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 2019

HIGHLIGHTS

- Overall results of the Group maintained steady growth against the backdrop of slower growth and even decrease in revenue in the domestic telecommunications industry. Total revenues were RMB56,049 million, up by 10.4%; profit attributable to equity shareholders of the Company was RMB1,712 million, up by 7.3%, with net profit margin remained relatively stable at 3.1%.

- The Group's growth momentum transformed noticeably, with the domestic non-telecom operator market and OPEX-driven business of the domestic telecommunications operator market being the key growth drivers.

- The Group further upgraded its software service capabilities and enhanced its brand influence, with revenue growth of the software related services surpassed industry level.

- The Group's new positioning of "New Generation Integrated Smart Service Provider" will steer the Company to capture the new demands arising from the new era of digital transformation.

CHAIRMAN'S STATEMENT

Dear Shareholders,

In the first half of 2019, against the backdrop of slower growth and even decrease in revenue in the domestic telecommunications industry, the Group adhered to the overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" and captured the opportunities from "Cyberpower", "Digital China" and "Smart Society", enabling the Group to achieve favourable operating results and noticeable transformation of growth momentum for its development. In particular, domestic non-telecom operator market, being the largest customer and revenue contributor of the Group for the first time, steered the Group's development. The sound development in the business process outsourcing ("BPO") services and the rapid growth in the applications, content and other ("ACO") services in the domestic telecommunications operator market supported the stable development in such market, and the fundamentals of the Group's operation remained solid. The favourable new growth momentum and robust operating fundamentals endowed new capabilities and vitalities to the Group, which effectively defend us against the pressure and risks arising from the economic restructuring and change in industrial cycle, boost the endogenous power for enterprise development, thus laying a solid foundation for the Group to keep striding towards high-quality development.

Operating Performance

In the first half of 2019, the Group's total revenues amounted to RMB56,049 million, representing a year-on-year increase of 10.4%, among which, revenue from the Core Businesses[1] recorded a year-on-year increase of 11.8%, sustaining a favourable growth momentum. Cost of revenues was RMB49,749 million, representing a year-on-year increase of 11.5%. Gross profit was RMB6,300 million, representing a year-on-year increase of 2.0%. Due to factors including the further progression on the adjustment of the domestic economic structure, development of the domestic non-telecom operator market still being in the preliminary introductory phase and the rigidity of labour costs, the Group's gross profit margin was 11.2%, representing a year-on-year decrease of 1.0 percentage point. While increasing the investment in research and development, the Group enhanced its synergistic operation and continued to optimize resource allocation, and its selling, general and administrative expenses amounted to RMB4,985 million, accounting for 8.9% of total revenues and representing a year-on-year decrease of 0.3 percentage point. Profit attributable to equity shareholders of the Company was RMB1,712 million, representing a year-on-year increase of 7.3%, with net profit margin of 3.1%, which was largely the same as the same period of last year. Basic earnings per share amounted to RMB0.247, representing a year-on-year increase of 7.3%. Free cash flow[2] was RMB–425 million, mainly affected by the change in pace of collection and payment in the first half of the year.

1 Core Businesses include telecommunications infrastructure services, business process outsourcing services (excluding products distribution), as well as applications, content and other services.

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

Market Expansion

In the first half of 2019, the Group expedited the deployment in the domestic non-telecom operator market and effectively leveraged on its smart products and integrated solutions to realize rapid revenue growth in such market. Meanwhile, the Group accelerated its integration into the domestic telecommunications operators' ecosystems and realized a stable development in such market attributable to the OPEX-driven business, as well as smart application businesses.

The Group's revenue from the domestic non-telecom operator market amounted to RMB21,065 million, representing a rapid year-on-year increase of 28.5% and accounting for 37.6% of total revenues, making it the largest customer of the Group for the first time and contributing 88.8% of the total incremental revenues for the first half of the year. Revenue from the Core Businesses in the domestic non-telecom operator market increased at an even faster pace, of which the year-on-year growth rate was 33.3%, accounting for 91.5% of the revenue from such market which represented a year-on-year increase of 3.4 percentage points. Focusing on the key sectors including government, transportation, electricity, parks and intelligent building, the Group increased its investment in research and development, intensified its efforts in cultivating smart products, and continuously penetrated into industry opportunities by means of capabilities accumulation and capabilities enabling through its Ecosystem Alliances on Smart City, Internet of Things ("IoT"), Cloud Computing, etc., for the purpose of providing customers with integrated comprehensive solutions that support their informatization construction and create value for customer development. While promoting the transformation of its businesses, the Group also realized fast and sound development in such market.

In the domestic telecommunications operator market, the Group persisted in the development strategy of "CAPEX and OPEX-driven"[3] businesses as dual growth drivers, and not only captured the demand for network construction, but also expanded operation and maintenance support businesses vigorously. Besides, the Group combined traditional services with smart businesses to support the transformation and upgrade of domestic telecommunications operator customers and the development of new ICT businesses. Upon the issuance of 5G licenses by MIIT[4] in June 2019, domestic telecommunications operators further accelerated their deployment of 5G and adjusted their investment structure. However, operators' investment in 5G network has yet to come in scale. The revenue from such market maintained stable and recorded RMB33,645 million, representing a year-on-year increase of 2.1% and accounting for 60.0% of total revenues. Among that, revenue from China Telecom was RMB18,351 million, remained relatively at the same level as compared with the same period of last year and accounted for 32.7% of total revenues. Revenue from domestic telecommunications operator customers other than China Telecom was RMB15,294 million, representing a year-on-year increase of 4.9% and accounting for 27.3% of total revenues.

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

[4] MIIT refers to the Ministry of Industry and Information Technology of the People's Republic of China.

Affected by the progress of new overseas projects' commencement, revenue from overseas market of the Group amounted to RMB1,339 million, representing a year-on-year decrease of 7.4% and accounting for 2.4% of total revenues. The Group attaches great importance to overseas business development. By focusing on the opportunities from the "Belt and Road", the Group captured the demand for overseas network infrastructures and digitalization construction. By capitalizing on the cooperation opportunities with domestic telecommunications operators and "Go Abroad" Chinese enterprises, as well as the valuable experiences accumulated in the domestic non-telecom operator market, we continued to expand and increase the reserve of turnkey projects.

Business Development

In the first half of 2019, all the three businesses of the Group obtained favourable development. Revenue from telecommunications infrastructure ("TIS") services amounted to RMB30,801 million, representing a year-on-year increase of 8.7% and accounting for 55.0% of total revenues. We continued to seize the opportunities arising from the construction of Digital Economy and Smart Society in China, and penetrated into the full life cycle demands of domestic non-telecom operator customers by capitalizing on the "Consultant + Staff"[5] business model to provide them integrated informatization construction services including consultation, planning and construction, thereby driving the TIS revenue growth in such market. Revenue from TIS services in domestic non-telecom operator market amounted to RMB10,665 million, representing a year-on-year rapid increase of 46.6%, being the largest driving force of revenue growth for TIS services. In the first half of 2019, domestic telecommunications operators deployed 5G network construction while adjusting investment structure, and TIS revenue from domestic telecommunications operator market recorded a year-on-year decrease of 4.1% and amounted to RMB19,200 million.

In the first half of 2019, revenue from BPO services amounted to RMB18,128 million, representing a year-on-year increase of 9.2% and accounting for 32.3% of total revenues. Among that, Core BPO services[6] (i.e. BPO services excluding the products distribution business) progressed well and revenue from which recorded a year-on-year increase of 14.1%. The Group further enhanced the synergistic operation of general facilities management and supply chain businesses, both of which recorded a year-on-year increase of over 15%. Revenue from network maintenance business also increased by 11.3% year-on-year. Revenue from the products distribution business under continuous control by the Group recorded a year-on-year decrease of 16.0%, with its contribution to total revenues decreased by 1.2 percentage points to 4.1% as compared with the same period of last year.

5 "Consultant + Staff" model is a new business model adopted by the Group in recent years. "Consultant" means that the Group acts as the "Consultant" to help its customers through leveraging on its talents and products advantages, so as to turn customers' needs into feasible solutions or projects. "Staff" means that the Group, as appointed by its customers, assists them in the capacity of a "Staff" in coordinating other stakeholders of the project, so as to promote the smooth implementation of the project and ensure that its customers' expectation could be achieved.

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

In the first half of 2019, revenue from ACO services amounted to RMB7,120 million, representing a year-on-year increase of 21.6% and maintaining a good growth trend. The revenue contribution from ACO services to total revenues consistently increased in the past few years and reached 12.7% in the first half of 2019, which was 1.2 percentage points higher year-on-year. The Group adapted to the trend of Digital Economy, focused on the demand for informatization and intelligentization construction of industry customers and provided increasingly enriched and diversified smart products[7] and services to them. In addition, the Group's software service capabilities were enhanced continuously, driving the revenue of ACO Major businesses[8] to increase by 25.8% year-on-year, which surpassed the growth rate of national software business revenue[9].

Deepening Transformation

In the first half of 2019, facing the new trend of Digital Economy era, the Group put forward the new positioning of "New Generation Integrated Smart Service Provider" and continuously enhanced internal capabilities and strengthened development momentum.

The Group continued to promote the construction of foundation platform capabilities, increased the investment in research and development of "CCSYUN" (our cloud service) and IoT platforms and enhanced the promotion and application thereof. By utilizing its industrial alliances[10] and group-level research institutes, the Group improved the construction of internal and external ecosystems, and converged internal and external resources to enhance capability to respond and deploy new markets and new technologies in foresight. By fully promoting the "Consultant + Staff" business model, which is led by consulting and planning with smart products embedded, we enhanced the capabilities of promoting the sizable project expansion. The Group promoted the integration of financial solutions with industrial development, as well as strengthening business incubation and exploring new business model for such integration through Comservice Capital Holding Company Limited.

In addition, the Group's branding and industry influence was effectively enhanced. In the first half of 2019, the Group was ranked 5th in the "100 Most Competitive Software & IT Service Enterprises 2019", right after the leading enterprises in the field. By participating in various national expositions including China International Big Data Industry Expo, the Group's philosophy of cooperation and co-development was delivered to society and customers, and gained wide recognition.

7 Currently, the number of group-level smart products has increased to over 30.

8 ACO Major businesses include system integration, software development & system support and value-added services.

9 According to information released by MIIT, national software business revenue recorded a year-on-year growth of 15.0% in the first half of 2019.

10 Current industrial alliances of the Group include: Smart City Alliance, Cloud Computing Alliance, IoT Alliance, Network Security Alliance, Smart Transportation Alliance and Internet of Energy Alliance, etc.

Corporate Governance

The Group continued to fortify its corporate governance, and in August 2019, the Board of Directors of the Company established the Strategy Committee to strengthen the study of corporate strategies and promote better implementation of such strategies, as well as continuously enhancing the capabilities for sustainable development. The Group's consistently sound corporate governance has been recognized by the capital market for consecutive years. In the 2019 "9th Asian Excellence Recognition Awards" organized by *Corporate Governance Asia*, an authoritative journal on corporate governance in Asia, Mr. Si Furong, an Executive Director and the President of the Company, was awarded the "Best CEO" and the Company was also awarded "Best Investor Relations". At the same time, the Group was ranked 86th in the "2019 FORTUNE China 500" released by *FORTUNE China*.

Social Responsibilities

As a responsible listed company, the Group has always emphasized on the fulfilment of social responsibilities. In the first half of 2019, the Group executed various tasks thoroughly in relation to poverty alleviation in accordance with the government's work instruction, particularly in Xinjiang, Guangxi and Sichuan, and proactively facilitated the implementation of industrial poverty alleviation projects in local areas. The Group also organized its staff to make charitable donation and total donations during the year reached over RMB4 million.

Attributable to the Group's focus on energy-saving management, energy consumption per unit of revenue dropped continuously. The Group has promoted energy-saving products and services in the disposal of waste materials, contracted energy management and green IDC solutions, enabling customers to save energy, reduce emission and achieve green operation.

The Group has actively made best efforts in various rescue, relief and telecommunication support programs. During the first half of the year, the Group made its frontline presence in the disaster-stricken areas such as the earthquake in Yibin, the forest fire in Liangshan and the flood disasters caused by Typhoon Lekima to provide "lifeline" for communication. Meanwhile, as the general contractor for the Smart Expo, the Group provided integrated smart services for Beijing International Horticultural Exhibition. Acting as the essential support team, the Group also rendered telecommunication support services to events such as Boao Forum for Asia and China International Cultural Industries Fair and received recognition from government and relevant partners.

Outlook

Currently, the macro-economy is growing steadily and progressively, the industry structural upgrade is accelerating, contribution from domestic demand is rising and the service sector commands vast market potential. Digital Economy becomes a new impetus for economic development with 5G, IoT, Cloud Computing, Artificial Intelligence as well as Big Data entering into the substantive development stage. China's expedition on the deployment for synergistic development of three major economic zones[11] and Yangtze River Economic Belt, further development along the "Belt and Road" and the vigorous demand for construction of a Smart Society in China and overseas, will all create new business opportunities. In view of the issuance of 5G licenses, the Company believes that it will not only bring traditional business opportunities to the Group including network infrastructure construction as well as operation and maintenance, but also give rise to new demands arising from digital transformation of industries, Industrial Internet and more maintenance, operation and support services in relation to IoT. The emergence of the above new demands, coupled with the Group's diversified smart solutions established and valuable practical experiences accumulated in various industries in recent years, is expected to bring sustainable and significant strategic opportunities for the Group in the future.

Focusing on the main development tracks, the Group will continue to upgrade its "cross-platform, cross-connection, cross-application, cross-region and cross-supplier" core service capabilities, as well as strengthening its effort on innovation and transformation with a view to promoting high-quality development.

The domestic non-telecom operator market is an important driver for the Group's business growth in the future. In this market, by capturing the opportunities of "Cyberpower", "Digital China" and "Smart Society", the Group will further penetrate into key sectors such as government, transportation and electricity, and accelerate the deployment of Industrial Internet. The Group will focus on the needs of customers, increase investment in research and development, improve the internal and external ecosystems, and build the core capabilities and brand influence as "New Generation Integrated Smart Service Provider" with a view to promoting fast, sustainable and healthy development of such market.

The domestic telecommunications operator market is the fundamentals of the business development of the Group. By capturing the opportunities arising from 5G network construction, network information security as well as cloud-network integration, and integrating into the domestic operators' business ecosystems, the Group will deeply penetrate into CAPEX business, broaden OPEX business, and provide high-quality, standardized services to customers and support their transformation and upgrade, with a view to maintaining the Group's stable fundamentals.

[11] Three major economic zones: Yangtze River Delta Economic Zone, Pearl River Delta Economic Zone and Bohai Rim Economic Zone.

In overseas market, we will capture the opportunities from the "Belt and Road", focus on "EPC+F+I+O+S"[12] model and strive to develop sizable turnkey projects. In response to the strong overseas demand for informatization, the Group will promote its smart products and services in overseas market to explore new drivers of growth. Meanwhile, the Group will strengthen its collaboration with domestic telecommunications operator customers, "Go Abroad" Chinese enterprises, and local partners to expand overseas market and seek new breakthroughs for the development of overseas business.

It is now a crucial period for economic transformation and upgrade as well as the industrial reform, and the new era signifies new opportunities to the Group. The Group, as a "New Generation Integrated Smart Service Provider", will leverage on State-owned Enterprise Reform to accelerate its pace on reform and commence a new round of transformation. We will adhere to the principle of value-driven, seeking steady yet progressive growth while striving towards high-quality development, and reward our shareholders and customers with better results and performance.

Finally, on behalf of the Board, I would like to express my sincere gratitude to our shareholders, customers and all sectors of society for their long-term attention and support. I would also like to deeply thank all our employees for their continued dedication and hard work.

Zhang Zhiyong
Chairman

Beijing, PRC
27 August 2019

[12] EPC+F+I+O+S: EPC (Engineering, Procurement, Construction)+ Finance + Investment + Operation + Solution

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 2019 extracted from the unaudited financial information of the Group as set out in its 2019 Interim Report.

Consolidated Statement of Profit or Loss (Unaudited)
For the six months ended 30 June 2019

		Six months ended 30 June	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
Revenues	*5*	**56,049,087**	50,792,100
Cost of revenues	*6*	**(49,748,991)**	(44,616,496)
Gross profit		**6,300,096**	6,175,604
Other operating income	*7*	**684,892**	444,312
Selling, general and administrative expenses		**(4,984,907)**	(4,660,717)
Other operating expenses		**(62,560)**	(61,794)
Finance costs	*8*	**(32,731)**	(8,031)
Share of profits of associates and joint ventures		**67,440**	52,809
Profit before tax	*9*	**1,972,230**	1,942,183
Income tax	*10*	**(271,085)**	(338,685)
Profit for the period		**1,701,145**	1,603,498
Attributable to:			
Equity shareholders of the Company		**1,711,578**	1,595,476
Non-controlling interests		**(10,433)**	8,022
Profit for the period		**1,701,145**	1,603,498
Basic earnings per share (RMB)	*13*	**0.247**	0.230

Consolidated Statement of Profit or Loss and Other Comprehensive Income (Unaudited)
For the six months ended 30 June 2019

	Note	Six months ended 30 June 2019 RMB'000	2018 RMB'000
Profit for the period		**1,701,145**	1,603,498
Other comprehensive income/(expense) for the period (after tax)			
Item that will not be reclassified to profit or loss (after tax):			
Equity instruments at fair value through other comprehensive income:			
Net movement in the fair value reserve	*11*	**357,655**	(202,355)
Item that may be subsequently reclassified to profit or loss (after tax):			
Exchange differences on translation of financial statements of subsidiaries outside Mainland China		**3,191**	3,007
		360,846	(199,348)
Total comprehensive income for the period		**2,061,991**	1,404,150
Attributable to:			
Equity shareholders of the Company		**2,072,404**	1,396,167
Non-controlling interests		**(10,413)**	7,983
Total comprehensive income for the period		**2,061,991**	1,404,150

Consolidated Statement of Financial Position (Unaudited)

At 30 June 2019

	Notes	**30 June 2019** ***RMB'000*** **(unaudited)**	31 December 2018 *RMB'000* (audited)
Non-current assets			
Property, plant and equipment, net		**4,191,554**	4,384,700
Right-of-use assets		**1,874,814**	–
Investment properties		**583,237**	606,065
Construction in progress		**359,187**	342,427
Lease prepayments		**–**	722,672
Goodwill		**103,005**	103,005
Other intangible assets		**408,319**	355,339
Interests in associates and joint ventures		**326,283**	318,059
Equity instruments at fair value through other comprehensive income		**4,213,780**	3,737,553
Deferred tax assets		**654,967**	622,202
Other non-current assets		**402,847**	1,220,145
Total non-current assets		**13,117,993**	12,412,167
Current assets			
Inventories		**2,410,428**	2,253,027
Accounts and bills receivable, net	*14*	**21,736,596**	18,668,024
Contract assets, net	*15*	**16,258,277**	15,664,758
Prepayments and other current assets		**9,344,587**	8,646,123
Financial assets at fair value through profit or loss		**7,071,320**	5,046,898
Restricted deposits		**2,180,263**	2,128,757
Cash and cash equivalents		**13,614,960**	16,106,246
Total current assets		**72,616,431**	68,513,833
Total assets		**85,734,424**	80,926,000
Current liabilities			
Interest-bearing borrowings		**471,761**	462,003
Accounts and bills payable	*16*	**31,776,704**	28,279,533
Current portion of lease liabilities		**267,969**	–
Contract liabilities		**6,912,753**	8,648,060
Accrued expenses and other payables		**10,021,568**	9,017,427
Income tax payable		**318,994**	323,514
Total current liabilities		**49,769,749**	46,730,537
Net current assets		**22,846,682**	21,783,296
Total assets less current liabilities		**35,964,675**	34,195,463

Consolidated Statement of Financial Position (Unaudited) (Continued)
At 30 June 2019

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Non-current liabilities		
Interest-bearing borrowings	**4,125**	8,922
Lease liabilities	**747,567**	–
Other non-current liabilities	**536,200**	617,488
Deferred tax liabilities	**863,470**	740,192
Total non-current liabilities	**2,151,362**	1,366,602
Total liabilities	**51,921,111**	48,097,139
Equity		
Share capital	**6,926,018**	6,926,018
Reserves	**26,400,511**	25,405,305
Equity attributable to equity shareholders of the Company	**33,326,529**	32,331,323
Non-controlling interests	**486,784**	497,538
Total equity	**33,813,313**	32,828,861
Total liabilities and equity	**85,734,424**	80,926,000

Notes:

1. PRINCIPAL ACTIVITIES

China Communications Services Corporation Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") is a leading service provider in the PRC that provides integrated comprehensive solutions in the field of informatisation and digitalization. The Group offers telecommunications infrastructure services, including design, construction and project supervision and management; business process outsourcing services, including management of infrastructure for information technology, general facilities management, supply chain and products distribution; and applications, content and other services, including system integration, software development and system support, and value-added services.

2. BASIS OF PREPARATION

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 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 2018, except as described below.

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the interim financial report:

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015–2017 Cycle

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

Except for IFRS 16 Leases, the application of the above amendments to IFRSs and interpretation has had no material effect on the Group's interim financial report.

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current interim period. IFRS 16 superseded IAS 17 Leases and the related interpretations.

3.1.1 *Key changes in accounting policies resulting from application of IFRS 16*

As a lessee

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of buildings, motor vehicles and other equipment that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low-value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use asset mainly includes the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, and any initial direct costs incurred.

Lease liabilities

Except for short-term leases and leases of low-value assets, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at the commencement date of the lease. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

3.1.2 *Transition and summary of effects arising from initial application of IFRS 16*

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated.

As at 1 January 2019, the Group recognised additional lease liabilities and measured right-of-use assets at the carrying amounts as if IFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying IFRS 16 transition.

In accordance with the transitional provisions in IFRS 16, except for sub-leases in which the Group acts as an intermediate lessor, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application and comparative information has not been restated.

As a result of the changes in the Group's accounting policies above, the consolidated statement of financial position at 1 January 2019 had to be restated. The following table shows the adjustments recognised for each of the line items affected.

	31 December 2018	Adjustments	1 January 2019
	RMB'000	*RMB'000*	*RMB'000*
	(audited)		(restated)
Non-current Assets			
Lease prepayments	722,672	(722,672)	–
Right-of-use assets	–	1,659,581	1,659,581
Deferred tax assets	622,202	3,482	625,684
Current Assets			
Prepayments and other current assets	8,646,123	(22,578)	8,623,545
Current liabilities			
Current portion of lease liabilities	–	269,303	269,303
Non-current liabilities			
Lease liabilities	–	681,605	681,605
Equity			
Equity attributable to equity shareholders of the Company	32,331,323	(32,754)	32,298,569
Non-controlling interests	497,538	(341)	497,197

4. SEGMENT REPORTING

The Group principally has one operating and reportable segment, which is the provision of integrated comprehensive solutions in the field of informatisation and digitalization. Therefore, no additional segment information has been presented. Additional information about major customers and geographical areas of the Group has been disclosed in note 5.

5. REVENUES

Revenues are derived from the provision of integrated comprehensive solutions, net of sales taxes and after allowance for sales discounts. The Group's revenues by business nature can be summarised as follows:

Disaggregation of revenue

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Revenue from telecommunications infrastructure services	**30,801,124**	28,330,195
Revenue from business process outsourcing services	**18,128,043**	16,607,607
Revenue from applications, content and other services	**7,119,920**	5,854,298
	56,049,087	50,792,100

The Group's major customers are telecommunications operators which include China Telecommunications Corporation and its subsidiaries (excluding the Group) ("CTC Group") and China Mobile Communications Group Co., Ltd. and its subsidiaries ("CM Group"), 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 2019 amounted to RMB18,351 million and RMB11,524 million respectively (six months ended 30 June 2018: RMB18,368 million and RMB10,800 million respectively), being 32.7% and 20.6% of the Group's total revenues respectively (six months ended 30 June 2018: 36.2% and 21.3% respectively). The revenues derived from areas outside Mainland China for the six months ended 30 June 2019 amounted to RMB1,339 million (six months ended 30 June 2018: RMB1,446 million).

For the six months ended 30 June 2019, the Group's first three businesses that contributed to the overall revenues were construction, management of infrastructure for information technology and supply chain service, the revenues from which amounted to RMB23,875 million, RMB7,349 million and RMB5,788 million, respectively (six months ended 30 June 2018: The Group's first three businesses that contributed to the overall revenues were construction, management of infrastructure for information technology and telecommunications infrastructure design, the revenues from which amounted to RMB20,942 million, RMB6,604 million and RMB5,355 million, respectively).

The Group's rental income for the six months ended 30 June 2019 amounted to RMB342 million (six months ended 30 June 2018: RMB325 million).

6. COST OF REVENUES

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Depreciation and amortisation	**350,801**	238,546
Direct personnel costs	**4,039,918**	3,958,562
Lease charges (2018: Operating lease charges)	**547,818**	689,747
Materials costs	**5,904,176**	5,007,925
Direct costs of products distribution	**2,175,381**	2,529,320
Subcontracting charges	**31,187,998**	27,413,721
Others	**5,542,899**	4,778,675
	49,748,991	44,616,496

7. OTHER OPERATING INCOME

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Interest income	**100,320**	92,614
Dividend income from equity instruments	**141,733**	1,029
Government grants	**126,489**	93,056
Gain on disposal of property, plant and equipment and other intangible assets	**31,475**	4,045
Penalty income	**1,698**	2,790
Management fee income	**122,752**	119,179
Investment income and fair value gains on wealth management products and structured deposits	**117,745**	106,895
Others	**42,680**	24,704
	684,892	444,312

8. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Interest on bank and other borrowings	**15,534**	8,031
Interest on lease liabilities	**17,197**	–
	32,731	8,031

For the six months ended 30 June 2019 and 2018, 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	
	2019	2018
	RMB'000	*RMB'000*
(a) Staff costs:		
Salaries, wages and other benefits	**6,596,366**	6,364,259
Contributions to defined contribution retirement schemes	**716,028**	645,456
	7,312,394	7,009,715
(b) Other items:		
Amortisation	**60,923**	66,667
Depreciation	**517,851**	358,320
Materials costs	**5,904,176**	5,007,925
Direct costs of products distribution	**2,175,381**	2,529,320
Inventory write-down and losses, net of reversals	**10,532**	13,499
Impairment losses on accounts receivable, other receivables and contract assets	**185,795**	172,037
Reversal of impairment losses on accounts receivable, other receivables and contract assets	**(46,349)**	(89,449)
Investment income and fair value gains of financial instruments at fair value through profit or loss	**116,822**	15,352
Lease charges (2018: Operating lease charges)	**651,141**	822,796
Research and development costs	**1,327,656**	1,134,619

The selling expenses, general and administrative expenses and other expenses of the Group are RMB903 million, RMB3,731 million and RMB351 million (six months ended 30 June 2018: RMB779 million, RMB3,580 million and RMB302 million) respectively for the six months ended 30 June 2019. Research and development costs include staff costs of RMB1,064 million (six months ended 30 June 2018: RMB947 million), which is also included in the staff costs disclosed in note 9(a).

10. INCOME TAX

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Current tax		
Income tax	**295,662**	394,022
Deferred tax		
Origination and reversal of temporary differences	**(24,577)**	(55,337)
Total income tax	**271,085**	338,685

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Profit before tax	**1,972,230**	1,942,183
Expected income tax expense at a statutory tax rate of 25% (six months ended 30 June 2018: 25%) *(note (i))*	**493,058**	485,546
Differential tax rates on subsidiaries' profits *(note (i))*	**(129,300)**	(151,383)
Non-deductible expenses *(note (ii))*	**32,527**	52,908
Non-taxable income	**(56,482)**	(34,824)
Tax losses not recognised	**34,505**	50,646
Utilisation of previously unrecognised tax losses	**(10,283)**	(4,864)
Over provision in respect of prior years	**(19,225)**	(10,442)
Effect of tax exemptions	**(160)**	(15)
Others *(note (iii))*	**(73,555)**	(48,887)
Income tax	**271,085**	338,685

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 2019 and 2018, except for certain domestic subsidiaries of the Group, which are taxed at a preferential rate of 15% and 10%, where applicable; and for certain overseas subsidiaries of the Group, which are taxed at respective statutory rates.

(ii) The amounts represent staff cost and miscellaneous expenses in excess of statutory deductible limits for tax purposes.

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

11. OTHER COMPREHENSIVE INCOME/(EXPENSE)

Equity instruments at fair value through other comprehensive income

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Changes in fair value recognised during the period	**476,227**	(268,743)
Net deferred tax charged to other comprehensive income/(expense)	**(118,572)**	66,388
Net movement in the fair value reserve during the period recognised in other comprehensive income/(expense)	**357,655**	(202,355)

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 2019 (six months ended 30 June 2018: nil).

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved during the period of RMB0.1257 per share (2018: RMB0.1176 per share)	**870,601**	814,500
Special dividend in respect of the previous financial year, approved during the period of RMB0.0251 per share (2018: RMB0.0235 per share)	**173,843**	162,761
	1,044,444	977,261

No final dividend or special dividend was paid during the six months ended 30 June 2019 and 2018.

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 2019 of RMB1,712 million (six months ended 30 June 2018: RMB1,595 million) and the number of shares in issue during the six months ended 30 June 2019 of 6,926,018 thousand shares (six months ended 30 June 2018 of 6,926,018 thousand shares).

The amount of diluted earnings per share is not presented as there were no potential ordinary shares in existence for the periods presented.

14. ACCOUNTS AND BILLS RECEIVABLE, NET

	At 30 June 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Bills receivable	**229,246**	276,034
Accounts receivable	**23,024,879**	19,806,523
	23,254,125	20,082,557
Less: allowance for credit losses	**(1,517,529)**	(1,414,533)
	21,736,596	18,668,024

(a) Included in accounts and bills receivable are amounts due from CTC Group, associates of the Group and associates of CTC Group of RMB10,396 million as at 30 June 2019 (31 December 2018: RMB10,620 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 allowance for credit losses) based on credit terms is as follows:

	At 30 June 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Current	**285,890**	1,736,665
Within 1 year	**19,017,438**	14,839,588
After 1 year but less than 2 years	**1,655,964**	1,376,626
After 2 years but less than 3 years	**476,693**	435,583
After 3 years	**300,611**	279,562
	21,736,596	18,668,024

15. CONTRACT ASSETS, NET

	At 30 June 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Telecommunications infrastructure services	**13,338,882**	13,219,615
Business process outsourcing services	**897,310**	647,111
Applications, content and other services	**2,268,769**	2,028,796
	16,504,961	15,895,522
Less: allowance for credit losses	**(246,684)**	(230,764)
	16,258,277	15,664,758

The contract assets relate to the Group's rights to consideration for work completed and not billed because the rights are conditional on the Group's future performance in achieving specified milestones at the reporting date on construction, telecommunications infrastructure design and other service contracts. The contract assets are transferred to accounts receivable when the rights become unconditional. The Group typically transfers the contract assets to accounts receivable within one year.

16. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	At 30 June 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Accounts payable	**30,377,558**	27,067,452
Bills payable	**1,399,146**	1,212,081
	31,776,704	28,279,533

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

	At 30 June 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Within 1 year	**29,851,554**	25,945,423
After 1 year but less than 2 years	**1,276,574**	1,651,120
After 2 years but less than 3 years	**299,632**	364,176
After 3 years	**348,944**	318,814
	31,776,704	28,279,533

Included in accounts and bills payable are amounts due to CTC Group, associates of the Group and associates of CTC Group of RMB1,411 million as at 30 June 2019 (31 December 2018: RMB1,118 million), which are unsecured, interest-free and are expected to be settled within one year.

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 2018 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 2019.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

As a joint stock limited company incorporated in the PRC with limited liability 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 2019, 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 2019.

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

During the six months ended 30 June 2019, 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 2019 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
27 August 2019

As at the date of this announcement, our executive directors are Mr. Zhang Zhiyong, Mr. Si Furong and Ms. Zhang Xu, our non-executive directors are Mr. Li Zhengmao and Mr. Shao Guanglu, and our independent non-executive directors are Mr. Siu Wai Keung, Francis, Mr. Lv Tingjie, Mr. Wu Taishi and Mr. Liu Linfei.