as defined under the tax law are entitled to a preferential income tax rate of 15%, 15% and 20% (six months ended 30 June 2021: 15%, 15%, 10%).
- (iii) The amounts represent staff costs in excess of the statutory deductible limits for tax reporting purposes and other non-deductible expenses.
- (iv) According to the PRC enterprise income tax law and its relevant regulations, certain research and development expenses of the Group's PRC subsidiaries are qualified for 75% (six months ended 30 June 2021: 75%) additional deduction for tax reporting purpose.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

11. OTHER COMPREHENSIVE INCOME/(EXPENSE)

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Changes in fair value of equity instruments at fair value through other comprehensive income/(expense) recognised during the period	162,028	(211,655)
Net deferred tax (charged)/credited to other comprehensive income/(expense)	(39,932)	52,816
Exchange differences on translation of financial statements	17,275	(7,444)
Other comprehensive income/(expense) for the period	139,371	(166,283)

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 2022 (six months ended 30 June 2021: nil).

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved during the period of RMB0.1641 per share (2021: RMB0.1335 per share)	1,136,560	924,623
Special dividend in respect of the previous financial year, approved during the period of RMB0.0091 per share (2021: RMB0.0267 per share)	63,027	184,925
	1,199,587	1,109,548

No final dividend or special dividend was paid during the six months ended 30 June 2022 and 2021.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

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 2022 of RMB1,896 million (six months ended 30 June 2021: RMB1,811 million) and the number of shares in issue during the six months ended 30 June 2022 of 6,926,018 thousand shares (six months ended 30 June 2021: 6,926,018 thousand shares).

Diluted earnings per share is the same as basic earnings per share as there were no potential dilutive ordinary shares outstanding during both periods.

14. OTHER NON-CURRENT ASSETS

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Deposits at financial institutions with original maturity more than one year	4,985,412	2,563,841
Long-term receivables	720,493	515,280
Others	158,063	117,037
	5,863,968	3,196,158

15. ACCOUNTS AND BILLS RECEIVABLE, NET

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Bills receivable	428,060	405,956
Accounts receivable	24,489,294	19,542,192
	24,917,354	19,948,148
Less: allowance for credit losses	(1,763,055)	(1,693,993)
	23,154,299	18,254,155

- (a) The amounts due from CTC Group, associates of the Group and associates of CTC Group (see note 26) are unsecured, interest-free and are expected to be recovered within one year.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

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 2022 RMB'000	At 31 December 2021 RMB'000
Current	1,753,522	1,112,606
Within 1 year	18,414,908	14,636,676
After 1 year but less than 2 years	2,217,577	1,729,092
After 2 years but less than 3 years	515,151	542,481
After 3 years but less than 4 years	124,203	99,950
After 4 years but less than 5 years	35,557	36,257
Over 5 years	93,381	97,093
	23,154,299	18,254,155

16. CONTRACT ASSETS, NET

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Telecommunications infrastructure services	20,074,999	17,771,357
Business process outsourcing services	1,411,211	1,381,365
Applications, content and other services	3,398,840	2,621,771
	24,885,050	21,774,493
Less: allowance for credit losses	(276,108)	(239,748)
	24,608,942	21,534,745

The contract assets relate to the rights of the Group to considerations receivable for work completed and not billed because the rights are conditional upon the Group's future performance in achieving specified milestones 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 when the specific milestones are met.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

17. CASH AND CASH EQUIVALENTS

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Cash at bank and in hand	15,722,729	15,116,312
Cash at China Telecom Group Finance Co., Ltd ("China Telecom Finance")	2,069,728	5,964,400
Deposits at bank with original maturity less than three months	246,965	90,313
Cash and cash equivalents	18,039,422	21,171,025

18. INTEREST-BEARING BORROWINGS

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

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
RMB denominated		
Loan from CTC Group		
— unsecured	—	13,280
Borrowings from banks		
— unsecured	61,830	33,330
— secured	—	21,033
USD denominated		
Borrowings from banks		
— unsecured	575,825	528,514
— secured	19,348	18,478
Other denominated		
Borrowings from banks		
— unsecured	104,034	108,389
	761,037	723,024

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

18. INTEREST-BEARING BORROWINGS (CONTINUED)

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

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
RMB denominated		
Loan from CTC Group		
— unsecured	N/A	2.39%
Borrowings from banks		
— unsecured	1.50%–3.50%	1.50%
— secured	N/A	4.00%
USD denominated		
Borrowings from banks		
— unsecured	2.50%–2.56%	2.50%
— secured	3.50%	3.50%
— unsecured (floating interest rate)	London Interbank Offered Rate ("Libor") +1.00%–1.35%	Libor +1.00%–1.35%
Other denominated		
Borrowings from banks		
— unsecured	6.25%	6.25%–8.57%
— unsecured (floating interest rate)	Base Rate of Nepal Rastra Bank + 3%	N/A

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

18. INTEREST-BEARING BORROWINGS (CONTINUED)

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

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
USD denominated		
Borrowings from banks		
— secured	88,930	89,808

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

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
USD denominated		
Borrowings from banks		
— secured	3.50%	3.50%

The Group's borrowings were repayable as follows:

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Within 1 year	761,037	723,024
After 1 year but within 2 years	19,329	18,362
After 2 years but within 5 years	69,601	71,446
	849,967	812,832

As at 30 June 2022, no borrowings from bank were subject to financial covenants (31 December 2021: nil).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

19. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Accounts payable	39,475,734	32,759,611
Bills payable	3,373,286	3,560,369
	42,849,020	36,319,980

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

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Within 1 year	40,192,344	34,147,550
After 1 year but less than 2 years	1,680,958	1,226,760
After 2 years but less than 3 years	439,137	459,884
Over 3 years	536,581	485,786
	42,849,020	36,319,980

The amounts due to CTC Group, associates of the Group and associates of CTC Group (see note 26) are unsecured, interest-free and are expected to be settled within one year.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

20. CONTRACT LIABILITIES

	At 30 June 2022	At 31 December 2021
	RMB'000	RMB'000
Telecommunications infrastructure services	6,831,599	8,626,944
Other services	2,091,379	2,822,227
	8,922,978	11,449,171

When the Group receives advance payments from customers before the performance obligation is satisfied, the amounts will give rise to contract liabilities, until the performance obligation is satisfied.

21. ACCRUED EXPENSES AND OTHER PAYABLES

	At 30 June 2022	At 31 December 2021
	RMB'000	RMB'000
Wages and welfare payable	2,304,370	1,570,459
Amounts due to CTC Group, associates of the Group and associates of CTC Group (note (i))	1,103,979	415,858
Advanced lease payments received	30,500	44,633
Other taxes payable	574,343	692,149
Dividend payable (note (ii))	614,904	11,716
Payables for construction and purchase of property, plant and equipment	37,761	40,582
Output VAT payable	1,381,632	1,318,720
Others (note (iii))	4,806,572	4,996,748
	10,854,061	9,090,865

Notes:

- (i) The amounts due to CTC Group, associates of the Group and associates of CTC Group (see note 26) are unsecured, interest-free and are expected to be settled within one year, among which dividend payable balance is RMB607 million (31 December 2021: RMB19 million).
- (ii) No final dividend or special dividend was paid during the six months ended 30 June 2022 and 2021.
- (iii) The amounts mainly include payables to suppliers for purchases on behalf of CTC Group, deposits received from subcontractors and others.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

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 2022 RMB'000	At 31 December 2021 RMB'000
Registered, issued and fully paid:		
4,534,598,160 (31 December 2021: 4,534,598,160) Domestic shares of RMB1.00 each	4,534,598	4,534,598
2,391,420,240 (31 December 2021: 2,391,420,240) H shares of RMB1.00 each	2,391,420	2,391,420
	6,926,018	6,926,018

24. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

As at 30 June 2022, the Group had capital commitments for acquisition and construction of property, plant and equipment and other non-current assets as follows:

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Contracted for but not provided	239,597	160,510

(b) Contingent liabilities

As at 30 June 2022, the Group had no material contingent liabilities and financial guarantees issued.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

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 2022			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
Financial Assets				
Equity instruments at fair value through other comprehensive income (note (i))	447,731	—	3,386,769	3,834,500
Financial assets at fair value through profit or loss				
— Wealth management products and structured deposits (note (ii))	—	—	1,375,914	1,375,914
— Equity instruments at fair value through profit or loss	47,715	—	194,177	241,892

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

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

	At 31 December 2021			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
Financial Assets				
Equity instruments at fair value through other comprehensive income (note (i))	435,963	—	3,236,509	3,672,472
Financial assets at fair value through profit or loss				
— Wealth management products and structured deposits (note (ii))	—	—	3,303,941	3,303,941
— Equity instruments at fair value through profit or loss	—	—	171,943	171,943

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 held immediately following the initial public offering for a period of 5 years. At the end of each reporting period, the Group appointed an external valuer to determine the fair value of the listed equity security which was still within the restriction period. Based on the quoted price of the identical unrestricted shares traded on the stock exchange, adjusted to reflect the effect of restriction computed based on a discount rate determined by the external valuer. An increase in the discount rate attributable to 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 5.80% (At 31 December 2021: 8.50%). At 30 June 2022, 90% of the shares held by the Group was still within the restriction period, and the carrying amount is RMB3,371 million (At 31 December 2021: RMB3,222 million) and a 5% increase in the discount rate, holding all other variables constant, would have decreased the carrying amount of this equity instrument by RMB10 million (At 31 December 2021: RMB15 million) as at 30 June 2022.
- (ii) At the end of each reporting period, the Group determined the fair value of the wealth management products and structured deposits by estimating the discounted cash flow derived from them. The future cash flows had been estimated based on expected returns, and discounted at a rate that reflects the credit risk of various counterparties.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

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 2022	3,236,509	3,303,941	171,943
Purchases	—	—	69,850
Settlements	—	(1,972,212)	—
Transferred to level 1 (note (i))	—	—	(47,715)
Total gains/(losses)			
— in profit or loss	—	44,185	99
— in other comprehensive income	150,260	—	—
As at 30 June 2022	3,386,769	1,375,914	194,177
	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 2021	4,316,673	3,098,634	64,567
Purchases	—	7,588,000	76,575
Disposals/settlements	(750)	(7,566,024)	—
Transferred to level 1 (note (i))	(430,260)	—	—
Total gains/(losses)			
— in profit or loss	—	183,331	30,801
— in other comprehensive income	(649,154)	—	—
As at 31 December 2021	3,236,509	3,303,941	171,943

Note:

- (i) The shares of entities invested by the Group was classified as level 3 when it was within restriction period, and was transferred to level 1 when the restriction had been unlocked.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

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 has undertaken significant transactions and maintained relationships with members of CTC Group, the material related party transactions are as below:

(a) Transactions with CTC Group

Because of the relationship between the Group and the CTC Group, the terms of these transactions were negotiated between the Group with CTC Group.

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Engineering related services revenue (note (i))	7,888,403	6,895,821
IT application services revenue (note (ii))	2,554,057	1,514,408
Provision of ancillary telecommunications services revenue (note (iii))	8,950,481	7,996,006
Provision of operation support services revenue (note (iv))	1,839,050	1,489,044
Supplies procurement services revenue (note (v))	1,416,392	1,173,060
Property leasing revenue (note (vi))	76,494	52,369
Management fee income (note (vii))	151,853	152,906
Property leasing charges (note (viii))	91,647	57,082
IT application services charges (note (ix))	42,448	23,333
Operation support services charges (note (x))	423,962	372,452
Supplies procurement services charges (note (xi))	1,151,909	987,965
Interest expenses (note (xii))	16,903	12,566
Net withdrawal placed with China Telecom Finance (note (xiii))	(3,894,672)	(2,722,130)
Interest income of deposits placed with China Telecom Finance (note (xiv))	8,133	6,154
Net lending funds (note (xv))	—	57,500
Interest income of lending funds (note (xvi))	1,188	648

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

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 channels, fixed line and wireless value-added service, internet content 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 such as warehousing, transportation and 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 short-term 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, labor 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 under deposit services provided by China Telecom Finance.
- (xiv) The amount represents the interest income from deposit services provided by China Telecom Finance.
- (xv) The amount represents the net lending of funds to CTC Group.
- (xvi) The amount represents the interest income arising from lending funds to CTC Group.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

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 2022 RMB'000	At 31 December 2021 RMB'000
Cash and cash equivalents	2,069,728	5,964,400
Accounts and bills receivable, net	8,353,378	7,259,911
Contract assets, net	10,728,693	9,947,108
Prepayments and other current assets	2,157,881	1,216,411
Other non-current assets	133,934	213,503
Total amounts due from CTC Group	23,443,614	24,601,333
Interest-bearing borrowings	—	13,280
Accounts and bills payable	533,951	261,457
Contract liabilities	579,324	845,854
Accrued expenses and other payables	1,041,929	335,403
Current portion of lease liabilities	170,581	161,904
Lease liabilities	711,645	699,814
Total amounts due to CTC Group	3,037,430	2,317,712

As at 30 June 2022, the credit losses balance in respect of amounts due from CTC Group is of RMB402 million(31 December 2021: RMB391 million).

For the six months ended 30 June 2022, additional amount of RMB92 million of right-of-use assets had been recognised under new lease contracts entered into with CTC Group (six months ended 30 June 2021: RMB496 million).

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 CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

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	
	2022	2021
	RMB'000	RMB'000
Engineering related service revenue (note (i))	1,751,740	2,203,037
IT application service revenue (note (ii))	137,441	131,733
Provision of ancillary telecommunications service revenue (note (iii))	920,797	792,803
Provision of operation support service revenue (note (iv))	59,029	68,884
Supplies procurement service revenue (note (v))	81,884	130,413
Property leasing service revenue (note (vi))	1,930	1,375
Property leasing service charges (note (vii))	220	1,507
IT application service charges (note (viii))	118,758	111,317
Operation support service charges (note (ix))	1,035,168	951,642
Supplies procurement service charges (note (x))	217	28,352
Interest expenses (note (xi))	2	12

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 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 channels; fixed line and wireless value-added services; internet content and information services provided to associates of the Group and associates of CTC Group.
- (iv) The amount represents 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 services 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 rental received/receivable from operating leases in respect of business premises entered into with associates of CTC Group.
- (vii) The amount represents rentals from short-term leases in respect of business premises paid and payable to associates of the Group.
- (viii) The amount represents charges paid and payable to associates of the Group and associates of CTC Group for basic telecommunications services, value-added services and information application services.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

26. RELATED PARTIES (CONTINUED)

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

Notes: (Continued)

- (ix) The amount represents the charges 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 charges paid and payable to associates of the Group and associates of CTC Group for supplies procurement services, warehousing, transportation and installation services.
- (xi) The amount represents interest paid and payable to associates of CTC Group in respect of lease liabilities due to associates of CTC Group.

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

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Accounts and bills receivable, net	468,920	250,307
Contract assets, net	393,163	292,757
Prepayments and other current assets	1,272,303	894,883
Other non-current assets	58	363
Total amounts due from associates of the Group and associates of CTC Group	2,134,444	1,438,310
Accounts and bills payable	1,420,180	1,009,561
Contract liabilities	252,729	391,765
Current portion of lease liabilities	63	104
Lease liabilities	154	206
Accrued expenses and other payables	62,050	80,455
Total amounts due to associates of the Group and associates of CTC Group	1,735,176	1,482,091

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the six months ended 30 June 2022

26. RELATED PARTIES (CONTINUED)

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

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

Apart from transactions with parent company and its affiliates (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
- Leasing 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 rendered and products sold based on government-regulated tariff rates, where applicable, or based on commercial negotiations. The Group has also established its procurement policies and approval processes for purchases of products and services, which do not depend on whether the counterparties are government-related entities or not.

(d) Transactions with key management personnel

Remuneration for key management personnel is as follows:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Salaries and other emoluments	3,543	3,388
Retirement benefits	1,280	1,281
Discretionary bonuses	6,094	5,905
	10,917	10,574

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