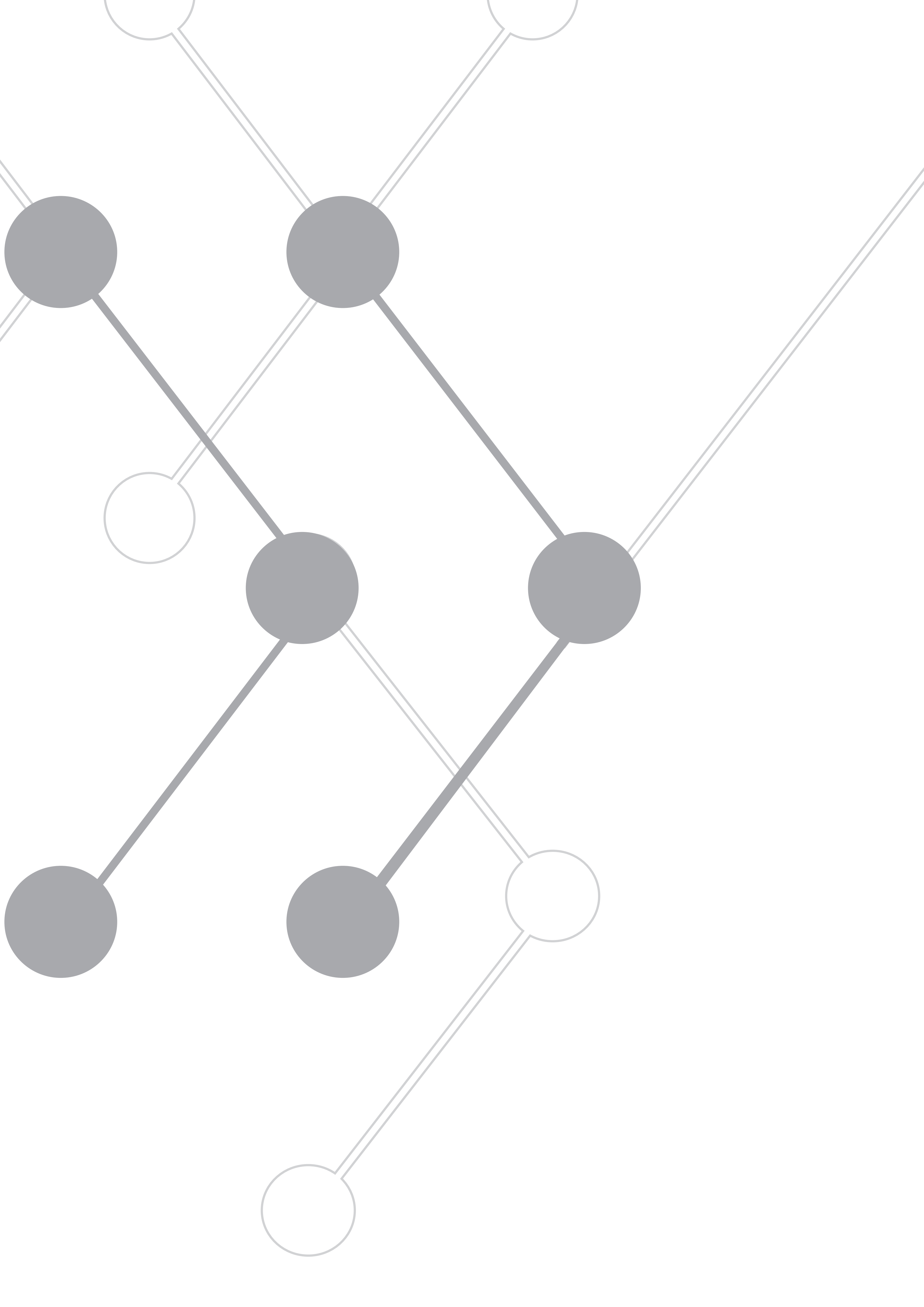
中国通信服务
CHINA COMSERVICE

CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED
中國通信服務股份有限公司
Stock Code 股份代號: 552

Value-Driven
Leading **SUSTAINABLE**
Innovative Development

價值引領 **持續**
創新發展

# INTERIM REPORT
# 中期報告 2016



# CONTENTS

# FINANCIAL HIGHLIGHTS

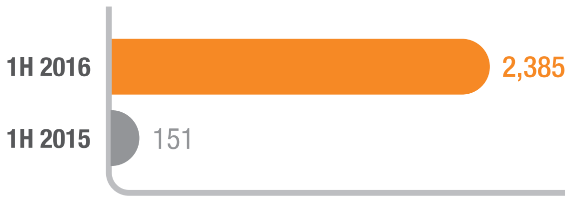
| | Six months ended 30 June | | |
|---|---|---|---|
| | **2016** | 2015 | Change |
| Revenues (RMB millions) | **42,176** | 37,563 | 12.3% |
| Gross profit (RMB millions) | **5,392** | 5,176 | 4.2% |
| Profit attributable to equity shareholders of the Company (RMB millions) | **1,386** | 1,271 | 9.1% |
| Basic earnings per share (RMB) | **0.200** | 0.184 | 9.1% |
| Free cash flow[1] (RMB millions) | **2,385** | 151 | 1,479.5% |

## Revenues
(RMB millions)


## Profit Attributable to Equity Shareholders of the Company
(RMB millions)


## Basic Earnings per Share
(RMB)


## Free Cash Flow
(RMB millions)




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

Dear Shareholders,

During the first half of 2016, the Group upheld the management philosophy of "innovation and transformation, seeking steady yet progressive growth and efficient development". Against the backdrop of the macro-economic downturn and the decrease in service charges, the Group endured the unfavourable impact and captured opportunities in the domestic telecommunications operator market whilst persisting in the development of the "Two New Markets"[1], resulting in an accelerated growth in revenue and net profit. The quality of our business development continued to improve as reflected in the continuous optimization in revenue structure of business and customer, decrease in accounts receivable turnover days and remarkable increase in free cash flow. Meanwhile, the Group enhanced corporate vitality through steady promotion of deepened reforms and active innovation of its system and mechanism, thus creating favourable conditions for future development.

## OVERALL PERFORMANCE

During the first half of 2016, the Group sustained sound growth momentum in the domestic telecommunications operator market, achieved breakthroughs in the domestic non-operator market and resumed growth in the overseas market. As a result, the Group achieved total revenues of RMB42,176 million, representing a year-on-year growth of 12.3%. The cost of revenues was RMB36,784 million, up by 13.6% compared to that of last year. As a result of the decrease in service charges and increase in labour-related cost, the gross profit was RMB5,392 million, representing a year-on-year increase of 4.2%, while the gross profit margin was 12.8%, representing a year-on-year decrease of 1 percentage point. The Group's continuous control in selling, general and administrative expenses was effective and such expenses were RMB4,137 million, accounting for 9.8% of the total revenues and representing a year-on-year decrease of 0.7 percentage point. Profit attributable to the equity shareholders of the Company was RMB1,386 million, representing a year-on-year growth of 9.1%, with a noticeable increase in the growth rate as compared with the same period last year[2]. The net profit margin was 3.3%, remained at a similar level as compared to the corresponding period last year, and the basic earnings per share amounted to RMB0.200. The Group adhered to the "value-driven" appraisal principle and delivered remarkable results in the management of working capital. As a result, turnover days of accounts receivable were 124 days, achieving a year-on-year decrease of 16 days. Free cash flow[3] amounted to RMB2,385 million, representing a significant growth as compared to the corresponding period last year[4].

1 Two New Markets refer to domestic non-operator market and overseas market.

2 In the first half of 2015, profit attributable to the equity shareholders of the Company recorded a year-on-year growth of 2.7%.

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

4 In the first half of 2015, the Group's free cash flow was RMB151 million.

## DEVELOPMENT QUALITY

During the first half of 2016, the Group's telecommunications infrastructure ("TIS") services was the main driver to the growth of our operating results. Coupled with the healthy growth of both the "core businesses"[5] of business process outsourcing ("BPO") services and the applications, content and other ("ACO") services, as well as the effective management of the products distribution business[6], the Group continued to optimize its overall revenue structure.

While capturing the opportunities arising from the 4G construction and capacity expansion of fiber optic broadband of domestic telecommunications operators and the enlarged construction scale of the Tower Company[7], we also vigorously explored the demand for construction of informatization projects from domestic non-operator customers and overseas customers. Revenue from TIS services amounted to RMB21,687 million, representing a year-on-year growth of 20.3% and accounting for 51.4% of the total revenues. Among that, the revenue of TIS services from domestic telecommunications operators and overseas customers recorded a year-on-year growth of 13.9% and 21.0%, respectively, whereas the revenue of TIS services from domestic non-operator customers achieved a significant growth of 53.2% compared to the previous year.

Revenue from BPO services amounted to RMB16,144 million, representing a year-on-year growth of 0.6% and accounting for 38.3% of the total revenues. Among that, revenue from management of infrastructure for information technology ("Network Maintenance") secured a rapid year-on-year growth of 14.2%. After integration and cultivation, the Group's supply chain business[6] grew favourably and recorded a year-on-year revenue growth of 23.9%, whereas revenue from products distribution business decreased significantly by 20.2% under the proactive control of the Group.

The Group grasped the demand for informatization construction of our customers, and revenue from ACO services amounted to RMB4,345 million, representing a year-on-year growth of 24.5%, representing a significant increase in the growth rate as compared with the same period last year[8] and accounting for 10.3% of the total revenues.

## CUSTOMER DEVELOPMENT

During the first half of 2016, the Group leveraged on both "CAPEX and OPEX-driven" businesses[9] as the dual growth drivers to accelerate the development of domestic telecommunications operator market, and recorded a steady increase in our overall market share. Revenue from such market amounted to RMB27,240 million, representing a year-on-year growth of 14.4% and accounting for 64.6% of the total revenues. Among that, revenue from China Telecom was RMB16,435 million, representing a year-on-year growth of 3.7% and accounting for 39.0% of the total revenues. Besides, the Group thoroughly expanded the domestic telecommunications operator market other than China Telecom by strengthening high-end marketing, capturing good opportunities arising from the strategic cooperation between China Telecom and China Unicom and capitalizing on the preferential treatment and non-competition arrangements with the Tower Company. As a result, revenue from domestic telecommunications operator customers other than China Telecom amounted to RMB10,805 million, representing a significant increase of 35.9% as compared with the same period last year, and accounting for 25.6% of the total revenues, an increase of 4.4 percentage points compared to that of last year. Among that, revenue from the Tower Company achieved the fastest year-on-year growth and was the biggest contributor to incremental revenue among the domestic telecommunications operators. Revenue from China Unicom also recorded a significant growth over the same period last year.

5 Core businesses of BPO services include management of infrastructure for information technology, general facilities management and supply chain.
6 Since 2016, the Group sub-divided the former distribution business under the BPO services into supply chain business and products distribution business. For ease of comparison, the historical data of these two businesses have been segregated accordingly.
7 The full name of the Tower Company is China Tower Corporation Limited.
8 In the first half of 2015, revenue from ACO services recorded a year-on-year growth of 3.3%.
9 CAPEX and OPEX refer to the capital expenditure and operating expenditure of domestic telecommunications operators, respectively.

During the first half of 2016, the Group's revenue from the domestic non-operator market was RMB12,784 million, representing a year-on-year increase of 5.0% and accounting for 30.3% of the total revenues. In particular, revenue from TIS services and ACO services recorded a year-on-year increase of 53.2% and 22.6%, respectively, constituting the main revenue growth drivers for the domestic non-operator market. With a focus on key sectors including government, energy, transportation and internet, the Group continued to achieve breakthroughs in construction for data centre, low voltage communication projects and urban communication pipelines relocation, and the internal synergistic development and promotion of the six major group-level products[10] also achieved substantial progress. The Group adhered to its "value-driven" development philosophy and enhanced its risk awareness amid the current economic conditions, and exercised more stringent selection and control on the expansion of products distribution business during the first half of this year. Revenue from such business in the domestic non-operator market recorded a year-on-year decrease of 31.8%.

During the first half of 2016, the overseas business of the Group resumed steady development and realized a revenue of RMB2,152 million, representing a year-on-year increase of 35.9% and accounting for 5.1% of the total revenues, which reversed the downward trend of revenue in the last two years. We closely followed the national "Belt and Road" Initiative and the "10 Major Plans of Sino-African Cooperation", and proactively promoted our "China-Africa Partnership Program in Trans Africa Information Superhighway" Project, which has been identified as a key project of the relevant ministry of the PRC government in 2016. In addition, the Group has entered into a letter of intent for multilateral cooperation with domestic financial institutions, equipment vendors and the governments and operators of African countries for such project. During the first half of this year, the Group has been steadily pushing forward the implementation of turnkey projects such as national fiber cable backbone network project (Phase III) in Tanzania and proactively utilizing financial instruments such as accounts receivable factoring to facilitate the settlement of overseas projects and avoid operational risks.

## INNOVATION IN MECHANISM

During the first half of 2016, the Group continued to promote deepened reforms to adjust and optimize the management mechanism for its overseas operations and set up a new operating entity for overseas business. We actively promoted the synergistic operation of supply chain business, officially commenced the operation of China Comservice Supply Chain Management Company Ltd. and created a unified brand of "中通福" for its distribution chain stores. The Group further expanded into the northern China market by commencing the formal operation of Inner Mongolia Autonomous Region Communications Services Company Limited and studying the feasibility of establishing new branches for our northern China business, with a view to strengthening our business development in the northern China market.

10 Six major group-level products include smart city, smart security, smart industrial park, intelligent building, cloud computing services and e-certification.

## CORPORATE GOVERNANCE

The Group has always maintained high standards of corporate governance practices. During the first half of 2016, I was honored the "Best CEO" Award in the 6th Asian Excellence Recognition Awards 2016 organized by *Corporate Governance Asia*, a famous corporate governance journal in Asia. Ms. Hou Rui, the Chief Financial Officer of the Company, was once again honored the "Best CFO" Award in the same election. According to the "2016 FORTUNE China 500" released by *FORTUNE China*, the Group ranked 71st, moving up seven places as compared to the corresponding period last year.

## SOCIAL RESPONSIBILITIES

During the first half of 2016, many places in southern China suffered catastrophic floods resulting from severe convective weather. The Group promptly initiated contingency plans and proactively participated in flood prevention and disaster relief, repairing and restoring more than 10,000 communications facilities as well as fiber optic cables and electric cables of nearly 22,000 km in total. Through research and development efforts, the Group has effectively mastered the key energy saving technology for large-scale data centres in severely cold regions, and successfully applied such technology in information parks operated by domestic telecommunications operators. This not only addressed the technological difficulties of anti-freeze, energy saving and safety in severely cold regions, but also made new contribution to the establishment of a green, energy-saving and environmental-friendly society.

## PROSPECTS

Although the Group achieved encouraging operating results during the first half of 2016, we are clearly aware that the Company is still confronted with challenges amid the bumpy recovery in global economy and the "New Normal" of China's economy. Under such circumstances, the Company must stay vigilant and make innovative breakthroughs for long-term and sustainable development.

By capturing the opportunities arising from various national strategies such as "Cyberpower", "Broadband China" and "Internet+", we will focus on the development of both "CAPEX and OPEX-driven" businesses in the domestic telecommunications operator market and pursue revenue growth from businesses driven by OPEX spending of operators. Leveraging on the opportunities arising from strategic cooperation between China Telecom and China Unicom as well as the preferential treatment and non-competition arrangements between the Group and the Tower Company, we will strive to further enlarge our market share and maintain our leading position in the domestic telecommunications operator market. Benefited from the favourable opportunities arising from the vigorous promotion of the national policies of "Supply-side Structural Reform", "SOE Reform", "Made in China 2025" and development of information economics, we will focus on the informatization demand from customers in sectors including government, energy, transportation and information security, and continue to expand the Group's business scale in the domestic non-operator market. We will also continue to promote group-level products such as "Smart City", "Smart Security", "Smart Industrial Park" and "Intelligent Building", and accelerate the development of new products to further enhance our business value. Meanwhile, we will closely monitor the implementation of the "Belt and Road" Initiative and the overseas informatization demand. By leveraging the opportunities arising from our "China-Africa Partnership Program in Trans Africa Information Superhighway" Project, the favourable conditions in our overseas synergistic operation and aiming at breakthrough in "EPC+" projects, we will focus on project implementation, with a view to expanding our business scale in overseas market.

Meanwhile, the Group will vigorously develop cross-sector business according to different characteristics of the three key business segments and the changes in market demand. We will also strengthen business innovation and actively promote innovations in service, product and management, so as to enhance our core competence and provide better support for integrated intelligent information service in the future as well as creating higher returns for shareholders through better quality of development.

Finally, on behalf of the Board, I would like to express my sincere gratitude to Mr. Wang Jun, who resigned as an independent non-executive director of the Company in June 2016, for his outstanding contributions to the Group and express my sincere welcome to Mr. Liu Linfei for joining the Board. I would also like to take this opportunity to express my sincere gratitude to the shareholders and customers of the Group and all sectors of society for their long-standing care and support to the Group.

**Sun Kangmin**
*Chairman*

Beijing, PRC
25 August 2016

# REPORT ON REVIEW OF INTERIM FINANCIAL REPORT

Deloitte.
德勤

**TO THE BOARD OF DIRECTORS OF**
**CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED**
*(Established in the People's Republic of China with limited liability)*

## INTRODUCTION

We have reviewed the interim financial report of China Communications Services Corporation Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 9 to 34, which comprises the consolidated statement of financial position as of 30 June 2016 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). The directors of the Company are responsible for the preparation and presentation of this interim financial report in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial report based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of this interim financial report consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that this interim financial report is not prepared, in all material respects, in accordance with IAS 34.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

25 August 2016

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS (UNAUDITED)

*For the six months ended 30 June 2016*

| | Notes | Six months ended 30 June 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| Revenues | 5 | **42,175,618** | 37,562,595 |
| Cost of revenues | 6 | **(36,784,008)** | (32,387,089) |
| **Gross profit** | | **5,391,610** | 5,175,506 |
| Other operating income | 7 | **431,791** | 377,505 |
| Selling, general and administrative expenses | | **(4,136,824)** | (3,930,101) |
| Other operating expenses | | **(40,135)** | (59,192) |
| Finance costs | 8 | **(20,967)** | (23,765) |
| Share of profits of associates | | **35,144** | 12,444 |
| **Profit before tax** | 9 | **1,660,619** | 1,552,397 |
| Income tax | 10 | **(269,603)** | (281,542) |
| **Profit for the period** | | **1,391,016** | 1,270,855 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **1,386,347** | 1,271,070 |
| Non-controlling interests | | **4,669** | (215) |
| **Profit for the period** | | **1,391,016** | 1,270,855 |
| **Basic earnings per share (RMB)** | 13 | **0.200** | 0.184 |

The notes on pages 16 to 34 form part of this interim financial report.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)

*For the six months ended 30 June 2016*

| | Notes | Six months ended 30 June 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| **Profit for the period** | | **1,391,016** | 1,270,855 |
| **Other comprehensive income for the period (after tax)** | | | |
| **Items that may be subsequently reclassified to profit or loss (after tax):** | | | |
| Exchange differences on translation of financial statements of subsidiaries outside Mainland China | | **9,248** | (8,359) |
| Available-for-sale securities: | | | |
| Net movement in the fair value reserve | 11 | **(10,919)** | 26,815 |
| | | **(1,671)** | 18,456 |
| **Total comprehensive income for the period** | | **1,389,345** | 1,289,311 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **1,384,642** | 1,289,526 |
| Non-controlling interests | | **4,703** | (215) |
| **Total comprehensive income for the period** | | **1,389,345** | 1,289,311 |

The notes on pages 16 to 34 form part of this interim financial report.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

*At 30 June 2016*

| | Notes | 30 June 2016 RMB'000 (unaudited) | 31 December 2015 RMB'000 (audited) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment, net | 14 | **4,167,901** | 4,331,796 |
| Investment properties | | **628,466** | 658,186 |
| Construction in progress | | **395,949** | 360,977 |
| Lease prepayments | | **782,362** | 793,586 |
| Goodwill | | **103,005** | 103,005 |
| Other intangible assets | | **236,767** | 269,231 |
| Interests in associates | | **172,244** | 117,196 |
| Available-for-sale financial assets | | **852,226** | 865,072 |
| Deferred tax assets | | **451,642** | 408,869 |
| Other non-current assets | | **636,745** | 636,375 |
| **Total non-current assets** | | **8,427,307** | 8,544,293 |
| **Current assets** | | | |
| Inventories | | **2,659,208** | 2,883,989 |
| Accounts and bills receivable, net | 15 | **29,980,229** | 27,520,829 |
| Prepayments and other current assets | | **6,093,045** | 6,873,074 |
| Restricted deposits | | **2,635,107** | 2,555,290 |
| Cash and cash equivalents | 16 | **11,486,339** | 9,535,851 |
| **Total current assets** | | **52,853,928** | 49,369,033 |
| **Total assets** | | **61,281,235** | 57,913,326 |
| **Current liabilities** | | | |
| Interest-bearing borrowings | 17 | **46,286** | 177,005 |
| Accounts and bills payable | 18 | **21,892,117** | 19,699,385 |
| Receipts in advance for contract work | | **2,441,112** | 2,911,542 |
| Accrued expenses and other payables | | **9,851,097** | 8,691,602 |
| Income tax payable | | **289,440** | 309,261 |
| **Total current liabilities** | | **34,520,052** | 31,788,795 |
| **Net current assets** | | **18,333,876** | 17,580,238 |
| **Total assets less current liabilities** | | **26,761,183** | 26,124,531 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED) (CONTINUED)

*At 30 June 2016*

| | Notes | **30 June 2016 RMB'000 (unaudited)** | 31 December 2015 RMB'000 (audited) |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Interest-bearing borrowings | 17 | **31,866** | 34,455 |
| Other non-current liabilities | 19 | **887,221** | 865,780 |
| Deferred tax liabilities | | **13,315** | 14,687 |
| **Total non-current liabilities** | | **932,402** | 914,922 |
| **Total liabilities** | | **35,452,454** | 32,703,717 |
| **Equity** | | | |
| Share capital | 20 | **6,926,018** | 6,926,018 |
| Reserves | | **18,449,264** | 17,834,795 |
| **Equity attributable to equity shareholders of the Company** | | **25,375,282** | 24,760,813 |
| **Non-controlling interests** | | **453,499** | 448,796 |
| **Total equity** | | **25,828,781** | 25,209,609 |
| **Total liabilities and equity** | | **61,281,235** | 57,913,326 |

The notes on pages 16 to 34 form part of this interim financial report.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

*For the six months ended 30 June 2016*

| | | Equity attributable to equity shareholders of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Share capital RMB'000 | Share premium RMB'000 (note a) | Capital reserve RMB'000 (note b) | Statutory surplus reserve RMB'000 (note c) | Specific reserve RMB'000 (note d) | Fair value reserve RMB'000 (note e) | Exchange reserve RMB'000 (note f) | Other reserve RMB'000 | Retained earnings RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| Balance as at 1 January 2016 | | **6,926,018** | **4,529,310** | **1,846,468** | **856,150** | **137,377** | **44,726** | **434** | **(68,310)** | **10,488,640** | **24,760,813** | **448,796** | **25,209,609** |
| Changes in equity for the six months ended 30 June 2016 | | | | | | | | | | | | | |
| Profit for the period | | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **1,386,347** | **1,386,347** | **4,669** | **1,391,016** |
| Other comprehensive income for the period | 11 | **–** | **–** | **–** | **–** | **–** | **(10,919)** | **9,214** | **–** | **–** | **(1,705)** | **34** | **(1,671)** |
| Total comprehensive income for the period | | **–** | **–** | **–** | **–** | **–** | **(10,919)** | **9,214** | **–** | **1,386,347** | **1,384,642** | **4,703** | **1,389,345** |
| Dividend declared | 12(b) | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(770,173)** | **(770,173)** | **–** | **(770,173)** |
| Appropriation of specific reserve | | **–** | **–** | **–** | **–** | **197,962** | **–** | **–** | **–** | **(197,962)** | **–** | **–** | **–** |
| Utilisation of specific reserve | | **–** | **–** | **–** | **–** | **(172,239)** | **–** | **–** | **–** | **172,239** | **–** | **–** | **–** |
| Balance as at 30 June 2016 | | **6,926,018** | **4,529,310** | **1,846,468** | **856,150** | **163,100** | **33,807** | **9,648** | **(68,310)** | **11,079,091** | **25,375,282** | **453,499** | **25,828,781** |
| Balance as at 1 January 2015 | | 6,926,018 | 4,529,310 | 1,846,468 | 751,084 | 103,450 | 30,861 | (27,041) | (68,310) | 8,938,033 | 23,029,873 | 513,314 | 23,543,187 |
| Changes in equity for the six months ended 30 June 2015 | | | | | | | | | | | | | |
| Profit for the period | | – | – | – | – | – | – | – | – | 1,271,070 | 1,271,070 | (215) | 1,270,855 |
| Other comprehensive income for the period | 11 | – | – | – | – | – | 26,815 | (8,359) | – | – | 18,456 | – | 18,456 |
| Total comprehensive income for the period | | – | – | – | – | – | 26,815 | (8,359) | – | 1,271,070 | 1,289,526 | (215) | 1,289,311 |
| Dividend declared | 12(b) | – | – | – | – | – | – | – | – | (644,812) | (644,812) | – | (644,812) |
| Distribution to non-controlling interests | | – | – | – | – | – | – | – | – | – | – | (15,218) | (15,218) |
| Appropriation of specific reserve | | – | – | – | – | 159,628 | – | – | – | (159,628) | – | – | – |
| Utilisation of specific reserve | | – | – | – | – | (131,024) | – | – | – | 131,024 | – | – | – |
| Balance as at 30 June 2015 | | 6,926,018 | 4,529,310 | 1,846,468 | 751,084 | 132,054 | 57,676 | (35,400) | (68,310) | 9,535,687 | 23,674,587 | 497,881 | 24,172,468 |
| Changes in equity for the six months ended 31 December 2015 | | | | | | | | | | | | | |
| Profit for the period | | – | – | – | – | – | – | – | – | 1,063,342 | 1,063,342 | 3,320 | 1,066,662 |
| Other comprehensive income for the period | | – | – | – | – | – | (12,950) | 35,834 | – | – | 22,884 | 36 | 22,920 |
| Total comprehensive income for the period | | – | – | – | – | – | (12,950) | 35,834 | – | 1,063,342 | 1,086,226 | 3,356 | 1,089,582 |
| Capital contribution from non-controlling interests | | – | – | – | – | – | – | – | – | – | – | 1,563 | 1,563 |
| Distribution to non-controlling interests | | – | – | – | – | – | – | – | – | – | – | (54,004) | (54,004) |
| Appropriation | | – | – | – | 105,066 | – | – | – | – | (105,066) | – | – | – |
| Appropriation of specific reserve | | – | – | – | – | 239,925 | – | – | – | (239,925) | – | – | – |
| Utilisation of specific reserve | | – | – | – | – | (234,602) | – | – | – | 234,602 | – | – | – |
| Balance as at 31 December 2015 | | 6,926,018 | 4,529,310 | 1,846,468 | 856,150 | 137,377 | 44,726 | 434 | (68,310) | 10,488,640 | 24,760,813 | 448,796 | 25,209,609 |

Notes:

(a) Share premium

The share premium represents the difference between the total amount of the par value of shares issued and the amount of the net proceeds received from the initial public offering in 2006 and subsequent share issuance in 2008 and 2012 respectively.

(b) Capital reserve

The capital reserve represents the difference between the total amount of the par value of shares issued and the amount of the net assets transferred from China Telecommunications Corporation ("CTC"), Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation upon the formation of the Company. Then, the capital reserve was net off by the difference between the consideration for the acquisition of the telecommunications infrastructure services, business process outsourcing services and applications, content and other services located in Jiangsu Province, Anhui Province, Jiangxi Province, Hunan Province, Guangxi Zhuang Autonomous Region, Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province and Xinjiang Uygur Autonomous Region, together with the equity interests in Guangdong Nanfang Communication GSM Intelligent Card System Co., Ltd and Ningbo Public Information Industry Co., Ltd (the "Target Business") and the net assets value of the Target Business in 2007.

(c) Statutory surplus reserve

According to the People's Republic of China (the "PRC") Company Law and the Articles of Association of the Company and its PRC subsidiaries, these companies are required to transfer 10% of their respective net profit as determined in accordance with the PRC Accounting Rules and Regulations to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, or to expand the Company's business, and may be converted into share capital by the issuance of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

The amount represents the statutory surplus reserve appropriated by the Company and the statutory surplus reserve appropriated by the Company's subsidiaries is not presented.

(d) Specific reserve

Pursuant to the relevant PRC regulations, the Group appropriated and utilized the provision for production safety. The Group is required to make a transfer for the provision for production safety from retained earnings to a specific reserve. The provision for production safety could be utilised when expenses or capital expenditures on production safety measures are incurred. The amount of the provision for production safety utilised would be transferred from the specific reserve back to retained earnings.

(e) Fair value reserve

The fair value reserve represents the net change in the fair value of available-for-sale securities held at the end of the reporting period.

(f) Exchange reserve

The exchange reserve represents all foreign exchange differences arising from the translation of the financial statements of subsidiaries located outside Mainland China.

The notes on pages 16 to 34 form part of this interim financial report.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

*For the six months ended 30 June 2016*

| | Notes | Six months ended 30 June<br>**2016**<br>**RMB'000** | <br>2015<br>RMB'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Income tax paid | | **(403,279)** | (329,233) |
| Other cash flows generated from operating activities | | **2,956,286** | 661,003 |
| **Net cash generated from operating activities** | | **2,553,007** | 331,770 |
| **Investing activities** | | | |
| Payment on acquisition of property, plant and equipment and other intangible assets | | **(260,748)** | (262,780) |
| Other cash flows used in investing activities | | **(192,315)** | (1,045,534) |
| **Net cash used in investing activities** | | **(453,063)** | (1,308,314) |
| **Financing activities** | | | |
| Proceeds from bank and other loans | | **24,385** | 76,001 |
| Other cash flows used in financing activities | | **(203,172)** | (150,259) |
| **Net cash used in financing activities** | | **(178,787)** | (74,258) |
| **Net increase (decrease) in cash and cash equivalents** | | **1,921,157** | (1,050,802) |
| **Cash and cash equivalents at the beginning of period** | | **9,535,851** | 7,313,515 |
| **Effect of foreign exchange rate changes** | | **29,331** | (11,516) |
| **Cash and cash equivalents at the end of period** | 16 | **11,486,339** | 6,251,197 |

The notes on pages 16 to 34 form part of this interim financial report.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

*For the six months ended 30 June 2016*

## 1. PRINCIPAL ACTIVITIES

China Communications Services Corporation Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") is a leading integrated service provider to the telecommunications, media and technology industries in the PRC. Its principal activities comprise provision of a full range of telecommunications support services in the PRC and overseas, including (i) telecommunications infrastructure design, construction and supervision and management; (ii) business process outsourcing services (including management of infrastructure for information technologies business, general facilities management, supply chain and products distribution); and (iii) a variety of other services including applications, content and others.

## 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 2015 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 Standard ("IAS") and related interpretations.

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and IAS 34, Interim Financial Reporting.

## 3. PRINCIPAL ACCOUNTING POLICIES

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

The interim financial report has been prepared in accordance with the same accounting policies and methods of computation adopted in the consolidated financial statements of the Group for the year ended 31 December 2015, except as described below.

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

| | |
|---|---|
| Amendments to IFRS 11 | Accounting for Acquisitions of Interests in Joint Operations |
| Amendments to IAS 1 | Disclosure Initiative |
| Amendments to IAS 16 and IAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation |
| Amendments to IAS 27 | Equity Method in Separate Financial Statements |
| Amendments to IFRSs | Annual Improvements to IFRSs 2012–2014 Cycle |
| Amendments to IFRS 10, IFRS 12 and IAS 28 | Investment Entities: Applying the Consolidation Exception |

The application of the amendments to IFRSs as mentioned above in the current period has had no material effect on the amounts reported and/or disclosures set out in the interim financial report.

The Group has not applied any new or revised IFRSs that is not yet effective for the current period.

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

## 4. SEGMENT REPORTING

The Group principally has one operating and reportable segment, which is the provision of integrated telecommunications support services in the informatization sector. 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 telecommunications support services, net of sales taxes and after allowance for sales discounts. The Group's revenues by business nature can be summarised as follows:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Revenue from telecommunications infrastructure services | **21,686,537** | 18,022,125 |
| Revenue from business process outsourcing services | **16,143,790** | 16,049,450 |
| Revenue from applications, content and other services | **4,345,291** | 3,491,020 |
| | **42,175,618** | 37,562,595 |

The Group's major customers are telecommunications operators which include CTC and its subsidiaries (excluding the Group) ("CTC Group") and China Mobile Communications Corporation 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 2016 amounted to RMB16,435 million and RMB7,842 million respectively (six months ended 30 June 2015: RMB15,850 million and RMB6,853 million respectively), being 39.0% and 18.6% of the Group's total revenues respectively (six months ended 30 June 2015: 42.2% and 18.2% respectively). The revenue derived from areas outside Mainland China for the six months ended 30 June 2016 amounted to RMB2,152 million (six months ended 30 June 2015: RMB1,584 million). In addition, revenues from products distribution for the six months ended 30 June 2016 amounted to RMB5,496 million (six months ended 30 June 2015: RMB6,887 million).

## 6. COST OF REVENUES

| | Six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Depreciation and amortisation | **222,605** | 221,780 |
| Direct personnel costs | **3,952,385** | 4,237,545 |
| Operating lease charges | **587,603** | 568,720 |
| Materials | **4,279,181** | 3,569,353 |
| Direct costs of products distribution | **5,114,033** | 6,565,666 |
| Subcontracting charges | **19,413,318** | 14,376,892 |
| Others | **3,214,883** | 2,847,133 |
| | **36,784,008** | 32,387,089 |

## 7. OTHER OPERATING INCOME

| | Six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Interest income | **84,426** | 66,348 |
| Dividend income from listed securities | **–** | 94 |
| Dividend income from unlisted securities | **50,628** | 62,775 |
| Government grants | **105,835** | 89,328 |
| Gain on disposal of investments | **35,822** | – |
| Gain on disposal of property, plant and equipment | **1,631** | 4,085 |
| Gain on disposal of intangible assets | **–** | 31,000 |
| Penalty income | **1,566** | 681 |
| Management fee income | **123,694** | 111,274 |
| Others | **28,189** | 11,920 |
| | **431,791** | 377,505 |

## 8. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Interest on bank and other borrowings | **5,761** | 11,269 |
| Interest for convertible preference shares and preference shares (note 19) | **15,206** | 12,496 |
| | **20,967** | 23,765 |

For the six months ended 30 June 2016 and 2015, no borrowing costs were capitalised in relation to construction in progress.

## 9. PROFIT BEFORE TAX

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

| | Six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| (a) Staff costs: | | |
| Salaries, wages and other benefits | **6,189,190** | 6,368,423 |
| Contributions to defined contribution retirement schemes | **547,808** | 520,393 |
| | **6,736,998** | 6,888,816 |
| (b) Other items: | | |
| Amortisation | **56,467** | 51,350 |
| Depreciation | **362,153** | 357,612 |
| Materials | **4,279,181** | 3,569,353 |
| Direct costs of products distribution | **5,114,033** | 6,565,666 |
| Inventory write-down and losses, net of reversals | **3,065** | 13,523 |
| Impairment losses on accounts and other receivables | **122,496** | 124,148 |
| Reversal of impairment losses on accounts and other receivables | **(33,265)** | (13,559) |
| Changes in fair value of financial derivatives | **1,370** | (2,836) |
| Operating lease charges | **721,432** | 695,406 |
| Research and development costs | **887,391** | 776,601 |

The selling expenses, general and administrative expenses and other expenses of the Group are RMB638 million, RMB3,278 million and RMB221 million (six months ended 30 June 2015: RMB609 million, RMB3,153 million and RMB168 million) respectively for the six months ended 30 June 2016. Research and development costs include staff costs of RMB686 million (six months ended 30 June 2015: RMB620 million), which is also included in the staff cost 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 | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| **Current tax** | | |
| Income tax | **311,820** | 293,487 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(42,217)** | (11,945) |
| Total income tax | **269,603** | 281,542 |

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

| | Six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Profit before tax | **1,660,619** | 1,552,397 |
| Expected income tax expense at a statutory tax rate of 25% (six months ended 30 June 2015: 25%) | **415,155** | 388,099 |
| Differential tax rates on subsidiaries' profits (note (i)) | **(131,635)** | (107,065) |
| Non-deductible expenses (note (ii)) | **32,645** | 40,699 |
| Non-taxable income | **(27,340)** | (28,317) |
| Tax losses not recognised | **51,302** | 43,400 |
| Utilisation of previously unrecognised tax losses | **(10,100)** | (7,600) |
| Over provision in respect of prior years | **(10,396)** | (11,451) |
| Effect of tax exemptions | **(2,690)** | (216) |
| Others (note (iii)) | **(47,338)** | (36,007) |
| Income tax | **269,603** | 281,542 |

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 2016 and 2015, except for certain domestic subsidiaries of the Group, which are taxed at a preferential rate of 20% ,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 purpose.

(iii) The amounts primarily represent the effect of additional deductions in research and development expense.

## 11. OTHER COMPREHENSIVE INCOME

### Available-for-sale securities

| | Six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Changes in fair value recognised during the period | **(12,847)** | 31,547 |
| Net deferred tax charged to other comprehensive income | **1,928** | (4,732) |
| Net movement in the fair value reserve during the period recognised in other comprehensive income | **(10,919)** | 26,815 |

## 12. DIVIDENDS

### (a) Dividends attributable to the period

The directors do not propose the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: nil).

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

| | Six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Final dividend in respect of the previous financial year, approved during the period of RMB0.1011 per share (2015: RMB0.0931 per share) | **700,220** | 644,812 |
| Special dividend in respect of the previous financial year, approved during the period of RMB0.0101 per share (2015: nil) | **69,953** | — |
| | **770,173** | 644,812 |

No final dividend or special dividend was paid during the six months ended 30 June 2016 and 2015.

## 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 2016 of RMB1,386 million (six months ended 30 June 2015: RMB1,271 million) and the number of shares in issue during the six months ended 30 June 2016 of 6,926,018 thousand shares (six months ended 30 June 2015 of 6,926,018 thousand shares).

## 14. PROPERTY, PLANT AND EQUIPMENT, NET

During the six months ended 30 June 2016, additions of property, plant and equipment (including direct purchase, transfer from construction in progress) of the Group amounted to RMB202 million (six months ended 30 June 2015: RMB136 million). Items of property, plant and equipment with carrying amount totalling RMB6 million were disposed of during the six months ended 30 June 2016 (six months ended 30 June 2015: RMB18 million).

## 15. ACCOUNTS AND BILLS RECEIVABLE, NET

| | **At 30 June 2016 RMB'000** | At 31 December 2015 RMB'000 |
|---|---|---|
| Bills receivable | **210,174** | 202,069 |
| Unbilled revenue for contract work | **7,531,075** | 7,864,033 |
| Trade receivables | **23,396,617** | 20,536,104 |
| | **31,137,866** | 28,602,206 |
| Less: impairment losses | **(1,157,637)** | (1,081,377) |
| | **29,980,229** | 27,520,829 |

(a) Included in accounts and bills receivable are amounts due from CTC Group, associates of the Group and associates of CTC Group of RMB17,311 million as at 30 June 2016 (31 December 2015: RMB16,155 million), which are unsecured, interest free and are expected to be recovered within one year.

(b) The ageing analysis of accounts and bills receivable (net of impairment losses) based on credit terms is as follows:

| | **At 30 June 2016 RMB'000** | At 31 December 2015 RMB'000 |
|---|---|---|
| Current (note) | **12,362,428** | 13,211,725 |
| Within 1 year | **14,870,188** | 11,666,256 |
| After 1 year but less than 2 years | **2,096,393** | 2,131,351 |
| After 2 years but less than 3 years | **623,195** | 511,497 |
| After 3 years | **28,025** | — |
| Amount past due | **17,617,801** | 14,309,104 |
| | **29,980,229** | 27,520,829 |

Note: Included revenues within the credit terms for contract work.

## 15. ACCOUNTS AND BILLS RECEIVABLE, NET (Continued)

### (c) Impairment of accounts and bills receivable

Impairment losses in respect of accounts and bills receivable are recorded using an allowance account unless the Group considers that recovery of the amount is remote, in which case the impairment loss is written off against accounts and bills receivable directly.

The movement in allowance for doubtful debts during the period, including both specific and collective loss components, is as follows:

| | **At 30 June 2016 RMB'000** | At 31 December 2015 RMB'000 |
|---|---|---|
| At 1 January | **1,081,377** | 624,376 |
| Impairment loss recognised | **109,676** | 577,101 |
| Reversal of impairment loss previously recognised | **(30,765)** | (101,648) |
| Uncollectible amounts written off | **(2,651)** | (18,452) |
| At 30 June/31 December | **1,157,637** | 1,081,377 |

At 30 June 2016, the impairment losses of accounts and bills receivable of RMB1,708 million were individually determined (31 December 2015: RMB1,421 million). The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific impairment losses of RMB355 million were recognised (31 December 2015: RMB511 million). The Group does not hold any collateral over these balances.

### (d) Accounts and bills receivable that are not impaired

The ageing analysis of accounts and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

| | **At 30 June 2016 RMB'000** | At 31 December 2015 RMB'000 |
|---|---|---|
| Neither past due nor impaired | **12,362,428** | 13,211,725 |
| Past due but not impaired | | |
| Within 1 year | **11,251,002** | 10,285,576 |
| After 1 year but less than 2 years | **1,312,103** | 1,000,787 |
| After 2 years but less than 3 years | **281,398** | 269,883 |
| | **25,206,931** | 24,767,971 |

Receivables that were neither past due nor impaired mainly relate to telecommunications service providers for whom there was no recent record of default.

## 15. ACCOUNTS AND BILLS RECEIVABLE, NET (Continued)

### (d) Accounts and bills receivable that are not impaired (Continued)

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no further impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

## 16. CASH AND CASH EQUIVALENTS

| | **At 30 June 2016 RMB'000** | At 31 December 2015 RMB'000 |
|---|---|---|
| Cash at bank and in hand | **10,551,334** | 8,748,298 |
| Deposits at bank with original maturity less than three months | **935,005** | 787,553 |
| Cash and cash equivalents | **11,486,339** | 9,535,851 |

## 17. INTEREST-BEARING BORROWINGS

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

| | **At 30 June 2016 RMB'000** | At 31 December 2015 RMB'000 |
|---|---|---|
| **RMB denominated** | | |
| Borrowings from banks | | |
| — unsecured | **–** | 32,953 |
| Loan from CTC Group | | |
| — unsecured | **13,280** | 13,280 |
| **USD denominated** | | |
| Borrowings from banks | | |
| — secured | **–** | 17,013 |
| — unsecured | **28,514** | 109,590 |
| **Other denominated** | | |
| Borrowings from banks | | |
| — unsecured | **4,492** | 4,169 |
| | **46,286** | 177,005 |

## 17. INTEREST-BEARING BORROWINGS (Continued)

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

| | **At 30 June 2016** | At 31 December 2015 |
|---|---|---|
| **RMB denominated** | | |
| Borrowings from banks | | |
| — unsecured | **—** | 5.60%—5.62% |
| Loan from CTC Group | | |
| — unsecured | **2.39%** | 2.39% |
| **USD denominated** | | |
| Borrowings from banks | | |
| — secured | **—** | 5.30% |
| — unsecured | **2.30%—4.14%** | 1.46%—4.14% |
| **Other denominated** | | |
| Borrowings from banks | | |
| — unsecured | **9.20%** | 8.60% |

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

| | **At 30 June 2016 RMB'000** | At 31 December 2015 RMB'000 |
|---|---|---|
| **USD denominated** | | |
| Borrowings from banks | | |
| — unsecured | **31,866** | 34,455 |
| | **31,866** | 34,455 |

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

| | **At 30 June 2016** | At 31 December 2015 |
|---|---|---|
| **USD denominated** | | |
| Borrowings from banks | | |
| — unsecured (fixed interest rate) | **3.53%—4.14%** | 3.53%—4.14% |
| — unsecured (floating interest rate) | **Libor+4.00%** | Libor+4.00% |

As at 30 June 2016, no borrowings from banks were subject to financial covenants.

## 18. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

| | **At 30 June 2016 RMB'000** | At 31 December 2015 RMB'000 |
|---|---|---|
| Accounts payable | **20,134,056** | 17,429,304 |
| Bills payable | **1,758,061** | 2,270,081 |
| | **21,892,117** | 19,699,385 |

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

| | **At 30 June 2016 RMB'000** | At 31 December 2015 RMB'000 |
|---|---|---|
| Within 1 year | **20,197,464** | 17,984,560 |
| After 1 year but less than 2 years | **1,205,177** | 1,191,927 |
| After 2 years but less than 3 years | **267,223** | 270,058 |
| After 3 years | **222,253** | 252,840 |
| | **21,892,117** | 19,699,385 |

Included in accounts and bills payable are amounts due to CTC Group, associates of the Group and associates of CTC Group of RMB2,023 million as at 30 June 2016 (31 December 2015: RMB1,777 million), which are unsecured, interest free and are expected to be settled within one year.

## 19. OTHER NON-CURRENT LIABILITIES

| | **At 30 June 2016 RMB'000** | At 31 December 2015 RMB'000 |
|---|---|---|
| Convertible preference shares and preference shares (note (i)) | **663,120** | 649,360 |
| Others (note (ii)) | **224,101** | 216,420 |
| | **887,221** | 865,780 |

## 19. OTHER NON-CURRENT LIABILITIES (Continued)

Notes:

(i) On 25 July 2014, a subsidiary of the Company has placed 66,670,000 convertible preference shares and 33,330,000 preference shares to an independent third party at par value of US$1 for each of the convertible preference share and preference share. According to the agreement, the subsidiary of the Company has the right, at its discretion, to defer the annual interest payment and also to redeem the convertible preference share and preference share eight years after the delivery date. However, the Group has obligation to pay the interest amount if the subsidiary of the Company defer the payment. Therefore, the directors of the Company consider that the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation arising from this agreement. Moreover, according to the agreement, the preference shareholder has the option to convert the convertible preference shares into ordinary shares from 1 January 2017 onwards. In the opinion of the directors of the Company, the number of ordinary shares can be converted, from the Group's perspective, is subject to negotiation between the Group and the preference shareholder in certain circumstances pursuant to the terms of the agreement, and with reference to fair value. In the consolidated statement of financial position of the Group, the host contract was classified as a financial liability.

The annual interest rate is 3.7% plus the average six-month dollar interest rate of Libor for six months before each interest payment date, and should be adjusted from the first interest payment eight years after the settlement date. The adjusted interest rate should not be less than 8% per annum, and will automatically increase 1% every year after then. The effective interest rate as at 30 June 2016 was 4.62% per annum.

(ii) Others represent the deferred income arising from government grants and warranty provisions.

## 20. SHARE CAPITAL

| | **At 30 June 2016 RMB'000** | At 31 December 2015 RMB'000 |
|---|---|---|
| ***Registered, issued and fully paid:*** | | |
| 4,534,598,160 (31 December 2015: 4,534,598,160) Domestic shares of RMB1.00 each | **4,534,598** | 4,534,598 |
| 2,391,420,240 (31 December 2015: 2,391,420,240) H shares of RMB1.00 each | **2,391,420** | 2,391,420 |
| | **6,926,018** | 6,926,018 |

## 21. COMMITMENTS AND CONTINGENT LIABILITIES

### (a) Capital commitments

As at 30 June 2016, the Group had capital commitments for acquisition and construction of property, plant and equipment and other intangible assets as follows:

| | **At 30 June 2016 RMB'000** | At 31 December 2015 RMB'000 |
|---|---|---|
| Contracted for but not provided | **320,014** | 317,445 |

### (b) Operating lease commitments

As at 30 June 2016, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

| | **At 30 June 2016 RMB'000** | At 31 December 2015 RMB'000 |
|---|---|---|
| Within 1 year | **373,127** | 308,106 |
| After 1 year but within 5 years | **380,637** | 352,620 |
| After 5 years | **104,465** | 122,061 |
| | **858,229** | 782,787 |

The Group leases a number of properties under operating leases. The leases typically run for a period of one year to twenty years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

### (c) Contingent liabilities

As at 30 June 2016, the Group had no material contingent liabilities and no material financial guarantees issued.

## 22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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 2016** | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| **Assets** | | | | |
| Available-for-sale securities | | | | |
| — Listed equity securities | **55,137** | **–** | **–** | **55,137** |
| Trading financial assets | | | | |
| — Foreign currency forward contract | **–** | **16** | **–** | **16** |
| **Liabilities** | | | | |
| Trading financial liabilities | | | | |
| — Foreign currency forward contract | **–** | **562** | **–** | **562** |

| | At 31 December 2015 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Assets** | | | | |
| Available-for-sale securities | | | | |
| — Listed equity securities | 67,984 | — | — | 67,984 |
| Trading financial assets | | | | |
| — Foreign currency forward contract | — | 735 | — | 735 |
| **Liabilities** | | | | |
| Trading financial liabilities | | | | |
| — Foreign currency forward contract | — | 261 | — | 261 |

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.

## 23. 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 and other related parties

Companies are considered to be related if one company has the ability, directly or indirectly, to control or jointly control the other company or have significant influence over the other company in making financial and operating decisions. Companies are also considered to be related if they are subject to common control. The Group's other related parties are associates of the Group and associates of 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 and other related parties which were carried out in the ordinary course of business are as follows:

| | **Six months ended 30 June** | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| *Income from related parties:* | | |
| Engineering related services (note (i)) | **9,066,134** | 8,404,077 |
| IT application services (note (ii)) | **643,535** | 604,690 |
| Provision of ancillary telecommunications services (note (iii)) | **4,295,617** | 3,634,287 |
| Provision of operation support services (note (iv)) | **1,089,364** | 894,832 |
| Supplies procurement services (note (v)) | **2,751,383** | 2,226,172 |
| Property leasing services (note (vi)) | **29,947** | 78,163 |
| Management fee (note (vii)) | **123,694** | 111,274 |
| *Expenses paid to related parties:* | | |
| Property leasing services (note (viii)) | **75,357** | 62,733 |
| IT application services (note (ix)) | **81,486** | 118,924 |
| Operation support services (note (x)) | **445,005** | 253,585 |
| Supplies procurement services (note (xi)) | **1,200,648** | 1,479,738 |
| Interest (note (xii)) | **604** | 707 |

## 23. RELATED PARTIES (Continued)

### (a) Transactions with CTC Group and other related parties (Continued)

Notes:

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

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

(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 contents and information services provided to CTC Group and other related parties.

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

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

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

(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 operating leases in respect of business premises paid and payable to CTC Group and other related parties.

(ix) The amount represents the charge paid and payable to CTC Group and other related parties for basic telecommunications service, value-added service and information application service.

(x) The amount represents the charge paid and payable to CTC Group and other related parties for logistics, labour resources, cultural, educational, hygiene and other supporting services.

(xi) The amount represents the charge paid and payable to CTC Group and other related parties for supplies procurement services, warehousing, transportation and installation services.

(xii) The amount represents the interest paid/payable to CTC Group in respect of the loans from CTC Group.

## 23. RELATED PARTIES (Continued)

### (a) Transactions with CTC Group and other related parties (Continued)

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

| | **At 30 June 2016 RMB'000** | At 31 December 2015 RMB'000 |
|---|---|---|
| Accounts and bills receivable, net | **17,311,069** | 16,155,020 |
| Prepayments and other current assets | **1,007,179** | 1,430,237 |
| Total amounts due from CTC Group and other related parties | **18,318,248** | 17,585,257 |
| Interest-bearing borrowings | **13,280** | 13,280 |
| Accounts and bills payable | **2,023,001** | 1,777,246 |
| Receipts in advance for contract work | **308,529** | 291,188 |
| Accrued expenses and other payables | **1,365,241** | 846,705 |
| Total amounts due to CTC Group and other related parties | **3,710,051** | 2,928,419 |

As at 30 June 2016, impairment losses for bad and doubtful debts of RMB176 million (31 December 2015: RMB152 million) were recorded in respect of amounts due from CTC Group and other related parties.

As at 30 June 2016 the Group has capital commitments to CTC Group and other related parties for acquisition and construction of property, plant and equipment and other assets as follows:

| | **At 30 June 2016 RMB'000** | At 31 December 2015 RMB'000 |
|---|---|---|
| Contracted for but not provided | **286,940** | 280,373 |

## 23. RELATED PARTIES (Continued)

### (a) Transactions with CTC Group and other related parties (Continued)

As at 30 June 2016, the Group's total future minimum lease payments to CTC Group and other related parties under non-cancellable operating leases were payable as follows:

| | **At 30 June 2016 RMB'000** | At 31 December 2015 RMB'000 |
|---|---|---|
| Within 1 year | **98,070** | 62,310 |
| After 1 year but within 5 years | **124,462** | 122,553 |
| After 5 years | **61,597** | 88,103 |
| | **284,129** | 272,966 |

### (b) 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 fellow subsidiaries (note 23(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.

## 23. RELATED PARTIES (Continued)

### (c) Transactions with key management personnel

Remuneration for key management personnel is as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Salaries and other emoluments | **3,208** | 2,912 |
| Retirement benefits | **931** | 1,362 |
| Discretionary bonus | **6,064** | 4,277 |
| | **10,203** | 8,551 |

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

### (d) 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 18% to 22% 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 2016 and 31 December 2015, there was no material outstanding contribution to post-employment benefit plans.

The directors believe the above information provides meaningful disclosure of related party transactions.

## MANAGEMENT DISCUSSION AND ANALYSIS

According to paragraph 40 of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), save as disclosed in this Interim Report, the Company confirms that the Company's current information in relation to those matters set out in paragraph 32 of Appendix 16 has not been changed significantly from the information disclosed in the Company's 2015 Annual Report.

## CHANGES IN DIRECTORS, SUPERVISORS AND THEIR BIOGRAPHICAL INFORMATION

Changes in the directors and supervisors of the Company and their biographical information since the date of the Company's 2015 Annual Report are set out below:

— Mr. Wang Jun resigned as an independent non-executive director of the Company.

— Mr. Liu Linfei was appointed as an independent non-executive director of the Company.

— Mr. Zhao Chunjun, an independent non-executive director of the Company, resigned as an independent director of China United Network Communications Limited.

— Mr. Lv Tingjie, an independent non-executive director of the Company, was appointed as an independent director of China United Network Communications Limited and resigned as an independent non-executive director of Global Link Communications Holdings Limited.

## AUDIT COMMITTEE

The audit committee has reviewed with management and the Company's international auditors, Deloitte Touche Tohmatsu, the accounting principles and practices adopted by the Group and discussed the risk management, internal control and financial reporting matters including the review of the Interim Report for the six months ended 30 June 2016.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

As a company incorporated in the PRC and listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company has not only complied with the relevant provisions of the Listing Rules but also has abided by the PRC Company Law and the applicable laws, regulations and regulatory requirements of Hong Kong and the PRC as the basic guidelines for the Company's corporate governance. Throughout the six months ended 30 June 2016, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

## COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules to govern securities transactions by the directors and the supervisors of the Company. Having made specific enquiries by the Company, each of the directors and the supervisors has confirmed his/her compliance with the Model Code in connection with the transactions of the Company's securities for the six months ended 30 June 2016.

## INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2016, none of the directors, supervisors or the chief executive of the Company had any interests or short positions in any shares, underlying shares of equity derivatives or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

As at 30 June 2016, the Company has not granted its directors or supervisors, or their respective spouses or children below the age of 18 any rights to subscribe for the shares or debentures of the Company or any of its associated corporations and none of them has ever exercised any such right to subscribe for the shares or debentures.

## MATERIAL INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2016, the interests or the short positions of persons (excluding the directors and supervisors of the Company) who are entitled to exercise or control the exercise of 5% or more of the voting power at any of the Company's general meetings in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be maintained under Section 336 of the SFO are as follows:

| Name of shareholder | Type of shares | Capacity | Number of shares held | Percentage of the respective type of share (%) | Percentage of the total number of shares in issue (%) |
|---|---|---|---|---|---|
| China Telecommunications Corporation | Domestic shares | Beneficial owner | 3,559,362,496 (L) | 78.49 | 51.39 |
| China Mobile Communications Corporation | Domestic shares | Beneficial owner | 608,256,000 (L) | 13.41 | 8.78 |
| China United Network Communications Group Company Limited | Domestic shares | Beneficial owner | 236,300,000 (L) | 5.21 | 3.41 |

| Name of shareholder | Type of shares | Capacity | Number of shares held | Percentage of the respective type of share (%) | Percentage of the total number of shares in issue (%) |
|---|---|---|---|---|---|
| BlackRock, Inc. | H Shares | Interest of corporation controlled by the substantial shareholder | 216,069,885 (L) | 9.04 | 3.12 |
| | | Interest of corporation controlled by the substantial shareholder | 212,000 (S) | 0.01 | 0.003 |
| Citigroup Inc. | H Shares | 8,077,171 shares as interest of corporation controlled by the substantial shareholder and 184,334,151 shares as custodian corporation/ approved lending agent | 192,411,322 (L) | 8.04 | 2.78 |
| | | Interest of corporation controlled by the substantial shareholder | 11,997,542 (S) | 0.50 | 0.17 |
| | | Custodian corporation/ approved lending agent | 184,334,151 (P) | 7.70 | 2.66 |
| JPMorgan Chase & Co. | H Shares | 33,151,826 shares as beneficial owner; 1,482,600 shares as investment manager and 133,458,800 shares as custodian corporation/ approved lending agent | 168,093,226 (L) | 7.02 | 2.43 |
| | | Beneficial owner | 11,680,000 (S) | 0.48 | 0.17 |
| | | Custodian corporation/ approved lending agent | 133,458,800 (P) | 5.58 | 1.93 |

Remarks:

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

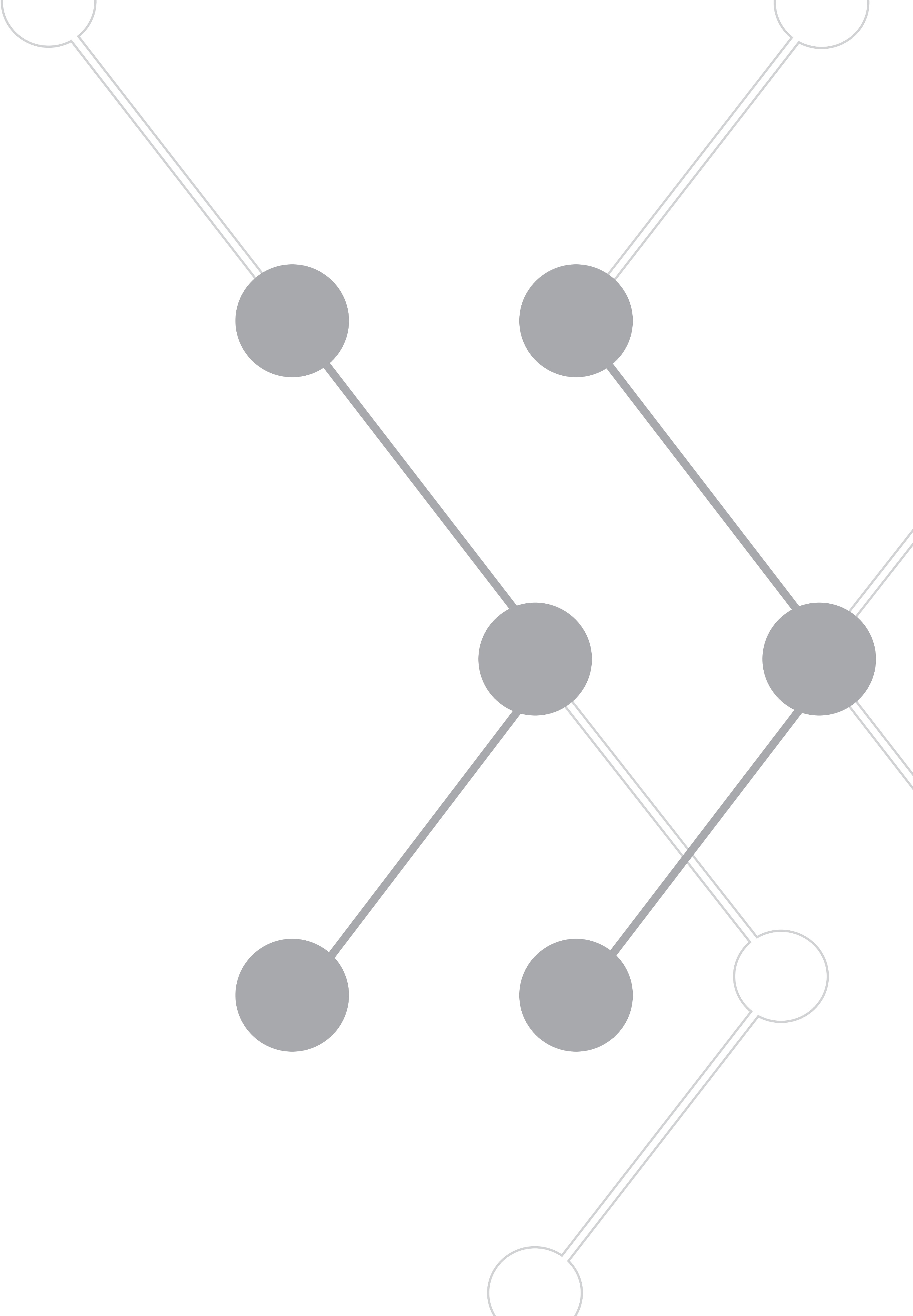
Save as stated above, as at 30 June 2016, in the register required to be maintained under Section 336 of the SFO, no other persons were recorded to hold any interests or short positions in the shares or underlying shares of the equity derivatives of the Company.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## FORWARD-LOOKING STATEMENTS

The Company would also like to caution readers about the forward-looking nature of certain of the above statements. These forward-looking statements are subject to risks, uncertainties and assumptions, which are beyond our control. Potential risks and uncertainties include those concerning the continued growth of the telecommunications market in China, the development of the regulatory environment and our abilities to successfully execute our business strategies. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. We do not intend to update these forward-looking statements. Actual results may differ materially from the information contained in the forward-looking statements as a result of a number of factors.



CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED
中國通信服務股份有限公司
**www.chinaccs.com.hk**

MIX
Paper from responsible sources
FSC™ C015530
www.fsc.org

Designed and Produced by: EDICO Financial Press Services Limited
設計及製作：鉅京財經印刷服務有限公司