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中国通信服务
CHINA COMSERVICE

中國通信服務股份有限公司
CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 552)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

HIGHLIGHTS

— Through developing diversified businesses and customers and the effective implementation of the business strategies, the Group continued to achieve solid and healthy growth in operating results and maintained largely stable profit margins.

- Total revenues were RMB44,888 million, up by 6.4%; in which revenue from Core Businesses amounted to RMB41,073 million, up by 12.0%.
- Profit attributable to equity shareholders of the Company was RMB1,469 million, up by 5.9%.
- Free cash flow was RMB2,002 million, continuously sustained at a healthy level.
- Gross profit margin and net profit margin were 12.7% and 3.3%, respectively.

CHAIRMAN'S STATEMENT

Dear Shareholders,

In the first half of 2017, the Group achieved solid operating performance and gradually enhanced operating efficiency by adhering to the overall philosophy of "value-driven, seeking steady yet progressive growth and efficient development" and the principle of "market-oriented, creating value for customers". Through capturing the window of opportunity from network construction of domestic telecommunications operators, continuing to focus on the "Two New Markets"[1], and further controlling the development of businesses with lower efficiency, the Group realized steady growth in revenue and profits, continued optimization in business structure, maintained largely stable profit margins, and its free cash flow[2] continued to sustain at a healthy level. The above indicated the quality of the Group's development was further reinforced, and new impetus for future development are emerging.

Overall Performance

During the first half of 2017, the Group overcame the challenges brought by the overall decline in the network construction investment of the telecommunications industry and maintained a stable fundamental operating performance by focusing on both the "CAPEX and OPEX-driven"[3] businesses and firmly capturing the various opportunities in the domestic telecommunications operator market. At the same time, the Group also strived to expand the domestic non-operator market while proactively controlled the products distribution business. As a result, the Group realized total revenues of RMB44,888 million, representing a year-on-year growth of 6.4%. Cost of revenues was RMB39,179 million, up by 6.5% compared to that of last year. Gross profit was RMB5,709 million, representing a year-on-year increase of 5.9%. Benefitting from the effective control of the products distribution business with lower efficiency and encouraging growth of high-value businesses, gross profit margin was 12.7% with a moderated downward trend. Selling, general and administrative expenses were RMB4,347 million, accounting for 9.7% of the total revenues and represented a continuous decline further from the corresponding period last year. Profit attributable to the equity shareholders of the Company was RMB1,469 million, representing a year-on-year growth of 5.9%, and net profit margin was 3.3%, maintaining at the same level as compared to the corresponding period last year. Basic earnings per share amounted to RMB0.212. Free cash flow sustained at a high and healthy level and amounted to RMB2,002 million.

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

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

[3] CAPEX and OPEX refer to the capital expenditure and operating expenditure of domestic telecommunications operators, respectively.

Structure Optimization

During the first half of 2017, although the revenue from the products distribution business recorded a year-on-year decrease of over 30%, the Group's revenue from its Core Businesses, which includes telecommunications infrastructure ("TIS") services, core business process outsourcing ("BPO") services[4], as well as applications, content and other ("ACO") services, amounted to RMB41,073 million, representing a year-on-year growth of 12.0%. The revenue proportions of Core Businesses to the total revenues increased by 4.5 percentage points to 91.5%. The Group's overall business structure was further optimized, and demonstrated remarkable results in its innovation and transformation.

Business Development

During the first half of 2017, the Group's revenue from TIS services amounted to RMB24,071 million, representing a year-on-year growth of 11.0% and accounting for 53.6% of the total revenues. We developed the domestic telecommunications operator market vigorously by capturing the important opportunities from the three domestic telecommunications operators including the window of opportunity for the construction of 4G network and fiber optic broadband network, etc., which assisted our customers to build superior and intelligentized networks, as well as capturing the construction and maintenance opportunities from China Tower[5]. By focusing on the flourishing demand from informatization construction of various industry sectors in China, we stepped up our effort to develop the TIS business of the domestic non-operator customers through cross-sector operation and cooperation among businesses. Among the revenue from TIS services, the revenue from China Telecom recorded a year-on-year growth of 16.9%, and the revenue from domestic telecommunications operator customers other than China Telecom recorded a year-on-year growth of 6.4%, while the revenue from domestic non-operator customers recorded a year-on-year growth of 20.3%. Rapid growth of the revenue of TIS services from domestic non-operator customers strongly supported the favourable overall development of such business, and such customer is becoming the new impetus for the future growth of the overall TIS business.

[4] Core BPO services include management of infrastructure for information technology (network maintenance), general facilities management and supply chain.

[5] The full name of China Tower is China Tower Corporation Limited.

During the first half of 2017, the Group's revenue from BPO services amounted to RMB15,864 million, representing a year-on-year decrease of 1.7% and accounting for 35.4% of the total revenues. The decrease was mainly due to the Group's persistence in transformation towards high-end businesses and continuous proactive control on the development of the products distribution business, which caused the revenue from such business to record a year-on-year decrease of 30.6%. Excluding such factor, the OPEX-related businesses, which has been the Group's development focus, recorded favourable development, and the revenue from the Core BPO services recorded a year-on-year growth of 13.2%, maintaining a double-digit growth momentum in the recent two years, and provided a stable source of revenue for the Group. Among that, the revenue from the maintenance business recorded a year-on-year growth of 17.0%, and the revenue from the supply chain business also recorded a year-on-year growth of 10.2%.

During the first half of 2017, the Group's revenue from ACO services amounted to RMB4,953 million, representing a year-on-year growth of 14.0% and accounting for 11.0% of the total revenues. The Group seized the intelligentization and informatization opportunities from customers, placed a strong emphasis on the development of high-value businesses and continued to facilitate the operation of its innovation fund. The commercialization of projects such as Smart Security, Smart Industrial Park, Cloud Security, etc., has achieved initial success. We proactively cooperated with external parties to create industrial ecosystem, and cooperated with renowned domestic and international manufacturers and organizations to jointly develop the big data business. We also had strategic cooperation with the government and industry partners in the quantum communications market of front edge technology.

Customer Development

During the first half of 2017, the Group leveraged on both "CAPEX and OPEX-driven" businesses as the dual growth drivers, and the revenue from the domestic telecommunications operator market amounted to RMB29,758 million, representing a year-on-year growth of 9.2% and accounting for 66.3% of the total revenues. Among that, the revenue from China Telecom was RMB18,273 million, representing a year-on-year growth of 11.2% and accounting for 40.7% of the total revenues. Attributable to the revenue from China Tower recording a robust year-on-year growth of 57.7%, the revenue from domestic telecommunications operator market other than China Telecom increased by 6.3% compared to the same period of last year and amounted to RMB11,485 million, accounting for 25.6% of the total revenues which remained at the same level compared to the corresponding period of last year.

During the first half of 2017, the Group's revenue from the domestic non-operator market was RMB13,748 million, representing a year-on-year increase of 7.5% and accounting for 30.6% of the total revenues. In particular, the revenue from the Core Businesses from domestic non-operator market recorded a year-on-year increase of 20.3%, accounting for 81.5% of the total revenues from such customer and representing an increase of approximately 8.7 percentage points compared to that of last year. During the first half of the year, while the revenue from products distribution business of such customer decreased by 26.7%, the Core Businesses of such customer recorded rapid growth, contributing to almost 70% of the Group's overall incremental revenues during the first half of 2017. Businesses with traditional advantages and businesses with potential both achieved favourable development in the domestic non-operator market and provided new impetus for the continuous growth of the Group's performance. In respect of our market expansion, we focused on key industries including government, transportation, Internet & IT, electricity, construction and property, etc., and obtained 170 large-scale projects with a scale of more than tens of millions of renminbi each, demonstrating a continued breakthrough from the existing business scale. The Group's effort in allocating resources to the targeted industries, further optimization of the sales and marketing mechanism, strengthening cooperation with operators to enhance our capabilities in synergistic development, has been bearing fruit gradually.

Due to the enhanced risk management of overseas businesses and active control of the development of overseas businesses with low efficiency by the Group, and impacts from cyclical fluctuations of overseas projects, the development of the Group's overseas business experienced temporary fluctuations. During the first half of 2017, revenue from overseas business amounted to RMB1,382 million, representing a year-on-year decrease of 35.8% and accounting for 3.1% of the total revenues. Despite the temporary decrease in revenue from overseas business, the Group continued to build project reserves proactively for turnkey projects in Africa and the Middle East, featuring FTTH, education network, and the upgrade and transformation of power networks. The preparation work for the trials in the four East African countries on the "China-Africa Partnership Program in Trans Africa Information Superhighway" Project has also been progressing.

Innovation and Transformation

The Group is committed to innovation and transformation. During the first half of 2017, we focused on the OPEX-driven maintenance business and launched the "Comservice Craftsmanship" competition to facilitate maintenance skills enhancement and promote integrated maintenance business vigorously. The Group continued to enlarge the scale of distribution chain stores, and the number of stores in China exceeded 1,000, while the number of stores under the unified brand of "中通福" (ZhongTongFu) increased further. The Group also unified the brand for the facilities management business and completed the trademark registration for "中通服置業" (ZhongTongFu Zhiye) and "中通服物業" (ZhongTongFu Wuye). In addition, the establishment of Comservice Capital Holding Company Limited (通服資本控股有限公司) indicated a meaningful step for the Group in entering the finance sector related businesses to facilitate the consolidation of internal financial resources, improvement in capital utilization efficiency and the integration of finance with industrial development which ultimately push forward project development through investment and financing.

Corporate Governance

The Group's standardized and effective corporate governance standards have always been highly recognized in the capital market. In the "7th Asian Excellence Recognition Awards" organized by *Corporate Governance Asia*, a renowned corporate governance journal in Asia, myself and Ms. Hou Rui, the Chief Financial Officer and Executive Vice President of the Company, were once again awarded the "Best CEO" and "Best CFO" respectively. Meanwhile, the Group also won the "Best Investor Relations" Award. In 2017, the Group ranked 79th in the "2017 FORTUNE China 500" released by *FORTUNE China*.

Social Responsibilities

As a leading service provider in the informatization sector in China, the Group has always endeavoured to fulfil its social responsibilities, taking practical action to reward customers and the society.

In April 2017, the 2017 Global Future Network Development Summit was held in Nanjing. Acting as the communications security unit for this Summit, the Group deployed staff of construction, maintenance, and security for approximately 300 person-times to test and optimize the communication network of the conference venue and its surrounding areas to ensure stable network operation and normal communication signal coverage in key areas. Our work was highly recognized by the organizer of the Summit.

The Group has always fought on the frontline for communications restoration in disaster relief. In the first half of 2017, shortly after Typhoon Merbok made landfall in Guangdong and floods occurred in the Jiangxi, Hunan, and Guangxi region, the Group promptly initiated contingency plans, organized manpower to commence repair works, and restored a total of nearly 2,800 communications facilities.

Prospects

2017 marks a significant year for the Group's innovation and transformation. Society informatization develops rapidly, industrial internet brings new opportunities, and operators' transformation towards its ecosystem indicates that the ecological competition has become a prominent trend. Adhering to our overall philosophy of "value-driven, seeking steady yet progressive growth and efficient development", we will transform our impetus of growth in accordance with changes in the market environment, accelerate business deployment, solidify the foundation for development through promoting corporate vitality, enhancing capabilities and strengthening executions of the Group, thereby grasping the new opportunities brought by the intelligent informatization era.

The domestic telecommunications operator market is the Group's business development fundamentals. To secure a stable fundamental operating performance, we will adhere to the direction of the government's supply-side structural reform, adjust our mindset of development, closely follow the opportunities brought by the transformations of operators, capture the window of opportunity from CAPEX and leverage OPEX as the driving force for growth. At the same time, we will focus on expanding high-value integrated maintenance business and assist operators to build intelligentized and superior networks. The Group will also seize the opportunities from integrated construction and maintenance of China Tower and reinforce its market share in such market. Through the provision of maintenance services and penetration into the operators' ecosystem of businesses, the Group could facilitate the enhancement of our service value and customer loyalty. Meanwhile, the Group will extend its maintenance capabilities and experience of serving operators to speed up business deployment over other aspects, innovate business model, thus laying the foundation for future businesses expansion.

The domestic non-operator market is one of the new growth engines for the Group's future development, and we will put more emphases of our development on such market. We will continue to leverage on our existing business capabilities into the development of such market, devote more efforts on resource allocation, optimize the sales and marketing mechanism and strengthen cooperation in wider aspects and cross-sector operation. We will focus on achieving breakthroughs in key customers as represented by the industry sectors such as electricity, transportation, information security, etc., with a view to enlarging revenue scale, nurturing pan-operators customer, as well as developing sustainable and recurrent businesses. In order to adapt to new market demands, we will continue to integrate resources, actively develop group-level products, and facilitate the commercialization of our projects and services, with a view to building our brand in the emerging ICT sector.

In terms of overseas market development, the Group believes that national policies support becomes more explicit as the implementation of the "Belt and Road" Initiative deepens, which implies a huge development potential for the future. We will capture the opportunities, especially those arising from Africa, the Middle East and Southeast Asia, and strive to develop businesses with competitive advantages. The Group will leverage on existing experience and project cases to develop the overseas market of various industries such as electricity, education, etc. With the goal to increase overseas market revenue scale and expedite the Group's development, we will strengthen cooperation with financial partners and continue to push forward our "China-Africa Partnership Program in Trans Africa Information Superhighway" Project.

The Group will remain committed to the innovation of its system and mechanism and the enhancement of management efficiencies by continuous optimization of its organizational structure and construction of a flat structure. The Group will commence in-depth integration of its specialized subsidiaries and broaden the scope of its synergistic business operation to raise operating capabilities. Through the "value-driven" appraisal system and market-oriented remuneration mechanism, the Group will stimulate vitality among its employees and within the Group. We will show our care and share our fruits of development with employees to increase their sense of belonging.

We will seize the most opportune time for development, rise up to challenges, and create a favourable foundation for the future, with a view to generating sound performance in return for the support of our shareholders.

Finally, on behalf of the Board, I would like to express my sincere welcome to Mr. Shao Guanglu for joining the Board in June this year. 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
30 August 2017

GROUP RESULTS

China Communications Services Corporation Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2017 extracted from the unaudited financial information of the Group as set out in its 2017 Interim Report.

Consolidated Statement of Profit or Loss (Unaudited)
For the six months ended 30 June 2017

	Notes	Six months ended 30 June **2017** *RMB'000*	2016 *RMB'000*
Revenues	*5*	**44,888,394**	42,175,618
Cost of revenues	*6*	**(39,178,948)**	(36,784,008)
Gross profit		**5,709,446**	5,391,610
Other operating income	*7*	**412,110**	431,791
Selling, general and administrative expenses		**(4,346,851)**	(4,136,824)
Other operating expenses		**(32,592)**	(40,135)
Finance costs	*8*	**(21,904)**	(20,967)
Share of profits of associates		**25,624**	35,144
Profit before tax	*9*	**1,745,833**	1,660,619
Income tax	*10*	**(270,658)**	(269,603)
Profit for the period		**1,475,175**	1,391,016
Attributable to:			
Equity shareholders of the Company		**1,468,668**	1,386,347
Non-controlling interests		**6,507**	4,669
Profit for the period		**1,475,175**	1,391,016
Basic earnings per share (RMB)	*13*	**0.212**	0.200

Consolidated Statement of Profit or Loss and Other Comprehensive Income (Unaudited)
For the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
	Notes	***RMB'000***	*RMB'000*
Profit for the period		**1,475,175**	1,391,016
Other comprehensive (expense)/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		**(18,471)**	9,248
Available-for-sale securities:			
Net movement in the fair value reserve	*11*	**(3,126)**	(10,919)
		(21,597)	(1,671)
Total comprehensive income for the period		**1,453,578**	1,389,345
Attributable to:			
Equity shareholders of the Company		**1,447,115**	1,384,642
Non-controlling interests		**6,463**	4,703
Total comprehensive income for the period		**1,453,578**	1,389,345

Consolidated Statement of Financial Position (Unaudited)
At 30 June 2017

	Notes	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
Non-current assets			
Property, plant and equipment, net		**3,956,753**	4,215,616
Investment properties		**628,188**	607,923
Construction in progress		**489,127**	454,339
Lease prepayments		**749,278**	760,240
Goodwill		**103,005**	103,005
Other intangible assets		**252,265**	271,193
Interests in associates		**214,639**	144,405
Available-for-sale financial assets		**883,021**	866,386
Deferred tax assets		**550,119**	479,996
Other non-current assets		**565,946**	149,525
Total non-current assets		**8,392,341**	8,052,628
Current assets			
Inventories		**2,086,219**	2,221,334
Accounts and bills receivable, net	*14*	**33,215,318**	29,362,985
Prepayments and other current assets		**6,937,353**	6,740,547
Restricted deposits		**2,593,160**	2,892,408
Cash and cash equivalents		**14,773,187**	13,324,079
Total current assets		**59,605,237**	54,541,353
Total assets		**67,997,578**	62,593,981
Current liabilities			
Interest-bearing borrowings		**59,004**	46,697
Accounts and bills payable	*15*	**24,231,356**	20,399,409
Receipts in advance for contract work		**3,544,345**	4,046,097
Accrued expenses and other payables		**11,250,238**	9,730,662
Income tax payable		**348,396**	351,647
Total current liabilities		**39,433,339**	34,574,512
Net current assets		**20,171,898**	19,966,841
Total assets less current liabilities		**28,564,239**	28,019,469

Consolidated Statement of Financial Position (Unaudited) (Continued)
At 30 June 2017

	Notes	**30 June 2017 *RMB'000* (unaudited)**	31 December 2016 *RMB'000* (audited)
Non-current liabilities			
Interest-bearing borrowings		**18,968**	17,343
Other non-current liabilities		**944,278**	942,076
Deferred tax liabilities		**12,482**	12,268
Total non-current liabilities		**975,728**	971,687
Total liabilities		**40,409,067**	35,546,199
Equity			
Share capital	*16*	**6,926,018**	6,926,018
Reserves		**20,181,677**	19,647,411
Equity attributable to equity shareholders of the Company		**27,107,695**	26,573,429
Non-controlling interests		**480,816**	474,353
Total equity		**27,588,511**	27,047,782
Total liabilities and equity		**67,997,578**	62,593,981

Notes:

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 2016 annual financial statements. The condensed consolidated financial statements and notes thereof do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs"). IFRSs include all applicable IFRSs, International Accounting Standards ("IASs") and related interpretations.

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

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 2016, 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 IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS12	As part of the Annual Improvements to IFRSs 2014–2016 Cycle

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.

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	
	2017	2016
	RMB'000	*RMB'000*
Revenue from telecommunications infrastructure services	**24,071,435**	21,686,537
Revenue from business process outsourcing services	**15,863,997**	16,143,790
Revenue from applications, content and other services	**4,952,962**	4,345,291
	44,888,394	42,175,618

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 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 2017 amounted to RMB18,273 million and RMB7,876 million respectively (six months ended 30 June 2016: RMB16,435 million and RMB7,842 million respectively), being 40.7% and 17.5% of the Group's total revenues respectively (six months ended 30 June 2016: 39.0% and 18.6% respectively). The revenue derived from areas outside Mainland China for the six months ended 30 June 2017 amounted to RMB1,382 million (six months ended 30 June 2016: RMB2,152 million).

For the six months ended 30 June 2017, the Group's first three businesses that contributed to the overall revenues were construction, management of infrastructure for information technology and design, the revenues from which amounted to RMB17,235 million, RMB5,802 million and RMB5,089 million, respectively (six months ended 30 June 2016: The Group's first three businesses that contributed to the overall revenues were construction, products distribution and management of infrastructure for information technology, the revenues from which amounted to RMB16,042 million, RMB5,496 million and RMB4,958 million, respectively).

6. COST OF REVENUES

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Depreciation and amortisation	**237,939**	222,605
Direct personnel costs	**4,101,251**	3,952,385
Operating lease charges	**619,995**	587,603
Materials costs	**4,124,385**	4,279,181
Direct costs of products distribution	**3,519,540**	5,114,033
Subcontracting charges	**22,423,871**	19,413,318
Others	**4,151,967**	3,214,883
	39,178,948	36,784,008

7. OTHER OPERATING INCOME

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Interest income	**94,740**	84,426
Dividend income from unlisted securities	**76,813**	50,628
Government grants	**111,266**	105,835
Gain on disposal of investments	**–**	35,822
Gain on disposal of property, plant and equipment	**1,451**	1,631
Penalty income	**1,242**	1,566
Management fee income	**104,528**	123,694
Others	**22,070**	28,189
	412,110	431,791

8. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Interest on bank and other borrowings	**4,707**	5,761
Interest for convertible preference shares and preference shares	**17,197**	15,206
	21,904	20,967

For the six months ended 30 June 2017 and 2016, 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	
	2017	2016
	RMB'000	*RMB'000*
(a) Staff costs:		
Salaries, wages and other benefits	**6,403,460**	6,189,190
Contributions to defined contribution retirement schemes	**586,113**	547,808
	6,989,573	6,736,998
(b) Other items:		
Amortisation	**72,832**	56,467
Depreciation	**352,002**	362,153
Materials costs	**4,124,385**	4,279,181
Direct costs of products distribution	**3,519,540**	5,114,033
Inventory write-down and losses, net of reversals	**18,622**	3,065
Impairment losses on accounts and other receivables	**100,264**	122,496
Reversal of impairment losses on accounts and other receivables	**(26,432)**	(33,265)
Changes in fair value of financial derivatives	**1,015**	1,370
Operating lease charges	**744,173**	721,432
Research and development costs	**1,012,452**	887,391

The selling expenses, general and administrative expenses and other expenses of the Group are RMB658 million, RMB3,414 million and RMB275 million (six months ended 30 June 2016: RMB638 million, RMB3,278 million and RMB221 million) respectively for the six months ended 30 June 2017. Research and development costs include staff costs of RMB816 million (six months ended 30 June 2016: RMB686 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	
	2017	2016
	RMB'000	*RMB'000*
Current tax		
Income tax	**340,015**	311,820
Deferred tax		
Origination and reversal of temporary differences	**(69,357)**	(42,217)
Total income tax	**270,658**	269,603

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Profit before tax	**1,745,833**	1,660,619
Expected income tax expense at a statutory tax rate of 25% (six months ended 30 June 2016: 25%)	**436,458**	415,155
Differential tax rates on subsidiaries' profits *(note (i))*	**(135,192)**	(131,635)
Non-deductible expenses *(note (ii))*	**25,711**	32,645
Non-taxable income	**(27,518)**	(27,340)
Tax losses not recognised	**41,397**	51,302
Utilisation of previously unrecognised tax losses	**(6,300)**	(10,100)
Over provision in respect of prior years	**(12,120)**	(10,396)
Effect of tax exemptions	**(70)**	(2,690)
Others *(note (iii))*	**(51,708)**	(47,338)
Income tax	**270,658**	269,603

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 2017 and 2016, 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	
	2017	2016
	RMB'000	*RMB'000*
Changes in fair value recognised during the period	**(3,678)**	(12,847)
Net deferred tax charged to other comprehensive income	**552**	1,928
Net movement in the fair value reserve during the period recognised in other comprehensive income	**(3,126)**	(10,919)

12. DIVIDENDS

(a) Dividends attributable to the period

The Board of Directors does not propose the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: nil).

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved during the period of RMB0.1098 per share (2016: RMB0.1011 per share)	**760,477**	700,220
Special dividend in respect of the previous financial year, approved during the period of RMB0.0220 per share (2016: RMB0.0101 per share)	**152,372**	69,953
	912,849	770,173

No final dividend or special dividend was paid during the six months ended 30 June 2017 and 2016.

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 2017 of RMB1,469 million (six months ended 30 June 2016: RMB1,386 million) and the number of shares in issue during the six months ended 30 June 2017 of 6,926,018 thousand shares (six months ended 30 June 2016 of 6,926,018 thousand shares).

14. ACCOUNTS AND BILLS RECEIVABLE, NET

	At 30 June 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Bills receivable	**124,850**	74,620
Unbilled revenue for contract work	**8,315,916**	7,027,415
Trade receivables	**26,160,137**	23,587,948
	34,600,903	30,689,983
Less: impairment losses	**(1,385,585)**	(1,326,998)
	33,215,318	29,362,985

(a) Included in accounts and bills receivable are amounts due from CTC Group, associates of the Group and associates of CTC Group of RMB20,817 million as at 30 June 2017 (31 December 2016: RMB18,393 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 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Current *(note)*	**13,848,703**	12,914,339
Within 1 year	**16,594,955**	14,027,398
After 1 year but less than 2 years	**1,818,574**	1,545,520
After 2 years but less than 3 years	**943,873**	875,728
After 3 years	**9,213**	–
Amount past due	**19,366,615**	16,448,646
	33,215,318	29,362,985

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

(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 2017 *RMB'000*	At 31 December 2016 *RMB'000*
At 1 January	**1,326,998**	1,081,377
Impairment loss recognised	**81,873**	416,452
Reversal of impairment loss previously recognised	**(22,313)**	(154,854)
Uncollectible amounts written off	**(973)**	(15,977)
At 30 June/31 December	**1,385,585**	1,326,998

At 30 June 2017, accounts and bills receivable of RMB2,270 million were individually determined to be impaired (31 December 2016: RMB1,322 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 RMB617 million were recognised (31 December 2016: RMB671 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 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Neither past due nor impaired	**13,848,703**	12,914,339
Past due but not impaired		
Within 1 year	**12,856,034**	13,064,706
After 1 year but less than 2 years	**929,985**	917,257
After 2 years but less than 3 years	**538,801**	531,054
After 3 years	**9,213**	–
	28,182,736	27,427,356

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

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.

15. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	At 30 June 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Accounts payable	**23,427,994**	18,850,843
Bills payable	**803,362**	1,548,566
	24,231,356	20,399,409

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

	At 30 June 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Within 1 year	**22,225,302**	18,582,995
After 1 year but less than 2 years	**1,316,708**	1,172,268
After 2 years but less than 3 years	**342,940**	357,027
After 3 years	**346,406**	287,119
	24,231,356	20,399,409

Included in accounts and bills payable are amounts due to CTC Group, associates of the Group and associates of CTC Group of RMB1,325 million as at 30 June 2017 (31 December 2016: RMB1,034 million), which are unsecured, interest free and are expected to be settled within one year.

16. SHARE CAPITAL

	At 30 June 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Registered, issued and fully paid:		
4,534,598,160 (31 December 2016: 4,534,598,160) Domestic shares of RMB1.00 each	**4,534,598**	4,534,598
2,391,420,240 (31 December 2016: 2,391,420,240) H shares of RMB1.00 each	**2,391,420**	2,391,420
	6,926,018	6,926,018

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 announcement, 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 2016 Annual Report.

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 2017.

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 2017, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules to govern securities transactions by the directors and supervisors of the Company. The Company has made specific enquiries to the directors and supervisors, and each of the directors and supervisors has confirmed his/her compliance with the Model Code in connection with the transactions of the Company's securities for the six months ended 30 June 2017.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

INTERIM REPORT

The Interim Report for the six months ended 30 June 2017 will be despatched to shareholders and made available on the HKExnews website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.chinaccs.com.hk) in due course.

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 growth of the telecommunications industry in China, the development of the regulatory environment and our ability to successfully execute our business strategies. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. We do not intend to update these forward-looking statements. Actual results of the Company may differ materially from the information contained in the forward-looking statements as a result of a number of factors.

Beijing, PRC
30 August 2017

As at the date of this announcement, our executive directors are Mr. Sun Kangmin, Mr. Si Furong and Ms. Hou Rui, our non-executive directors are Mr. Li Zhengmao and Mr. Shao Guanglu, and our independent non-executive directors are Mr. Zhao Chunjun, Mr. Siu Wai Keung, Francis, Mr. Lv Tingjie, Mr. Wu Taishi and Mr. Liu Linfei.