

INFORMATIZATION &

DIGITALIZATION

FUTURE 信息化與數字化未來



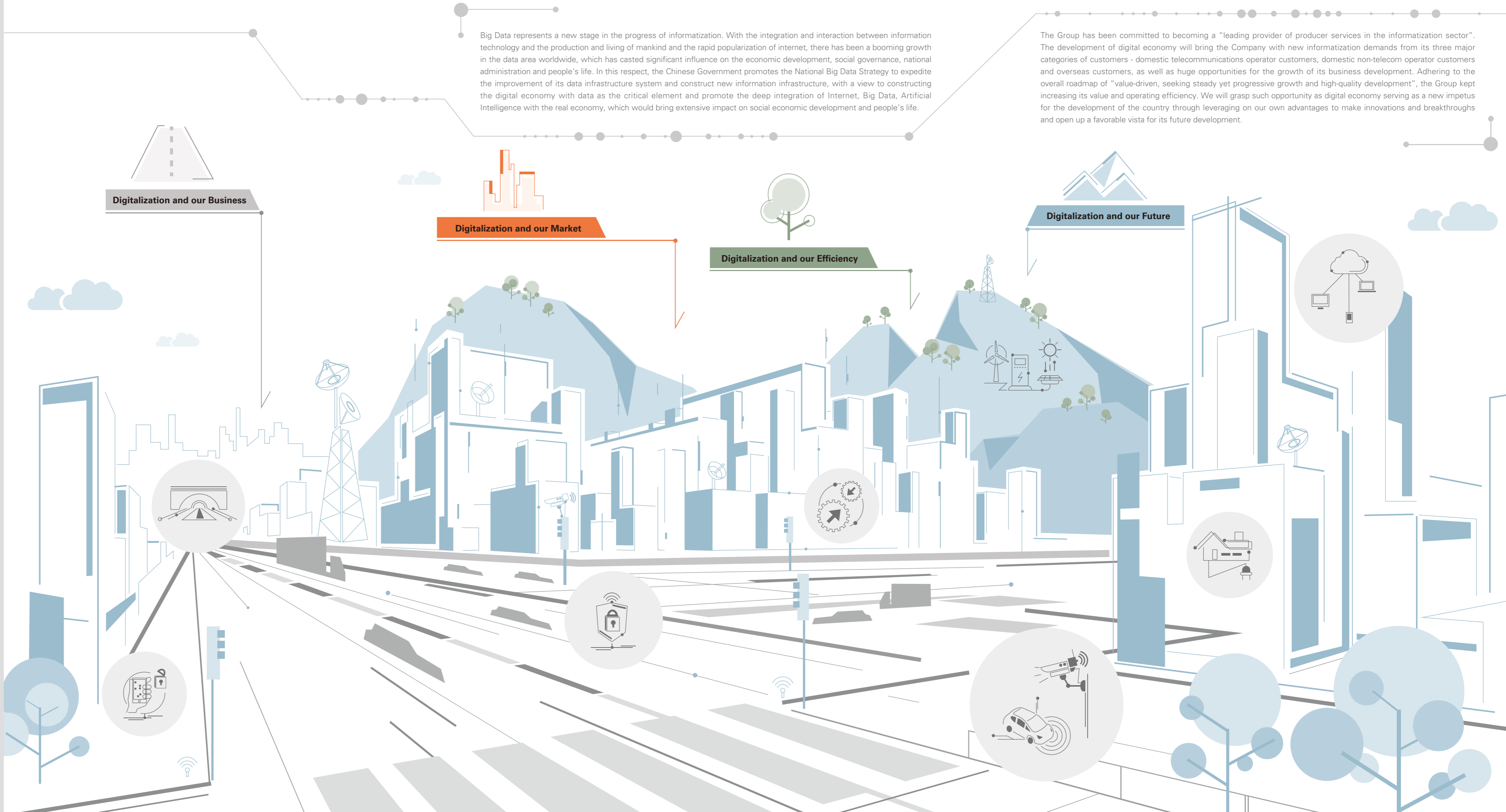
COVER STORY

The design theme of the book is "Future of Informatization and Digitalization". A 3D card on the cover illustrates the huge opportunities to the Group brought by the flow of Big Data, supporting the development of informatization of the city. The Group capitalizes on the intelligent development and commits to becoming the "leading provider of producer services in the informatization sector".

The dividers in this annual report also present the design theme of the cover, through innovative way, by taking Big Data as a hint, to tell the reform direction of the Group's business, market, efficiency under the trend of informatization and digitalization, demonstrating the broad development room for the Group in the future.



For further information, please browse our website at: <http://www.chinaccs.com.hk>



Big Data represents a new stage in the progress of informatization. With the integration and interaction between information technology and the production and living of mankind and the rapid popularization of internet, there has been a booming growth in the data area worldwide, which has casted significant influence on the economic development, social governance, national administration and people's life. In this respect, the Chinese Government promotes the National Big Data Strategy to expedite the improvement of its data infrastructure system and construct new information infrastructure, with a view to constructing the digital economy with data as the critical element and promote the deep integration of Internet, Big Data, Artificial Intelligence with the real economy, which would bring extensive impact on social economic development and people's life.

The Group has been committed to becoming a "leading provider of producer services in the informatization sector". The development of digital economy will bring the Company with new informatization demands from its three major categories of customers - domestic telecommunications operator customers, domestic non-telecom operator customers and overseas customers, as well as huge opportunities for the growth of its business development. Adhering to the overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development", the Group kept increasing its value and operating efficiency. We will grasp such opportunity as digital economy serving as a new impetus for the development of the country through leveraging on our own advantages to make innovations and breakthroughs and open up a favorable vista for its future development.

Digitalization and our Business

Digitalization and our Market

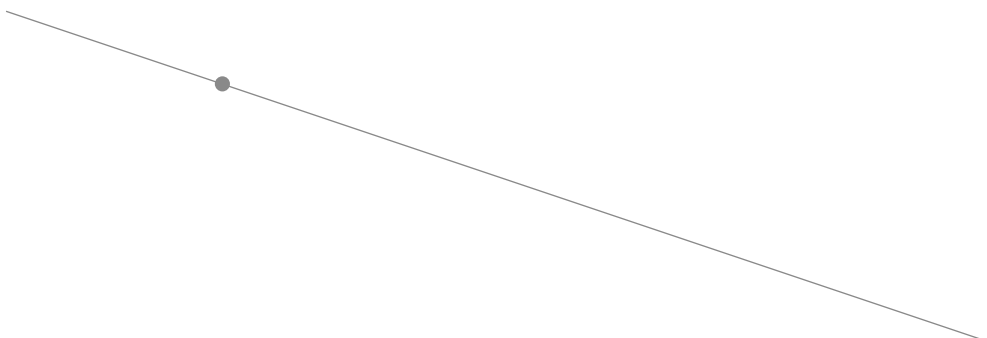
Digitalization and our Efficiency

Digitalization and our Future



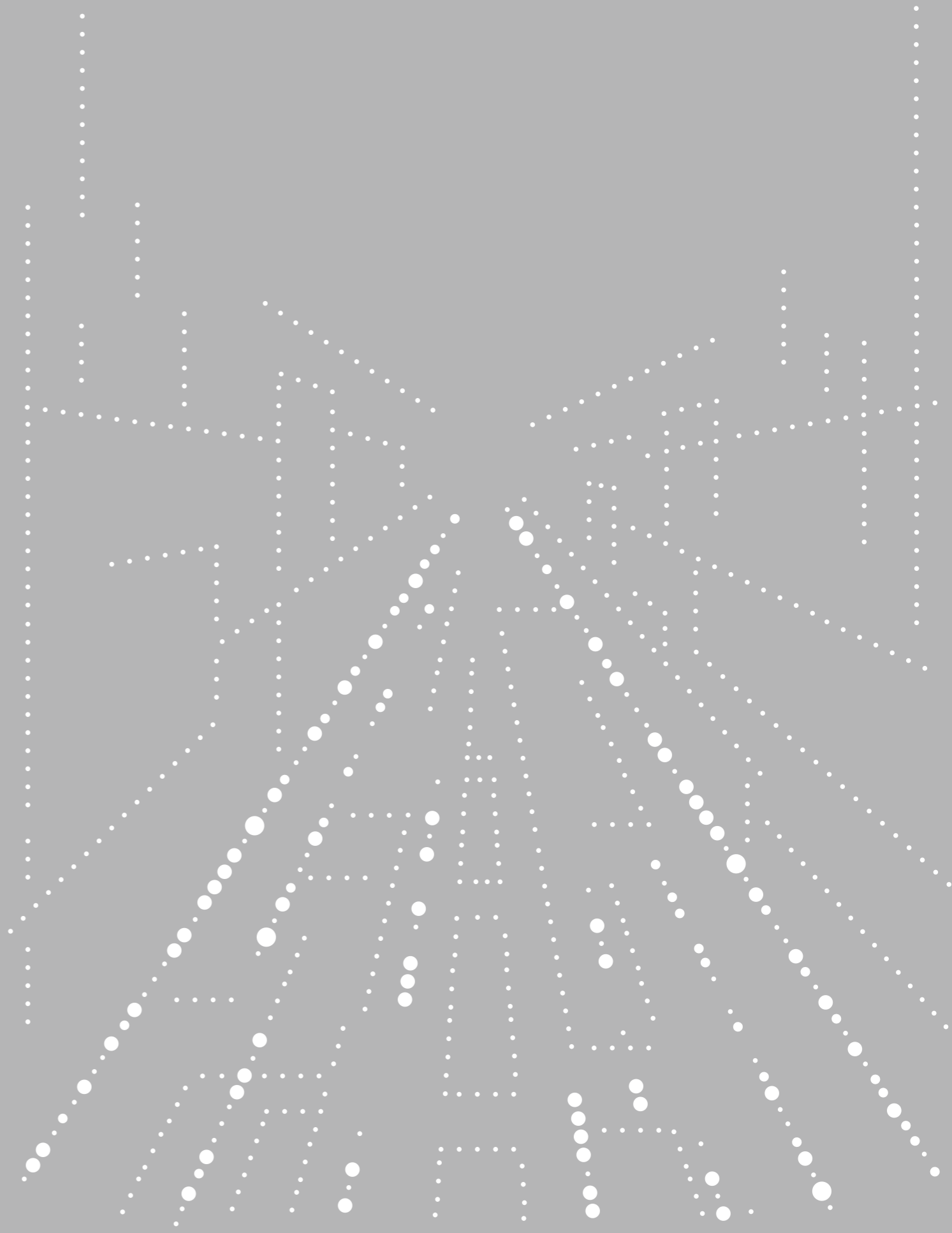
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DIGITALIZATION AND OUR BUSINESS

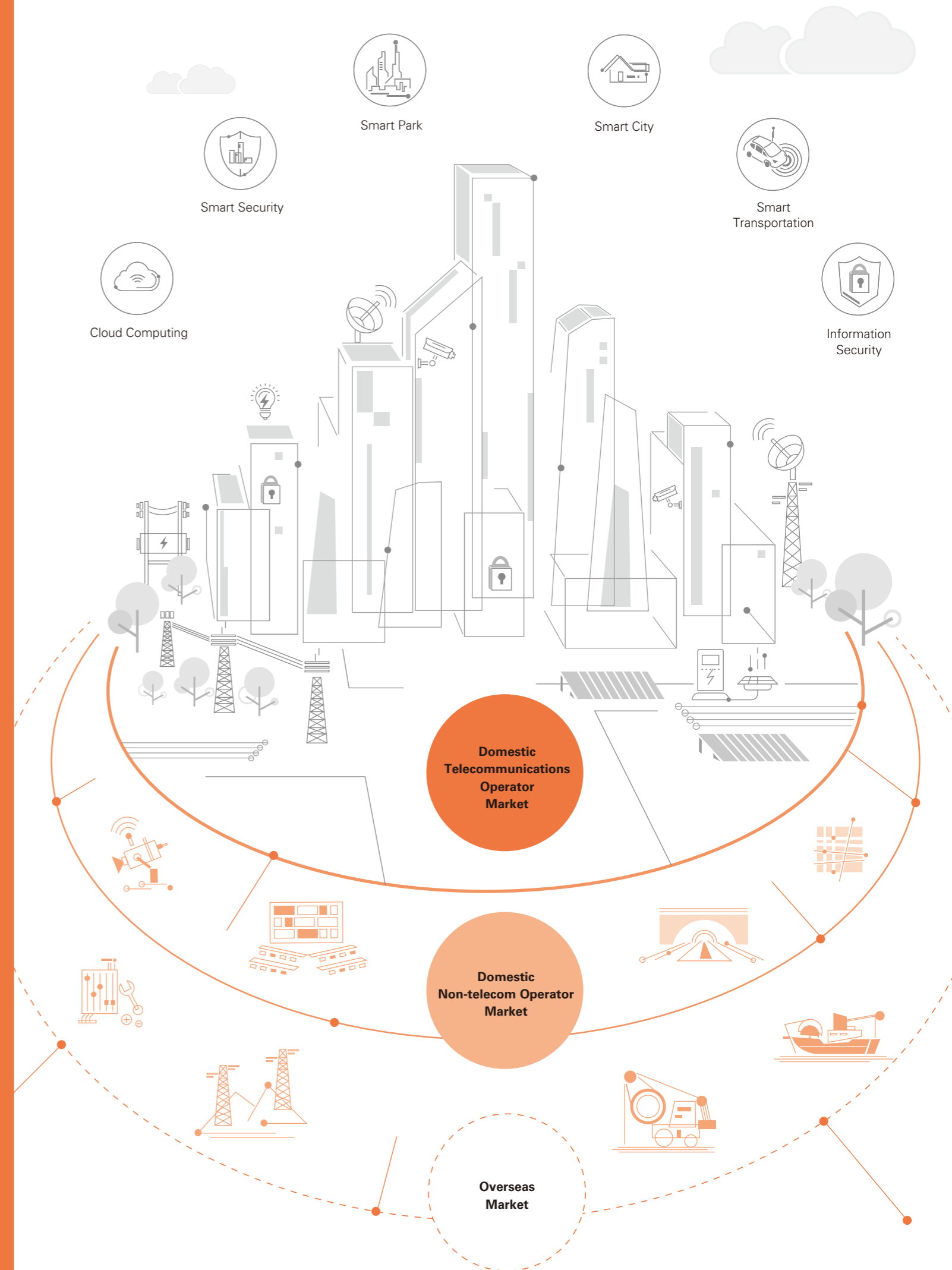




DIGITALIZATION AND OUR MARKET

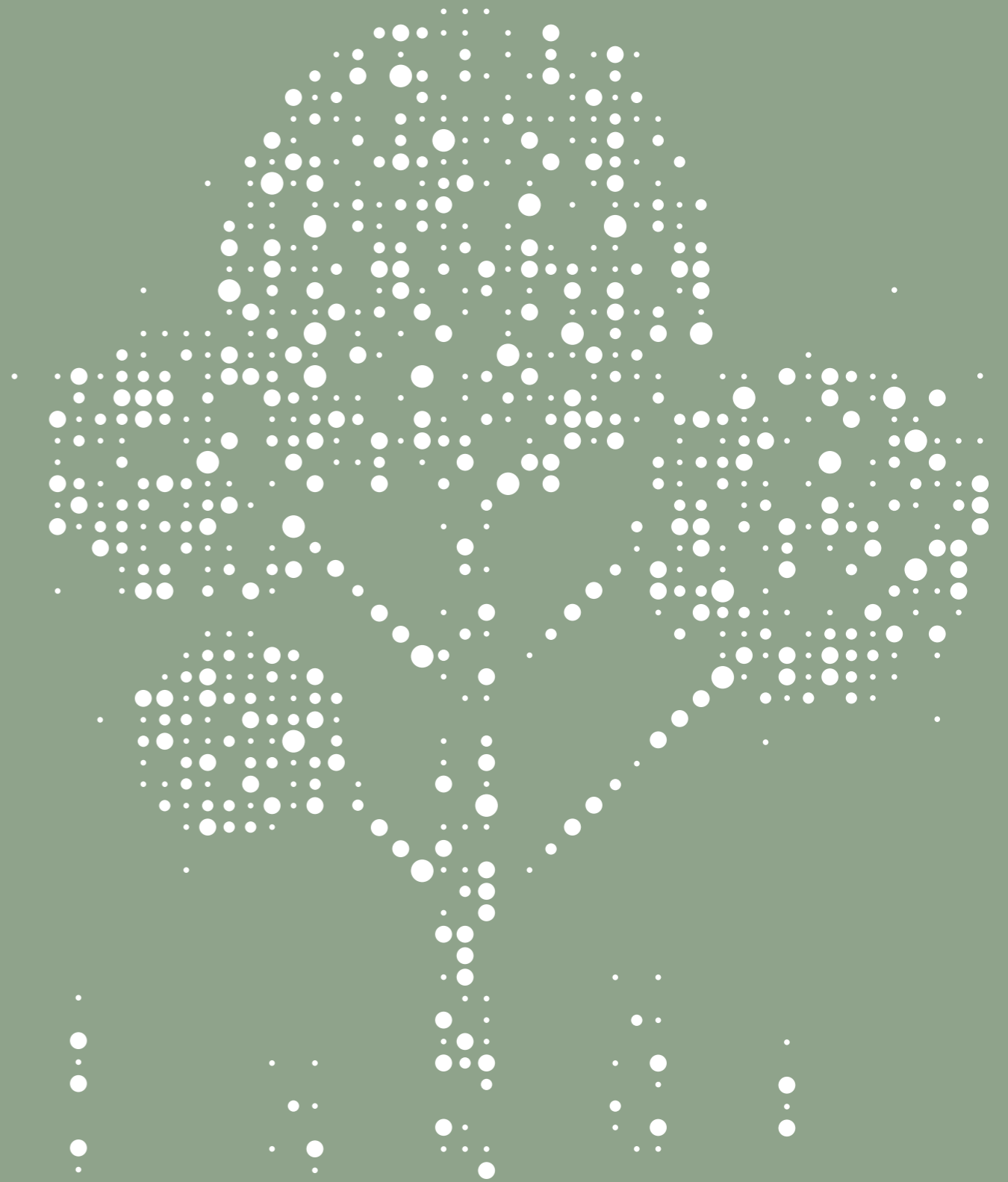


In the context of global digitalization and informatization, the national policies such as "Digital China" and "Cyberpower" will boost the transformation and upgrade of domestic telecommunications operators to continuously enhance the network infrastructure construction in areas such as 5G, which will bring additional demand for services outsourcing such as maintenance and supply chain. Meanwhile, the development of "Smart Society", 5G, Internet of Things and Big Data in China will also drive additional demand from the domestic non-telecom operator market for Smart City, Smart Park, Smart Security, Smart Transportation, Information Security and Cloud Computing. In addition, the national "Belt and Road" Initiative and the informatization development worldwide will also boost the demand for infrastructure network construction and ICT in overseas market.

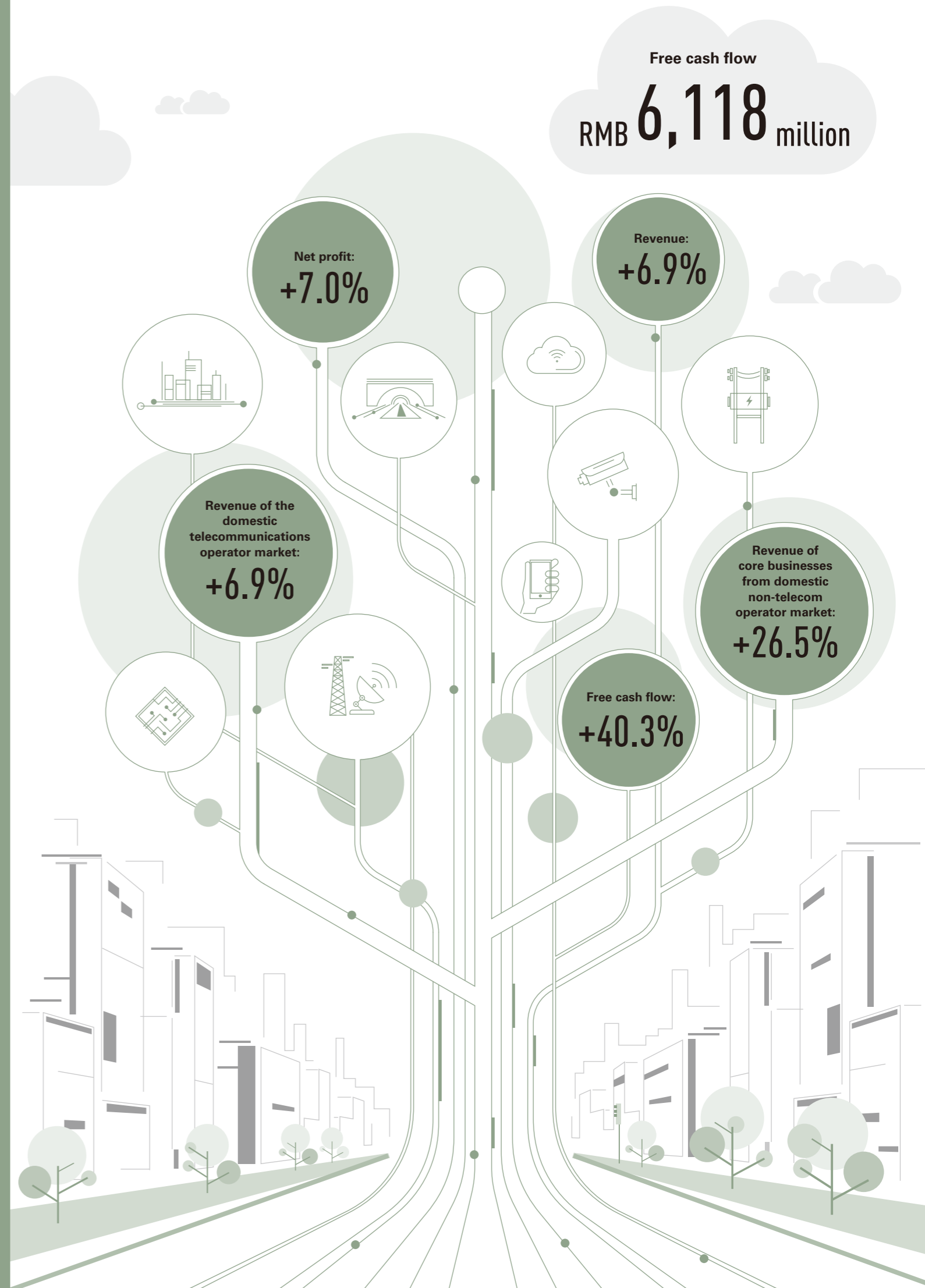
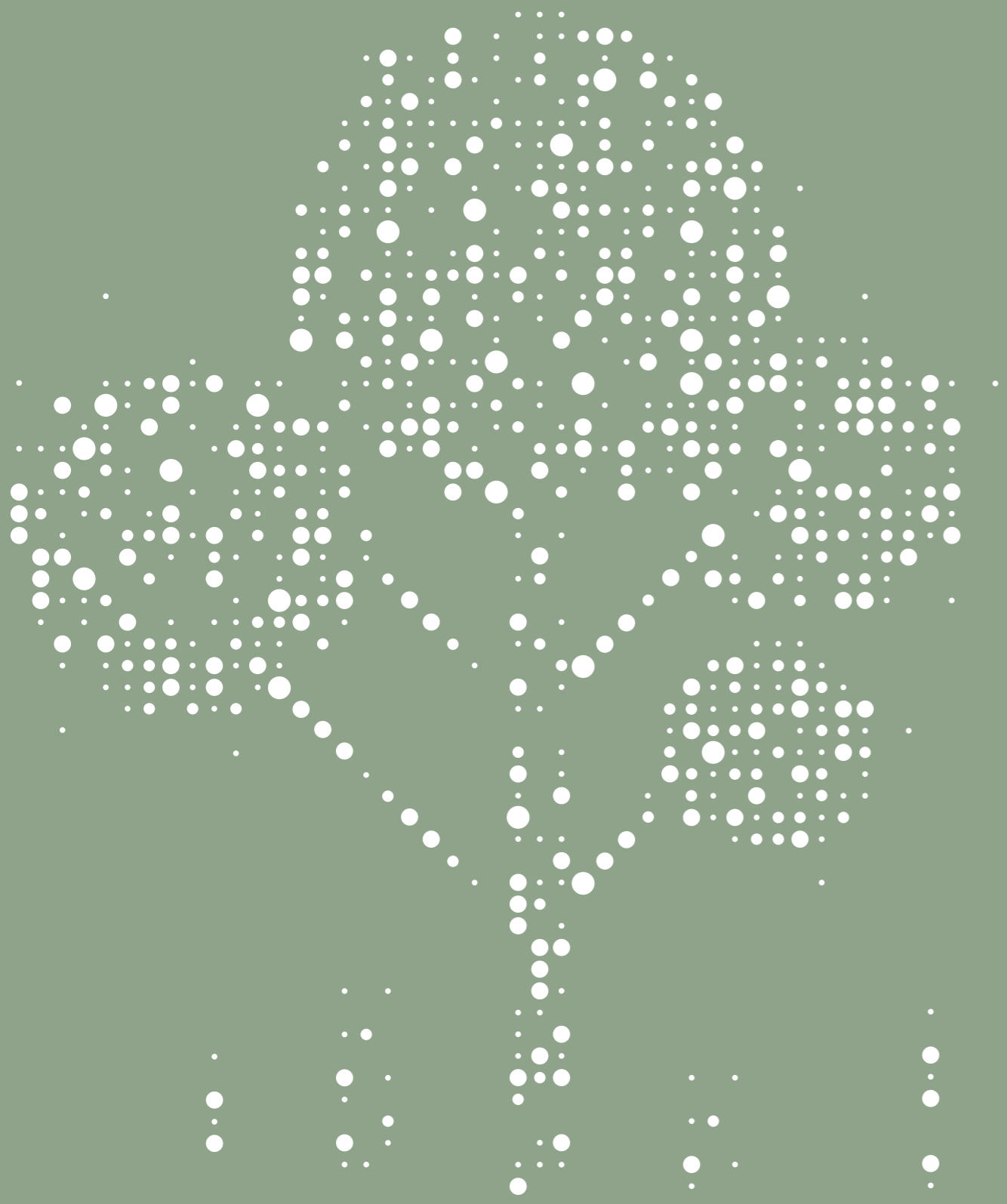




DIGITALIZATION AND OUR EFFICIENCY

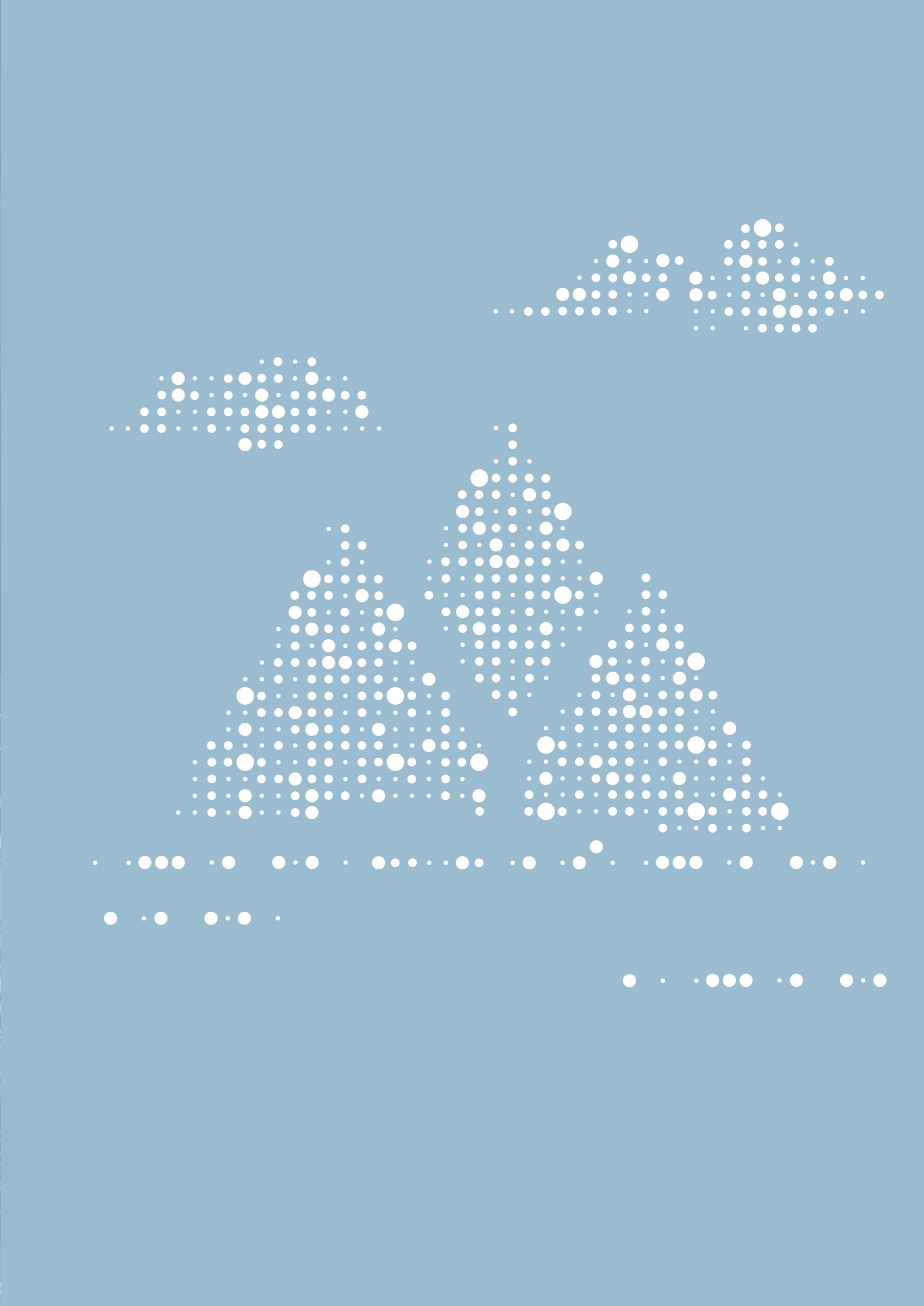


By grasping the new opportunities arising from informatization and upholding the principal philosophy of "value-driven, seeking steady yet progressive growth and efficient development", the Group has maintained steady growth in its overall performance over the past years and has gradually entered a stage of high-quality development, with an on-going optimization of its customer and business structure, a stabilizing profit margin and a significant increase in cash flows. Despite the network investment decrease of domestic telecommunications operators, the Group still realized a sustained steady growth in the domestic telecommunications operator market through transforming growth momentum and continuously increasing its market share. At the same time, through constant innovation and transformation, the core businesses from domestic non-telecom operator customers recorded a rapid growth in last three years, which become a new growth driver for the Company.



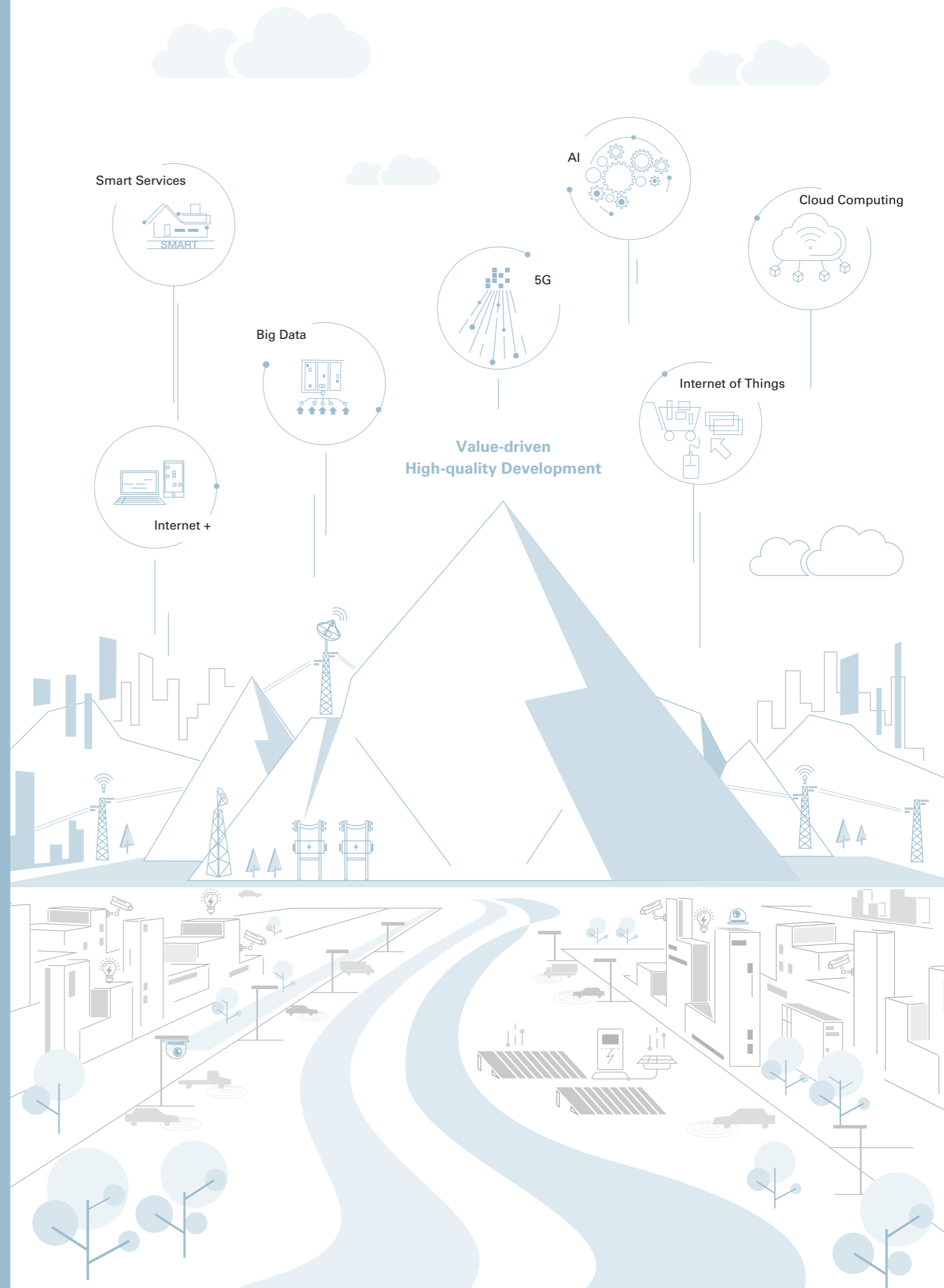


DIGITALIZATION AND OUR FUTURE





In an effort to accelerate the development of the digital economy, China is actively promoting the deep integration of the Internet, Big Data, Artificial Intelligence with the real economy and advancing its manufacturing sector toward the digitalized, network-based and intelligent development. China will also make use of Big Data to enhance its national modernized governance and facilitate assurance and improvement of people's livelihood, safeguard information security and reinforce the security protection for the critical information infrastructures. In a commitment to becoming a "leading provider of producer services in the informatization sector", the Group focuses on smart-typed integrated comprehensive solutions. By leveraging on our own advantages, we will grasp opportunities, make innovations and breakthroughs and open up a favorable vista for its future development.



MILESTONES



2006

AUGUST

The Company was established, with primary service areas including Shanghai, Zhejiang Province, Fujian Province, Hubei Province, Guangdong Province and Hainan Province.

DECEMBER

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited. Gross proceeds from the IPO was approximately HK\$3.3 billion.

2007

AUGUST

The Company completed the acquisition of the businesses of specialized telecommunications support services in 13 provinces (municipalities and autonomous regions) from China Telecommunications Corporation for a consideration of RMB4,630 million.

2008

APRIL

Mr. Wang Xiaochu resigned as a Non-Executive Director and Chairman of the Company, and was re-designated as the Honorary Chairman. On the same date, Mr. Li Ping was appointed as the Chairman of the Company.

The Company completed the placement of 327 million new H Shares with net proceeds of approximately HK\$1,668 million.

MAY

The Company completed the acquisition of the 100% equity interests in China International Telecommunications Construction Corporation for a consideration of RMB505 million.

2009

MARCH

China Telecommunications Corporation completed the transfer of 506,880,000 and 236,300,000 domestic shares of the Company to China Mobile Communications Corporation and China United Network Communications Group Company Limited, respectively.

MAY

The Group acquired the equity interests in Guoxin Lucent Technologies Network Technologies Co., Ltd. ("Guoxin Lucent") (51%), Shanghai Tongmao Import & Export Co., Ltd. (95.945%) and Shenzhen Telecom Engineering Company Limited (40%) for a total consideration of approximately RMB115 million.

NOVEMBER

The Company and Accenture International SARL established a joint venture, China Communications Service Application Solution Technology Co., Ltd..

2010

APRIL

The Company acquired the remaining 49% equity interests in Guoxin Lucent for a total consideration of RMB41 million. After the completion of the acquisition, Guoxin Lucent became a wholly-owned subsidiary of the Company.

2011

MARCH

The Company proposed rights issue of domestic shares and H shares.

JUNE

The Company and Sybase, Inc. announced to establish a joint venture.

OCTOBER

The Group and Bytemobile, Inc. announced to establish a joint venture.

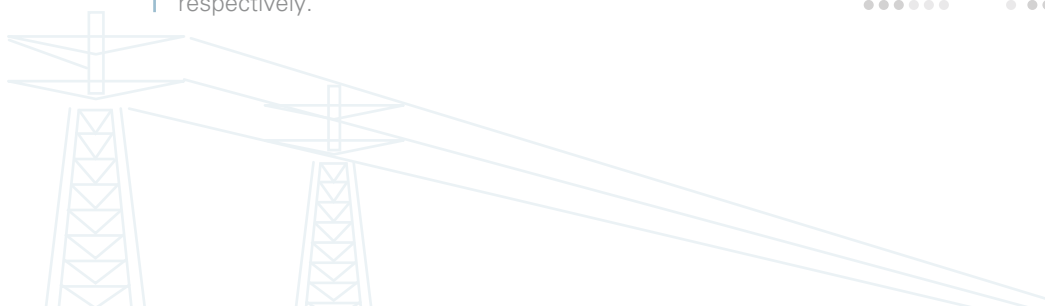
2012

FEBRUARY

The Company completed the rights issue. Dealing in the H rights shares commenced on The Stock Exchange of Hong Kong Limited on 10 February 2012. The rights issue raised gross proceeds of approximately RMB2,991 million (approximately HK\$3,677 million).

JUNE

The Company acquired the equity interests and assets in relation to several telecommunications infrastructure service companies in Ningxia and Xinjiang, etc. as well as 51% equity interests in Sino-British Submarine System Co., Ltd. for a total consideration of approximately RMB416 million.



MILESTONES



2013

NOVEMBER

The Company announced jointly with China UnionPay and Bank of Changsha the launch of "Gripay", an Internet mobile financial service platform.

The Company announced jointly with China Telecom and SAP to offer SAP's cloud solution to the enterprises in China. Such service is offered by the joint venture of the Company with SAP.

DECEMBER

Mr. Si Furong was appointed as the President of the Company and appointed as an Executive Director of the Company on 21 February 2014.

2014

JULY

China Communications Facilities Services Corporation Limited (now renamed as China Tower Corporation Limited) indicated to the Company the relevant arrangements of preferential treatment and non-competition.

2015

JANUARY

Mr. Li Ping resigned as the Chairman and an Executive Director of the Company. On the same date, Mr. Sun Kangmin was appointed as an Executive Director and the Chairman of the Company.

APRIL

The Company was awarded "5A" logistics qualification certificate by China Federation of Logistic & Purchasing and became the only enterprise with such qualification in the domestic telecommunications industry.

JULY

The Company established a wholly-owned subsidiary, China Comservice Supply Chain Management Company Ltd..

DECEMBER

The Company attended 2015 China-Africa Forum, organized "China-Africa ICT Partnership Forum" in South Africa and facilitated the signing of the *Memorandum of Understanding on the Joint Partnership and Cooperation on the Acceleration of Development of Infrastructure for Information and Communications Technologies in East Africa* among the Ministry of Industry and Information Technology of PRC, the International Telecommunication Union and the Ministry of Communications of five East African countries.

2016

JANUARY

The Company established a wholly-owned subsidiary, Inner Mongolia Autonomous Region Communications Services Company Limited.

MAY

The Company organized the signing ceremony of China-Ethiopia Partnership Program in Eastern Africa Information Superhighway, and facilitated the signing of the *Memorandum of Understanding on the Joint Partnership and Cooperation on the Acceleration of Development of Information Superhighway in East Africa* between the Ministry of Industry and Information Technology of PRC and the Ministry of Communications and Information Technology of Ethiopia.

JULY

The Company created a unified brand of "中通福" for its distributions chain stores, building the nationwide chain brand which mainly focuses on intelligent terminal sales.

SEPTEMBER

The Company comprehensively adjusted the operational and management system for its overseas business, refined the organizational structure of China Communications Services International Limited, and relocated the management and decision-making office of its overseas business to Ethiopia.

DECEMBER

The Company organized a reverse roadshow in Jiangsu and Zhejiang Province which presented the Company's innovative development business on site.

2017

MAY

The Company established a wholly-owned subsidiary, Comservice Capital Holding Company Limited.

NOVEMBER TO DECEMBER

The Company organized roadshows in Hong Kong and Singapore to illustrate the Company's operation development and the achievements of innovation and transformation.

2018

MARCH

Mr. Sun Kangmin resigned as the Chairman and an Executive Director of the Company. On the same date, Mr. Zhang Zhiyong was appointed as an Executive Director and the Chairman of the Company.

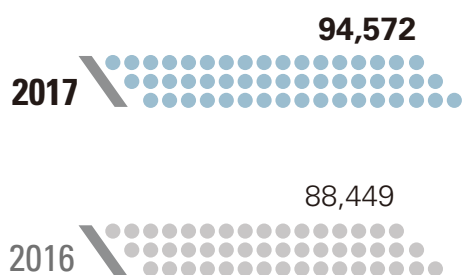


FINANCIAL HIGHLIGHTS

| | 2017 | 2016 | Change |
|---|---------------|--------|--------|
| Revenues (RMB million) | 94,572 | 88,449 | 6.9% |
| Profit attributable to equity shareholders of the Company (RMB million) | 2,714 | 2,536 | 7.0% |
| Free cash flow ¹ (RMB million) | 6,118 | 4,361 | 40.3% |
| Basic earnings per share (RMB) | 0.392 | 0.366 | 7.0% |
| Total dividend per share (RMB) | 0.1411 | 0.1318 | 7.1% |
| of which: Final dividend per share (RMB) | 0.1176 | 0.1098 | 7.1% |
| Special dividend per share (RMB) | 0.0235 | 0.0220 | 6.8% |

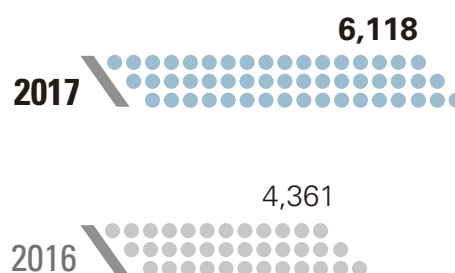
REVENUES

(RMB million)



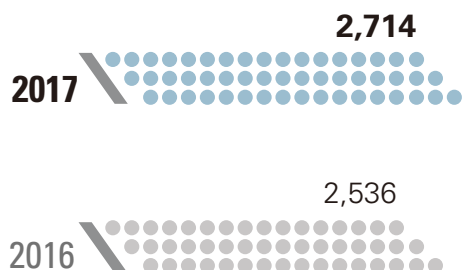
FREE CASH FLOW

(RMB million)



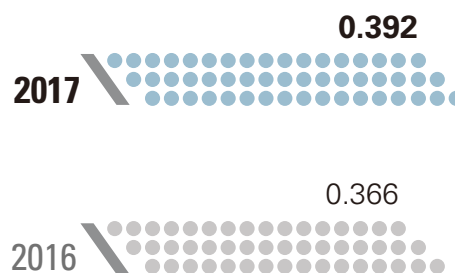
PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

(RMB million)



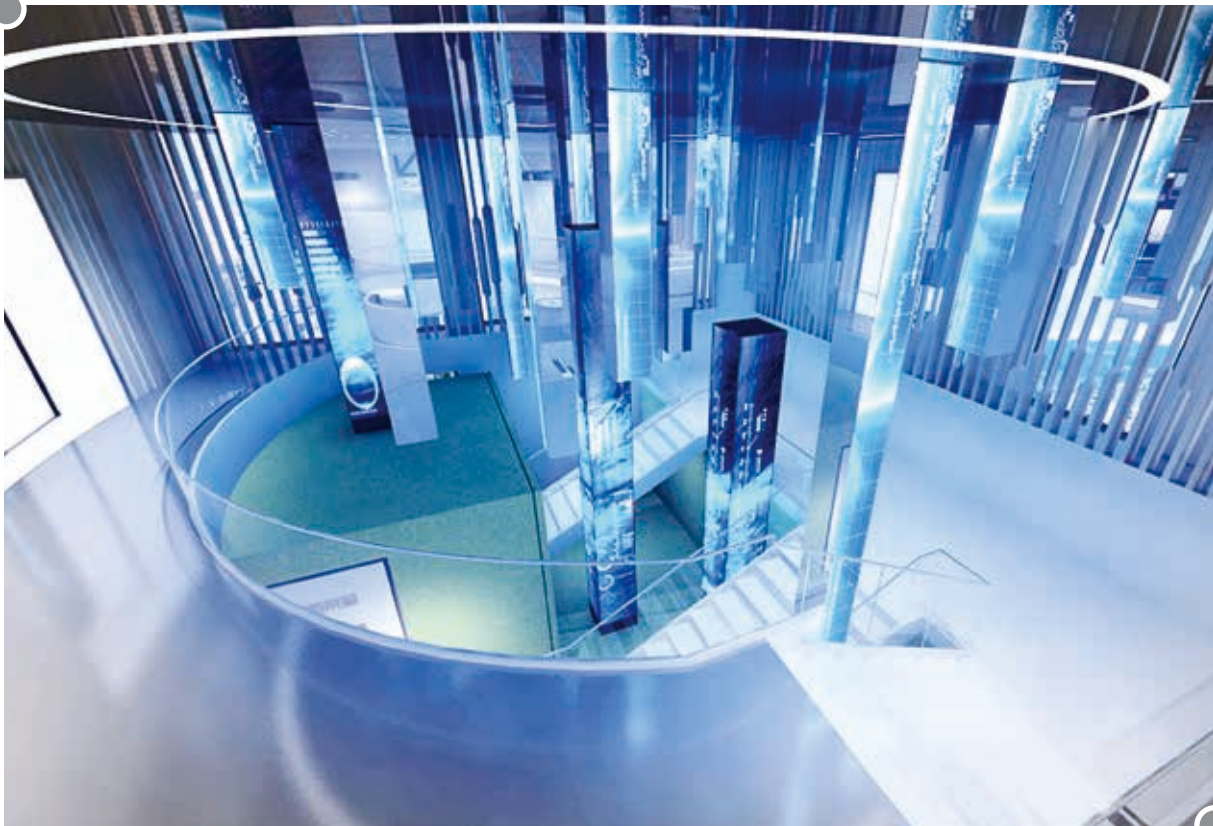
BASIC EARNINGS PER SHARE

(RMB)



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

COMPANY PROFILE AND CORPORATE INFORMATION



China Communications Services Corporation Limited (the “Company”) is a leading service provider in the informatization sector in the PRC, in commitment of “building world-class networks for informatization services”, providing integrated comprehensive solutions in the informatization sector, including telecommunications infrastructure services, business process outsourcing services and applications, content and other services. Our shareholders include China Telecommunications Corporation, China Mobile Communications Group Co., Ltd., China United Network Communications Group Company Limited and China National Postal and Telecommunications Appliances Co., Ltd. Meanwhile, all the three telecommunications operators in the PRC and China Tower Corporation Limited are our customers. We also provide services to domestic non-telecom operator customers such as government agencies, industrial customers and small and medium enterprises as well as overseas customers. Our service coverage is spread across the nation and we have also extended our business to dozens of countries and regions globally.

On 8 December 2006, the H shares issued by the Company were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited. As at 31 December 2017, the total issued share capital of the Company was 6,926,018,400, of which 2,391,420,240 were H shares.

Over the ten years since its listing, the Company has received many awards in the capital market. In 2017, the Group won various awards, including: In the voting for “The Asset Corporate Awards 2017” held by *The Asset*, an authoritative financial magazine, the Group was awarded the “Platinum Award – Excellence in Environmental, Social and Corporate Governance”. In 2017 “13th Corporate Governance Asia Recognition Awards” held by *Corporate Governance Asia*, an authoritative journal on corporate governance in Asia, the Group was again granted the award of the “The Best of Asia – Icon on Corporate Governance”. In addition, in the voting for 2017 “Golden Hong Kong Equities Awards”, the Group was awarded the “Best Growth Value Listed Company” and the “Best Value TMT Company”. In 2017, the Group ranked 79th in the “2017 FORTUNE China 500” published by *FORTUNE China*. Mr. Si Furong, the President of the Company, won the “Outstanding Contribution to Management Excellence in 2017” award granted by *International Finance Magazine*, a UK-based financial magazine, and the “Asian Corporate Director” awarded by *Corporate Governance Asia*. Ms. Hou Rui, Chief Financial Officer of the Company, won the “Best CFO” award granted by *Corporate Governance Asia*. The Group also won important awards held by *Corporate Governance Asia* and *IR Magazine* for its outstanding investor relations management.



COMPANY PROFILE AND CORPORATE INFORMATION

HONORARY CHAIRMAN

Mr. Wang Xiaochu

BOARD OF DIRECTORS

Executive directors

Mr. Zhang Zhiyong (Chairman)

Mr. Si Furong

Ms. Hou Rui

Non-executive directors

Mr. Li Zhengmao

Mr. Shao Guanglu

Independent non-executive directors

Mr. Zhao Chunjun

Mr. Siu Wai Keung, Francis

Mr. Lv Tingjie

Mr. Wu Taishi

Mr. Liu Linfei

BOARD COMMITTEES

Audit Committee

Mr. Siu Wai Keung, Francis

(Committee Chairman)

Mr. Lv Tingjie

Mr. Liu Linfei

Remuneration Committee

Mr. Wu Taishi

(Committee Chairman)

Mr. Siu Wai Keung, Francis

Mr. Lv Tingjie

Nomination Committee

Mr. Zhao Chunjun

(Committee Chairman)

Mr. Wu Taishi

Mr. Liu Linfei

Non-Competition

Undertaking Review Committee

Mr. Lv Tingjie

(Committee Chairman)

Mr. Siu Wai Keung, Francis

Mr. Liu Linfei

Right of First Refusal and Priority Right Committee

Mr. Liu Linfei

(Committee Chairman)

Mr. Siu Wai Keung, Francis

Mr. Wu Taishi

SUPERVISORY COMMITTEE

Ms. Han Fang

(Committee Chairperson)

Mr. Hai Liancheng

(Independent Supervisor)

Mr. Si Jianfei

(Employee Representative
Supervisor)

LEGAL NAME (IN CHINESE)

中國通信服務股份有限公司

LEGAL NAME (IN ENGLISH)

China Communications Services
Corporation Limited

LEGAL REPRESENTATIVE

Mr. Si Furong

COMPANY SECRETARY

Mr. Chung Wai Cheung, Terence

INTERNATIONAL AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISORS

Freshfields Bruckhaus Deringer
King & Wood Mallesons

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Beijing, PRC 100032

BUSINESS ADDRESS

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Beijing, PRC 100010

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Hong Kong

LISTING PLACE

The Stock Exchange of Hong Kong
Limited

STOCK CODE

00552

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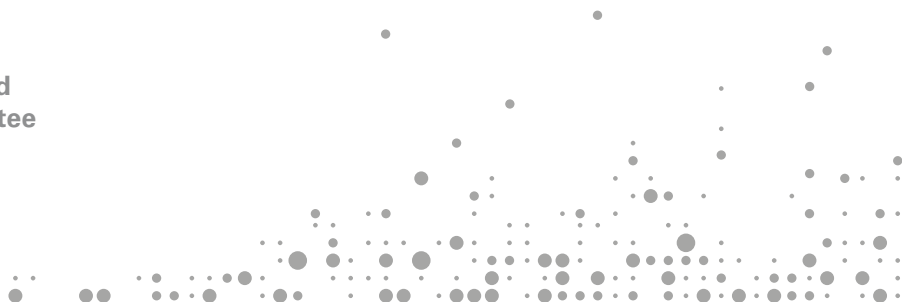
Office of Board of Directors

Telephone: (8610) 5850 2290

Facsimile: (8610) 5850 1534

WEBSITE

www.chinaccs.com.hk



CHAIRMAN'S STATEMENT

In 2017, the Group adhered to the principal philosophy of “value-driven, seeking steady yet progressive growth and efficient development”, captured the digitalization demand of the society and industries, focused on cultivating smart-series products, promoted integration of our professional services and strengthened synergistic operation internally. Externally, we explored cooperation in wider aspects to broaden industry ecosystems. Therefore, we achieved favourable operating results and development quality steadily improved.

Zhang Zhiyong
Chairman



CHAIRMAN'S STATEMENT

Dear Shareholders,

I am very glad to present the annual results of the Group. I have worked in the Company since 2006, when it was established and listed, till 2010 and have witnessed the important process from the establishment of the Group to its sustained growth and expansion. I am delighted to return to the Company. In the past 11 years, the Group adhered to its responsibilities of creating value for our shareholders, employees and the society, pushed forward the innovation and transformation and deepened the reform and development. As a result, the Group's revenue scale continued to enlarge, business and customer structure was further optimized, branding and products were further enhanced, and market competitiveness and social influence have been largely improved. Looking forward, the Group will strive to become the "leading provider of producer services in the informatization sector", and be committed to further supporting national "Cyberpower" strategy and serving better lives, with a view to growing the Company into a top-tier enterprise and promoting its high-quality development.

In 2017, facing a complicated economic environment, the Group adhered to its principal philosophy of "value-driven, seeking steady yet progressive growth and efficient development" and adapted to the development trend. Internally, we strove to promote integration of our professional businesses, strengthen synergistic operation and improve the ability to respond to market changes. Externally, we explored cooperation in wider aspects to broaden industry ecosystems, armed ourselves with the philosophy of supply-side reform in promoting development, thereby achieving favourable operating results, sustaining optimization of business and customer structure and steadily improving quality of development of the Company. In view of this, the Board continued to propose a special dividend for 2017 to enhance shareholders' return.

OPERATING PERFORMANCE

In 2017, the Group gradually transformed its growth momentum from CAPEX¹-driven businesses by the domestic telecommunications operators to both the domestic non-telecom operator market and OPEX¹-driven businesses by domestic telecommunications operators, and also from business driven by traditional infrastructure construction to business driven by integrated services and smart-typed products. Amidst the continued control on its products distribution business with low efficiency and the adverse factors such as overall decline in network construction investment in the domestic telecommunications industry and intensified competition, the Company still achieved steady growth, with the total revenues of RMB94,572 million, representing a year-on-year increase of 6.9% and profit attributable to the shareholders of the Company of RMB2,714 million, representing a year-on-year increase of 7.0%. The Company's free cash flow² hit a record high at RMB6,118 million, representing a year-on-year increase of 40.3%. The favourable operating results and free cash flow have showcased robust development quality of the Group. With the transformation of the Company's growth momentum and gradual formation of its internal and external ecosystems, the Group's substantial development potential has been further demonstrated.

DIVIDEND

The Board has proposed to distribute a final dividend of RMB0.1176 per share for the financial year ended 31 December 2017, representing a dividend payout ratio of 30%. Moreover, in view of the Group's outstanding operating results and free cash flow for the year, the Board has proposed to distribute a special dividend of RMB0.0235 per share for 2017. Taking into consideration of the above factors, the Company's total dividend for 2017 is RMB0.1411 per share, representing a total dividend payout ratio of 36%.

¹ CAPEX and OPEX refer to the capital expenditure and operating expenditure of domestic telecommunications operators, respectively.

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

CHAIRMAN'S STATEMENT

MARKET EXPANSION

In 2017, the Group captured the opportunities for its transformation and upgrade to expand external collaboration and accelerate the construction of the ecosystem and the series of our smart-typed products. On the basis of satisfying the informatization needs of domestic non-telecom operator customers such as government and enterprises, the Group created new demands, explored new models and created new momentum for growth. In 2017, the long-existing development pattern of the Group had been changed from being driven by domestic telecommunications operator customers to being driven by the domestic non-telecom operator market, and domestic non-telecom operator market became the largest contributor to the Group's incremental revenue, with its revenue increased rapidly by 12.4% as compared with the same period of the previous year³, accounting for 28.2% of the Group's total revenues, representing an increase of 1.4 percentage points as compared with the same period of the previous year. Excluding the products distribution business in such market, the revenue from its Core Businesses⁴ increased by 26.5% year-on-year, accounting for more than 80% of the revenue from that market, with the gross profit margin maintaining a stable-to-rising trend. At the same time, driven by smart-typed core products such as Smart City, the Group's domestic non-telecom operator market development continued to accelerate, with the newly-signed service contract value exceeding RMB30 billion, which has not only effectively enhanced the Group's branding and business value in the industry, but also demonstrated sound achievements in its innovation and transformation.

In 2017, leveraging its strengths in the integrated "construction & maintenance" and high-quality services, the Group supported its customers in constructing intelligent supreme network and seized the opportunities arising from the network construction and upgrade as well as the upgrade of fiber optic broadband networks by the domestic telecommunications operators, and the construction demand from China Tower. We persisted in prioritizing service quality, capitalized on the new centralized procurement trend of customers and maintained a favourable relationship with them, thereby consistently expanding our market share and effectively alleviating the impact of the decrease in the telecommunications operators' CAPEX on the development of the Company. Through diversified business development, the domestic telecommunications operator market continued to grow. During the year, the revenue from the domestic telecommunications operator market grew by 6.9% year-on-year, accounting for 68.8% of the Group's total revenues, which remained the same as compared with the same period of the previous year. The rapid growth in the revenues from China Tower and China Mobile drove the overall development of the domestic telecommunications operator market, and their aggregate incremental revenue accounted for more than 80% of the overall incremental revenue of that customer group.

Due to overseas projects' cyclical fluctuation and the Group's active control of certain overseas businesses with low efficiency, the Group's revenue from overseas market in 2017 decreased by 26.2% year-on-year, accounting for 3.0% of its total revenues. At the same time, the Group adjusted and optimized its overseas operational structure in a timely manner and new structures for marketing, management and technical support have been established. The large projects followed up by the Group in Cameroon, Ethiopia and Djibouti have also made progress.

³ The revenue from domestic non-telecom operator customers increased by 3.4% year-on-year in 2016.

⁴ Core Businesses include telecommunications infrastructure services, business process outsourcing services (excluding products distribution), as well as applications, content and other services.

CHAIRMAN'S STATEMENT

BUSINESS DEVELOPMENT

In 2017, the Group consolidated its strengths and mended its weaknesses, resulting in its business structure further optimized. The Group continued to strengthen its telecommunications infrastructure ("TIS") services, and steadily increased its market share among the domestic telecommunications operators through establishing standards, reinforcing quality, setting benchmarks and enhancing its brand influence. On such basis, the Group actively expanded the domestic non-telecom operator market through replicating its capabilities to support the overall encouraging development of its TIS services, resulting in a year-on-year increase of 10.1% in revenue. The Group focused on the OPEX-driven business and continued to expand its business process outsourcing ("BPO") services. Through enhancing its brand name, improving capabilities and further promoting the synergistic operation of maintenance, facilities management and supply chain services, the Group has successfully transformed its growth momentum, with the revenue from its Core BPO services⁵ achieving a rapid year-on-year growth of 17.0%, which is 6.3 percentage points higher than that for the previous year. Meanwhile, the Group optimized its applications, content and other ("ACO") services through unleashing its advantages for complement of differences and mutual interaction between ACO services and TIS services in integrated solutions. The Group incubated smart-typed products and cooperated with the external ecosystems in Big Data, Cloud Computing and the Internet of Things ("IoT"), resulting in building up the Company's new capabilities, new image and promoting its overall business development and market expansion, and revenue from ACO services increased by 12.7% year-on-year.

In 2017, the Group continued to proactively control products distribution business with low efficiency, resulting in the revenue from such business decreased significantly by 33.6% year-on-year, and its proportion in total revenues decreased to 7.3%. During the year, the Group's revenue from the TIS services, Core BPO services, ACO services accounted for 92.7% of its total revenues, representing a year-on-year increase of 4.5 percentage points, and a continuously optimized business structure.

REFORM AND INNOVATION

In 2017, the Group focused on promoting development through continuously pushing forward the reform and innovation. The Group continuously improved its capabilities in professional operation and market expansion through internal synergistic integration and external collaboration. The Group improved its service delivery quality through holding the "Comservice Craftsmanship" competition and enhanced cross-region collaboration capabilities through the training camps for industry-leaders and talented staff in domestic non-telecom operator market. By taking the supply-side reform as the Group's guiding ideology, it attempted to make new breakthroughs in its business development pattern and cultivated smart-series products under the guidance of project-oriented R&D, product-oriented services and platform-oriented products. The Group strove to promote the integration of synergistic operation and established national supply chain logistics system which enhanced the competitive advantages of the Company. At the same time, leveraging on the strong financial position and the establishment of Comservice Capital Holding Company Limited (通服資本控股有限公司), the Group explored the integration of finance with industrial development as the new model to support its development, especially in the expansion of its domestic non-telecom operator business.

⁵ Core BPO services include management of infrastructure for information technology (network maintenance), general facilities management and supply chain services.

CHAIRMAN'S STATEMENT

CORPORATE GOVERNANCE

The Group has maintained its corporate governance at a high level and has long been recognized and rewarded by the capital market. In the voting for "The Asset Corporate Awards 2017" held by *The Asset*, an authoritative financial magazine, the Group was awarded the "Platinum Award – Excellence in Environmental, Social and Corporate Governance". In 2017 "13th Corporate Governance Asia Recognition Awards" held by *Corporate Governance Asia*, an authoritative journal on corporate governance in Asia, the Group was again granted the award of the "The Best of Asia – Icon on Corporate Governance". In addition, in the voting for 2017 "Golden Hong Kong Equities Awards", the Group was awarded the "Best Growth Value Listed Company" and the "Best Value TMT Company". In 2017, the Group ranked 79th in the "2017 FORTUNE China 500" published by *FORTUNE China*.

Mr. Si Furong, the President of the Company, won the "Outstanding Contribution to Management Excellence in 2017" award granted by *International Finance Magazine*, a UK-based financial magazine, and the "Asian Corporate Director" awarded by *Corporate Governance Asia*. Ms. Hou Rui, Chief Financial Officer of the Company, won the "Best CFO" award granted by *Corporate Governance Asia*.

The Group has maintained close and effective communication with the capital market. The Company's overseas roadshow, which was held in November 2017, facilitated the understanding by the capital market of the Company's development and transformation. The Group won important awards held by *Corporate Governance Asia* and *IR Magazine* for its outstanding investor relations management.

SOCIAL RESPONSIBILITIES

The Group has always emphasized on the fulfillment of its corporate social responsibilities and made great efforts in providing communications support for disaster relief and large-scale conferences.

In 2017, the Group dispatched a total of approximately 19,500 person-times and 7,200 vehicle-times, with a total of approximately 61,500 working hours and spared no effort to repair the communications lines damaged by Typhoon Merbok, Hato and Pakhar as well as earthquakes and flooding. It repaired an aggregate of more than 34,000 damages in the communications facilities throughout the year.

In 2017, the Group undertook the communications network construction and maintenance projects for the "2017 Global Future Network Development Summit", the "Ninth BRICS Summit" and the "Fourth World Internet Conference (Wuzhen Summit)" and successfully completed all its tasks. Through its ingenious support and services in the construction and maintenance of communications facilities for large-scale conventions and exhibitions in recent years, the Group has established its brand name, accumulated customer resources and received high praise and recognition from the governments.

FUTURE OUTLOOK

In 2017, the Group achieved favourable results and stepped into a new level in its overall development by adhering to its principal philosophy of "value-driven, seeking steady yet progressive growth and efficient development". Looking forward, from the macro-economic perspective, China's economy has been transitioning from a phase of rapid growth to a stage of high-quality development. This is a pivotal stage for the transformation of growth model, improvement of economic structure, and the fostering of new drivers of growth. With the starting point of new economic cycle arriving, the digital economy will have a massive room for development and investment from industries will be dominating, and the digitalization needs for electricity, transportation, beautiful villages, utility tunnel system, logistics and information security will create a vast market. From the industrial trend perspective, the integration of information technology and traditional industries has become the new engine of the digital economy. New technologies such as Artificial Intelligence, Blockchain, Cloud Computing, Big Data, Smart Home, IoT and 5G will consecutively enter into periods of explosive development and bring us new business opportunities. Competition in platform ecosystems and online-offline integration have become the new trend in which the platform has become a new competition carrier of the three major elements, i.e. computing, data and industry. It is the key to the personalized and flexible application for the customers as well as scale and boundary breakthrough for the industries, which will bring new space and business ecosystems for the Group's accelerated development.

CHAIRMAN'S STATEMENT

In response to changes in the internal and external environments, the Group will adhere to its overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" in 2018, requiring itself with the standard as a top-tier enterprise, unleashing its accumulated experiences and strengths for many years in the field of new informatization services, insisting on product-oriented services and platform-oriented products. By targeting the digitalization and informatization transformation among the society and industries, the Group will continue to create a new value-sharing ecosystem that can satisfy the customers' needs while gathering industrial chain resources and improving service quality, assisting domestic telecommunications operators to build superior network for the country, fulfilling the intelligentization demand of domestic non-telecom operator customers, with a view to continuously creating new growth drivers for the Group's development. Focusing on the national "Belt and Road" Initiative, the Group will strengthen its cooperation with domestic telecommunications operators and the "Go Abroad" Chinese enterprises, accumulate and integrate resources, expedite the development of overseas turnkey projects, enhance its international operating capabilities, and make overseas market a new growth driver for the Group's business as early as possible. At the same time, the Group will accelerate the development of its financial segment, and capitalize on our financing ability and our traditional industrial resources to drive development. Facing the modern services industry, the Company will promote the industrial upgrading, so as to create greater value for its shareholders and customers with better development and more satisfactory performance.

Finally, on behalf of the Board, I would like to express my sincere gratitude to the shareholders, customers, and all sectors of society for their long-term concern and support as well as all our hard-working employees. On behalf of the Board, I would like to express my sincere gratitude to Mr. Sun Kangmin for his outstanding contribution to the development of the Group during his tenure as the Chairman and express my sincere welcome to Mr. Shao Guanglu for joining the Board.



Zhang Zhiyong

Chairman

Beijing, PRC
27 March 2018

PRESIDENT'S STATEMENT

In 2017, the Group kept transforming growth momentum, insisting on both domestic non-telecom operators and domestic telecommunications operators-driven as well as CAPEX and OPEX-driven, realizing complementary advantages of its smart products and integrated service and integrating finance with industrial development and expanding ecosystem in terms of deployment, which secured sound operating results and laid a solid foundation to forge the Group into a top-tier enterprise and open a new chapter in innovation and development.

Si Furong
President



PRESIDENT'S STATEMENT

Dear Shareholders,

I am very pleased to present the operating results of the Group in 2017.

FINANCIAL PERFORMANCE

In 2017, while adhering to the principal philosophy of “value-driven, seeking steady yet progressive growth and efficient development”, the Group vigorously developed the domestic non-telecom operator market and the OPEX market of the domestic telecommunications operators in order to reduce the reliance on the network investment of domestic telecommunications operators, and thereby optimized its business and customer structure, enhanced its overall efficiency, and achieved satisfactory operating results. Total revenues for the year amounted to RMB94,572 million, representing a year-on-year increase of 6.9%. The Group's overall gross profit margin for the year was 12.9%, representing a year-on-year decrease of 0.3 percentage point. The decline rate obviously moderated as compared with the same period of last year⁶. The selling, general and administrative expenses for the year accounted for 10.5% of the total revenues, representing a year-on-year decrease of 0.2 percentage point. Profit attributable to equity shareholders of the Company for the year amounted to RMB2,714 million, representing a year-on-year increase of 7.0%. The net profit margin was 2.9%, which remained the same as that of last year. In 2017, the Group's basic earnings per share was RMB0.392. As we constantly strengthened the management of our working capital and achieved solid results, our free cash flow amounted to RMB6,118 million, representing a year-on-year increase of 40.3%.

BUSINESS DEVELOPMENT

As clearly indicated, while the Group's revenue scale in recent years has been constantly expanding, the dependence of its operations on the network investment of domestic telecommunications operators has been gradually weakening and the contribution from the Core BPO services and domestic non-telecom operator customers to the overall incremental revenue of the Group has been significantly increased as compared to the same period of last year, which broadly indicated the realization of the transformation of growth momentum.

In 2017, while continuing to control the development of its products distribution business with low efficiency proactively, the Group vigorously developed its TIS services, Core BPO services and ACO services, and recorded favourable revenue growth from these services with our business structure further optimized.

Revenue from TIS services amounted to RMB50,511 million, representing a year-on-year increase of 10.1%, and accounting for 53.4% of the total revenues. We captured the important opportunities of the domestic telecommunications operators' network upgrade and the upgrade of fiber optic broadband networks as well as tower construction and the deployment of the IoT, and thereby reinforced our business from domestic telecommunications operators. Meanwhile, the Group continued to shift its products and capabilities to the domestic non-telecom operator customers market, resulting in the revenue of TIS services from this customer group growing at a significant year-on-year rate of 30.3%. The rapid growth of TIS services of the domestic non-telecom operator customers has greatly enhanced our ability to withstand the impact from the decline in the CAPEX of domestic telecommunications operators.

Revenue from BPO services amounted to RMB32,763 million, representing a year-on-year increase of 0.7% and accounting for 34.6% of the total revenues. The Group's insistence on value-driven principle and proactive control of its products distribution business with low efficiency were the main causes for the slow increase in the revenue from this segment, whereby revenue from products distribution business for the year reported a significant year-on-year decrease of 33.6%. Excluding this factor, revenue from its Core BPO services reported a rapid year-on-year increase of 17.0%, demonstrating the favourable results of the Group's transformation of its growth momentum. Revenue from the network maintenance business increased by 20.1% year-on-year, indicating a remarkable acceleration as compared with the same period of last year⁷, and revenue from supply chain service increased by 16.8% year-on-year, demonstrating the sound results of synergistic business operation.

⁶ For 2016, the Group's overall gross profit margin was 13.2%, representing a year-on-year decrease of 0.9 percentage point.

⁷ In 2016, the Group's revenue from network maintenance business reported a year-on-year increase of 9.5%.

PRESIDENT'S STATEMENT

Revenue from ACO services amounted to RMB11,298 million, representing a year-on-year increase of 12.7%, accounting for 12.0% of the total revenues. We captured the business opportunities arising from the intelligentization transformation of domestic telecommunications operators as well as the flourishing demand of the domestic non-telecom operator customers for informatization construction and vigorously promoted our smart-typed products, thereby increasing the core competitiveness of this business segment. In 2017, the aggregate revenue from the Group's system integration, software development and system support businesses increased by 20.7% year-on-year, which is 6.8 percentage points higher than the "Revenue Growth Rate of National Software and Information Technology Service Industry"⁸, i.e. the industry average level.

CUSTOMER DEVELOPMENT

In 2017, the domestic non-telecom operator market was the fastest growing market of the Group and played an important role in propelling the overall sustainable development of the Group. The revenue from this market amounted to RMB26,656 million, representing a year-on-year increase of 12.4%, accounting for 28.2% of the total revenues of the Group. The revenue from the Core Businesses of this market increased by 26.5% year-on-year, accounting for 83.2% of its overall revenue, representing a year-on-year increase of 9.3 percentage points, which demonstrated the optimization of business structure. In the domestic non-telecom operator market, the Group focused on key areas such as government, electricity and transportation, reinforced its marketing team construction, enhanced the products enabling through training camps for industry-leaders and talented staff in domestic non-telecom operator market, broadened its external cooperation while constantly building up its product series, including Smart City, Smart Security, Smart Park, Smart Transportation, Smart Safety, Smart Town and Smart Grid, thereby progressing the cross-region promotion of its products and capabilities and boosting the Group's development. During the year, the Group continued to expand its businesses into the power sector effectively, where 49 business development units for the power sector have been established nationwide and 172 business licenses in the power sector have been obtained. The Group also achieved breakthroughs in the transportation sector with the official launch of our "Smart Highway" solution by means of holding a nationwide summit, and the summit has significantly enhanced the Group's influence in the industry and drove the development of the platform and related integrated businesses.

In 2017, for the domestic telecommunications operator market, the Group insisted on leveraging both the "CAPEX and OPEX-driven" businesses and "the priority of service quality", thus realised a revenue of RMB65,080 million, representing a year-on-year increase of 6.9% and accounting for 68.8% of the total revenues of the Group. Among that, the revenue from China Telecom amounted to RMB41,568 million, representing a year-on-year increase of 2.4% and accounting for 43.9% of the total revenues. The revenue from domestic telecommunications operators other than China Telecom reported a year-on-year increase of 15.9% and accounting for 24.9% of the total revenues, representing a year-on-year increase of 2.0 percentage points. Among that, the Group exploited the new characteristics of China Mobile's centralized procurement and emphasized on maintaining a positive cooperative relationship with China Tower, strived to expand new businesses and enhanced market share, thereby supported the rapid growth of the related businesses.

In 2017, affected by cyclical fluctuations of its overseas projects and the Group's proactive control of low efficiency businesses, revenue from overseas market recorded a year-on-year decrease of 26.2% and amounted to RMB2,836 million, accounting for 3.0% of the total revenues. We have strengthened our risk prevention measures in our overseas businesses, and actively adjusted our overseas business operation and management structure. At present, the new management structure for China Communications Services International Limited has been established, under which we have accelerated the building up of our marketing team, resulting in improved capabilities in marketing. Meanwhile, overseas market was divided into five major business regions geographically, which is managed dynamically in a more flattened manner for business development. An overseas technical support centre was also established to centralize the allocation of resources and provide support to the expansion of our overseas projects.

⁸ In 2017, the revenue of the software and IT service industry in China increased by 13.9%. Source: Ministry of Industry and Information Technology of the People's Republic of China.

PRESIDENT'S STATEMENT

DEVELOPMENT DEPLOYMENT

The Group has constantly transformed its new growth momentum, mapped out new deployment and explored new rooms for expansion. In terms of market development, the Group's business focus has been shifted from the traditional CAPEX of domestic telecommunications operators to the OPEX of domestic telecommunications operators, domestic non-telecom operator customers and overseas customers. The Group has put greater efforts in product innovation to promote its branding in Smart Services of the Group, and shifted its capabilities from a traditional labour-intensive service to a technology-based and digital services. In terms of business model, we have striven to expand our external cooperation and build an ecosystem featuring win-win outcome while exploring business models such as PPP (Public-Private Partnership), BT (Building + Transfer) and BOT (Building + Operation + Transfer). In terms of new business segment, Comservice Capital Holding Company Limited was established to explore the integration of finance with industrial development.

The Group has accelerated the consolidation of its professional services and continued to push forward its integrated operations, embedding in the demand of product and service through our customers' full lifecycles, so as to get better and earlier preparation for future market demands in the era of 5G and IoT. Cross-province integration has been initiated for our distribution, facilities management and logistics businesses, in an attempt to promote the cross-region, cross-industry and cross-customer coverage of our traditional service capabilities and accelerate the convergence of upstream and downstream industries, with the brand influence of our “中通福” (ZhongTongFu), “中通服物業” (ZhongTongFu Wuye) and “中通服置業” (ZhongTongFu Zhiye) gradually emerged. We also accelerated the cross-profession collaboration such as capitalizing on design business to drive infrastructure business, so as to fulfilling the new demand for turnkey projects. For example, for the Qianbei Logistics Town project in Guizhou Province, the Group's Jiangsu Design Institute collaborated with our Zunyi Branch Company in Guizhou Province, and leveraged on the design business as entry point to drive multi-profession and cross-province cooperation, which helped build up our new capabilities in marketing. The synergistic management of resources was also strengthened to optimize the allocation of key resources and improve the efficiency of synergistic operations.

In terms of development of high-value business, the Company incubated a number of group-level products represented by Smart Highway and Smart Town with its innovation fund, which has enriched its product portfolio. We have noticed that, in view of the Group's unique integrated solution capabilities in the industry, the sound marketing efforts on our smart-typed products have also drastically promoted the development of our TIS services in which we have traditional strengths, and there was a noticeable effect on the ecological development of the Company. We closely monitored the development of frontier technologies, including entering into the quantum communications market in cooperation with CAS Quantum (國科量子), and cooperation with SAP in our public cloud business with a scale of hundred million renminbi. In addition, the Information Security Expert Committee and Big Data Expert Committee of the Group exerted positive impact in bringing talents together and supporting core product creation and key project development.

PROSPECTS

In 2018, the Group will adhere to the overall roadmap of “value-driven, seeking steady yet progressive growth and high-quality development” and generate greater value for shareholders and customers with higher quality development and better efficiency.

Facing the massive market space brought by the digital economy, the Group will focus on the needs of informatization from the government and industries along the vertical chain, unleash our “Consultant + Staff” expertise advantage, in which we act as the consultant for the government and enterprises to coordinate upstream and downstream parties along the value chain, establish new industrial benchmarks and formulate solutions, while playing the role as their staff and better serving the customers, with the view to fulfilling our role as the prime contractor in the new era of informatization and constantly broadening the business opportunities for domestic non-telecom operator customers. We will fully leverage our strengths to centralize product research and development, support the building of product lines covering smart-typed products, IoT and Information Security, strengthen the delivery capabilities of our product centre, accelerate the convergence of our products to the front end of the market to form new synergy, thus achieving a complete alignment of our internal products and delivery capabilities with external customers and market demands to deliver new services externally. At the same time, we will strengthen the external cooperation to introduce the products and delivery capabilities from our external partners and integrate them into the Group's system, with a view to cultivating smart-typed products for better satisfying customers' demand and gradually achieving breakthroughs in key areas and industries.

PRESIDENT'S STATEMENT

The Group will continue to focus on both "CAPEX and OPEX-driven" businesses, and seize the opportunities in the transformation of domestic telecommunications operators. We will closely follow the needs of our operator customers along the national "Cyberpower" strategy and fully participate in the construction of 5G and IoT. While further penetrating the CAPEX-driven business to maintain the stable fundamentals of our operation, we will focus on the OPEX-driven business of our customers through further expansion of businesses in network integrated maintenance, Smart Home and IT operation and maintenance, in an attempt to establish a standardized service system for network maintenance, develop platform-oriented maintenance business and extend it to other customers.

The Group will strengthen the unified management of its overseas businesses and capitalize on its ICT core competence, accelerate its penetration into overseas electricity, education, healthcare and construction industries while maintaining the stability of its traditional telecommunications infrastructure businesses. The Group will strengthen its cooperation with domestic telecommunications operators and the "Go Abroad" Chinese enterprises, utilize the resources of all the relevant parties, and leverage its advantages in consultation planning, network construction and market deployment while continuing to follow up large-scale turnkey projects such as "China-Africa Partnership Program in Trans Africa Information Superhighway" Project and accelerating the transformation and upgrade of overseas businesses.

The Group will continue to deepen its reform and innovation, and further build up a production organization model that can better satisfy the demand of the market. In view of the new demand from IoT, the Group will promote professional integration, facilitate integration of finance with industrial development, explore its transition from product-oriented to platform-oriented operation model, in an attempt to create cross-profession, cross-region, internal-external collaboration capabilities. At the same time, we will accelerate the progress of our smart operations and optimise the unification of IT system so as to manage the operation in a more standardized manner and improve operational efficiency.

2018 marks the 40th anniversary of China's reform and opening up. We will adhere to our original aspiration and keep our mission firmly in mind. With the focus on the target of being a "leading provider of producer services in the informatization sector", we will expand our coverage to high-end services sector, forge the Group into a top-tier enterprise and open a new chapter in reform and development. We will be dedicated to our work with the spirit of "fully committed and waste no time", strive to start a new phase of high-quality development in a new era of the Company and make great strides toward a better future.



Si Furong
President

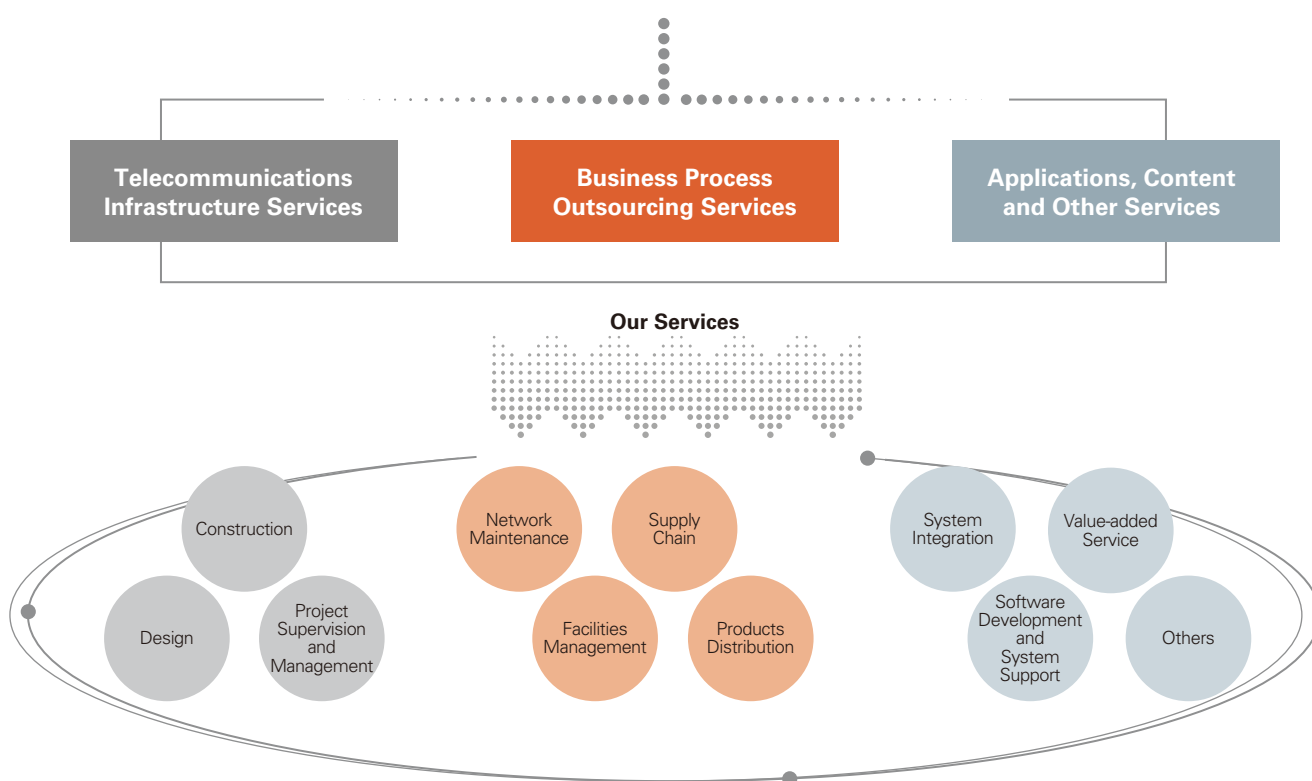
Beijing, PRC
27 March 2018

BUSINESS OVERVIEW

The Group is a leading service provider in the PRC that provides integrated comprehensive solutions for the informatization sector. The Group provides integrated solutions, including telecommunications infrastructure services, business process outsourcing services as well as applications, content and other services to telecommunications operators, government agencies, industrial customers and small-and-medium enterprises ("SMEs").

The Group's business spans across China and dozens of countries and regions globally, with overseas customers mainly located in Africa, the Middle East and Southeast Asia.

WE PROVIDE INTEGRATED COMPREHENSIVE SOLUTIONS IN THE INFORMATIZATION SECTOR



| (In RMB million, except percentages) | Revenue in 2017 | Revenue in 2016 | Change |
|--|-----------------|-----------------|-------------|
| Domestic telecommunications operator customers | 65,080 | 60,889 | 6.9% |
| Of which: China Telecom | 41,568 | 40,597 | 2.4% |
| China Mobile, China Unicom, China Tower | 23,512 | 20,292 | 15.9% |
| Domestic non-telecom operator customers | 26,656 | 23,714 | 12.4% |
| Overseas customers | 2,836 | 3,846 | -26.2% |
| Total | 94,572 | 88,449 | 6.9% |

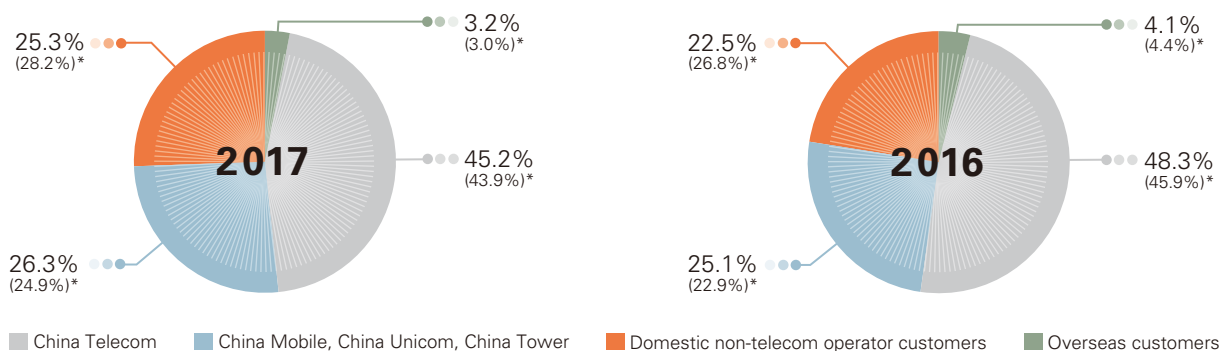
BUSINESS OVERVIEW

MARKET EXPANSION

In 2017, the Group upheld the principal philosophy of “value-driven, seeking steady yet progressive growth and efficient development”. While seeking further development of the CAPEX¹-driven business of the domestic telecommunications operator market, the Group transformed its growth momentum and increased its efforts in exploiting the OPEX¹-driven businesses of the domestic telecommunications operator market, thereby maintaining the stable fundamentals of its businesses. Meanwhile, the Group also endeavored to expand the domestic non-telecom operator market scale in the key industries and focused on development of overseas turnkey projects, and as a result, achieved efficient and sustained development of the Company. In 2017, the Group focused on “optimizing structure, sustaining growth, strengthening capabilities and enhancing efficiency” and further optimized the business structure by continuing to proactively control products distribution business with low efficiency. Total revenues of the Group for the year amounted to RMB94,572 million, representing a year-on-year growth of 6.9%, in which, revenue from the Core Businesses² excluding the products distribution business achieved rapid growth and reached RMB87,617 million, representing a year-on-year growth of 12.4%.

In 2017, the Group continued to reinforce its market expansion and shifted the growth drivers. Revenue from the Core Businesses of the Company achieved double-digit growth and its contribution to the total revenues recorded a year-on-year increase of 4.5 percentage points to 92.7%, demonstrating a high-quality development. During the year, revenue from domestic telecommunications operator customers (including China Tower) amounted to RMB65,080 million, representing a year-on-year increase of 6.9%. Revenue from domestic non-telecom operator customers amounted to RMB26,656 million, representing a year-on-year increase of 12.4%, in which the Core Businesses revenue increased by 26.5%. Revenue from overseas customers amounted to RMB2,836 million, representing a decrease of 26.2%.

The following charts show the revenue contribution of each customer group in terms of Core Businesses:



Note: The figures in bracket are the revenue contribution to the total revenues (including revenue from products distribution business).

In 2017, the Group continued to enhance service quality and project management in the domestic telecommunications operator market. The Group captured the opportunities of upgrade of fiber optic broadband networks, optimisation and upgrade of networks of domestic telecommunications operators and scale development of tower construction and maintenance business in China. Our market share showed a stable-to-rising trend. Meanwhile, we exploited the incremental market of OPEX-driven business, overcame the unfavourable factors from the CAPEX decrease of domestic telecommunications operators and realized a steady growth in the revenue from domestic telecommunications operator customers. Of such revenue, revenue from China Telecom amounted to RMB41,568 million, representing a year-on-year growth of 2.4%, and aggregate revenues from domestic telecommunications operator customers other than China Telecom amounted to RMB23,512 million, representing a year-on-year rapid growth of 15.9%.

¹ CAPEX and OPEX refer to the capital expenditure and operating expenditure of domestic telecommunications operators, respectively.

² Core Businesses include telecommunications infrastructure services, business process outsourcing services (excluding products distribution), and applications, content and other services.

BUSINESS OVERVIEW



1. The Group undertook the “Smart Park” project of Qianbei Logistics Town in Guizhou Province
2. The Group undertook “Smart Security” projects

In recent years, we have been paying close attention to the development trend of informatization of industries. Through innovation and transformation, the Company achieved rapid growth of its business from domestic non-telecom operator customers and witnessed sustained optimization of its revenue structure. In 2017, the Group built consensus, focused on key industries, strengthened collaboration among its products and services both internally and externally and unleashed overall advantages to promote constructive and interactive development between its emerging and traditional businesses. Revenue from domestic non-telecom operator customers market amounted to RMB26,656 million, representing a year-on-year growth of 12.4%. Excluding products distribution business with low efficiency which has been proactively controlled by the Group, the revenue from Core Businesses of domestic non-telecom operator market recorded a year-on-year growth of 26.5%, which became the largest contributor to the incremental revenue of the Group during the period. In 2017, the Group has already developed the group-level products including Smart City³, Smart Security⁴, Smart Park⁵, Smart Transportation⁶ and Information Security⁷. Currently, the sales and marketing system of the Group covers 88% of professional companies with around 6,000 sales and marketing staff. Meanwhile, the Group expedited the

³ Based on its showcase-typed Smart City (Mini Smart City 1.0) and solution-typed Smart City products set (Mini Smart City 2.0), the Group developed the new generation Smart City product (Mini Smart City 3.0) which represents the first product and service set for new Smart City solutions based on SDC (software defined city) structure.

⁴ Based on the video surveillance construction for Safe City and through accessing and integrating massive video and non-video data, the Group launched the Smart Security integrated application platform incorporating functions of information warning, emergency command and case study, which caters for the needs of the base smart police for the four major categories of police force, namely the public security intelligence, public order, command and criminal investigation.

⁵ The Group developed the cross-platform multi-business integrated service platform by applying the cutting-edge technologies such as Cloud Computing, Big Data, Internet of Things, Artificial Intelligence and Virtual Reality to perceive, monitor, analyze, control and integrate resources of each aspect of the parks.

⁶ The Group constructed its Big Data-based highway design, operation, maintenance and service supporting platform, which, through automatic collection, integration, tapping and intelligent analysis of the mass data of full network of the highways, enables the transparent perception of the operation status of highways, the whole Internet of Things and intelligent integration and power-divided sharing of internal and external information resources.

⁷ The Group provides eight types of information security services (including information security consultation, assessment, design, construction, training, emergency solution, daily operation and maintenance and monitor) and three types of information security products (including physical security, data security and security operation, maintenance and management), covering the full life cycle of information security and delivering integrated solutions.

BUSINESS OVERVIEW



The Group promoted "Smart Town" solutions

cultivation of the team of technical experts for core products and currently have owned a team of almost 20,000 staff specialized in consultation planning and software development. The Group intends to continue to increase its training efforts and encourage self-study and research by employees, with a target to cultivating new teams of professionals and experts. In addition, the Group devoted more efforts in the development of supply side reform and actively adopted the "Consultant + Staff" model⁸ while the commercialization of projects achieving initial results with Smart Transportation being promoted in a comprehensive way, the integrated solutions of Smart Town being enriched continuously and Smart Safety products being replicated and promoted across provinces. Currently, annual contracted revenue of the Group generated from customers in sectors of government, transportation, electricity, internet and IT, construction exceeded RMB1 billion each. By grasping important opportunities arising from the opening-up of certain businesses in electricity distribution and sales subsequent to the implementation of national power reforms, the Group applied and obtained 172 business licenses covering power network construction turnkey projects and sales of electricity, which equipped us with strategic reserves for scale development and breakthroughs in the power sector in the future.



1. The Group undertook metro rail transportation telecommunications projects
2. The Group undertook power network projects

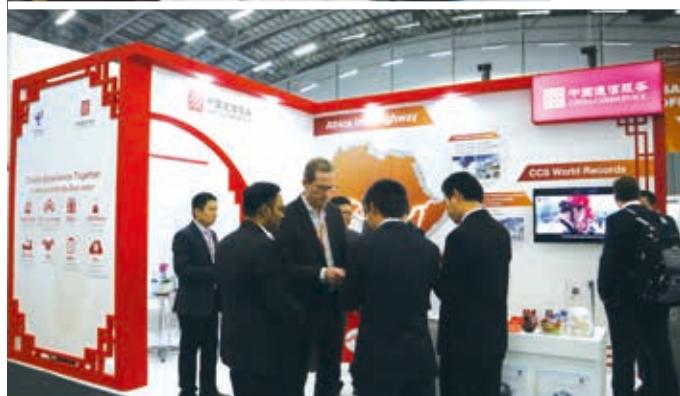
⁸ "Consultant + Staff" model is an innovative service model adopted by the Group in recent years. "Consultant" means that the Group acts as the "Consultant" of its customers through leveraging on its talents and products advantages, so as to turn customers' needs into feasible solutions or projects, whereas "Staff" means that the Group, as appointed by customers, assists its customers 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 its customers' expectation could be achieved.

BUSINESS OVERVIEW

In 2017, the Group made further adjustment to the deployment and development direction for overseas market to optimize the business structure, and put proactive control over businesses with low efficiency to enhance the quality of its revenue. In the year, revenue from overseas customers of the Group amounted to RMB2,836 million, representing a year-on-year decrease of 26.2%. During the year, for the purpose to further keep abreast of the market and customers, the marketing and supporting system for overseas businesses kept moving to the front end and was divided into five major business regions by geographical location with four supporting systems in technology, financing, accounting and risk. Resources allocation were centralized to provide support for the development of overseas projects. The Group achieved encouraging developments in several key projects and sound progress was made in several turnkey projects such as the education network project in Cameroon progressed smoothly. The Group closely followed the national “Belt and Road” Initiative, strengthened its cooperation with domestic telecommunications operators and the “Go Abroad” Chinese enterprises and continued to expand proactively the regional markets including Africa, the Middle East and Southeast Asia. On one hand, the Group actively pushed forward the progress of projects financed by two types of preferential facilities in countries such as Tanzania, Mali and Niger, all of which have achieved staged progress, and on the other hand, closely followed up the local large-scale projects and won the biddings for the large-scale projects such as the FTTH construction project in Saudi Arabia, the Ethiopia education network project including cloud system integration for 310 schools and ICT project for the initial development area of Djibouti Free Trade Zone (Phase I). Meanwhile, the Group reinforced its efforts in business transformation to develop new business and markets such as electricity, education and healthcare sectors with encouraging breakthroughs achieved in countries such as Saudi Arabia, Ethiopia and Zambia.



1. The Group proactively expanded its overseas market
2. The Group attended overseas communications exhibitions



BUSINESS OVERVIEW



The Group undertook IDC data centre projects

TELECOMMUNICATIONS INFRASTRUCTURE SERVICES

As the largest telecommunications infrastructure service provider in China, the Group possesses all the highest grade qualifications in the communications construction industry in China. In 2017, revenue from telecommunications infrastructure services amounted to RMB50,511 million, representing a year-on-year growth of 10.1%.

The Group has the capabilities to provide worldwide telecommunications operators with comprehensive telecommunications infrastructure services including planning, design, construction and project supervision for fixed-line, mobile, broadband networks and supporting systems. In 2017, the Group fully addressed the needs of customers including the three domestic telecommunications operators and China Tower, and maintained its solid market leading position. The Group's revenue of telecommunications infrastructure services from domestic telecommunications operator customers amounted to RMB38,649 million, representing a year-on-year growth of 7.9%.

The Group also provides construction services of ancillary communications networks, and integrated solutions for informatization and smart solution for intelligentization of industries to domestic non-telecom operator customers, such as government agencies, financial institutions, broadcasting and television enterprises, construction enterprises, transportation and power sectors as well as overseas customers. The Group continuously achieves breakthroughs in the construction projects for Smart City, Smart Park, data centre and power projects. In 2017, revenue of telecommunications infrastructure services from domestic non-telecom operator customers amounted to RMB9,710 million, representing a year-on-year growth of 30.3%. The strong growth momentum has been maintained which has a significant contribution to the overall sustainable growth of telecommunications infrastructure services.

Despite the expected changes of the investment of domestic telecommunications operators, through tapping market potentials and capturing the demand on integrated construction, maintenance and network optimization services from domestic telecommunications operators, the Group expects to develop its traditional business of domestic telecommunications operators steadily. With the further implementation of national strategies of "Digital China", "Cyberpower" and "Smart Society", demands on infrastructure construction and informatization of industries such as Smart City and Safe City will increase. In addition, the overseas market potential brought by the national "Belt and Road" Initiative will also create new opportunities for the growth of the Group.

BUSINESS OVERVIEW

The Group undertook network maintenance projects for domestic telecommunications operators



BUSINESS PROCESS OUTSOURCING SERVICES

The Group is the largest integrated provider of business process outsourcing services in the communications industry in China. We keep extending our business scope from core networks to access networks along the communications business value chain, and provide services including management of infrastructure for information technology ("Network Maintenance"), general facilities management, supply chain and products distribution. The targets of our services include domestic and overseas telecommunications operator customers, government agencies and enterprises customers. In 2017, the Group continued to exploit the OPEX-driven business of domestic telecommunications operators and the revenue from the Core BPO Services⁹ amounted to RMB25,808 million, representing a year-on-year growth of 17.0% while the overall revenue from the business process outsourcing services (including products distribution business which is proactively controlled by the Group) amounted to RMB32,763 million, representing a year-on-year increase of 0.7%.

The Group provides Network Maintenance services for telecommunications operators covering fiber optic cables, electric cables, mobile base stations, network equipment and terminals. In 2017, the Group proactively undertook on-site integrated maintenance services from the three domestic telecommunications operators and China Tower, facilitated a relatively fast development in maintenance services of the Group with a revenue of RMB12,829 million, representing a year-on-year growth of 20.1%.

The Group provides general facilities management services to domestic telecommunications operators and domestic non-telecom operator customers for their data centres, cloud computing bases, commercial buildings, high-end residential buildings, high-speed railway stations and airports, etc. During the year, the Group continued to develop brand-building of intelligent building, and proactively promoted the construction of IT platform of intelligent building to enhance the synergistic operational capabilities of general facilities management service. In 2017, revenue from the general facilities management business of the Group was RMB4,555 million, representing a year-on-year growth of 9.5%.



The Group undertook integrated construction and maintenance projects of the towers

⁹ Core BPO Services include management of infrastructure for information technology (network maintenance), general facilities management and supply chain.

BUSINESS OVERVIEW

In 2017, the Group further increased the influence of its brand of distribution business called “中通福” and set up an aggregate of 213 “中通福” distribution chain stores. The unified management system of the chain stores was launched with the operation capability for nationwide chain stores established. It is expected that the number of in-operation “中通福” physical stores will reach 3,000 within the next two years. The Group strives to develop “中通福” as the core distributor recognized by operators and large nationwide chain store recognized by consumers. During this year, the Group received the certification from China Telecom for the operation of the “cross-province large chain store”, established a unified IT logistics system and a comprehensive and integrated logistics operating system, which offers nationwide integrated logistics service to its customers. In 2017, the Group’s revenue in supply chain service was RMB8,424 million, representing a year-on-year increase of 16.8%. In the future, China Comservice Supply Chain Management Company Limited will further play its leading role in driving for the expansion of the Group’s supply chain business.

Products distribution business mainly involves distribution of telecommunications products. The Group provides terminals distribution and device distribution services to domestic telecommunications operator customers and provides distribution and procurement services of IT devices, auxiliary machinery and equipment to domestic non-telecom operator customers. In 2017, the Group proactively controlled the development of products distribution business with low efficiency and realized revenue of RMB6,955 million, representing a year-on-year decrease of 33.6%.

The Group believes that the OPEX market of domestic telecommunications operators have enormous room and potential to grow, and the domestic non-telecom operator customers also have strong demands for business process outsourcing services. The business process outsourcing business is characterized by high customer loyalty, low accounts receivable turnover days and good cash flow. The Group will further allocate its advantageous resources to carry out professional operation in certain business sectors with high value to realize a more efficient and larger scale development.



1. “中通福” store — the brand of distribution business of the Group
2. The Group provided storage and logistics services for customers



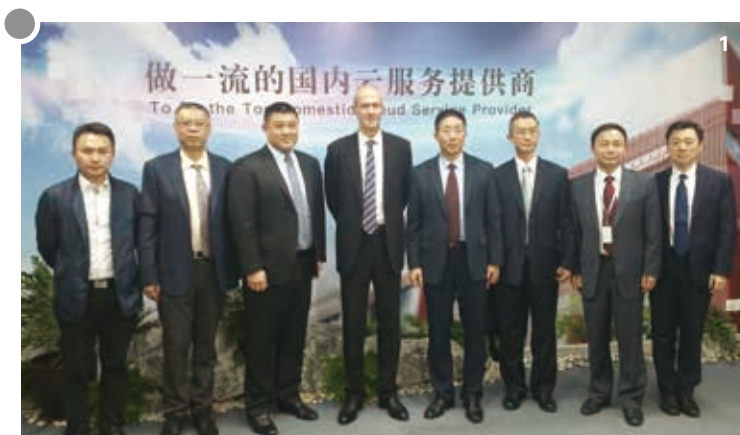
BUSINESS OVERVIEW

APPLICATIONS, CONTENT AND OTHER SERVICES

The Group provides system integration, software development and system support as well as value-added services to customers including domestic telecommunications operators, government agencies and enterprises customers. In 2017, revenue from this business segment amounted to RMB11,298 million, representing a year-on-year increase of 12.7%.

In 2017, the Group leveraged on its integrated service advantages and system integration and software development capacities to expand its industrial ecosystem through external collaboration, such as the quantum communications market. During the year, the Group set up the Information Security Expert Committee and Big Data Expert Committee under the Product Innovation Committee and continued to increase its investment in research and development of key products through the mechanism of innovative fund and expert committees. As a result, the Group completed a comprehensive upgrade of the smart-series products such as the Smart City, Smart Park, Smart Transportation and Smart Security with certain of them achieving industry-leading level, which effectively addressed the needs of government and enterprise customers. The domestic non-telecom operator customers were the major customer base of our applications, content and other services, which contributed to more than 50% of the overall revenue from such services. In 2017, the revenue from domestic non-telecom operator customers for applications, content and other services recorded a year-on-year increase of 22.5%, representing a major driver for the growth of this segment.

The Group will proactively grasp the opportunities arising from “Digital China” construction, make sustained upgrades of its key products and strengthen its research and development and platform construction in key areas of Internet of Things, Big Data and Information Security, so as to continuously cater for the needs of customers for construction of informatization.



- 1. The Group cooperated with SAP in public cloud business
- 2. The Group established cloud computing bases and undertook cloud computing centre project



MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

OVERVIEW

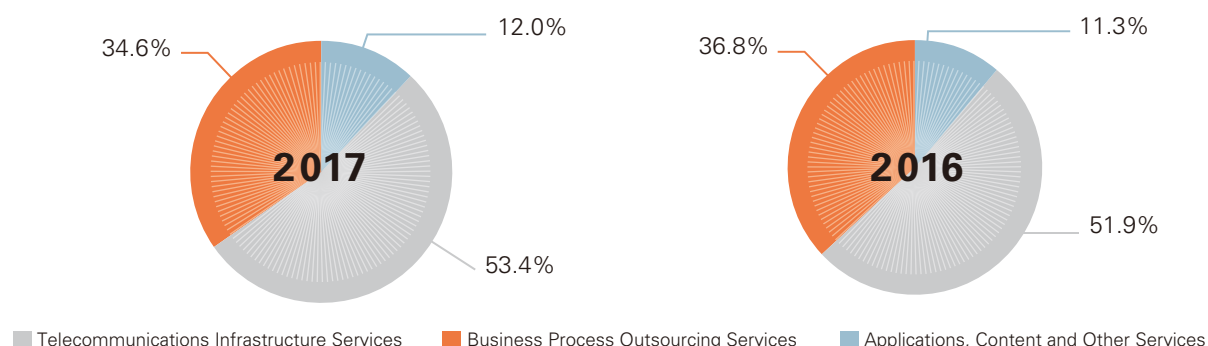
In 2017, the Group upheld the principal philosophy of “value-driven, seeking steady yet progressive growth and efficient development”, firmly captured the opportunities from the domestic telecommunications operators market in network construction and upgrade, optimization of broadband quality and speed, tower construction and maintenance, and also continued to focus on domestic non-telecom operator market, thereby achieving continuous growth in the total revenues and net profit. Our business saw a “steady yet progressive growth with quality enhancement”. Total revenues for the year amounted to RMB94,572 million, representing an increase of 6.9% as compared to 2016. Profit attributable to equity shareholders of the Company was RMB2,714 million, representing an increase of 7.0% as compared to RMB2,536 million in 2016. Basic earnings per share were RMB0.392. Free cash flow amounted to RMB6,118 million, representing an increase of 40.3% as compared to RMB4,361 million in 2016.

TOTAL REVENUES

The Group’s total revenues in 2017 amounted to RMB94,572 million, representing an increase of 6.9% as compared to 2016. Among that, the revenue from telecommunications infrastructure (“TIS”) services was RMB50,511 million, representing a year-on-year growth of 10.1%; the revenue from business process outsourcing (“BPO”) services was RMB32,763 million, representing a year-on-year increase of 0.7%, of which the revenues from Core BPO services (i.e. excluding products distribution business) was RMB25,808 million, representing a year-on-year increase of 17.0%. The revenue from applications, content and other (“ACO”) services was RMB11,298 million, representing a year-on-year growth of 12.7%. Core BPO services was the fastest-growing business of the Group. From business perspective, construction, management of infrastructure for information technology (“Network Maintenance”) and supply chain were the three major businesses that contributed most to the Group’s overall incremental revenues.

From customer perspective, the long-existing development pattern of the Group had been changed from being driven by domestic telecommunications operator customers to being driven by the domestic non-telecom operator market, and the business from the domestic non-telecom operator market grew at the fastest rate with its revenue increased by 12.4% year-on-year to RMB26,656 million in 2017. Revenues from the Core Businesses of such market had a rapid year-on-year increase by 26.5% to RMB22,185 million. The revenue from the domestic telecommunications operators (including China Tower) amounted to RMB65,080 million, representing a year-on-year growth of 6.9%; the revenue from the overseas customers amounted to RMB2,836 million, representing a year-on-year decrease of 26.2%. In 2017, the Group seized opportunities arising from digital economy and informatization construction to establish the series of our smart-typed products. On the basis of satisfying the informatization need of domestic non-telecom operator customers including government, enterprises, the Group created new demand and formed new growth drivers. Businesses from such market became the main growth momentum of the Group’s total revenues. At the same time, the Group captured the opportunities for network construction and upgrade as well as the upgrade of fiber optic broadband networks from domestic telecommunications operators and endeavoured to increase its market share. The Group also captured the opportunities arising from the construction and maintenance work of China Tower and the OPEX-driven businesses for telecommunications operators. As a result, the Group maintained favourable business development momentum in the domestic telecommunications operator market and effectively alleviated the impact brought by the decrease in the telecommunications operators’ CAPEX on the development of the Group. The three major customers contributing to incremental revenue of such market were China Mobile, China Tower and China Telecom, respectively.

BUSINESS REVENUE MIX



MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

The following table sets forth a breakdown of our total revenues for 2016 and 2017, together with their respective changes:

| | 2017 RMB'000 | 2016 RMB'000 | Change |
|---|-----------------|-----------------|--------|
| Telecommunications Infrastructure Services | | | |
| Design services | 10,239,148 | 9,071,584 | 12.9% |
| Construction services | 36,668,312 | 33,710,753 | 8.8% |
| Project supervision and management services | 3,603,528 | 3,104,613 | 16.1% |
| | 50,510,988 | 45,886,950 | 10.1% |
| Business Process Outsourcing Services | | | |
| Management of infrastructure for information technology (Network Maintenance) | 12,829,513 | 10,685,045 | 20.1% |
| General facilities management | 4,554,889 | 4,160,068 | 9.5% |
| Supply chain | 8,424,053 | 7,209,334 | 16.8% |
| Sub-total of Core BPO Services | 25,808,455 | 22,054,447 | 17.0% |
| Products distribution | 6,955,230 | 10,479,155 | -33.6% |
| | 32,763,685 | 32,533,602 | 0.7% |
| Applications, Content and Other Services | | | |
| System integration | 5,789,503 | 4,808,799 | 20.4% |
| Software development and system support | 2,048,496 | 1,687,084 | 21.4% |
| Value added services | 1,570,458 | 1,654,394 | -5.1% |
| Others | 1,889,281 | 1,878,527 | 0.6% |
| | 11,297,738 | 10,028,804 | 12.7% |
| Total | 94,572,411 | 88,449,356 | 6.9% |

Telecommunications Infrastructure Services

In 2017, the Group's revenue from TIS services amounted to RMB50,511 million, representing an increase of 10.1% as compared to RMB45,887 million in 2016. TIS services was the primary source of revenue and accounted for 53.4% of our total revenues, representing an increase of 1.5 percentage points from 51.9% in 2016. As to the customer structure of the TIS services, the Group's TIS revenue from domestic telecommunications operator customers amounted to RMB38,649 million and accounted for 76.5% of the total TIS revenues, representing a decrease of 1.6 percentage points from last year. The aggregate TIS revenues from domestic non-telecom operator customers and overseas customers amounted to RMB11,862 million and accounted for 23.5% of the total TIS revenues, representing an increase of 1.6 percentage points from last year, whereas the increase in proportion was driven by domestic non-telecom operator customers.

In 2017, the Group firmly captured the opportunities arising from the network construction and upgrade and the upgrade of fiber optic broadband networks of domestic telecommunications operators and the construction demand from China Tower, and endeavoured to increase its market share. The TIS revenue from domestic telecommunications operator customers increased by 7.9% over 2016. The aggregate TIS revenues from domestic non-telecom operator customers and overseas customers increased by 18.0% over 2016, in which the TIS revenue from domestic non-telecom operator customers recorded a significant year-on-year growth of 30.3%,

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

showing a strong growth momentum. With the refinement of its sale and marketing mechanism and product and service portfolio, the Group's business development of domestic non-telecom operator market played a more significant role in accelerating the growth of TIS business, which effectively alleviated the impacts from changes in network investments of the domestic telecommunications operator customers.

Business Process Outsourcing Services

In 2017, the Group's revenue from BPO services amounted to RMB32,763 million, representing an increase of 0.7% as compared to RMB32,533 million in 2016. Excluding the products distribution business, revenue from the Core BPO businesses amounted to RMB25,808 million, representing a year-on-year growth of 17.0%. Core BPO businesses achieved rapid growth mainly because the Group focused on the OPEX-driven businesses of customers and successfully transformed the momentum of growth. The revenue from BPO services accounted for 34.6% of the total revenues, representing a decrease of 2.2 percentage points from 36.8% in 2016. As to the customer structure of BPO services, the Group's BPO revenue from the domestic telecommunications operator customers amounted to RMB21,372 million, representing an increase of 5.8% as compared to 2016, and accounted for 65.2% of the total BPO revenues, representing an increase of 3.1 percentage points from the corresponding period of last year. As the Group proactively scaled down the products distribution business for domestic non-telecom operator customers, the aggregate BPO revenues from domestic non-telecom operator customers and overseas customers amounted to RMB11,391 million, representing a decrease of 7.7% from 2016 and accounting for 34.8% of total BPO revenues, representing a decrease of 3.1 percentage points from the corresponding period of last year.

In 2017, the Group's revenue from Network Maintenance business amounted to RMB12,829 million, representing an increase of 20.1% as compared to 2016. The Group focused on opportunities arising from OPEX and continuous maintenance outsourcing from domestic telecommunications operators, and therefore Network Maintenance business maintained favourable growth and was the second largest contributor to total incremental revenues among all businesses. Besides, the Group's revenue from products distribution business amounted to RMB6,955 million, representing a decrease of 33.6% as compared to 2016, which was mainly because of the Group's principle of efficient development and proactive control of products distribution business with low efficiency. China Comservice Supply Chain Management Company Limited, established in 2016 by the Group, promoted the favourable development of the supply chain business. Revenue from supply chain business amounted to RMB8,424 million, representing an increase of 16.8% as compared to 2016 and was the third largest contributor to total incremental revenues among all businesses. The Group's revenue from general facilities management service amounted to RMB4,555 million, representing an increase of 9.5% as compared to 2016 and maintaining a favourable growth momentum.

Applications, Content and Other Services

In 2017, the Group's revenue from ACO services amounted to RMB11,298 million, representing an increase of 12.7% as compared to RMB10,029 million in 2016. The revenue from ACO services accounted for 12.0% of the total revenues, representing an increase of 0.7 percentage point from 11.3% in 2016. As to the customer structure of ACO services, the Group's ACO revenue from domestic telecommunications operator customers amounted to RMB5,059 million and accounted for 44.8% of the total ACO revenues, representing a decrease of 3.6 percentage points from the corresponding period of last year. Aggregate ACO revenues from domestic non-telecom operator customers and overseas customers amounted to RMB6,239 million, and accounted for 55.2% of the total ACO revenues, representing an increase of 3.6 percentage points from the corresponding period of last year, in which the increase in proportion was driven by domestic non-telecom operator customers.

In 2017, the Group continued to pursue innovative development and proactively capitalized on the domestic opportunities of "Internet +" and informatization construction. The Group strengthened its resources integration and product management and continued to promote competitive products and solutions focusing on key areas such as industrial applications, mobile applications, Cloud Computing, Big Data and Information Security. Aggregate ACO revenues from domestic non-telecom operator customers and overseas customers had a rapid increase of 20.7% over 2016. With the Group's greater effort in developing businesses from domestic non-telecom operator customers, both the revenue and the incremental revenue contribution of those customers surpassed those of the domestic telecommunications operator customers. ACO revenue from domestic telecommunications operator customers increased by 4.1% over 2016 and remained a steady growth.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

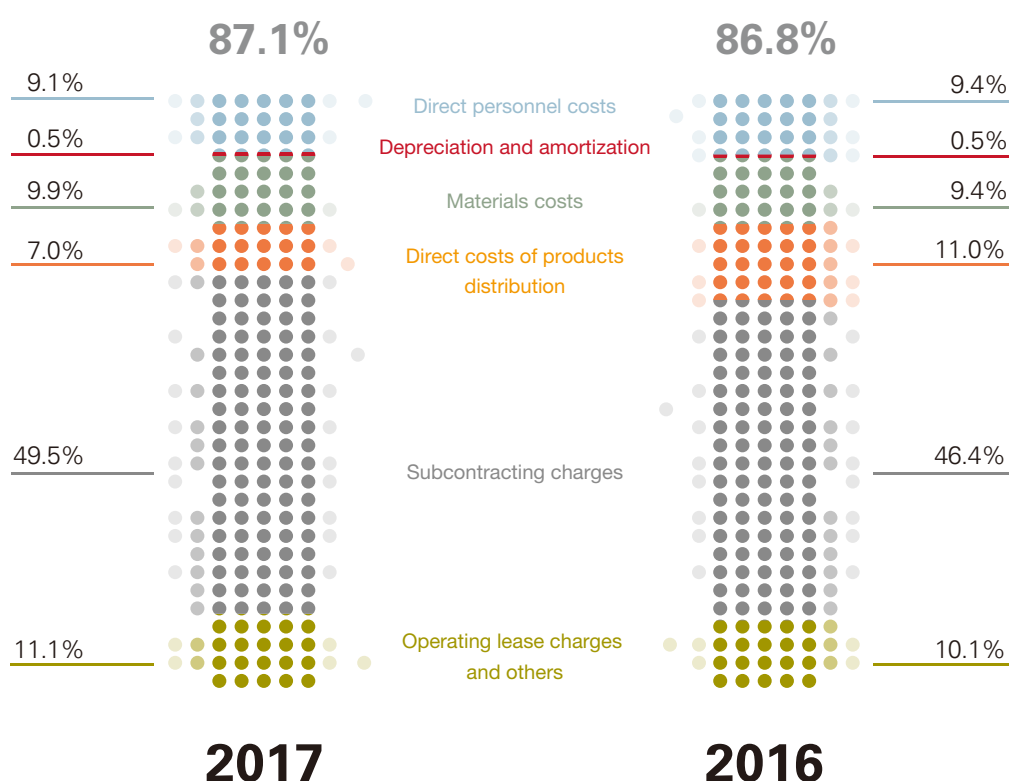
COST OF REVENUES

The Group's cost of revenues in 2017 amounted to RMB82,360 million, representing an increase of 7.3% from 2016 and accounting for 87.1% of the total revenues.

The following table sets out a breakdown of the Group's cost of revenues in 2016 and 2017 and their respective changes:

| | 2017 RMB'000 | 2016 RMB'000 | Change |
|---------------------------------------|-------------------|-------------------|-------------|
| Direct personnel costs | 8,647,493 | 8,316,693 | 4.0% |
| Depreciation and amortization | 472,621 | 455,215 | 3.8% |
| Materials costs | 9,327,654 | 8,281,024 | 12.6% |
| Direct costs of products distribution | 6,594,772 | 9,764,598 | -32.5% |
| Subcontracting charges | 46,858,020 | 41,016,647 | 14.2% |
| Operating lease charges and others | 10,459,491 | 8,925,014 | 17.2% |
| Total cost of revenues | 82,360,051 | 76,759,191 | 7.3% |

COST OF REVENUES AS A % OF TOTAL REVENUES



Direct Personnel Costs

In 2017, direct personnel costs amounted to RMB8,647 million, representing an increase of 4.0% from RMB8,317 million in 2016. Direct personnel costs as a proportion to our total revenues was 9.1%, representing a decrease of 0.3 percentage point from 2016. With the growth in business volume in 2017, the Group consistently applied reasonable control over its total headcount and subcontracted its low-end businesses, and thereby minimized the staff costs. The Group also strictly complied with the amended Labour Contract Law and employed dispatch workers in accordance with the relevant regulations to avoid related risks.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Depreciation and Amortisation

In 2017, depreciation and amortisation were RMB473 million, representing an increase of 3.8% from RMB455 million in 2016. Depreciation and amortisation as a proportion to our total revenues was 0.5%.

Materials Costs

In 2017, materials costs amounted to RMB9,328 million, representing an increase of 12.6% as compared to RMB8,281 million in 2016. Materials costs as a proportion to our total revenues was 9.9%, representing an increase of 0.5 percentage point from 2016. The increase in materials costs was mainly attributable to the increase in relevant material costs caused by the growth of our system integration and construction services.

Direct Costs of Products Distribution

In 2017, direct costs of products distribution amounted to RMB6,595 million, representing a decrease of 32.5% as compared to RMB9,764 million in 2016. Direct costs of products distribution as a proportion to our total revenues was 7.0%, representing a decrease of 4.0 percentage points over 2016. The significant decrease in the direct costs of products distribution was mainly because the Group effectively controlled the development of certain low efficiency products distribution business.

Subcontracting Charges

In 2017, subcontracting charges were RMB46,858 million, representing an increase of 14.2% as compared to RMB41,017 million in 2016 and a moderate growth¹⁰ as compared to past years. Subcontracting charges as a proportion to our total revenues was 49.5%, representing an increase of 3.1 percentage points over 2016. The increase in subcontracting charges was mainly derived from the TIS and Network Maintenance businesses. Having considered its strategic development, effectiveness and efficiency, the Group continued to focus on high-end businesses and outsourced certain low-end tasks. Besides, as a result of the rapid growth in TIS business and the rapid development in Network Maintenance business, which are labour-intensive in nature and demand for more subcontracting, subcontracting charges grew rapidly during the year. As the scale of the Group's business continued to expand, the engagement of subcontractors enabled a more flexible utilization of external resources for the Group, and at the same time led to a more rapid growth in the Group's subcontracting charges.

Operating Lease Charges and Others

In 2017, operating lease charges and others were RMB10,459 million, representing an increase of 17.2% over RMB8,925 million in 2016. Operating lease charges and others as a proportion to our total revenues was 11.1%, representing an increase of 1.0 percentage point over 2016. The cost increase was mainly due to the Group's enhanced external cooperation for business development during the reporting period, and the corresponding increase of development and cooperation expenses in others.

GROSS PROFIT

The Group achieved a gross profit of RMB12,212 million in 2017, representing an increase of 4.5% over RMB11,690 million in 2016. The Group's gross profit margin in 2017 was 12.9%, representing a decrease of 0.3 percentage point from 13.2% in 2016 and a moderate decrease as compared with past years. In 2017, the decrease in gross profit margin of the Group was due to various factors, including the decrease in service charge in certain businesses, the increase in labour-related costs. At the same time, the Group strived to optimize its business and customer structure, and achieved remarkable results. Revenue from Core Businesses as a proportion to our total revenues was 92.7%, representing an increase of 4.5 percentage points and thereby alleviating the impacts brought by the external environment on gross profit margin to a certain extent.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The selling, general and administrative expenses of the Group in 2017 were RMB9,885 million, representing an increase of 4.0% as compared to RMB9,501 million in 2016. Benefited from the economies of scale in business development and effective cost control, the selling, general and administrative expenses as a proportion of our total revenues was 10.5%, representing a decrease of 0.2 percentage point from 2016.

¹⁰ The subcontracting charges of the Group increased by 28.9% year-on-year in 2016.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

FINANCE COSTS

In 2017, the Group's finance costs were RMB47 million (2016: RMB47 million), representing a similar level with 2016.

INCOME TAX

The income tax of the Group in 2017 was RMB483 million and our effective tax rate was 14.9%, representing a decrease of 1.6 percentage points from 16.5% in 2016. The difference between the Group's effective tax rate and the statutory tax rate was mainly due to the preferential income tax rate treatment enjoyed by certain subsidiaries, which are classified as new and high-technology enterprises, and the preferential policy of tax deduction before income tax for research and development expenses. In 2017, certain subsidiaries of the Group that fall under the scope of new and high-technology enterprises were entitled to a preferential income tax rate of 15%. Certain enterprises in the western China were entitled to the preferential policies for Western Development Program. Apart from these subsidiaries, the Company and other domestic subsidiaries of the Group were mainly subject to an income tax rate of 25%. The overseas subsidiaries of the Group were subject to different tax rates in various countries.

PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY AND BASIC EARNINGS PER SHARE

In 2017, profit attributable to equity shareholders of the Company was RMB2,714 million, representing an increase of 7.0% over RMB2,536 million in 2016. Profit attributable to equity shareholders of the Company accounted for 2.9% of our total revenues, which remained stable as compared to 2016. Basic earnings per share of the Company were RMB0.392 (2016: RMB0.366).

CAPITAL EXPENDITURE

The Group implemented stringent budget management over capital expenditure, and made adjustments according to changes in market condition. In 2017, capital expenditure amounted to RMB921 million, representing an increase of 27.7% over RMB721 million in 2016. The capital expenditure in 2017 accounted for 1.0% of the total revenues, representing an increase of 0.2 percentage point over 2016. The capital expenditure of the Group included the purchases of production facilities and equipment, machinery and meters, plant and office buildings, intangible assets and other operating assets.

CASH FLOW

The Group recorded a net cash outflow in 2017 amounted to RMB21 million, and recorded a net cash inflow of RMB3,712 million in 2016. Such change was mainly due to the increase of cash used in investing activities in the reporting period. As at the end of 2017, the cash and cash equivalents of the Group amounted to RMB13,267 million, of which 94.7% was denominated in Renminbi.

The following table sets out our cash flow positions in 2016 and 2017, respectively:

| | 2017 RMB'000 | 2016 RMB'000 |
|--|-----------------|-----------------|
| Net cash generated from operating activities | 6,964,245 | 5,265,248 |
| Net cash used in investing activities | (5,683,712) | (604,352) |
| Net cash used in financing activities | (1,301,884) | (949,172) |
| Net (decrease)/increase in cash and cash equivalents | (21,351) | 3,711,724 |

In 2017, net cash generated from operating activities was RMB6,964 million, representing an increase of RMB1,699 million from RMB5,265 million in 2016. The increase in net cash generated from operating activities was mainly attributable to the Group's value-driven principle and appraisal system, the strengthening of management of cash flow, accounts receivable and accounts payable, and effective accounts receivable settlement and collection work during the course of business expansion.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

In 2017, net cash used in investing activities was RMB5,683 million, representing an increase of RMB5,079 million from RMB604 million in 2016. The increase was mainly attributable to the flexible utilization of part of the fund to purchase short-term principal-protected wealth management products and structured deposits issued by banks after considering the cash position and large projects development needs of the Group in that year.

In 2017, net cash used in financing activities was RMB1,302 million, representing an increase of RMB353 million from RMB949 million in 2016. The increase was mainly because one of the subsidiaries of the Group had redeemed the convertible preference shares.

WORKING CAPITAL

As at the end of 2017, the Group's working capital (i.e. current assets net of current liabilities) was RMB20,778 million, increased by RMB811 million from RMB19,967 million in 2016. The increase in working capital was mainly due to the expansion of the Group's business and effective management of accounts receivable and accounts payable which led to an increase in net cash generated from operating activities and current assets.

ASSETS AND LIABILITIES

The Group continued to maintain a solid financial position. As at the end of 2017, the Group's total assets was RMB70,735 million, representing an increase of RMB8,141 million from RMB62,594 million in 2016; total liabilities was RMB41,915 million, representing an increase of RMB6,369 million from RMB35,546 million in 2016. The liabilities-to-assets ratio was 59.3%, increased from 56.8% in 2016.

INDEBTEDNESS

As at the end of 2017, total indebtedness of the Group was RMB327 million, decreased by RMB431 million from RMB758 million as at the end of 2016. Indebtedness of the Group was mainly denominated in US dollar, of which Renminbi loan accounted for 4.1% and US dollar loan accounted for 92.4%, and of which 30.0% was fixed interest rate loans and 70.0% was floating interest rate loans.

As at the end of 2017, our gearing ratio¹¹ was 1.1%, representing a decrease of 1.7 percentage points from 2.8% as at the end of 2016.

CONTRACTUAL OBLIGATIONS

The following table sets out our contractual commitments as at 31 December 2017:

| | Total | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|------------------|------------------|----------------|----------------|---------------|----------------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | and after RMB'000 |
| Short-term debt | 308,876 | 308,876 | – | – | – | – |
| Long-term debt | 17,642 | – | 9,148 | 8,494 | – | – |
| Operating lease commitments | 963,125 | 430,716 | 222,424 | 103,917 | 68,868 | 137,200 |
| Contracted for but not provided capital commitments | 421,950 | 421,950 | – | – | – | – |
| Total of contractual obligations | 1,711,593 | 1,161,542 | 231,572 | 112,411 | 68,868 | 137,200 |

EXCHANGE RATE

Most of the Group's revenues and expenses are denominated in Renminbi. As at the end of 2017, the balance of our cash and cash equivalents in foreign currencies accounted for 5.3% of the Group's total cash and cash equivalents, of which 2.9% and 0.4% were denominated in US dollars and Hong Kong dollars, respectively.

¹¹ Gearing ratio equals to total interest-bearing debts at the end of the financial year divided by the sum of equity attributable to equity shareholders of the Company and interest-bearing debts.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

HONORARY CHAIRMAN

Mr. WANG Xiaochu

age 60, is the Honorary Chairman¹ of our Company. Mr. Wang is currently the Chairman of China United Network Communications Group Company Limited and an Executive Director, Chairman and Chief Executive Officer of China Unicom (Hong Kong) Limited. Prior to that, Mr. Wang was the Chairman of China Telecommunications Corporation, and an Executive Director, Chairman and Chief Executive Officer of China Telecom Corporation Limited. Mr. Wang was also the Chairman and a Non-Executive Director of the Company.



EXECUTIVE DIRECTORS

age 52, is the Chairman of our Board of Directors and an Executive Director of our Company in charge of our overall management. Mr. Zhang is also the Vice President of China Telecommunications Corporation. Mr. Zhang is a senior engineer and received a bachelor degree in Radio Engineering from the Changchun Institute of Posts and Telecommunications in 1986, a master degree in Control Engineering from the Yanshan University in 2002 and a master of management degree from the BI Norwegian School of Management in 2005. Mr. Zhang previously worked as the General Manager of Beijing branch of China Telecom Corporation Limited, the General Manager of Xinjiang branch of China Telecom Corporation Limited, the Managing Director of the Sideline Industrial Management Department of China Telecommunications Corporation, and also the President and an Executive Director of our Company. Mr. Zhang has over 30 years of operational and management experience in the telecommunications industry in China.

Mr. ZHANG Zhiyong



¹ Honorary Chairman is not a member of the Board and does not have any power or right to vote on any matters considered by the Board.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. SI Furong

age 57, is the President and an Executive Director of our Company responsible for our daily operations and management. Mr. Si is also the Managing Director of the Sideline Industrial Management Department of China Telecommunications Corporation, a Director of China Tower Corporation Limited and the Chairman of China Communications Services International Limited, a wholly-owned subsidiary of the Company. Mr. Si graduated from Information Engineering University in 1982 with a bachelor degree in radio communications. He also received an EMBA degree from Peking University Guanghua School of Management in 2006. Mr. Si previously served as the Director of the Corporate Affairs Department of China Telecommunications Corporation, the Director of the Corporate Affairs Department of China Telecom Corporation Limited, the General Manager of Shaanxi Telecom Company Limited of China Telecommunications Corporation, the General Manager of Shaanxi branch of China Telecom Corporation Limited, the General Manager of China Telecommunications Corporation Shaanxi network asset branch and Chairman of Shaanxi Communication Services Company Limited. Prior to joining China Telecommunications Corporation, Mr. Si was the Deputy Director of the Personnel Department of the Ministry of Information Industry. Mr. Si has over 30 years of operational and management experience in the telecommunications industry in China.



age 48, is an Executive Director, Executive Vice President and Chief Financial Officer of our Company. Ms. Hou received a master degree in Management Engineering from Beijing University of Posts and Telecommunications in 1995 and a master degree in International Commercial Accounting from The University of New South Wales in 2002. Prior to joining the Company, Ms. Hou was Deputy Managing Director of the Finance Department in China Telecommunications Corporation. Prior to that, Ms. Hou served as Divisional Director of General Finance Division and Budgeting Division of China Telecommunications Corporation's Finance Department and the Director and the Chief Accountant of Guangxi Telecom Company. Ms. Hou has over 20 years of experience in telecommunications industry and financial management.

Ms. HOU Rui



PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. LI Zhengmao

age 56, is a Non-Executive Director of our Company. Mr. Li is the Vice President of China Mobile Communications Group Co., Ltd., and the Director and Deputy General Manager of China Mobile Communication Company Limited. Mr. Li received a doctorate degree of radio engineering from the Southeast University. Mr. Li previously served as a professor of radio engineering, the Deputy Director of the Science and Technology Institute for the University of Electronic Science and Technology of China and the Director of national key laboratory. Mr. Li has held various positions in the China United Telecommunications Corporation, including the Deputy Head of the Network Technology Department, the Head of the Wireless Communication Department, the Head of the Technology Department and the Deputy Chief Engineer. He was also the Executive Director and Vice President of China Unicom Limited, the General Manager of the Yunnan branch of China United Telecommunications Corporation, and the Director and Deputy General Manager of China United Telecommunications Corporation. Mr. Li has extensive experience in telecommunications technology and business operations.



age 53, is a Non-Executive Director of our Company. Mr. Shao is an Executive Director and Senior Vice President of China Unicom (Hong Kong) Limited. He also is a Vice General Manager of China United Network Communications Group Company Limited, a Senior Vice President of China United Network Communications Limited and a Director and Senior Vice President of China United Network Communications Corporation Limited. He is also a Non-Executive Director of PCCW Ltd.. Mr. Shao is a professor-level senior engineer. He received a bachelor's degree from Harbin Institute of Technology in 1985, a master's degree in engineering and a master's degree in economics from Harbin Institute of Technology in 1988 and 1990, respectively, a master's degree in management from BI Norwegian Business School in 2002 and a doctor's degree in management from Nankai University in 2009. Mr. Shao joined China United Network Communications Group Company Limited in February 1995. He used to be Deputy General Manager of Tianjin Branch, Deputy General Manager of Henan Branch, General Manager of Guangxi Branch, as well as General Manager of Human Resource Department of China United Network Communications Group Company Limited. Mr. Shao has worked in the telecommunications industry for a long period of time and has extensive management experience.

Mr. SHAO Guanglu



PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. ZHAO Chunjun

Mr. Zhao, age 77, is an Independent Non-Executive Director of our Company. Mr. Zhao was an Independent Non-Executive Director of China ZhengTong Auto Services Holdings Limited, an Independent Director of China United Network Communications Limited, the Chairman of the Supervisory Committee of Tongfang Co., Limited, an Independent Director of Daheng New Epoch Technology, Inc. and Bank of China Investment Management Company Limited, and an Independent Non-Executive Director of Dongfang Electric Corporation Limited. Mr. Zhao graduated from Tsinghua University in the PRC. He was Dean of the School of Economics and Management of Tsinghua University, and previously served as Executive/First Vice Dean.



Mr. Siu, age 64, is an Independent Non-Executive Director of our Company. Mr. Siu is currently an Independent Non-Executive Director of the following listed companies, including GuocoLand Limited, CITIC Limited, CGN Power Co., Limited and China International Capital Corporation Limited. Mr. Siu is also an Independent Non-Executive Director of Beijing Gao Hua Securities Company Limited and BHG Retail Trust Management Pte. Ltd.. Mr. Siu previously acted as an Independent Non-Executive Director of Hua Xia Bank Co., Limited, Beijing Hualian Hypermarket Company Limited, Hop Hing Group Holdings Limited, Shunfeng International Clean Energy Limited and China Huishan Dairy Holdings Co., Ltd..

Mr. Siu graduated from the University of Sheffield, United Kingdom, with a Bachelor of Arts in Economics and Accounting and Financial Management in 1979. He is also a fellow member of the Institute of Chartered Accountants in England and Wales, and a fellow member of the Hong Kong Institute of Certified Public Accountants. He joined KPMG Manchester, UK in 1979, returned to Hong Kong in 1986 and became a partner of KPMG Hong Kong in 1993. He was previously a Senior Partner of KPMG Shanghai Office, a Senior Partner of KPMG Beijing Office as well as a Senior Partner of Northern Region, KPMG China. Mr. Siu has been in the accounting profession for over 30 years.

Mr. SIU Wai Keung, Francis



PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. LV Tingjie

age 63, is an Independent Non-Executive Director of our Company. Mr. Lv graduated from Beijing University of Posts and Telecommunications with a master's degree, and obtained a doctorate degree from Kyoto University of Japan. Mr. Lv is now a professor and doctoral tutor at the School of Economics and Management of Beijing University of Posts and Telecommunications. Mr. Lv also serves as the Director of the Teaching and Research Centre for E-commerce in Beijing University of Posts and Telecommunications and the Director of the Academic Committee of "Information Management and Information Economics Key Laboratory" of the Ministry of Education. Mr. Lv is currently an Independent Non-executive Director of Beijing Digital Telecom Co., Ltd., and also an Independent Director of China United Network Communications Limited, Gohigh Data Networks Technology Co., Ltd., BOE Technology Group Co., Ltd. and Shenzhen Aisidi Co., Ltd. Mr. Lv is also a member of the Technology Committee and a member of Telecommunication Economics Expert Committee of the Ministry of Industry and Information Technology, a Deputy Director of the E-commerce Instruction Advisory Committee of the Ministry of Education, a member of the Technology Committee of China Post Group Corporation, a Standing Director of the International Telecommunications Society and a Standing Vice Chairman of China Information Economics Society. Mr. Lv used to serve as an Independent Non-executive Director of Global Link Communications Holdings Limited, and also a consultant for the business management and strategic development in many telecommunication enterprises and provide advice and solutions to their development and reform. Mr. Lv has a deep insight in the development of China's communication industry and the management of telecommunication enterprises with extensive management experience.



age 71, is an Independent Non-Executive Director of our Company. Mr. Wu graduated from Department of Management of Fudan University with a bachelor degree in economics, majoring in Industrial Economics. Mr. Wu is a certified public accountant in the PRC and a senior accountant at researcher level. Mr. Wu is now an Independent Director of Power Construction Corporation of China, Ltd.. Mr. Wu used to serve as an External Director of China Energy Conservation and Environmental Protection Group, Deputy Chief Economist and Chief Accountant of Shanghai Carrier Rocket Assembly Plant, Director of Finance Bureau of Aviation Industry Corporation of China, General Manager of the Research & Development Department and Director of Postdoctoral work station of the Head Office of Bank of Communication, and an Independent Non-executive Director of China Railway Construction Corporation Limited. Mr. Wu has extensive experience in financial management.

Mr. WU Taishi



PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. LIU Linfei

age 61, is an Independent Non-Executive Director of our Company. Mr. Liu is currently an attorney and a senior partner of Jun He Law Offices. He graduated from Heilongjiang University with a bachelor degree in 1982 and obtained a Master of Laws from the University of International Relations in Beijing in 1985, after which he served in the research office under the Standing Committee of the National People's Congress. He went to the United States in the autumn of 1987 and studied in the School of Advanced International Studies, Johns Hopkins University and served as an intern in the Congress of the United States. He enrolled in the School of Law of the University of Kansas in the United States in 1989 and graduated in 1992 with a Juris Doctor degree, after which he practiced in a law firm in the United States and was qualified as a practicing lawyer in the United States. He joined the Jun He Law Offices as a partner in early 1995. His practice primarily covers international legal affairs, in particular, foreign direct investment, international mergers and acquisitions and infrastructure and project finance.



PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

Ms. HAN Fang

age 45, is the Chairperson of our Supervisory Committee. Ms. Han is the Vice President of the Audit Department of China Telecommunications Corporation. Ms. Han graduated from the Beijing University of Posts and Telecommunications with a bachelor's degree in engineering management in 1995. She obtained a master degree in business administration at the Norwegian School of Management in 2007. Ms. Han is an international internal auditor, a qualified accountant in PRC and a senior accountant. She worked as a Supervisor of the Supervisory Committee of China Telecom Corporation Limited, the Chief Accountant of China Telecom Global Limited and a Divisional Director of the General Audit Division of China Telecommunications Corporation's Audit Department. Ms. Han has over 20 years of finance and audit experience in the telecommunications industry.

Mr. HAI Liancheng

age 73, is an Independent Supervisor of our Company. Mr. Hai studied at the Civil Aviation College and Chinese Communist Party's (CPC) School, and obtained a college diploma. Mr. Hai served as Vice-Divisional Director and Divisional Director of the Financial Division of the Financial Department of Civil Aviation Administration of China ("CAAC"), Vice-Director and Director of the Financial Department of CAAC, General Manager of China Aviation Oil Supply Corporation and Vice General Manager of China Aviation Oil Holding Company. Mr. Hai served as the Chairman of South China BlueSky Aviation Oil Co., Ltd. and China Aviation Oil Corporation Ltd.. Mr. Hai has been the Director General of the CAAC Sub-association of the China Association of Chief Financial Officers and Chairman of the CAAC Training Centre for Accounting and Auditing since January 2006. Mr. Hai served as consultant of PICC Property and Casualty Co. Ltd., Chairman of Zhong Peng Certified Public Accountants Ltd. and senior advisor of China PnR Co., Ltd..

Mr. SI Jianfei

age 55, is an Employee Representative Supervisor and the Deputy Director of the Work Committee Office of the Union of the Company. Prior to that, Mr. Si was the Director of the General Manager's Office and Office of Board of Directors of the Company and concurrently served as the General Manager of Beijing Hongxiang Hotel. Mr. Si graduated from University of International Business and Economics in 2002 with an MBA degree. Mr. Si joined the Sideline Industrial Management Department of China Telecommunications Corporation in 2003 and served as the Divisional Director of the General Management Division. Prior to that, Mr. Si was the Deputy Director of Corporate Affairs Department of China Telecom Corporation Limited Xinjiang Branch. Mr. Si has over 20 years working experiences in the telecommunications industry.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

MANAGEMENT

Mr. ZHANG Zhiyong

(Please refer to the “Executive Directors” section)

Mr. SI Furong

(Please refer to the “Executive Directors” section)

Ms. HOU Rui

(Please refer to the “Executive Directors” section)

Mr. CHENG Hongyan

age 57, is an Executive Vice President of our Company. Mr. Cheng is a researcher-level senior engineer. Mr. Cheng was the General Manager of Jiangsu Communications Services Company Limited, a wholly-owned subsidiary of the Company. Mr. Cheng graduated from Nanjing University of Posts and Telecommunications in 1982 with a bachelor degree in telecommunications engineering, and received an MBA degree from China University of Mining and Technology in 2002 and an MBA degree from University of Quebec at Montreal in 2003. Mr. Cheng previously served as the Assistant Director of Suzhou Municipal Posts and Telecommunications Bureau in Jiangsu Province, the Chief Engineer of Xuzhou Posts and Telecommunications Administration, the Chief Engineer of Xuzhou Municipal Telecommunications Administration Bureau, the Deputy Director and the Chief Engineer of Xuzhou Municipal Telecommunications Bureau, the Deputy General Manager and the Chief Engineer of Xuzhou branch of China Telecom Corporation Limited, the General Manager of Huaian branch of China Telecom Corporation Limited, the Deputy General Manager and General Manager of Jiangsu Telecom Industry Group Co., Ltd.. Mr. Cheng has over 30 years of operational and managerial experience in telecommunications industry.

Mr. XU Chuguo

age 54, is an Executive Vice President of our Company. Mr. Xu is a professor-level senior engineer. Mr. Xu is a director and the General Manager of China Communications Services International Limited, a wholly-owned subsidiary of the Company. Mr. Xu graduated from Chongqing University of Posts and Telecommunications in 1987 with a bachelor degree in telecommunications engineering and received an EMBA degree from Peking University Guanghua School of Management in 2006. Mr. Xu previously served as the Director of The 3rd Engineering Bureau and the Deputy General Manager of the predecessor of China International Telecommunications Construction Corporation, the General Manager of China International Telecommunications Construction Corporation (a wholly-owned subsidiary of the Company). Mr. Xu has over 30 years of market development, operational and managerial experience in domestic and overseas telecommunications industry.

Mr. LIANG Shiping

age 48, is an Executive Vice President of our Company. Mr. Liang joined the Company in August 2008 and served as Director of the Marketing Department of the Company. Mr. Liang received a bachelor’s degree in Computer Engineering from the Computer Science Department of Jilin University in 1992 and master’s degree in Computer Application from the Sixth Research Institute of the Ministry of Machinery and Electronics Industry in 1996. Prior to joining the Company, Mr. Liang served at the Data Communication Bureau of the Ministry of Posts and Telecommunications, the Multimedia Bureau of the Telecom Administration of the Ministry of Posts and Telecommunications and the Technology Development Department of China Telecom Data Communication Bureau. From October 2000 to August 2008, Mr. Liang served as a Divisional Director of the Planning Division of the Data Communication Bureau and the Application Development Division of the Corporate Informatization Department. Mr. Liang has over 20 years of experience in telecommunications and IT industry.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. YAN Dong

age 46, is an Executive Vice President and Chief Risk Officer of our Company. Mr. Yan is also the Deputy Managing Director of the Sideline Industrial Management Department of China Telecommunications Corporation and a Director of Besttone Holding Co., Ltd.. Prior to that, Mr. Yan was the Director of the Corporate Affairs Department of the Company, the Employee Representative Supervisor of the Company, the Director of the Risk Management Department of the Company and the Deputy General Manager and Chief Financial Officer of China International Telecommunications Construction Corporation. Mr. Yan graduated from Shandong University in 2002 with an MBA degree. Prior to joining the Company in 2006, Mr. Yan served as a Project Manager in Shandong International Trust and Investment Corporation, Office Director and Manager of the Investment Department of Shandong Luxin Investment Corporation, General Manager of Shandong Luxin Property Investment and Development Co., Ltd. and Divisional Director of Coordinated Development Division and Sideline Industrial Restructuring Division of the Sideline Industrial Management Department of China Telecommunications Corporation. Mr. Yan has extensive experience in financial management, business administration and operation of listed companies.

COMPANY SECRETARY

Mr. CHUNG Wai Cheung, Terence

age 44, is the Company Secretary and Deputy Chief Financial Officer of our Company. Mr. Chung graduated from Melbourne University, Australia in 1996, with a bachelor of commerce degree and received a master's degree in business administration from the Australian Graduate School of Management in 2005. Mr. Chung is a member of the Hong Kong Institute of Certified Public Accountants and the CPA Australia. Mr. Chung previously worked in an international accounting firm, China Mobile Limited and China Telecom Corporation Limited, and has over 20 years of extensive experience in auditing, company secretary and financial management of listed companies.

REPORT OF THE DIRECTORS

The board of directors (the "Board") of China Communications Services Corporation Limited (the "Company") is pleased to present the Report of the Directors of the Company, together with the audited financial statements of the Company and its subsidiaries (the "Group") prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2017.

PRINCIPAL BUSINESSES

The Group is a leading service provider in the PRC that provides integrated comprehensive solutions in the field of informatization. We offer telecommunications infrastructure services, including design, construction and project supervision and management; business process outsourcing services, including management of infrastructure for information technology ("network maintenance"), general facilities management ("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. The major customers of the Group include domestic telecommunications operator customers, domestic non-telecom operator customers such as government agencies, industrial customers and small and medium enterprises, and overseas customers.

RESULTS

Results of the Group for the year ended 31 December 2017 and the financial position of the Group as at that date are set out in the audited financial statements on page 99 to page 180 in this annual report.

BUSINESS REVIEW

A fair review of the business, business outlook and the key financial performance indicators of the Group are provided in the "Chairman's Statement", "President's Statement", "Business Overview" and "Management Discussion and Analysis of Financial Conditions and Results of Operations" of this annual report. Description of the principal risks and uncertainties faced by the Group is disclosed in this section. Particulars of important events affecting the Group that have occurred since the end of the financial year of 2017, if applicable, can also be found in the aforesaid sections.

In addition, more details regarding the Group's performance in relation to environmental and social-related policies, an account of the Group's relationships with its key stakeholders, as well as compliance with relevant laws and regulations which have a significant impact on the Group, are provided in the "Environmental, Social and Governance Report" of this annual report.

The above discussion forms part of this "Report of the Directors".

DIVIDENDS

The Board proposes a final dividend of RMB0.1176 per share and a special dividend of RMB0.0235 per share, and the total dividend is RMB0.1411 per share (pre-tax) for the year ended 31 December 2017. The dividend proposal will be submitted for consideration at the annual general meeting to be held on 29 June 2018 (the "AGM").

Dividends will be denominated and declared in Renminbi. Dividends will be paid in Renminbi for holders of domestic shares and holders of H shares (including enterprises and individuals) who invest in the H shares of the Company listed on the Hong Kong Stock Exchange through the Shanghai Stock Exchange or Shenzhen Stock Exchange ("the Southbound Trading") (the "Southbound Shareholders"), and dividends for H share shareholders other than the Southbound Shareholders will be paid in Hong Kong dollars. The relevant exchange rate will be the average of the mid-point rates of Renminbi to Hong Kong dollars as announced by the People's Bank of China for the week prior to the date of approval of declaration of dividends by the AGM. The record date for entitlement to the shareholders' rights and the relevant arrangements of dividend distribution for Southbound Shareholders are the same as those for the Company's H share shareholders. The proposed dividends are expected to be paid on or about Friday, 17 August 2018 upon approval at the AGM.

REPORT OF THE DIRECTORS

Further details in respect of the dividends and distribution by the Company are set out in note 14 of the audited financial statements on page 135 of this annual report.

For the overseas resident individual shareholders of the Company, pursuant to relevant laws and regulations including the Law of the People's Republic of China on Individual Income Tax, the Regulations for the Implementation of the Law of the People's Republic of China on Individual Income Tax, and the letter dated 28 June 2011 from the State Administration of Taxation to the Inland Revenue Department of Hong Kong, for individual H share shareholders receiving dividends who are Hong Kong or Macau residents or whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of 10%, the Company, as a withholding agent, is required to withhold and pay individual income tax at the rate of 10%. For individual H share shareholders receiving dividends whose country of domicile is a country which has entered in to a tax treaty with the PRC stipulating a dividend tax rate lower than 10%, the Company will withhold the individual income tax at a tax rate of 10%. The Company can process applications on behalf of those shareholders to seek entitlement of the relevant agreed preferential treatments pursuant to relevant regulations, and upon approval by the tax authorities, the extra amount of tax withheld will be refunded. For individual H share shareholders receiving dividends whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate higher than 10% but lower than 20%, the Company will withhold the individual income tax at the agreed-upon effective tax rate when distributing dividends and no application procedures will be necessary. For individual H share shareholders receiving dividends whose country of domicile is a country which has not entered into any tax treaty with the PRC or are under other situations, the Company will withhold the individual income tax at a tax rate of 20% when distributing dividends.

For the overseas non-resident enterprise shareholders of the Company (including HKSCC Nominees Limited, corporate nominees or trustees, or other organizations or entities that are considered non-resident enterprise shareholders), pursuant to the Law of the People's Republic of China on Enterprise Income Tax, the Regulations for the Implementation of the Law of the People's Republic of China on Enterprise Income Tax and relevant rules and regulations, as a withholding agent, the Company is required to withhold and pay the enterprise income tax at the tax rate of 10% on behalf of the overseas non-resident enterprise shareholders.

For the Southbound Shareholders of the Company, the Shanghai branch of China Securities Depository and Clearing Corporation Limited and the Shenzhen branch of China Securities Depository and Clearing Corporation Limited, as the nominees of the shareholders of the Southbound Trading, will receive all dividends distributed by the Company and will distribute the dividends to the relevant shareholders under the Southbound Trading through its depository and clearing system. According to the relevant provisions under the "Notice on Tax Policies for Shanghai-Hong Kong Stock Connect Pilot Programme (Cai Shui [2014] No. 81)" and "Notice on Tax Policies for Shenzhen-Hong Kong Stock Connect Pilot Programme (Cai Shui [2016] No. 127)", the Company shall withhold individual income tax at the rate of 20% with respect to dividends received by the Mainland individual investors for investing in the H shares of the Company listed on the Hong Kong Stock Exchange through the Southbound Trading. In respect of the dividends for the investment of Mainland securities investment funds in the H shares of the Company listed on Hong Kong Stock Exchange through the Southbound Trading, the tax levied on dividends derived from such investment shall be ascertained by reference to the rules applicable to the treatment of individual income tax. The Company is not required to withhold income tax on dividends derived by the Mainland enterprise investors under the Southbound Trading, and such enterprises shall report the income and make tax payment by themselves.

Should the shareholders of the H shares of the Company have any doubt in relation to the aforesaid arrangements, they are recommended to consult their tax advisors for relevant tax impact in mainland China, Hong Kong and other countries (regions) on the possession and disposal of the H shares of the Company.

REPORT OF THE DIRECTORS

DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY

The following table sets out information concerning the directors and senior management of the Company as at the date of this report:

| Name | Position in the Company | Date of the first appointment |
|------------------------------|---|---|
| Wang Xiaochu | Honorary Chairman ¹ | 8 April 2008 |
| Zhang Zhiyong | Chairman Executive Director | 16 March 2018 16 March 2018 ² |
| Si Furong | Executive Director President | 21 February 2014 19 December 2013 |
| Hou Rui | Executive Director Chief Financial Officer Executive Vice President | 23 February 2011 30 December 2010 27 October 2010 |
| Li Zhengmao | Non-executive Director | 27 November 2012 |
| Shao Guanglu | Non-executive Director | 23 June 2017 |
| Zhao Chunjun | Independent Non-executive Director | 26 September 2006 |
| Siu Wai Keung, Francis | Independent Non-executive Director | 28 June 2012 |
| Lv Tingjie | Independent Non-executive Director | 26 June 2015 |
| Wu Taishi | Independent Non-executive Director | 26 June 2015 |
| Liu Linfei | Independent Non-executive Director | 24 June 2016 |
| Cheng Hongyan | Executive Vice President | 21 July 2014 |
| Xu Chuguo | Executive Vice President | 21 July 2014 |
| Liang Shiping | Executive Vice President | 3 March 2010 |
| Yan Dong | Executive Vice President Chief Risk Officer | 18 June 2013 |
| Chung Wai Cheung, Terence | Company Secretary Deputy Chief Financial Officer | 16 October 2006 |

On 10 March 2017, Mr. Zhang Junan resigned as a non-executive director of the Company. On 23 June 2017, Mr. Shao Guanglu was appointed as a non-executive director of the Company. On 16 March 2018, Mr. Sun Kangmin resigned as the Chairman and an executive director of the Company, on the same day, Mr. Zhang Zhiyong was appointed as an executive director and the Chairman of the Company.

¹ Honorary Chairman is not a member of the Board and does not have any power or right to vote on any matters considered by the Board.

² Mr. Zhang Zhiyong used to work at the Company from 2006 to 2010. During this period, he held various positions of the Company, including President of the Company, and an executive director from 12 December 2007 to 21 June 2010.

REPORT OF THE DIRECTORS

SUPERVISORS OF THE COMPANY

The following table sets out information concerning the supervisors of the Company as at the date of this report:

| Name | Position in the Company | Date of the first appointment |
|---------------|--|-------------------------------|
| Han Fang | Chairperson of the Supervisory Committee | 11 December 2015 |
| Hai Liancheng | Independent Supervisor | 3 August 2006 |
| Si Jianfei | Employee Representative Supervisor | 18 June 2013 |

Profiles of the directors, supervisors and senior management are set out in the “Profiles of Directors, Supervisors and Senior Management” section of this annual report.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The Company considers that all of the independent non-executive directors are independent.

SHARE CAPITAL

The Company was incorporated on 30 August 2006. In December 2006, by way of an initial public offering (the “IPO”), the Company issued 1,484,986,000 H shares with a nominal value of RMB1.00 each at a price of HK\$2.20 per share. At the same time, the promoters of the Company transferred 148,498,600 domestic state-owned shares with a nominal value of RMB1.00 each to the National Council for Social Security Fund of the PRC (the “NSSF”) and converted them into H shares on the basis of one domestic share to one H share. Immediately after the IPO, the registered capital of the Company amounted to RMB5,444,986,000, of which 1,633,484,600 H shares of the Company were listed and traded on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

On 9 April 2008, the Company announced the completion of placing a total of 359,365,600 H shares, including an issue of 326,696,000 new H shares and a placement of 32,669,600 H shares on behalf of NSSF upon conversion of the same number of existing domestic shares of the Company allocated to NSSF by China Telecommunications Corporation (“China Telecom”). After the completion of placing, the total issued shares of the Company increased to 5,771,682,000 shares, of which 1,992,850,200 shares were H shares.

As disclosed in the prospectus of the Company dated 27 November 2006, China Telecom entered into equity transfer arrangements with China Mobile Communications Corporation (now known as China Mobile Communications Group Co., Ltd. (“China Mobile”)) and China United Telecommunications Corporation (now known as China United Network Communications Group Company Limited (“China Unicom”)), respectively. Pursuant to the arrangements, China Telecom agreed to transfer 506,880,000 and 236,300,000 domestic shares to China Mobile and China Unicom, respectively. On 24 March 2009, the equity transfers were formally completed and became effective. On the same date, Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation completed the transfers of 236,313,086 and 87,664,532 domestic shares, respectively, to China Telecom.

According to the equity transfer agreement between China Telecom and China National Postal and Telecommunications Appliances Corporation (now known as China National Postal and Telecommunications Appliances Co., Ltd.) on 28 May 2010, China Telecom agreed to transfer 108,899,720 domestic shares of the Company to China National Postal and Telecommunications Appliances Corporation. On 21 June 2011, the equity transfer was formally completed.

REPORT OF THE DIRECTORS

Pursuant to the resolutions passed at the extraordinary general meeting, H shareholders class meeting and the domestic shareholders class meeting of the Company held on 28 June 2011 and as approved by domestic and overseas regulatory authorities, the Company announced the launch of H share and domestic share rights issue plan of an aggregate of 1,154,336,400 new shares, including 398,570,040 H rights shares and 755,766,360 domestic rights shares on the basis of 2 rights shares for every 10 existing shares on 30 December 2011 at the price of HK\$3.19 per H rights share and RMB2.59 per domestic rights share, respectively. On 10 February 2012, dealings in the H rights shares commenced on the Stock Exchange. After completion of the rights issue, the total number of issued shares of the Company was increased to 6,926,018,400 shares, including 2,391,420,240 H shares and 4,534,598,160 domestic shares.

As at 31 December 2017, the share capital of the Company was RMB6,926,018,400 divided into 6,926,018,400 shares with a nominal value of RMB1.00 each. The share capital of the Company was comprised of the following:

| Shares | Number of shares | Approximate percentage of issued share capital (%) |
|---|----------------------|--|
| Domestic shares (Total) | 4,534,598,160 | 65.47 |
| Domestic shares held by: | | |
| China Telecommunications Corporation | 3,559,362,496 | 51.39 |
| China Mobile Communications Group Co., Ltd. | 608,256,000 | 8.78 |
| China United Network Communications Group Company Limited | 236,300,000 | 3.41 |
| China National Postal and Telecommunications Appliances Co., Ltd. | 130,679,664 | 1.89 |
| H shares (Total) | 2,391,420,240 | 34.53 |
| Total | 6,926,018,400 | 100.00 |

REPORT OF THE DIRECTORS

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

As at 31 December 2017, the interests or short positions of persons who at any of the Company's general meetings (excluding the directors and supervisors of the Company) are entitled to exercise or control the exercise of 5% or more of the voting power in the shares and underlying shares of equity derivatives of the Company in each class as recorded in the register required to be maintained under Section 336 of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) (the "SFO") were as follows:

| Name of shareholder | Class of shares | Capacity | Number of shares held | Percentage of the respective class of share (%) | Percentage of the total number of shares in issue (%) |
|---|-----------------|--|-----------------------|---|---|
| China Telecommunications Corporation | Domestic shares | Beneficial owner | 3,559,362,496 (L) | 78.49 | 51.39 |
| China Mobile Communications Group Co., Ltd. | Domestic shares | Beneficial owner | 608,256,000 (L) | 13.41 | 8.78 |
| China United Network Communications Group Company Limited | Domestic shares | Beneficial owner | 236,300,000 (L) | 5.21 | 3.41 |
| BlackRock, Inc. | H shares | Interests of controlled corporations | 216,646,179 (L) | 9.06 | 3.13 |
| | | Interests of controlled corporations | 172,000 (S) | 0.01 | 0.00 |
| JPMorgan Chase & Co. | H shares | 18,150,671 shares as Beneficial owner; 96,000 shares as Investment manager and 175,917,766 shares as Approved lending agent | 194,164,437 (L) | 8.11 | 2.80 |
| | | Beneficial owner | 7,828,748 (S) | 0.32 | 0.11 |
| | | Approved lending agent | 175,917,766 (P) | 7.35 | 2.54 |
| Citigroup Inc. | H shares | 20,481,062 shares as Interests of controlled corporations; 14,146,000 shares as person having a security interest in shares and 156,615,710 shares as approved lending agent | 191,242,772 (L) | 7.99 | 2.76 |
| | | Interests of controlled corporations | 184,000 (S) | 0.00 | 0.00 |
| | | Approved lending agent | 156,615,710 (P) | 6.54 | 2.26 |

Note: (L) – Long Position
(S) – Short Position
(P) – Lending Pool

Save as stated above, as at 31 December 2017, in the register required to be maintained under Section 336 of the SFO, no other persons were recorded as holding any interests or short positions in the shares or underlying shares of the equity derivatives of the Company.

REPORT OF THE DIRECTORS

DIRECTORS' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, none of the directors and supervisors of the Company had any interests or short positions in the shares, underlying shares of equity derivatives or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be maintained under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers. As at 31 December 2017, the Company had not granted its directors or supervisors, or their respective spouses or children below the age of 18 any rights to subscribe for the shares or debentures of the Company or any of its associated corporations and none of them has ever exercised any such right to subscribe for shares or debentures.

SHARE APPRECIATION RIGHTS

Please refer to note 39 to the audited financial statements for details of the share appreciation rights scheme of the Company and the share appreciation rights granted during the year ended 31 December 2017.

PUBLIC FLOAT

As at the date of this annual report, based on information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained the prescribed public float under the Listing Rules.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the directors and supervisors has entered into a service contract with the Company. According to the service contract, each of the contracts has an initial term of three years and is renewable in accordance with the Articles of Association of the Company when the initial term expires except for Ms. Han Fang, Mr. Liu Linfei, Mr. Shao Guanglu and Mr. Zhang Zhiyong. These contracts are terminable at the option of either party by giving three months' notice in writing or according to the terms of the contract prior to the expiry of the contract. No such service contract is not determinable by the Company within one year without payment of compensation (other than statutory compensation). The term of service of Ms. Han Fang commenced from 11 December 2015 (the date of the extraordinary general meeting approving her appointment) to the 2017 AGM to be held in 2018. The term of service of Mr. Liu Linfei commenced from 24 June 2016 (the date of the annual general meeting approving his appointment) to the 2017 AGM to be held in 2018. The term of service of Mr. Shao Guanglu commenced from 23 June 2017 (the date of the annual general meeting approving his appointment) to the 2017 AGM to be held in 2018. The term of service of Mr. Zhang Zhiyong commenced from 16 March 2018 (the date of the extraordinary general meeting approving his appointment) to the 2017 AGM to be held in 2018.

PERMITTED INDEMNITY PROVISION

The Company has maintained appropriate directors and officers liability insurance coverage for the directors, supervisors and senior management of the Company during the course of the financial year ended 31 December 2017 and such insurance remained in force as of the date of this report.

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save for the transactions, arrangements or contracts set out in the "Management Discussion and Analysis of Financial Conditions and Results of Operations" section and "Directors' and Supervisors' Service Contracts", "Major Customers and Suppliers", "Preferential Treatment and Non-competition Arrangement with China Tower Corporation Limited" and "Continuing Connected Transactions" in the "Report of the Directors" section of this annual report and note 43 to the Consolidated Financial Statements, no other transaction, arrangement or contract that is significant in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a person who was a Director or Supervisor of the Company or his or her connected entity had, directly or indirectly, a material interest subsisted at any time during the year ended 31 December 2017.

REPORT OF THE DIRECTORS

EMOLUMENTS OF THE DIRECTORS AND SUPERVISORS

Based on the overall remuneration policy of the Company and with reference to the payroll standard of the same industry companies in the market, the remuneration of directors and supervisors is determined after taking into account the scope and complexities of their duties. Please refer to note 12 to the audited financial statements for details of the emoluments of the directors and supervisors of the Company in 2017.

PURCHASE, SALE AND REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any securities of the Company during the reporting period.

SUMMARY OF FINANCIAL INFORMATION

Please refer to pages 181 to 182 of this annual report for a summary of the operating results, assets and liabilities of the Group for each of the years in the five-year period ended 31 December 2017.

BANK LOANS AND OTHER BORROWINGS

Please refer to note 33 to the audited financial statements for details of bank loans and other borrowings of the Group.

PROPERTY, PLANT AND EQUIPMENT

Please refer to note 16 to the audited financial statements for movements in the fixed assets of the Group for the year ended 31 December 2017.

DISTRIBUTABLE RESERVES

Please refer to note 46 to the audited financial statements for details of the movements in the reserves of the Group for the year ended 31 December 2017.

DONATIONS

For the year ended 31 December 2017, the Group made charitable and other donations of a total amount of RMB0.22 million.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Please refer to note 45 and note 22 to the audited financial statements for details of the Company's subsidiaries and the Company's associated companies as at 31 December 2017.

CHANGES IN EQUITY

Please refer to the consolidated statement of changes in equity contained in the audited financial statements (pages 103 to 104 of this annual report).

PLAN OF EMPLOYEES' RETIREMENT BENEFITS

Please refer to note 38 to the audited financial statements for details of the retirement benefits provided by the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights in the Articles of Association requiring the Company to offer new shares to the existing shareholders in proportion to their shareholdings.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

For the reporting period, the revenue from sales of goods or rendering of services to the five largest customers (including China Telecom, China Mobile, China Unicom and China Tower) of the Group represented 69.5% of the total revenues of the Group; of which, the revenue from the largest customer of the Group represented 43.9% of the total revenues of the Group. The purchases from the five largest suppliers of the Group accounted for less than 3.1% of the total annual purchases of the Group.

To the knowledge of the Board, other than China Telecom and China Mobile (both of them being the shareholders holding more than 5% of the issued share capital of the Company), Mr. Zhang Zhiyong, Mr. Si Furong, Mr. Li Zhengmao and Mr. Shao Guanglu (positions of them setting out in the “Profiles of Directors, Supervisors and Senior Management” section of this annual report), none of the directors of the Company, their close associates, or any shareholder (holding more than 5% of the issued share capital of the Company) has any interests in such suppliers or customers.

PREFERENTIAL TREATMENT AND NON-COMPETITION ARRANGEMENT WITH CHINA TOWER CORPORATION LIMITED (“CHINA TOWER”)

In July 2014, China Telecom Corporation Limited, a subsidiary of China Telecom, jointly established China Tower with China Mobile and China Unicom. Pursuant to the relevant arrangements for the establishment of China Tower, China Tower has indicated to the Company that:

1. on condition that it will not result in a breach by China Telecom and the Company of the Non-Competition Agreement signed between them, when China Tower invites public tender for the design, construction, supervision and maintenance of its telecommunications towers and related ancillary facilities, China Tower will select the Company on a preferential basis, provided that the terms are the same;
2. in the event of an injection of telecommunications assets into China Tower (acquisition by China Tower), the existing maintenance agreements entered into between the Company and the respective promoters of China Tower will remain valid. Upon the expiration of such maintenance agreements and when China Tower invites tender for the maintenance services, China Tower will consider the Company on a preferential basis, provided that the terms are the same; and
3. China Tower will not compete in contravention of the contents of the Non-Competition Agreement.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS

China Telecom is the controlling shareholder of the Company. Pursuant to Chapter 14A of the Listing Rules, the transactions between the Group and China Telecom and its subsidiaries (excluding the Group and including China Telecom Corporation Limited, collectively the "China Telecom Group") constitute connected transactions of the Group.

The Company revised the annual caps of engineering related services provided to China Telecom Group and operation support services provided by China Telecom Group in 2015, which were approved by the independent shareholders of the Company at the extraordinary general meeting held on 11 December 2015. The following table sets out the annual caps and actual amounts of the continuing connected transactions of the Group during the year ended 31 December 2017:

Unit: RMB million

| | Year ended 31 December 2017 | | Year ending |
|---|-----------------------------|----------------|---------------------------------|
| | Annual Caps | Actual Amounts | 31 December 2018 Annual Caps |
| Engineering related services provided to China Telecom Group | 24,000 | 21,155 | 24,000 |
| Ancillary telecommunications services provided to China Telecom Group | 13,300 | 11,041 | 15,600 |
| Operations support service provided to/by China Telecom Group | | | |
| Revenue | 3,400 | 2,791 | 3,600 |
| Expenditure | 1,000 | 950 | 1,100 |
| IT application services provided to/by China Telecom Group | | | |
| Revenue | 2,700 | 2,382 | 2,900 |
| Expenditure | 490 | 268 | 490 |
| Centralized services provided to China Telecom Group | 440 | 329 | 450 |
| Property leasing provided to/by China Telecom Group | | | |
| Revenue | 210 | 105 | 220 |
| Expenditure | 220 | 200 | 240 |
| Supplies procurement services provided to/by China Telecom Group | | | |
| Revenue | 8,100 | 4,094 | 10,000 |
| Expenditure | 5,900 | 2,122 | 7,000 |

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS AGREEMENTS BETWEEN THE COMPANY AND CHINA TELECOM

The Company and China Telecom entered into seven continuing connected transactions agreements on 29 September 2015 to govern the continuing connected transactions between the Group and China Telecom Group. These agreements include the Engineering Framework Agreement, the Ancillary Telecommunications Services Framework Agreement, the Operation Support Services Framework Agreement, the IT Application Services Framework Agreement, the Centralized Services Agreement, the Property Leasing Framework Agreement and the Supplies Procurement Services Framework Agreement (the "2015 Agreements"). Each of the 2015 Agreements had an initial term expired on 31 December 2018 and, subject to approval from the shareholders (if applicable), the 2015 Agreements would be automatically renewed for a further period of not more than three years each time, unless terminated by either party by giving a written notice three months in advance. All of the 2015 Agreements (excluding the Centralized Services Agreement and the Property Leasing Framework Agreement that did not require independent shareholders' approval under the Listing Rules) were approved by the independent shareholders of the Company at the extraordinary general meeting held on 11 December 2015.

The Board considers that it is in the interest of the Company to enter into the 2015 Agreements and cooperate with China Telecom Group to ensure a stable revenue source from one of the largest telecommunications operators in the PRC so as to benefit the Company's future growth and development.

Details of each of the 2015 Agreements are set out below.

ENGINEERING FRAMEWORK AGREEMENT

Pursuant to the Engineering Framework Agreement, the Company agreed to provide certain engineering related services, such as design, construction, project supervision and management for telecommunications infrastructure projects undertaken by China Telecom Group.

The charges for engineering related services rendered under the Engineering Framework Agreement shall be determined at prices fixed through tender process or market price. According to the relevant regulations and under the internal policy of China Telecom Group, whenever the value of any design and/or project supervision and management contracts exceeds RMB0.5 million, or the value of any construction contracts exceeds RMB2 million, the award of the relevant contract must be subject to a tender process (with a minimum of three parties tendering bids) in accordance with the Bidding Law of the PRC and Regulation on the Implementation of the Bidding Law of the PRC, except as otherwise provided by related laws and regulations. In determining the market price, the business and financial department of the relevant subsidiary of the Company shall collect the relevant market information (including but not limited to the change in price for the same or similar type of services), review and compare the costs and profits of transactions conducted in the most recent year of the same or similar type entered into with China Telecom Group or independent third parties, and prepare fee quotes for review by the marketing department of the relevant subsidiary of the Company, or the marketing department of the relevant subsidiary will further submit the fee quotes to the management of such subsidiary for review depending on the actual situations (such as the amount and size of the transaction). The marketing department or management of the relevant subsidiary of the Company shall primarily consider the following factors: (1) cost of service; (2) prices of the same or similar type of services provided to China Telecom Group by other service providers in the market; (3) prices of the same or similar type of services provided to China Telecom Group and independent third parties previously by the Company.

The Company will be given priority by China Telecom Group in the provision of the engineering related services except in the tender process, provided that the terms and conditions offered by independent third parties to China Telecom Group are no more favorable than those offered by the Company for the same type of services, and in return, the Company has undertaken to China Telecom Group that the Company shall not provide services to it on terms which are less favorable than those offered by the Company to independent third parties.

REPORT OF THE DIRECTORS

ANCILLARY TELECOMMUNICATIONS SERVICES FRAMEWORK AGREEMENT

Pursuant to the Ancillary Telecommunications Services Framework Agreement, the Company agreed to provide to China Telecom Group certain ancillary telecommunications services such as maintenance of network facilities including equipment, ducts and cables, equipment rooms and base stations; distribution of telecommunications products and services; provision of comprehensive logistics services, including purchasing agent, warehousing, transportation, delivery, testing and inspection, logistics information management and distribution; provision of application, content and other services such as fixed-line value added services, wireless value added services, Internet value added services, and development of online gaming, certificate authentication and value added business platform of Internet cafes (the "Ancillary Telecommunications Services").

The Ancillary Telecommunications Services Framework Agreement stipulates that the Ancillary Telecommunications Services shall be provided at:

- (1) market price. In determining the market price, the business and financial department of the relevant subsidiary of the Company shall collect the relevant market information (including but not limited to the change in price for the same or similar type of services), review and compare the costs and profits of transactions conducted in the most recent year of the same or similar type entered into with China Telecom Group or independent third parties, and prepare fee quotes for review by the marketing department of the relevant subsidiary of the Company, or the marketing department of the relevant subsidiary will further submit the fee quotes to the management of such subsidiary for review depending on the actual situations (such as the amount and size of the transaction). The marketing department or management of the relevant subsidiary of the Company shall primarily consider the following factors: (i) cost of service; (ii) prices of the same or similar type of services provided to China Telecom Group by other service providers in the market; (iii) prices of the same or similar type of services provided to China Telecom Group and independent third parties previously by the Company; or
- (2) in the absence of market price or where the market price cannot be determined, the price shall be agreed between both parties, which shall be the aggregate amount of reasonable costs, the relevant taxes in sales and reasonable profits. In determining such price, the business and financial department of the relevant subsidiary of the Company will review and compare the costs and profits of transactions conducted in the most recent year of the same or similar type entered into with China Telecom Group or independent third parties, take into account factors such as historical price, transaction size, average profit ratio within the relevant industry, supply and demand, labor cost, local commodity prices and economic development levels, and prepare fee proposals for review by the marketing department of the relevant subsidiary of the Company, or the marketing department of the relevant subsidiary will further submit the fee quotes to the management of such subsidiary for review depending on the actual situations (such as the amount and size of the transaction).

The Company will be given priority by China Telecom Group in the provision of the Ancillary Telecommunications Services, provided that the terms and conditions offered by independent third parties to China Telecom Group are no more favorable than those offered by the Company for the same services, and in return, the Company has undertaken to China Telecom Group that the Company and its subsidiaries shall not provide Ancillary Telecommunications Services to it on terms which are less favorable than those offered by the Company to independent third parties.

REPORT OF THE DIRECTORS

OPERATION SUPPORT SERVICES FRAMEWORK AGREEMENT

Pursuant to the Operation Support Services Framework Agreement, the Company agreed to provide to China Telecom Group operation support services, including but not limited to facilities management and renovation, network facilities management in relation to buildings used for telecommunications purposes, human resources management, equipment maintenance, advertisement, conferencing services, vehicles, and certain repair and leasing of equipment. China Telecom Group also agreed to provide operation support services such as logistics services, warehousing, medical care, food and beverages, education, hotel and travelling services, labor services and so on to the Company.

The Operation Support Services Framework Agreement shall adopt the same pricing policy as the Ancillary Telecommunications Services Framework Agreement. In addition, in determining the market price of the operation support services provided to the Company by the China Telecom Group, the Company primarily considered the following factors: (i) prices of the same or similar type of services provided to the Company by other service providers in the market; (ii) prices of the same or similar type of services provided to the Company by China Telecom Group and independent third parties previously.

Each of the parties to the Operation Support Services Framework Agreement will accord priority to the other party in the provision of the operation support services, provided that the terms and conditions offered by independent third parties to the relevant party are no more favorable than those offered by the other party for the same services, and in return, each of the parties has undertaken to the other that it shall not provide services to the other on terms which are less favorable than those offered to independent third parties.

IT APPLICATION SERVICES FRAMEWORK AGREEMENT

Pursuant to the IT Application Services Framework Agreement, the Company agreed to provide China Telecom Group with telecommunications network support services, software and hardware development and other related IT services. China Telecom Group also agreed to provide to the Company certain IT application services including voice and data, value added services and information application services.

The IT Application Services Framework Agreement shall adopt the same pricing policy as the Engineering Framework Agreement. In addition, in determining the market price of the IT application services provided to the Company by the China Telecom Group, the Company primarily considers the following factors: (i) prices of the same or similar type of services provided to the Company by other service providers in the market; (ii) prices of the same or similar type of services provided to the Company by China Telecom Group and independent third parties previously.

Each of the parties to the IT Application Services Framework Agreement will accord priority to the other party in the provision of the IT application services, provided that the terms and conditions offered by independent third parties to the relevant party are no more favorable than those offered by the other party for the same services, and in return, each of the parties has undertaken to the other that it shall not provide services to the other on terms which are less favorable than those offered to independent third parties.

REPORT OF THE DIRECTORS

CENTRALIZED SERVICES AGREEMENT

Pursuant to the Centralized Services Agreement, the centralized services to be provided by the Company to China Telecom Group include:

- (1) the corporate headquarters management function to manage assets of China Telecom's certain retained specialized telecommunications support businesses in the PRC other than the Group and any remaining assets, such as hotels, manufacturing plants, schools and hospitals which are not in association with the specialized telecommunications support businesses in the primary service areas of the Group; and
- (2) the provincial headquarters management function to manage remaining assets of China Telecom in the primary service areas of the Group.

Except as otherwise agreed by the parties, the aggregate administrative expenses incurred by the Company for the provision of the centralized services referred to above (all expenses incurred in connection with the above-mentioned headquarters management functions excluding remuneration for the Directors, share appreciation rights and provision of bad debts) will be apportioned pro rata between the Company and China Telecom Group according to the proportional net asset value of each of the relevant parties.

PROPERTY LEASING FRAMEWORK AGREEMENT

China Telecom Group have been leasing from the Company and its subsidiaries certain properties for use as business premises, offices, equipment storage facilities and sites for network equipment. The Company and its subsidiaries also have been leasing from China Telecom Group certain properties for use as business premises, offices and equipment storage facilities. These arrangements fall within the Property Leasing Framework Agreement.

Pursuant to the Property Leasing Framework Agreement, the rental charges in respect of each property are determined at market price. In determining the market price, the business and financial department of the relevant subsidiary of the Company shall collect the relevant market information (including but not limited to the change in price for the same or similar type of services), review and compare the costs and profits of transactions conducted in the most recent year of the same or similar type entered into with China Telecom Group or independent third parties, and prepare fee quotes for review by the marketing department of the relevant subsidiary of the Company, or the marketing department of the relevant subsidiary will further submit the fee quotes to the management of such subsidiary for review depending on the actual situations (such as the amount and size of the transaction). The marketing department or management of the relevant subsidiary of the Company shall primarily consider the following factors: (1) cost of property depreciation; (2) rental charges of the same or similar type of property provided to China Telecom Group and the Company by other service providers in the market; (3) rental charges of the same or similar type of property provided to China Telecom Group and independent third parties by the Company previously, or rental charges of the same or similar type of property provided to the Company by China Telecom Group and independent third parties previously. Rental charges are payable monthly in arrears, except as otherwise agreed by the parties, and subject to review every three years by both parties confirming after negotiations whether to adjust the rental charges and the amount of such adjustment.

REPORT OF THE DIRECTORS

SUPPLIES PROCUREMENT SERVICES FRAMEWORK AGREEMENT

Pursuant to the Supplies Procurement Services Framework Agreement, the Company agreed to provide to China Telecom Group with comprehensive supplies procurement services, including, among others, (i) procurement of imported telecommunications supplies, domestic telecommunications supplies and domestic non-telecommunications supplies; (ii) agency services of supplies procurement; (iii) sales of telecommunications supplies manufactured by the Group; (iv) resale of supplies purchased from independent third parties; and (v) management of biddings, verification of technical specifications, warehousing, transportation and installation services. According to the same agreement, China Telecom agreed to provide to the Group with comprehensive supplies procurement services, including, among others, (i) sales of telecommunications supplies manufactured by China Telecom Group, (ii) resale of supplies purchased from independent third parties; (iii) agency services of supplies procurement; and (iv) warehousing, transportation and installation services.

The price for the provision of comprehensive supplies procurement services under the Supplies Procurement Services Framework Agreement is determined as follows:

- (1) 1% of the contract value at the maximum for procurement services relating to imported telecommunications supplies;
- (2) 3% of the contract value at the maximum for procurement services relating to domestic telecommunications supplies and other domestic non-telecommunications materials; and
- (3) for other services:
 - (i) market price. In determining the market price, the business and financial department of the relevant subsidiary of the Company shall collect the relevant market information (including but not limited to the change in price for the same or similar type of services), review and compare the costs and profits of transactions conducted in the most recent year of the same or similar type entered into with China Telecom Group or independent third parties, and prepare fee quotes for review by the marketing department of the relevant subsidiary of the Company, or the marketing department of the relevant subsidiary will further submit the fee quotes to the management of such subsidiary for review depending on the actual situations (such as the amount and size of the transaction). The marketing department or management of the relevant subsidiary of the Company shall primarily consider the following factors: (i) cost of service; (ii) prices of the same or similar type of services provided to China Telecom Group or the Company by other service providers in the market; (iii) prices of the same or similar type of services provided to China Telecom Group and independent third parties by the Company, or prices of the same or similar type of services provided to the Company by China Telecom Group and independent third parties; or
 - (ii) in the absence of market price or where the market price cannot be determined, the price shall be agreed between both parties, which shall be the aggregate amount of reasonable costs, the taxes in sales and reasonable profits. In determining such price, the business and financial department of the relevant subsidiary of the Company will review and compare the costs and profits of transactions conducted in the most recent year of the same or similar type entered into with China Telecom Group or independent third parties, take into account factors such as historical price, transaction size, average profit ratio within the relevant industry, supply and demand, labour cost, local commodity prices and economic development levels, and prepare fee proposals for review by the marketing department of the relevant subsidiary of the Company, or the marketing department of the relevant subsidiary will further submit the fee quotes to the management of such subsidiary for review depending on the actual situations (such as the amount and size of the transaction).

REPORT OF THE DIRECTORS

The Group will be given priority by China Telecom Group in the provision of comprehensive logistics services, provided that the terms and conditions offered by independent third parties to China Telecom Group are no more favorable than those offered by the Company for the same services, and in return, the Company has undertaken to China Telecom that the Company and its subsidiaries shall not provide supplies procurement related comprehensive logistic services to it on terms which are less favorable than those offered by the Company and its subsidiaries to independent third parties.

The independent non-executive directors of the Company have confirmed that all the continuing connected transactions for the year ended 31 December 2017 to which the Group was a party:

1. had been entered into by the Group in the ordinary and usual course of business;
2. had been entered into on normal commercial terms or better; and
3. had been entered into according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The independent non-executive directors have further confirmed that:

The values of the continuing connected transactions entered into between the Group and its connected persons which are subject to annual caps have not exceeded their respective annual caps or revised annual caps.

The auditors of the Company have performed procedures in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants on the continuing connected transactions and issued a letter to the Board to advise that:

1. nothing has come to their attention that causes them to believe that the continuing connected transactions disclosed above have not been approved by the Board;
2. for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company;
3. nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions;
4. with respect to the actual amounts of the continuing connected transactions, nothing has come to their attention that causes them to believe that those actual amounts have exceeded the annual caps disclosed in the previous announcement dated 29 September 2015 of the Company which were approved by the independent shareholders of the Company on 11 December 2015.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Please see the "Corporate Governance Report" set out in this annual report for details of our compliance with the Corporate Governance Code.

MATERIAL LEGAL PROCEEDINGS

As at 31 December 2017, so far as the directors are aware, the Company was not involved in any material litigation or arbitration and no material litigation or claims had been made against, or were pending or threatened against the Company.

REPORT OF THE DIRECTORS

RISK FACTORS

The following section lists out the principal risks and uncertainties faced by the Group. It is a non-exhaustive list and there may be other risks and uncertainties further to the key risk areas outlined below.

1. The business of the Group may be affected by the economic, political and social conditions as well as government policies in China

As substantially all businesses, assets and operations of the Group are located in China, the Group's operating results, financial status and business prospect depend on the economic, political and social developments of China to a large extent.

In recent years, China is one of the countries with the fastest pace of economic growth around the globe in terms of GDP. However, the current growth rate may not be sustainable. Moreover, any future disaster, such as natural disaster and outbreak of epidemics would potentially slow down the level of economic activities, and in turn affect the economic growth of China, Asia and even the world. If any of the above mentioned reasons causes serious economic downturn in China, the Group's financial status, operating results and prospect may be adversely affected.

2. The business of the Group hinges on the investment and operating conditions in the Chinese telecommunications sector

Demands in the Group's services will be affected by the level of capital expenditures of the fixed-line, broadband and mobile telecommunications infrastructure of the telecommunications operators in China. Such decreases in capital expenditures may have adverse effect to the Group's revenue and profits.

Moreover, in the event that the competition in the Chinese telecommunications sector continues to intensify, the telecommunications operator customers of the Group may be under the pressure to reduce prices of their products or services, thus leading to the decrease in their revenue. If that happens, such telecommunications customers may reduce the service fees to our Company in relation to certain businesses for cost cutting, with a view to maintaining their profitability.

3. The business of the Group is working capital intensive in respect of services offered to customers

During our course of business, the Group shall incur considerable working capital expenditures to make procurements for goods and services required for the provision of services to the clients of the Group and for the completion of projects. In the past, the Company has satisfied the working capital needs primarily by cash from operating activities and its own fund. A deficiency in working capital may affect the Group's business, financial status and operating results. Moreover, the Group's customers may delay payment or default in accounts receivables, which may have adverse effect on the cash flows, working capital, financial status and operating results of the Company.

4. The Group is under certain risks in relation to international business and operation

The Group is dedicated in expanding into overseas market and strategically expanding overseas operations. The expansion into markets outside China will subject us to considerable risks, including differences in business environment, high entry barrier imposed on foreign enterprises, existing market players, exchange rate fluctuations, legal and regulatory requirements, potentially unfavorable tax liabilities, inexperience in new markets, competition in the local markets and protectionism.

Part of our business is conducted overseas and mainly located in developing countries and regions, where the local political and economic conditions are often unstable and such factors are beyond our control. As we have engaged in overseas business, we are subject to various risks related to the countries and regions where we operate.

REPORT OF THE DIRECTORS

AUDITORS

Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP were engaged as the international and domestic auditors of the Company respectively for the year ended 31 December 2017. Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP have audited the accompanying financial statements, which were prepared in accordance with International Financial Reporting Standards. A resolution for the reappointment of Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the international and domestic auditors of the Company for the year ending 31 December 2018 will be proposed at the upcoming AGM.



By order of the Board
Zhang Zhiyong
Chairman

Beijing, PRC
27 March 2018

REPORT OF THE SUPERVISORY COMMITTEE

Dear Shareholders,

During the reporting period, all members of the Supervisory Committee conscientiously performed their supervisory duties and earnestly safeguarded the interests of the shareholders and the Company in accordance with the relevant requirements including the PRC Company Law and the Articles of Association of the Company.

During the reporting period, the Supervisory Committee convened two meetings. The fifth meeting of the fourth session of the Supervisory Committee convened on 24 March 2017 and reviewed and approved proposals such as the Company's 2016 financial report, profit allocation and dividend distribution plan, auditors' report issued by the external auditors, the Company's work report on internal control for 2016 and work plan for 2017, the work report of the Supervisory Committee for 2016 and the work plan of the Supervisory Committee for 2017. In respect of issues that were of more concern, the Supervisory Committee had communicated with the finance department, risk management department and external auditors and put forward relevant advice. At the sixth meeting of the fourth session of the Supervisory Committee convened on 25 August 2017, we have reviewed and approved proposals such as the Unaudited Interim Financial Report for 2017, the Report on the Review of the Interim Financial Report for 2017 issued by the external auditors and the internal control work report for the first half of 2017 and work plan for the second half. During the reporting period, the members of the Supervisory Committee attended the board meetings for 2017, general meetings and audit committee meetings of the Company. By attending these meetings, the Supervisory Committee supervised significant decision making of the Company and the duty performance of the members of the Board and senior management and recommended relevant management suggestion in a serious and responsible manner.

The Supervisory Committee is of the opinion that, during the reporting period, the Company upheld the principal philosophy of "value-driven, seeking steady yet progressive growth and efficient development", pursued further comprehensive and deepened reform, and maintained stable fundamentals for the Company amid complicated and ever changing internal and external environment, thus realizing continuous growth in revenues of RMB94,572 million, representing a year-on-year growth of 6.9%. Net profit amounted to RMB2,714 million, representing a year-on-year growth of 7.0%. Free cash flow was RMB6,118 million.

The Supervisory Committee is of the opinion that, in 2017, all members of the Board and senior management of the Company have complied with applicable laws and regulations, and performed their duties in accordance with the Articles of Association of the Company. They have also safeguarded the interests of the shareholders, earnestly implemented various resolutions of the general meetings and the board meetings, and operated strictly in accordance with the regulatory requirements for a listed company. The Supervisory Committee was not aware of any violation of relevant PRC laws and regulations and the Articles of Association, or any acts which would prejudice the interests of the Company.

The Supervisory Committee carefully reviewed the information intended to be submitted by the Board of Directors to the general meeting such as the financial report of the Company for 2017 which were prepared according to relevant requirements and issued with unqualified opinion by the external auditors. The Supervisory Committee is of the opinion that the financial report gives an objective and true view of the Company's financial position and operating results.

In 2018, the Supervisory Committee will continue to comply with the relevant requirements of the PRC Company Law and the Articles of Association of the Company strictly and assume the responsibilities of safeguarding the interests of the shareholders and the benefits of the Company, to focus on the supervision of the Company's implementation of its commitment to shareholders and to expand our scope of work approach, with a view to enhancing our supervision and inspection efforts in major adjustment events and important operating activities and duly perform our duties in a thoughtful manner.

By order of the Supervisory Committee

Han Fang

Chairperson of the Supervisory Committee

Beijing, PRC

23 March 2018

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining sound corporate governance standards and procedures to ensure the completeness, transparency and quality of its information disclosure, and strives to achieve more standardized operational procedures and effective management, so as to safeguard shareholders' interests to the greatest extent.

CORPORATE GOVERNANCE PRACTICES

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), but also abided by the PRC Company Law and other applicable laws, regulations and regulatory requirements of Hong Kong and the PRC as fundamental guidelines for the Company's corporate governance. While strictly complying with relevant laws and regulations, the Group is continually striving to further strengthen its internal control and risk management systems in order to improve its corporate governance standards and transparency.

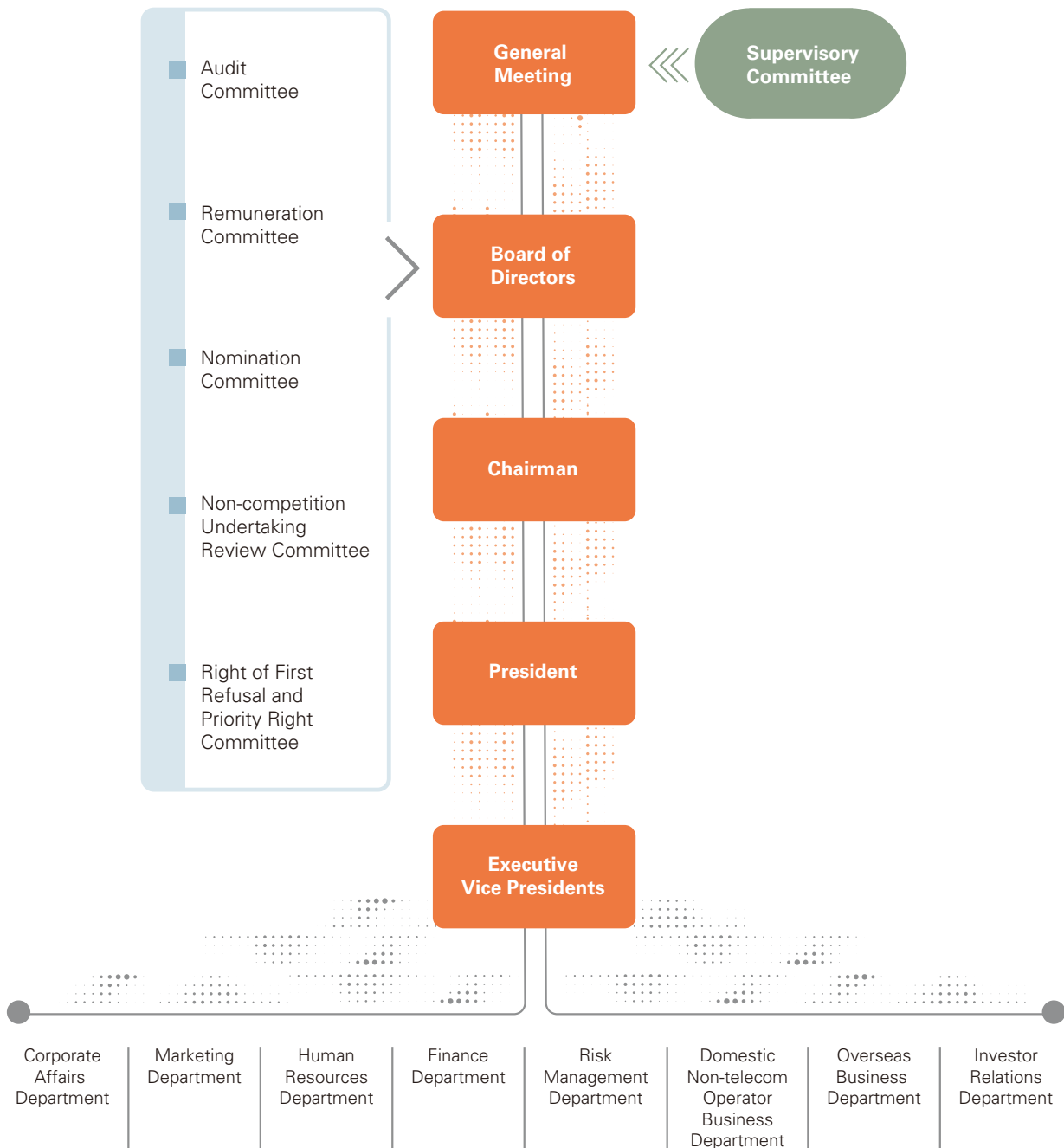
The Board is responsible for performing corporate governance duties, including developing and reviewing the Company's policies and practices on corporate governance; reviewing and monitoring the training and continuous professional development of directors and senior management as well as the Company's policies and practices in compliance with legal and regulatory requirements; developing, reviewing and monitoring the code of conduct and compliance manual applicable to employees and directors; and reviewing the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

The Company has been recognized by capital market for its sound corporate governance over the years. In 2017, the Company was awarded "The Best of Asia – Icon on Corporate Governance" and "Asian Corporate Director" by *Corporate Governance Asia*. Moreover, the Company was also awarded the "Platinum Award – Excellence in Environmental, Social and Corporate Governance" by *The Asset*.

Throughout the year ended 31 December 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.

CORPORATE GOVERNANCE REPORT

CORPORATE STRUCTURE OF THE COMPANY



CORPORATE GOVERNANCE REPORT

GENERAL MEETING

Pursuant to the Company's Articles of Association, the general meetings are classified as annual general meeting (the "AGM") and extraordinary general meeting (the "EGM"). The AGM is convened once a year and within six months after the end of a financial year. A resolution will be proposed for consideration in respect of each independent matter. The details of the voting procedures will be set out in the notices of the general meetings in accordance with the provisions of the Articles of Association and the Listing Rules. In accordance with the Listing Rules, all the resolutions were voted by poll in the general meeting held in 2017.

For the 2016 AGM, a physical meeting was held in Beijing on 23 June 2017, at which the resolutions, including the 2016 financial statements, profit distribution proposal and dividend declaration proposal, appointment of auditors, report of the Directors, and report of the Supervisory Committee and the appointment of Mr. Shao Guanglu as a non-executive director of the Company were considered and approved by shareholders. Shareholders and authorized proxies representing 86.8% of the total voting shares of the Company were present at the AGM, and the percentage of votes cast in favour of each resolution was over 78%.

For the first EGM of 2017, a physical meeting was held in Beijing on 28 December 2017, at which the resolution of the amendments to the Articles of Association, was considered and approved by shareholders. Shareholders and authorized proxies representing 86.3% of the total voting shares of the Company were present at the EGM, and the percentage of votes cast in favour of each resolution was over 84%.

The above resolutions at the general meetings were approved and passed by shareholders, and details of the relevant poll results were published on the websites of the Company and "HKExnews" of the Stock Exchange.

SHAREHOLDERS' RIGHTS TO CONVENE GENERAL MEETINGS AND SUBMIT PROPOSALS AT GENERAL MEETINGS

Pursuant to Article 8.24 of the Company's Articles of Association, shareholders who request for convening an EGM or a class meeting shall comply with the following procedures:

- (1) Two (2) or more shareholders holding in aggregate 10% or more of the shares carrying the right to vote at the meeting sought to be held shall sign one (1) or more counterpart requisition(s) stating the object of the meeting and requiring the Board to convene an extraordinary general meeting or a class meeting thereof. The Board shall as soon as possible proceed to convene an extraordinary general meeting or a class meeting thereof after receipt of such requisition(s). The amount of shareholdings referred to above shall be calculated as at the date of deposit of the requisition(s).
- (2) If the Board fails to issue a notice of such a meeting within thirty (30) days from the date of receipt of the requisition(s), the requisitionists may themselves convene such a meeting (in a manner as similar as possible to the manner in which general meetings are convened by the Board) within four (4) months from the date of receipt of the requisition(s) by the Board.

Pursuant to Article 8.6 of the Company's Articles of Association, when the Company convenes an AGM, shareholder(s) holding 5% or more of the total voting shares of the Company shall have the right to submit new proposals in writing, and the Company shall place such proposals on the agenda for such AGM if they are matters falling within the functions and powers of shareholders in general meetings.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' ENQUIRIES

Enquiries or requisitions to convene a general meeting or submit a proposal pursuant to the Articles of Association of the Company that the shareholders of the Company wish to make to the Board may be addressed to the Investor Relations Department of the Company by our shareholders' hotline at 852-3699 0000 or by email at ir@chinaccs.com.hk.

COMMUNICATION WITH SHAREHOLDERS

The Board has adopted the shareholders communication policy, which regulates the Company's various regular and irregular daily communication channels with shareholders, including general meeting(s), roadshows and daily meetings. The above arrangements enable shareholders and investors keep abreast of the latest operating status and development prospects of the Company, and also enable the Company to get different opinions from the market in an effective and timely way. The details of the communication with the shareholders are set out in the section of "Investor Relations" of this annual report and the website of the Company.

BOARD OF DIRECTORS

The leadership and supervision of the Company are vested in the Board, which is responsible for implementing the resolutions passed in general meetings, overseeing the Group's businesses and affairs, approving operation plans and investment proposals, reviewing financial policies and performance, and formulating the basic management systems of the Company. The Board has delegated to the senior management the powers and responsibilities to conduct the day-to-day management and operations of the Group and to organize the implementation of the resolutions of the Board, annual business plans and investment proposals. The senior management must obtain the Board approval before entering into any material transactions. The Articles of Association of the Company has clearly defined the scope of duties of the Board and the management of the Company.

CHAIRMAN AND PRESIDENT

Mr. Zhang Zhiyong and Mr. Si Furong take up the position of Chairman and President of the Company, respectively. Mr. Zhang Zhiyong, our Chairman, is responsible for overseeing the operation of the Board and in charge of the Company's overall management. Mr. Si Furong, our President, is responsible for the Company's daily operation and management.

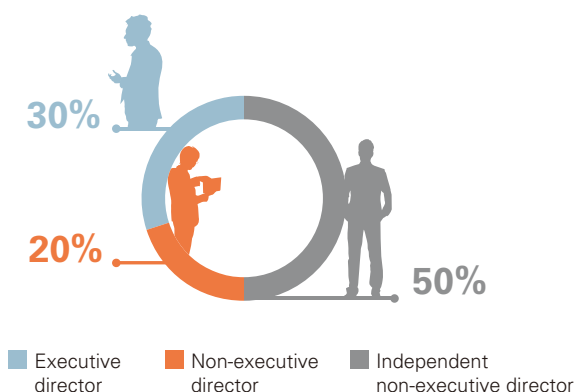
COMPOSITION OF THE BOARD

As of the date of this report, the Board comprised ten directors, including three executive directors (Mr. Zhang Zhiyong, Mr. Si Furong and Ms. Hou Rui), two non-executive directors (Mr. Li Zhengmao and Mr. Shao Guanglu) and five independent non-executive directors (Mr. Zhao Chunjun, Mr. Siu Wai Keung, Francis, Mr. Lv Tingjie, Mr. Wu Taishi and Mr. Liu Linfei).

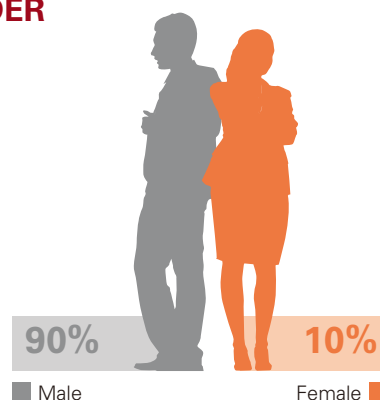
CORPORATE GOVERNANCE REPORT

The Company has adopted a board diversity policy, which sets out the approach to achieve diversity on the Board. The Company's board diversity policy gives a number of considerations in aspects including skill, knowledge, professional experience, gender and age. The Board comprises professionals with diversified backgrounds including telecommunications industry, finance, legal, management and academics. The Nomination Committee of the Board will also review the Board structure at least annually. The Board has five independent non-executive directors, of which two independent non-executive directors (Mr. Siu Wai Keung, Francis and Mr. Wu Taishi) possess accounting professional qualification in compliance with Rules 3.10 and 3.10A of Chapter 3 of the Listing Rules. The profiles of the directors are set out in the "Profiles of Directors, Supervisors and Senior Management" section of this annual report and the Company's website.

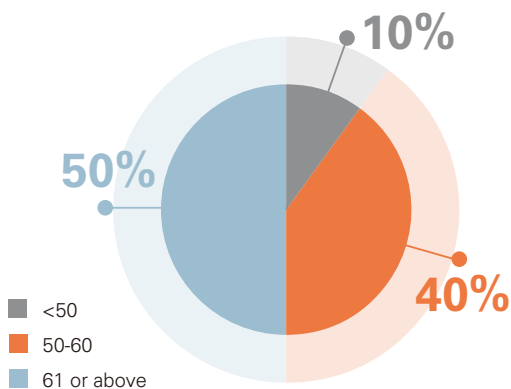
COMPOSITION



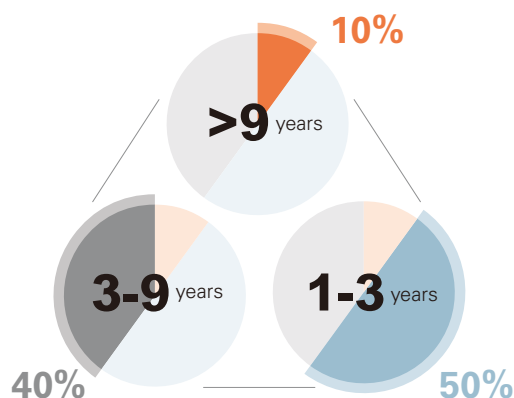
GENDER



AGE GROUP



YEARS OF SERVICES IN THE BOARD



As of the date of this report, to the best knowledge of the directors, the members of the Board did not have any financial, business, family or other material connection with each other, in particular between the Chairman and the President, and all of them are free to make independent judgments.

The Company has received the written annual confirmation of independence from each of the independent non-executive directors pursuant to Rule 3.13 of the Listing Rules, and considers all independent non-executive directors to be independent.

All directors devoted sufficient time and efforts to the business of the Company. The Company also requires the directors to disclose the number of positions they hold in public companies or organizations and provide the Company with the time they devoted to the relevant positions.

The Company has also arranged appropriate insurance cover in respect of possible legal actions against its directors, supervisors and senior management.

CORPORATE GOVERNANCE REPORT

SECURITIES TRANSACTIONS BY DIRECTORS

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 in the reporting period.

APPOINTMENT OF DIRECTORS

The Company follows a formal, considered and transparent procedure for the appointments of new directors. The Nomination Committee of the Board first considers and discusses the nomination and appointment of a new director, and also considers the board diversity policy and makes recommendations to the Board for decision. The Board shall recommend the candidate(s) at the general meeting and the candidate(s) shall be elected at the general meeting each for a term of three years, effective from the date of election. If an independent non-executive director serves more than 9 years in the Company, his further appointment should be subject to a separate resolution to be approved by shareholders. The papers to shareholders accompanying that resolution should include the reasons why the Board believes he is still independent and should be re-elected.

Among the board members of the Company, except for Mr. Liu Linfei, Mr. Shao Guanglu and Mr. Zhang Zhiyong, the term of office of other directors are all three years, commencing from the AGM on 26 June 2015 approving the fourth session of the Board to the 2017 AGM to be held in 2018. The term of office of Mr. Liu Linfei commenced from 24 June 2016 (the date of the AGM approving his appointment) to the 2017 AGM to be held in 2018. The term of office of Mr. Shao Guanglu commenced from 23 June 2017 (the date of the AGM approving his appointment) to the 2017 AGM to be held in 2018. The term of office of Mr. Zhang Zhiyong commenced from 16 March 2018 (the date of the EGM approving his appointment) to the 2017 AGM to be held in 2018. The directors of the Company are all eligible for re-election at the expiration of the term.

MEETINGS OF THE BOARD

Pursuant to the Company’s Articles of Association and the Listing Rules, the Board shall convene at least four meetings a year to review and approve its financial and operational performance, and consider and approve the overall strategy and policies of the Company.

The Company Secretary assists the Chairman in preparing the agenda for Board meetings. Unless stipulated otherwise by the Board in advance, the time and place for any Board meeting shall be notified to all directors at least 14 days prior to the date of the meeting. The agenda and related documents of the Board meetings will be delivered to all directors at least 3 days prior to the date of the meeting. The Board and each of the directors may contact the senior management independently if necessary and obtain additional information from the Company so that the directors can make informed decisions with relevant information.

All minutes of the Board meetings record the details of resolutions considered and decisions made, and are kept by meeting secretary and open for inspection by the directors. A director shall abstain from voting on any board resolution approving any proposal in which he or any of his associates has a material interest, nor shall he be counted in the quorum present at the meeting. In 2017, the Board held four meetings and passed two written resolutions. In addition to general matters such as review of the annual and interim financial statements, dividend distribution, Corporate Governance Report, ESG Report and budget, the Board also considered the resolutions regarding the appointment of a director and amendments to the Articles of Association.

In 2017, the Chairman of the Company had a meeting with the non-executive directors (including independent non-executive directors) without the presence of the executive directors.

CORPORATE GOVERNANCE REPORT

The attendance record of the Company's directors in Board meetings, board committee meetings and general meeting(s) in 2017 were as follows:

| | Attendance in 2017/Meeting convened during period of appointment | | | | | |
|--|--|-----------------|----------------------|--|-----|-----|
| | Board of Directors | Audit Committee | Nomination Committee | Non-competition Undertaking Review Committee | AGM | EGM |
| Executive Directors | | | | | | |
| Zhang Zhiyong ⁽¹⁾ | – | – | – | – | – | – |
| Si Furong | 4/4 | – | – | – | 1/1 | 1/1 |
| Hou Rui | 4/4 | – | – | – | 1/1 | 1/1 |
| Non-executive Directors | | | | | | |
| Li Zhengmao | 4/4 ⁽²⁾ | – | – | – | 0/1 | 0/1 |
| Shao Guanglu ⁽³⁾ | 3/3 ⁽⁴⁾ | – | – | – | – | 0/1 |
| Independent Non-executive Directors | | | | | | |
| Zhao Chunjun | 4/4 ⁽⁵⁾ | – | 1/1 | – | 1/1 | 1/1 |
| Siu Wai Keung, Francis | 4/4 | 2/2 | – | 2/2 | 1/1 | 1/1 |
| Lv Tingjie | 4/4 ⁽⁶⁾ | 2/2 | – | 2/2 | 0/1 | 1/1 |
| Wu Taishi | 4/4 ⁽⁷⁾ | – | 1/1 | – | 1/1 | 1/1 |
| Liu Linfei | 4/4 | 2/2 | 1/1 | 2/2 | 1/1 | 1/1 |
| Resigned Directors | | | | | | |
| Zhang Junan ⁽⁸⁾ | – | – | – | – | – | – |
| Sun Kangmin ⁽¹⁰⁾ | 4/4 ⁽⁹⁾ | – | – | – | 1/1 | 0/1 |

Notes:

- (1) Mr. Zhang Zhiyong was appointed as an executive director and the Chairman of the Company with effect from 16 March 2018.
- (2) Mr. Li Zhengmao appointed other directors to attend four meetings.
- (3) Mr. Shao Guanglu was appointed as a non-executive director of the Company with effect from 23 June 2017.
- (4) Mr. Shao Guanglu appointed other directors to attend two meetings.
- (5) Mr. Zhao Chunjun appointed another director to attend one meeting.
- (6) Mr. Lv Tingjie appointed other directors to attend two meetings.
- (7) Mr. Wu Taishi appointed another director to attend one meeting.
- (8) Mr. Zhang Junan resigned as a non-executive director of the Company on 10 March 2017.
- (9) Mr. Sun Kangmin appointed another director to attend one meeting.
- (10) Mr. Sun Kangmin resigned as the Chairman and an executive director of the Company on 16 March 2018.

CORPORATE GOVERNANCE REPORT

DIRECTOR'S TRAINING

Newly appointed directors will receive trainings provided by the Company upon the appointment, so as to ensure that they have adequate understanding of the Company's business and they are fully aware of their duties as directors under the laws and regulations. The Company engaged external lawyers to provide the new directors appointed during the reporting period with trainings on issues including directors' duties and the Listing Rules.

The Company distributed board memorandum to directors each month, setting out updates on major business and financial position of the Company to facilitate the directors to discharge their duties. In addition, the Company also issued latest information regarding corporate governance and directors' responsibilities under the Listing Rules and other applicable laws and regulations to the directors, ensuring their awareness of their responsibilities under the laws and regulations. All the directors were also encouraged to participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contributions to the Board remain informed and relevant.

In 2017, the training records of the directors of the Company were as follows:

| | Attend training and/ or seminar relevant to the Company's industry and business, director's duties and/or corporate governance | Give a speech at the meeting relevant to the Company's industry and business, director's duties and/or corporate governance | Read information relevant to the Company's industry and business, director's duties and/or corporate governance; and/or read regular updates issued by the Company |
|--|---|--|--|
| Executive Directors | | | |
| Zhang Zhiyong ⁽¹⁾ | – | – | – |
| Si Furong | ✓ | ✓ | ✓ |
| Hou Rui | ✓ | ✓ | ✓ |
| Non-executive Directors | | | |
| Li Zhengmao | ✓ | ✓ | ✓ |
| Shao Guanglu | ✓ | ✓ | ✓ |
| Independent Non-executive Directors | | | |
| Zhao Chunjun | ✓ | – | ✓ |
| Siu Wai Keung, Francis | ✓ | – | ✓ |
| Lv Tingjie | ✓ | – | ✓ |
| Wu Taishi | ✓ | ✓ | ✓ |
| Liu Linfei | ✓ | – | ✓ |
| Resigned Directors | | | |
| Zhang Junan ⁽²⁾ | – | – | – |
| Sun Kangmin ⁽³⁾ | ✓ | ✓ | ✓ |

(1) Mr. Zhang Zhiyong was appointed as an executive director of the Company and the Chairman of the Board on 16 March 2018.

(2) Mr. Zhang Junan resigned as a non-executive director of the Company on 10 March 2017.

(3) Mr. Sun Kangmin resigned as the Chairman and an executive director of the Company on 16 March 2018.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

As an important part of a sound corporate governance practice, the Board has set up five board committees: the Audit Committee, the Remuneration Committee, the Nomination Committee, the Non-competition Undertaking Review Committee and the Right of First Refusal and Priority Right Committee, and all of which were responsible for the supervision of the overall affairs of the Company in various areas and assistance of discharging its responsibilities. All the five board committees comprise of independent non-executive directors to ensure full expression of independent and objective views and to fulfill each of its responsibilities of the overall safeguard and supervision. The list of members of each committee was published on the websites of the Company and the Stock Exchange.

Audit Committee

The Audit Committee consists of three independent non-executive directors: Mr. Siu Wai Keung, Francis (Chairman), who has accounting or related financial management expertise, Mr. Lv Tingjie and Mr. Liu Linfei. The Audit Committee is mainly responsible for reviewing the interim and annual financial statements of the Company to ensure a true and fair view of the state of affairs, reviewing interim and annual results of the Company after consulting with external auditors, and making recommendations to the Board. In addition, the Audit Committee is also responsible for examining the appointment of external auditors, considering and supervising the financial reporting procedures and the risk management and internal control systems of the Company, overseeing the execution of the connected transactions, and also listening to the external auditor's audit memorandum. The Audit Committee makes an assessment of the effectiveness of the Group's risk management and internal control at least once a year. In addition, the Audit Committee is also responsible for reviewing the adequacy of resources of the Group's accounting and financial reporting function.

In 2017, the Audit Committee held two meetings, mainly reviewing the resolutions of the Company for the audited financial report of the Company of 2016, interim report of 2017, report on connected transactions, report on internal control and risk management and appointment of independent auditors. The Audit Committee also met with the external auditors separately to discuss the matters found during the audit and other issues that might be raised by the auditors.

Remuneration Committee

The Remuneration Committee consists of three independent non-executive directors: Mr. Wu Taishi (Chairman), Mr. Siu Wai Keung, Francis and Mr. Lv Tingjie. The Remuneration Committee is mainly responsible for making recommendations to the Board on the Company's policy and structure for remunerations of all directors, on the establishment of a formal and transparent procedure for developing remuneration policy and the remuneration packages of directors. In 2017, Remuneration Committee did not hold any meeting.

Nomination Committee

The Nomination Committee consists of three independent non-executive directors: Mr. Zhao Chunjun (Chairman), Mr. Wu Taishi and Mr. Liu Linfei. The Nomination Committee is mainly responsible for making recommendations to the Board on the appointment or reappointment of directors and reviewing the structure, size and composition (including the skills, knowledge and professional experience) of the Board annually. The description in relation to board diversity policy has been set out under "Composition of the Board" of this section.

In 2017, the Nomination Committee held one meeting, mainly reviewing the Board structure and composition, as well as the resolution of recommending the appointment of Mr. Shao Guanglu as a non-executive director of the Company and making their recommendations to the Board. Based on the background and extensive industry experience of Mr. Shao Guanglu, his appointment was in line with the Company's board diversity policy and enhanced the Board's overall performance.

CORPORATE GOVERNANCE REPORT

Non-Competition Undertaking Review Committee

The Non-competition Undertaking Review Committee consists of three independent non-executive directors: Mr. Lv Tingjie (Chairman), Mr. Siu Wai Keung, Francis and Mr. Liu Linfei. The Non-competition Undertaking Review Committee is mainly responsible for monitoring the implementation of the non-competition undertakings given by China Telecom to the Company.

In 2017, the Non-competition Undertaking Review Committee held two meetings, mainly reviewing the implementation of the non-competition undertakings by China Telecom, and making their recommendations to the Board.

The Company has received a letter issued to the Company by China Telecom stating that they were not in breach of any non-competition undertakings in 2017. The letter has been reviewed by the Non-competition Undertaking Review Committee and the Board.

Right of First Refusal and Priority Right Committee

The Right of First Refusal and Priority Right Committee consists of three independent non-executive directors: Mr. Liu Linfei (Chairman), Mr. Siu Wai Keung, Francis and Mr. Wu Taishi. The Right of First Refusal and Priority Right Committee is mainly responsible for monitoring the enforcement of the right of first refusal and priority right granted by China Telecom since the Company was listed and protecting the interests of independent shareholders when such right of first refusal or priority right is exercised. Meeting(s) are held when necessary according to the Right of First Refusal and Priority Right Committee Charter. In 2017, the Right of First Refusal and Priority Right Committee did not hold any meeting.

SUPERVISORY COMMITTEE

The Company established a Supervisory Committee pursuant to the PRC Company Law. The Supervisory Committee consists of three members: Ms. Han Fang (the chairperson), Mr. Hai Liancheng (the external independent supervisor) and Mr. Si Jianfei (the employee representative supervisor). Except for Ms. Han Fang, the term of service of the supervisors are three years, commencing from the AGM on 26 June 2015 approving the fourth session of the Supervisory Committee to the 2017 AGM to be held in 2018. The supervisors may serve consecutive terms if re-elected upon the expiry of their terms of service. The term of service of Ms. Han Fang commenced from 11 December 2015 (the date of the EGM approving her appointment) to the 2017 AGM to be held in 2018. The Supervisory Committee is a standing supervisory institution of the Company and is accountable and reports to all the shareholders. The Supervisory Committee normally meets at least twice a year.

The primary duties of the Supervisory Committee are to supervise the financial activities of the Group, to review the financial statements and other financial information prepared and presented by the Board at the general meeting(s); to supervise the performance of duties of the directors and other senior management; to prevent them from abusing power; and to deal with the directors or to initiate legal actions against the directors on behalf of the Company. In 2017, the Supervisory Committee held two meetings, details of which are set out in the "Report of the Supervisory Committee" of this annual report.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

During the first EGM of 2017, the shareholders of the Company approved the amendments to the Articles of Association, pursuant to the Company Law of the People's Republic of China and the relevant work requirements, and in order to formulate the plan for the future business development of the Company at an early stage, the Board proposed to amend the Articles of Association to further enhance its contents including the corporate governance and the business scope after taking into consideration of the Company's circumstances. The amended Articles of Association were published on the websites of the Company and "HKExnews" of the Stock Exchange.

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

The Company Secretary, Mr. Chung Wai Cheung, Terence, is an employee of the Company and has appropriate understanding of the Company's business. The Company Secretary is responsible for supporting the daily operation of the Board and ensuring the compliance with the policies and procedures of the Board. All of the directors can access to opinions of the Company Secretary to ensure that the procedures of the Board conform to the applicable laws and regulations. The profile of the Company Secretary is set out in the section of "Profiles of Directors, Supervisors and Senior Management" in this annual report. The Company Secretary met the requirement on professional training under the Rule 3.29 of the Listing Rules in 2017.

REMUNERATION OF THE AUDITORS

The international and domestic auditors of the Company are Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP, respectively. The external auditors have provided audit services to the Company for five consecutive years since they were initially appointed at the 2012 annual general meeting on 27 June 2013. The remuneration received by the external auditors for the audit services provided to the Company during the year amounted to RMB34.5 million. No non-audit services were provided to the Company by the external auditors during the year.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The directors are responsible for the preparation of financial statements. The directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern, and therefore the directors continue to adopt the going concern approach in preparing financial statements.

The responsibility statement of Deloitte Touche Tohmatsu, our external auditors, regarding its Independent Auditor's Report on the financial statements of the Group is set out on pages 95 to 98 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

Risk Management and Internal Control System

The Board of the Company is fully responsible for establishing and maintaining an appropriate and effective risk management and internal control system to safeguard the investment of the shareholders and the assets of the Group. The Company has set up the internal control system and risk management mechanism in compliance with the COSO standards and defined management structure and its authority. This aims at ensuring the efficient and effective utilization of the resources of the Company to assist the Company to achieve its business targets and safeguard its assets, with a view to preventing unauthorized utilization or treatment of the resources of the Company, securing appropriate accounting records to provide reliable financial data for internal use or external dissemination, so as to ensure that the operating activities are in compliance with relevant laws and rules. The above control system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company attaches great importance to risk management in the course of its daily operation. With a decade of development since the listing, the Company has established a risk management culture appropriate to its business practices. The Company put in place a set of practicable risk management methods as well as a sound organization structure and management mechanism for risk management, which solidified risk management procedures, enhanced risk management efficiency and basically established a comprehensive risk management mechanism. In 2017, the Company took into account the requirements of Rule C.2 of the Corporate Governance Code of the Stock Exchange and continued to strengthen the identification, classification and assessment and control of risks and closely monitored any possible material risks, without any material risk issue during the year. After strict identification and assessment and analysis of risks, the Company conducted assessment on the potential risks that the Company may be exposed to in 2018, such as market risks and financial risks, and proposed practicable corresponding solutions. The Company formulated the annual risk management report which sets out the risk management work in 2017 and the assessment of material risks and the control plan for 2018.

CORPORATE GOVERNANCE REPORT

Since its listing in 2006, the Company has formulated the internal control manual, internal control assessment rules and other systems based on the COSO internal control framework. Over the years, the Company has striven to improve the systems related to internal control and risk management in light of the changes in internal and external operating environments and business development requirements. In 2017, in light of the internal and external regulatory requirements and its management needs, innovation and transformation, environment change of management and policies and actual conditions, the Company made amendments to its internal control manual and updated the internal control authority lists of its provincial companies.

The risk management department of the Company has established an internal audit division. In 2017, the Company further strengthened audit supervision, and attached importance to the utilization of the results of audit, so as to foster management improvement and to prevent loophole. The above work plays an important role in supporting the Board, the management and the risk management and internal control assessment. The internal audit division is responsible for the daily risk management and internal control of the Company, and providing objective report to the Audit Committee and the Board to ensure that the Board and the management will maintain and operate proper risk management and internal control system in accordance with the pre-determined procedures and standards.

The Company has formulated guidelines on information disclosure management to regulate the disclosure of the periodical result announcements, sensitive information and other important information of the Company and to make proper disclosure in accordance with the requirements of the Stock Exchange. The Company has established a progressive accountability, verification and reviewing system, to ensure the truthfulness, accuracy and timeliness of information disclosure. The Company will appoint external independent advisors, such as legal advisors, for reviewing and verifying when necessary. The Executive Vice President and the Company Secretary of the Company are responsible for coordinating and organizing information disclosure to ensure the compliance of the information disclosure. The Company Secretary is responsible for the daily management of information disclosure, including the disclosure of inside information. The Company also has the Office of the Board to assist in the detailed work regarding information disclosure.

In order to fulfill the requirements of the Hong Kong Stock Exchange, to ensure connected transactions are carried out according to the pricing policy or mechanism under the framework agreements and to regulate and enhance the management of connected transactions, the Company has formulated the Administrative Measures on Connected Transactions of China Communications Services Corporation Limited. The Company enters into a connected transaction framework agreement with China Telecommunications Corporation and applies for the annual caps of connected transactions every three years. At the end of each year, the Company evaluates the connected transactions entered into in each province in the previous year. The risk identification and control targets for connected transactions formulated by the Company are set out in the internal control manual. A series of internal control procedures have been established in respect of the submission, confirmation and delivery of budgets for connected transactions, signing and execution of contracts, reconciliation with connected parties, data verification, accounting, verification of information disclosure and information disclosure, and on-going improvements are made to the management process for connected transactions.

Annual Risk Management and Internal Control Assessment

The Company continues to focus on strengthening internal control and risk management and has sound internal control and management systems in place. The main internal control and risk management measures of the Company in 2017 are summarized as below:

In 2017, the internal audit division of the Company took the lead in organizing self-assessment for internal control within the whole Group. Based on comprehensive assessment, the self-assessment exercise for internal control focuses on the assessment of key control aspects and control points identified after the risk identification, including cash management, contract management, subcontracting management and inventory management, aiming to assess the effectiveness of the design and implementation of the internal control system. According to its actual needs, the Company carried out a special self-assessment which covered all of its subsidiaries.

CORPORATE GOVERNANCE REPORT

The internal control self-assessment was conducted under the supervision of the Company's working group on risk management. The internal audit division organized and coordinated the assessment of key processes conducted by the relevant departments. The business departments played a leading role in the internal control self-assessment, which could tackle the risk management issues from the sources, further promote the effective combination between the self-assessment and daily operation management and ensure the effectiveness of the self-assessment work. By vesting the control points within the processes to each person-in-charge by the implementation departments, the Company allocated the assessment work among specific staff in the control points to ensure that the width and depth of the internal control assessment comply with the requirements.

After the completion of the assessment, the Company focused on prevention of material risks, and reviewed and examined the design and implementation of its internal control and risk management systems. The Company also formulated practical and effective rectification measures in relation to defects identified during the self-assessment, aiming to make on-going improvements to the internal control system and process so that it could function better to prevent risks and contribute to good management practice. Meanwhile, in the subsequent internal audit, attention was paid to the effectiveness of the internal control for various businesses and inspection was made on assessment of internal control and rectification of defects, so as to ensure the assessment work to be resultful.

In 2017, the Company continued to promote the management of audit project plan and conducted comprehensive internal audit to make independent and objective supervision and assessment of the operation activities and the appropriateness, compliance and effectiveness of its internal control through applying certain auditing procedures and methodologies, with an aim to enhance its operation and create more value for the Company, improve the processes for risk management, control and corporate governance and contribute to the fulfillment of its strategic goals. In light of the requirement on annual key risk control and the characteristics of its operation and management, the internal audit in this year mainly included, among others, economic accountability audit, revenues audit and construction audit with focuses on relevant matters such as income and cost accounting, cash management, subcontracting management, and product distribution business management. Upon the request of the management of the Company and in light of the needs of relevant business departments, the internal audit division made use of the data from the audit and the audit outcomes to hold the audit joint meeting, so as to provide advice for the decision-making and operation and management activities of the Company.

The Board continued to monitor and supervise the risk management and internal control systems of the Company through the Audit Committee, and conducted an annual review on the risk management and internal control systems of the Company and its subsidiaries for the financial year ended 31 December 2017. After receiving the report from the internal audit division as to the effectiveness of the relevant systems and the relevant confirmation from the management to the Board, the Board considered that the risk management and internal control systems of the Company were stable, healthy, proper, effective and adequate, and has satisfied the requirements under Rule C.2 of the Corporate Governance Code of the Stock Exchange regarding risk management and internal control.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



This report is prepared pursuant to the Environmental, Social and Governance Reporting Guideline (the "Guideline") in Appendix 27 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). This report covered the key performance indicators in respect of environmental protection of the Company from 1 January 2017 to 31 December 2017, which were mainly based on the data provided by the Company and certain large-scale subsidiaries. There is no significant change in the scope of this report from that of the 2016 Environmental, Social and Governance Report. This report has complied with all the "comply or explain" provisions as set out in the Guideline. We did not disclose certain key performance indicators which are required to be disclosed by the Stock Exchange but not directly related to the business of the Group or have minimal influence.

OVERVIEW

The Group is a leading services provider in the PRC informatization sector which is committed to providing integrated comprehensive solutions to customers and consistently upholds its principle of "customer oriented, outstanding performance, efficient resources allocation and innovative leadership". On the back of our fundamental missions of serving our customers, bringing returns to our shareholders, caring about our employees and giving back to society, we devote ourselves to providing a series of services covering high-quality, efficient and secured telecommunications infrastructure services, business process outsourcing services and applications, content and other services. We place a strong emphasis on scientific development and corporate social responsibility, deliver value to our customers and the society, promote sustainable development, and align our corporate development with society and environment.

While focusing on maximizing the economic interests of its shareholders as a whole, the Group shows sincere care about the common interests of its stakeholders including its customers, employees and the public, in order to achieve a healthy, sustainable and harmonious development. We have conducted an in-depth research on our stakeholders' concerns, attached great importance to communication with them and actively responded to their advice; we convert their reasonable requests as the Company's targets, and endeavour to meet expectations and requirements of various parties.

ENVIRONMENTAL PROTECTION AND RESOURCES UTILISATION

As a communications services enterprise, the Group has always complied with relevant national laws, regulations and standards on emission during the course of service provision. We have established an internal management system, and embarked on energy saving and consumption reduction activities to ensure that we can meet our energy conservation and emission reduction goals. In 2017, the total energy consumption of the Group was approximately 142 thousand tons of standard coal (2016: approximately 141 thousand tons of standard coal).

According to the energy report of the Group, the emission of greenhouse gases arising from energy consumption of the Group in 2017 pursuant to the Greenhouse Gas Protocol was approximately 377.8 thousand tons (2016: approximately 374.7 thousand tons).

| Type of Emissions and Energies | 2017 | 2016 |
|---|---------------|--------|
| Total greenhouse gases emission (10,000 T) | 37.78 | 37.47 |
| Carbon dioxide | 37.58 | 37.27 |
| Direct/indirect energies by type: | | |
| Electricity (GWh) | 211.25 | 240.55 |
| Gasoline (Million L) | 86.01 | 85.08 |
| Diesel fuel (Million L) | 11.58 | 9.63 |
| Natural gas (Million standard cubic meter) | 6.01 | 8.25 |
| Heat (100 million KJ) | 462.38 | 353.71 |





ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As for water consumption, the Group's water supply is provided by the owner or property manager of the office building, thus the Group does not have direct control over the water consumption. However, we have been striving to raise our employees' awareness of water conservation by posting notices and regular public service announcements.

The Group consistently adheres to the philosophy of environmental protection throughout the entire course of communications service provision, and complies with the relevant national laws, regulations and operational standards on environmental protection. In exploring, designing and constructing field area communications, we keep away from mines, forests, grassland, wild animals' habitats, natural and human heritage, nature preservation areas and scenic areas as far as possible. In the event we have to undertake minor alterations to the natural environment due to project requirements, we will conduct environmental rehabilitation as soon as possible.

We proactively promote cost saving and efficiency enhancement through adoption of new-generation energy saving products and enhancing relevant management systems, and lower our costs effectively. We also widely utilise energy saving lights in our production facilities and offices, appropriately adjust the temperature in our production facilities and offices, encourage all employees to save paper, water and power, and thereby create the environment to build up an "energy saving enterprise" and make due contributions to building an energy saving society.

The Group also actively facilitates energy saving and emission reduction for its customers and other sectors in the society. In particular, we have developed and adopted new energy saving technologies in our construction services, property management and logistics operations, effectively assisted our customers to realise construction and operation with low energy consumption, and thereby promoted energy saving and emission reduction in the society.

Consumption of packaging materials

The Group operates in the communication service industry and is mainly engaged in engineering design, construction and supervision, IT infrastructure management services, etc. There is no substantial usage of packaging materials in the course of production and operation.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



HUMAN RESOURCES MANAGEMENT

Employment

The Group had 99 thousand employees as at 31 December 2017. We are committed to ensuring equal employment opportunities and protecting the rights of female employees. Our employees are located primarily in the PRC with certain located in the other districts such as Africa and Southeast Asia. Our employees are divided into contract employees, dispatched employees, part-time employees and other employees.

| Indices (as at 31 December 2017) | 2017 | 2016 |
|---|--------|--------|
| Total number of employees | 99,201 | 96,406 |
| Ratio of male employees to female employees (male: female) (On contract) | 74:26 | 75:25 |
| Percentage of ethnic minority employees (On contract) | 2% | 2% |
| Turnover of employees (On contract) | 9.7% | 6.6% |
| Type of talents (On contract) | | |
| Management experts | 6,221 | 5,826 |
| Professional technical personnel | 59,762 | 58,057 |
| Skilled personnel | 25,656 | 27,079 |
| Education Level (On contract) | | |
| Post-graduate or above | 5,307 | 5,046 |
| University graduate | 43,008 | 41,548 |
| College graduate | 25,772 | 25,650 |
| Technical school graduate | 6,537 | 6,527 |
| High school graduate or below | 11,015 | 12,191 |
| Age Structure (On contract) | | |
| ≤30 | 19,587 | 20,757 |
| 31-40 | 39,627 | 39,001 |
| 41-50 | 23,307 | 22,323 |
| ≥51 | 9,118 | 8,881 |

As a state-owned enterprise, the Group plays an important role in stabilizing employment in our society by providing numerous job positions every year, which significantly contributes to attracting talents and resolving employment issue of graduates. As a leading service provider which provides telecommunications infrastructure services, business process outsourcing services and applications, content and other services to telecommunications operators, government authorities and other business units nationwide, the Group is related to various enterprises in upstream and downstream sectors. As such, the Group not only offers a number of job positions, but also encourages the upstream and downstream enterprises to provide more job opportunities, which have significantly stabilised the employment in the society. The Group helps its employees to enhance personal capabilities and raise social value of by offering trainings and exercises on their skills and management expertise. Meanwhile, the Group actively responded to the call of the government of "mass entrepreneurship and innovation", and for employees who are ambitious in setting up their own businesses, the Group treated them with favourable policies, thus releasing a large group of innovative and entrepreneurial talents for social development.

We have actively refined our employment structure in accordance with the relevant national labour management laws and regulations. The Group implements strict recruitment and employment policies and has not been involved in child or forced labour.





ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We consider our employees as an important resource, attach much importance to safeguarding their interests. We have various internally equitable and externally competitive remuneration system in place to cater for different positions and pay the relevant insurance for our employees. We have established a corporate annuity mechanism. We have complied with applicable laws and regulations regarding dismissal, working hours and anti-discrimination, and our employees are entitled to national statutory holidays. We are committed to the career development of our employees and offer dual promotion paths for them – promotion for management functions and promotion for technical expertise. We implement a system that links our employees' remuneration and promotion to their work experience, capabilities and performance, which incentivises their proactivity.

The Group attaches great importance to the professional skill and expertise development of its employees. We made noticeable efforts to cultivate, discover and publicize outstanding individuals and teams within the Group in 2017 to inspire employees with the enterprise value of advancement, innovation and responsibilities, ultimately making a greater contribution to the development and expansion of the Group. During the year, the Group organized a voting for innovative achievements by its employees, with a total of 821 accomplishments emerging as the final winners. The Group also held its second Comprehensive Maintenance Techniques Competition – “Comservice Craftsmanship”, with 15 professional workers and technicians accoladed.



The Group held “Comservice Craftsmanship” techniques competition

Development and Training

We attach great importance to trainings and have established a three-tier training system covering the headquarters, provincial companies and professional companies. By leveraging the advantageous strengths of colleges and training centers under the Company, the Group strives to build a categorized and centralized training system with high efficiency so as to become a learning organization.

In 2017, the Group organized a training programme named the “China Comservice Pioneer Training Camp for Non-telecom Operator Business”, and 71 business managers from the non-telecom operator customer segments of the provincial companies participated the training camp. Such training enhanced their comprehension of strategies, coordinated marketing abilities and efficient execution capability.

In 2017, the Group also organized a training programme named “China Comservice Leaders Training Camp”, with the participation of 83 management reserves from provincial companies. They analysed industry trends through strategic decoding and seminars with the General Managers, etc. The training improved the comprehensive capability of management reserves and built up a strategic talent pool for the future development of the Group.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



The Group organized "China Comservice Pioneer Training Camp for Non-telecom Operator Business"

Each year, we conduct two-way exchanges between employees in the headquarters and the provincial companies, and hold periodic training seminars on leadership for the exchange employees and the management. We attach importance to the selection and recommendation of management reserves and have gradually built up an adequate and high-quality team with diverse background and sound structure. In 2017, the Group issued the "Provisional Measures for the Cross Region Exchange of China Comservice's Management Reserves", and arranged relocation for 13 provincial-level management reserves to different regions with the same position, which further promoted the sharing of human resources and accelerated regional balanced development.

OPERATING PRACTICES

Health and Safety

The Group is committed to safe production, consistently complies with the requirements of laws and regulations such as the PRC Labour Law, PRC Safe Production Law and PRC Fire Services Law as well as the requirements of the government, and has established a sound work safety management department and safety management rules. The Group launched "Safe Production Month" activities to carry out promotions and trainings on work safety, aiming to continuously raise safety awareness and consciousness of employees in workplace. We organized work safety supervision and inspection within the Group and required all the units to be equipped with a sound safety regulation system, standardized procedures, effective management and strict inspections, with painstaking efforts to eliminate potential safety risks. We fully implemented a work safety accountability system and formulated emergency response and management measures to eliminate safety hazards. In 2017, the Group did not experience any major work safety incident.

Supply Chain Management

We have formulated the relevant administrative rules on procurement in compliance with relevant laws and regulations such as the PRC Contract Law and the PRC Tender Law, strengthened the monitoring and control over key procedures of, among other things, contract execution, safety management, financial settlement, monitoring and supervision, and strictly implemented the admission, assessment and exit mechanisms for suppliers. Meanwhile, we conducted trainings on specific skills and safety education to personnel in the supply chain and regulated the management on safe production.



The Group proactively provided employees with trainings on safe production





ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group has considered business outsourcing as the key area for auditing and supervision. We conducted review on supplier admission, tendering and bidding, outsourcing pricing, signing of outsourcing contracts, materials procurement and settlement of outsourcing costs, with the aim of preventing illegal and non-compliant activities such as violation of the administrative measures of the Company and interests conveyance. During the year, the Company launched a thorough campaign to strengthen its subcontracting business, aiming to eliminate potential risks and ensure a healthy development of the Company through further improvement of the regulation system.



The service quality of the Group obtained high recognition from customers and various awards

Product Liability and Customers

The Group is always committed to providing high quality, efficient and safe informatization services for customers and contributing to the improvement of communications infrastructure and the protection of effective communications networks. The Group has complied with applicable laws and regulations in relation to product liability.

In 2017, the Group, as the pillar supporting force for the “2017 Global Future Network Development Summit”, the “Ninth BRICS Summit” and the “Fourth World Internet Conference (Wuzhen Summit)”, successfully implemented and accomplished all the construction and maintenance missions.

The Group has participated in the natural disaster relief and telecommunications network restoration during and after major disasters and safety incidents to fulfil our corporate social responsibilities. We assisted in the repair of communications lines to ensure smooth communications network. On 8 August 2017, a 7.0-magnitude earthquake struck Jiuzhaigou County, Aba Prefecture, Sichuan Province, upon which our Sichuan subsidiary set up an emergency command centre and launched the emergency plan, with 249 rescue workers, 62 vehicles and 123 electric generators immediately deployed to the earthquake-stricken area to repair communications lines and guarantee communications network during the disaster. In late August 2017, Typhoon “Hato” and “Pakhar” stroke Guangdong Provinces and Guangxi Zhuang Autonomous Region, leading to the collapse of base stations, impairment to power lines and severe damage to the communication system in numerous areas. In this critical time, our Guangdong subsidiary dispatched 12,000 repair person-times and 2,900 vehicles/times, 575 electric generators as well as various construction equipment to the repairing work, and repaired a total of 5,997 communication failures, including restoring 650 base stations and computer rooms, saving 2,485 power generators of base stations and erecting 1,340 new utility poles. Our Guangxi subsidiary dispatched 1,100 person-times, 600 vehicles/times and 1,000/times electric generators into the rescue work, fixing 130 communication failures, repairing 2 collapsed towers and resuming power supply for 700 times at the base stations. For the whole year of 2017, the Group despatched a total of 19,474 person-times and 7,198 vehicles/times into the disaster rescue work, repaired a total of 34,036 communication facilities and spent 61,445 hours for the rescue work, with our corporate capabilities and commitment to social responsibility fully demonstrated to the public.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



The Group proactively fulfilled its social responsibilities, and participated in the disaster relief and telecommunications network restoration

Information Security and Privacy Protection

The Group attaches great importance to the information security and privacy protection of the Company, its employees and customers. Jiangsu Post & Telecommunications Planning and Design Institute Co., Ltd., a subsidiary of the Group, relied on its independently developed and operated "Comservice Crowd Testing" Security Testing Platform, which has assisted in the test and repairing of loopholes, thereby significantly improving the Group's cybersecurity risk control capabilities. During the year, the Group rolled out trainings on information security and privacy protection and engaged experts to teach classes, which has practically improved its employees' privacy and data protection awareness. The Group also strictly executed the confidentiality clauses under the contracts entered with customers. In the meantime, the Group also enters into confidentiality agreements with its employees based on actual needs.

Intellectual Property Protection

The Group strictly complies with all the laws and regulations in relation to the protection of intellectual property rights, such as the PRC Contract Law, PRC Trademark Law, PRC Patent Law, PRC Copyright Law and PRC Anti-Unfair Competition Law, while continuously enhancing its awareness of intellectual property rights protection and handling and resolving infringement disputes on a timely basis. The Group strengthens trademark supervision to prevent the abuse of registered trademarks; it pays attention to brand protection while promoting the brands and enhancing the value of its brands; it conducts research on intellectual property in respect of the emerging businesses of the Group. The Group organizes law-enforcement seminars at its headquarters from time to time to enhance its employees' awareness of and compliance with relevant laws and regulations and intellectual property rights protection.

Anti-corruption

The Group consistently complies with laws and regulations, social integrity, commercial ethics and industrial standards. We have been devoted to safeguarding the interests of shareholders and creditors and executing contracts in good faith. We honour commercial credibility and oppose improper competition with a view to preventing corruption in business activities.

We focus on strengthening anti-corruption and disciplinary education in various ways, such as seminars, training programmes and themed conferences to draw the awareness of our employees on relevant requirements. In addition, we reinforce our daily supervision by combined supervision efforts such as audit and monitoring, and strictly prevent activities such as bribery, blackmail, fraud and money laundering. The Company has established departments in charge of discipline, inspection and supervision at different levels. The Company also strengthened its supervision by hiring full-time and part-time employees and set up a smooth channel for identifying and resolving existing problems in a timely manner. We have attached great importance to the establishment of an anti-corruption system. An accountability system was established to clearly define responsibilities while anti-corruption responsibility letters were signed with the relevant responsible parties. The





ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Company will duly address relevant illegal and non-compliant activities according to the requirements of laws, disciplines and rules, with a view to safeguarding the normal operation of its businesses. During the year, we launched specific corporate governance activities on business of our management team and their relatives which are related to the Group, off-book accounts and construction procurement, which effectively eliminated potential risks and further optimised our prevention system in respect of bribery, blackmail, fraud and money laundering.

Whistle-blowing mechanism

The Group has established a whistle-blowing mechanism. When business partners and internal employees discover corruption and bribery of the Group's personnel, they can report by real-name or anonymously through the post office box (Beijing, 100033 mailbox 33 bin) or Internet mail. The disciplinary inspection and supervision department of the Company will investigate the report, and the information of the whistleblower will be kept strictly confidential.

COMMUNITY PARTICIPATION

The Group has proactively assisted the government and society in resolving the employment issue and offered a large number of job opportunities to the public, and contributed to alleviating employment pressure. Whilst accelerating its own development, the Group is devoted to supporting social charity and proactively alleviate poverty by assisting those in need. It also actively participates in charity affairs in education, culture and sports.

In 2017, in response to the government's call for poverty alleviation participation, the subsidiaries of the Group carried out poverty relief activities in various forms to demonstrate our responsibility as a state-owned enterprise. Our Qinghai subsidiary actively responded to the guidelines of the central government and organized its staff to go to Dongwei Village, Duowa Town, Tongren County, Huangnan Prefecture, Qinghai Province to provide poverty relief assistance for multiple times. They visited poverty-stricken families, formulated poverty alleviation solutions, provided advice to them and helped them solve problems. Our Jiangsu and Guizhou companies leveraged their technological advantages to achieve precise poverty alleviation, and have undertaken the informatization construction of project of the Qianbei modern logistics cities in Guizhou Province. This project will greatly enhance the logistics level in the northern part of or even the whole Guizhou Province, facilitate the transportation of products out of the mountains, and help boost agricultural output in Guizhou Province and help the farmers increase revenue and lift themselves out of poverty.

In December 2017, in order to improve the environment, preserve water and soil, and cultivate rare plants, our Indonesian subsidiary organized their employees to participate in the tree planting activities in mangrove forest organized by the local environmental protection authorities in the BOGOR area.

Caring about our Employees

The Group upholds the philosophy of "Dignity within the Company and Respect to Employees" and shows sincere care about its employees. In 2017, the Group set up pantries in office areas, and equipped the office areas with water purifiers and air purifiers, set infant rooms, purchased "Happiness with Mutual Assistance among Female Employees" insurances, and did 2,478 practical favours for employees. During the year, the Group made a total expenditure of RMB17.77 million in building the "Four Small Facilities" such as the "Small Canteens, Small Activity Rooms, Small Restrooms and Small Shower Rooms", with 595 frontline units equipped with the new "Four Small Facilities" and improved and upgraded "Four Small Facilities" in 6,729 units, which delivered our heart-warming efforts precisely. The Group made regular efforts to help people in poverty, ensure students from poverty-stricken families can go to school and keep them warm in winter and cool in summer. It spent a total amount of RMB5.39 million in poverty alleviation and RMB21.92 million in consoling its employees during the year.



1. The Group organized its staff to participate in volunteer services
2. The Group carried out staff team building activities



INVESTOR RELATIONS

The Company attaches great importance to maintaining open and effective communication with the capital market so as to establish a sound relationship. The Company further strengthened its efforts to optimize investor relations under the principle of high transparency, accuracy, timeliness and effectiveness.

The Company keeps improving the two-way communication mechanism with the capital market in order to maintain interactive communications with its shareholders and investors. On one hand, the Company proactively responds to the major issues that the capital market concerns about and explains its strategies, development measures and related information, thereby enhancing the investors' understanding of and confidence in the core value and development philosophy of the Company and help them to conduct more comprehensive analysis and have better knowledge of the investment value of the Company. On the other hand, the investor relations team of the Company closely monitors the feedbacks from the capital market and reports the opinions, advice and expectation of the capital market to the management in a timely manner. The messages from the capital market which are beneficial to the Company's development are integrated into the operation, management and development of the Company for corporate value enhancement and sustainable development.

INVESTOR RELATIONS ACTIVITIES

In 2017, the Company maintained direct and close communications with its investors through multiple channels including investor and press conferences, non-deal roadshows, overseas roadshows, investor forums organized by investment banks, one-on-one meetings, teleconferences and video conferences to achieve effective interactions with investors. During the year, the Company held meetings and effectively communicated with analysts and investors through the above channels about 400 person-times. To facilitate the communication between the management and investors, and enhance the investor's understanding of the operation, development and transformation of the Company, an overseas non-deal roadshow was proactively organized in 2017, in which the Company's Chief Financial Officer, investor relations team and relevant representatives took the opportunities to visit our major shareholders and potential investors in Hong Kong and Singapore. The roadshow met with favourable results in improving communication between the Company and the capital market.

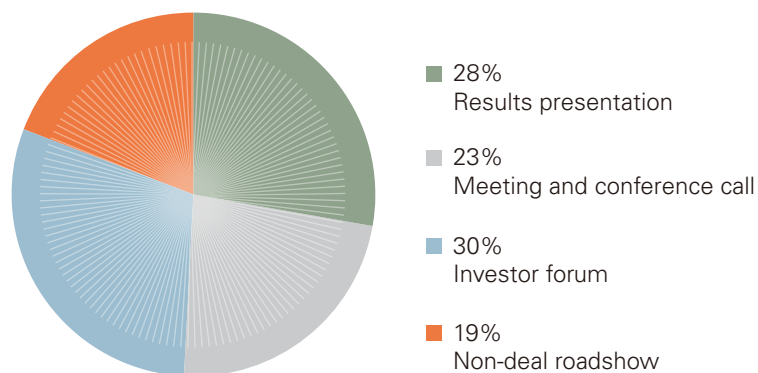
Moreover, the Company also promptly disseminates important information such as operation and development updates and release of results of the Company to the capital market through various channels including announcements, circulars, press releases and investor relations website.



2017 Annual Results Presentation

INVESTOR RELATIONS

ATTENDANCE ANALYSIS OF INVESTOR RELATIONS ACTIVITIES IN 2017



List of Investor Relations Activities of the Company in 2017

| Date | Event | Venue |
|--------------|---|-----------------------|
| Jan 2017 | DB Access China Conference 2017 | Beijing |
| Jan 2017 | BAML Greater China Telco and Media Corporate Day | Hong Kong |
| Mar 2017 | 2016 Annual Results Announcement – Analyst Briefing – Press Conference | Hong Kong |
| Mar 2017 | Non-deal Roadshow | Hong Kong |
| Apr 2017 | Macquarie Greater China Conference 2017 | Hong Kong |
| May 2017 | Goldman Sachs TechNet Conference – Asia Pacific 2017 | Hong Kong |
| May 2017 | DBS Vickers Pulse of Asia Conference | Hong Kong |
| Jun 2017 | Morgan Stanley Third Annual China Summit | Beijing |
| Jun 2017 | Nomura Investment Forum Asia 2017 | Singapore |
| Jun 2017 | UBS Asia Telco and Internet Conference 2017 | Hong Kong |
| Aug 2017 | 2017 Interim Results Announcement – Analyst Briefing – Press Conference | Hong Kong |
| Aug 2017 | Non-deal Roadshow | Hong Kong |
| Oct 2017 | Citi 12th China Investor Conference | Macau |
| Nov 2017 | Jefferies 7th Annual Greater China Summit | Hong Kong |
| Nov 2017 | BAML 2017 China Conference | Beijing |
| Nov-Dec 2017 | Non-deal Roadshow | Hong Kong & Singapore |

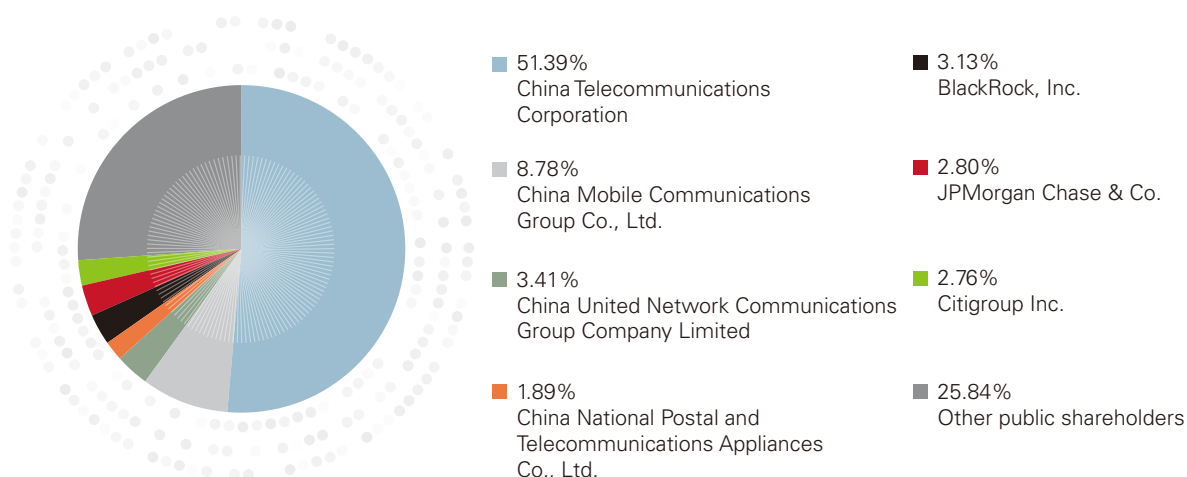
INVESTOR RELATIONS

SHAREHOLDING STRUCTURE

In 2017, the Company continued to appoint an international survey company to conduct two comprehensive surveys on the shareholding structure to keep abreast of the information on shareholders, including structure and position changes of shareholders, shareholder type, geographical distribution and investment styles. When organizing the roadshows, the Company would develop a targeted visiting list of shareholders and potential investors by comparing the above information with industry peers of the Company. Such practice facilitated a more proactive and targeted interactive communications between the Company and its shareholders and investors, thereby significantly enhancing the efficiency and effectiveness of investor relations initiatives.

The Company's shares have been admitted in the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect Programmes which are open for trading by investors from Mainland China. According to the information from the Central Clearing and Settlement System operated by the Hong Kong Securities Clearing Company Limited, as at 31 December 2017, 1.02% of the issued H share capital of the Company was held by the investors from Mainland China through China Securities Depository and Clearing Corporation Limited.

SHAREHOLDING STRUCTURE AS OF 31 DECEMBER 2017¹



¹ For details of the material interests and short positions in shares and underlying shares of the Company, please refer to "Report of the Directors".

INVESTOR RELATIONS

INFORMATION DISCLOSURE

Information disclosure is the responsibility and obligation that must be discharged by a listed company in accordance with the regulatory requirements for the protection of investors' interest, thus the Company has strictly complied with the information disclosure requirements for listed companies and made information disclosure with consistent adherence to the principle of accuracy, timeliness, openness and justice in order to improve the transparency of the Company in respect of information disclosure and help the capital market gain a better understanding of the Company.

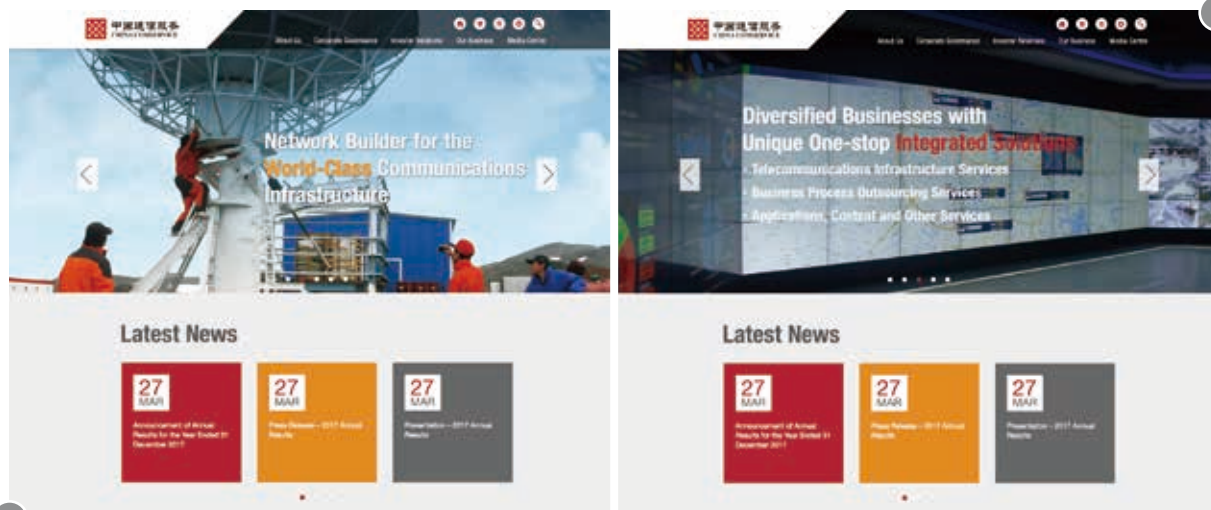
In 2017, in accordance with the Listing Rules, the Company published a total of about fifteen corporate communications such as announcements and circulars on the websites of the Stock Exchange and the Company. Such publications have objectively and comprehensively disclosed information regarding the Company's results, operating performance, financial information, dividend payment and poll results of general meetings, details of which are as follows.

| | |
|------------|--|
| 10/03/2017 | Announcement of resignation of non-executive director |
| 10/03/2017 | Announcement of the list of directors and their role and function |
| 15/03/2017 | Announcement relating to the date of board meeting to approve the 2016 annual results |
| 30/03/2017 | Announcement of annual results for the year ended 31 December 2016 |
| 26/04/2017 | 2016 annual report |
| 26/04/2017 | Notice of annual general meeting to be held on 23 June 2017, form of proxy and attendance slip |
| 23/06/2017 | Announcement of poll results of the 2016 annual general meeting held on 23 June 2017, payment of dividend and appointment of directors |
| 23/06/2017 | Announcement of list of directors and their role and function |
| 14/08/2017 | Announcement relating to the date of board meeting to approve the 2017 interim results |
| 30/08/2017 | Announcement of interim results for the six months ended 30 June 2017 |
| 13/09/2017 | 2017 interim report |
| 10/11/2017 | Circular of amendments of articles of association |
| 10/11/2017 | Notice of extraordinary general meeting to be held on 28 December 2017, form of proxy and attendance slip |
| 21/12/2017 | Announcement of change in company name and company type of controlling shareholder |
| 28/12/2017 | Announcement of poll results of the extraordinary general meeting held on 28 December 2017 |

Other than announcements and circulars, the Company's website (<http://www.chinaccs.com.hk>) is also one of the important channels for corporate information disclosure and provides our investors and shareholders with a more convenient and efficient access to the detailed information. The financial information, stock information, annual reports and investor activities of the Company as well as hot topics concerned by investors are systematically disclosed in the Investor Relations' section of the website. The Company also updates the content of the website in a timely manner to keep the capital market abreast of the Company's latest development.

INVESTOR RELATIONS

The Company comprehensively revised and upgraded its website in 2016, which was widely recognized by the capital market. With a more innovative design and comprehensive contents, the new website was honoured with the “Best IR Website” award in IR Magazine Awards-Greater China 2017 granted by *IR Magazine*, a renowned international magazine focusing on investor relations, as an acknowledgement of its achievements on users’ experience, engaging content and multiplatform access of the website.



Annual report is not only an important document for information disclosure of a listed company, but also an important means to disclose comprehensively the operating philosophy, strategies, current operating performance and development trends of the Company to the investors. The Company therefore put great emphasis on the preparation of annual report. Through the detailed disclosures in the annual report, investors are able to have more adequate and comprehensive understanding of the Company.

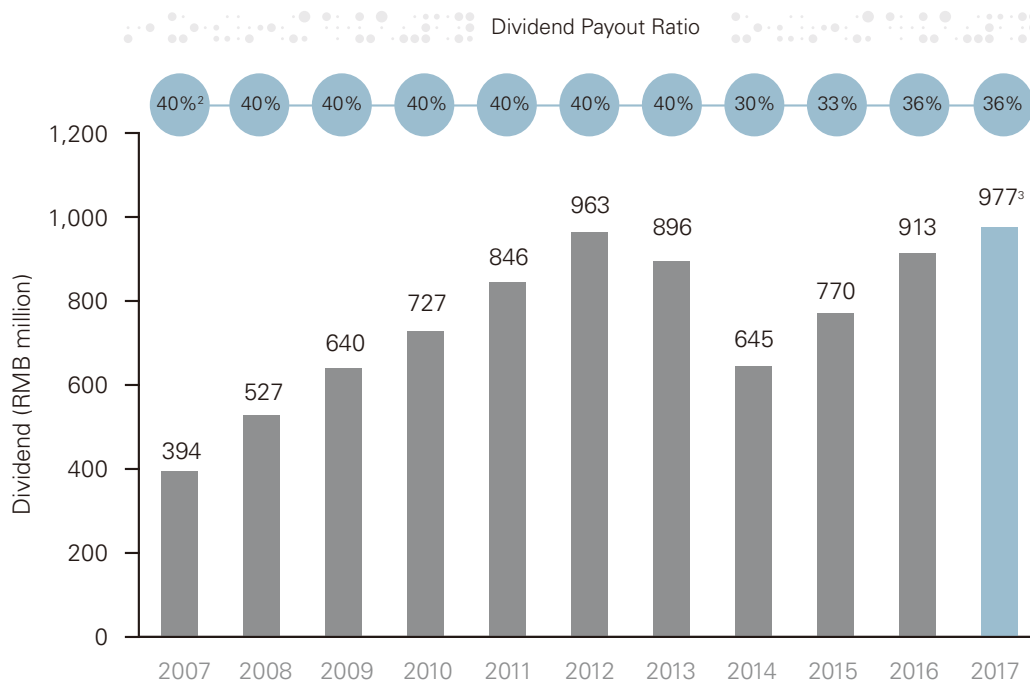
In 2017, the preparation and design of the 2016 annual report of the Company were again recognized by international award organizations and received Gold Awards in both “Cover Photo & Design” in “International ARC Awards” and “The League of American Communications Professionals” (LACP).

INVESTOR RELATIONS

DIVIDEND

The Company always values the interests of and returns to shareholders since its listing. Dividend payment for the year are determined with reference to factors such as the Company's results performance, financial position, cash flow, long-term development and business needs and investment opportunities in the current year. In 2017, the Group achieved satisfactory operating results and free cash flow for the year. In view of the Company's confidence in operating performance and future development, the Board has proposed to distribute a final dividend of RMB0.1176 per share (equivalent to a payout ratio of 30%) and a special dividend of RMB0.0235 per share. Total dividend for 2017 is RMB0.1411 per share (equivalent to a payout ratio of 36%).

Dividend distribution of the Company since its listing is set out in the chart below.

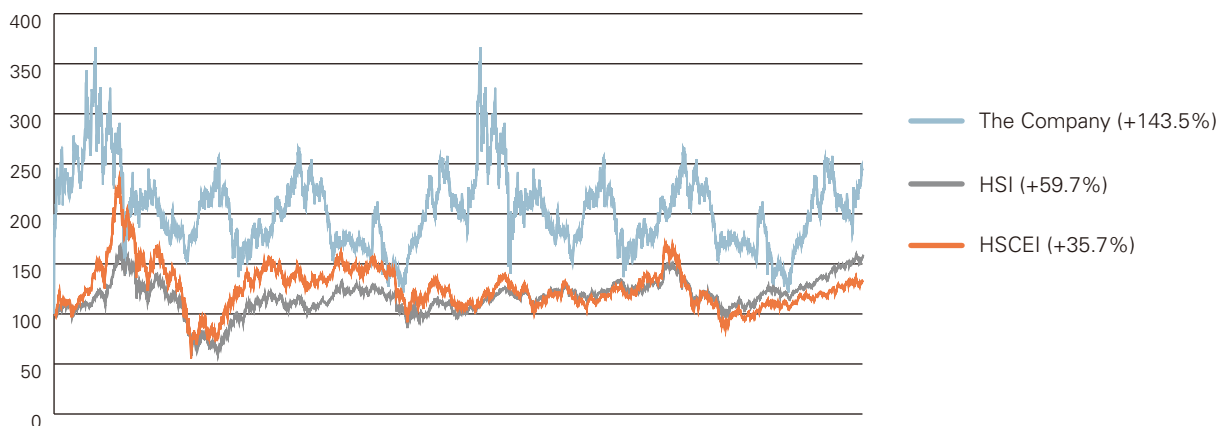


SHARE PRICE PERFORMANCE

The H shares issued by the Company were listed on the Stock Exchange on 8 December 2006 at an offer price of HK\$2.2 per share. Since its listing, the Company has captured market opportunities, adapted to the industry development trend and achieved sustainable and steady development through effective implementation of development strategies and adherence to the principle of excellence in corporate governance. Meanwhile, the Company proactively implements practical and effective investor relations program. The price of the Company's H shares has been maintaining a favourable overall performance since its listing.

Share Price Performance Since Listing

From 8 December 2006 to 31 December 2017



² The 2007 dividend payout ratio is calculated after deducting the net profit contributed by the business in 13 provinces before 31 August 2007 (being the completion date of the acquisitions) when such business was acquired by the Company.

³ Subject to the approval at the 2017 annual general meeting to be held on 29 June 2018.

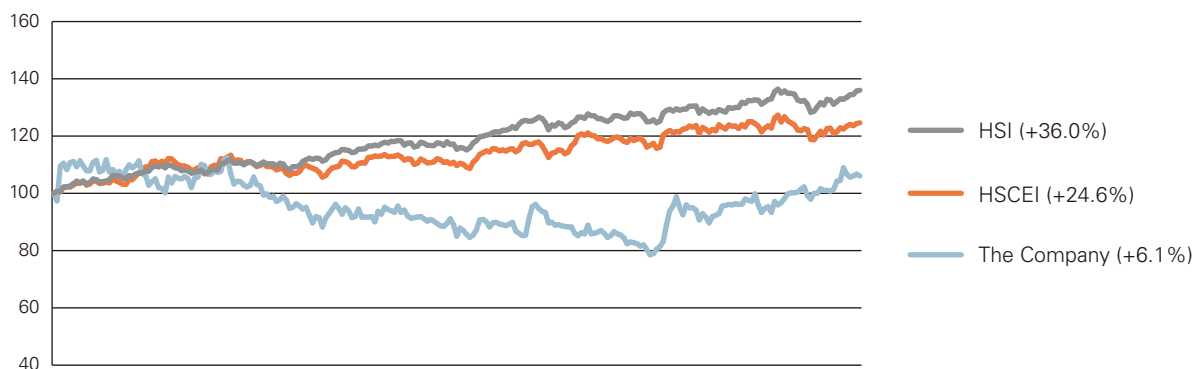
INVESTOR RELATIONS

China's macro economy maintained a relatively fast yet steady growth in 2017, while an inflow of capital led to a sharp rise in Hong Kong stock market. During the year, stock price of the Company was relatively fluctuative. As the overall network construction investment of domestic telecommunications operators decreased in 2017, investors generally considered that the investment decline would affect the growth momentum and prospect of the Company in 2017. However, the publication of interim results indicated that the Company had successfully captured various opportunities arising from the domestic telecommunications operators to continue its innovation and transformation, various opportunities arising from the informatization development and smart-typed service demand in the domestic non-telecom operator market, and ultimately overcame the challenges brought by the overall network construction investment decrease in the telecommunications industry. Revenue and net profit of the Company achieved a steady growth while business structure continued to optimize. During the second half of 2017, the capital market put more attention to the new opportunities brought by the 5G development and relevant companies, stock price of the Company recovered steadily. As at 31 December 2017, stock price of the Company increased by 6.1% year-on-year.

| 2017 | Highest | Lowest | Closing |
|---|---------|--------|---------|
| Price per H share of the Company (HK\$) | 5.67 | 3.85 | 5.24 |

Share Price Performance in 2017

From 1 January 2017 to 31 December 2017



As at 31 December 2017, the total number of shares of the Company was 6,926,018,400 shares, including 4,534,598,160 domestic shares and 2,391,420,240 H shares, both at nominal value of RMB1.00 each. All the H shares of the Company are listed on the Stock Exchange, representing approximately 34.5% of the total number of shares of the Company. Based on the closing price as of 31 December 2017, the Company's total market capitalization was about HK\$36.3 billion.

INVESTOR RELATIONS

MAJOR AWARDS AND RECOGNITIONS IN 2017



1. **"13th Corporate Governance Asia Recognition Awards" by Corporate Governance Asia**
 - The Best of Asia - Icon on Corporate Governance
 - Asian Corporate Director
2. **"7th Asian Excellence Recognition Awards" by Corporate Governance Asia**
 - Best CEO
 - Best CFO
 - Best Investor Relations
3. **"The Asset Corporate Awards 2017" by The Asset**
 - Platinum Award - Excellence in Environmental, Social and Corporate Governance
4. **"Leadership Awards" by International Finance Magazine**
 - Outstanding Contribution to Management Excellence
5. **"Golden Hong Kong Equities Awards" by Zhitong Finance and Tonghuashun Finance**
 - Best Growth Value Listed Company
 - Best Value TMT Company
6. **"IR Magazine Awards - Greater China 2017" by IR Magazine**
 - Best IR Website
7. **"Vision Awards" by LACP**
 - Gold Award
8. **"International ARC Awards"**
 - "Cover Photo & Design" Gold Award
9. **"2017 FORTUNE China 500" by FORTUNE China**
 - Rank 79th

INVESTOR RELATIONS

RECOGNITIONS AND HONOURS IN THE CAPITAL MARKET

The Company has always been well recognized by the capital market. It was admitted in certain indices in Hong Kong, including the “Hang Seng Composite Index”, “Hang Seng Composite MidCap Index”, “Hang Seng Internet & Information Technology Index”, “Hang Seng Information Technology Index”, “Hang Seng IT Hardware Index” and “Hang Seng Stock Connect Hong Kong Index”.

In 2017, more than 10 international investment banks and institutions prepared and published research reports for the Company on a regular basis. Since its listing, the Company’s investment value has been recognized by the capital market. As of 31 December 2017, major research institutions maintained positive investment ratings such as “Buy” or “Hold” on the Company.

The Company has been dedicated to improving its management and operation in all aspects. In 2017, the Company was recognized by many domestic and overseas organizations and institutions. *International Financial Magazine*, a UK-based financial magazine, granted the “Outstanding Contribution to Management Excellence in 2017” award in “Leadership Awards” to Mr. Si Furong, the President of the Company. *Corporate Governance Asia*, an authoritative journal on corporate governance in Asia, for the first time issued the honour of “Asian Corporate Director” to Mr. Si Furong, and the honour of “Best CFO” to Ms. Hou Rui, the Chief Financial Officer of the Company, for four consecutive years, which reflected the high recognition from the capital market on the Company’s corporate governance. Moreover, various authoritative institutions, such as *Corporate Governance Asia* and *The Asset* also offered recognitions and awards to the Company in respect of its corporate governance and investor relations. Furthermore, the Company received various awards from international assessment institutions in respect of the Company’s website and annual report.

OTHER INFORMATION FOR SHAREHOLDERS

Shareholder services

Any matters relating to shareholding, such as transfer of shares, change of name or address, and loss of share certificates should be addressed in writing to the Registrar:

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17/F., Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong
Telephone: (852) 2862 8628
Facsimile: (852) 2529 6087

Shareholder enquiries

Enquiry hotline during normal office hours (Monday to Friday: 09:00–18:00):
Telephone: (852) 3699 0000

Investor relations enquiries

For enquiries from institutional investors and securities analysts, please contact:

Investor Relations Department, China Communications Services Corporation Limited
Room 3203–3205, 32/F., Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong
Telephone: (852) 3699 0000
Facsimile: (852) 3699 0120
Email: ir@chinaccs.com.hk

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of China Communications Services Corporation Limited (the "Company") for the year 2017 will be held at 10:00 a.m. on Friday, 29 June 2018 at No. 19, Chaoyangmen Beidajie, Dongcheng District, Beijing, PRC, to consider and, if thought fit, pass the following businesses:

ORDINARY RESOLUTIONS

1. **THAT** the consolidated financial statements of the Company, the report of the Directors, the report of the Supervisory Committee and the report of the international auditors for the year ended 31 December 2017 be considered and approved, and the board of directors of the Company (the "Board") be authorized to prepare the budget of the Company for the year 2018;
2. **THAT** the proposal on profit distribution and dividend declaration and payment for the year ended 31 December 2017 be considered and approved;
3. **THAT** the appointment of Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the international auditors and domestic auditors of the Company, respectively, for the year ending 31 December 2018 be considered and approved, and the Board be authorized to fix the remuneration of the auditors.

and to consider and approve other businesses (if any).

And as special businesses, to consider and, if thought fit, pass the following special resolutions:

SPECIAL RESOLUTIONS

4. **THAT:**
 - (a) subject to paragraph (c) below, the exercise by the Board during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be hereby generally and unconditionally approved;
 - (b) the approval in paragraph (a) shall authorize the Board during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
 - (c) the amount of additional domestic shares or overseas-listed foreign invested shares ("H shares") (as the case may be) allotted, issued and dealt with or agreed conditionally or unconditionally to be allotted, issued and dealt with either separately or concurrently by the Board pursuant to the approval in paragraph (a), otherwise than pursuant to any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the Articles of Association of the Company, shall not exceed 20% of each of the Company's existing domestic shares and H shares (as the case may be) in issue at the date of passing this special resolution; and

NOTICE OF ANNUAL GENERAL MEETING

(d) for the purpose of this special resolution 4:

“Relevant Period” means the period from the passing of special resolution 4 until the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the 12 months period following the passing of these special resolutions; and
- (iii) the revocation or variation of the authority given to the Board under these special resolutions by a special resolution of the Company’s shareholders by way of a general meeting.

5. **THAT** the Board be authorized to increase the registered capital of the Company to reflect the issue of shares in the Company authorized under special resolution 4, and to make such appropriate and necessary amendments to the Articles of Association of the Company as they think fit to reflect such increase in the registered capital of the Company and to take any other action and complete any formality required to effect such increase in the registered capital of the Company.

By Order of the Board
China Communications Services Corporation Limited
Chung Wai Cheung, Terence
Company Secretary

Beijing, PRC
24 April 2018

Notes:

- (1) Buyers who submit the share transfer application forms to the Company’s share registrar before 4:30 p.m. on Tuesday, 29 May 2018 and then register as shareholders on the register of members of the Company are entitled to attend the annual general meeting.
- (2) Each shareholder entitled to attend and vote at the annual general meeting may appoint one or more proxies to attend and vote on his behalf at the annual general meeting. A proxy need not be a shareholder. Each shareholder who wishes to appoint one or more proxies should first review the annual report of the Company for the year 2017, which is expected to be despatched to shareholders on around Tuesday, 24 April 2018.
- (3) To be valid, the form of proxy together with the power of attorney or other authorization document (if any) signed by the authorized person or notarially certified power of attorney must be delivered to the Office of the Board of the Company for holders of domestic shares and to the Computershare Hong Kong Investor Services Limited for holders of H shares not less than 24 hours before the designated time for the holding of the annual general meeting. Completion and return of a form of proxy will not preclude a shareholder from attending in person and voting at the annual general meeting if he so wishes.

The address of the share registrar for the Company’s H shares is as follow:

Computershare Hong Kong Investor Services Limited
17M Floor, Hopewell Centre
183 Queen’s Road East, Wanchai, Hong Kong

- (4) All resolutions at the general meeting will be voted by poll.
- (5) The registration procedure for attending the annual general meeting:
 - (a) Shareholders attending the annual general meeting in person or by proxy shall present their identity certification. If the attending shareholder is a corporation, its legal representative or person authorized by the board or other decision making authority shall present a copy of the relevant resolution of the board or other decision making authority in order to attend the annual general meeting.
 - (b) Shareholders intending to attend the annual general meeting shall return the attendance slip via hand delivery, mail or fax to the Office of the Board of the Company on or before Friday, 8 June 2018.

NOTICE OF ANNUAL GENERAL MEETING

(6) Closure of the register of members:

(a) Annual General Meeting

The H share register of members of the Company will be closed, for the purpose of determining H share shareholders' entitlement to attend the annual general meeting to be held on Friday, 29 June 2018 (the "Annual General Meeting"), from Wednesday, 30 May 2018 to Friday, 29 June 2018 (both days inclusive), during which period no transfer of H shares will be registered. In order to attend the Annual General Meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged for registration with Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Tuesday, 29 May 2018. H share shareholders of the Company who are registered on the register of members held by Computershare Hong Kong Investor Services Limited on Friday, 29 June 2018 are entitled to attend the Annual General Meeting.

(b) Proposed Final Dividend and Special Dividend

The Board proposes a final dividend of RMB0.1176 per share and a special dividend of RMB0.0235 per share, and the total dividend is RMB0.1411 per share (pre-tax) for the year ended 31 December 2017. The dividend proposal will be submitted for consideration at the Annual General Meeting. If such proposed dividend distribution is approved by the shareholders, the final dividend and special dividend will be distributed to those shareholders whose names appear on the register of members of the Company on Wednesday, 11 July 2018. The register of members will be closed from Friday, 6 July 2018 to Wednesday, 11 July 2018 (both days inclusive). In order to be entitled to the final dividend and special dividend, H share shareholders who have not registered the transfer documents are required to lodge the transfer documents together with the relevant share certificates at Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong at or before 4:30 p.m. on Thursday, 5 July 2018.

Dividends will be denominated and declared in Renminbi. Dividends will be paid in Renminbi for holders of domestic shares and holders of H shares (including enterprises and individuals) who invest in the H shares of the Company listed on the Hong Kong Stock Exchange through the Shanghai Stock Exchange or Shenzhen Stock Exchange ("the Southbound Trading") (the "Southbound Shareholders"), and dividends for H share shareholders other than the Southbound Shareholders will be paid in Hong Kong dollars. The relevant exchange rate will be the average of the mid-point rates of Renminbi to Hong Kong dollars as announced by the People's Bank of China for the week prior to the date of approval of declaration of dividends by the Annual General Meeting. The record date for entitlement to the shareholders' rights and the relevant arrangements of dividend distribution for Southbound Shareholders are the same as those for the Company's H share shareholders. The proposed dividends are expected to be paid on or about Friday, 17 August 2018 upon approval at the Annual General Meeting.

(7) The annual general meeting is expected to last for half a day and shareholders (in person or by proxy) attending the annual general meeting shall be responsible for their own transport and accommodation expenses.

(8) The address of the Office of the Board is as follows:

No. 19, Chaoyangmen Beidajie
Dongcheng District
Beijing 100010
PRC

Contact person: Mr. Chung Wai Cheung, Terence
Telephone: (8610) 5850 2290
Facsimile: (8610) 5850 1534

INDEPENDENT AUDITOR'S REPORT

Deloitte.

德勤

TO THE SHAREHOLDERS OF CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

(Established in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of China Communications Services Corporation Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 99 to 180, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (continued)

Key audit matter

How our audit addressed the key audit matter

Revenue recognition of construction contracts

We identified revenue recognition of construction contracts as a key audit matter due to the significant degree of judgement of the stage of completion of incomplete construction contracts.

Details of revenue recognised on construction contracts, the related accounting policy of contract revenue and the related significant accounting estimates and judgements are disclosed in notes 4, 2(w)(i) and 42(a) to the consolidated financial statements, respectively.

Our audit procedures in relation to revenue recognition of construction contracts included:

- obtaining a sample of construction contracts in progress at the end of the reporting period and comparing management's estimation of their stage of completion with evidence including project progress reports or reconciliation reports and actual costs incurred;
- visiting a sample of construction sites around the reporting period end to understand the stage of completion by physical inspection and discussion with site personnel; and
- performing analytical procedures to compare revenue and gross margin with those reported in prior periods for identifying significant fluctuations, and obtaining explanations from management about such fluctuations.

Impairment on trade receivables

We identified impairment on trade receivables as a key audit matter because trade receivables are significant to the Group's consolidated financial statements both in amount and nature, and estimation of impairment losses entails a significant degree of judgement of the inability of the customers to make the required payments.

Details of the trade receivables, the related accounting policy and the related significant accounting estimates and judgements relating to the impairment on trade receivables are disclosed in notes 27, 2(l)(i) and 42(b) to the consolidated financial statements, respectively.

Our procedures in relation to impairment on trade receivables included:

- challenging management's assumptions used in determining impairment losses for both specific and collective loss components;
- identifying those trade receivables with credit risk exposure and checking if they are properly included in management's impairment assessment; and
- examining, on a sample basis, evidence related to post year end cash receipts.



INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.



INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Mak Chi Lung.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong
27 March 2018



CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

| | Notes | 2017 RMB'000 | 2016 RMB'000 |
|--|-------|-------------------|-----------------|
| Revenues | 4 | 94,572,411 | 88,449,356 |
| Cost of revenues | 5 | (82,360,051) | (76,759,191) |
| Gross profit | | 12,212,360 | 11,690,165 |
| Other operating income | 6 | 1,014,492 | 943,021 |
| Selling, general and administrative expenses | | (9,885,426) | (9,501,481) |
| Other operating expenses | 7 | (126,278) | (95,232) |
| Finance costs | 8 | (47,119) | (46,667) |
| Share of profits of associates | | 63,782 | 66,095 |
| Profit before tax | 9 | 3,231,811 | 3,055,901 |
| Income tax | 10 | (482,733) | (502,706) |
| Profit for the year | | 2,749,078 | 2,553,195 |
| Attributable to: | | | |
| Equity shareholders of the Company | | 2,714,213 | 2,536,249 |
| Non-controlling interests | | 34,865 | 16,946 |
| Profit for the year | | 2,749,078 | 2,553,195 |
| Basic earnings per share (RMB) | 15 | 0.392 | 0.366 |

The notes on pages 107 to 180 form part of these consolidated financial statements.



CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

| | Notes | 2017 RMB'000 | 2016 RMB'000 |
|--|-------|------------------|-----------------|
| Profit for the year | | 2,749,078 | 2,553,195 |
| Other comprehensive (expense)/income for the year (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 | | (33,083) | 38,268 |
| Available-for-sale securities: net movement in the fair value reserve | 11 | (12,603) | 2,392 |
| | | (45,686) | 40,660 |
| Total comprehensive income for the year | | 2,703,392 | 2,593,855 |
| Attributable to: | | | |
| Equity shareholders of the Company | | 2,668,640 | 2,576,796 |
| Non-controlling interests | | 34,752 | 17,059 |
| Total comprehensive income for the year | | 2,703,392 | 2,593,855 |

The notes on pages 107 to 180 form part of these consolidated financial statements.



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

| | Notes | 31 December 2017 RMB'000 | 31 December 2016 RMB'000 |
|---|-------|--------------------------------|--------------------------------|
| Non-current assets | | | |
| Property, plant and equipment, net | 16 | 4,190,375 | 4,215,616 |
| Investment properties | 17 | 637,867 | 607,923 |
| Construction in progress | 18 | 539,359 | 454,339 |
| Lease prepayments | 19 | 738,886 | 760,240 |
| Goodwill | 20 | 103,005 | 103,005 |
| Other intangible assets | 21 | 325,690 | 271,193 |
| Interests in associates and joint ventures | 22 | 220,117 | 144,405 |
| Available-for-sale financial assets | 23 | 851,560 | 866,386 |
| Deferred tax assets | 24 | 542,672 | 479,996 |
| Other non-current assets | 25 | 240,523 | 149,525 |
| Total non-current assets | | 8,390,054 | 8,052,628 |
| Current assets | | | |
| Inventories | 26 | 2,275,735 | 2,221,334 |
| Accounts and bills receivable, net | 27 | 30,370,500 | 29,362,985 |
| Prepayments and other current assets | 29 | 11,815,129 | 6,740,547 |
| Financial assets at fair value through profit or loss | 30 | 1,262,514 | – |
| Restricted deposits | 31 | 3,354,288 | 2,892,408 |
| Cash and cash equivalents | 32 | 13,266,631 | 13,324,079 |
| Total current assets | | 62,344,797 | 54,541,353 |
| Total assets | | 70,734,851 | 62,593,981 |
| Current liabilities | | | |
| Interest-bearing borrowings | 33 | 308,876 | 46,697 |
| Accounts and bills payable | 34 | 24,600,681 | 20,399,409 |
| Receipts in advance for contract work | | 4,997,284 | 4,046,097 |
| Accrued expenses and other payables | 35 | 11,320,729 | 9,730,662 |
| Income tax payable | | 339,393 | 351,647 |
| Total current liabilities | | 41,566,963 | 34,574,512 |
| Net current assets | | 20,777,834 | 19,966,841 |
| Total assets less current liabilities | | 29,167,888 | 28,019,469 |



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

| | Notes | 31 December 2017 RMB'000 | 31 December 2016 RMB'000 |
|--|-------|--------------------------------|--------------------------------|
| Non-current liabilities | | | |
| Interest-bearing borrowings | 33 | 17,642 | 17,343 |
| Other non-current liabilities | 36 | 328,859 | 942,076 |
| Deferred tax liabilities | 24 | 1,736 | 12,268 |
| Total non-current liabilities | | 348,237 | 971,687 |
| Total liabilities | | 41,915,200 | 35,546,199 |
| Equity | | | |
| Share capital | 37 | 6,926,018 | 6,926,018 |
| Reserves | | 21,403,080 | 19,647,411 |
| Equity attributable to equity shareholders of the Company | | 28,329,098 | 26,573,429 |
| Non-controlling interests | | 490,553 | 474,353 |
| Total equity | | 28,819,651 | 27,047,782 |
| Total liabilities and equity | | 70,734,851 | 62,593,981 |

The notes on pages 107 to 180 form part of these consolidated financial statements.

Approved and authorised for issue by the board of directors on 27 March 2018.

Zhang Zhiyong
Chairman

Hou Rui
Executive Vice President and
Chief Finance Officer, Director



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

| | | Equity attributable to equity shareholders of the Company | | | | | | | | | | | |
|-------|--|---|---------------|-----------------|-----------|----------|-----------------|------------------|---------------|-------------------|------------|---------------------------|--------------|
| | | Share capital | Share premium | Capital reserve | Statutory | | | Exchange reserve | Other reserve | Retained earnings | Total | Non-controlling interests | Total equity |
| Notes | RMB'000 | | | | RMB'000 | RMB'000 | surplus reserve | | | | | | |
| | | (note a) | (note b) | (note c) | (note d) | (note e) | (note f) | | | | | | |
| | Balance as at 1 January 2017 | 6,926,018 | 4,529,310 | 1,852,461 | 951,760 | 178,525 | 47,118 | 38,589 | (68,310) | 12,117,958 | 26,573,429 | 474,353 | 27,047,782 |
| | Changes in equity for the year ended 31 December 2017 | | | | | | | | | | | | |
| | Profit for the year | - | - | - | - | - | - | - | - | 2,714,213 | 2,714,213 | 34,865 | 2,749,078 |
| | Other comprehensive expense for the year | - | - | - | - | - | (12,603) | (32,970) | - | - | (45,573) | (113) | (45,686) |
| | Total comprehensive (expense)/ income for the year | - | - | - | - | - | (12,603) | (32,970) | - | 2,714,213 | 2,668,640 | 34,752 | 2,703,392 |
| | Dividend declared | 14(b) | - | - | - | - | - | - | - | (912,849) | (912,849) | - | (912,849) |
| | Distribution to non-controlling interests | | - | - | - | - | - | - | - | - | - | (11,766) | (11,766) |
| | Appropriation | | - | - | - | 99,496 | - | - | - | (99,496) | - | - | - |
| | Appropriation of specific reserve | | - | - | - | - | 478,174 | - | - | (478,174) | - | - | - |
| | Utilisation of specific reserve | | - | - | - | - | (458,559) | - | - | 458,559 | - | - | - |
| | Others | | - | - | - | - | - | - | - | (122) | (122) | (6,786) | (6,908) |
| | Balance as at 31 December 2017 | 6,926,018 | 4,529,310 | 1,852,461 | 1,051,256 | 198,140 | 34,515 | 5,619 | (68,310) | 13,800,089 | 28,329,098 | 490,553 | 28,819,651 |
| | Balance as at 1 January 2016 | 6,926,018 | 4,529,310 | 1,846,468 | 856,150 | 137,377 | 44,726 | 434 | (68,310) | 10,488,640 | 24,760,813 | 448,796 | 25,209,609 |
| | Changes in equity for the year ended 31 December 2016 | | | | | | | | | | | | |
| | Profit for the year | - | - | - | - | - | - | - | - | 2,536,249 | 2,536,249 | 16,946 | 2,553,195 |
| | Other comprehensive income for the year | - | - | - | - | - | 2,392 | 38,155 | - | - | 40,547 | 113 | 40,660 |
| | Total comprehensive income for the year | - | - | - | - | - | 2,392 | 38,155 | - | 2,536,249 | 2,576,796 | 17,059 | 2,593,855 |
| | Capital contribution from non-controlling interests | | - | - | 5,993 | - | - | - | - | - | 5,993 | 12,565 | 18,558 |
| | Dividend declared | 14(b) | - | - | - | - | - | - | - | (770,173) | (770,173) | - | (770,173) |
| | Distribution to non-controlling interests | | - | - | - | - | - | - | - | - | - | (4,067) | (4,067) |
| | Appropriation | | - | - | - | 95,610 | - | - | - | (95,610) | - | - | - |
| | Appropriation of specific reserve | | - | - | - | - | 459,995 | - | - | (459,995) | - | - | - |
| | Utilisation of specific reserve | | - | - | - | - | (418,847) | - | - | 418,847 | - | - | - |
| | Balance as at 31 December 2016 | 6,926,018 | 4,529,310 | 1,852,461 | 951,760 | 178,525 | 47,118 | 38,589 | (68,310) | 12,117,958 | 26,573,429 | 474,353 | 27,047,782 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

Notes:

- (a) Share premium
The share premium represents the difference between the total amount of the par value of shares issued and the amount of the net proceeds received from the initial public offering in 2006 and subsequent share issuance in 2008 and 2012 respectively.
- (b) Capital reserve
The capital reserve mainly represents the difference between the total amount of the par value of shares issued and the amount of the net assets transferred from China Telecommunications Corporation ("CTC"), Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation upon the formation of the Company and the difference between the consideration for the acquisition of Target Business (as defined in note 1(b)) and the net assets value of the Target Business in 2007.
- (c) Statutory surplus reserve
According to the People's Republic of China (the "PRC") Company Law and the Articles of Association of the Company and its PRC subsidiaries, these companies are required to transfer 10% of their respective net profit as determined in accordance with the PRC Accounting Rules and Regulations to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.
- Statutory surplus reserve can be used to make good previous years' losses, if any, or to expand the business, and may be converted into share capital by the issuance of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.
- The amount represents the statutory surplus reserve appropriated by the Company and the statutory surplus reserve appropriated by the Company's subsidiaries is not presented.
- For the year ended 31 December 2017, the Company transferred RMB99 million (2016: RMB96 million) being 10% of the profit for the current year as determined in accordance with the PRC Accounting Rules and Regulations to this reserve.
- (d) Specific reserve
Pursuant to the relevant PRC regulations, the Group appropriated and utilised the provision for production safety. The Group is required to make a transfer for the provision for production safety from retained earnings to a specific reserve. The provision for production safety could be utilised when expenses or capital expenditures on production safety measures are incurred. The amount of the provision for production safety utilised would be transferred from the specific reserve back to retained earnings.
- (e) Fair value reserve
The fair value reserve represents the net change in the fair value of available-for-sale securities held at the end of the reporting period.
- (f) Exchange reserve
The exchange reserve represents all foreign exchange differences arising from the translation of the financial statements of subsidiaries located outside Mainland China.

The notes on pages 107 to 180 form part of these consolidated financial statements.



CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

| Notes | 2017 RMB'000 | 2016 RMB'000 |
|---|------------------|------------------|
| Operating activities | | |
| Profit before tax | 3,231,811 | 3,055,901 |
| Adjustments for: | | |
| Depreciation and amortisation | 828,441 | 850,387 |
| Impairment losses on accounts and bills and other receivables, net | 166,965 | 319,616 |
| Impairment losses on property, plant and equipment and construction in progress | – | 3,914 |
| Impairment losses on inventories | 34,261 | 57,951 |
| Interest income | (202,679) | (184,088) |
| Finance costs | 47,119 | 46,667 |
| Share of profits of associates | (63,782) | (66,095) |
| Dividend income | (77,732) | (51,142) |
| Investment income and fair value (gains)/losses of financial instruments at fair value through profit or loss | (17,362) | 1,650 |
| Gain on disposal of subsidiaries | (11,759) | (36,712) |
| (Gain)/loss on disposal of property, plant and equipment and other intangible assets, net | (14,255) | 3,322 |
| Exchange differences | 22,448 | 6,934 |
| Write-back of non-payable liabilities | (23,698) | (18,282) |
| Operating profit before changes in working capital | 3,919,778 | 3,990,023 |
| (Increase)/decrease in inventories | (88,662) | 604,703 |
| Increase in accounts and bills receivable | (1,112,331) | (1,625,183) |
| Increase in prepayments and other current assets | (2,074,062) | (269,808) |
| Increase in accounts and bills payable | 4,201,272 | 688,286 |
| Increase in receipts in advance for contract work | 951,187 | 1,134,555 |
| Increase in accrued expenses and other payables | 1,580,281 | 1,144,360 |
| Net cash inflow from operations | 7,377,463 | 5,666,936 |
| Interest paid | (40,167) | (47,202) |
| Interest received | 200,100 | 180,472 |
| Income tax paid | (573,151) | (534,958) |
| Net cash generated from operating activities | 6,964,245 | 5,265,248 |



CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

| | Notes | 2017 RMB'000 | 2016 RMB'000 |
|---|-------|--------------------|-------------------|
| Investing activities | | | |
| Payments for purchase of property, plant and equipment and other intangible assets | | (1,013,640) | (846,649) |
| Proceeds from disposal of property, plant and equipment and other intangible assets | | 27,079 | 18,655 |
| Restricted bank deposits received | | 286,080 | 39,269 |
| Dividends received | | 125,401 | 115,079 |
| Proceeds from disposal of investments | | – | 71,356 |
| Payments for acquisition of wealth management products and structured deposits | | (6,950,000) | – |
| Proceeds from disposal of wealth management products and structured deposits | | 1,950,000 | – |
| Payments for acquisition of investments | | (129,377) | (5,405) |
| Other cash paid related to investing activities | | (7,692) | (1,131) |
| Other cash received related to investing activities | | 28,437 | 4,474 |
| Net cash used in investing activities | | (5,683,712) | (604,352) |
| Financing activities | | | |
| Capital contribution from non-controlling interests | | – | 20,327 |
| Proceeds from bank and other loans | | 296,896 | 34,466 |
| Repayments of bank and other loans | | (689,496) | (182,873) |
| Dividends paid | | (938,242) | (821,092) |
| Other cash paid related to financing activities | | (49) | – |
| Other cash received related to financing activities | | 29,007 | – |
| Net cash used in financing activities | | (1,301,884) | (949,172) |
| Net (decrease)/increase in cash and cash equivalents | | (21,351) | 3,711,724 |
| Cash and cash equivalents at beginning of year | | 13,324,079 | 9,535,851 |
| Effect of foreign exchange rate changes | | (36,097) | 76,504 |
| Cash and cash equivalents at end of the year | 32 | 13,266,631 | 13,324,079 |

The notes on pages 107 to 180 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. PRINCIPAL ACTIVITIES AND ORGANISATION

(a) 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 project supervision and management; (ii) business process outsourcing services (including management of infrastructure for information technology, general facilities management, supply chain and products distribution); and (iii) a variety of other services including applications, content and others.

(b) Organisation

The Company was established in the PRC on 30 August 2006 as a joint stock limited company under the Company Law of the PRC as part of the Restructuring (as defined below) of CTC, a state-owned enterprise under the direct supervision of the State Council of the PRC. Pursuant to the Restructuring, the Group assumed the telecommunications support services previously carried on by various subsidiaries wholly-owned or controlled by CTC in six provinces and municipality in the PRC, namely, Guangdong Province, Zhejiang Province, Shanghai Municipality, Fujian Province, Hubei Province and Hainan Province (collectively, the “Predecessor Operations”) from CTC. The Company was founded by CTC, Guangdong Telecom Industry Group Corporation and Zhejiang Telecom Industry Corporation by ways of the injection of those subsidiaries carrying on the Predecessor Operations and cash contributions.

In connection with the Restructuring, the Predecessor Operations together with the related assets and liabilities that were to be transferred to the Group were segregated from CTC effective on 31 March 2006 (the “Restructuring”). The Restructuring comprised the following:

- (i) CTC underwent a restructuring programme in connection with its full range of telecommunications related services, namely (1) telecommunications infrastructure design, construction and project supervision and management; (2) business process outsourcing (including management of infrastructure for information technologies business, general facilities management and distribution of telecommunications services and products); and (3) a variety of other services including applications, content and others.
- (ii) The net assets were injected into the Company by ways of asset injection of those subsidiaries carrying on the Predecessor Operations in consideration of approximately 3,623.4 million ordinary shares with a par value of RMB1.00 each.
- (iii) The Group, immediately after the Restructuring, contains substantially all of the operating assets and liabilities relating to the Predecessor Operations, comprising (1) telecommunications infrastructure design, construction and project supervision and management; (2) business process outsourcing (including management of infrastructure for information technologies business, general facilities management, distribution of telecommunications services and products); and (3) a variety of other services including applications, content and others.
- (iv) In connection with the Restructuring, certain assets and liabilities historically associated with the Predecessor Operations were not transferred to the Company and were retained by CTC.

The above Restructuring procedures primarily resulted in an effect of the transfer from CTC to the Company of the operating assets and liabilities relating to the telecommunications related services carried on by the Predecessor Operations, which were previously owned or controlled by CTC prior to the Restructuring.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. PRINCIPAL ACTIVITIES AND ORGANISATION (continued)**(b) Organisation (continued)**

In December 2006, the Company issued 1,291,293,000 H shares with a par value of RMB1.00 each, at a price of HKD2.20 per H share by way of an initial public offering (the "IPO") to Hong Kong and overseas investors. In connection with the IPO, 129,129,300 domestic state-owned shares of RMB1.00 each owned by CTC and its subsidiaries were converted into H shares and transferred to the National Council for Social Security Fund of the PRC ("SSF"). In December 2006, the Company also issued 193,693,000 H shares with a par value of RMB1.00 each, at a price of HKD2.20 per H share upon the exercise of the over-allotment option. In connection with the exercise of the over-allotment option, 19,369,300 domestic state owned shares of RMB1.00 each owned by CTC and its subsidiaries were converted into H shares and transferred to SSF. In April 2008, the Company completed the placing of 326,696,000 H shares with a par value of RMB1.00 each at a price of RMB5.25 (the "Placing"). In connection with the Placing, 32,669,600 domestic legal person shares of RMB1.00 each owned by SSF was converted into H shares. On 8 February 2012, the Company issued 398,570,040 H shares on the basis of 2 H rights shares for every 10 existing H shares at a price of HKD3.19 per H rights share, and issued 755,766,360 domestic shares on the basis of 2 domestic rights shares for every 10 existing domestic shares at a price of RMB2.59 per domestic rights share. A total of 2,391,420,240 H shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Pursuant to the acquisition agreement dated 15 June 2007, the Company acquired the telecommunications infrastructure services, business process outsourcing services and applications, content and other services located in Jiangsu Province, Anhui Province, Jiangxi Province, Hunan Province, Guangxi Zhuang Autonomous Region, Chongqing Municipality, Sichuan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province and Xinjiang Uygur Autonomous Region, together with the equity interests in Guangdong Nanfang Communication GSM Intelligent Card System Co., Ltd and Ningbo Public Information Industry Co., Ltd (the "Target Business") from CTC. Such acquisition was completed on 31 August 2007.

Pursuant to the Equity Transfer Agreements entered into by the Company and CTC and its subsidiaries on 26 May 2009, the Company acquired a 95.945% equity interest in Shanghai Tongmao Import & Export Co. Ltd ("Shanghai Tongmao") and a 51% equity interest in Guoxin Lucent Technologies Network Technologies Co., Ltd ("Guoxin Lucent", now renamed as "Guoxun Innovation Software Technology Co., Ltd") for a total purchase price of RMB98.05 million.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. PRINCIPAL ACTIVITIES AND ORGANISATION (continued)

(b) Organisation (continued)

Pursuant to the Equity Transfer Agreements entered into by the Group and CTC's subsidiaries on 20 June 2012, the Group completed acquisition on 30 June 2012 of (i) 100% equity interest in each of Ningxia Communications Constructions Co., Ltd. ("Ningxia Construction") and Ningxia Telecom Constructions Supervision Consultancy Co., Ltd. ("Ningxia Supervision"); and (ii) 100% equity interest in Xinjiang Communications Planning & Designing Institute Co., Ltd. ("Xinjiang Planning & Designing") (collectively the "Target Interests"), for a consideration of RMB51.07 million.

Pursuant to the Equity Transfer Agreements entered into by the Group and China Telecommunications Corporation Industrial Assets Management Centre (a directly wholly-owned subsidiary of CTC) on 20 June 2012, the Group completed acquisition on 26 July 2012 of 51% equity interest in Sino-British Submarine Systems Co., Ltd. ("SBSS") and all the associated rights and obligations for a total consideration of RMB264.60 million.

The Company established China Comservice Supply Chain Management Company Ltd. in July 2015. The initial registered capital was RMB50 million. The Company paid the capital contribution of RMB10 million and RMB40 million respectively on 24 August 2015 and 30 March 2017. In December 2017, the registered capital of China Comservice Supply Chain Management Company Ltd was increased to RMB108.41 million.

The Company established Inner Mongolia Autonomous Region Communications Services Company Limited in January 2016. The registered capital is RMB10 million. The Company paid the initial capital contribution of RMB5 million on 24 March 2016.

The Company established Comservice Capital Holding Company Limited in May 2017. The registered capital is RMB500 million. The Company paid the initial capital contribution of RMB100 million on 29 June 2017.

In 2017, the Company's subsidiaries, Fujian Communications Services Company Limited, Hubei Communications Services Company Limited and Guizhou Communications Services Company Limited, made capital reduction of RMB30.41 million, RMB20 million and RMB8 million respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). IFRSs include all applicable individual IFRSs, International Accounting Standards ("IASs") and related interpretations. The consolidated financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance ("CO") and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current year of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior years reflected in these financial statements.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2017 comprise the Group and its interests in associates and joint ventures.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that the following assets and liabilities:

- Financial instruments at fair value through profit or loss and available-for-sale financial assets listed in active market are measured at fair value.
- Liabilities for cash-settled share-based payment arrangements are measured at fair value.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The preparation of the consolidated financial statements in accordance with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 42.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation

(i) Business combinations involving enterprises under common control

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The assets and liabilities obtained are measured at the carrying amounts as recorded by the enterprise being combined at the combination date. The difference between the carrying amount of the net assets obtained and the carrying amount of consideration paid for the combination (or the total face value of shares issued) is adjusted to capital reserve. The combination date is the date on which one combining enterprise effectively obtains control of the other combining enterprises.

(ii) Business combinations involving entities not under common control

A business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties before the business combination.

The acquirer, at the acquisition date, allocates the cost of the business combination by recognising the acquiree's identifiable asset, liabilities and contingent liabilities at their fair value at that date.

(iii) Subsidiaries and non-controlling interests

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- a. has power over the investee;
- b. is exposed, or has rights, to variable returns from its involvement with the investee; and
- c. has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another IFRS.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**(c) Basis of consolidation (continued)***(iii) Subsidiaries and non-controlling interests (continued)*

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests. Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement, or when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(iv) Investments in associates and joint ventures

Associates are entities in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating decisions.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Investments in associates or joint ventures are accounted for in the consolidated financial statements under the equity method. Under the equity method, the investments are initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investees' identifiable net assets over the cost of the investment (if any, after reassessment) which is recognised in the consolidated statement of profit or loss. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's profit or loss and other comprehensive income. The Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income. Changes in net assets of associates or joint ventures other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

(iv) Investments in associates and joint ventures (continued)

When the Group's share of losses exceeds its interest in the associate or joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

(d) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase after reassessment.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination involving entities not under common control is allocated to each cash-generating unit, or groups of cash generating units, which is expected to benefit from the synergies of the combination and is tested annually for impairment, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment (see note 2(l)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs. These investments are subsequently accounted for as follows, depending on their classification:

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the consolidated statement of financial position at cost less impairment losses (see note 2(l)).

Investments in securities which do not fall into the above category are classified as available-for-sale securities carried at fair value. At each end of the reporting period the fair value is re-measured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve, except for foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from equity investments is recognised in profit or loss in accordance with the policy set out in note 2(w)(v) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 2(w)(vi). When these investments are derecognised or impaired (see note 2(l)), the cumulative gain or loss is reclassified from equity to profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments.

(f) Investment properties

Investment properties are buildings which are owned to earn rental income and/or for capital appreciation.

Investment properties are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses (see note 2(l)). Depreciation is calculated to write off the cost less estimated residual value if applicable and is charged to profit or loss on a straight-line basis over the estimated useful lives ranging from 20 years to 30 years.

Rental income from investment properties is accounted for as described in note 2(w)(iv).

When an item of property, plant and equipment is transferred to investment property evidenced by end of owner-occupation or when an investment property commencement of owner-occupation and reclassified as property, plant and equipment, its costs at the date of reclassification becomes its cost for accounting purposes.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment

Property, plant and equipment are initially recorded at cost, less subsequent accumulated depreciation and impairment losses (see note 2(l)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to working condition and location for its intended use and the cost of borrowed funds used during the periods of construction. Expenditure incurred after the asset has been put into operation, including cost of replacing part of such an item, is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment and the cost can be measured reliably. All other expenditure is expensed as it is incurred.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is provided to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

| | |
|---|-------------|
| Buildings | 20-30 years |
| Building improvements | 5 years |
| Motor vehicles | 5-10 years |
| Furniture, fixtures and other equipment | 3-20 years |

The useful life of an asset and its residual value, if any, and depreciation method are reviewed annually.

(h) Construction in progress

Construction in progress is stated at cost less impairment losses (see note 2(l)). Cost comprises direct costs of construction, capitalisation of interest charge and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the period of construction.

Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all the activities necessary to prepare the asset for its intended use are completed. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

(i) Lease prepayments

Lease prepayments represent land use rights paid to the PRC's government authorities. Land use rights are carried at cost and are charged to profit or loss on a straight-line basis over the respective periods of the rights.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- a. the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- b. the intention to complete the intangible asset and use or sell it;
- c. the ability to use or sell the intangible asset;
- d. how the intangible asset will generate probable future economic benefits;
- e. the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- f. the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads and borrowing costs, where applicable (see note 2(z)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(l)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(l)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss from the date they are available for use on a straight-line basis over the assets' estimated useful lives.

Both the period and method of amortisation are reviewed annually.

(k) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Assets that are held by Group under leases which do not transfer to the Group substantially all the risks and rewards of ownership are classified as being held under operating leases.

Lease payments made under an operating lease are charged to profit or loss in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) Impairment of assets

(i) *Impairment of investments in debt and equity securities and receivables*

Investments in debt and equity securities classified as available-for-sale securities and other current and non-current receivables that are stated at amortised cost are reviewed at each end of the reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events.

- Significant financial difficulty of the debtor or the issuer;
- A breach of contract, such as default or delinquency in interest or principal payments;
- It becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- Significant changes in the technological, market, economic or legal environment that have an adverse effect on the issuer; and
- A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investment in the associate or joint venture recognised using the equity method (see note 2(c)(iv)), the impairment loss is measured by comparing the carrying amount of the investment as a whole with its recoverable amount in accordance with note 2(I)(i). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.
- For unquoted equity securities carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.
- For trade receivables and other financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding what the amortised cost would have been determined had no impairment loss been recognised in prior years.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**(I) Impairment of assets (continued)***(i) Impairment of investments in debt and equity securities and receivables (continued)*

- For available-for-sale securities carried at fair value that is considered to be impaired, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available for – sale equity securities carried at fair value are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade and other receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each end of the reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill:

- property, plant and equipment;
- investment properties;
- construction in progress;
- lease prepayments;
- goodwill; and
- other intangible assets.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount
The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).
- Recognition of impairment losses
An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal, or value in use, if determinable or zero.

- Reversals of impairment losses
In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversals occurs.

(n) Construction contracts

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural element of the design.

The accounting policy for contract revenue is set out in note 2(w)(i). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the end of the reporting period are recorded at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the consolidated statement of financial position as the "Unbilled revenues for contract work" under "Accounts and bills receivable, net" (as an asset) or the "Amounts due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included under "Accounts and bills receivable, net". Amounts received before the related work is performed are presented as "Receipts in advance for contract work".

(o) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(l)).

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

Debt and equity instruments issued by the group entities are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost.

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(s) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial assets is held for trading or it is designated as at fair value through profit or loss.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near term; or
- On initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designed and effective as hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**(t) Employee benefits***(i) Short-term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees.

(ii) Share appreciation rights scheme

Compensation expense in respect of the share appreciation rights granted is accrued as a charge to profit or loss over the applicable vesting period based on the fair value of the stock appreciation rights. The liability of the accrued compensation expense is remeasured to fair value at each end of the reporting period until the liability is settled with the effect of changes in the fair value of the liability is charged or credited to profit or loss. Further details of the Group's share appreciation rights scheme are set out in note 39.

(iii) Termination benefits

A liability for a termination benefit is recognised at the earlier of when the group entity can no longer withdraw the offer of the termination benefit and when it recognised any related restructuring costs.

(u) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial recognition for a business combination, the tax effect is included in the accounting for the business combination.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Income tax (continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination).

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each end of the reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities which, intend either to realise the current tax assets and settle the current tax liabilities on a net basis or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(w) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Contract revenue

When the outcome of a construction contract can be estimated reliably, revenue from a fixed price contract is recognised using the percentage of completion method.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(ii) Services rendered

Revenue from design services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the end of the reporting period.

Revenue from other services rendered is recognised upon the delivery or performance of the services.

(iii) Sales of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any sales discounts.

(iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal installments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(v) Dividends

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Revenue recognition (continued)

(vi) Interest income

Interest income is recognised as it accrues using the effective interest method.

(x) Government grants

Government grants are recognised in the consolidated statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in profit or loss over the useful life of the asset.

(y) Translation of foreign currencies

The functional currency of the Company and the presentation currency of the Group is Renminbi ("RMB"). Foreign currency transactions during the year are translated at the applicable rates of exchange quoted by the People's Bank of China ("PBOC") prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the applicable rates ruling at the end of the reporting period. Foreign currency differences, other than those capitalised as construction in progress (see note 2(h)), are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Assets and liabilities of foreign operations are translated into RMB at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(z) Borrowing costs

Borrowing costs that directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and development activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The Group principally has one operating segment and hence no segment information is provided (see note 44).

(bb) Dividends or profit distributions

Dividends or profit distributions are recognised as a liability in the period in which they are declared.

(cc) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control of the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- (iii) Both entities are joint ventures of the same third party;
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) The entity is controlled or jointly controlled by a person identified in (a);
- (vi) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

3. CHANGES IN ACCOUNTING POLICIES

The Group has applied the following amendments to IFRSs issued by IASB for the first time in the current year:

| | |
|----------------------|--|
| 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 IFRS Standards 2014–2016 Cycle |

Except as described below, the application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to IAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 48. Consistent with the transition provisions of amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 48, the application of these amendments has had no impact on the Group's consolidated financial statements.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

4. 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:

| | 2017 RMB'000 | 2016 RMB'000 |
|---|-------------------|-----------------|
| Revenue from telecommunications infrastructure services | 50,510,988 | 45,886,950 |
| Revenue from business process outsourcing services | 32,763,685 | 32,533,602 |
| Revenue from applications, content and other services | 11,297,738 | 10,028,804 |
| | 94,572,411 | 88,449,356 |

The Group's major customers are telecommunications operators which include CTC 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 year ended 31 December 2017 amounted to RMB41,568 million and RMB15,825 million, respectively (2016: RMB40,597 million and RMB13,888 million, respectively), being 43.9% and 16.7% of the Group's total revenues, respectively (2016: 45.9% and 15.7%, respectively). The revenues derived from areas outside Mainland China for the year ended 31 December 2017 amounted to RMB2,836 million (2016: RMB3,846 million).

For the year ended 31 December 2017, 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 RMB36,668 million, RMB12,829 million and RMB10,239 million, respectively (2016: The Group's first three businesses that contributed to the overall revenues were construction, management of infrastructure for information technology and products distribution, the revenues from which amounted to RMB33,711 million, RMB10,685 million and RMB10,479 million, respectively).

5. COST OF REVENUES

| | 2017 RMB'000 | 2016 RMB'000 |
|---------------------------------------|-------------------|-----------------|
| Depreciation and amortisation | 472,621 | 455,215 |
| Direct personnel costs | 8,647,493 | 8,316,693 |
| Operating lease charges | 1,485,355 | 1,381,599 |
| Materials costs | 9,327,654 | 8,281,024 |
| Direct costs of products distribution | 6,594,772 | 9,764,598 |
| Subcontracting charges | 46,858,020 | 41,016,647 |
| Others | 8,974,136 | 7,543,415 |
| | 82,360,051 | 76,759,191 |



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

6. OTHER OPERATING INCOME

| | 2017 RMB'000 | 2016 RMB'000 |
|--|------------------|-----------------|
| Interest income | 202,679 | 184,088 |
| Dividend income from listed securities | 1,238 | 94 |
| Dividend income from unlisted securities | 76,494 | 51,048 |
| Government grants | 236,906 | 277,348 |
| Gain on disposal of subsidiaries | 11,759 | 36,712 |
| Gain on disposal of property, plant and equipment and other intangible assets | 24,644 | 5,635 |
| Penalty income | 2,731 | 3,674 |
| Management fee income | 328,523 | 312,930 |
| Write-back of non-payable liabilities | 23,698 | 18,282 |
| Investment income and fair value gains on wealth management products and structured deposits | 47,875 | – |
| Others | 57,945 | 53,210 |
| | 1,014,492 | 943,021 |

7. OTHER OPERATING EXPENSES

| | 2017 RMB'000 | 2016 RMB'000 |
|---|-----------------|-----------------|
| Impairment losses on property, plant and equipment and construction in progress | – | 3,914 |
| Loss on disposal of property, plant and equipment and other intangible assets | 10,389 | 8,957 |
| Donations | 217 | 510 |
| Penalty charge | 28,017 | 12,480 |
| Net foreign exchange loss | 22,448 | 6,934 |
| Others | 65,207 | 62,437 |
| | 126,278 | 95,232 |

8. FINANCE COSTS

| | 2017 RMB'000 | 2016 RMB'000 |
|--|-----------------|-----------------|
| Interest on bank and other borrowings | 12,411 | 12,991 |
| Interest for convertible preference shares and preference shares (note 36) | 34,708 | 33,676 |
| | 47,119 | 46,667 |

For the years ended 31 December 2017 and 2016, no borrowing costs were capitalised in relation to construction in progress.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

9. PROFIT BEFORE TAX

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

| | 2017 RMB'000 | 2016 RMB'000 |
|---|-------------------|-----------------|
| (a) Staff costs: | | |
| Salaries, wages and other benefits | 13,797,277 | 13,100,419 |
| Contributions to defined contribution retirement schemes | 1,283,625 | 1,190,891 |
| | 15,080,902 | 14,291,310 |
| (b) Other items: | | |
| Depreciation | | |
| – Property, plant and equipment (note 16) | 669,760 | 687,164 |
| – Investment properties (note 17) | 43,595 | 41,389 |
| Amortisation | | |
| – Lease prepayments (note 19) | 26,416 | 27,262 |
| – Other intangible assets (note 21) | 88,670 | 94,572 |
| Auditors' remuneration | 34,500 | 35,100 |
| Materials costs (note 26) | 9,327,654 | 8,281,024 |
| Direct costs of products distribution (note 26) | 6,594,772 | 9,764,598 |
| Write-down of inventories (note 26) | 41,442 | 65,521 |
| Reversal of write-down of inventories (note 26) | (7,181) | (7,570) |
| Impairment losses on accounts and bills and other receivables | 453,963 | 494,778 |
| Reversal of impairment losses on accounts and bills and other receivables | (286,998) | (175,162) |
| Investment income and fair value (gains)/losses of financial instruments at fair value through profit or loss | (17,362) | 1,650 |
| Operating lease charges | 1,775,369 | 1,674,451 |
| Research and development costs | 2,554,834 | 2,255,990 |

The selling expenses, general and administrative expenses and other expenses of the Group are RMB1,689 million, RMB7,576 million and RMB620 million (2016: RMB1,514 million, RMB7,286 million and RMB701 million), respectively for the year ended 31 December 2017. Research and development costs include RMB2,041 million (2016: RMB1,769 million) relating to staff costs, amount of 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:

| | 2017 RMB'000 | 2016 RMB'000 |
|---|-----------------|-----------------|
| Current tax | | |
| PRC enterprise income tax | 536,514 | 557,098 |
| Overseas enterprise income tax | 17,204 | 19,577 |
| Deferred tax | | |
| Origination and reversal of temporary differences (note 24) | (70,985) | (73,969) |
| Total income tax | 482,733 | 502,706 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

10. INCOME TAX (continued)

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

| | 2017 RMB'000 | 2016 RMB'000 |
|---|-----------------|-----------------|
| Profit before tax | 3,231,811 | 3,055,901 |
| Expected income tax expense at a statutory tax rate of 25% (2016: 25%) (note (i)) | 807,953 | 763,975 |
| Differential tax rates on subsidiaries' income (note (ii)) | (233,706) | (266,932) |
| Non-deductible expenses (note (ii)) | 140,874 | 188,016 |
| Non-taxable income | (44,655) | (49,281) |
| Tax losses not recognised | 52,450 | 50,293 |
| Utilisation of previously unrecognised tax losses | (27,819) | (13,628) |
| Over provision in respect of prior years | (38,012) | (8,686) |
| Effect of tax exemptions | (1,454) | (1,669) |
| Others (note (iii)) | (172,898) | (159,382) |
| Income tax | 482,733 | 502,706 |

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 years ended 31 December 2017 and 2016, except for certain domestic subsidiaries of the Group, which are taxed at preferential rates of 20%, 15% and 10%, where applicable; and for certain overseas subsidiaries of the Group, which are taxed at respective statutory rates.
- (ii) The amount includes personnel and other 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**Available-for-sale securities**

| | 2017 RMB'000 | 2016 RMB'000 |
|---|-----------------|-----------------|
| Changes in fair value recognised during the year | (14,826) | 2,814 |
| Net deferred tax credited (debited) to other comprehensive income | 2,223 | (422) |
| Net movement in the fair value reserve during the year recognised in other comprehensive income | (12,603) | 2,392 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The names of the directors and the supervisors of the Company and their remuneration for the year ended 31 December 2017 are as follows:

| | Fee RMB'000 | Salaries, allowances and other benefits in kind RMB'000 | Discretionary bonus RMB'000 (note) | Pension scheme contribution RMB'000 | Share appreciation rights RMB'000 | 2017 Total RMB'000 |
|---|----------------|--|---|--|--|--------------------------|
| Executive Directors | | | | | | |
| Sun Kangmin (chairman, resigned on 16 March 2018) | - | - | - | - | - | - |
| Si Furong | - | 244 | 586 | 91 | - | 921 |
| Hou Rui | - | 177 | 536 | 84 | - | 797 |
| | - | 421 | 1,122 | 175 | - | 1,718 |
| Non-Executive Directors | | | | | | |
| Li Zhengmao | - | - | - | - | - | - |
| Shao Guanglu (appointed on 23 June 2017) | - | - | - | - | - | - |
| Zhang Junan (resigned on 10 March 2017) | - | - | - | - | - | - |
| | - | - | - | - | - | - |
| Independent Non-Executive Directors | | | | | | |
| Zhao Chunjun | 150 | - | - | - | - | 150 |
| Siu Wai Keung, Francis | 280 | - | - | - | - | 280 |
| Lv Tingjie | 150 | - | - | - | - | 150 |
| Wu Taishi | 150 | - | - | - | - | 150 |
| Liu linfei | 150 | - | - | - | - | 150 |
| | 880 | - | - | - | - | 880 |
| Supervisors | | | | | | |
| Han Fang | - | - | - | - | - | - |
| Hai Liancheng | 75 | - | - | - | - | 75 |
| Si Jianfei | - | 155 | 399 | 76 | - | 630 |
| | 75 | 155 | 399 | 76 | - | 705 |
| Total directors' and supervisors' emoluments | | | | | | 3,303 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

The names of the directors and the supervisors of the Company and their remuneration for the year ended 31 December 2016 are as follows:

| | Fee RMB'000 | Salaries, allowances and other benefits in kind RMB'000 | Discretionary bonus RMB'000 (note) | Pension scheme contribution RMB'000 | Share appreciation rights RMB'000 | 2016 Total RMB'000 |
|---|----------------|--|---|--|--|--------------------------|
| Executive Directors | | | | | | |
| Sun Kangmin (chairman) | - | - | - | - | - | - |
| Si Furong | - | 199 | 512 | 80 | - | 791 |
| Hou Rui | - | 140 | 445 | 74 | - | 659 |
| | - | 339 | 957 | 154 | - | 1,450 |
| Non-Executive Directors | | | | | | |
| Li Zhengmao | - | - | - | - | - | - |
| Zhang Junan | - | - | - | - | - | - |
| | - | - | - | - | - | - |
| Independent Non-Executive Directors | | | | | | |
| Zhao Chunjun | 150 | - | - | - | - | 150 |
| Siu Wai Keung, Francis | 280 | - | - | - | - | 280 |
| Lv Tingjie | 150 | - | - | - | - | 150 |
| Wu Taishi | 150 | - | - | - | - | 150 |
| Liu Linfei (appointed on 24 June 2016) | 75 | - | - | - | - | 75 |
| Wang Jun (resigned on 24 June 2016) | 100 | - | - | - | - | 100 |
| | 905 | - | - | - | - | 905 |
| Supervisors | | | | | | |
| Han Fang | - | - | - | - | - | - |
| Hai Liancheng | 75 | - | - | - | - | 75 |
| Si Jianfei | - | 125 | 333 | 67 | - | 525 |
| | 75 | 125 | 333 | 67 | - | 600 |
| Total directors' and supervisors' emoluments | | | | | | 2,955 |

Note:

The discretionary bonus is determined based on the performance of the directors and supervisors and the Group's operating results.

The emoluments of executive directors, Mr. Sun Kangmin, non-executive directors, Mr. Li Zhengmao, Mr. Shao Guanglu and Mr. Zhang Junan, and supervisor, Ms. Han Fang, were not borne by the Group.

The emoluments of executive directors, Mr. Si Furong and Ms. Hou Rui, were for their services in connection with the management of the affairs of the Group.

The independent non-executive directors' emoluments shown above were in connection with their services as directors of the Company.

The emoluments of a supervisor, Mr. Hai Liancheng were in connection with his services as a supervisor of the Company and the emoluments of a supervisor, Mr. Si Jianfei, were for his services as an employee of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

13. INDIVIDUALS WITH HIGHEST EMOLUMENTS AND SENIOR MANAGEMENT'S REMUNERATION

(a) The five highest paid employees of the Group

The five highest paid employees of the Group are as follows:

| | 2017 | 2016 |
|---|------|------|
| Directors and supervisors | – | – |
| Non-director and non-supervisor employees | 5 | 5 |
| | 5 | 5 |

The remuneration paid to the above highest paid employees are as follows:

| | 2017 RMB'000 | 2016 RMB'000 |
|---|-----------------|-----------------|
| Salaries, allowances and other benefits in kind | 2,642 | 1,690 |
| Discretionary bonuses | 3,439 | 3,972 |
| Pension scheme contributions | 428 | 398 |
| | 6,509 | 6,060 |

The number of these highest paid employees whose remuneration fell within the following bands:

| | 2017 | 2016 |
|------------------------|------|------|
| RMB equivalent | | |
| 1,000,001 to 1,500,000 | 4 | 5 |
| 1,500,001 to 2,000,000 | 1 | – |

(b) Senior management's remuneration

The number of the senior management (not including non-director and non-supervisor employees presented in 13(a)) whose remuneration fell within the following bands:

| | 2017 | 2016 |
|------------------|------|------|
| RMB equivalent | | |
| Nil to 1,000,000 | 19 | 19 |



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

14. DIVIDENDS**(a) Dividends attributable to the year**

| | 2017 RMB'000 | 2016 RMB'000 |
|--|-----------------|-----------------|
| Final dividend proposed after the end of reporting period of RMB0.1176 per share (2016: RMB0.1098 per share) | 814,500 | 760,477 |
| Special dividend proposed after the end of reporting period of RMB0.0235 per share (2016: RMB0.0220 per share) | 162,761 | 152,372 |
| | 977,261 | 912,849 |

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

| | 2017 RMB'000 | 2016 RMB'000 |
|---|-----------------|-----------------|
| Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.1098 per share (2016: RMB0.1011 per share) | 760,477 | 700,220 |
| Special dividend in respect of the previous financial year, approved and paid during the year, of RMB0.0220 per share (2016: RMB0.0101 per share) | 152,372 | 69,953 |
| | 912,849 | 770,173 |

15. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the year ended 31 December 2017 of RMB2,714,213 thousand (2016: RMB2,536,249 thousand) and number of shares in issue during the year ended 31 December 2017 of 6,926,018 thousand shares (2016: 6,926,018 thousand shares).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

16. PROPERTY, PLANT AND EQUIPMENT, NET

| | Buildings RMB'000 | Building improvements RMB'000 | Motor vehicles RMB'000 | Furniture, fixtures and other equipment RMB'000 | Total RMB'000 |
|---|----------------------|-------------------------------------|------------------------------|---|------------------|
| Cost: | | | | | |
| As at 1 January 2017 | 3,308,068 | 584,034 | 1,599,665 | 3,848,020 | 9,339,787 |
| Transfer to investment properties (note 17) | (131,767) | – | – | – | (131,767) |
| Transfer from investment properties (note 17) | 5,453 | – | – | – | 5,453 |
| Transfer from construction in progress (note 18) | 115,255 | 10,426 | 5,640 | 32,609 | 163,930 |
| Additions | 146,397 | 41,609 | 115,520 | 300,530 | 604,056 |
| Disposals | (18,221) | (7,020) | (112,056) | (236,632) | (373,929) |
| As at 31 December 2017 | 3,425,185 | 629,049 | 1,608,769 | 3,944,527 | 9,607,530 |
| Accumulated depreciation and impairment losses: | | | | | |
| As at 1 January 2017 | 1,217,764 | 434,308 | 987,482 | 2,484,617 | 5,124,171 |
| Transfer to investment properties (note 17) | (48,580) | – | – | – | (48,580) |
| Transfer from investment properties (note 17) | 4,877 | – | – | – | 4,877 |
| Depreciation charge | 126,756 | 54,030 | 150,410 | 338,564 | 669,760 |
| Depreciation written back on disposals | (6,816) | (7,020) | (102,733) | (215,446) | (332,015) |
| Impairment loss eliminated on disposals | – | – | (150) | (908) | (1,058) |
| As at 31 December 2017 | 1,294,001 | 481,318 | 1,035,009 | 2,606,827 | 5,417,155 |
| Net carrying value: | | | | | |
| As at 31 December 2017 | 2,131,184 | 147,731 | 573,760 | 1,337,700 | 4,190,375 |
| As at 1 January 2017 | 2,090,304 | 149,726 | 612,183 | 1,363,403 | 4,215,616 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

16. PROPERTY, PLANT AND EQUIPMENT, NET (continued)

| | Buildings RMB'000 | Building improvements RMB'000 | Motor vehicles RMB'000 | Furniture, fixtures and other equipment RMB'000 | Total RMB'000 |
|---|----------------------|-------------------------------------|------------------------------|---|------------------|
| Cost: | | | | | |
| As at 1 January 2016 | 3,246,155 | 531,793 | 1,614,007 | 3,683,576 | 9,075,531 |
| Transfer to investment properties (note 17) | (9,922) | – | – | – | (9,922) |
| Transfer from investment properties (note 17) | 19,955 | – | – | – | 19,955 |
| Transfer from construction in progress (note 18) | 51,306 | 15,704 | 2,098 | 85,571 | 154,679 |
| Additions | 27,286 | 39,868 | 106,189 | 292,289 | 465,632 |
| Disposals | (26,712) | (3,331) | (122,629) | (213,416) | (366,088) |
| As at 31 December 2016 | 3,308,068 | 584,034 | 1,599,665 | 3,848,020 | 9,339,787 |
| Accumulated depreciation and impairment losses: | | | | | |
| As at 1 January 2016 | 1,086,736 | 383,531 | 942,226 | 2,331,242 | 4,743,735 |
| Transfer to investment properties (note 17) | (763) | – | – | – | (763) |
| Transfer from investment properties (note 17) | 1,922 | – | – | – | 1,922 |
| Depreciation charge | 130,969 | 54,066 | 154,518 | 347,611 | 687,164 |
| Depreciation written back on disposals | (1,100) | (3,289) | (109,912) | (195,513) | (309,814) |
| Impairment loss | – | – | 650 | 1,971 | 2,621 |
| Impairment loss eliminated on disposals | – | – | – | (694) | (694) |
| As at 31 December 2016 | 1,217,764 | 434,308 | 987,482 | 2,484,617 | 5,124,171 |
| Net carrying value: | | | | | |
| As at 31 December 2016 | 2,090,304 | 149,726 | 612,183 | 1,363,403 | 4,215,616 |
| As at 1 January 2016 | 2,159,419 | 148,262 | 671,781 | 1,352,334 | 4,331,796 |

All the Group's buildings are located in the PRC.

Up to the date of issue of these consolidated financial statements, the Group is still in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying amount of approximately RMB306 million as at 31 December 2017 (2016: RMB289 million). The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

17. INVESTMENT PROPERTIES

| | 2017 RMB'000 | 2016 RMB'000 |
|---|------------------|-----------------|
| COST | | |
| As at 1 January | 1,074,075 | 1,084,108 |
| Transfer from property, plant and equipment (note 16) | 131,767 | 9,922 |
| Transfer to property, plant and equipment (note 16) | (5,453) | (19,955) |
| Additions | 913 | – |
| Disposals | (15,933) | – |
| As at 31 December | 1,185,369 | 1,074,075 |
| ACCUMULATED DEPRECIATION | | |
| As at 1 January | 466,152 | 425,922 |
| Transfer from property, plant and equipment (note 16) | 48,580 | 763 |
| Transfer to property, plant and equipment (note 16) | (4,877) | (1,922) |
| Depreciation charge | 43,595 | 41,389 |
| Depreciation written back on disposals | (5,948) | – |
| As at 31 December | 547,502 | 466,152 |
| NET CARRYING VALUE | | |
| As at 31 December | 637,867 | 607,923 |
| As at 1 January | 607,923 | 658,186 |
| Fair value | 2,358,034 | 2,290,295 |

All the Group's investment properties are located in the PRC.

The fair value measurement of the Group's investment properties is categorised into Level 3 of fair value measurement. The fair value was determined based on the income approach, where the market rentals of all lettable units of the properties are assessed and discounted at the market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The discount rate is determined by reference to the yields derived from analysing the sales transactions of similar commercial properties in the PRC and adjusted to take into account the market expectation from property investors to reflect factors specific to the Group's investment properties.

The current use of the investment properties is their highest and best use.



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17. INVESTMENT PROPERTIES (continued)

The Group leases out its properties under operating leases. The leases typically run for period of one year to ten years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals. At the end of the reporting period, the total future minimum lease payments under non-cancellable operating leases were as follows:

| | 2017 RMB'000 | 2016 RMB'000 |
|---------------------------------|-----------------|-----------------|
| Within 1 year | 172,422 | 146,868 |
| After 1 year but within 5 years | 137,732 | 123,281 |
| After 5 years | 72,985 | 9,895 |
| As at 31 December | 383,139 | 280,044 |

During the year ended 31 December 2017, RMB132 million (2016: RMB100 million) has been recognised as rental income in the consolidated statement of profit or loss and RMB33 million (2016: RMB17 million) in respect of direct operating expenses relating to investment properties has been recognised as expenses in the consolidated statement of profit or loss.

Up to the date of issuance of these consolidated financial statements, the Group is still in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB37 million as at 31 December 2017 (2016: RMB57 million). The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

18. CONSTRUCTION IN PROGRESS

| | 2017 RMB'000 | 2016 RMB'000 |
|---|-----------------|-----------------|
| Cost: | | |
| As at 1 January | 454,339 | 360,977 |
| Additions | 349,184 | 300,705 |
| Disposals | (2,838) | (1,596) |
| Transfer to other intangible assets (note 21) | (97,396) | (49,775) |
| Transfer to property, plant and equipment (note 16) | (163,930) | (154,679) |
| Impairment loss | – | (1,293) |
| As at 31 December | 539,359 | 454,339 |



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

19. LEASE PREPAYMENTS

| | 2017 RMB'000 | 2016 RMB'000 |
|-----------------------------|-----------------|-----------------|
| Cost: | | |
| As at 1 January | 1,011,485 | 1,019,344 |
| Additions | 6,644 | 4,674 |
| Disposals | (2,085) | (12,533) |
| As at 31 December | 1,016,044 | 1,011,485 |
| Released to profit or loss: | | |
| As at 1 January | 251,245 | 225,758 |
| Amortisation charge | 26,416 | 27,262 |
| Disposals | (503) | (1,775) |
| As at 31 December | 277,158 | 251,245 |
| Net carrying value: | | |
| As at 31 December | 738,886 | 760,240 |
| As at 1 January | 760,240 | 793,586 |

Lease prepayments represent payments for land use rights paid to the PRC authorities. The Group's land use rights are located in the PRC and are with remaining terms ranging from 10 to 62 years as at 31 December 2017.

20. GOODWILL

| | 2017 RMB'000 | 2016 RMB'000 |
|---|-----------------|-----------------|
| Cost and carrying amount | 103,005 | 103,005 |
| Impairment tests for cash-generating units containing goodwill | | |
| China International Telecommunications Construction Corporation ("CITCC") | 103,005 | 103,005 |

The recoverable amounts of goodwill arising from the acquisition of CITCC are determined based on value in use calculation. The calculation uses cash flow projection based on financial budget approved by management covering a five-year period and pre-tax discount rates is 12.87% (2016: 13.55%).

Cash flows beyond the five years period are extrapolated using zero growth rate. Management believes any reasonably possible change in the key assumptions on which these entities' recoverable amount are based would not cause these entities' carrying amounts to exceed their recoverable amounts.

Key assumptions used for the value in use calculations for these entities are the gross margin and revenue. Management determined the budgeted gross margin based on the gross margin achieved in the period immediately before the budget period and its expectation of the trend of major telecommunication operators' capital expenditure. Revenue was based on the revenue in the period immediately before the budget period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

21. OTHER INTANGIBLE ASSETS

| | 2017 RMB'000 | 2016 RMB'000 |
|--|-----------------|-----------------|
| Cost: | | |
| As at 1 January | 744,846 | 673,456 |
| Additions | 54,150 | 60,496 |
| Transfer from construction in progress (note 18) | 97,396 | 49,775 |
| Disposals | (32,235) | (38,881) |
| As at 31 December | 864,157 | 744,846 |
| Accumulated amortisation: | | |
| As at 1 January | 473,653 | 404,225 |
| Amortisation charge | 88,670 | 94,572 |
| Written back on disposals | (23,856) | (25,144) |
| As at 31 December | 538,467 | 473,653 |
| Net carrying value: | | |
| As at 31 December | 325,690 | 271,193 |
| As at 1 January | 271,193 | 269,231 |

Other intangible assets mainly represent computer software used in telecommunications infrastructure projects.

22. INTERESTS IN ASSOCIATES AND JOINT VENTURES

| | 2017 RMB'000 | 2016 RMB'000 |
|---------------------|-----------------|-----------------|
| Share of net assets | 220,117 | 144,405 |

The Group's associates and joint ventures are unlisted, established and operated in the PRC. The Group's interests in associates and joint ventures are individually and in aggregate not material to the Group's financial condition or results of operation for the year.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | 2017 RMB'000 | 2016 RMB'000 |
|--|-----------------|-----------------|
| Unlisted equity securities, at cost | 795,223 | 795,223 |
| Listed equity securities, at quoted market price | 56,337 | 71,163 |
| | 851,560 | 866,386 |

24. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net balance | |
|--|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | 31 December 2017 RMB'000 | 31 December 2016 RMB'000 | 31 December 2017 RMB'000 | 31 December 2016 RMB'000 | 31 December 2017 RMB'000 | 31 December 2016 RMB'000 |
| Impairment losses, primarily for receivables and inventories | 274,737 | 250,571 | - | - | 274,737 | 250,571 |
| Revaluation of property, plant and equipment | - | - | (68) | (10,066) | (68) | (10,066) |
| Unused tax losses (note (i)) | 26,850 | 21,374 | - | - | 26,850 | 21,374 |
| Change in fair value (note (ii)) | - | - | (6,878) | (9,101) | (6,878) | (9,101) |
| Unpaid expenses | 241,085 | 208,051 | - | - | 241,085 | 208,051 |
| Others | - | - | 5,210 | 6,899 | 5,210 | 6,899 |
| Deferred tax assets and (liabilities) | 542,672 | 479,996 | (1,736) | (12,268) | 540,936 | 467,728 |

Movements in deferred tax assets and liabilities for the year ended 31 December 2017 and 2016 are as follows:

| | As at 1 January 2017 RMB'000 | Recognised in profit or loss RMB'000 (note 10(a)) | Recognised in other comprehensive income RMB'000 | As at 31 December 2017 RMB'000 |
|--|---------------------------------------|--|--|---|
| Impairment losses, primarily for receivables and inventories | 250,571 | 24,166 | - | 274,737 |
| Revaluation of property, plant and equipment | (10,066) | 9,998 | - | (68) |
| Unused tax losses (note (i)) | 21,374 | 5,476 | - | 26,850 |
| Change in fair value (note (ii)) | (9,101) | - | 2,223 | (6,878) |
| Unpaid expenses | 208,051 | 33,034 | - | 241,085 |
| Others | 6,899 | (1,689) | - | 5,210 |
| Deferred tax assets and (liabilities) | 467,728 | 70,985 | 2,223 | 540,936 |

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For the year ended 31 December 2017

24. DEFERRED TAX ASSETS AND LIABILITIES (continued)

| | As at 1 January 2016 RMB'000 | Recognised in profit or loss RMB'000 (note 10(a)) | Recognised in other comprehensive income RMB'000 | As at 31 December 2016 RMB'000 |
|---|---------------------------------------|--|--|---|
| Impairment losses, primarily for receivables and inventories | 224,494 | 26,077 | – | 250,571 |
| Revaluation of property, plant and equipment | (11,349) | 1,283 | – | (10,066) |
| Unused tax losses (note (i)) | 21,715 | (341) | – | 21,374 |
| Change in fair value (note (ii)) | (8,679) | – | (422) | (9,101) |
| Unpaid expenses | 162,660 | 45,391 | – | 208,051 |
| Others | 5,341 | 1,558 | – | 6,899 |
| Deferred tax assets and (liabilities) | 394,182 | 73,969 | (422) | 467,728 |

Notes:

(i) Expiry of recognised tax losses

| | 2017 RMB'000 | 2016 RMB'000 |
|----------------|-------------------------|-----------------|
| Year of expiry | | |
| 2018 | 18,285 | 48,943 |
| 2019 | 33,230 | 33,650 |
| 2020 | 881 | 1,013 |
| 2021 | 43,851 | 43,967 |
| 2022 | 80,936 | – |
| | 177,183 | 127,573 |

(ii) As at 31 December 2017, the Group's deferred tax liability related to the change in fair value of available-for-sale financial assets were reflected in the above table.

(iii) As at 31 December 2017, the Group has not recognised deferred tax assets in respect of tax losses of RMB977.7 million (2016: RMB988.9 million) as it is not probable that future taxable profits against which the losses can be utilised will be available. The tax losses can be carried forward for five years from the year incurred and hence will be expired from 2018 to 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

25. OTHER NON-CURRENT ASSETS

Other non-current assets mainly represent the long-term receivables arising from provision of telecommunications infrastructure services and prepaid rent for buildings and equipment.

26. INVENTORIES

| | 2017 RMB'000 | 2016 RMB'000 |
|-----------------------------|------------------|-----------------|
| Construction materials | 523,132 | 340,712 |
| Finished goods | 1,524,912 | 1,846,337 |
| Spare parts and consumables | 227,691 | 34,285 |
| | 2,275,735 | 2,221,334 |

The analysis of the amount of inventories recognised as costs and expenses is as follows:

| | 2017 RMB'000 | 2016 RMB'000 |
|--|-------------------|-----------------|
| Carrying amount of inventories consumed and sold | | |
| – Materials costs | 9,327,654 | 8,281,024 |
| – Direct costs of products distribution | 6,594,772 | 9,764,598 |
| Reversal of write-down of inventories | (7,181) | (7,570) |
| Write-down of inventories | 41,442 | 65,521 |
| | 15,956,687 | 18,103,573 |

27. ACCOUNTS AND BILLS RECEIVABLE, NET

| | 2017 RMB'000 | 2016 RMB'000 |
|-------------------------------------|-------------------|-----------------|
| Bills receivable | 119,314 | 74,620 |
| Unbilled revenues for contract work | 7,615,867 | 7,027,415 |
| Trade receivables | 23,979,276 | 23,587,948 |
| | 31,714,457 | 30,689,983 |
| Less: impairment losses | (1,343,957) | (1,326,998) |
| | 30,370,500 | 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 RMB20,023 million (2016: RMB18,393 million) as at 31 December 2017. The amounts due from CTC Group, associates of the Group and associates of CTC Group are unsecured, interest-free and are expected to be recovered within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

27. ACCOUNTS AND BILLS RECEIVABLE, NET (continued)

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

| | 2017 RMB'000 | 2016 RMB'000 |
|-------------------------------------|-------------------|-----------------|
| Current (note) | 12,865,705 | 12,914,339 |
| Within 1 year | 15,273,116 | 14,027,398 |
| After 1 year but less than 2 years | 1,529,211 | 1,545,520 |
| After 2 years but less than 3 years | 488,983 | 875,728 |
| After 3 years | 213,485 | – |
| Amount past due | 17,504,795 | 16,448,646 |
| | 30,370,500 | 29,362,985 |

Note: Including 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 is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against accounts and bills receivable directly (see note 2(l)(i)).

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

| | 2017 RMB'000 | 2016 RMB'000 |
|---|------------------|-----------------|
| At 1 January | 1,326,998 | 1,081,377 |
| Impairment loss recognised | 291,828 | 416,452 |
| Reversal of impairment loss previously recognised | (244,957) | (154,854) |
| Uncollectible amounts written off | (29,912) | (15,977) |
| At 31 December | 1,343,957 | 1,326,998 |

At 31 December 2017, accounts and bills receivable of RMB1,448 million (2016: RMB1,322 million) were individually determined to be impaired. 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 RMB607 million (2016: RMB671 million) were recognised.



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For the year ended 31 December 2017

27. ACCOUNTS AND BILLS RECEIVABLE, NET (continued)

(d) Accounts and bills receivable that is not impaired

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

| | 2017 RMB'000 | 2016 RMB'000 |
|-------------------------------------|-------------------|-----------------|
| Neither past due nor impaired | 12,865,705 | 12,914,339 |
| Past due but not impaired | | |
| Within 1 year | 13,628,836 | 13,064,706 |
| After 1 year but less than 2 years | 820,597 | 917,257 |
| After 2 years but less than 3 years | 286,870 | 531,054 |
| After 3 years | 187,959 | – |
| | 27,789,967 | 27,427,356 |

Receivables that were neither past due nor impaired mainly relate to major telecommunications operators 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 impairment allowances 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.

28. CONSTRUCTION CONTRACTS

The aggregate amounts of costs incurred plus recognised profit less recognised losses to date, included in the gross amount due from customers for contract work at 31 December 2017 are RMB15,626 million (2016: RMB14,652 million).

In respect of construction contracts in progress at the end of the reporting period, the amounts of retentions held by customers for contract work, recorded within "Accounts and bills receivable, net" at 31 December 2017 are RMB88 million (2016: RMB65 million).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

29. PREPAYMENTS AND OTHER CURRENT ASSETS

| | 2017 RMB'000 | 2016 RMB'000 |
|--|-------------------|------------------|
| Advances to staff | 111,689 | 165,721 |
| Amounts due from CTC Group, associates of the Group and associates of CTC Group | 1,825,722 | 1,495,582 |
| Prepayments in connection with construction work and equipment purchases | 2,582,519 | 2,136,085 |
| Prepaid expenses and deposits | 1,256,574 | 995,378 |
| Wealth management products and structured deposits | 3,750,000 | – |
| Others | 2,288,625 | 1,947,781 |
| | 11,815,129 | 6,740,547 |

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

The wealth management products and structured deposits are principal-protected within maturity of less than one year.

30. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As at 31 December 2017, the wealth management products and structured deposits were issued by banks in the PRC with variable returns linked to gold price or foreign exchange rates.

| | 2017 RMB'000 | 2016 RMB'000 |
|-----------------------------------|------------------|-----------------|
| Wealth management products | 557,579 | – |
| Structured deposits | 704,830 | – |
| Foreign currency forward contract | 105 | – |
| | 1,262,514 | – |

As at 31 December 2017, the Group has the rights to redeem the wealth management products and structured deposits at expected maturity dates within 6 months after the end of the reporting period.

The wealth management products and structured deposits are designated at financial assets at fair value through profit or loss on initial recognition.

31. RESTRICTED DEPOSITS

Restricted deposits represent cash in bank pledged as deposits for bills payable and cash held in dedicated bank accounts for certain construction projects, and deposits with original maturity over three months. Restricted deposits carry interest at prevailing market interest rates.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

32. CASH AND CASH EQUIVALENTS

| | 2017 RMB'000 | 2016 RMB'000 |
|--|-----------------|-----------------|
| Cash at bank and in hand | 12,557,327 | 11,746,118 |
| Deposits at bank with original maturity less than three months | 709,304 | 1,577,961 |
| Cash and cash equivalents | 13,266,631 | 13,324,079 |

Bank balances carry interest at prevailing market interest rates.

RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

33. INTEREST-BEARING BORROWINGS

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

| | 2017 RMB'000 | 2016 RMB'000 |
|--------------------------------------|-----------------|-----------------|
| RMB denominated | | |
| Loan from CTC Group – unsecured | 13,280 | 13,280 |
| USD denominated | | |
| Borrowings from banks – unsecured | 284,218 | 33,417 |
| Other denominated | | |
| Borrowings from banks – unsecured | 11,378 | – |
| | 308,876 | 46,697 |



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

33. INTEREST-BEARING BORROWINGS (continued)

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

| | 2017 | 2016 |
|--------------------------------------|--|-------------|
| RMB denominated | | |
| Loan from CTC Group | | |
| – unsecured | 2.39% | 2.39% |
| USD denominated | | |
| Borrowings from banks | | |
| – unsecured (fixed interest rate) | 3.43%-4.08% | 2.30%-4.14% |
| – unsecured (floating interest rate) | London Interbank Offered Rate ("Libor") +2.81%-3.31% | Libor+4.00% |
| Other denominated | | |
| Borrowings from banks | | |
| – unsecured | 7.95%-9.20% | – |

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

| | 2017 RMB'000 | 2016 RMB'000 |
|------------------------|-----------------|-----------------|
| USD denominated | | |
| Borrowings from banks | | |
| – unsecured | 17,642 | 17,343 |

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

| | 2017 | 2016 |
|------------------------|-------------|-------------|
| USD denominated | | |
| Borrowings from banks | | |
| – unsecured | 3.43%-3.83% | 3.53%-4.14% |

The Group's borrowings were repayable as follows:

| | 2017 RMB'000 | 2016 RMB'000 |
|----------------------------------|-----------------|-----------------|
| Within 1 year | 308,876 | 46,697 |
| After 1 year but within 2 years | 9,148 | 17,343 |
| After 2 years but within 5 years | 8,494 | – |
| | 326,518 | 64,040 |

As at 31 December 2017 and 2016, no borrowings from bank were subject to financial covenants.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

34. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

| | 2017 RMB'000 | 2016 RMB'000 |
|------------------|-------------------|-----------------|
| Accounts payable | 23,723,340 | 18,850,843 |
| Bills payable | 877,341 | 1,548,566 |
| | 24,600,681 | 20,399,409 |

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

| | 2017 RMB'000 | 2016 RMB'000 |
|-------------------------------------|-------------------|-----------------|
| Within 1 year | 22,989,350 | 18,582,995 |
| After 1 year but less than 2 years | 1,029,424 | 1,172,268 |
| After 2 years but less than 3 years | 308,399 | 357,027 |
| After 3 years | 273,508 | 287,119 |
| | 24,600,681 | 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 RMB1,146 million (2016: RMB1,034 million) as at 31 December 2017. The amounts due to CTC Group, associates of the Group and associates of CTC Group are unsecured, interest-free and are expected to be settled within one year.

35. ACCRUED EXPENSES AND OTHER PAYABLES

| | 2017 RMB'000 | 2016 RMB'000 |
|--|-------------------|-----------------|
| Wages and welfare payable | 1,639,626 | 1,636,899 |
| Amounts due to CTC Group, associates of the Group and associates of CTC Group (note (i)) | 1,430,565 | 1,084,856 |
| Advances received | 2,303,211 | 1,717,651 |
| Other taxes payable | 690,908 | 594,624 |
| Special dividend and profit distribution payable to CTC Group (note (ii)) | 34,514 | 54,029 |
| Dividend payable | 24,299 | 29,938 |
| Payables for construction and purchase of property, plant and equipment | 40,218 | 72,851 |
| Others (note (iii)) | 5,157,388 | 4,539,814 |
| | 11,320,729 | 9,730,662 |



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35. ACCRUED EXPENSES AND OTHER PAYABLES (continued)

Notes:

- (i) The amounts due to CTC Group, associates of the Group and associates of CTC Group are unsecured, interest-free and are expected to be settled within one year.
- (ii) Special dividend and profit distribution payable to CTC Group

As disclosed in the Prospectus of the Company dated 27 November 2006, in accordance with the "Provisional Regulation relating to Corporate Restructuring of Enterprises and Related Management of State-owned Capital and Financial Treatment" which was issued by the PRC Ministry of Finance and a resolution passed on 1 November 2006, the directors proposed and the shareholders approved the distribution of profit of the Group for the period from 1 April 2006 to 29 August 2006, being the calendar day immediately preceding the date of incorporation of the Company. In the same resolution, the directors proposed and the shareholders approved the distribution of profit of the Group for the period from 30 August 2006 to the calendar day immediately preceding the date of its listing on the Stock Exchange (i.e. 7 December 2006) (together, the "2006 special dividend").

Pursuant to a resolution passed at directors' meeting on 17 April 2007, the directors resolved to pay the 2006 special dividend to CTC and its subsidiaries amounting to RMB535 million in total, out of which RMB117 million was directly distributed at the subsidiary level. The Group has paid RMB533 million special dividend to CTC and its subsidiaries by 31 December 2017.

As disclosed in the Circular of the Company dated 20 June 2007, in line with the principles set out in the "Notice of the Forwarding the Implementation Opinions of the state-owned Assets Supervision and Administration Commission about Further Standardisation of the Work Relating to the Reconstruction of State-owned Enterprise" issued by the General Office of the State Council of the PRC, the changes in net assets between the period from 1 February 2007 to 31 August 2007 of the Target Business should be distributed in form of cash to CTC and its subsidiaries amounting to RMB197 million in total, of which RMB164 million has been paid to CTC and its subsidiaries by 31 December 2017.

- (iii) The amounts mainly include payables to suppliers for purchases on behalf of CTC, deposits received from subcontractors and others.

36. OTHER NON-CURRENT LIABILITIES

| | 2017 RMB'000 | 2016 RMB'000 |
|--|-----------------|-----------------|
| Convertible preference shares and preference shares (note (i)) | – | 693,700 |
| Others (note (ii)) | 328,859 | 248,376 |
| | 328,859 | 942,076 |

Notes:

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

The annual interest rate is 3.7% plus the average six-month dollar interest rate of Libor for six months before each interest payment date, and should be adjusted from the first interest payment in the year of eighth anniversary of the issuance date. The adjusted interest rate should not be less than 8%, and will automatically increase 1% every year after then.

For the year ended 31 December 2017, the Company has redeemed all the convertible preference shares and preference shares after renegotiation with the preference shareholder at their principal amount in US\$ together with accrued interests. No gain or loss arises on the redemption except those resulting from the changes in foreign exchange rate.

- (ii) Others mainly represent the deferred income arising from government grants and termination benefits.

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37. SHARE CAPITAL

| | 2017 RMB'000 | 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 |
| | 2017 Thousand shares | 2016 Thousand shares |
| At 1 January and 31 December | 6,926,018 | 6,926,018 |

All shareholders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

(a) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by strengthening their leading position as integrated service provider to the telecommunications industry and achieving economies of scale in the market.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital using a gearing ratio which is total debts divided by the sum of total debts and equity attributable to equity shareholders of the Company. For this purpose, the Group defines total debt as the sum of short-term interest bearing borrowings, long-term interest bearing borrowings and convertible preference shares and preference shares. The Group aims to maintain the gearing ratio at a reasonable level. The Group's ratio as at 31 December 2017 was 1.1% (2016: 2.8%). In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.



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38. RETIREMENT BENEFIT OBLIGATIONS

In accordance with the labour regulations of the PRC, the Group participates in various defined contribution retirement schemes organised by the municipal and provincial governments for its employees. The Group is required to make contributions to the retirement schemes at rates ranging from 18% to 22% (2016: 18% to 22%) of the salaries, bonuses and certain allowances of the employees.

The Group has no other material obligation for the payment of pension benefits associated with these schemes beyond the annual contributions described above.

39. SHARE APPRECIATION RIGHTS SCHEME

The Group implemented a share appreciation rights scheme for members of its management to provide incentives to them. Under this plan, share appreciation rights are granted in units with each unit representing one H share. No shares will be issued under the share appreciation rights scheme. Upon exercise of the share appreciation rights, a recipient will receive, subject to any applicable withholding tax, a cash payment in RMB, translated from the Hong Kong dollars amount equal to the product of the number of share appreciation rights exercised and the difference between the exercise price and market price of the Company's H shares at the date of exercise based on the applicable exchange rate between RMB and Hong Kong dollars at the date of the exercise. The Company recognises compensation expense of the share appreciation rights over the applicable vesting period.

In April 2007, the Company's remuneration committee approved the granting of 38.3 million share appreciation right units to eligible employees (first batch of first phase share appreciation rights). Under the terms of this grant, all share appreciation rights had a contractual life of seven years from date of grant and an exercise price of HKD4.92 per unit.

In April 2009, the Company's remuneration committee approved the granting of 49.8 million share appreciation right units to eligible employees (second batch of first phase share appreciation rights). Under the terms of this grant, all share appreciation rights had a contractual life of five years from date of grant and an exercise price of HKD4.53 per unit.

In August 2011, the Company's remuneration committee approved the granting of share appreciation right units to new eligible employees (second batch of first phase share appreciation rights). Under the terms of this grant, 22.6 million share appreciation right units were granted to the employees who became eligible of this incentive plan since April 2009.

In January 2012, the Company's remuneration committee approved the granting of 198.3 million share appreciation right units to eligible employees (the second phase share appreciation rights). Under the terms of this grant, all share appreciation rights have a contractual life of five years from date of grant and an exercise price of HKD3.41 per unit.

A recipient of share appreciation rights cannot exercise the rights in the first 24 months after the date of grant. As at each of the third, fourth and fifth anniversary of the date of grant, the total number of share appreciation rights exercisable cannot in aggregate exceed one-third, two-thirds and 100%, respectively, of the total share appreciation rights granted to such person.



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39. SHARE APPRECIATION RIGHTS SCHEME (continued)

In March 2012, the Company's Board of Directors approved the adjustment of the exercise price of the first batch of first phase share appreciation rights from HKD4.92 per unit to HKD4.66 per unit and of the granted amount to 39.3 million share appreciation right units, and approved the adjustment of the exercise price of the second batch of first phase share appreciation rights from HKD4.53 per unit to HKD4.28 per unit and of the granted amount to 74.1 million share appreciation right units.

In March 2013, the Company's Board of Directors approved the adjustment of the exercise price of the first batch of first phase share appreciation rights from HKD4.66 per unit to HKD4.51 per unit, and approved the adjustment of the exercise price of the second batch of first phase share appreciation rights from HKD4.28 per unit to HKD4.13 per unit.

In March 2015, the Company's Board of Directors approved the adjustment of the exercise price of the second phase share appreciation rights from HKD3.41 per unit to HKD2.93 per unit.

In March 2016, the Company's Board of Directors approved the adjustment of the exercise price of the second phase share appreciation rights from HKD2.93 per unit to HKD2.81 per unit.

The total of 113.4 million share appreciation right units of the first phase share appreciation rights have been exercised in 2013.

The second phase share appreciation rights were expired in January 2017.

40. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

As at 31 December 2017, the Group had capital commitments for acquisition and construction of property, plant and equipment and other non-current assets as follows:

| | 2017 RMB'000 | 2016 RMB'000 |
|---------------------------------|-----------------|-----------------|
| Contracted for but not provided | 421,950 | 347,842 |

(b) Operating lease commitments

As at 31 December 2017, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

| | 2017 RMB'000 | 2016 RMB'000 |
|---------------------------------|-----------------|-----------------|
| Within 1 year | 430,716 | 347,316 |
| After 1 year but within 5 years | 438,698 | 389,977 |
| After 5 years | 93,711 | 113,988 |
| | 963,125 | 851,281 |

The Group leases a number of properties under operating leases. The leases typically run for period of 1 year to 20 years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

(c) Contingent liabilities

As at 31 December 2017, the Group had no material contingent liabilities and no material financial guarantees issued.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

41. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, interest rate, liquidity and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposure to credit risks is monitored on an ongoing basis. Normally, the Group does not obtain collateral from customers.

The Group's major customers are CTC Group and CM Group. The Group has a certain concentration of credit risk as the Group's major customers accounted for 74% of the total trade and bills receivable as at 31 December 2017 (2016: 72%). The Group has no significant credit risk with any of these customers since they are large State-owned companies in the telecommunications industry.

The credit risk on cash at banks and restricted bank deposits is limited because the counterparties are banks with high credit rankings, mainly the four large state-owned banks.

The credit risk on wealth management products and structured deposits is limited because the counterparties are reputable financial institutions.

The credit risk on available-for-sale financial assets arises from loss in value through corporate failure. The Group mitigates the credit risk on available-for-sale financial assets by closely monitor its portfolio and minimises investments on these assets. The Group's available-for-sale financial assets are less than 2% of its total assets for both 2017 and 2016.

The amounts of cash and cash equivalents, restricted deposits, accounts and bills receivable, other receivables, available-for-sale financial assets and long-term receivables in the consolidated statement of financial position after deducting impairment allowance represent the Group's maximum exposure to the credit risk in relation to financial assets.

(b) Interest rate risk

The Group is exposed to fair value interest rate risk primarily from its short-term and long-term debts carrying interests at fixed rates. The Group manages its exposure to fair value interest rate risk by maintaining high proportion of fixed rate debts with maturity within one year. Details of the interest rates are disclosed in note 33.

The Group is also exposed to cash flow interest rate risk in relation to wealth management products and structured deposits, and short-term debts carrying interests at variable rates. The Group manages its exposure to interest rate risk by closely monitoring the change in the market interest rate.

The management of the Group considers the fluctuation in interest rates on wealth management products and structured deposits, and short-term debts carrying interests at variable rates is insignificant. Therefore, no sensitivity analysis is presented.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

41. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(c) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on interest rates at the end of the reporting period) and the earliest date the Group can be required to pay:

| | 2017 | | 2016 | |
|--|--|-------------------------|--|-------------------------|
| | Contractual undiscounted cash outflow within 1 year or on demand RMB'000 | Carrying amount RMB'000 | Contractual undiscounted cash outflow within 1 year or on demand RMB'000 | Carrying amount RMB'000 |
| Short-term interest-bearing borrowings (note 33) | 313,144 | 308,876 | 48,084 | 46,697 |
| Account and bills payable (note 34) | 24,600,681 | 24,600,681 | 20,399,409 | 20,399,409 |
| Receipt in advance for contract work | 4,997,284 | 4,997,284 | 4,046,097 | 4,046,097 |
| Accrued expenses and other payables (note 35) | 11,320,729 | 11,320,729 | 9,730,662 | 9,730,662 |
| | 41,231,838 | 41,227,570 | 34,224,252 | 34,222,865 |

(d) Currency risk

Foreign currency exchange rate risk arises on financial instruments that are denominated in a currency other than the respective functional currencies of group entities. The Group's foreign currency risk exposure relates to the bank deposits and borrowings denominated primarily in United States dollars, Hong Kong dollars, Nigerian Naira, Saudi Arabian Riyal and Ethiopian Birr. 94.7% (2016: 92.8%) of the Group's cash and cash equivalents and 4.1% (2016: 20.7%) of the Group's short-term debt and long-term debt as at 31 December 2017 are denominated in RMB.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they related. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year-end date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

41. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)**(d) Currency risk (continued)***Exposure to currency risk*

| | Exposure to foreign currencies (expressed in RMB) | | | | | |
|--|---|---------------------------------|------------------------------|-----------------------------------|------------------------------|-------------------|
| | 2017 | | | | | |
| | United States dollars RMB'000 | Hong Kong dollars RMB'000 | Nigerian Naira RMB'000 | Saudi Arabian Riyal RMB'000 | Ethiopian Birr RMB'000 | Others RMB'000 |
| Cash and cash equivalents | 378,339 | 57,190 | 77,734 | 27,380 | 7,867 | 155,708 |
| Accounts receivable | 247,197 | 107,280 | 24,096 | 134,835 | 28,729 | 412,053 |
| Accounts payable | (55,904) | (192,188) | (22,583) | (36,152) | (27,902) | (67,640) |
| Short-term interest-bearing borrowings | (284,218) | - | - | - | - | (11,378) |
| Long-term interest-bearing borrowings | (17,642) | - | - | - | - | - |
| Other non-current liabilities | - | - | - | - | - | - |
| Overall net exposure | 267,772 | (27,718) | 79,247 | 126,063 | 8,694 | 488,473 |

| | Exposure to foreign currencies (expressed in RMB) | | | | | |
|--|---|---------------------------------|------------------------------|-----------------------------------|------------------------------|-------------------|
| | 2016 | | | | | |
| | United States dollars RMB'000 | Hong Kong dollars RMB'000 | Nigerian Naira RMB'000 | Saudi Arabian Riyal RMB'000 | Ethiopian Birr RMB'000 | Others RMB'000 |
| Cash and cash equivalents | 499,141 | 154,869 | 35,071 | 88,019 | 19,444 | 165,890 |
| Accounts receivable | 406,678 | 90,587 | 22,986 | 111,359 | 23,416 | 457,939 |
| Accounts payable | (77,419) | (13,839) | (20,999) | (39,824) | (18,154) | (156,986) |
| Short-term interest-bearing borrowings | (33,417) | - | - | - | - | - |
| Long-term interest-bearing borrowings | (17,343) | - | - | - | - | - |
| Other non-current liabilities | (693,700) | - | - | - | - | - |
| Overall net exposure | 83,940 | 231,617 | 37,058 | 159,554 | 24,706 | 466,843 |

The following significant exchange rates applied during the year:

| | Average rate | | Spot rate | |
|-----------------------|--------------|------|-----------|------|
| | 2017 | 2016 | 2017 | 2016 |
| United States dollars | 6.74 | 6.72 | 6.53 | 6.94 |
| Hong Kong dollars | 0.87 | 0.87 | 0.84 | 0.89 |
| Nigerian Naira | 0.02 | 0.03 | 0.02 | 0.02 |
| Saudi Arabian Riyal | 1.80 | 1.79 | 1.74 | 1.85 |
| Ethiopian Birr | 0.28 | 0.31 | 0.24 | 0.31 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

41. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

| | Strengthen/ (weaken) in foreign exchange rate | 2017 Effect on profit after tax and retained profits RMB'000 | Effect on other components of equity RMB'000 | Strengthen/ (weaken) in foreign exchange rate | 2016 Effect on profit after tax and retained profits RMB'000 | Effect on other components of equity RMB'000 |
|-----------------------|--|--|--|--|--|--|
| United States dollars | 5% | 10,041 | - | 5% | 3,148 | - |
| | (5)% | (10,041) | - | (5)% | (3,148) | - |
| Hong Kong dollars | 5% | (1,039) | - | 5% | 8,686 | - |
| | (5)% | 1,039 | - | (5)% | (8,686) | - |
| Nigerian Naira | 5% | 2,972 | - | 5% | 1,390 | - |
| | (5)% | (2,972) | - | (5)% | (1,390) | - |
| Saudi Arabian Riyal | 5% | 4,727 | - | 5% | 5,983 | - |
| | (5)% | (4,727) | - | (5)% | (5,983) | - |
| Ethiopian Birr | 5% | 326 | - | 5% | 926 | - |
| | (5)% | (326) | - | (5)% | (926) | - |

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group's entities' profit after tax measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purpose.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2016.

(e) Price risk

The Group is exposed to equity price changes arising from listed equity investments classified as available-for-sale securities (see note 23). Other than unquoted securities held for strategic purpose, all of these investments are listed.

The Group's listed investments are listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange. Listed investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

The price risk on wealth management products and structured deposits is limited because maturity period of these investments is short.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

41. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(e) Price risk (continued)

At 31 December 2017, it is estimated that an increase/(decrease) of 5% (2016: 5%) in the relevant share price (for listed investments) as applicable, with all other variables held constant, would have increased/(decreased) the Group's other components of consolidated equity as follows:

| | 2017 | | 2016 | |
|---|---|--|---|--|
| | Increase/ (decrease) in equity price | Effect on other components of equity RMB'000 | Increase/ (decrease) in equity price | Effect on other components of equity RMB'000 |
| Changes in the relevant equity price risk variable: | | | | |
| Increase | 5% | 2,394 | 5% | 2,669 |
| Decrease | (5%) | (2,394) | (5%) | (2,669) |

The sensitivity analysis indicates the instantaneous change in the Group's other components of consolidated equity that would arise assuming that the changes in the share price had occurred at the end of the reporting period and had been applied to remeasure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. None of the Group's available-for-sale financial assets would be considered impaired as a result of the decrease in the share price, and that all other variables remain constant. The analysis is performed on the same basis for 2016.

(f) Fair value

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

Some of the Group's financial instruments are measured at fair value at the end of each reporting period.

| | 2017 | | | Total RMB'000 |
|---|--------------------|--------------------|--------------------|------------------|
| | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 | |
| Financial Assets | | | | |
| Available-for-sale securities | | | | |
| – Listed equity securities | 56,337 | – | – | 56,337 |
| Financial assets at fair value through profit or loss | | | | |
| – Wealth management products and structured deposits (note) | – | – | 1,262,409 | 1,262,409 |
| – Trading financial assets | | | | |
| – Foreign currency forward contract | – | 105 | – | 105 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

41. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)**(f) Fair value (continued)***(i) Financial instruments carried at fair value on a recurring basis (continued)*

| | 2017 | | | Total RMB'000 |
|--|--------------------|--------------------|--------------------|------------------|
| | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 | |
| Financial Liabilities | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| – Trading financial liabilities | | | | |
| – Foreign currency forward contract | – | 702 | – | 702 |
| | | | | |
| | 2016 | | | Total |
| | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 | RMB'000 |
| Financial Assets | | | | |
| Available-for-sale securities | | | | |
| – Listed equity securities | 71,163 | – | – | 71,163 |

Note: At the end of each reporting period, the Group determines the fair value of the wealth management products and structured deposits by estimating the discounted cash flow upon them. The future cash flows are estimated based on expected recoverable amounts, and discounted at a rate that reflects the credit risk of various counterparties.

(ii) Reconciliation of level 3 fair value measurement

| | Wealth management products and structured deposits RMB'000 |
|--|---|
| As at 1 January 2017 | – |
| Purchase of wealth management products and structured deposits | 1,250,000 |
| Change of fair value during the year | 12,409 |
| As at 31 December 2017 | 1,262,409 |

(iii) Fair values of financial instruments carried at other than fair value

The fair values of financial assets and financial liabilities recorded at amortised cost are not materially different from their carrying amounts, which are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The fair values of Group's unquoted available-for-sale financial assets could not be reliably measured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

42. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Group's accounting policies. In addition to those disclosed in note 20, other significant accounting estimates and judgements are summarised as follows:

(a) Construction contracts

As explained in notes 2(n) and 2(w)(i) revenue and profit recognition on an uncompleted project is dependent on the total outcome of the construction contract, and estimating the stage of completion. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than that estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

(b) Impairment for trade and other receivables

The Group estimates impairment losses for trade and other receivables resulting from the inability of the customers to make the required payments. The Group bases the estimates on customer credit-worthiness and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

(c) Impairment of long-lived assets other than goodwill

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of long-lived assets as described in note 2(l). The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying amount of the assets and could result in additional impairment charge or reversal of impairment in future periods.

(d) Depreciation and amortisation

Property, plant and equipment and intangible assets with finite useful lives are depreciated/amortised on a straight-line basis over the estimated useful lives of the assets, after taking into account their estimated residual value. The Group reviews the estimated useful lives and residual values of the assets annually in order to determine the amount of depreciation/amortisation expense to be recorded during any reporting period. The useful lives and residual values are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

42. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(e) Deferred tax assets

The recognition of deferred tax assets requires assessment of the temporary differences which arise as a consequence of different accounting and tax treatments. These temporary differences result in deferred tax assets are included within the consolidated statement of financial position. Deferred tax assets are measured using substantially enacted tax rates expected to apply when the temporary differences reverse. Deferred tax assets are not recognised where it is more likely than not that the asset will not be realised in the future. This evaluation requires judgements to be made including the forecast of future taxable income. Recognition therefore, involves the management's judgement regarding the future financial performance of the particular legal entity in which the deferred tax asset has been recognised and interpretation of country specific tax law and the likelihood of settlement. However, the actual tax assets could differ from the provision and in such event the Group would be required to make an adjustment in a subsequent period which could have a material impact on the Group's profit or loss.

43. RELATED PARTIES

The Group is part of companies under CTC Group and has significant transactions and relationships with members of CTC Group. Apart from the transactions and balances disclosed in the consolidated financial statements set out above, there are the following related party transactions:

(a) Transactions with CTC Group

Because of the relationships between the Group and CTC Group, it is possible that the terms of those transactions are not the same as those that would result from transactions among unrelated parties.

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

| | 2017 RMB'000 | 2016 RMB'000 |
|---|-----------------|-----------------|
| <i>Income from related parties:</i> | | |
| Engineering related services (note (i)) | 21,155,069 | 21,230,290 |
| IT application services (note (ii)) | 2,382,179 | 2,234,805 |
| Provision of ancillary telecommunications services (note (iii)) | 11,041,170 | 9,254,535 |
| Provision of operation support services (note (iv)) | 2,791,206 | 2,570,847 |
| Supplies procurement services (note (v)) | 4,093,562 | 5,195,763 |
| Property leasing services (note (vi)) | 104,823 | 110,537 |
| Management fee (note (vii)) | 328,523 | 312,930 |
| <i>Expenses paid to related parties:</i> | | |
| Property leasing services (note (viii)) | 199,920 | 179,330 |
| IT application services (note (ix)) | 267,508 | 268,822 |
| Operation support services (note (x)) | 949,854 | 671,929 |
| Supplies procurement services (note (xi)) | 2,121,726 | 2,498,076 |
| Interest (note (xii)) | 3,477 | 4,402 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

43. RELATED PARTIES (continued)

(a) Transactions with CTC Group (continued)

Notes:

- (i) The amount represents telecommunications infrastructure services such as design, construction and project management provided to CTC Group.
- (ii) The amount represents the telecommunications network support services, software and hardware development and other IT related services provided to CTC Group.
- (iii) The amount represents ancillary telecommunications services such as maintenance of network facilities (including optical ducts and cables, exchange buildings and base stations), operation of distribution channels, fixed line and wireless value-added service, internet contents and information services provided to CTC Group.
- (iv) The amount represents the facilities management, advertising, conferencing services and certain repair and leasing of equipment services provided to CTC Group.
- (v) The amount represents supplies procurement service such as warehousing, transportation and installation and other related services provided to CTC Group.
- (vi) The amount represents rentals from operating leases in respect of business premises leased to CTC Group.
- (vii) The amount represents management fee in respect of headquarters management function services ("Centralised Services") provided to CTC Group.
- (viii) The amount represents rentals from operating leases in respect of business premises paid and payable to CTC Group.
- (ix) The amount represents the charge paid and payable to CTC Group for basic telecommunications service, value-added service and information application service.
- (x) The amount represents the charge paid and payable to CTC Group for logistics, labor resources, cultural, educational, hygiene and other supporting services.
- (xi) The amount represents the charge paid and payable to CTC Group for supplies procurement services, warehousing, transportation and installation services.
- (xii) The amount represents the interest paid/payable to CTC Group in respect of the loans from CTC Group.

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

| | 2017 RMB'000 | 2016 RMB'000 |
|---|-------------------|-----------------|
| Accounts and bills receivable, net | 19,645,020 | 18,004,426 |
| Prepayments and other current assets | 1,028,318 | 870,759 |
| Total amounts due from CTC Group | 20,673,338 | 18,875,185 |
| Interest-bearing borrowings | 13,280 | 13,280 |
| Accounts and bills payable | 594,455 | 379,136 |
| Receipts in advance for contract work | 221,555 | 307,703 |
| Accrued expenses and other payables | 603,262 | 569,945 |
| Total amounts due to CTC Group | 1,432,552 | 1,270,064 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

43. RELATED PARTIES (continued)

(a) Transactions with CTC Group (continued)

As at 31 December 2017, the Group has recognised impairment losses of RMB221 million (2016: RMB191 million) for bad and doubtful debts in respect of amounts due from CTC Group.

As at 31 December 2017, the Group has capital commitments to CTC Group for acquisition and construction of property, plant and equipment and other assets as follows:

| | 2017 RMB'000 | 2016 RMB'000 |
|---------------------------------|-----------------|-----------------|
| Contracted for but not provided | 346,003 | 261,445 |

As at 31 December 2017, the Group's total future minimum lease payments to CTC Group under non-cancellable operating leases were payable as follows:

| | 2017 RMB'000 | 2016 RMB'000 |
|---------------------------------|-----------------|-----------------|
| Within 1 year | 114,948 | 74,820 |
| After 1 year but within 5 years | 169,098 | 134,647 |
| After 5 year | 38,546 | 62,275 |
| | 322,592 | 271,742 |

The directors of the Company are of the opinion that the above transactions with related parties were conducted on normal commercial terms in the ordinary course of business and the terms are reasonable so far as the shareholders of the Company are concerned.

In connection with the Restructuring, the Company and CTC entered into a number of agreements effective as at November 16, 2006 to take up the existing agreements signed between the Predecessor Operations and CTC as set out in items (i), (ii) and (iii) below, together with a new agreement governing the provision of headquarter management function by the Company as set out in item (iv). After the Company acquired the Target Business in 2007, these agreements were amended by way of the 2008 Supplemental Agreement, pursuant to which the terms of the Agreements were renewed to 31 December 2010. On 29 October 2009, the Company entered into the Supplies Procurement Services Framework Agreement as set out in item (v) below. On 9 November 2010, these agreements were amended by way of 2010 Supplement Agreement, pursuant to which the terms of the Agreements were renewed to 31 December 2012. On 14 November 2011, the Company announced to propose the increase of annual caps for service charges payable to CTC Group under the Supplies Procurement Services Framework Agreement to RMB2,100 million and RMB2,600 million respectively, for the two years ended 31 December 2011 and 2012. On 20 September 2012, the Company announced to propose the increase of annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under Operation Support Services Framework Agreement for the year ended 31 December 2012 to RMB2,300 million and to RMB600 million, respectively, and the annual cap for the service charges receivable by the Company from CTC Group under the Supplies Procurement Services Framework Agreement for the year ended 31 December 2012 to RMB4,400 million, and signed Supplement Agreements which extended the expiry date of all agreements to 31 December 2016 and increased annual caps of several framework agreements. On 29 September 2015, the Company announced to propose the increase of annual caps for the service charges receivable by the Company from CTC Group under Engineering Framework Agreement for the year ended 31 December 2015 to RMB24,000 million, and the annual cap for the service charges payable by the Company to CTC Group under Operation Support Service Framework Agreement for the year ended 31 December 2015 to RMB800 million, and signed agreements which extended the expiry date of all agreements to 31 December 2018 and increased annual caps of several framework agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

43. RELATED PARTIES (continued)

(a) Transactions with CTC Group (continued)

According to these Supplement Agreements for the year ended 31 December 2017, (i) the annual cap for the service charges receivable by the Company from CTC Group under the Engineering Related Services Framework Agreement was RMB24,000 million; (ii) the annual cap for the service charges receivable by the Company from CTC Group under the Ancillary Telecommunications Services Framework Agreement was RMB13,300 million; (iii) the annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under the Operation Support Services Framework Agreement were RMB3,400 million and RMB1,000 million; respectively (iv) the annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under the IT Application Services Framework Agreement were RMB2,700 million and RMB490 million respectively; (v) the annual cap for the service charges receivable by the Company from CTC Group under the Centralised Services Framework Agreement was RMB440 million; (vi) the annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under the Property Leasing Services Framework Agreement were RMB210 million and RMB220 million respectively; (vii) the annual caps for the service charges receivable by the Company from CTC Group and the service charges payable by the Company to CTC Group under the Supplies Procurement Services Framework Agreement were RMB8,100 million and RMB5,900 million respectively. The terms of the principal agreements impacting the results of operations of the Group are summarised as follows:

- (i) The Group has entered into agreements with CTC pursuant to which the Group provides CTC Group with construction, design and project supervision and management for telecommunications infrastructure projects. In addition, the Group has entered into information technology service agreements with CTC pursuant to which the Group provides CTC Group with telecommunications network support service, software and hardware development and other IT related services. The amounts charged for these services are determined by reference to market rates as reflected in prices obtained through a tender.
- (ii) The Group has entered into facilities leasing agreements with CTC pursuant to which the Group leases certain premises and other facilities to CTC Group, and vice versa. The rental charges are based on market rate, with reference to amounts stipulated by local price bureau.
- (iii) The Group has entered into operation support services agreements for facilities management, advertising, conferencing, logistics, cultural, educational, hygiene and other community services with CTC. In addition, the Group has entered into ancillary services agreements with CTC. The ancillary services provided to CTC Group include repairs and maintenance of telecommunications equipment and facilities and certain customer services. Pursuant to these agreements, the Group charges CTC Group, and vice versa, for these services in accordance with the following terms:
 - market price. In determining the market price, the Group primarily considers the following factors: (i) cost of service; (ii) prices of the same or similar type of services provided to CTC Group by other service providers in the market; (iii) prices of the same or similar type of services provided to CTC Group and independent third parties previously by the Group.
 - in the absence of market price or where the market price cannot be determined, the price shall be agreed between both parties, which shall be the aggregate amount of reasonable costs, the relevant taxes in sales and reasonable profits. "Reasonable costs" means the costs confirmed by both parties after negotiations, and "reasonable profit" means a profit ratio confirmed by both parties during the course of normal commercial negotiation, taking into account factors such as historical price, transaction size, average profit ratio within the relevant industry, supply and demand, labor cost, local commodity prices and economic development levels.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

43. RELATED PARTIES (continued)**(a) Transactions with CTC Group (continued)**

- (iv) The Group has entered into agreement with CTC pursuant to which the Group takes up the role as headquarter management function to manage assets of the telecommunications support business of provinces, municipalities and autonomous regions ("Centralised Services") including Ningxia, Tibet and any assets retained by CTC after the Restructuring and acquisition of Target Business. The aggregate administrative costs incurred by the Group for the provision of the Centralised Services are apportioned pro rata between the Group and CTC Group according to the net asset ratio of each of the relevant party.
- (v) The Group has entered into Supplies Procurement Services Framework agreement for procurement of telecommunication and non-telecommunication supplies, agency services of supplies procurement, sales of telecommunication supplies and management of biddings, verification of technical specifications, warehousing transportation and installation service. Pursuant to the agreement, the Group charges CTC Group for these services in accordance with the following terms:
- maximum 1% of the contract value for procurement services on imported telecommunication supplies;
 - maximum 3% of the contract value for procurement services on domestic telecommunication and non-telecommunication supplies and materials;
 - market price. In determining the market price, the Group primarily considers the following factors: (i) cost of service; (ii) prices of the same or similar type of services provided to CTC Group or the Group by other service providers in the market; (iii) prices of the same or similar type of services provided to CTC Group and independent third parties by the Group, or prices of the same or similar type of services provided to the Group by CTC Group and independent third parties;
 - in the absence of market price or where the market price cannot be determined, the price shall be agreed between both parties, which shall be the aggregate amount of reasonable costs, the taxes in sales and reasonable profits. "Reasonable costs" means the costs confirmed by both parties after negotiations, and "reasonable profit" means a profit ratio confirmed by both parties during the course of normal commercial negotiation, taking into account factors such as historical price, transaction size, average profit ratio within the relevant industry, supply and demand, labor cost, local commodity prices and economic development levels.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

43. RELATED PARTIES (continued)

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

The Group has entered into transactions with associates over which the Group or CTC Group can exercise significant influence. The transactions entered into by the Group and the associates are as follows:

| | 2017 RMB'000 | 2016 RMB'000 |
|---|-----------------|-----------------|
| <i>Income from related parties:</i> | | |
| Engineering related services (note (i)) | 3,746,707 | 2,534,390 |
| IT application services (note (ii)) | 86,977 | 75,875 |
| Provision of ancillary telecommunications services (note (iii)) | 1,207,694 | 834,194 |
| Provision of operation support services (note (iv)) | 69,312 | 52,952 |
| Supplies procurement services (note (v)) | 245,476 | 236,401 |
| Property leasing services (note (vi)) | 2,441 | 2,655 |
| <i>Expenses paid to related parties:</i> | | |
| Property leasing services (note (vii)) | 5,669 | 2,118 |
| IT application services (note (viii)) | 44,920 | 1,978 |
| Operation support services (note (ix)) | 69,138 | 44,376 |
| Supplies procurement service (note (x)) | - | 36 |

Notes:

- (i) The amount represents telecommunications infrastructure services such as design, construction and project management provided to associates of CTC Group.
- (ii) The amount represents the telecommunications network support services, software and hardware development and other IT related services provided to associates of CTC Group.
- (iii) The amount represents ancillary telecommunications services such as maintenance of network facilities (including optical ducts and cables, exchange buildings and base stations); operation of distribution channels; fixed line and wireless value-added service; internet contents and information services provided to associates of CTC Group.
- (iv) The amount represents the facilities management, advertising, conferencing services and certain repair and leasing of equipment services provided to associates of the Group and associates of CTC Group.
- (v) The amount represents supplies procurement service such as warehousing, transportation and installation and other related services provided to associates of CTC Group.
- (vi) The amount represents rentals from operating leases in respect of business premises leased to associates of CTC Group.
- (vii) The amount represents rentals from operating leases in respect of business premises paid and payable to associates of the Group.
- (viii) The amount represents the charge paid and payable to associates of the Group and associates of CTC Group for basic telecommunications service, value-added service and information application service.
- (ix) The amount represents the charge paid and payable to associates of the Group and associates of CTC Group for logistics, labour resources, cultural, educational, hygiene and other supporting services.
- (x) The amount represents the charge paid and payable to associates of CTC Group for supplies procurement services, warehousing, transportation and installation services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

43. RELATED PARTIES (continued)**(b) Transactions with associates of the Group and associates of CTC Group (continued)**

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

| | 2017 RMB'000 | 2016 RMB'000 |
|--|-----------------|-----------------|
| Accounts and bills receivable, net | 378,224 | 388,196 |
| Prepayments and other current assets | 797,404 | 624,823 |
| Total amounts due from associates of the Group and associates of CTC Group | 1,175,628 | 1,013,019 |
| Accounts and bills payable | 551,232 | 654,646 |
| Receipts in advance for contract work | 235,263 | 126,517 |
| Accrued expenses and other payables | 861,817 | 568,940 |
| Total amounts due to associates of the Group and associates of CTC Group | 1,648,312 | 1,350,103 |

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

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

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

Apart from transactions with parent company and its affiliates (note 43(a)), the Group has collectively, but not individually significant transactions with other government-related entities, which include but are not limited to the following:

- Rendering and receiving services, including but not limited to telecommunications services
- Sales and purchases of goods, properties and other assets
- Lease of assets
- Depositing and borrowing money
- Use of public utilities

These transactions are conducted in the ordinary course of the Group's business on terms comparable to the terms of transactions with other entities that are not government-related. The Group prices its telecommunications services and products based on government-regulated tariff rates, where applicable, or based on commercial negotiations. The Group has also established its procurement policies and approval processes for purchases of products and services, which do not depend on whether the counterparties are government-related entities or not.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

43. RELATED PARTIES (continued)

(d) Transactions with key management personnel

Remuneration for key management personnel, including amounts paid to the Company's directors and supervisors as disclosed in note 12 and certain of the highest paid employees as disclosed in note 13, is as follows:

| | 2017 RMB'000 | 2016 RMB'000 |
|-------------------------------|-----------------|-----------------|
| Salaries and other emoluments | 6,679 | 5,816 |
| Retirement benefits | 1,715 | 1,635 |
| Discretionary bonuses | 14,415 | 13,698 |
| | 22,809 | 21,149 |

(e) Contributions to defined contribution retirement plans

In accordance with the labour regulations of the PRC, the Group participates in various defined contribution retirement schemes organised by the municipal and provincial governments for its employees. The Group is required to make contributions to the retirement schemes at rates ranging from 18% to 22% of the salaries, bonuses and certain allowances of the employees. A member of the scheme is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date. The Group has no other material obligation for the payment of pension benefits associated with these schemes beyond the annual contributions described above.

As at 31 December 2017 and 2016, there was no material outstanding contribution to post-employment benefit plans.

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

(f) Applicability of the Listing Rules relating to connected transactions

The related party transactions with CTC Group disclosed in note 43(a) above constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. The applicable disclosures required by Chapter 14A of the Listing Rules are provided in the "Continuing Connected Transactions" section to the annual report.

44. SEGMENT REPORTING

The Group principally has one operating segment, which is the provision of integrated telecommunications support services in the informatisation 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 4.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

45. SUBSIDIARIES

The following list contains only the particulars of subsidiaries at 31 December 2017 which principally affected the results, assets or liabilities of the Group.

| Name of company | Type of legal entity | Place of incorporation/ establishment | Proportion of ownership interest and voting rights held by the Company | | Issued and paid up capital | Principal activities |
|---|---------------------------|---------------------------------------|--|-----------------------------|----------------------------|--|
| | | | 31 December 2017 Directly % | 31 December 2016 Directly % | | |
| Guangdong Communications Services Company Limited | Limited Liability Company | The PRC | 100 | 100 | RMB2,808 million | Provision of integrated telecommunications support services through its subsidiaries in Guangdong Province |
| Zhejiang Communications Services Holdings Group Company Limited | Limited Liability Company | The PRC | 100 | 100 | RMB1,098 million | Provision of integrated telecommunications support services through its subsidiaries in Zhejiang Province |
| Shanghai Communications Services Company Limited | Limited Liability Company | The PRC | 100 | 100 | RMB976 million | Provision of integrated telecommunications support services through its subsidiaries in Shanghai Municipality |
| Fujian Communications Services Company Limited | Limited Liability Company | The PRC | 100 | 100 | RMB281 million | Provision of integrated telecommunications support services through its subsidiaries in Fujian Province |
| Hubei Communications Services Company Limited | Limited Liability Company | The PRC | 100 | 100 | RMB297 million | Provision of integrated telecommunications support services through its subsidiaries in Hubei Province |
| Jiangsu Communications Services Company Limited | Limited Liability Company | The PRC | 100 | 100 | RMB678 million | Provision of integrated telecommunications support services through its subsidiaries in Jiangsu Province |
| Anhui Communications Services Company Limited | Limited Liability Company | The PRC | 100 | 100 | RMB420 million | Provision of integrated telecommunications support services through its subsidiaries in Anhui Province |
| Jiangxi Communications Services Company Limited | Limited Liability Company | The PRC | 100 | 100 | RMB200 million | Provision of integrated telecommunications support services through its subsidiaries in Jiangxi Province |
| Hunan Communications Services Company Limited | Limited Liability Company | The PRC | 100 | 100 | RMB886 million | Provision of integrated telecommunications support services through its subsidiaries in Hunan Province |
| Guangxi Communications Services Company Limited | Limited Liability Company | The PRC | 100 | 100 | RMB192 million | Provision of integrated telecommunications support services through its subsidiaries in Guangxi Zhuang Autonomous Region |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

45. SUBSIDIARIES (continued)

| Name of company | Type of legal entity | Place of incorporation/ establishment | Proportion of ownership interest and voting rights held by the Company | | Issued and paid up capital | Principal activities |
|--|---------------------------|---------------------------------------|--|-----------------------------------|----------------------------|--|
| | | | 31 December 2017 Directly % | 31 December 2016 Directly % | | |
| Chongqing Communications Services Company Limited | Limited Liability Company | The PRC | 100 | 100 | RMB209 million | Provision of integrated telecommunications support services through its subsidiaries in Chongqing Municipality |
| Sichuan Communications Services Company Limited | Limited Liability Company | The PRC | 100 | 100 | RMB798 million | Provision of integrated telecommunications support services through its subsidiaries in Sichuan Province |
| Guizhou Communications Services Company Limited | Limited Liability Company | The PRC | 100 | 100 | RMB131 million | Provision of integrated telecommunications support services through its subsidiaries in Guizhou Province |
| Yunnan Communications Services Company Limited | Limited Liability Company | The PRC | 100 | 100 | RMB238 million | Provision of integrated telecommunications support services through its subsidiaries in Yunnan Province |
| Shaanxi Communications Services Company Limited | Limited Liability Company | The PRC | 100 | 100 | RMB145 million | Provision of integrated telecommunications support services through its subsidiaries in Shaanxi Province |
| Gansu Communications Services Company Limited | Limited Liability Company | The PRC | 100 | 100 | RMB129 million | Provision of integrated telecommunications support services through its subsidiaries in Gansu Province |
| Qinghai Communications Services Company Limited | Limited Liability Company | The PRC | 100 | 100 | RMB68 million | Provision of integrated telecommunications support services through its subsidiaries in Qinghai Province |
| Xinjiang Communications Services Company Limited | Limited Liability Company | The PRC | 100 | 100 | RMB195 million | Provision of integrated telecommunications support services through its subsidiaries in Xinjiang Uygur Autonomous Region |
| China International Telecommunication Construction Corporation | Limited Liability Company | The PRC | 100 | 100 | RMB550 million | Provision of integrated telecommunications support services through its subsidiaries in Northern China Provinces |
| China Communications Services International Limited | Limited Liability Company | Hong Kong | 100 | 100 | HKD846.87 million | Provision of integrated telecommunications support services through its subsidiaries in Hong Kong |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

45. SUBSIDIARIES (continued)

| Name of company | Type of legal entity | Place of incorporation/ establishment | Proportion of ownership interest and voting rights held by the Company | | Issued and paid up capital | Principal activities |
|--|---------------------------|---------------------------------------|--|-----------------------------------|----------------------------|---|
| | | | 31 December 2017 Directly % | 31 December 2016 Directly % | | |
| Zhongshutong Information Co., Ltd. | Limited Liability Company | The PRC | 60.38 | 60.38 | RMB120 million | Provision of integrated telecommunications support services |
| China Comservice Software Tech. Co., Ltd | Limited Liability Company | The PRC | 60 | 60 | USD25 million | Provision of integrated telecommunications support services |
| Ningxia Hui Autonomous Region Communications Industrial Services Company Limited | Limited Liability Company | The PRC | 100 | 100 | RMB106 million | Provision of integrated telecommunications support services through its subsidiaries in Ningxia Hui Autonomous Region |
| Shandong Communications Services Company Limited | Limited Liability Company | The PRC | 100 | 100 | RMB100 million | Provision of integrated telecommunications support services in Shandong Province |
| Sino-British Submarine System Co., Ltd. | Limited Liability Company | The PRC | 51 | 51 | RMB327 million | Provision of submarine cable installation and other related services |
| Hainan Communications Services Company Limited | Limited Liability Company | The PRC | 100 | 100 | RMB141 million | Provision of integrated telecommunications support services through its subsidiaries in Hainan Province |
| China Comservice Supply Chain Management Company Ltd. | Limited Liability Company | The PRC | 100 | 100 | RMB108 million | Provision of integrated telecommunications support services |
| Inner Mongolia Autonomous Region Communications Services Company Limited | Limited Liability Company | The PRC | 100 | 100 | RMB5 million | Provision of integrated telecommunications support services in Inner Mongolia Autonomous Region |
| Comservice Capital Holding Company Limited | Limited Liability Company | The PRC | 100 | – | RMB100 million | Management of Group capital |

Sino-British Submarine System Co., Ltd., China Comservice Software Tech. Co., Ltd., and Zhongshutong Information Co., Ltd. are non-wholly owned subsidiaries of the Group. The Group's cumulative non-controlling interest is RMB491 million as at 31 December 2017 (2016: RMB474 million). The non-controlling interests are individually and in aggregate not material to the Group's financial condition or results of operation for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

46. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

| | 31 December 2017 RMB'000 | 31 December 2016 RMB'000 |
|--|---|--------------------------------|
| Non-current assets | | |
| Property, plant and equipment, net | 20,316 | 8,744 |
| Construction in progress | 23,951 | 24,211 |
| Other intangible assets | 108,359 | 62,937 |
| Investments in subsidiaries | 12,772,534 | 12,632,534 |
| Interests in joint ventures | 24,600 | – |
| Total non-current assets | 12,949,760 | 12,728,426 |
| Current assets | | |
| Inventories | 333 | 344 |
| Prepayments and other current assets | 2,861,360 | 1,171,062 |
| Restricted deposits | – | 967,891 |
| Cash and cash equivalents | 505,624 | 1,353,067 |
| Total current assets | 3,367,317 | 3,492,364 |
| Total assets | 16,317,077 | 16,220,790 |
| Current liabilities | | |
| Accrued expenses and other payables | 74,414 | 61,764 |
| Income tax payable | 1,942 | 411 |
| Total current liabilities | 76,356 | 62,175 |
| Net current assets | 3,290,961 | 3,430,189 |
| Total assets less current liabilities | 16,240,721 | 16,158,615 |
| Total liabilities | 76,356 | 62,175 |
| Equity | | |
| Share capital | 6,926,018 | 6,926,018 |
| Reserves | 9,314,703 | 9,232,597 |
| Total equity | 16,240,721 | 16,158,615 |
| Total liabilities and equity | 16,317,077 | 16,220,790 |



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

46. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY
(continued)

The movements of shareholders' equity of the Company are as follows:

| | Share capital RMB'000 (note 37) | Share premium RMB'000 | Capital reserve RMB'000 | Statutory surplus reserve RMB'000 | Retained earnings RMB'000 | Total RMB'000 |
|--|--|-------------------------------------|---------------------------------------|---|---|-------------------------|
| At 1 January 2016 | 6,926,018 | 4,529,310 | 1,966,293 | 856,150 | 1,694,921 | 15,972,692 |
| Profit for the year | – | – | – | – | 956,096 | 956,096 |
| Distribution of dividend (see note 14(b)) | – | – | – | – | (770,173) | (770,173) |
| Appropriation | – | – | – | 95,610 | (95,610) | – |
| At 31 December 2016 | 6,926,018 | 4,529,310 | 1,966,293 | 951,760 | 1,785,234 | 16,158,615 |
| Profit for the year | – | – | – | – | 994,955 | 994,955 |
| Distribution of dividend (see note 14(b)) | – | – | – | – | (912,849) | (912,849) |
| Appropriation | – | – | – | 99,496 | (99,496) | – |
| At 31 December 2017 | 6,926,018 | 4,529,310 | 1,966,293 | 1,051,256 | 1,767,844 | 16,240,721 |

According to the Company's Articles of Association, the amount of retained earnings available for distribution to equity shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with IFRSs after the appropriation to statutory surplus reserve as detailed in notes to the consolidated statement of changes in equity.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

47. POSSIBLE IMPACT OF AMENDMENTS TO STANDARDS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2017

Up to the date of issue of these consolidated financial statements, the IASB has issued the following amendments to standards, new standards and interpretations which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these consolidated financial statements.

| | |
|----------------------------------|--|
| IFRS 9 | Financial Instruments ¹ |
| IFRS 15 | Revenue from Contracts with Customers and the related Amendments ¹ |
| IFRS 16 | Leases ² |
| IFRS 17 | Insurance Contracts ⁴ |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration ¹ |
| IFRIC 23 | Uncertainty over Income Tax Treatments ² |
| Amendments to IFRS 2 | Classification and Measurement of Share-based Payment Transactions ¹ |
| Amendments to IFRS 4 | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts ¹ |
| Amendments to IFRS 9 | Prepayment Features with Negative Compensation ² |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³ |
| Amendments to IAS 19 | Plan Amendment, Curtailment or Settlement ² |
| Amendments to IAS 28 | Long-term Interests in Associates and Joint Ventures ² |
| Amendments to IAS 28 | As part of the Annual Improvements to IFRS Standards 2014-2016 Cycle ¹ |
| Amendments to IAS 40 | Transfers of Investment Property ¹ |
| Amendments to IFRSs | Annual Improvements to IFRS Standards 2015-2017 Cycle ² |

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 January 2021

The Group is in the process of making an assessment of the impact that will result from adopting the amendments to standards, new standards and interpretations issued by the IASB which are not yet effective for the accounting period ended on 31 December 2017. Except for those described below, so far the Group believes that the adoption of these amendments to standards, new standards and interpretations is unlikely to have a significant impact on its financial position and the results of operations.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

47. POSSIBLE IMPACT OF AMENDMENTS TO STANDARDS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2017 (continued)

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Group are:

- (i) All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- (ii) In relation to the impairment of financial assets, IFRS 9 requires an expected credits loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of IFRS 9.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

47. POSSIBLE IMPACT OF AMENDMENTS TO STANDARDS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2017 (continued)

IFRS 9 Financial Instruments (continued)

Classification and measurement

Listed equity securities classified as available-for-sale investments carried at fair value as disclosed in note 23: these securities qualified for designation as measured at FVTOCI under IFRS 9, however, the fair value gains or losses accumulated in the fair value reserve amounting to RMB34.5 million as at 1 January 2018 will no longer be subsequently reclassified to profit or loss under IFRS 9, which is different from the current treatment. This will affect the amounts recognised in the Group's profit or loss and other comprehensive income but will not affect total comprehensive income.

Equity securities classified as available-for-sale investments carried at cost less impairment as disclosed in note 23: these securities qualified for designation as measured at FVTOCI under IFRS 9 and the Group will measure these securities at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the fair value reserve. Upon initial application of IFRS 9, fair value gains related to these securities representing the differences between cost less impairment and fair value would be adjusted to fair value reserve as at 1 January 2018.

All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under IAS 39.

Impairment

In general, the directors of the Company anticipate that the application of expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of IFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would be increased as compared to the accumulated amount recognised under IAS 39 mainly attributable to expected credit losses provision on accounts and bills receivable. Such further impairment recognised under expected credit loss model would reduce the opening retained earnings and increase the deferred tax assets at 1 January 2018.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

47. POSSIBLE IMPACT OF AMENDMENTS TO STANDARDS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2017 (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Specifically, the standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

For the contracts of major services of the Group, the directors of the Company have specifically considered IFRS 15's guidance on contract combinations, contract modifications arising from variation orders, variable consideration, and the assessment of whether there is a significant financing component in the contracts, particularly taking into account the reason for the difference in timing between the transfer of control of goods and services to the customer and the timing of the related payments. The directors have assessed that revenue from these contracts should be recognised over time. Furthermore, the directors consider that the method currently used to measure the progress towards complete satisfaction of these performance obligations will generally continue to be appropriate under IFRS 15.

The directors of the Company anticipate that the application of IFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

The directors of the Company intend to apply the limited retrospective method with cumulative effect of initial application recognised in opening balance of equity at 1 January 2018.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

47. POSSIBLE IMPACT OF AMENDMENTS TO STANDARDS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2017 (continued)

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretation when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents lease prepayments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Under the IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows and operating cash flows, respectively.

Under IAS 17, the Group has already recognised lease prepayments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB963 million as disclosed in note 40. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

48. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | As at 1 January 2017 RMB'000 | Accruals RMB'000 | Financing cash flows RMB'000 | Foreign exchange translation RMB'000 | As 31 December 2017 RMB'000 |
|--|---------------------------------------|---------------------|------------------------------------|---|--------------------------------------|
| Borrowings (note 33) | 64,040 | – | 267,058 | (4,580) | 326,518 |
| Convertible preference shares and preference shares (note 36) | 693,700 | – | (659,658) | (34,042) | – |
| Dividends payable | 83,967 | 924,615 | (938,242) | (11,527) | 58,813 |
| Others | – | (28,958) | 28,958 | – | – |
| | 841,707 | 895,657 | (1,301,884) | (50,149) | 385,331 |

49. IMMEDIATE AND ULTIMATE HOLDING COMPANY

At 31 December 2017, the directors of the Company consider the immediate and ultimate holding company of the Group to be CTC, a state-owned enterprise established in the PRC. CTC does not produce financial statements available for public use.



FINANCIAL SUMMARY

(Amounts in thousands, except per share data)

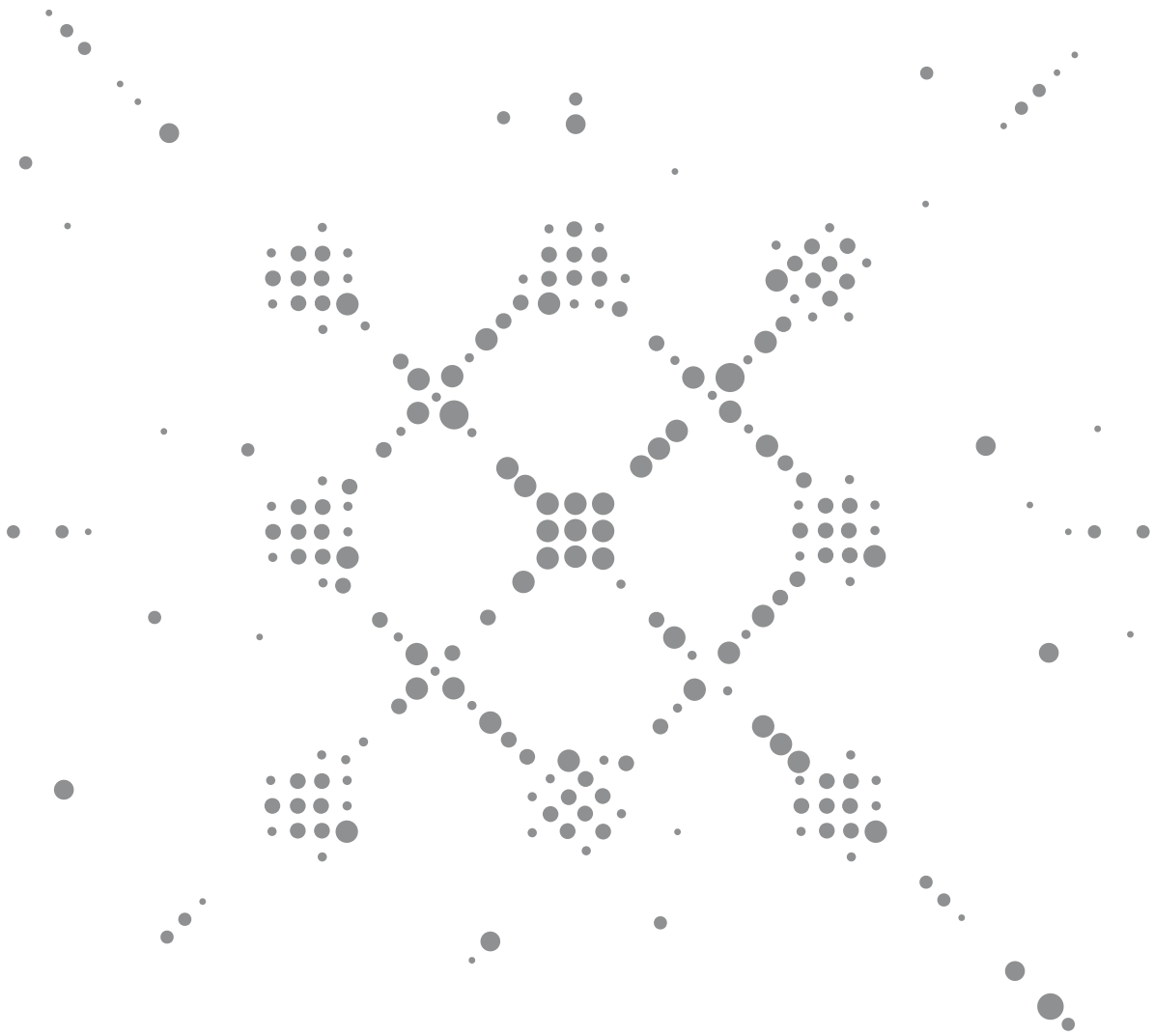
| | For the year ended 31 December | | | | |
|---|---------------------------------------|--------------|--------------|--------------|--------------|
| | 2017 RMB | 2016 RMB | 2015 RMB | 2014 RMB | 2013 RMB |
| Results | | | | | |
| Revenue from telecommunications infrastructure services | 50,510,988 | 45,886,950 | 39,209,267 | 34,008,077 | 32,036,241 |
| Revenue from business process outsourcing services | 32,763,685 | 32,533,602 | 33,014,030 | 31,215,423 | 29,011,577 |
| Revenue from applications, content and other services | 11,297,738 | 10,028,804 | 8,736,649 | 7,952,752 | 7,411,278 |
| Total Revenues | 94,572,411 | 88,449,356 | 80,959,946 | 73,176,252 | 68,459,096 |
| Depreciation and amortization | (472,621) | (455,215) | (447,031) | (450,741) | (462,103) |
| Direct personnel costs | (8,647,493) | (8,316,693) | (8,731,020) | (8,892,965) | (9,251,872) |
| Materials costs | (9,327,654) | (8,281,024) | (7,799,871) | (6,662,691) | (6,991,369) |
| Direct costs of products distribution | (6,594,772) | (9,764,598) | (12,652,927) | (13,528,230) | (12,812,718) |
| Subcontracting charges | (46,858,020) | (41,016,647) | (31,811,771) | (25,763,190) | (21,873,785) |
| Operating lease charges and others | (10,459,491) | (8,925,014) | (8,129,685) | (7,196,732) | (6,689,260) |
| Cost of revenues | (82,360,051) | (76,759,191) | (69,572,305) | (62,494,549) | (58,081,107) |
| Gross profit | 12,212,360 | 11,690,165 | 11,387,641 | 10,681,703 | 10,377,989 |
| Other operating income | 1,014,492 | 943,021 | 854,051 | 805,579 | 802,216 |
| Selling, general and administrative expenses | (9,885,426) | (9,501,481) | (9,306,152) | (8,777,028) | (8,288,163) |
| Other operating expenses | (126,278) | (95,232) | (109,170) | (84,638) | (116,624) |
| Finance costs | (47,119) | (46,667) | (51,392) | (20,430) | (11,232) |
| Share of profits of associates | 63,782 | 66,095 | 49,985 | 25,700 | 14,315 |
| Profit before tax | 3,231,811 | 3,055,901 | 2,824,963 | 2,630,886 | 2,778,501 |
| Income tax | (482,733) | (502,706) | (487,446) | (463,088) | (493,121) |
| Profit for the year | 2,749,078 | 2,553,195 | 2,337,517 | 2,167,798 | 2,285,380 |
| Attributable to: | | | | | |
| Equity shareholders of the Company | 2,714,213 | 2,536,249 | 2,334,412 | 2,150,258 | 2,238,351 |
| Non-controlling interests | 34,865 | 16,946 | 3,105 | 17,540 | 47,029 |
| Profit for the year | 2,749,078 | 2,553,195 | 2,337,517 | 2,167,798 | 2,285,380 |
| Basic and diluted earnings per share (RMB) | 0.392 | 0.366 | 0.337 | 0.310 | 0.323 |

FINANCIAL SUMMARY

(Amounts in thousands, except per share data)

| | At 31 December | | | | |
|---|-----------------------|------------|------------|------------|------------|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| | RMB | RMB | RMB | RMB | RMB |
| Financial position | | | | | |
| Property, plant and equipment, net | 4,190,375 | 4,215,616 | 4,331,796 | 4,538,844 | 4,686,953 |
| Other non-current assets | 4,199,679 | 3,837,012 | 4,212,497 | 4,014,077 | 3,408,183 |
| Inventories | 2,275,735 | 2,221,334 | 2,883,989 | 2,420,898 | 2,228,214 |
| Accounts and bills receivable, net | 30,370,500 | 29,362,985 | 27,520,829 | 27,441,198 | 25,428,055 |
| Prepayments and other current assets | 11,815,129 | 6,740,547 | 6,873,074 | 5,833,187 | 5,027,405 |
| Financial assets at fair value through profit or loss | 1,262,514 | – | – | – | – |
| Cash and cash equivalents | 13,266,631 | 13,324,079 | 9,535,851 | 7,313,515 | 6,760,237 |
| Restricted deposits | 3,354,288 | 2,892,408 | 2,555,290 | 1,199,411 | 712,259 |
| Total assets | 70,734,851 | 62,593,981 | 57,913,326 | 52,761,130 | 48,251,306 |
| Interest-bearing borrowings | 308,876 | 46,697 | 177,005 | 246,818 | 53,901 |
| Accounts and bills payable | 24,600,681 | 20,399,409 | 19,699,385 | 18,815,568 | 17,080,784 |
| Receipts in advance for contract work | 4,997,284 | 4,046,097 | 2,911,542 | 1,578,088 | 1,164,029 |
| Accrued expenses and other payables | 11,320,729 | 9,730,662 | 8,691,602 | 7,424,966 | 7,126,497 |
| Income tax payable | 339,393 | 351,647 | 309,261 | 312,796 | 315,222 |
| Non-current liabilities | 348,237 | 971,687 | 914,922 | 839,707 | 222,851 |
| Total liabilities | 41,915,200 | 35,546,199 | 32,703,717 | 29,217,943 | 25,963,284 |
| Equity attributable to equity shareholders of the Company | 28,329,098 | 26,573,429 | 24,760,813 | 23,029,873 | 21,772,763 |
| Non-controlling interests | 490,553 | 474,353 | 448,796 | 513,314 | 515,259 |
| Total equity | 28,819,651 | 27,047,782 | 25,209,609 | 23,543,187 | 22,288,022 |
| Total liabilities and equity | 70,734,851 | 62,593,981 | 57,913,326 | 52,761,130 | 48,251,306 |





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