

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2023

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 2022 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.

Application of business combination under common control

Pursuant to the Equity Transfer Agreements entered into by one of the Company’s subsidiaries, China International Telecommunications Construction Corporation (“CITCC”), and China Telecom Industrial Asset Management Co., Ltd, a subsidiary of China Telecommunications Corporation, on 28 February 2023, CITCC acquired 100% equity interests in China Post and Telecommunication Translation Service Co., LTD (the “Target Company”) for a total purchase price of RMB18.45 million.

Since the Group and the Target Company are under common control of China Telecommunications Corporation, the assets and liabilities of the Target Company have been accounted for at historical costs and the consolidated financial statements of the Group prior to the acquisition of the Target Company have been restated to include the results of operations and assets and liabilities of the Target Company on a consolidated basis as if the Target Company had been consolidated at the previous end of the reporting period based on the Group’s accounting policies of business combinations involving enterprises under common control. The considerations paid by the CITCC for the acquisition of the Target Company were accounted for as an equity transaction in the consolidated statement of changes in equity.

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

For the six months ended 30 June 2023

2. BASIS OF PREPARATION (CONTINUED)

Application of business combination under common control (Continued)

The results of operations for the six months ended 30 June 2022, the financial position as at 31 December 2022 and the cash flows for the six months ended 30 June 2022 previously reported by the Group have been restated to include the results of the Target Company as set out below:

	The Group (as previously reported) RMB'000	Target Company RMB'000	Combined RMB'000
Results of operations for the six months ended 30 June 2022			
Revenues	69,253,054	478	69,253,532
Gross profit	7,293,531	146	7,293,677
Profit/(loss) for the period	1,957,084	(120)	1,956,964
Basic/diluted earnings per share (RMB)	0.274	—	0.274
Financial position as at 31 December 2022			
Total assets	110,264,105	4,493	110,268,598
Total liability	68,641,455	3,218	68,644,673
Total equity	41,622,650	1,275	41,623,925
Cash flows for the six months ended 30 June 2022			
Net cash used in operating activities	(2,331,757)	20	(2,331,737)
Net cash used in investing activities	(631,442)	—	(631,442)
Net cash used in financing activities	(206,823)	—	(206,823)

For the periods presented, the balances and transactions between the Group and the Target Company had no significant impact on the consolidated interim financial information.

The Target Company contributed revenues of RMB618 thousand and profit of RMB78 thousand to the Group for the six months ended 30 June 2023.

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

For the six months ended 30 June 2023

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 2022, except as described below.

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

IFRS 17	Insurance Contracts
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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

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	
	2023	2022
	RMB'000	RMB'000 (restated)
Revenue from telecommunications infrastructure services	37,687,865	35,049,501
Revenue from business process outsourcing services	21,728,657	21,536,968
Revenue from applications, content and other services	13,753,031	12,667,063
	73,169,553	69,253,532

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

For the six months ended 30 June 2023

5. REVENUES (CONTINUED)

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 2023 amounted to RMB25,823 million and RMB8,301 million, respectively (six months ended 30 June 2022: RMB22,725 million (restated) and RMB8,978 million, respectively), being 35.3% and 11.3% of the Group's total revenues, respectively (six months ended 30 June 2022: 32.8% (restated) and 13.0%, respectively). The revenues derived from areas outside Mainland China for the six months ended 30 June 2023 amounted to RMB1,570 million (six months ended 30 June 2022: RMB1,551 million).

For the six months ended 30 June 2023, 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 RMB30,417 million, RMB9,086 million and RMB8,696 million, respectively (six months ended 30 June 2022: 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 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). From 1 January 2023, the Group has reclassified Chinese Radio and Television Network Co., Ltd. and its subsidiaries from non-telecom operators to telecommunications operators, the comparative information has been reclassified. Revenues from non-telecom operators for construction amounted to RMB15,582 million (six months ended 30 June 2022: RMB14,763 million).

6. COST OF REVENUES

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000 (restated)
Subcontracting charges	40,303,014	38,063,019
Materials costs	11,885,948	10,896,460
Direct personnel costs	3,871,293	4,029,976
Direct costs of products distribution	1,682,870	2,032,762
Expense relating to short-term leases and leases of low-value assets	581,799	580,360
Depreciation and amortisation	482,139	469,638
Others	6,528,844	5,887,640
	65,335,907	61,959,855

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

For the six months ended 30 June 2023

7. OTHER INCOME

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000 (restated)
Interest income	317,534	247,019
Dividend income from equity instruments	176,610	176,683
Management fee income	149,716	151,853
Government grants	111,838	124,169
Input tax credits	94,655	129,156
Gain on disposal of property, plant and equipment, intangible assets and right-of-use assets	3,391	7,067
Penalty income	1,698	4,852
Investment income and fair value gains on wealth management products and structured deposits	—	44,185
Others	80,382	55,313
	935,824	940,297

8. FINANCE COSTS

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Interest on bank and other borrowings	28,402	13,126
Interest on lease liabilities	26,992	29,275
	55,394	42,401

For the six months ended 30 June 2023, no borrowing costs were capitalised in relation to construction in progress (six months ended 30 June 2022: nil).

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

For the six months ended 30 June 2023

9. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000 (restated)
(a) Staff costs:		
Salaries, wages and other benefits	7,179,537	7,311,157
Contributions to defined contribution retirement schemes	1,059,917	817,545
	8,239,454	8,128,702
(b) Other items:		
Amortisation	98,229	82,822
Depreciation	714,914	704,556
Auditors' remuneration	7,009	6,623
Materials costs	11,885,948	10,896,460
Direct costs of products distribution	1,682,870	2,032,762
Inventory write-down and losses, net of reversals	19,296	21,575
Impairment losses recognised and reversed on accounts receivable, other receivables, contract assets and others, net	165,852	118,247
Expense relating to short-term leases and leases of low-value assets	665,716	663,808

The selling expenses, general and administrative expenses, research and development costs and others of the Group are RMB1,180 million, RMB2,748 million, RMB2,082 million and RMB343 million (six months ended 30 June 2022: RMB1,119 million, RMB2,576 million (restated), RMB1,924 million and RMB301 million (restated)) respectively for the six months ended 30 June 2023.

10. INCOME TAX

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

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Current tax	252,167	439,393
Deferred tax	(25,830)	(162,342)
Total income tax	226,337	277,051

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

For the six months ended 30 June 2023

10. INCOME TAX (CONTINUED)

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

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000 (restated)
Profit before tax	2,338,611	2,234,015
Expected income tax expense at a statutory tax rate of 25% (six months ended 30 June 2022: 25%)	584,653	558,504
Differential/preferential tax rates on subsidiaries' income (note (i)(ii))	(127,406)	(141,584)
Non-deductible expenses (note (iii))	49,768	75,743
Non-taxable income	(57,904)	(94,392)
Tax losses not recognised	43,667	42,062
Utilisation of previously unrecognised tax losses	(5,782)	(4,085)
Over provision in respect of prior years	(2,002)	(14,203)
Additional deduction of research and development expenses (note (iv))	(258,657)	(144,994)
Income tax	226,337	277,051

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 2023 and 2022, 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 2022: 15%, 15%, 20%).
- (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 100% (six months ended 30 June 2022: 75%) additional deduction for tax reporting purpose.

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

For the six months ended 30 June 2023

11. 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 2023 of RMB2,034 million (six months ended 30 June 2022: RMB1,895 million(restated)) and the number of shares in issue during the six months ended 30 June 2023 of 6,926,018 thousand shares (six months ended 30 June 2022: 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.

12. OTHER COMPREHENSIVE INCOME

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Changes in fair value of equity instruments at fair value through other comprehensive income recognised during the period	498,426	162,028
Net deferred tax charged to other comprehensive income	(126,265)	(39,932)
Exchange differences on translation of financial statements	10,770	17,275
Other comprehensive income for the period	382,931	139,371

13. 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 2023 (six months ended 30 June 2022: nil).

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

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved during the period of RMB0.1939 per share (2022: RMB0.1732 per share, including final dividend RMB0.1641 per share and special dividend RMB0.0091 per share)	1,342,955	1,199,587

No final dividend or special dividend was paid during the six months ended 30 June 2023 and 2022.

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

For the six months ended 30 June 2023

14. OTHER NON-CURRENT ASSETS

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Long-term receivables	606,685	586,620
Others	340,659	321,396
	947,344	908,016

15. ACCOUNTS AND BILLS RECEIVABLE, NET

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000 (restated)
Bills receivable	441,536	508,294
Accounts receivable	27,647,258	21,748,457
	28,088,794	22,256,751
Less: allowance for credit losses	(2,075,072)	(1,946,486)
	26,013,722	20,310,265

- (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 2023

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 2023 RMB'000	At 31 December 2022 RMB'000 (restated)
Current	1,619,305	1,897,638
Within 1 year	20,960,356	15,651,051
After 1 year but less than 2 years	2,569,742	2,026,546
After 2 years but less than 3 years	627,570	513,913
After 3 years but less than 4 years	144,017	139,131
After 4 years but less than 5 years	44,258	33,512
Over 5 years	48,474	48,474
	26,013,722	20,310,265

16. CONTRACT ASSETS, NET

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Telecommunications infrastructure services	24,486,094	21,099,704
Business process outsourcing services	1,596,019	1,114,789
Applications, content and other services	3,678,669	3,337,797
	29,760,782	25,552,290
Less: allowance for credit losses	(304,349)	(283,469)
	29,456,433	25,268,821

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 2023

17. CASH AND CASH EQUIVALENTS

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000 (restated)
Cash at bank and in hand	19,564,902	17,072,252
Cash at China Telecom Group Finance Co., Ltd ("China Telecom Finance")	178,871	5,013,633
Deposits at bank with original maturity less than three months	23,183	1,776
Cash and cash equivalents	19,766,956	22,087,661

18. INTEREST-BEARING BORROWINGS

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

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
RMB denominated		
Borrowings from banks		
— unsecured	99,114	77,017
— secured	50	8,055
Other RMB denominated borrowings		
— unsecured	7,269	8,634
USD denominated		
Borrowings from banks		
— unsecured	388,748	548,810
— secured	20,810	20,058
Other denominated		
Borrowings from banks		
— unsecured	311,618	84,906
Interest payable on short-term borrowings	4,701	4,521
	832,310	752,001

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

For the six months ended 30 June 2023

18. INTEREST-BEARING BORROWINGS (CONTINUED)

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

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
RMB denominated		
Borrowings from banks		
– unsecured	1.50%–4.10%	1.50%–3.80%
– secured	N/A	3.50%–3.90%
Other RMB denominated borrowings		
– unsecured	8.50%	8.50%
USD denominated		
Borrowings from banks		
– unsecured	N/A	4.53%
– secured	N/A	3.50%
– unsecured (floating interest rate)	London Interbank Offered Rate ("Libor") +1.35% AND Secured Overnight Financing Rate ("SOFR") +1.10%.p.a	London Interbank Offered Rate ("Libor") +1.00%–1.35% AND Secured Overnight Financing Rate ("SOFR") +1.10%.p.a
– secured (floating interest rate)	Secured Overnight Financing Rate ("SOFR") +2.45%	N/A
Other denominated		
Borrowings from banks		
– unsecured	3.75%–8.86%	7.88%
– unsecured (floating interest rate)	Base Rate of Nepal Rastra Bank +2.00%	Base Rate of Nepal Rastra Bank +3.00%

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

For the six months ended 30 June 2023

18. INTEREST-BEARING BORROWINGS (CONTINUED)

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

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
USD denominated		
Borrowings from banks		
— secured	161,282	149,178
Less: Current portion	(20,810)	(20,058)
	140,472	129,120

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

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
USD denominated		
Borrowings from banks		
— secured	N/A	3.50%
— secured (floating interest rate)	Secured Overnight Financing Rate ("SOFR") +2.45%	N/A

The Group's borrowings were repayable as follows:

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Within 1 year	832,310	752,001
After 1 year but within 2 years	21,112	20,058
After 2 years but within 5 years	119,360	109,062
	972,782	881,121

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

For the six months ended 30 June 2023

19. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Accounts payable	49,130,212	40,985,965
Bills payable	3,784,630	3,625,330
	52,914,842	44,611,295

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

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Within 1 year	50,368,332	42,062,776
After 1 year but less than 2 years	1,514,246	1,414,963
After 2 years but less than 3 years	454,736	450,309
Over 3 years	577,528	683,247
	52,914,842	44,611,295

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.

20. CONTRACT LIABILITIES

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Telecommunications infrastructure services	5,870,883	8,526,663
Other services	2,321,773	2,341,312
	8,192,656	10,867,975

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.

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

For the six months ended 30 June 2023

21. ACCRUED EXPENSES AND OTHER PAYABLES

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000 (restated)
Wages and welfare payable	2,464,050	1,551,118
Output VAT payable	1,364,693	1,441,097
Amounts due to CTC Group, associates of CTC Group and associates of the Group (note (i))	1,167,150	373,530
Dividend payable (note (ii))	691,163	7,156
Other taxes payable	537,214	710,543
Advance lease payments received	31,511	34,733
Payables for construction and purchase of property, plant and equipment	13,920	4,244
Others (note (iii))	5,202,387	5,378,437
	11,472,088	9,500,858

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 RMB678 million (31 December 2022: RMB19 million).
- (ii) No final dividend or special dividend was paid during the six months ended 30 June 2023 and 2022.
- (iii) The amounts mainly include payables to suppliers for purchases on behalf of CTC Group, deposits received from subcontractors and others.

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 2023 RMB'000	At 31 December 2022 RMB'000
Registered, issued and fully paid:		
4,534,598,160 (31 December 2022: 4,534,598,160) Domestic shares of RMB1.00 each	4,534,598	4,534,598
2,391,420,240 (31 December 2022: 2,391,420,240) H shares of RMB1.00 each	2,391,420	2,391,420
	6,926,018	6,926,018

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

For the six months ended 30 June 2023

24. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

As at 30 June 2023, the Group had capital commitments for acquisition and construction of property, plant and equipment and other non-current assets as follows:

	At 30 June 2023	At 31 December 2022
	RMB'000	RMB'000
Contracted for but not provided	207,932	217,583

(b) Contingent liabilities

As at 30 June 2023, the Group had no material contingent liabilities and financial guarantees issued.

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

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

For the six months ended 30 June 2023

25. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

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

- 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 2023			
	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))	429,244	—	3,406,638	3,835,882
Equity instruments at fair value through profit or loss	11,408	—	305,374	316,782
	At 31 December 2022			
	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))	395,680	—	2,940,723	3,336,403
Equity instruments at fair value through profit or loss	42,018	—	295,342	337,360

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 3.20% (At 31 December 2022: 4.10%). At 30 June 2023, 90% of the shares held by the Group was still within the restriction period, and the carrying amount is RMB3,389 million (At 31 December 2022: RMB2,925 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 RMB6 million (At 31 December 2022: RMB6 million) as at 30 June 2023.

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

For the six months ended 30 June 2023

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 2023	2,940,723	—	295,342
Purchases	1,053	—	29,570
Transferred to level 1 (note(i))	—	—	(19,538)
Total gains			
— in other comprehensive income	464,862	—	—
As at 30 June 2023	3,406,638	—	305,374

	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	—	—	147,390
Disposals/settlements	(409)	(3,355,829)	—
Transferred to level 1 (note(i))	—	—	(35,880)
Total gains/(losses)			
— in profit or loss	—	51,888	11,889
— in other comprehensive income	(295,377)	—	—
As at 31 December 2022	2,940,723	—	295,342

Note:

- (i) The shares of entities invested by the Group were classified as level 3 when they were within restriction period, and were 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 2023

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	
	2023	2022
	RMB'000	RMB'000 (restated)
Engineering related services revenue (note (i))	9,530,040	7,888,403
IT application services revenue (note (ii))	3,463,451	2,554,057
Provision of ancillary telecommunications services revenue (note (iii))	9,197,037	8,950,481
Provision of operation support services revenue (note (iv))	1,963,350	1,839,243
Supplies procurement services revenue (note (v))	1,584,354	1,416,392
Property leasing revenue (note (vi))	84,623	76,494
Management fee income (note (vii))	149,716	151,853
Property leasing charges (note (viii))	37,994	91,647
IT application services charges (note (ix))	166,245	42,448
Operation support services charges (note (x))	612,971	423,962
Supplies procurement services charges (note (xi))	1,647,882	1,151,909
Interest expenses (note (xii))	12,625	16,903
Net withdrawal placed with China Telecom Finance (note (xiii))	(4,429,762)	(3,894,672)
Interest income of deposits placed with China Telecom Finance (note (xiv))	30,132	8,133
Interest income of lending funds(note (xv))	4,074	1,188

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

For the six months ended 30 June 2023

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 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 2023

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 2023 RMB'000	At 31 December 2022 RMB'000 (restated)
Cash and cash equivalents	178,871	5,013,633
Short-term bank deposits and restricted cash	27,160	—
Accounts and bills receivable, net	9,477,651	7,562,052
Contract assets, net	12,846,641	11,549,415
Prepayments and other current assets	1,403,250	1,670,309
Deposits at financial institutions with original maturity more than one year	2,480,584	2,066,259
Other non-current assets	97,374	192,063
Total amounts due from CTC Group	26,511,531	28,053,731
Accounts and bills payable	937,013	500,729
Contract liabilities	498,358	595,613
Accrued expenses and other payables	1,063,903	288,931
Current portion of lease liabilities	165,404	172,001
Lease liabilities	598,016	614,489
Total amounts due to CTC Group	3,262,694	2,171,763

As at 30 June 2023, the credit losses balance in respect of amounts due from CTC Group is of RMB419 million (31 December 2022: RMB399 million).

For the six months ended 30 June 2023, additional amount of RMB58 million of right-of-use assets had been recognised under new lease contracts entered into with CTC Group (six months ended 30 June 2022: RMB92 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 2023

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	
	2023	2022
	RMB'000	RMB'000
Engineering related service revenue (note (i))	2,074,011	1,751,740
IT application service revenue (note (ii))	194,115	137,441
Provision of ancillary telecommunications service revenue (note (iii))	893,895	920,797
Provision of operation support service revenue (note (iv))	49,421	59,029
Supplies procurement service revenue (note (v))	101,630	81,884
Property leasing service revenue (note (vi))	1,394	1,930
Property leasing service charges (note (vii))	759	220
IT application service charges (note (viii))	505,927	118,758
Operation support service charges (note (ix))	1,538,539	1,035,168
Supplies procurement service charges (note (x))	96,035	217
Interest expenses (note (xi))	—	2

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 the Group and associates of CTC Group.

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

For the six months ended 30 June 2023

26. RELATED PARTIES (CONTINUED)

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

Notes (Continued):

- (vii) The amount represents rentals from short-term leases in respect of business premises paid and payable to associates of the Group and associates of CTC 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.
- (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 2023 RMB'000	At 31 December 2022 RMB'000
Accounts and bills receivable, net	492,093	282,770
Contract assets, net	472,250	375,710
Prepayments and other current assets	1,232,137	1,083,392
Other non-current assets	—	6
Total amounts due from associates of the Group and associates of CTC Group	2,196,480	1,741,878
Accounts and bills payable	2,136,889	1,451,956
Contract liabilities	156,065	343,193
Current portion of lease liabilities	23	85
Accrued expenses and other payables	103,247	84,599
Total amounts due to associates of the Group and associates of CTC Group	2,396,224	1,879,833

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 2023

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	
	2023 RMB’000	2022 RMB’000
Salaries and other emoluments	3,542	3,543
Stock Appreciation Rights	2,981	—
Retirement benefits	1,504	1,280
Discretionary bonuses	5,746	6,094
	13,773	10,917

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