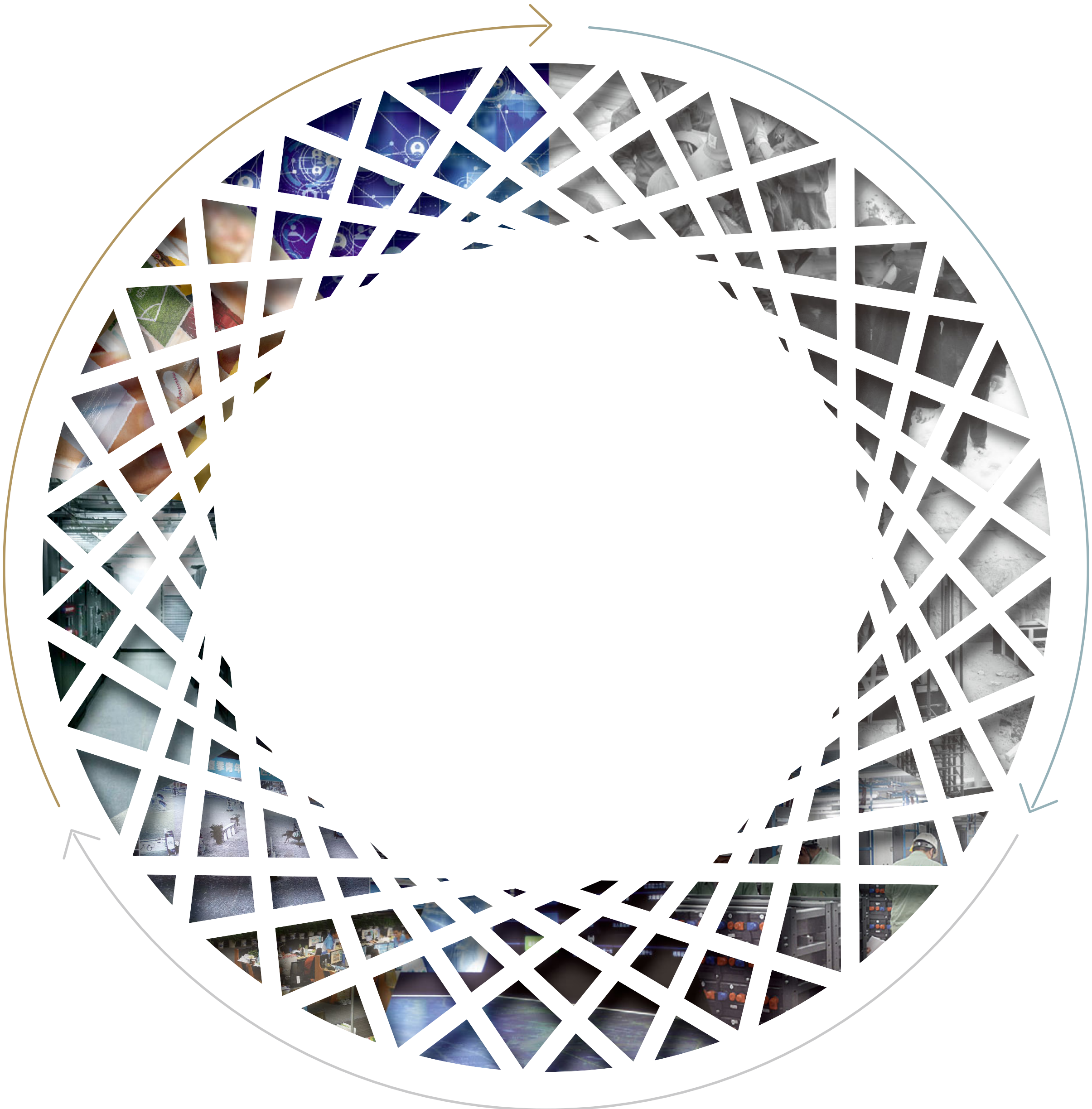
中国通信服务
CHINA COMSERVICE

China Communications Services Corporation Limited
Stock code : 552



INNOVATION AND TRANSFORMATION

ANNUAL REPORT 2016

10th Anniversary

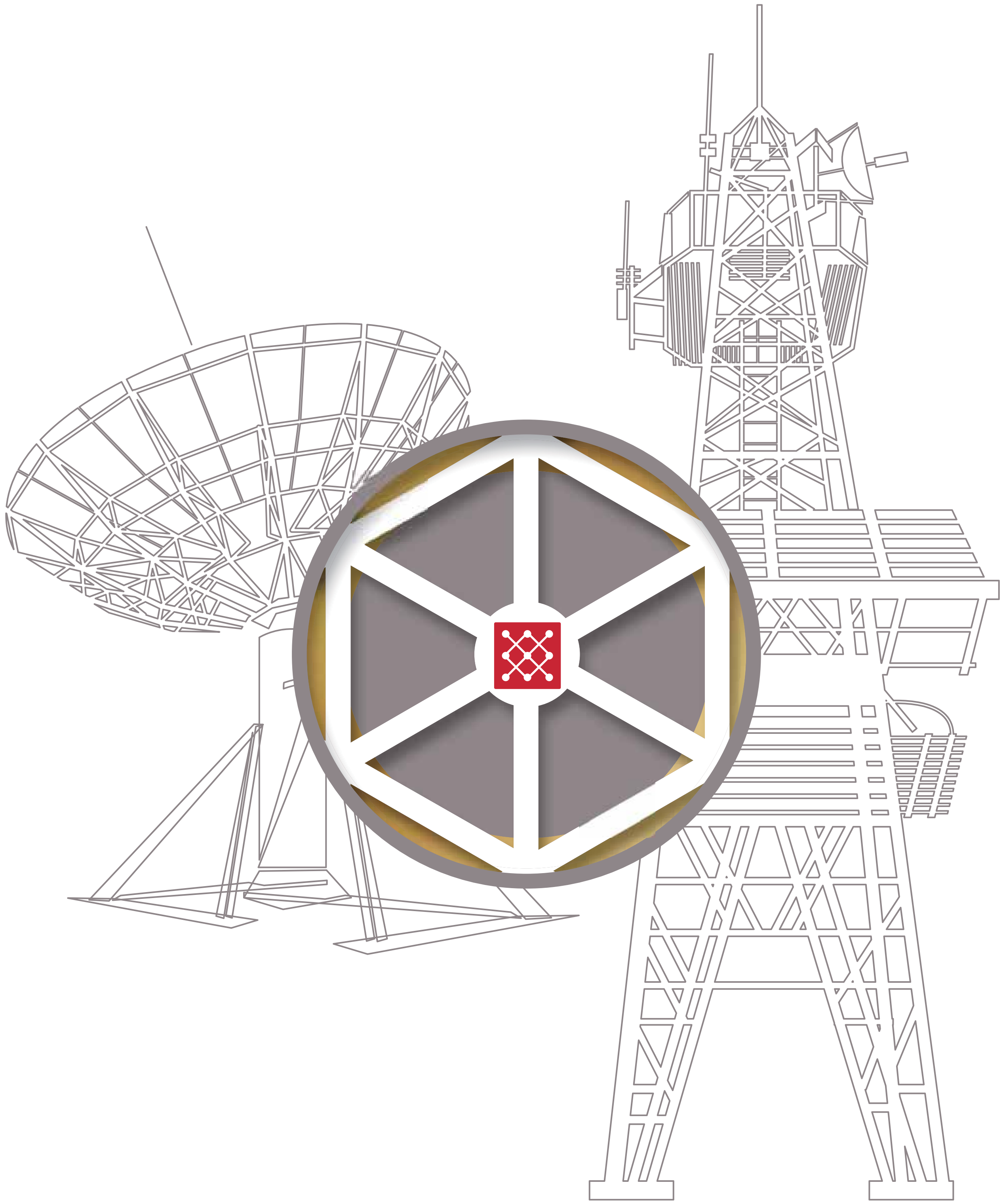
COVER STORY

This is a circular-based design, showing the transformation of the Group from a "service provider for telecommunications operators" to a "leading service provider in the informatization sector" during the past decade since its listing by leveraging its experience and ability in the telecommunications infrastructure sector and continuous innovation and transformation. The dividers in this annual report show the major changes of the Group in the past decade in terms of service capability, market development and scale.

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

CONTENTS

FOUNDATION

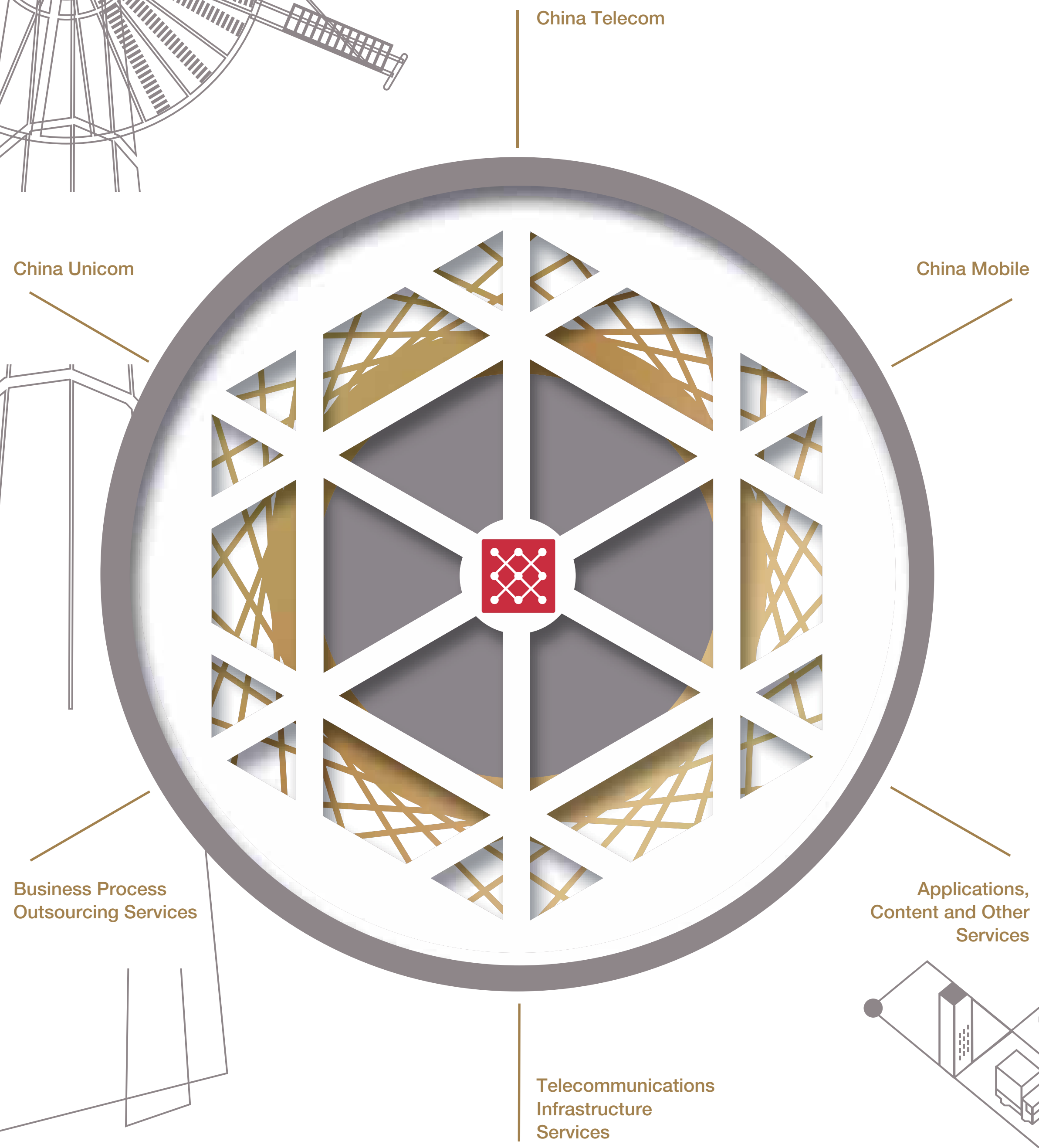


TELECOMMUNICATIONS INFRASTRUCTURE SERVICES

NETWORK BUILDER OF THE WORLD-CLASS COMMUNICATIONS INFRASTRUCTURE

China Comservice is the largest telecommunications infrastructure service provider in China as well as a network builder of the world-class communications infrastructure. China Comservice has provided telecommunications operators with services covering fixed-line, mobile and broadband networks for decades.

PAST



SERVICE PROVIDER FOR TELECOMMUNICATIONS OPERATORS

SERVICE PROVIDER FOR TELECOMMUNICATIONS OPERATORS

China Comservice was spun off from China Telecommunications Corporation in 2006 and listed on the Hong Kong Stock Exchange. At the beginning, the Company positioned itself as a service provider for telecommunications operators and strived to expand its operation to other telecommunications operators besides China Telecom.

NOW

A LEADING SERVICE PROVIDER IN THE INFORMATIZATION SECTOR

A LEADING SERVICE PROVIDER IN THE INFORMATIZATION SECTOR

The telecommunications industry has experienced rapid growth in the past decade. The development of information economy has promoted further integration of various industries with the internet, which generates considerable opportunities for China Comservice to develop customers other than telecommunications operators such as government and industrial and enterprise customers. China Comservice facilitates changes in development and promotes development through changes. Over the past decade, China Comservice has developed into a leading service provider in the informatization sector through innovation and transformation.

MILESTONES

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.

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.

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.

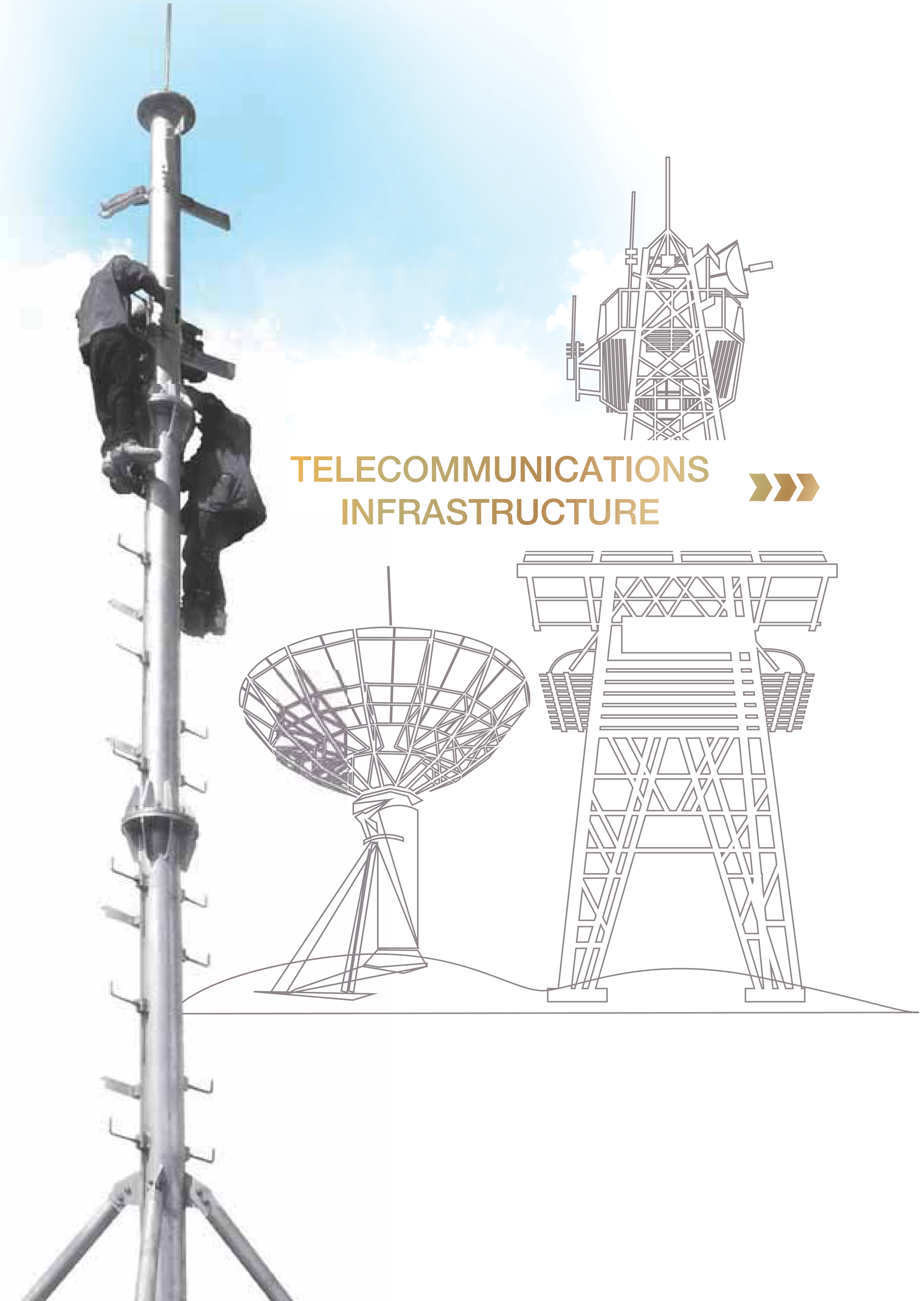
April
The Company was awarded "5A" logistics qualification certificate by China Federation of Logistic & Purchasing and became the only enterprise with such qualification in the domestic telecommunications industry.

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.

Our Capacity

China Comservice is the largest telecommunications infrastructure service provider in China with decades of extensive experience in building supreme networks for telecommunications operators. Over the past decade, the Company has put great efforts in business replication, capabilities extension and informatization innovation, and the services provided by China Comservice has extended from telecommunications infrastructure to the informatization construction sector.



TELECOMMUNICATIONS INFRASTRUCTURE

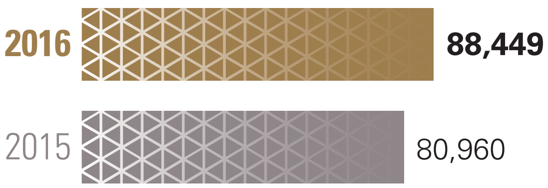
INFORMATIZATION CONSTRUCTION

- Smart City
- Smart Transportation
- Smart Security
- Smart Industrial Park
- Intelligent Building
- Cloud Computing Services
- E-certification

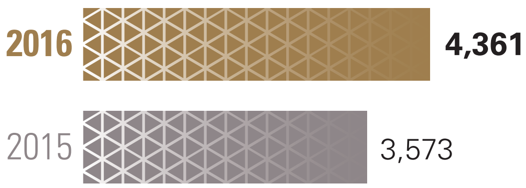
FINANCIAL HIGHLIGHTS

	2016	2015	Change
Revenues (RMB million)	**88,449**	80,960	9.3%
Profit attributable to equity shareholders (RMB million)	**2,536**	2,334	8.6%
Free cash flow[1] (RMB million)	**4,361**	3,573	22.1%
Basic earnings per share (RMB)	**0.366**	0.337	8.6%
Total dividend per share (RMB)	**0.1318**	0.1112	18.5%
of which: Final dividend per share (RMB)	**0.1098**	0.1011	8.6%
Special dividend per share (RMB)	**0.0220**	0.0101	117.8%

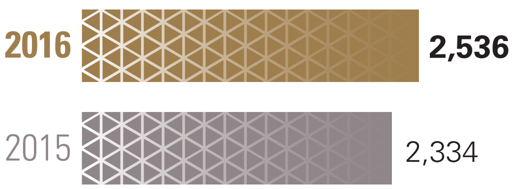
REVENUES
(RMB million)



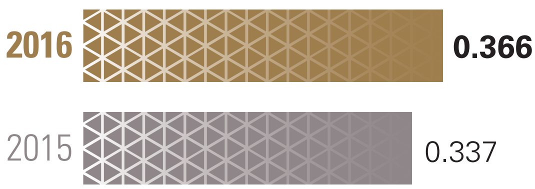
FREE CASH FLOW
(RMB million)



PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS
(RMB million)

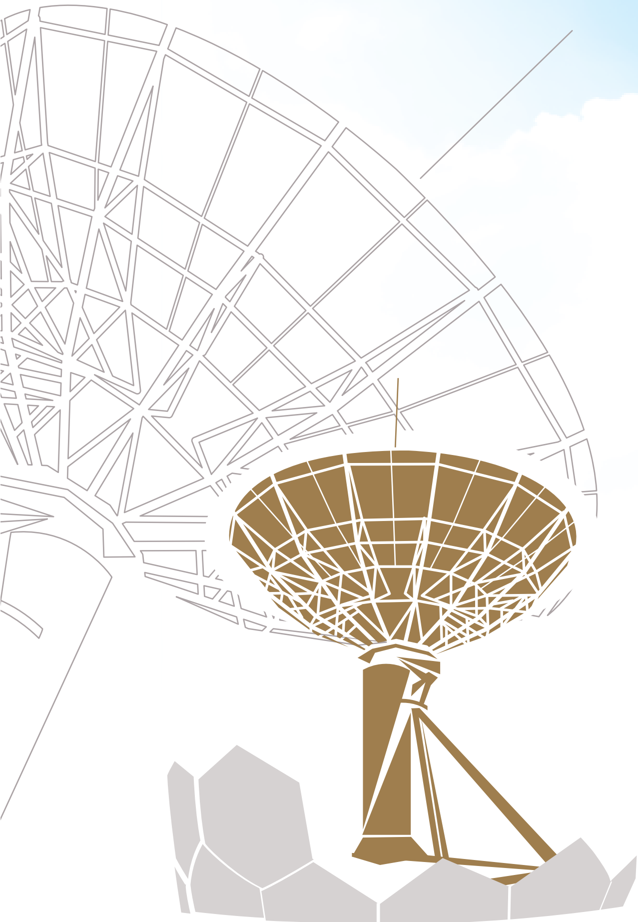


BASIC EARNINGS PER SHARE
(RMB)



[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 support services 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 Corporation, China United Network Communications Group Company Limited and China National Postal and Telecommunications Appliances Corporation. Meanwhile all the three telecommunications operators in the PRC and China Tower Corporation Limited are our customers. We also provide services to domestic non-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 2016, the total issued share capital of the Company was 6,926,018,400, of which 2,391,420,240 were H shares.

During the ten years since its listing, the Company has received many awards in the capital market. In 2016, the Group won various awards, including "The Best of Asia – Icon on Corporate Governance" once again in the "12th Corporate Governance Asia Recognition Awards" held by *Corporate Governance Asia*, a famous corporate governance magazine in Asia, "Platinum Award – Excellence in Governance, CSR & Investor Relations" in "The Asset Corporate Awards 2016" held by *The Asset*, and "The Best Investment Value Listed Company in the 13th Five-Year Plan" award in the 6th China Securities "Golden Bauhinia Awards" organized by Hong Kong Ta Kung Wen Wei Media Group Limited. Furthermore, in the relevant award competitions held by *Corporate Governance Asia*, Mr. Sun Kangmin, the Chairman of the Company, was honored the "Best CEO" and "Asian Corporate Director", and Ms. Hou Rui, the Chief Financial Officer and an Executive Vice President of the Company, was once again honored the "Best CFO". According to the "2016 FORTUNE China 500" released by *FORTUNE China*, the Group ranked 71st, moving up seven places as compared to the ranking last year.

HONORARY CHAIRMAN

Mr. Wang Xiaochu

BOARD OF DIRECTORS

Executive directors

Mr. Sun Kangmin (Chairman)
Mr. Si Furong
Ms. Hou Rui

Non-executive director

Mr. Li Zhengmao

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. Sun Kangmin

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Chung Wai Cheung, Terence

INTERNATIONAL AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISORS

Freshfields Bruckhaus Deringer
King & Wood Mallesons

REGISTERED OFFICE

Level 5 and B
No. 2 Fuxingmen South Avenue
Xicheng District
Beijing, PRC 100032

BUSINESS ADDRESS

No. 19 Chaoyangmen Beidajie
Dongcheng District
Beijing, PRC 100010

H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

LISTING PLACE

The Stock Exchange of Hong Kong Limited

STOCK CODE

00552

CONTACT INFORMATION

Investor Relations Department

Telephone: (852) 3699 0000
Facsimile: (852) 3699 0120
Address: Room 3203–3205
32/F, Great Eagle Centre
23 Harbour Road
Wanchai
Hong Kong
Email: ir@chinaccs.com.hk

Office of Board of Directors

Telephone: (8610) 5850 2290
Facsimile: (8610) 5850 1534

WEBSITE

www.chinaccs.com.hk

CHAIRMAN'S STATEMENT

The year 2016 marks the tenth anniversary of the Group's listing. During the past decade, and especially in recent years, the Group has upheld the principle of "facilitating changes in development, and promoting development through changes". We have strengthened our innovation and transformation and focused on value-driven development, and thereby realizing a sustainable and steady growth in revenue and profit, continuing optimization of business structure, as well as a remarkable increase in the total market value of the Group.

Sun Kangmin
Chairman

Dear Shareholders,

The year 2016 marks the tenth anniversary of the Group's listing. During the past decade, and especially in recent years, the Group has upheld the principle of "facilitating changes in development, and promoting development through changes". We have strengthened our innovation and transformation and focused on value-driven development, and thereby realizing a sustainable and steady growth in revenue and profit, as well as a remarkable increase in the total market value of the Group. In return to the support by our shareholders, the Group has distributed dividends to our shareholders no matter in favourable or adverse operating conditions. In 2016, the Group upheld the management philosophy of "value-driven, seeking steady yet progressive growth and efficient development", appropriately allocated our resources and further expanded our markets, thereby recording favourable results. In view of this, the Board continued to propose a special dividend for 2016 to enhance shareholders' return.

OPERATING PERFORMANCE

In 2016, the Group focused on "optimizing structure, sustaining growth, strengthening capabilities and enhancing efficiency" and devoted more efforts to innovation and transformation. The Group expanded its business scope, customer base and regional presence, assisted domestic telecommunications operators to build superior networks and leveraged our business capabilities to further develop the "Two New Markets"[1], thereby realizing "a steady yet progressive growth with quality enhancement". The Group recorded total revenues of RMB88,449 million, representing a year-on-year growth of 9.3%. Profit attributable to equity shareholders of the Company amounted to RMB2,536 million, representing a year-on-year growth of 8.6%. The cash conversion ratio[2] was 2.1, and free cash flow[3] was RMB4,361 million, representing a year-on-year increase of 22.1%. The outstanding operating performance and sufficient funds have provided strong endogenous power for the Group's development and built a solid foundation for a new dimension of future growth.

SPECIAL DIVIDEND

The Board has proposed to distribute a final dividend of RMB0.1098 per share for the financial year ended 31 December 2016, 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 RMB0.0220 per share for 2016. Taking into consideration of the above factors, the Company's total dividend for 2016 is RMB0.1318 per share, representing a year-on-year growth of 18.5% and a total dividend payout ratio of 36%.

MARKET EXPANSION

In 2016, the Group assisted domestic telecommunications operators to establish high quality 4G and fiber optic broadband networks and supported their transformation and upgrade. Meanwhile, the Group also leveraged on both "CAPEX and OPEX-driven"[4] businesses to comprehensively enhance its market expansion. In addition to China Telecom, the Group also strived to expand its businesses with other operator customers (in particular China Tower) and enhanced its service quality and market share, which effectively mitigated the impacts of operators' CAPEX change to the Group. Revenue from domestic telecommunications operator market for the year recorded a year-on-year growth of 11.1%, and accounted for 68.8% of the total revenues, representing a year-on-year increase of 1.1 percentage points. By devoting more efforts in gaining market share, the revenue from operator customers other than China Telecom realized a fast growth and recorded a year-on-year growth of 29.6%.

In 2016, the Group focused on the breakthrough of key businesses, speeded up the development of the Two New Markets, and demonstrated new energy and new look on its corporate development. With an increasing understanding and confidence among the Group to devote more effort to expanding into the domestic non-operator market, the Group further refined its marketing system and gradually formulated a business expansion mechanism with appropriate separation over the functions of marketing and project delivery. The commercialization of our projects, including smart industrial park, smart security and smart transportation, were accelerated, and significant breakthroughs were achieved by the Group in various sectors, including government, transportation, internet, IT and power. With proactive control of the products distribution business with low efficiency during the year, revenue from domestic non-operator market for the year recorded a year-on-year growth of 3.4%, and accounted for 26.8% of the total revenues. Excluding products distribution business in such market, revenue from the core businesses[5] recorded a year-on-year growth of 28.7% and accounted for more than 70% of the revenue in such market. The revenue structure of domestic non-operator market was further

1 Two New Markets refer to domestic non-operator market and overseas market.
2 Cash conversion ratio = net cash generated from operating activities/profit attributable to equity shareholders of the Company
3 Free cash flow = Profit for the year + Depreciation and amortisation – Changes in working capital – Capital expenditure
4 CAPEX and OPEX refer to the capital expenditure and operating expenditure of domestic telecommunications operators, respectively.
5 Core businesses of domestic non-operator market include telecommunications infrastructure services, business process outsourcing services (excluding products distribution), and applications, content and other services.

optimized and the gross profit margin recorded a moderate increase. The favourable growth of revenue from the Core Businesses of domestic non-operator market contributed significantly to the overall increase in the total revenues of the Group, demonstrating the sound results of our innovation and transformation. The Group promoted the development of new businesses in regional market, including Africa, the Middle East and South East Asia, and shifted its focus from project hunting to project initiation. The Group also focused on major turnkey projects, further promoted the "China-Africa Partnership Program in Trans Africa Information Superhighway" Project and made further progress. The Group proactively studied the feasibility to set up an industry investment fund with potential partners to promote the scale development of the overseas business. In 2016, the overseas business of the Group resumed steady development and realized a year-on-year growth of 19.3%, accounting for 4.4% of the total revenues.

BUSINESS STRUCTURE

In 2016, the Group actively developed its traditional businesses such as network infrastructure, and the revenue from telecommunications infrastructure ("TIS") services realized a year-on-year growth of 17.0%. Meanwhile, the Group strived to expand emerging businesses and cross-sector businesses, especially businesses with higher loyalty and value, such as maintenance, supply chain and facilities management. By continuously optimizing its business structure, the Group's revenue from the core business process outsourcing ("BPO") services[6] for the year recorded a year-on-year growth of 10.7%. The Group has dedicated to the synergistic promotion of six major group-level products[7], and duly launched new products and services in the market. Revenue from applications, content and other ("ACO") services achieved a year-on-year growth of 14.8%. The favourable business development of the ACO service also contributed to the Group's TIS business development. The aggregated revenues from TIS services, Core BPO Services and ACO services for the year accounted for 88.2% of the total revenues, representing a year-on-year increase of 4.4 percentage points. Under the proactive control of the Group, revenue from products distribution business recorded a year-on-year decrease of 20.0%, and its proportion to the total revenues decreased to 11.8%.

REFORM AND INNOVATION

In 2016, the Group continued to deepen its reform and proactively promoted the innovation of its systems and mechanisms. The Group has carried out meaningful exploration and trials in innovating operation and management model, business model, incentive scheme and mixed ownership scheme. Embracing the business opportunities created by the "Belt and Road" Initiative, the Group has adjusted the operation and management mechanism over its overseas business and refined its internal organizational structure. In order to respond more swiftly to the market, the Group relocated the management and decision-making office of its overseas business to Africa. The Group promoted the synergistic business operation in supply chains, distribution channels and property management, and unified its brand for each specified business. The Group directed its subsidiaries to participate in the trials on "PPP, BT and BOT"[8], and tried to explore innovative business models with external funds and social participation. The Group actively explored innovation in market-oriented employment and remuneration mechanism so as to promote the vitality and creativity of its employees. The Group also encouraged its subsidiaries to pilot new business operation models to seek new directions for their corporate development, including external equity investments, joint ventures and introduction of private enterprises for business operation.

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

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

8 PPP, BT and BOT represent Public-Private-Partnership, Build-Transfer and Build-Operate-Transfer, respectively.

CORPORATE GOVERNANCE

The Group has always maintained standardized and effective corporate governance. The Company followed its board diversity policy which effectively facilitated scientific and rational decision-making. The independent non-executive directors of the Company fully performed their duties of decision-making and supervision by providing advices and recommendations on the effective governance and major decisions of the Group, thereby facilitating a healthy development of the Group and protecting the interests of minority shareholders. The Group further promoted its transparency and information disclosure, and organized a reverse roadshow in 2016 to assist investors to gain better understanding of the innovative development of the Company. Good market responses were received from the roadshow and the enterprise value of the Group was highly recognized by the capital market.

During the ten years since its listing, the Group has received many awards in the capital market. In 2016, the Group won various awards, including "The Best of Asia – Icon on Corporate Governance" once again in the "12th Corporate Governance Asia Recognition Awards" in 2016 held by *Corporate Governance Asia*, a famous corporate governance magazine in Asia, "Platinum Award – Excellence in Governance, CSR & Investor Relations" in "The Asset Corporate Awards 2016" held by *The Asset*, and "The Best Investment Value Listed Company in the 13th Five-Year Plan" award in the 6th China Securities "Golden Bauhinia Awards" organized by Hong Kong Ta Kung Wen Wei Media Group Limited. Furthermore, in the relevant award competitions held by *Corporate Governance Asia*, I was honored the "Best CEO" and "Asian Corporate Director", and Ms. Hou Rui, the Chief Financial Officer and Executive Vice President of the Company, was once again honored the "Best CFO". According to the "2016 FORTUNE China 500" released by *FORTUNE China*, the Group ranked 71st, moving up seven places as compared to the ranking last year.

SOCIAL RESPONSIBILITIES

The Group has always endeavoured to fulfil its social responsibilities. The Group has made many valuable contributions in solving unemployment issue, disaster relief, major communications restoration and environmental protection. Every year, the Group offers many employment positions and also stimulates the employment of the upstream and downstream enterprises, and played an important role in stabilizing employment situation in the society. In 2016, many regions in southern China suffered catastrophic floods resulting from severe convective weather. The Group proactively participated in flood prevention and disaster relief, and deployed more than 24,000 person-times and 8,400 vehicles/times to repair and restore more than 13,600 communications facilities. During the year, the Group played an important role in the construction and maintenance of communications networks for G20 Hangzhou Summit and the Third World Internet Conference, successfully accomplished all missions and was highly praised by the government.

PROSPECTS

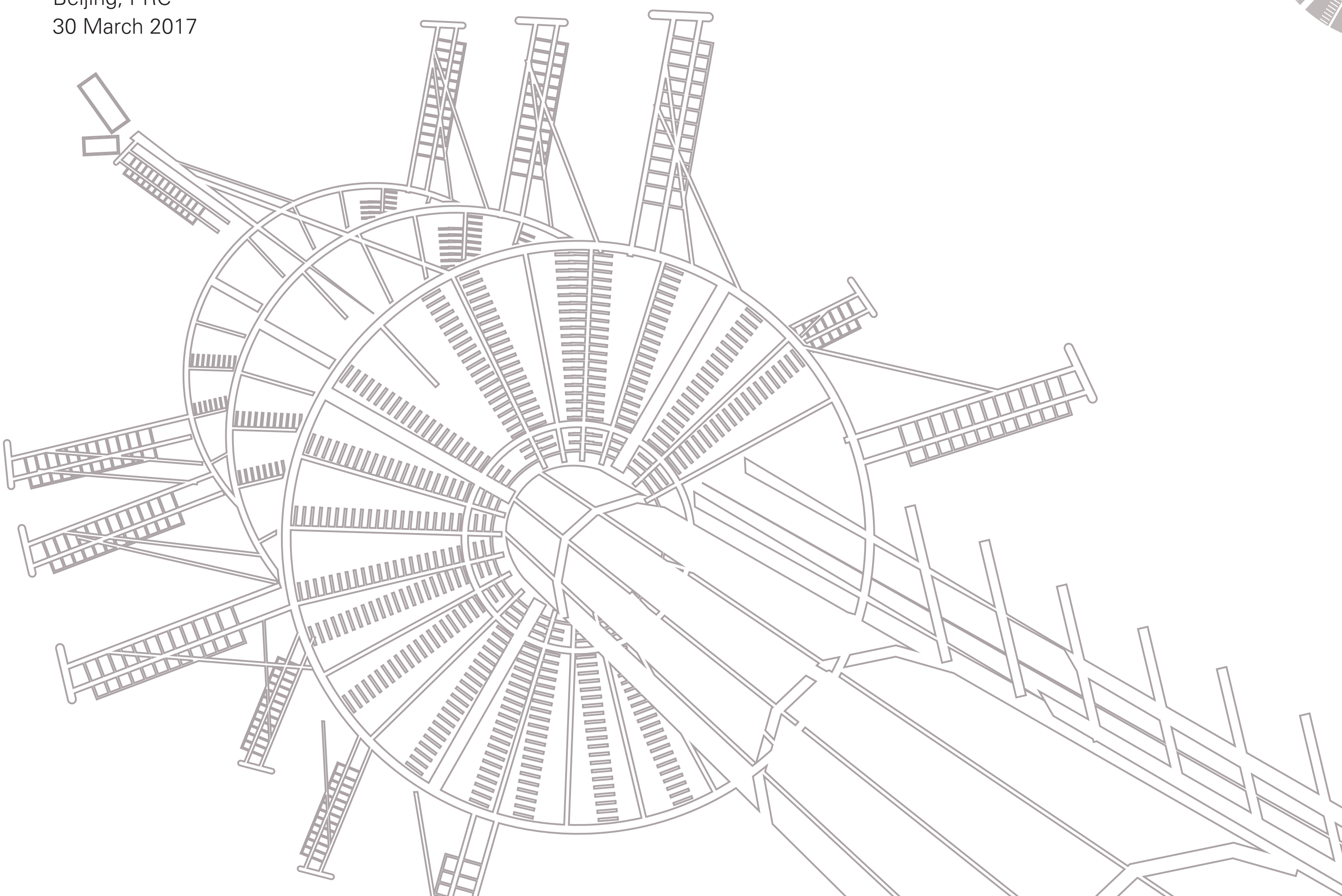
In 2016, the Group recorded sound operating results and achieved many new highlights and new changes in its development, which laid a solid foundation for its future development since the commencement of the "13th Five-year Plan". Currently, despite of the uncertainties of the macroeconomic circumstances under the "New Normal", the PRC economy has developed steadily and positively in general and opportunities will outweigh challenges in the future. As the government has promoted the supply-side structural reform and further implemented various strategies including "Network and Information Country", "Cyberpower" and "Innovation-driven Development", a favourable operating environment has been established for the growth of the Group. Enormous business opportunities will be brought from the booming of cloud computing, big data and internet of things with substantial investments in the new form of ICT and strong demand in industry informatization. The acceleration of transformation and upgrading of domestic telecommunications operators will stimulate the increasing demand in technologies, software, network maintenance and information security, which will create a favourable condition for the reinforcement of the Group's fundamental business performance. Along with the implementation of the "Belt and Road" Initiative and the Group's major projects such as the "China-Africa Partnership Program in Trans Africa Information Superhighway" Project, the prospects of the expansion of the Group's overseas business will be promising.

By persisting in the management philosophy of "value-driven, seeking steady yet progressive growth and efficient development" and the concept of "market-oriented, creating value for customers", the Group will strive for market penetration and expansion so as to increase its market share and further maintain its leading position in domestic telecommunications operators market. Targeting at the informatization demands from the society and industries, the Group will accelerate the industrial breakthroughs in targeted markets and expand the domestic non-operator market. By leveraging the opportunities arising from our "China-Africa Partnership Program in Trans Africa Information Superhighway" Project, the Group will focus on the implementation of key projects and speed up the expansion in overseas market. The Group will explore the utilization of various financial instruments and facilitate the development of the Group in the future through integration of industries and finance. In addition, the Group will enhance its own capabilities, refine its marketing system and strengthen its capability in project delivery. Leveraging on its own technological competitive edges and investing more resources in innovation, the Group will enhance its capability in research and development and marketing for its products. In order to increase its operation efficiency, the Group will strengthen its synergistic management and cost control. The Group will continue its sound trajectory of steady growth with quality improvement and create greater values for its shareholders and customers through better development.

Finally, on behalf of the Board, I would like to take this opportunity to express my sincere gratitude to the shareholders and customers of the Group and all sectors of society for their longstanding care and support to the Group, and sincerely thank all the employees for their dedication over the years. I would also like to express my sincere gratitude to Mr. Zhang Junan, who resigned as a non-executive director of the Company, and Mr. Wang Jun, who resigned as an independent non-executive director of the Company, for their outstanding contributions to the development of the Group during their tenure, and express my sincere welcome to Mr. Liu Linfei for joining the Board.

Sun Kangmin
Chairman

Beijing, PRC
30 March 2017



PRESIDENT'S STATEMENT

In 2016, facing the slow recovery of global economy and the "New Normal" in the economic development of China, the Group stayed vigilant and made innovative breakthroughs, and achieved satisfactory operating results and continued increase in free cash flow through further market expansion and reinforcement of the "value-driven principle". The outstanding operating performance and sufficient funds have provided strong endogenous power for the Group's development and built a solid foundation for a new dimension of future growth.

Si Furong
President

Dear Shareholders,

I am very pleased to present the operating results of the Group in 2016.

FINANCIAL PERFORMANCE

In 2016, facing the slow recovery of global economy and the "New Normal" in the economic development of China, the Group stayed vigilant and made innovative breakthroughs, and achieved satisfactory operating results through further market expansion and reinforcement of the "value-driven principle". Total revenues of the year amounted to RMB88,449 million, representing a year-on-year growth of 9.3%. Affected by the decrease in service charges in certain businesses and increase in labour-related costs, the overall gross profit margin was 13.2%, representing a year-on-year decrease of 0.9 percentage point. Benefited from the economies of scale and effective enhancement of internal management, selling, general and administrative expenses for the year accounted for 10.7% of the total revenues, representing a year-on-year decrease of 0.8 percentage point. Profit attributable to equity shareholders of the Company for the year amounted to RMB2,536 million, representing a year-on-year increase of 8.6%. Net profit margin was 2.9%, which remained the same as that of last year. In 2016, the basic earnings per share of the Group was RMB0.366. Attributable to our stringent management of accounts receivable, the accounts receivable turnover days were 117 days, representing a year-on-year decrease of 7 days. Our free cash flow was RMB4,361 million, representing a year-on-year increase of 22.1%.

BUSINESS DEVELOPMENT

In 2016, the Group achieved robust business growth amid its proactive control on the development of the products distribution business with lower efficiency. TIS services with traditional competitive edge, Core BPO Services and ACO services, all recorded favourable growth, and our business structure was further optimized.

Revenue from TIS services amounted to RMB45,887 million, representing a year-on-year growth of 17.0%, which presented the fastest growth among our three major businesses, and accounted for 51.9% of the total revenues. Revenue of TIS services from China Telecom recorded a year-on-year growth of 1.9%. During the year, we further developed our traditional businesses and expanded into new and cross-sector businesses, and continued to leverage our service capabilities to further develop the "Two New Markets", thereby achieving vigorous revenue growth of 35.3% and 46.8% from the TIS services in the domestic telecommunications operator customers other than China Telecom and domestic non-operator customers, respectively. The favourable revenue growth of TIS services from domestic non-operator customers effectively reduced the reliance of the Group's TIS services on operators' investment.

Revenue from BPO services amounted to RMB32,533 million, representing a year-on-year decrease of 1.5% and accounting for 36.8% of the total revenues. The decrease was mainly due to the Group's proactive control on the development of products distribution business with lower efficiency, and its increasing focus on transforming towards high-end businesses. Revenue of products distribution business for the year recorded a year-on-year decrease of 20.0%. Excluding the revenue from products distribution business, revenue from the Core BPO Services recorded satisfactory growth of 10.7%. Among that, revenue from network maintenance business recorded a year-on-year growth of 9.5%. After integration and the implementation of synergistic operation, the supply chain business recorded a year-on-year growth of 12.7%.

We captured business opportunities arising from the intelligentization transformation of domestic telecommunications operators and the demand for informatization construction from industry customers, and revenue from ACO services amounted to RMB10,029 million, representing a year-on-year growth of 14.8%, noticeably higher than that of last year[9], and accounting for 11.3% of the total revenues. To strengthen the development momentum of the Group's high value businesses, we set up an innovation fund to facilitate the commercialization of our products. We closely monitored the development of industry sectors and set up expert committees to formulate a product ecosphere through in-house research and development and co-operation with external parties.

CUSTOMER DEVELOPMENT

In 2016, the Group focused on both the "CAPEX and OPEX-driven" businesses, and revenue from the domestic telecommunications operator customers amounted to RMB60,889 million, representing a year-on-year growth of 11.1% and accounting for 68.8% of the total revenues. Among that, the revenue from China Telecom was RMB40,597 million, representing a year-on-year growth of 3.7% and accounting for 45.9% of the total revenues. Capturing the vital opportunities arising from the strategic cooperation between China Telecom and China Unicom, centralized procurement by China Mobile and strong demand from China Tower for integrated construction and maintenance services, the Group adopted innovative sales and marketing measures, proactively captured new customer demands and increased its market share. Revenue from domestic telecommunications operator customers other than China Telecom recorded a rapid year-on-year growth of 29.6% and its contribution to the total revenues recorded a year-on-year increase of 3.5 percentage points to 22.9%. Among that, revenue from China Tower recorded the fastest year-on-year growth and was the largest contributor to the incremental revenues among domestic telecommunications operators market. The increase in market share effectively mitigated the influence brought by the decline of CAPEX spending of operators.

9 In 2015, revenue from ACO services recorded a year-on-year growth of 9.9%.

In 2016, revenue from the Group's domestic non-operator customers market amounted to RMB23,714 million, representing a year-on-year growth of 3.4% and accounting for 26.8% of the total revenues. Among that, the Core Businesses recorded an increase of 28.7% and its share increased to 73.9% of the revenue in such market, demonstrating a significant enhancement in the quality of development. We grasped the demand from informatization and new ICT construction, and continued to achieve breakthroughs in various industry sectors. We successfully secured 160 large projects each of more than RMB10 million in value from various sectors including government, transportation, internet, IT and power. We leveraged on our existing capabilities and extended our presence to capture the valuable opportunities arising from the opening-up of certain businesses in electricity distribution and sales under the reform of the power sector in China, and applied for and obtained 80 business licences covering the businesses for power network construction turnkey projects, which equipped us with strategic reserves for scale breakthroughs in the power sector in the future. We held product release conferences to promote important group-level products such as smart industrial park and smart security to establish our brand names and industrial standards of our services. During the year, the Group launched an innovation fund for product development and these products received high recognition in the society. Among that, the smart highway was awarded the Supreme Award for New Technological Innovation by the National Development and Reform Commission, the smart industrial park was awarded the Gold Award for the 20th International Software Exhibition of China, the smart city was awarded the Second Prize for the 2016 Nationwide Superior Communications Engineering Consultative Projects by China Association of Communications Enterprises, and the smart security was awarded the Golden Bridge Award by Technology Market Association of China. Besides, we set up the mechanism of "Innovation Fund and Product Innovation Committee", and gained more experience in the commercialization of our products.

In 2016, the overseas business of the Group went through the five-year bottleneck period and achieved a revenue of RMB3,846 million, representing a year-on-year growth of 19.3% and accounting for 4.4% of the total revenues. Our turnkey projects, including the national optic cable backbone network project in Tanzania (Phase 3) and the education network project in Cameroon were in progress as scheduled. The fiber network interconnection project connecting the four Eastern African countries also made meaningful progress. Besides, the Group also achieved breakthroughs in respect of the education informatization and power grid construction projects in South East Asia and Africa. The Group made further progress in respect of its "China-Africa Partnership Program in Trans Africa Information Superhighway" Project, and is trying to leverage on capital by setting up an industry investment fund with its partners to drive scale development of overseas business and control business risks.

EFFICIENCY ENHANCEMENT

In 2016, the Group enhanced operating efficiency through multiple innovative management initiatives. We commenced the operation of China Comservice Supply Chain Management Company Ltd. and created a unified brand of "中通福" for its distribution chain stores, with a view to integrating the Group's resources for future development and reducing operating cost. We continued to explore synergistic operation and brand promotion of maintenance and property management businesses to cultivate new areas of growth for the sustainable development of the Company. Through the establishment of Inner Mongolia Autonomous Region Communications Services Company Limited, the Group speeded up the scale development and breakthroughs in the northern China market by reallocating its surplus resources from the southern China to northern China market, thereby realizing the economies of scales by leveraging its existing resources. In addition, the Group organized the "Comservice Craftsmanship" competition on construction skills during the year to promote the spirits of craftsmanship with an aim to promote the service standards and strengthen the Group's core competitiveness. The Group also launched three leaders training camps to select outstanding talents for its future development.

PROSPECTS

In 2017, the Group will continue to uphold the management philosophy of "value-driven, seeking steady yet progressive growth and efficient development" and adhere to the principle of "market-oriented, creating values for customers". By focusing on "optimizing structure, sustaining growth, strengthening capabilities and enhancing efficiency", the Group will strive to create greater value for shareholders and customers.

The Group will secure its stable fundamental performance for its operation by capturing the window of opportunity from 4G network construction and the demand for building optic fiber broadband networks of the domestic telecommunications operators and penetrating traditional business with advantages, while focusing on their recurrent OPEX-driven businesses and endeavouring to develop high-end maintenance and supply chain services. Meanwhile, the Group will focus on and grasp the opportunities arising from new market demands from the transformation and upgrade of domestic telecommunications operators, the strategic cooperation between China Telecom and China Unicom, the integrated construction and maintenance services of China Tower, with a view to expanding new market, increasing its market share and reducing the impact from the change in CAPEX spending of telecommunications operators.

Adhering to our "three-step"[10] strategy, we will capture the opportunities arising from the extensive demand from informatization construction of various industry sectors and the substantial investment for new ICT. We will also integrate our resources and focus on the development in key sectors such as government, power, transportation, education, construction and property. Through business replication and capabilities extension, the Group will endeavour to develop pan-operators customers and enlarge its revenue scale. We will select "smart projects" with high potential to facilitate the commercialization of products from our projects and enrich the portfolio of group-level products as reserves for future promotion. Furthermore, taking advantage of the opening-up of power sector, we will proactively expand our business outside the communications sector and strengthen cross-industry and cross-sector operation.

The Group will promote synergistic operation and market expansion of overseas business through adjustment and optimization of its overseas operation and management systems. We will attempt to utilize industry investment fund proactively to expand our projects and facilitate the implementation of large-scale turnkey projects. We will accelerate the progress of our "China-Africa Partnership Program in Trans Africa Information Superhighway" Project by adhering to our overall principle of "top-tier design, progressive implementation, key breakthroughs and tailored policy for each country". We will strengthen resources sharing with operator customers, cooperate with "Going Abroad" state-owned enterprises and explore the "EPC+"[11] business model, with a view to expanding overseas market together. In addition, we will use various financial instruments such as accounts receivable factoring to prevent funding risks.

In the future, the Group will insist on reform and innovation to transform itself into a high-value enterprise. We will continue to carry out internal integration over our subsidiaries to promote economies of scale, take new initiatives to promote business development and innovate our business models by using social funds and industry investment funds. We will support our subsidiaries to adopt innovative new approaches of development by taking trial run on external equity investment, introducing private investors, participating in joint venture projects, and exploring mixed ownership scheme. Meanwhile, the Group will further motivate all units and employees by setting up a differentiated remuneration allocation system.

Persistence is the key to success. With 10 years of treasured experience, we have become a leading service provider in the informatization sector. We will hold on our initiatives, move forward and commit to achieving breakthroughs and growth through reform and innovation. We are dedicated to striving for a prosperous and fruitful future.

Si Furong
President

Beijing, PRC
30 March 2017

10 The three-step strategy covers business replication, capability extension and informatization innovation.
11 EPC+ refers to the business model which comprises EPC (engineering, procurement and construction) + solutions + operating services and financing.

Our Markets

Prior to the listing, China Telecom, our controlling shareholder, is the primary source of our revenue. During the listing, the Company further expanded its operation into the entire telecommunications market in China and endeavoured to develop businesses from China Mobile and China Unicom. With the establishment of China Tower, we have provided services to domestic telecommunications operators including the three domestic telecommunications operators and China Tower. In line with the development of information economy in China, the Group strived to attract clients other than domestic telecommunications operators. The Company achieved significant breakthroughs in several industries such as government, transportation, internet, information technology and power. Grasping opportunities brought by the "Belt and Road" Initiative, the Company further enhanced its operation in overseas market including Africa, the Middle East and South East Asia.

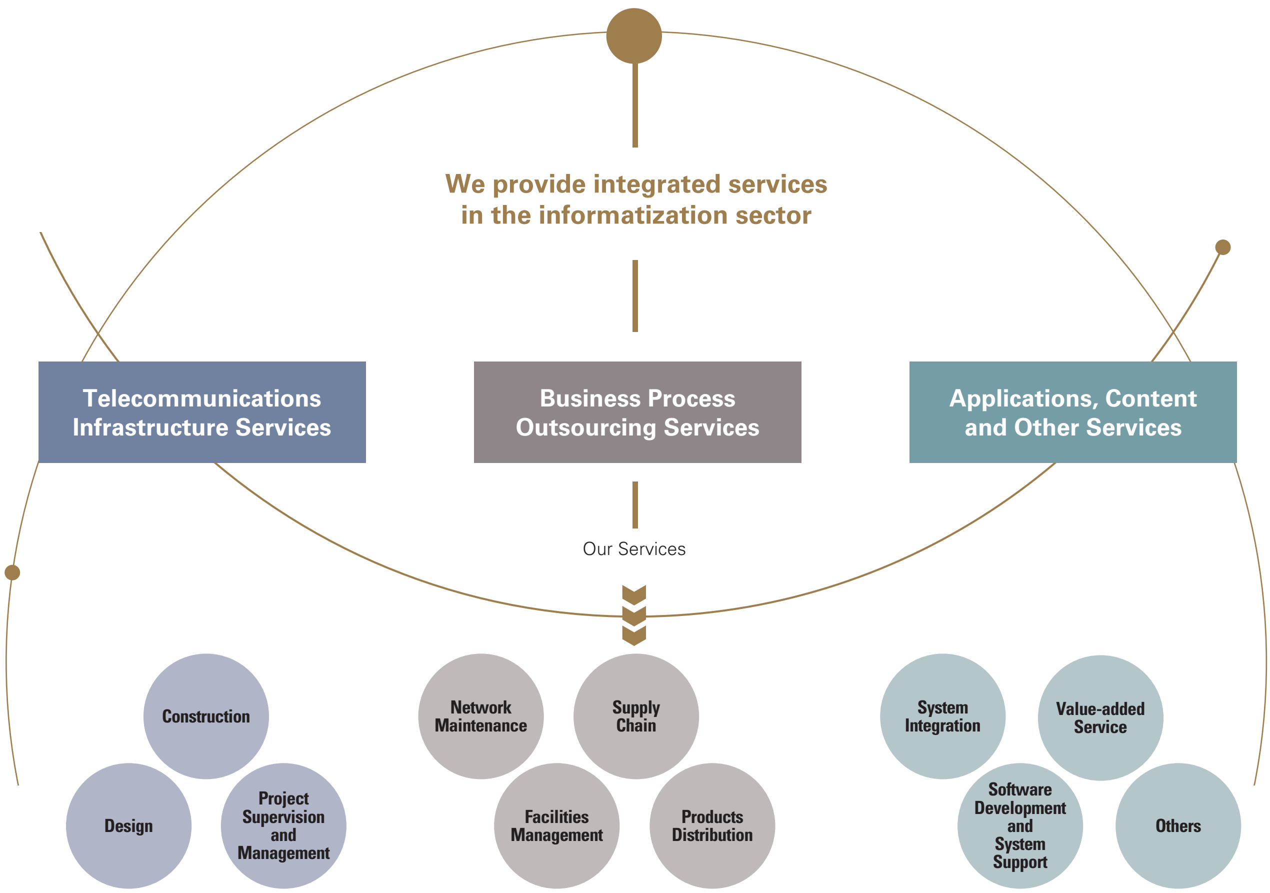
SERVICE PROVIDER FOR TELECOMMUNICATIONS OPERATORS

A LEADING SERVICE PROVIDER IN THE INFORMATIZATION SECTOR

BUSINESS OVERVIEW

The Group is a leading service provider in the PRC that provides integrated support services for the informatization sector including telecommunications, media and technology. The Group provides integrated solutions, including telecommunications infrastructure services, business process outsourcing services as well as applications, content and other services to telecommunications operators, media operators, telecommunications equipment manufacturers, telecommunications infrastructure providers as well as 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.



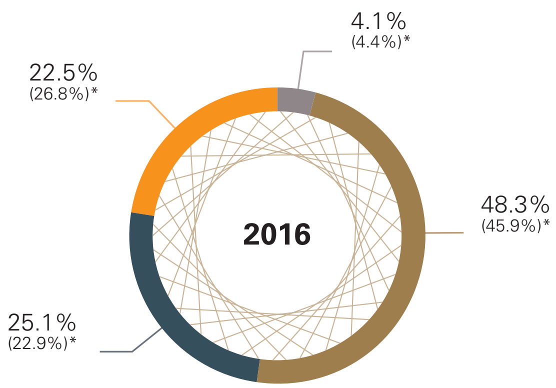
(In RMB million, except percentages)	**Revenue in 2016**	Revenue in 2015	Change
Domestic telecommunications operator customers	**60,889**	54,793	11.1%
Of which: China Telecom	**40,597**	39,130	3.7%
China Mobile, China Unicom, China Tower	**20,292**	15,663	29.6%
Domestic non-operator customers	**23,714**	22,942	3.4%
Overseas customers	**3,846**	3,225	19.3%
Total	**88,449**	80,960	9.3%

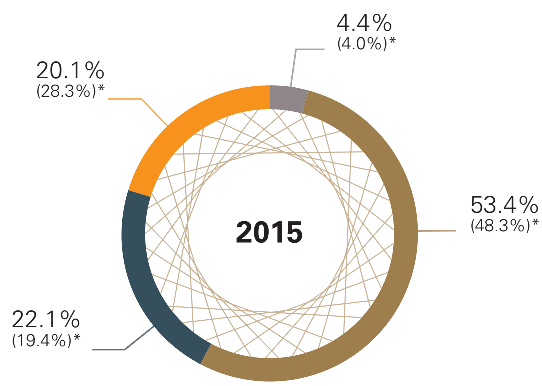
MARKET EXPANSION

In 2016, the Group upheld the management philosophy of "value-driven, seeking steady yet progressive growth and efficient development". While seeking further development of its traditional businesses, the Group also focused on the OPEX-driven businesses of the domestic telecommunications operators, thereby guaranteed the stable development of its businesses. On the other hand, the Group also achieved major breakthroughs in domestic non-operator customer market and focused on development of overseas turnkey projects and achieved efficient development of the Company. In 2016, the Group focused on "optimizing structure, sustaining growth, strengthening capabilities and enhancing efficiency" and further optimized the business structure by proactive control on products distribution business with low efficiency, achieving a high single-digit growth in business revenue. The total revenues of the Group for the year amounted to RMB88,449 million, representing a year-on-year growth of 9.3%.

In 2016, the Group continued to reinforce its market expansion and achieved steady growth in revenue from domestic telecommunications operators. In 2016, revenue from domestic telecommunications operator customers (including China Tower Corporation Limited) amounted to RMB60,889 million, representing a year-on-year increase of 11.1%. Revenue from domestic non-operator customers amounted to RMB23,714 million, representing an increase of 3.4%, in which the core revenue excluding products distribution business increased by 28.7%. Revenue from overseas customers amounted to RMB3,846 million, representing an increase of 19.3%.

The following charts show the revenue contribution of each customer group in terms of core businesses excluding products distribution business:





China Telecom | China Mobile, China Unicom, China Tower | Domestic non-operator customers | Overseas customers

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

In 2016, the Group focused on the development of both "CAPEX and OPEX-driven"[1] businesses in the domestic telecommunications operator market. Leveraged on the opportunities of construction of fiber optic broadband network, upgrade and optimization of mobile network and scale development of tower construction and maintenance business in China, the Group further increased its market share and accelerated the expansion into OPEX business. The Group overcame the pressure from the decrease in the investment and unit price decline of domestic telecommunications operators and realized steady revenue growth. Revenue from domestic telecommunications operator customers amounted to RMB60,889 million, representing a year-on-year growth of 11.1%, of which revenue from China Telecom amounted to RMB40,597 million, representing a year-on-year growth of 3.7%, and aggregate revenues from operator customers other than China Telecom amounted to RMB20,292 million, representing a year-on-year rapid growth of 29.6%. During the year, business from China Tower achieved a significant growth, which was the largest contributor to the Group's incremental revenue from domestic telecommunications operators.

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

In 2016, we grasped the growing demand from informatization of the sector and the new ICT infrastructure construction, and proactively expanded the domestic non-operator customers market. The Group developed a common goal and strengthened internal collaboration amongst its products, qualifications, marketing and delivery to promote constructive and interactive development between its emerging and traditional businesses. Revenue from domestic non-operator customers market amounted to RMB23,714 million, representing a year-on-year growth of 3.4%. Excluding products distribution business with low efficiency which was proactively controlled by the Group, the revenue from core businesses of domestic non-operator market[2] recorded a year-on-year growth of 28.7%, which became the major contributor to the incremental revenue of the Group during the period. The Group strengthened its promotion of the six major group-level products including smart city, smart security, smart industrial park, intelligent building, cloud computing services and e-certification. Currently, the sales and marketing system of the Group covers 83% of professional companies with 4,000 sales and marketing staff. The Group has been devoted to the expansion of customers in sectors such as government, transportation, internet and IT, and power, and won certain high value projects including overall integrated network planning, construction and commissioning for the G20 Summit and the Third World Internet Conference. Currently, annual contracted revenue generated from customers in each sector of government, transportation, internet and IT, construction and property exceeded RMB1 billion. 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 80 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.

The Group undertook the communications system support for large-scale conferences (including overall integrated network planning, construction and commissioning)

In 2016, revenue from overseas business of the Group resumed steady growth after a five-year bottleneck period and reached RMB3,846 million, representing a year-on-year growth of 19.3%. During the year, the Group continued to optimize the presence and development direction for overseas market and established its overseas business management and decision-making office in Ethiopia in order to further keep abreast of the market. Development of our large scale projects also achieved progress. The "China-Africa Partnership Program in Trans Africa Information Superhighway" Project achieved initial progress. During the year, we facilitated the signing of a cooperative agreement between the Ministry of Industry and Information Technology of PRC and the Ministry of Communications and Information Technology of Ethiopia and formulated and refined technology and project financing proposals to facilitate project execution. Currently, we are pushing forward to set up an industry investment fund with our business partners to finance the scale development of overseas business. Encouraging developments were achieved in several projects including the construction of horizontal fiber cables across 19 African countries, fiber network interconnection project connecting the four East African countries and construction of submarine cable

The Group signed strategic cooperation agreements with its business partners under the "Belt and Road" Initiative

The Group held the working group meeting with telecommunications clients in Ethiopia

2 Core businesses of domestic non-operator market include telecommunications infrastructure services, business process outsourcing services (excluding products distribution), and applications, content and other services.

in East Africa. The Group closely followed the national "Belt and Road" Initiative and continued to expand proactively the regional markets including Africa, the Middle East and South East Asia. Among which, sound progress was made in several turnkey projects such as national optic cable backbone network project (Phase III) in Tanzania and the education network project in Cameroon. Breakthroughs were achieved in education informatization and power grid construction projects in respective regions.

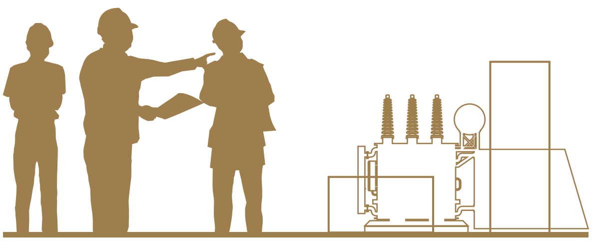
TELECOMMUNICATIONS INFRASTRUCTURE SERVICES

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 2016, revenue from telecommunications infrastructure services amounted to RMB45,887 million, representing a year-on-year growth of 17.0%.

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 2016, 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 RMB35,832 million, representing a year-on-year growth of 13.3%.

The Group proactively expanded its overseas market

The Group undertook domestic telecommunications network upgrade projects



The Group undertook power network projects

The Group undertook transportation communications infrastructure projects for the government

The Group undertook communications projects in power sector

The Group also provides construction services of ancillary communications networks, and integrated solutions for informatization and intelligent buildings to domestic non-operator customers, such as government agencies, financial institutions, broadcasting and television enterprises, construction enterprises, transportation and electricity sectors as well as overseas customers. The Group continuously achieves breakthroughs in the construction projects for smart city, intelligent building, data centre and power projects. In 2016, revenue of telecommunications infrastructure services from domestic non-operator customers amounted to RMB7,450 million, representing a year-on-year growth of 46.8%. The growth momentum has been further strengthened which has a significant contribution to the overall sustainable growth of telecommunications infrastructure services.

Despite the anticipated decline of the investment of domestic telecommunications operators, through the increase of its market share and the capturing of the demand on integrated construction and maintenance services from China Tower, the Group expects to develop its traditional business of domestic telecommunications operators steadily. With the further implementation of national strategies of "Network and Information Country" and "Cyberpower", demands on related services such as smart city and safe city will increase. Overseas opportunities brought by the national "Belt and Road" Initiative, and the growing demands on the construction of communications infrastructure network and mobile infrastructure network, and informatization, will create new opportunities for the growth of the Group.

The Company's wholly-owned subsidiary signed the strategic cooperation agreement with China Tower

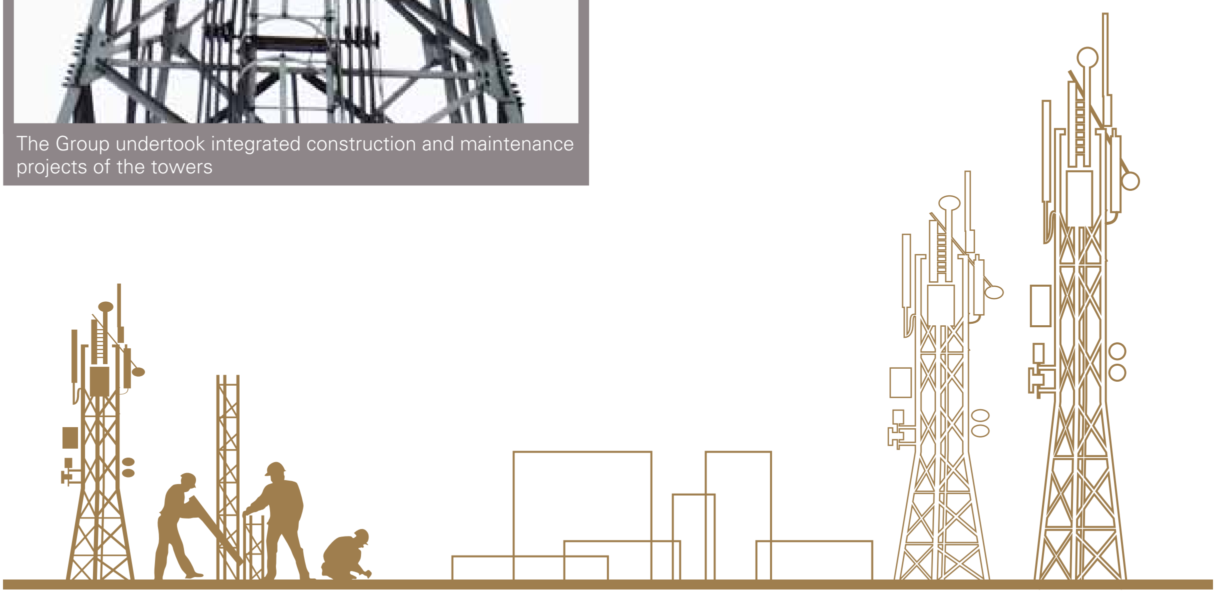
BUSINESS PROCESS OUTSOURCING SERVICES

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[3] and products distribution[3]. The targets of our services include domestic and overseas operator customers, government agencies and enterprises customers. In 2016, the Group focused on the OPEX-driven business of domestic telecommunications operators and the revenue from the Core BPO Services[4] amounted to RMB22,054 million, representing a year-on-year growth of 10.7% while the overall revenue from the business process outsourcing services (including products distribution business which is proactively controlled by the Group) amounted to RMB32,533 million, representing a year-on-year decrease of 1.5%.

The Group undertook integrated construction and maintenance projects of the towers

The Group provides Network Maintenance services for telecommunications operators covering fiber optic cables, electric cables, mobile base stations, network equipment and terminals. In 2016, 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 RMB10,685 million, representing a year-on-year growth of 9.5%.

The Group provides general facilities management services to domestic telecommunications operators and domestic non-operator customers for their data centres, cloud computing centres, commercial buildings, high-end residential buildings, high-speed railway stations, airports and other high-end office buildings. 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 operation of general facilities management service. In 2016, revenue from the general facilities management business of the Group was RMB4,160 million, representing a year-on-year growth of 10.4%.



3 Since 2016, the Group sub-divided the former distribution of telecommunications services and products business under the BPO services into supply chain business and products distribution business.

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

In 2016, the Group announced a new brand of distribution business called "中通福" and set up 92 distribution chain stores. The management system was consolidated with the management capability for nationwide chain stores and it is expected that the number of "中通福" stores will reach 3,000 within the next three years. The Group strives to develop "中通福" as the core distributor recognized by operators and a large nationwide chain store recognized by consumers. China Comservice Supply Chain Management Company Limited (the "Supply Chain Company") commenced its operation and established a unified IT logistics system and a comprehensive and integrated logistics operating system, which offers nationwide integrated logistics service to its customers. In the future, the Supply Chain Company will capitalize its leading role to drive for the expansion of the Group's supply chain business. In 2016, the Group's revenue in supply chain service was RMB7,209 million, representing a year-on-year increase of 12.7%.

The Group announced a new brand of distribution business called "中通福"

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-operator customers. In 2016, the Group proactively controlled the development of products distribution business with low efficiency and realized revenue of RMB10,479 million, representing a year-on-year decrease of 20.0%.

The Group believes that the OPEX business of domestic telecommunications operators have enormous room and potential to grow, and the domestic non-operator customers also have strong demands in 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 development.

The Group undertook network maintenance projects for domestic telecommunications operators

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, industrial customers and enterprises customers. In 2016, revenue from the applications, content and other services amounted to RMB10,029 million, representing a faster year-on-year increase of 14.8%. In particular, both the revenue and incremental revenue from domestic non-operator customers exceeded those from domestic telecommunications operator customers.

In 2016, the Group increased its investments in research and development through innovation fund, expert committees and other mechanisms, and introduced a number of products widely recognized by its customers. In particular, the smart highway was awarded the Supreme Award for New Technological Innovation by the National Development and Reform Commission, the smart industrial park was awarded the Gold Award for the 20th International Software Exhibition of China, the smart city was awarded the second prize for the 2016 Nationwide Superior Communications Engineering Consultative Projects by China Association of Communications Enterprises, and the smart security platform was awarded the Golden Bridge Award by Technology Market Association of China.

The Group believes that national Supply-side Structural Reform, industrial internet, internet of things, Internet+, big data and cloud computing will bring opportunities to the sector. The Group will closely follow the demands arising from the transformation and upgrade of domestic operators towards intelligentization and construction of informatization infrastructure for industrial customers, and will fully capitalize on its existing products and customer base, and strengthen its competitiveness in providing integrated services to facilitate its development through system and mechanism innovation.

The Group undertook "Smart Transportation" projects for highway clients

The Group undertook "Smart Security" projects

The Group undertook data centre projects for domestic tobacco companies

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

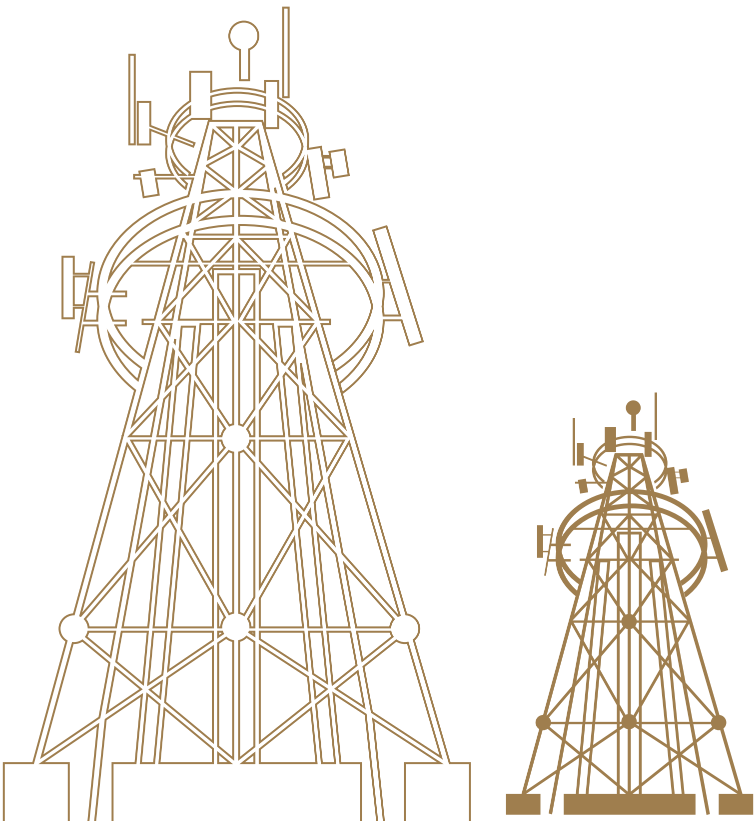
OVERVIEW

In 2016, the Group upheld the management 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 the two new markets – domestic non-operator market and overseas market, thereby achieving continuous growth in revenue and net profit. Our business saw a "steady yet progressive growth with quality enhancement". Total revenues for the year amounted to RMB88,449 million, representing an increase of 9.3% as compared to 2015. Profit attributable to equity shareholders of the Company was RMB2,536 million, representing an increase of 8.6% as compared to RMB2,334 million in 2015. Basic earnings per share were RMB0.366. Free cash flow amounted to RMB4,361 million, representing an increase of 22.1% as compared to RMB3,573 million in 2015.

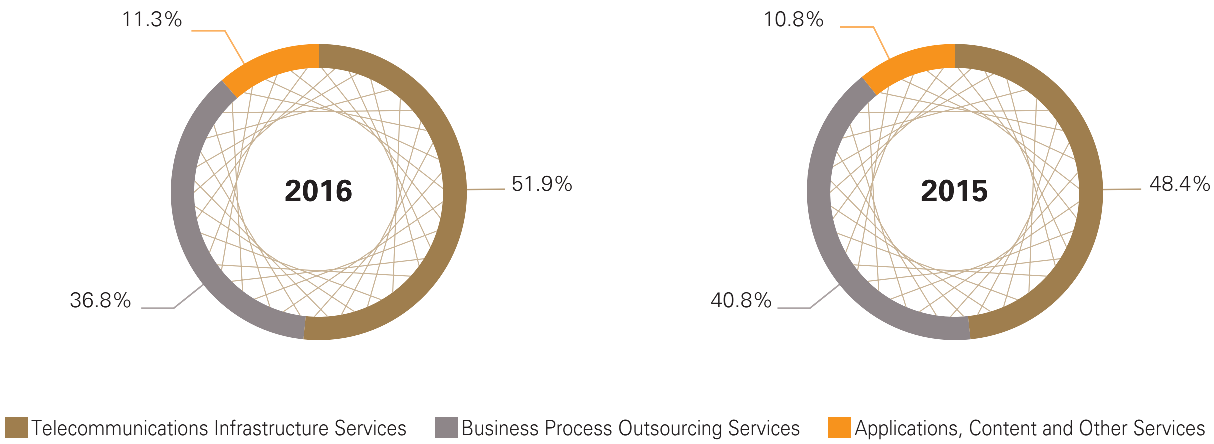
TOTAL REVENUES

The Group's total revenues in 2016 amounted to RMB88,449 million, representing an increase of 9.3% as compared to 2015. The revenue from telecommunications infrastructure ("TIS") services was RMB45,887 million, representing a year-on-year growth of 17.0%; the revenue from business process outsourcing ("BPO") services was RMB32,533 million, representing a year-on-year decrease of 1.5%, the revenue from applications, contents and other ("ACO") services was RMB10,029 million, representing a year-on-year growth of 14.8%. TIS services remained as the fastest-growing business of the Group. The decrease in revenue from BPO services was mainly attributable to the Group's proactive control of the products distribution business with lower efficiency and its increasing focus on transforming towards high-end businesses. As to business structure, construction, design and management of infrastructure for information technology ("Network Maintenance") were the three major businesses that contributed to the Group's overall incremental revenues.

As to customer structure, the revenue from the domestic telecommunications operators (including China Tower) in 2016 amounted to RMB60,889 million, representing a year-on-year growth of 11.1%. The revenue from the domestic non-operator customers amounted to RMB23,714 million, representing a year-on-year growth of 3.4% whereas the revenue from the overseas customers amounted to RMB3,846 million, representing a year-on-year growth of 19.3%. In 2016, the Group exerted greater effort to capture opportunities from the CAPEX investment for transformation and upgrade of 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 results, the Group maintained favourable business development momentum in the domestic telecommunications operator market and the incremental revenue from such market accounted for 81.4% of the total incremental revenues. The three major customers contributing to such incremental revenue were China Tower, China Telecom and China Mobile, respectively. Excluding products distribution business, the Core Businesses revenues from domestic non-operator customers amounted to RMB17,535 million, representing a year-on-year growth of 28.7%, which was the major driving force of growth for the Group's total revenues.



BUSINESS REVENUE MIX



The following table sets forth a breakdown of our total revenues for 2015 and 2016, together with their respective changes:

	2016 RMB'000	2015 RMB'000	Change
Telecommunications Infrastructure Services			
Design services	9,071,584	7,638,658	18.8%
Construction services	33,710,753	28,783,754	17.1%
Project supervision and management services	3,104,613	2,786,855	11.4%
	45,886,950	39,209,267	17.0%
Business Process Outsourcing Services			
Management of infrastructure for information technology (Network Maintenance)	10,685,045	9,755,886	9.5%
General facilities management	4,160,068	3,768,734	10.4%
Supply chain[5]	7,209,334	6,394,092	12.7%
Sub-total of Core BPO Services	22,054,447	19,918,712	10.7%
Products distribution[5]	10,479,155	13,095,318	–20.0%
	32,533,602	33,014,030	–1.5%
Applications, Content and Other Services			
System integration	4,808,799	3,916,704	22.8%
Software development and system support	1,687,084	1,493,757	12.9%
Value added services	1,654,394	1,497,005	10.5%
Others	1,878,527	1,829,183	2.7%
	10,028,804	8,736,649	14.8%
Total	88,449,356	80,959,946	9.3%

5 Since 2016, the Group sub-divided the former distribution of telecommunications services and products business under the BPO services into supply chain business and products distribution business. For ease of comparison, the historical data of these two businesses have been segregated accordingly.

Telecommunications Infrastructure Services

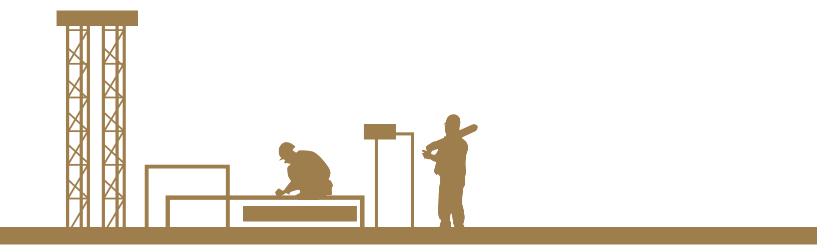
In 2016, the Group's revenue from TIS services amounted to RMB45,887 million, representing an increase of 17.0% as compared to RMB39,209 million in 2015. TIS services was the primary source of revenue and accounted for 51.9% of our total revenues, representing an increase of 3.5 percentage points from 48.4% in 2015. TIS services was the fastest-growing business of the year. As to the customer structure of the TIS services, the Group's TIS revenue from domestic telecommunications operator customers amounted to RMB35,832 million and accounted for 78.1% of the total TIS revenues, representing a decrease of 2.6 percentage points from last year. The aggregate TIS revenues from domestic non-operator customers and overseas customers amounted to RMB10,055 million and accounted for 21.9% of the total TIS revenues, representing an increase of 2.6 percentage points from last year.

In 2016, the Group firmly captured the opportunities arising from the construction demand from China Tower, network construction and upgrade and the upgrade of optic fiber broadband of domestic telecommunications operators, and endeavoured to increase its market share. The TIS revenue from domestic telecommunications operator customers increased by 13.3% over 2015. The aggregate TIS revenues from domestic non-operator customers and overseas customers increased by 32.6% over 2015, in which the TIS revenue from domestic non-operator customers recorded a significant year-on-year growth of 46.8%, showing a strong growth momentum. With the refinement of its sale and marketing mechanism and product portfolio, the Group's business development of domestic non-operator market played a more significant role in accelerating the growth of TIS business, which effectively alleviated the impacts from changes in investments of the domestic telecommunications operator customers.

Business Process Outsourcing Services

In 2016, the Group's revenue from BPO services amounted to RMB32,533 million, representing a decrease of 1.5% as compared to RMB33,014 million in 2015. Excluding the products distribution business, revenue from the Core Businesses amounted to RMB22,054 million, representing a year-on-year growth of 10.7%. The revenue from BPO services accounted for 36.8% of the total revenues, representing a decrease of 4.0 percentage points from 40.8% in 2015. As to the customer structure of BPO services, the Group's BPO revenue from the domestic telecommunications operator customers amounted to RMB20,198 million, representing an increase of 8.0% as compared to 2015, and accounted for 62.1% of the total BPO revenues, representing an increase of 5.5 percentage points from the corresponding period of last year. As the Group proactively scaled down the products distribution business for domestic non-operator customers, the aggregate BPO revenues from domestic non-operator customers and overseas customers amounted to RMB12,335 million, representing a decrease of 13.8% from 2015 and accounting for 37.9% of total BPO revenues, representing a decrease of 5.5 percentage points from the corresponding period of last year.

In 2016, the Group's revenue from Network Maintenance business amounted to RMB10,685 million, representing an increase of 9.5% as compared to 2015. The Group focused on and captured the opportunities arising from OPEX spending and continuous maintenance outsourcing from domestic telecommunications operators, and therefore Network Maintenance business maintained favourable growth and was the third largest contributor to total incremental revenues among all businesses. Besides, the Group's revenue from products distribution business amounted to RMB10,479 million, representing a decrease of 20.0% as compared to 2015, which was mainly attributable to the Group's principle of efficient development and proactive control of the development of certain products distribution business with low profitability and relatively high risks. China Comservice Supply Chain Management Company Limited ("Supply Chain Company"), newly established by the Group, promoted the favourable development of the supply chain business. Revenue from supply chain business amounted to RMB7,209 million, representing an increase of 12.7% as compared to 2015. The Group's revenue from general facilities management amounted to RMB4,160 million, representing an increase of 10.4% as compared to 2015, and maintaining favourable growth momentum.



Applications, Content and Other Services

In 2016, the Group's revenue from ACO services amounted to RMB10,029 million, representing an increase of 14.8% as compared to RMB8,737 million in 2015. The revenue from ACO services accounted for 11.3% of the total revenues, representing an increase of 0.5 percentage point from 10.8% in 2015. As to the customer structure of ACO services, the Group's ACO revenue from domestic telecommunications operator customers amounted to RMB4,859 million and accounted for 48.4% of the total ACO revenues, representing a decrease of 2.8 percentage points from the corresponding period of last year. Aggregate ACO revenues from domestic non-operator customers and overseas customers amounted to RMB5,170 million, and accounted for 51.6% of the total ACO revenues, representing an increase of 2.8 percentage points from the corresponding period of last year.

In 2016, 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 development and continued to promote competitive products and solutions focusing on key areas such as industrial applications, mobile applications, cloud computing, big data and information securities. The Group's ACO revenue from domestic telecommunications operator customers increased by 8.7% over 2015, while aggregate ACO revenues from domestic non-operator customers and overseas customers had a more rapid increase of 21.2% over 2015. With the Group's greater effort in developing businesses from domestic non-operator customers, both the revenue and the incremental revenue contribution of such customer surpassed those of the domestic telecommunications operator customers.

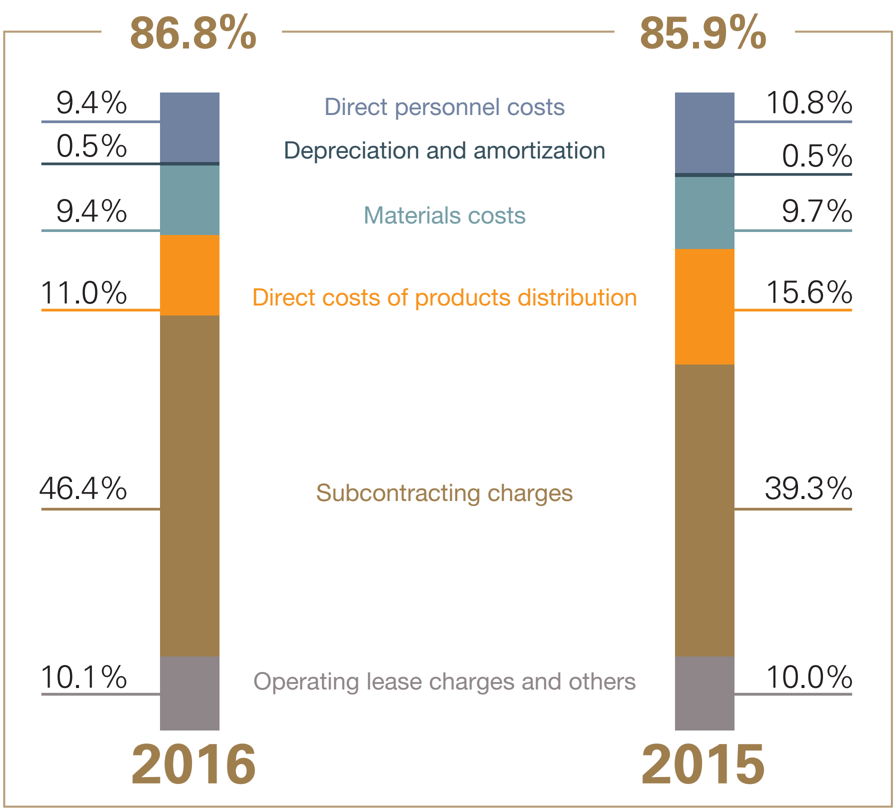
COST OF REVENUES

The Group's cost of revenues in 2016 amounted to RMB76,759 million, representing an increase of 10.3% from 2015 and accounting for 86.8% of the total revenues.

The following table sets out a breakdown of the Group's cost of revenues in 2015 and 2016 and their respective changes:

	2016 RMB'000	2015 RMB'000	Change
Direct personnel costs	**8,316,693**	8,731,020	–4.7%
Depreciation and amortization	**455,215**	447,031	1.8%
Materials costs[6]	**8,281,024**	7,799,871	6.2%
Direct costs of products distribution[6]	**9,764,598**	12,652,927	–22.8%
Subcontracting charges	**41,016,647**	31,811,771	28.9%
Operating lease charges and others	**8,925,014**	8,129,685	9.8%
Total cost of revenues	**76,759,191**	69,572,305	10.3%

COST OF REVENUES AS A % OF TOTAL REVENUES



Direct Personnel Costs

In 2016, direct personnel costs amounted to RMB8,317 million, representing a decrease of 4.7% from RMB8,731 million in 2015. Direct personnel costs as a proportion to our total revenues was 9.4%, representing a decrease of 1.4 percentage points from 2015. With the growth in business volume in 2016, 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 newly-amended Labour Contract Law and employed dispatch workers in accordance with the relevant regulations to avoid related risks.

6 Since 2016, the Group sub-divided the former distribution of telecommunications services and products business under the BPO services into supply chain business and products distribution business. Accordingly, the former cost of purchase of materials and telecommunication products is sub-divided into materials costs and direct costs of products distribution. For ease of comparison, the historical data of these two costs have been segregated accordingly.

Depreciation and Amortisation

In 2016, depreciation and amortisation were RMB455 million, representing an increase of 1.8% from RMB447 million in 2015. Depreciation and amortisation as a proportion to our total revenues was 0.5%.

Materials Costs

In 2016, materials costs amounted to RMB8,281 million, representing an increase of 6.2% as compared to RMB7,800 million in 2015. Materials costs as a proportion to our total revenues was 9.4%, representing a decrease of 0.3 percentage point from 2015. The increase in materials costs were mainly attributable to the growth of our infrastructure construction and system integration businesses.

Direct Costs of Products Distribution

In 2016, direct costs of products distribution amounted to RMB9,764 million, representing a decrease of 22.8% as compared to RMB12,653 million in 2015. Direct costs of products distribution as a proportion to our total revenues was 11.0%, representing a decrease of 4.6 percentage points over 2015. The significant decrease in the direct costs of products distribution was mainly because the Group effectively controlled the development of certain low-end products distribution business with relatively high risks.

Subcontracting Charges

In 2016, subcontracting charges were RMB41,017 million, representing an increase of 28.9% as compared to RMB31,812 million in 2015. Subcontracting charges as a proportion to our total revenues was 46.4%, representing an increase of 7.1 percentage points over 2015. 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 sound development in Network Maintenance business, which is labour-intensive in nature and demands for more subcontracts, 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 will lead to a more rapid growth in the Group's subcontracting charges.

Operating Lease Charges and Others

In 2016, operating lease charges and others were RMB8,925 million, representing an increase of 9.8% over RMB8,129 million in 2015. Operating lease charges and others as a proportion to our total revenues was 10.1%, representing an increase of 0.1 percentage point over 2015.

GROSS PROFIT

The Group achieved a gross profit of RMB11,690 million in 2016, representing an increase of 2.7% over RMB11,388 million in 2015. The Group's gross profit margin in 2016 was 13.2%, representing a decrease of 0.9 percentage point from 14.1% in 2015. In 2016, 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, and low profit margin in the initial stage of expansion into new markets. At the same time, the Group also strived to optimize its business and customer structure and control its costs, 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 2016 were RMB9,501 million, representing an increase of 2.1% as compared to RMB9,306 million in 2015. 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 10.7%, representing a decrease of 0.8 percentage point from 2015.

FINANCE COSTS

In 2016, the Group's finance costs were RMB46.7 million, representing a decrease of 9.2% as compared to RMB51.4 million in 2015. Benefiting from the effective centralised cash management, the debts of the Group decreased during the year, leading to a decrease in the Group's finance costs.

INCOME TAX

The income tax of the Group in 2016 was RMB503 million and our effective tax rate was 16.5%, representing a decrease of 0.8 percentage point from 17.3% in 2015. 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 2016, 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 2016, profit attributable to equity shareholders of the Company was RMB2,536 million, representing an increase of 8.6% over RMB2,334 million in 2015. Profit attributable to equity shareholders of the Company accounted for 2.9% of our total revenues, which remained stable as compared to 2015. Basic earnings per share of the Company were RMB0.366 (2015: RMB0.337).

CAPITAL EXPENDITURE

The Group implemented stringent budget management over capital expenditure, and made adjustments according to changes in market condition. In 2016, capital expenditure amounted to RMB721 million, representing an increase of 1.3% over RMB712 million in 2015. The capital expenditure in 2016 accounted for 0.8% of the total revenues, representing a decrease of 0.1 percentage point over 2015. 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.

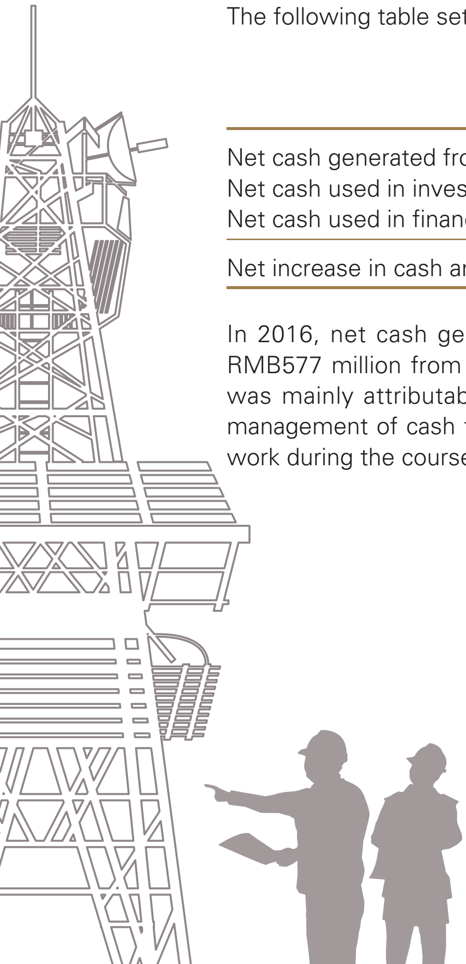
CASH FLOW

The Group's net cash inflow in 2016 amounted to RMB3,712 million, an increase of 68.0% over RMB2,209 million in 2015. As at the end of 2016, the cash and cash equivalents of the Group amounted to RMB13,324 million, of which 92.8% was denominated in Renminbi.

The following table sets out our cash flow positions in 2015 and 2016, respectively:

	2016 **RMB'000**	2015 RMB'000
Net cash generated from operating activities	**5,265,248**	4,687,811
Net cash used in investing activities	**(604,352)**	(1,686,164)
Net cash used in financing activities	**(949,172)**	(792,831)
Net increase in cash and cash equivalents	**3,711,724**	2,208,816

In 2016, net cash generated from operating activities was RMB5,265 million, representing an increase of RMB577 million from RMB4,688 million in 2015. 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 and accounts receivable, and effective accounts receivable settlement and collection work during the course of business expansion.



In 2016, net cash used in investing activities was RMB604 million, representing a decrease of RMB1,082 million from RMB1,686 million in 2015 which was mainly term deposits for over three months.

In 2016, net cash used in financing activities was RMB949 million, representing an increase of RMB156 million from RMB793 million in 2015, which was mainly due to the increase of dividend payment to the Company's shareholders.

WORKING CAPITAL

As at the end of 2016, the Group's working capital (i.e. current assets net of current liabilities) was RMB19,967 million, increased by RMB2,387 million from RMB17,580 million in 2015. The increase in working capital was mainly due to the expansion of the Group's business and effective management of accounts receivable which led to an increase in cash.

INDEBTEDNESS

As at the end of 2016, total indebtedness of the Group was RMB758 million, decreased by RMB103 million from RMB861 million as at the end of 2015. Indebtedness of the Group was mainly denominated in US dollar, of which Renminbi loan accounted for 1.8% and US dollar loan accounted for 98.2%, and of which 8.2% was fixed interest rate loans and 91.8% was floating interest rate loans.

As at the end of 2016, our gearing ratio[7] was 2.8%, representing a decrease of 0.6 percentage point from 3.4% as at the end of 2015.

CONTRACTUAL OBLIGATIONS

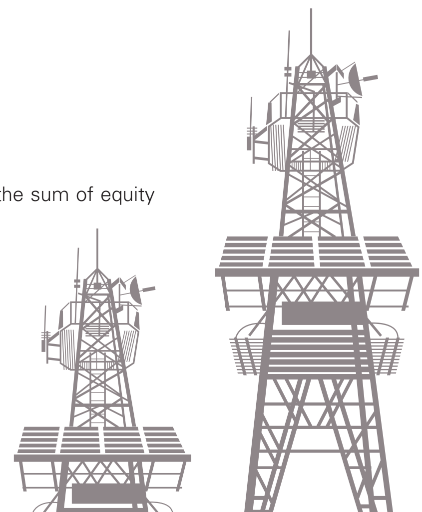
The following table sets out our contractual commitments as at 31 December 2016:

	Total	**2017**	**2018**	**2019**	**2020**	**2021 and after**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Short-term debt	46,697	46,697	–	–	–	–
Long-term debt	17,343	–	17,343	–	–	–
Convertible preference shares and preference shares	693,700	–	–	–	–	693,700
Operating lease commitments	851,281	347,316	182,691	96,794	68,330	156,150
Contracted for but not provided capital commitments	347,842	347,842	–	–	–	–
Total of contractual obligations	1,956,863	741,855	200,034	96,794	68,330	849,850

EXCHANGE RATE

Most of the Group's revenues and expenses are denominated in Renminbi. As at the end of 2016, the balance of our cash and cash equivalents in foreign currencies accounted for 7.2% of the Group's total cash and cash equivalents, of which 3.7% and 1.2% were denominated in US dollars and Hong Kong dollars, respectively.

7 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.



Our Scale

Over the past decade, the telecommunications industry has evolved from voice era to informatization and intelligence era. China Comservice facilitates changes in development and promotes development through changes. Through devoting tremendous efforts over the past decade, China Comservice has achieved remarkable results, and its scale and value have been growing continuously. The Company's corporate value has been widely recognized by the capital market.

2006

RMB 14.2 billion — REVENUE

RMB 0.7 billion — NET PROFIT

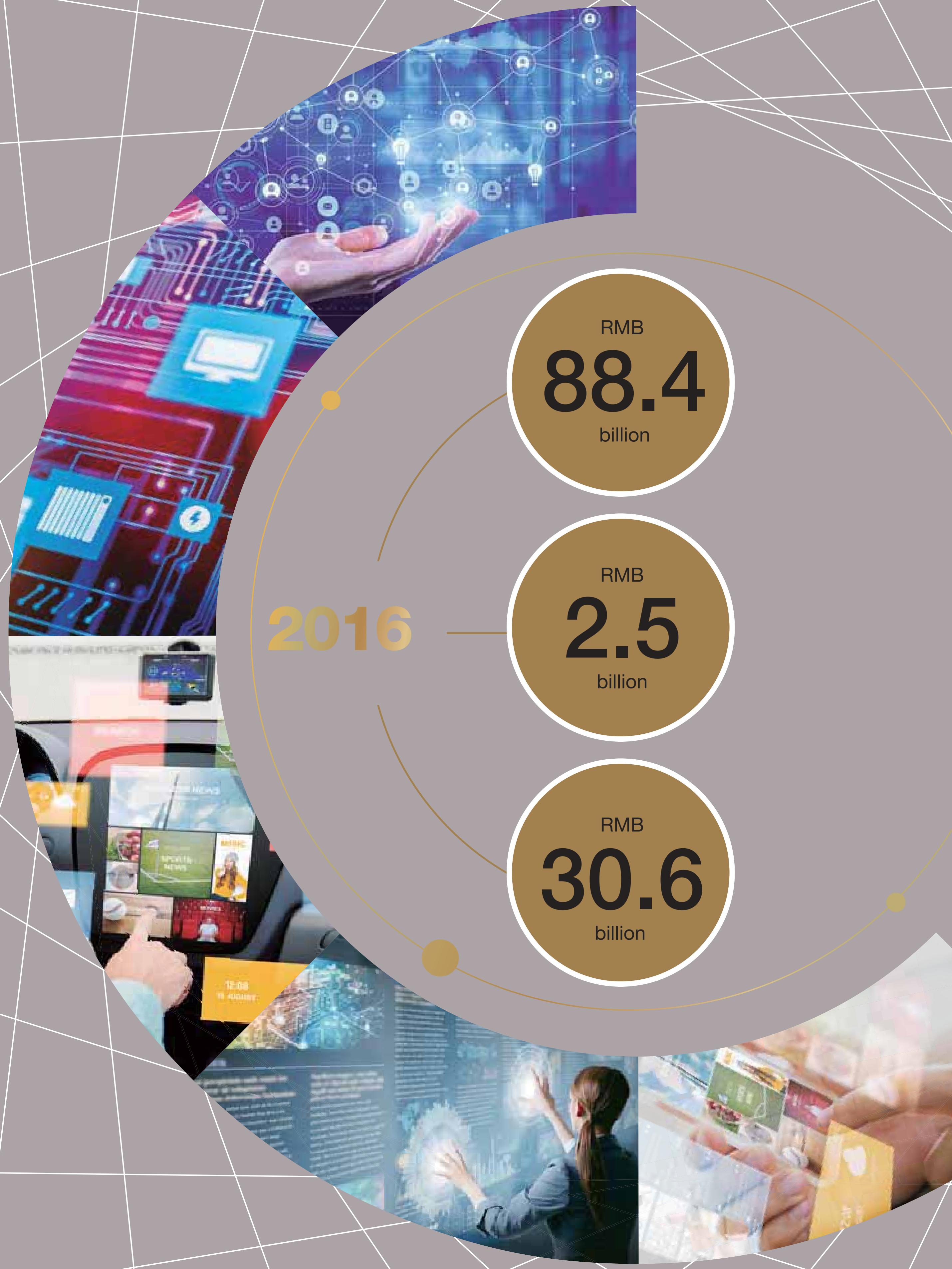
RMB 12 billion — MARKET CAPITALIZATION

2016

RMB 88.4 billion

RMB 2.5 billion

RMB 30.6 billion



Note: The 2006 financial data above are extracted from the 2006 annual report. Market capitalization is based on the total number of shares in the relevant year, multiplied by the listing price in 2006 and the year-end closing price in 2016, respectively.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

HONORARY CHAIRMAN

Mr. WANG Xiaochu

age 59, is the Honorary Chairman[1] 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

Mr. SUN Kangmin

age 59, is the Chairman of our Board of Directors and an Executive Director of our Company in charge of our overall management. Mr. Sun is also the Vice President of China Telecommunications Corporation, an Executive Director and Executive Vice President of China Telecom Corporation Limited and a Director of China Tower Corporation Limited. Mr. Sun is a senior engineer and holds a bachelor degree. Mr. Sun served as Head of the Information Industry Department of Sichuan Province, Director General of Communication Administration Bureau of Sichuan Province, Chairman and General Manager of Sichuan Telecom Company Limited. Mr. Sun has 33 years of operational and managerial experience in the telecommunications industry in China.

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.

Mr. SI Furong

age 56, 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 32 years of operational and managerial experience in the telecommunications industry in China.

Ms. HOU Rui

age 47, 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 22 years of experience in telecommunications industry and financial management.

NON-EXECUTIVE DIRECTOR

Mr. LI Zhengmao

age 55, is a Non-Executive Director of our Company. Mr. Li is the Vice President of China Mobile Communications Corporation, 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. ZHAO Chunjun

age 76, 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 Wai Keung, Francis

age 63, 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. LV Tingjie

age 62, 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.

Mr. WU Taishi

age 70, 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. and an External Director of China Energy Conservation and Environmental Protection Group. Mr. Wu used to serve as a 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. LIU Linfei

age 60, 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.

SUPERVISORS

Ms. HAN Fang

age 44, 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 21 years of finance and audit experience in the telecommunications industry.

Mr. HAI Liancheng

age 72, 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 54, 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 25 years working experiences in the telecommunications industry.

MANAGEMENT

Mr. SUN Kangmin
(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 56, 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 33 years of operational and managerial experience in telecommunications industry.

Mr. XU Chuguo
age 53, 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 30 years of market development, operational and managerial experience in domestic and overseas telecommunications industry.

Mr. LIANG Shiping
age 47, is an Executive Vice President of our Company. Mr. Liang joined the Company in August 2008 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 25 years of experience in telecommunications and IT industry.

Mr. YAN Dong

age 45, 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 43, is the Company Secretary, Deputy Chief Financial Officer and Qualified Accountant 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 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 2016.

PRINCIPAL BUSINESSES

The Group is a leading service provider in the PRC that provides integrated support services 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-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 2016 and the financial position of the Group as at that date are set out in the audited financial statements on page 103 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 2016, 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 RMB0.1098 per share and a special dividend of RMB0.0220 per share, and the total dividend is RMB0.1318 per share (pre-tax) for the year ended 31 December 2016. The dividend proposal will be submitted for consideration at the annual general meeting to be held on 23 June 2017 (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, 18 August 2017 upon approval at the AGM.

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 depositary 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.

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
Sun Kangmin	Chairman Executive Director	19 January 2015 19 January 2015
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
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 and Qualified Accountant	16 October 2006

On 24 June 2016, Mr. Wang Jun resigned as an independent non-executive director of the Company. On the same day, Mr. Liu Linfei was appointed as an independent non-executive director of the Company. On 10 March 2017, Mr. Zhang Junan resigned as a non-executive director 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.

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 ("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 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.

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 2016, 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 Corporation	608,256,000	8.78
China United Network Communications Group Company Limited	236,300,000	3.41
China National Postal and Telecommunications Appliances Corporation	130,679,664	1.89
H shares (Total)	2,391,420,240	34.53
Total	**6,926,018,400**	**100.00**

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

As at 31 December 2016, 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 Corporation	Domestic shares	Beneficial owner	608,256,000 (L)	13.41	8.78
China United Network Communications Group Company Limited	Domestic shares	Beneficial owner	236,300,000 (L)	5.21	3.41
BlackRock, Inc.	H shares	Interest of corporation controlled by the substantial shareholder	238,453,055 (L)	9.97	3.44
JPMorgan Chase & Co.	H shares	33,151,826 shares as beneficial owner; 1,482,600 shares as investment manager and 133,458,800 shares as custodian corporation/approved lending agent	168,093,226 (L)	7.02	2.43
		Beneficial owner	11,680,000 (S)	0.48	0.17
		Custodian corporation/approved lending agent	133,458,800 (P)	5.58	1.93
Citigroup Inc.	H shares	929,998 shares as interest of corporation controlled by the substantial shareholder; 134,205,031 shares as custodian corporation/approved lending agent	135,135,029 (L)	5.65	1.95
		Custodian corporation/approved lending agent	134,205,031 (P)	5.61	1.94

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

Save as stated above, as at 31 December 2016, 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.

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

As at 31 December 2016, 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 2016, 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 38 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 2016.

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 and Mr. Liu Linfei. 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 general meeting approving her appointment) to the 2017 annual general meeting to be held in 2018. The term of service of Mr. Liu Linfei commenced from 24 June 2016 (the date of the general meeting approving his appointment) to the 2017 annual general meeting 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 2016 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 42 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 2016.

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 2016.

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 2016.

BANK LOANS AND OTHER BORROWINGS

Please refer to note 32 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 2016.

DISTRIBUTABLE RESERVES

Please refer to note 45 to the audited financial statements for details of the movements in the reserves of the Group for the year ended 31 December 2016.

DONATIONS

For the year ended 31 December 2016, the Group made charitable and other donations of a total amount of RMB0.51 million.

SUBSIDIARIES AND ASSOCIATED COMPANIES

Please refer to note 44 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 2016.

CHANGES IN EQUITY

Please refer to the consolidated statement of changes in equity contained in the audited financial statements (pages 107 to 108 of this annual report).

PLAN OF EMPLOYEES' RETIREMENT BENEFITS

Please refer to note 37 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.

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 Corporation Limited) of the Group represented 69.3% of the total revenues of the Group; of which, the revenue from the largest customer of the Group represented 45.9% of the total revenues of the Group. The purchases from the five largest suppliers of the Group accounted for less than 3.6% 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) and Mr. Sun Kangmin, Mr. Si Furong, Mr. Li Zhengmao (positions of them setting out in the "Profiles of Directors, Supervisors and Senior Management" section of this annual report) and Mr. Zhang Junan (being a former Non-executive Director of the Company who resigned in March 2017), 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 Communication Company Limited and China United Network Communications Corporation Limited. 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.

CONTINUING CONNECTED TRANSACTIONS

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 2016:

Unit: RMB million

	Year ended 31 December 2016		Year ending 31 December 2017	Year ending 31 December 2018
	Annual Caps	Actual Amounts	Annual Caps	Annual Caps
Engineering related services provided to China Telecom Group	24,000	21,230	24,000	24,000
Ancillary telecommunications services provided to China Telecom Group	12,100	9,255	13,300	15,600
Operations support service provided to/by China Telecom Group				
Revenue	3,200	2,571	3,400	3,600
Expenditure	900	672	1,000	1,100
IT application services provided to/by China Telecom Group				
Revenue	2,500	2,235	2,700	2,900
Expenditure	490	269	490	490
Centralized services provided to China Telecom Group	430	313	440	450
Property leasing provided to/by China Telecom Group				
Revenue	200	111	210	220
Expenditure	200	179	220	240
Supplies procurement services provided to/by China Telecom Group				
Revenue	6,700	5,196	8,100	10,000
Expenditure	4,900	2,498	5,900	7,000

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.

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.

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.

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.

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).

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 2016 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 "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; and

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 2016, 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.

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.

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 2016. 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 2017 will be proposed at the upcoming 2016 annual general meeting of the Company.

By order of the Board
Sun Kangmin
Chairman

Beijing, PRC
30 March 2017

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 third meeting of the fourth session of the Supervisory Committee convened on 25 March 2016 and reviewed and approved resolutions such as the Company's 2015 financial report, profit allocation and dividend distribution plan, auditors' report issued by the external auditors, the Company's work report on internal control for 2015 and work plan for 2016, the work report of the Supervisory Committee for 2015 and the work plan of the Supervisory Committee for 2016. 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 fourth meeting of the fourth session of the Supervisory Committee convened on 22 August 2016, we have reviewed and approved the *Unaudited Interim Financial Report for 2016*, reviewed the *Report on the Review of the Interim Financial Report for 2016* issued by the external auditors and the internal control work report for the first half of 2016 and work plan for the second half. During the reporting period, the members of the Supervisory Committee attended the board meetings for 2016, 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 management philosophy of "value-driven, seeking steady yet progressive growth and efficient development". It also adhered to the market-oriented approach in resource allocation, 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 RMB88,449 million, representing a year-on-year growth of 9.3%. Net profit amounted to RMB2,536 million, representing a year-on-year growth of 8.6%. Free cash flow was RMB4,361 million.

The Supervisory Committee is of the opinion that, in 2016, 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 2016 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 2017, 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
24 March 2017

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

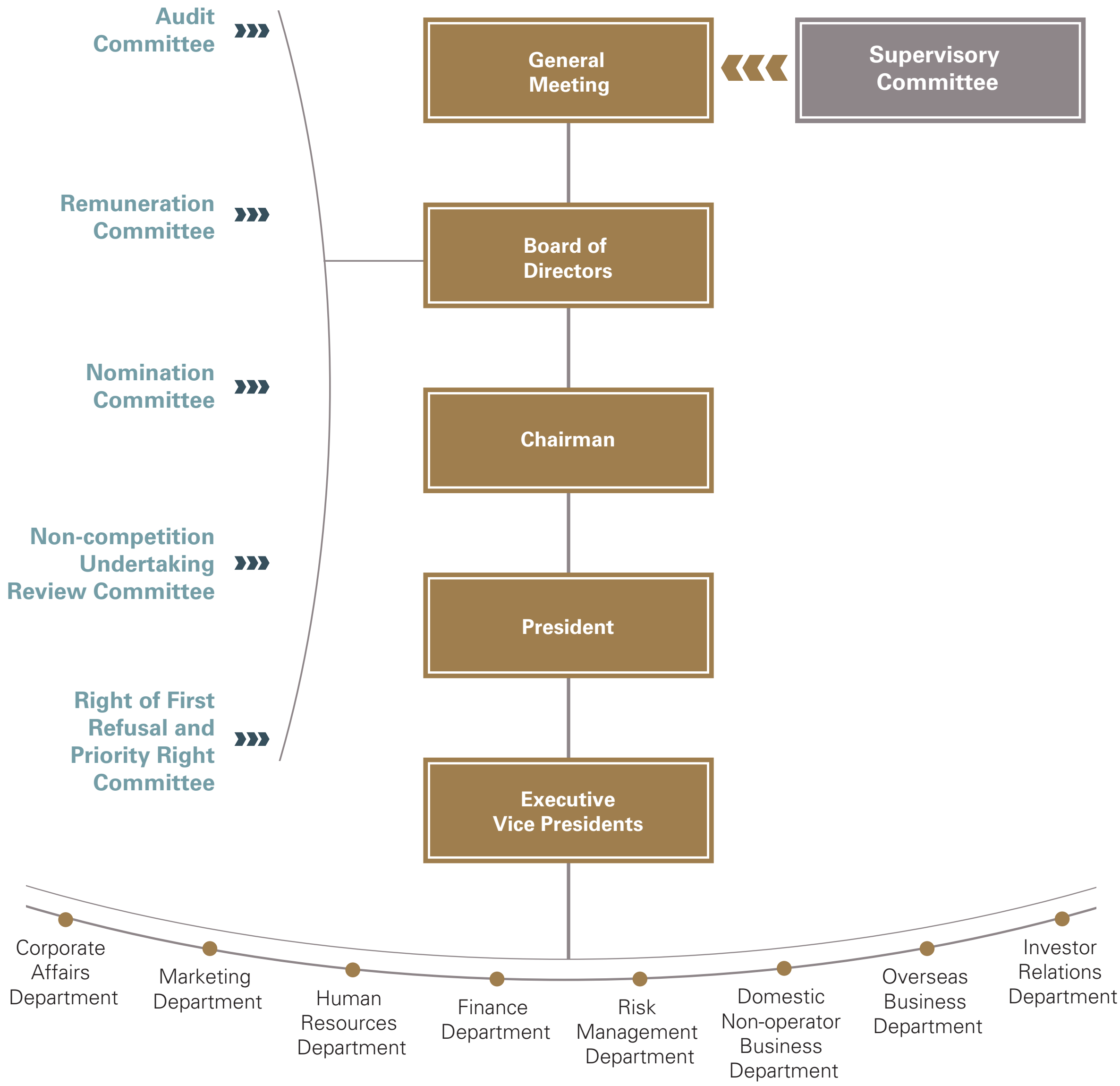
As a company incorporated in the PRC and listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company has not only complied with the relevant provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), but also 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 2016, the Company was awarded The Best of Asia – "Icon on Corporate Governance" and "Asian Corporate Director" by *Corporate Governance Asia*. Moreover, the Company was awarded for the first time the "Platinum Award – Excellence in Governance, CSR & Investor Relations" by *The Asset*.

Throughout the year ended 31 December 2016, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

CORPORATE STRUCTURE OF THE COMPANY



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 2016.

For the 2015 AGM, a physical meeting was held in Beijing on 24 June 2016, at which the resolutions, including the 2015 financial statements, profit distribution proposal and dividend declaration proposal, appointment of auditors, report of the Directors, and report of the Supervisory Committee and the election of Mr. Liu Linfei as an independent non-executive director of the Company were considered and approved by shareholders. Shareholders and authorized proxies representing 82.5% 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 80%.

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 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.

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), road shows 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.

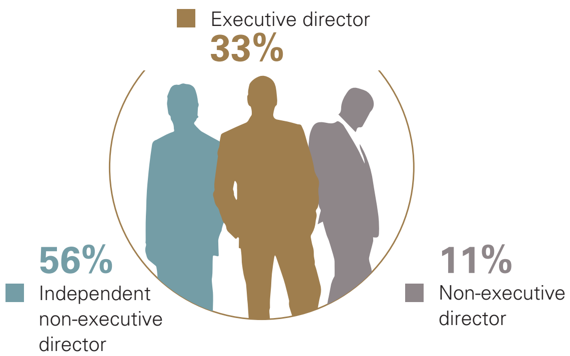
CHAIRMAN AND PRESIDENT

Mr. Sun Kangmin and Mr. Si Furong take up the position of Chairman and President of the Company, respectively. Mr. Sun Kangmin, 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.

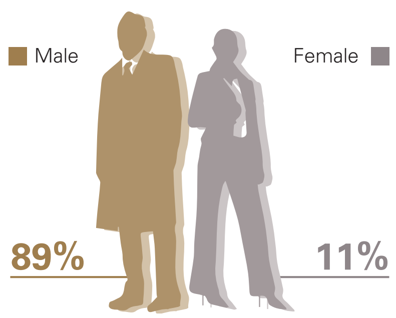
COMPOSITION OF THE BOARD

As of the date of this report, the Board comprised nine directors, including three executive directors (Mr. Sun Kangmin, Mr. Si Furong and Ms. Hou Rui), one non-executive director (Mr. Li Zhengmao) and five independent non-executive directors (Mr. Zhao Chunjun, Mr. Siu Wai Keung, Francis, Mr. Lv Tingjie, Mr. Wu Taishi and Mr. Liu Linfei).

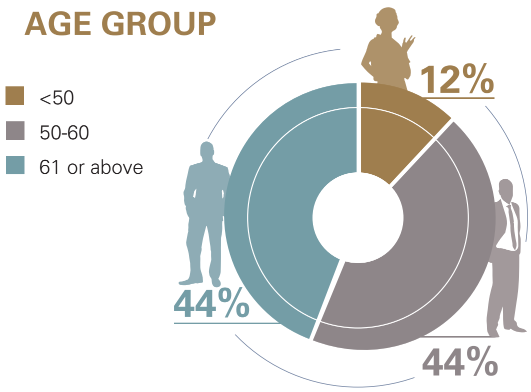
COMPOSITION



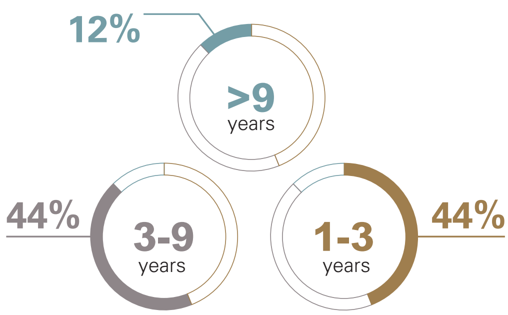
GENDER



AGE GROUP



YEARS OF SERVICES IN THE BOARD



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.

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.

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, 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 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 2016, the Board held four meetings and passed one written resolution. In addition to general matters such as review of the annual and interim financial statements, dividend distribution, corporate governance, ESG report and budget, the Board also considered the resolutions regarding the appointment of a director, remuneration package of a director and amendment to the Audit Committee Charter. Meanwhile, in the agenda of approving director remuneration, any director with conflicts of interests on his own remuneration also abstained from voting.

In 2016, 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.

The attendance record of the Company's directors in Board meetings, board committee meetings and general meeting(s) in 2016 are as follows:

	Attendance in 2016/Meeting convened during period of appointment					
	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	Non-competition Undertaking Review Committee	AGM
Executive Directors						
Sun Kangmin	4/4	–	–	–	–	1/1
Si Furong	4/4	–	–	–	–	0/1
Hou Rui	4/4	–	–	–	–	1/1
Non-executive Director						
Li Zhengmao	4/4[(1)]	–	–	–	–	0/1
Independent Non-executive Directors						
Zhao Chunjun	4/4	1/1	–	1/1	1/1	1/1
Siu Wai Keung, Francis	4/4[(2)]	2/2	1/1	–	1/1	1/1
Lv Tingjie	4/4[(3)]	2/2[(3)]	1/1	1/1	2/2[(3)]	1/1
Wu Taishi	4/4[(4)]	1/1	1/1[(4)]	1/1[(4)]	1/1[(4)]	1/1
Liu Linfei[(5)]	2/2	–	–	–	1/1	–
Resigned Directors						
Wang Jun[(6)]	2/2[(7)]	–	–	–	–	–
Zhang Junan[(8)]	4/4[(9)]	–	–	–	–	0/1

Notes:

(1) Mr. Li Zhengmao appointed other directors to attend two meetings.
(2) Mr. Siu Wai Keung, Francis appointed another director to attend one meeting.
(3) Mr. Lv Tingjie appointed another director to attend one meeting.
(4) Mr. Wu Taishi appointed another director to attend one meeting.
(5) Mr. Liu Linfei was appointed as an independent non-executive director of the Company with effect from 24 June 2016.
(6) Mr. Wang Jun resigned as an independent non-executive director of the Company on 24 June 2016.
(7) Mr. Wang Jun appointed other directors to attend two meetings.
(8) Mr. Zhang Junan resigned as a non-executive director of the Company on 10 March 2017.
(9) Mr. Zhang Junan appointed other directors to attend four meetings.

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 2016, 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			
Sun Kangmin	✓	✓	✓
Si Furong	✓	✓	✓
Hou Rui	✓	✓	✓
Non-executive Director			
Li Zhengmao	✓	–	✓
Independent Non-executive Directors			
Zhao Chunjun	–	✓	✓
Siu Wai Keung, Francis	✓	✓	✓
Lv Tingjie	–	✓	✓
Wu Taishi	✓	✓	✓
Liu Linfei	✓	–	✓

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 2016, the Audit Committee held two meetings and passed one written resolution, mainly reviewing the resolutions of the Company for the amendment to the Audit Committee Charter, the audited financial report of the Company of 2015, interim report of 2016, 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 2016, the Remuneration Committee held one meeting and passed one written resolution, mainly reviewing the resolutions of adjusting the exercise price of share appreciation rights scheme of the Company and the remuneration packages of a director of the Company.

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.

In 2016, the Nomination Committee held one meeting, mainly reviewing the Board structure and composition, as well as the resolution of recommending Mr. Liu Linfei as an independent non-executive director of the Company and making their recommendations to the Board. Based on the background and extensive legal experience of Mr. Liu Linfei, his appointment was in line with the Company's board diversity policy and enhanced the Board's overall performance.

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 2016, 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 2016. 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 2016, 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 general meeting 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 2016, 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

There were no material changes to the Articles of Association of the Company during 2016.

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 2016.

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 four 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 RMB35,100 thousand. 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 99 to 102 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

Risk Management and Internal Control System

The Board of the Company is fully responsible for maintaining healthy, comprehensive and effective internal control 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.

With the refinement of a decade's experience after the listing, the Company put in place a set of practicable risk management methods, which solidified risk management procedures, enhanced risk management efficiency and basically established a comprehensive risk management mechanism. In 2016, 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, without any material risk issue during the year. After strict identification and assessment and analysis of risks, the Company conducted initial assessment on the potential risks that the Company may be exposed to in 2017, such as market risks and financial risks, and proposed practicable corresponding solutions. Since 2006, the Company has formulated the internal control guidelines, internal control assessment rules and other systems based on the COSO internal control framework. Over the years, the Company has strived 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.

The risk management department of the Company has established an internal audit division. In 2016, 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 vice general managers 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 fulfil 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 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, implementation of internal control, data verification, accounting, reconciliation with connected parties, verification of information disclosure and information disclosure.

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 2016 are summarized as below:

In 2016, 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 contract management, subcontracting management, cash management and inventory management. According to its actual needs, the Company carried out a special self-assessment which covered all of its subsidiaries.

The internal control self-assessment was conducted under the supervision of the Company's working group on risk management. The risk management division organized and coordinated the assessment of key processes conducted by the relevant departments, and each relevant department, in particular, the business department, coordinates the internal control self-assessment, and tackles risk management issues from the sources. The implementation departments of the control points in the processes participated in the assessment. 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.

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 2016. 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 2016 to 31 December 2016, which were mainly based on the data provided by the Company and certain major subsidiaries. In addition, we did not disclose certain key performance indicators which were required to be disclosed by the Stock Exchange but not directly related to the business of the Group.

OVERVIEW

The Group is a leading services provider in the PRC informatization sector that is committed to providing integrated support services 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.

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, embark on energy saving and consumption reduction activities and ensure that we can meet our energy conservation and emission reduction goals. In 2016, the total energy consumption of the Group was approximately 141 thousand tons of standard coal (2015: approximately 138 thousand tons).

According to the energy report of the Group, the emission of greenhouse gas arising from energy consumption of the Group in 2016 pursuant to the Greenhouse Gas Protocol was approximately 374.7 thousand tons (2015: approximately 366.2 thousand tons).

The Group consistently adheres to the philosophies 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 as appropriate, 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.

HUMAN RESOURCES MANAGEMENT

Employment

The Group had an average of 97 thousand employees in 2016. Amongst our employees, 27% are aged 29 or below, 52% are aged 34 or below, and 70% are aged 39 or below. 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.

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, media operators, equipment manufacturers, 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.

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.

We consider our employees as an important resource, attach much importance to safeguarding their interests, offer competitive remuneration packages 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.

In 2016, the Group promoted outstanding individuals and outstanding teams emerged during the reform and development, stimulated the advancement, innovation and commitment of all employees to better contribute to the development and expansion of the Group. The Group organised a campaign of finding "Best Comservice Staff". Finally, ten "Best Comservice Staff" and five nominees were awarded. The Group encouraged its employees to learn from the "Best Comservice Staff" and to contribute to the reform and development of the Group.

The Group proactively cares about its employees and provides diversified solutions to address their requests on their work and life. We equip our base level operational units with necessary production and living facilities, and continue to refine our poverty alleviation mechanism to help our employees with difficulties. In 2016, we resolved 1,079 issues and helped 1,529 employees in difficulties with relief funds of more than RMB4 million.

"Best Comservice Staff" Awards Ceremony

The Group proactively cares about its employees

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 2016, the Group organized a training programme named "China Comservice Leaders Training Camp" with the participation of 99 management reserves from provincial companies. The virtue, leadership and execution capability of management reserves were further strengthened through the training programme.

"Comservice Craftsmanship" competition on construction skills

We actively promote our technology innovation and innovative activities for our employees. In 2016, our subsidiary, Jiangsu Post & Telecommunications Planning and Design Institute Co., Ltd., was honored as an excellent technology and innovation unit of the "12th Five-Year Plan". "The China Telecommunications Network Technology Advisory and Innovation Team" of Guangdong Planning and Design Institute of Telecommunications Co., Ltd. was honored as an excellent technology and innovation team of the "12th Five-Year Plan" and 10 employees from the team were honored as outstanding individuals in technology innovation of China Telecom Group during the "12th Five-Year Plan".

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.

China Communications Services International Limited, our subsidiary, provides sufficient trainings and equal opportunities for career promotion for overseas employees to encourage self-development and value realization in the work. In 2016, the Group provided comprehensive trainings for more than 60 local employees in Zambia, including knowledge and skills on maintenance and installation of communications stations, construction and maintenance of communications cables and construction of equipment rooms.

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 conducts in-depth promotion, education and trainings on work safety, and enhances work safety awareness and consciousness of its employees. We have fully implemented a work safety accountability system and assigned such responsibilities to each position and every employee. We have also proactively improved work environment and adopted work protection and health care measures. In addition, the Group has intensified its efforts in work safety supervision and inspection, increased investment in work safety and rectified causes for potential incidents so as to secure a normal production order and, in turn, create a safe environment.

In 2016, the Group and all of its subsidiaries promoted the safety development and "Red Line" awareness and conducted a comprehensive governance on system improvement, team building, on-site management and fire control management so as to prevent and deter casualties. The Group actively improved its working environment and implemented safety measures and hygiene and health care tasks for its employees. In 2016, 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 conduct trainings on specific skills and safety education to personnel in the supply chain, manage safe production, and ensure that the remuneration payment and employment management of our suppliers comply with relevant national and local requirements.

The Group has considered businesses outsourcing as the key area of audit and supervision. We conduct review on supplier admission, tendering and bidding as well as outsourcing pricing by ways of, among other things, audit and credit verification, with a view to preventing illegal and non-compliant activities such as violation of the administration measures of the Company and interests conveyance.

The Group proactively provided employees with trainings on professional skills and safe production

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 2016, the Group played an important role in the construction and maintenance of communications networks of G20 Hangzhou Summit and the Third World Internet Conference, and successfully implemented and accomplished all construction and maintenance missions.

Jiangsu Zhongbo Auction Company Limited, a subsidiary of the Group, strives to maximise values of disposed resources such as communications equipment, recycled and processed used circuit boards, batteries and loads of electronic waste in accordance with our operation philosophy of green recycling, social contribution and harmonious development.

The Group has participated in the 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. Early in the morning on 15 September 2016, super typhoon Meranti, which was the 14th storm of the year, landed in Fujian and Zhejiang. Our subsidiaries in the regions responded rapidly and launched an emergency restoration plan to maintain the communications network. In the restoration plan, the Group's Zhejiang subsidiary arranged a total of 277 restoration teams, 3,411 person-times and 1,116 restoration vehicles/times. In addition, the subsidiary completed power generation of a total of 945 base stations/times, restoration of 62 broken rods and optical cables of 4,200 meters long as well as the welding of 23 optical cables with over 900 cores. Our restoration efforts fully reflected our corporate capabilities and spirits.

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

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, protecting intellectual property 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 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.

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 2016, in response to the poverty alleviation commitment of the central government and the "targeted poverty alleviation" work plan of Hebei Province, we elected outstanding employees to participate in the poverty alleviation work at Shang Huang Hao Village, Bai Ma Town, Yi County, Baoding, Hebei Province. Leveraging on our strengths, we launched poverty alleviation projects in respect of infrastructure, education and business development in order to care the underprivileged in Yi County through effective poverty alleviation works.

The Group contributes to social safety with the help of informatization. The Group has focused on the product research and development and the launch of safe cities since 2009. We participated in the construction of risk prevention and control system at Tianshan District, Shuimogou District, Dabancheng District in Urumchi and more than 60 cities in Xinjiang. The system has effectively enhanced the overall crime prevention, control and response abilities of the districts and has been proven effective.

China Communications Services International Limited identified serious difficulties in daily living, drinking water and basic hygiene conditions of a secondary school during the construction in Rakhine, Myanmar. After understanding the situation through contacting the person-in-charge of school, our subsidiary donated over MMK3 million to build a water tower to resolve the drinking water problem.

In response to China's "Belt and Road" Initiative and its strategy of "Establishment of Railway, Highway and Aviation Networks and Industrialization" in Africa, the Group actively captured the opportunities arising from the "China-Africa Partnership Program in Trans Africa Information Superhighway" Project. As a responsible Chinese enterprise, the Group has enhanced the image of Chinese enterprises and the influence of Chinese brands through promoting high quality construction and services for mutual development with Africa.

The Group proactively participated in poverty alleviation

INVESTOR RELATIONS

The Company attaches great importance to its investor relations work. For the last decade after its listing in 2006, the Company has been striving to strengthen and optimize its investor relations work by adhering to the principle of high transparency, accuracy, timeliness and effectiveness. The Company disseminates its core values and development philosophy to the market and built up a good corporate image. The Company also fulfills its responsibility for its shareholders to enhance investors' confidence.

The Company keeps improving the two-way communication mechanism with the capital market and maintains interactive communications with the shareholders and investors. The Company proactively responds to the major issues that the capital market concerns about and explained its strategies, development measures and related information, thereby enhancing the understanding of investors about the Company to help them to conduct more comprehensive analysis and have good knowledge of the investment value of the Company. In addition, the investor relations team of the Company closely monitors the feedback 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 business operation and development of the Company for enterprise value enhancement.

INVESTOR RELATIONS ACTIVITIES

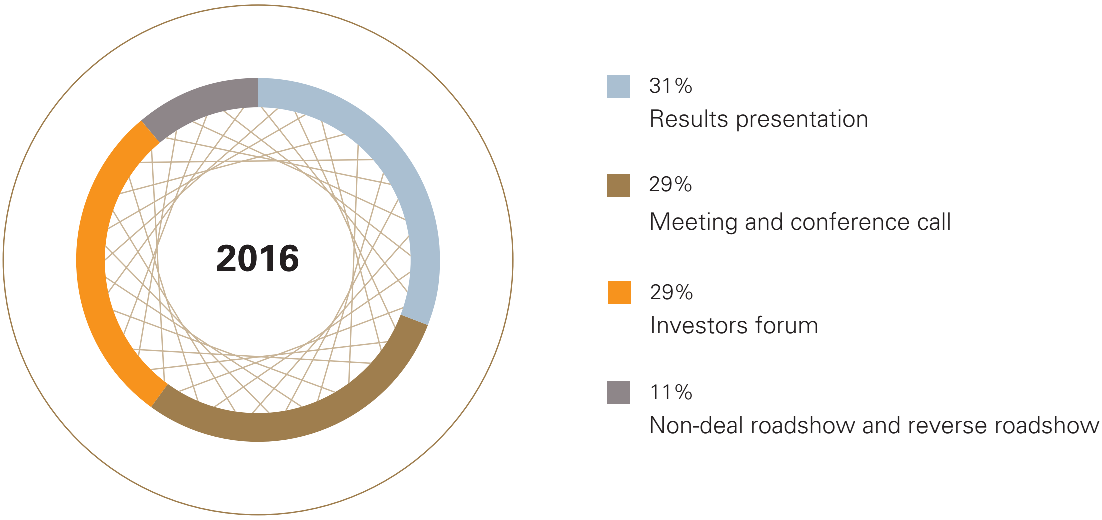
In 2016, the Company maintained comprehensive and effective communications with its investors through multiple channels including investor and press conferences, non-deal roadshows, reverse roadshow, investor forums organized by investment banks, one-on-one meetings, teleconferences and video conferences. During the year, the Company held meetings and effectively communicated with analysts and investors through the above channels about 400 person-times. In 2016, in view of the stock connect between Mainland China and Hong Kong stock markets in recent years, the Company enhanced its marketing to Mainland investors and actively participated in investor forums for Mainland investors. Moreover, in order to enhance the understanding of the capital market on the investment value and future outlook of the Company, a reverse roadshow was held in Nanjing and Hangzhou for analysts from more than ten securities firms. Analysts were able to communicate directly with the management team of the subsidiaries who are responsible for daily operation. The analysts visited and learned about the pioneering businesses and solutions of the Company in the informatization sector. The Company also arranged certain customers to meet with the analysts to enhance the understanding of the capital market on how the Company implemented its development strategies, as well as the market and operating environment of the local markets and the competitive edges of the Company through different perspectives.

The Company organized a reverse roadshow to showcase the Company's various innovative business in the informatization sector, and arranged direct communication between analysts and customers.

2016 Annual Results Presentation

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 press releases and investor relations website.

ATTENDANCE ANALYSIS OF INVESTOR RELATIONS ACTIVITIES IN 2016



List of Investor Relations Activities of the Company in 2016

Date	Event	Venue
Jan 2016	DB Access China Conference 2016	Beijing
Mar 2016	2015 Annual Results Announcement – Analyst Briefing – Press Conference	Hong Kong
Apr 2016	Non-deal Roadshow	Hong Kong
Apr 2016	HKIRA Mainland Roadshow for Stock Connect Stocks	Shanghai
Apr 2016	DBS Vickers Pulse of Asia Conference	Hong Kong
May 2016	Macquarie Greater China Conference 2016	Hong Kong
May 2016	BNP Paribas 7th Asia Pacific TMT Conference	Hong Kong
May 2016	Nomura China TMT Corporate Day 2016	Hong Kong
Jun 2016	UBS Pan-Asian Telco Conference 2016	Hong Kong
Jun 2016	Nomura Investment Forum Asia 2016	Singapore
Aug 2016	2016 Interim Results Announcement – Analyst Briefing – Press Conference	Hong Kong
Aug 2016	Non-deal Roadshow	Hong Kong
Oct 2016	CITIC Securities China – Hong Kong Stock Connect Seminar	Shenzhen
Oct 2016	Jefferies 6th Annual Greater China Summit	Hong Kong
Nov 2016	Citi 11th China Investor Conference	Macau
Dec 2016	Reverse Roadshow	Nanjing & Hangzhou

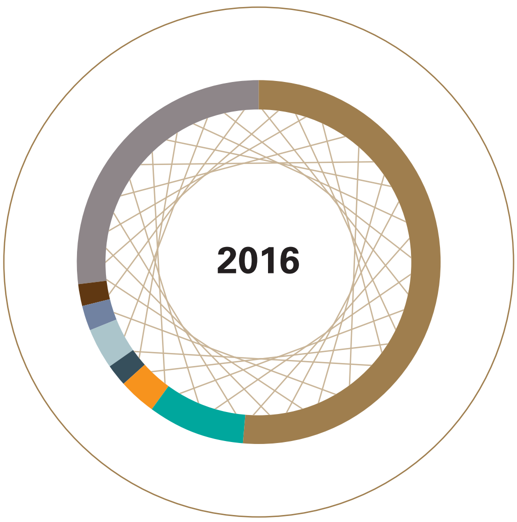
SHAREHOLDING STRUCTURE

In 2016, 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, background, geographical distribution and investment styles. The survey facilitated more active and targeted interactive communications between the Company and its shareholders and investors, thereby enhancing the efficiency of investor relations initiatives and reinforcing the impact of effective communications.

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 2016, 1.16% 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.

To facilitate the interaction and communications with investors from Mainland China, the Investor Relations Department of the Company participated in stock connect conferences organized by Mainland securities companies in Shanghai and Shenzhen during the year. The Company proactively maintained close contact with Mainland investors to enhance mutual understanding and boost investors' confidence.

SHAREHOLDING STRUCTURE AS OF 31 DECEMBER 2016 [1]



- 51.39% China Telecommunications Corporation
- 8.78% China Mobile Communications Corporation
- 3.41% China United Network Communications Group Company Limited
- 1.89% China National Postal and Telecommunications Appliances Corporation
- 3.44% BlackRock, Inc.
- 2.43% JPMorgan Chase & Co.
- 1.95% Citigroup Inc.
- 26.71% Other public shareholders

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. 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.

[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".

In 2016, in accordance with the Listing Rules, the Company published a total of ten 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.

29/01/2016	Audit Committee Charter
17/03/2016	Announcement relating to the date of board meeting to approve the 2015 annual results
31/03/2016	Announcement of annual results for the year ended 31 December 2015
22/04/2016	2015 annual report
22/04/2016	Notice of annual general meeting to be held on 24 June 2016, form of proxy and attendance slip
24/06/2016	Announcement of poll results of the annual general meeting held on 24 June 2016, payment of dividend, appointment and resignation of directors
24/06/2016	Announcement of list of directors and their role and function
09/08/2016	Announcement relating to the date of board meeting to approve the 2016 interim results
25/08/2016	Announcement of interim results for the six months ended 30 June 2016
09/09/2016	2016 interim report

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 a more convenient and efficient platform for investors and shareholders to gain 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.

In response to the technological and internet advancement, enrich the information disclosure and improve its transparency and corporate image, the Company comprehensively revised and upgraded its website in 2016. Investors and shareholders are provided with a more convenient and efficient platform for information exchange and disclosure. With more innovative design and comprehensive content, the new website received a gold award and a sliver award in the "2016 Galaxy Awards" and a bronze award in the "2016 iNova Awards" granted by an international website award organization.

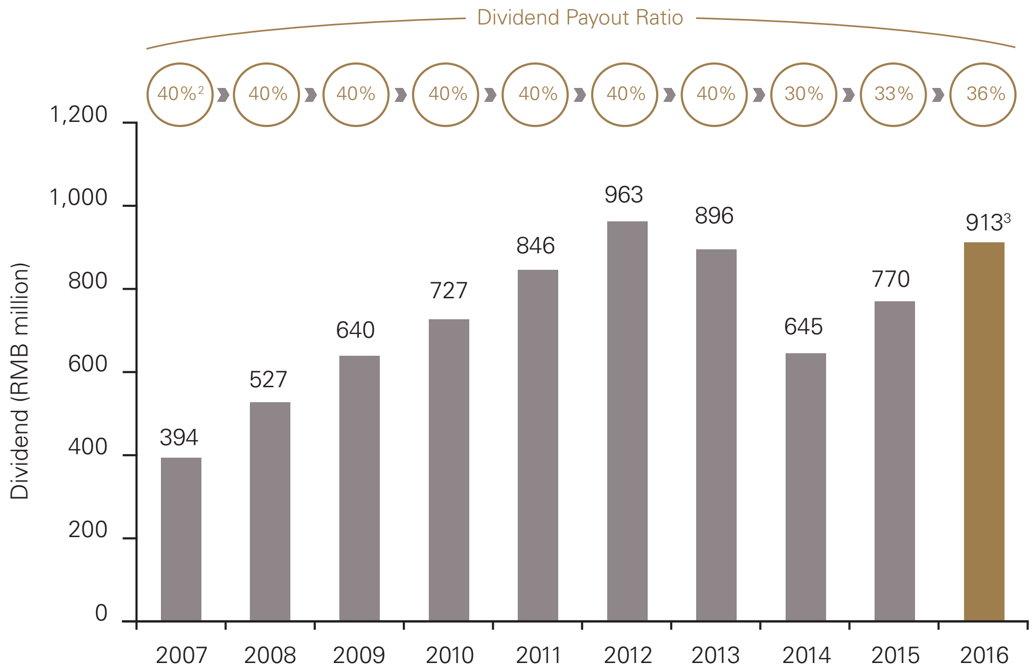
Annual report is not only an important document for information disclosure of a listed company, but also one of the important means to disclose comprehensively the operating philosophy, strategies, current operating performance and development trends of the Company to the investors. The Company therefore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

In 2016, the preparation and design of the 2015 annual report of the Company were again recognized by international award organizations and received a gold award from the "League of American Communications Professionals" (LACP) and a silver award from the "2016 International ARC Awards".

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 needs and investment opportunities in the current year. In 2016, 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 RMB0.1098 per share (equivalent to a payout ratio of 30%), and a special dividend of RMB0.0220 per share. Total dividend for 2016 is RMB0.1318 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

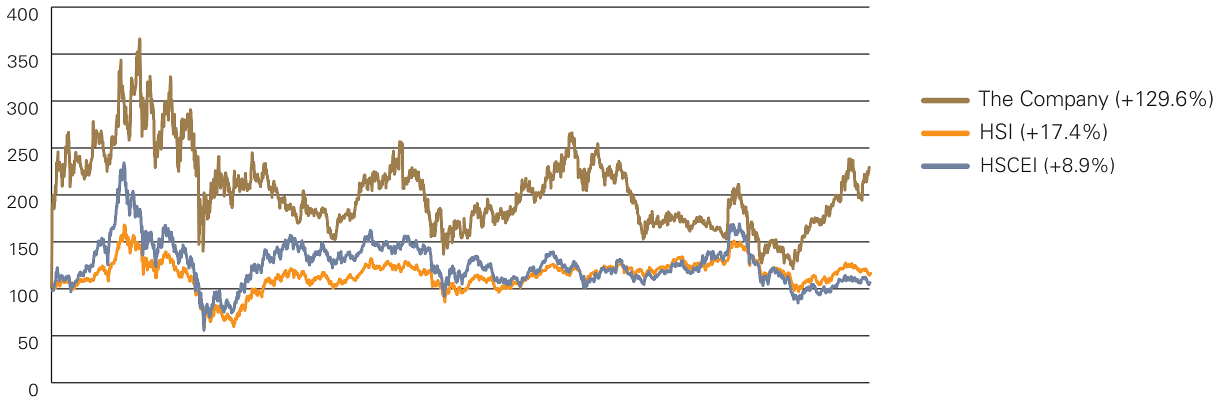
The H shares issued by the Company were listed on the Stock Exchange on 8 December 2006 at an offer price of HK$2.2 per share. Over the last decade, the Company has captured market opportunities and achieved sustainable and steady development through effective implementation of development strategies and sound 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.

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 2016 annual general meeting to be held on 23 June 2017.

Share Price Performance Since Listing

From 8 December 2006 to 31 December 2016

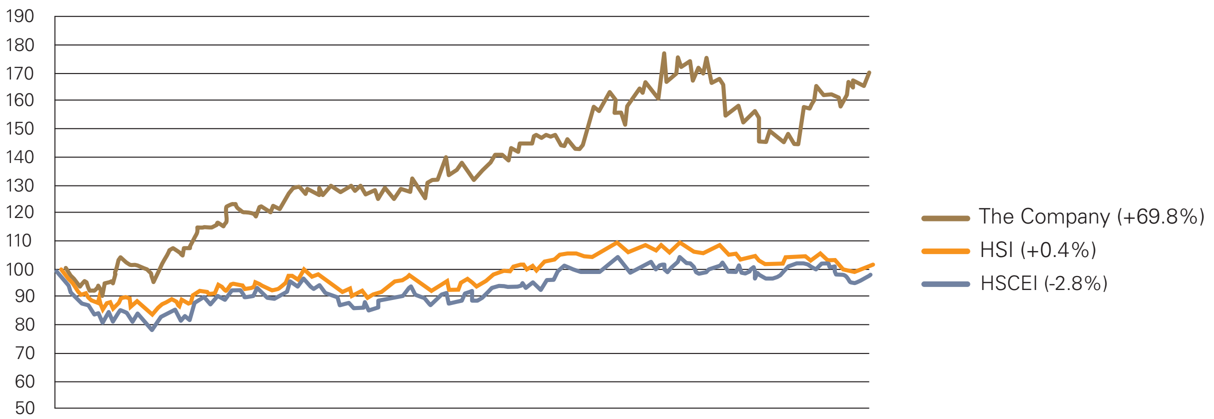


In 2016, against the backdrop of several important incidents such as Brexit and the United States presidential election, the overall economic growth of China slowed down, and the Hong Kong stock market experienced fluctuation throughout the year. During the year, the Company recorded remarkable operating results and the capital market was satisfied with the Company's performance. Moreover, the Company implemented proactive investor relations strategy and organized a reverse roadshow for the capital market at the end of the year, thereby effectively provided the capital market with updates on its business growth and development direction, and largely enhanced the confidence of investors in the Company by enabling investors to have an in-depth understanding of its future development value and core operating philosophy. In 2016, the stock price of the Company outperformed the Hang Seng Index and showed a steadily growing trend and recorded an increase of 69.8% during the year. The robust stock price uptrend reflected the good investment value of the Company and was deemed as a recognition of the effectiveness of its investor relations works.

2016	Highest	Lowest	Closing
Price per H share of the Company (HK$)	5.13	2.59	4.94

Share Price Performance in 2016

From 1 January 2016 to 31 December 2016



As at 31 December 2016, 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 2016, the Company's total market capitalization was about HK$34.2 billion.

MAJOR AWARDS AND RECOGNITIONS IN 2016

1. **"Corporate Governance Asia Recognition Awards 2016 – The Best of Asia" by *Corporate Governance Asia***
   - Icon on Corporate Governance
   - Asian Corporate Director

2. **"Asian Excellence Recognition Awards 2016" by *Corporate Governance Asia***
   - Best CEO
   - Best CFO
   - Best Investor Relations

3. **"The Asset Corporate Awards 2016" by *The Asset***
   - Excellence in Governance, CSR & Investor Relations Benchmarking – Platinum Award

4. **"2016 China Securities Golden Bauhinia Awards" by *Ta Kung Wen Wei***
   - The Best Investment Value Listed Company in the 13th Five-year Plan

5. **"2016 Golden Hong Kong Equities Awards" by *Zhitong Finance***
   - The Best Investor Relations Management Award

6. **"2016 Galaxy Awards"**
   - "Investor Relations – Revamped Website" Gold Award
   - "Telecommunications – Corporate Website" Silver Award

7. **"2016 iNova Awards"**
   - "Website Redesign/Relaunch – Investor Relations" Bronze Award

8. **"Vision Awards" by *LACP***
   - Gold Award
   - Regional Top 80 (Asia-Pacific) – rank 13th

9. **"2016 International ARC Awards"**
   - "Cover Photo/Design" Silver Award

10. **"2016 Fortune China 500" by *FORTUNE China***
    - Rank 71st

RECOGNITIONS AND HONOURS IN THE CAPITAL MARKET

The Company has always been well recognized by the capital market. It was admitted in the "Hang Seng Composite Index", "Hang Seng Composite MidCap Index", "Hang Seng Corporate Sustainability Benchmark Index", "Hang Seng High Dividend Yield 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 2016, 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 2016, 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 2016, the Company was recognized by many domestic and overseas organizations and institutions. *Corporate Governance Asia*, an authoritative journal on corporate governance in Asia, issued the honour of "Best CEO" and "Asian Corporate Director" to Mr. Sun Kangmin, the Chairman and an Executive Director of the Company, and the honour of "Best CFO" to Ms. Hou Rui, the Chief Financial Officer of the Company, for three 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. Moreover, the Company received various awards from international assessment institutions in respect of the Company's website and annual report. Such awards and honours from domestic and overseas institutions represented the Company's excellent ability and value.

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 IS HEREBY GIVEN that the annual general meeting of China Communications Services Corporation Limited (the "Company") for the year 2016 will be held at 10:00 a.m. on Friday, 23 June 2017 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 2016 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 2017;

2. **THAT** the proposal on profit distribution and dividend declaration and payment for the year ended 31 December 2016 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 2017 be considered and approved, and the Board be authorized to fix the remuneration of the auditors;

4. **THAT** the appointment of Mr. Shao Guanglu as a non-executive director of the Company be and is hereby considered and approved, with effect from the date on which this resolution is passed until the annual general meeting of the Company for the year 2017 to be held in 2018; **THAT** any director of the Company be and is hereby authorized to sign on behalf of the Company the director's service contract with Mr. Shao Guanglu.

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

5. To consider and approve, by way of special resolutions, each of the following resolutions in relation to the granting of a general mandate to the Board to issue debentures:

   5.1. **THAT** the grant of a general mandate to the Board to issue debentures denominated in local or foreign currencies, in one or more tranches in the PRC and overseas, including but not limited to, short-term commercial paper, medium term note, company bond and corporate debts (the "Debentures"), with a maximum aggregate outstanding repayment amount of up to RMB6.0 billion be and is hereby approved.

5.2. **THAT** the Board or any two of the three directors of the Company duly authorized by the Board, namely Mr. Sun Kangmin, Mr. Si Furong and Ms. Hou Rui (the "Authorized Directors"), taking into account the specific needs of the Company and market conditions, be and are hereby generally and unconditionally authorized to:

(a) determine the specific terms and conditions of, and other matters relating to, the issue of Debentures, including but not limited to, the determination of the type, amount, interest rate, term, rating, security, time and place of the issue, any repurchase or redemption provisions, any placing arrangements, any option to adjust the nominal interest rates and the use of proceeds; determine the underwriting arrangements; secure approvals; engage professional advisors; disseminate relevant application documents to the regulatory authorities; obtain approvals from the regulatory authorities; execute all requisite legal documentation relating to the issue as requested by the regulatory authorities and make relevant disclosure;

(b) do all such acts which are necessary and incidental to the issue of Debentures;

(c) take all such steps which are necessary for the purposes of executing the issue of Debentures (including, but not limited to, the execution of all requisite documentation and the disclosure of relevant information in accordance with applicable laws) and to the extent that any of the aforementioned acts and steps that have already been undertaken by the Board or the Authorized Directors in connection with the issue of Debentures, be and are hereby approved, confirmed and ratified.

5.3. **THAT** the grant of the general mandate under this resolution shall come into effect upon approval from the general meeting and will be valid for 12 months from that date.

6. **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

(d) for the purpose of this special resolution 6:

"Relevant Period" means the period from the passing of special resolution 6 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.

7. **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 6, 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
26 April 2017

Notes:

(1) Profiles of the proposed director

Mr. Shao Guanglu, aged 53, currently is an Executive Director and Senior Vice President of China Unicom (Hong Kong) Limited. He also is a Vice President of China United Network Communications Group Company Limited, a Director 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 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.

Except for those stated in this notice, Mr. Shao did not hold any directorship in public companies, the securities of which are listed on any securities market in Hong Kong or overseas, or taken up a post in any affiliated companies of the Company in the past three years. In addition, Mr. Shao does not have any relationship with any other director, supervisor, senior management, substantial shareholder or controlling shareholder of the Company. Mr. Shao does not have any equity interest in the Company within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Mr. Shao will be appointed subject to approval by the shareholders at the AGM, and his term will be effective from the date when the resolution in relation to his appointment is passed. Mr. Shao will not receive any salary or director's fee from the Company during his term as a non-executive director.

Except for those stated in this notice, the Company considers that there is no other information relating to Mr. Shao to be disclosed pursuant to Rule 13.51(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited nor any matter which needs to be brought to the attention of the shareholders of the Company.

(2) Buyers who submit the share transfer application forms to the Company's share registrar before 4:30 p.m. on Tuesday, 23 May 2017 and then register as shareholders on the register of members of the Company are entitled to attend the annual general meeting.

(3) 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 2016, which is expected to be despatched to shareholders on around Wednesday, 26 April 2017.

(4) 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

(5) All resolutions at the general meeting will be voted by poll.

(6) 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, 2 June 2017.

(7) 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 shareholders' entitlement to attend the annual general meeting to be held on Friday, 23 June 2017 (the "Annual General Meeting"), from Wednesday, 24 May 2017 to Friday, 23 June 2017 (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, 23 May 2017. H share shareholders who are registered with Computershare Hong Kong Investor Services Limited on Friday, 23 June 2017 are entitled to attend the Annual General Meeting.

(b) Proposed Final Dividend and Special Dividend

The Board proposes a final dividend of RMB0.1098 per share and a special dividend of RMB0.0220 per share, and the total dividend is RMB0.1318 per share (pre-tax) for the year ended 31 December 2016. 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 Tuesday, 11 July 2017. The register of members will be closed from Thursday, 6 July 2017 to Tuesday, 11 July 2017 (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 deposit 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 Wednesday, 5 July 2017.

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, 18 August 2017 upon approval at the Annual General Meeting.

(8) 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.

(9) 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

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 103 to 180, which comprise the consolidated statement of financial position as at 31 December 2016, 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 2016, 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 ("HKSAs") 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.

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 41(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 41(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.

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 HKSAs 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 HKSAs, 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.

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
30 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Revenues	4	88,449,356	80,959,946
Cost of revenues	5	(76,759,191)	(69,572,305)
Gross profit		11,690,165	11,387,641
Other operating income	6	943,021	854,051
Selling, general and administrative expenses		(9,501,481)	(9,306,152)
Other operating expenses	7	(95,232)	(109,170)
Finance costs	8	(46,667)	(51,392)
Share of profits of associates		66,095	49,985
Profit before tax	9	3,055,901	2,824,963
Income tax	10	(502,706)	(487,446)
Profit for the year		2,553,195	2,337,517
Attributable to:			
Equity shareholders of the Company		2,536,249	2,334,412
Non-controlling interests		16,946	3,105
Profit for the year		2,553,195	2,337,517
Basic earnings per share (RMB)	15	0.366	0.337

The notes on pages 111 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 2016

	Notes	2016 RMB'000	2015 RMB'000
Profit for the year		**2,553,195**	2,337,517
Other comprehensive 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		**38,268**	27,511
Available-for-sale securities: net movement in the fair value reserve	11	**2,392**	13,865
		40,660	41,376
Total comprehensive income for the year		**2,593,855**	2,378,893
Attributable to:			
Equity shareholders of the Company		**2,576,796**	2,375,752
Non-controlling interests		**17,059**	3,141
Total comprehensive income for the year		**2,593,855**	2,378,893

The notes on pages 111 to 180 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	31 December 2016 RMB'000	31 December 2015 RMB'000
Non-current assets			
Property, plant and equipment, net	16	4,215,616	4,331,796
Investment properties	17	607,923	658,186
Construction in progress	18	454,339	360,977
Lease prepayments	19	760,240	793,586
Goodwill	20	103,005	103,005
Other intangible assets	21	271,193	269,231
Interests in associates	22	144,405	117,196
Available-for-sale financial assets	23	866,386	865,072
Deferred tax assets	24	479,996	408,869
Other non-current assets	25	149,525	636,375
Total non-current assets		8,052,628	8,544,293
Current assets			
Inventories	26	2,221,334	2,883,989
Accounts and bills receivable, net	27	29,362,985	27,520,829
Prepayments and other current assets	29	6,740,547	6,873,074
Restricted deposits	30	2,892,408	2,555,290
Cash and cash equivalents	31	13,324,079	9,535,851
Total current assets		54,541,353	49,369,033
Total assets		62,593,981	57,913,326
Current liabilities			
Interest-bearing borrowings	32	46,697	177,005
Accounts and bills payable	33	20,399,409	19,699,385
Receipts in advance for contract work		4,046,097	2,911,542
Accrued expenses and other payables	34	9,730,662	8,691,602
Income tax payable		351,647	309,261
Total current liabilities		34,574,512	31,788,795
Net current assets		19,966,841	17,580,238
Total assets less current liabilities		28,019,469	26,124,531
Non-current liabilities			
Interest-bearing borrowings	32	17,343	34,455
Other non-current liabilities	35	942,076	865,780
Deferred tax liabilities	24	12,268	14,687
Total non-current liabilities		971,687	914,922
Total liabilities		35,546,199	32,703,717

At 31 December 2016

	Notes	31 December 2016 RMB'000	31 December 2015 RMB'000
Equity			
Share capital	36	**6,926,018**	6,926,018
Reserves		**19,647,411**	17,834,795
Equity attributable to equity shareholders of the Company		**26,573,429**	24,760,813
Non-controlling interests		**474,353**	448,796
Total equity		**27,047,782**	25,209,609
Total liabilities and equity		**62,593,981**	57,913,326

The notes on pages 111 to 180 form part of these consolidated financial statements.

Approved and authorised for issue by the board of directors on 30 March 2017.

Sun Kangmin
Chairman

Hou Rui
Executive Vice President and Chief Finance Officer, Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

		Equity attributable to equity shareholders of the Company											
	Notes	Share capital RMB'000	Share premium RMB'000 (note a)	Capital reserve RMB'000 (note b)	Statutory surplus reserve RMB'000 (note c)	Specific reserve RMB'000 (note d)	Fair value reserve RMB'000 (note e)	Exchange reserve RMB'000 (note f)	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance as at 1 January 2016		6,926,018	4,529,310	1,846,468	856,150	137,377	44,726	434	(68,310)	10,488,640	24,760,813	448,796	25,209,609
Changes in equity for the 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
Balance as at 1 January 2015		6,926,018	4,529,310	1,846,468	751,084	103,450	30,861	(27,041)	(68,310)	8,938,033	23,029,873	513,314	23,543,187
Changes in equity for the year ended 31 December 2015													
Profit for the year		–	–	–	–	–	–	–	–	2,334,412	2,334,412	3,105	2,337,517
Other comprehensive income for the year		–	–	–	–	–	13,865	27,475	–	–	41,340	36	41,376
Total comprehensive income for the year		–	–	–	–	–	13,865	27,475	–	2,334,412	2,375,752	3,141	2,378,893
Capital contribution from non-controlling interests		–	–	–	–	–	–	–	–	–	–	1,563	1,563
Dividend declared	14(b)	–	–	–	–	–	–	–	–	(644,812)	(644,812)	–	(644,812)
Distribution to non-controlling interests		–	–	–	–	–	–	–	–	–	–	(69,222)	(69,222)
Appropriation		–	–	–	105,066	–	–	–	–	(105,066)	–	–	–
Appropriation of specific reserve		–	–	–	–	399,553	–	–	–	(399,553)	–	–	–
Utilisation of specific reserve		–	–	–	–	(365,626)	–	–	–	365,626	–	–	–
Balance as at 31 December 2015		6,926,018	4,529,310	1,846,468	856,150	137,377	44,726	434	(68,310)	10,488,640	24,760,813	448,796	25,209,609

For the year ended 31 December 2016

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 2016, the Company transferred RMB96 million (2015: RMB105 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.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Operating activities			
Profit before tax		**3,055,901**	2,824,963
Adjustments for:			
Depreciation and amortisation		**850,387**	845,518
Impairment losses on accounts and bills and other receivables		**319,616**	583,792
Impairment losses on property, plant and equipment and construction in progress		**3,914**	–
Impairment losses on inventories		**57,951**	63,260
Interest income		**(184,088)**	(143,392)
Finance costs		**46,667**	51,392
Share of profits of associates		**(66,095)**	(49,985)
Dividend income		**(51,142)**	(63,857)
Changes in fair value of financial derivatives		**1,650**	(3,524)
Gain on disposal of subsidiaries		**(36,712)**	–
Loss/(gain) on disposal of property, plant and equipment and other intangible assets, net		**3,322**	(29,013)
Exchange differences		**6,934**	41,118
Write-back of non-payable liabilities		**(18,282)**	(34,443)
Operating profit before changes in working capital		**3,990,023**	4,085,829
Decrease/(increase) in inventories		**604,703**	(526,351)
Increase in accounts and bills receivable		**(1,625,183)**	(583,468)
Increase in prepayments and other current assets		**(269,808)**	(1,347,048)
Increase in accounts and bills payable		**688,286**	871,498
Increase in receipts in advance for contract work		**1,134,555**	1,333,454
Increase in accrued expenses and other payables		**1,144,360**	1,353,086
Net cash inflow from operations		**5,666,936**	5,187,000
Interest paid		**(47,202)**	(50,334)
Interest received		**180,472**	126,758
Income tax paid		**(534,958)**	(575,613)
Net cash generated from operating activities		**5,265,248**	4,687,811

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Investing activities			
Payments for purchase of property, plant and equipment, lease prepayments and other intangible assets		(846,649)	(811,769)
Proceeds from disposal of property, plant and equipment and other intangible assets		18,655	161,637
Restricted bank deposits received/(paid)		39,269	(1,102,061)
Dividends received		115,079	63,727
Proceeds from disposal of investments		71,356	1,463
Payments for acquisition of investments		(5,405)	(750)
Other cash paid related to investing activities		(1,131)	(623)
Other cash received related to investing activities		4,474	2,212
Net cash used in investing activities		(604,352)	(1,686,164)
Financing activities			
Capital contribution from non-controlling interests		20,327	–
Proceeds from bank and other loans		34,466	225,813
Repayments of bank and other loans		(182,873)	(302,502)
Dividends paid		(821,092)	(716,142)
Net cash used in financing activities		(949,172)	(792,831)
Increase in cash and cash equivalents		3,711,724	2,208,816
Cash and cash equivalents at beginning of year		9,535,851	7,313,515
Effect of foreign exchange rate changes		76,504	13,520
Cash and cash equivalents at end of the year	31	13,324,079	9,535,851

The notes on pages 111 to 180 form part of these consolidated financial statements.

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 People's Republic of China (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.

For the year ended 31 December 2016

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 overallotment 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 Group 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.

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 registered capital is RMB50 million. The Company has paid initial contribution of RMB10 million on 24 August 2015.

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 other registered capital will transfer from its capital reserve.

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.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2016 comprise the Group and its interests in associates.

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 derivatives 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 realizable 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the financial statements (continued)

The preparation of 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 financial statements and major sources of estimation uncertainty are discussed in note 41.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

(iii) Subsidiaries and non-controlling interests (continued)

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.

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 including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component,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, 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) Associates

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.

Investments in associates 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 net assets and any impairment loss relating to the investment (see note 2(l)). 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

(iv) Associates (continued)

When the Group's share of losses exceeds its interest in the associate, 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.

Unrealised profits and losses resulting from transactions between the Group and its associates 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 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.

(e) Investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries and associate, 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)).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Investments in debt and equity securities (continued)

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 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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Construction in progress

Construction in progress is stated at cost less impairment losses (see note 2(l)). Cost comprises direct costs of construction and borrowing costs 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.

(j) Intangible assets (other than goodwill)

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

An intangible asset arising from development (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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(l) 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;

– 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 debtor; 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 associate recognised using the equity method (see note 2(c)(iv)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 2(l)(i). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(l)(i).

– 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of assets (continued)

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

– 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 that which would have been determined had no impairment loss been recognised in prior years.

– 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– **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.

(m) Inventories

Inventories are carried at the lower of cost and net realizable 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 realizable 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 realizable 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.

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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) Derivative financial instruments

Derivative financial instruments are initially recognised at fair value. At each end of the reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately to profit or loss, except where the derivative qualify for cash flow hedge accounting or hedge the net investment in a foreign operation.

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 38.

(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.

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.

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).

For the year ended 31 December 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Income tax (continued)

The amount of deferred tax recognised is measured based on the expected manner of realization 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 to realise the current tax assets and settle the current tax liabilities on a net basis or 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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Revenue recognition (continued)

(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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Translation of foreign currencies (continued)

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.

(aa) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provide 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 43).

(bb) Dividends or profit distributions

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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

The application of the amendments to IFRSs 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.

For the year ended 31 December 2016

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:

	2016 RMB'000	2015 RMB'000
Revenue from telecommunications infrastructure services	45,886,950	39,209,267
Revenue from business process outsourcing services	32,533,602	33,014,030
Revenue from applications, content and other services	10,028,804	8,736,649
	88,449,356	80,959,946

The Group's major customers are telecommunications operators which include CTC and its subsidiaries (excluding the Group) ("CTC Group") and China Mobile Communications Corporation and its subsidiaries ("CM Group"), each contributing a revenue exceeding 10% of the Group's total revenues. Revenues from the provision of integrated telecommunications support services to CTC Group and CM Group for the year ended 31 December 2016 amounted to RMB40,597 million and RMB13,888 million, respectively (2015: RMB39,130 million and RMB12,659 million, respectively), being 45.9% and 15.7% of the Group's total revenues, respectively (2015: 48.3% and 15.6%, respectively). The revenues derived from areas outside Mainland China for the year ended 31 December 2016 amounted to RMB3,846 million (2015: RMB3,225 million).

For the year ended 31 December 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 (2015: The Group's first three businesses that contributed to the overall revenues were construction, products distribution and management of infrastructure for information technology, the revenues from which amounted to RMB28,784 million, RMB13,095 million and RMB9,756 million, respectively).

5. COST OF REVENUES

	2016 RMB'000	2015 RMB'000
Depreciation and amortisation	455,215	447,031
Direct personnel costs	8,316,693	8,731,020
Operating lease charges	1,381,599	1,318,185
Materials costs	8,281,024	7,799,871
Direct costs of products distribution	9,764,598	12,652,927
Subcontracting charges	41,016,647	31,811,771
Others	7,543,415	6,811,500
	76,759,191	69,572,305

For the year ended 31 December 2016

6. OTHER OPERATING INCOME

	2016 RMB'000	2015 RMB'000
Interest income	**184,088**	143,392
Dividend income from listed securities	**94**	824
Dividend income from unlisted securities	**51,048**	63,033
Government grants	**277,348**	244,759
Gain on disposal of subsidiaries	**36,712**	–
Gain on disposal of property, plant and equipment and other intangible assets	**5,635**	38,153
Penalty income	**3,674**	1,652
Management fee income	**312,930**	297,177
Write-back of non-payable liabilities	**18,282**	34,443
Others	**53,210**	30,618
	943,021	854,051

7. OTHER OPERATING EXPENSES

	2016 RMB'000	2015 RMB'000
Impairment losses on property, plant and equipment and construction in process	**3,914**	–
Loss on disposal of property, plant and equipment and other intangible assets	**8,957**	9,648
Donations	**510**	362
Penalty charge	**12,480**	11,290
Net foreign exchange loss	**6,934**	41,118
Others	**62,437**	46,752
	95,232	109,170

8. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest on bank and other borrowings	**12,991**	24,005
Interest for convertible preference shares and preference shares (note 35)	**33,676**	27,387
	46,667	51,392

For the years ended 31 December 2016 and 2015, no borrowing costs were capitalised in relation to construction in progress.

For the year ended 31 December 2016

9. PROFIT BEFORE TAX

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

		2016 RMB'000	2015 RMB'000
(a)	Staff costs:		
	Salaries, wages and other benefits	**13,100,419**	13,395,240
	Contributions to defined contribution retirement schemes	**1,190,891**	1,145,518
		14,291,310	14,540,758
(b)	Other items:		
	Depreciation		
	– Property, plant and equipment (note 16)	**687,164**	682,447
	– Investment properties (note 17)	**41,389**	41,490
	Amortisation		
	– Lease prepayments (note 19)	**27,262**	27,912
	– Other intangible assets (note 21)	**94,572**	93,669
	Auditors' remuneration	**35,100**	34,395
	Materials costs (note 26)	**8,281,024**	7,799,871
	Direct costs of products distribution (note 26)	**9,764,598**	12,652,927
	Write-down of inventories (note 26)	**65,521**	64,712
	Reversal of write-down of inventories (note 26)	**(7,570)**	(1,452)
	Impairment losses on accounts and bills and other receivables	**494,778**	700,776
	Reversal of impairment losses on accounts and bills and other receivables	**(175,162)**	(116,984)
	Changes in fair value of financial derivatives	**1,650**	(3,524)
	Operating lease charges	**1,674,451**	1,601,101
	Research and development costs	**2,255,990**	2,038,016

The selling expenses, general and administrative expenses and other expenses of the Group are RMB1,514 million, RMB7,286 million and RMB701 million (2015: RMB1,406 million, RMB7,264 million and RMB636 million), respectively for the year ended 31 December 2016. Research and development costs include RMB1,769 million (2015: RMB1,591 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:

	2016 RMB'000	2015 RMB'000
Current tax		
PRC enterprise income tax	**557,098**	545,567
Overseas enterprise income tax	**19,577**	20,011
Deferred tax		
Origination and reversal of temporary differences (note 24)	**(73,969)**	(78,132)
Total income tax	**502,706**	487,446

10. INCOME TAX (continued)

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

	2016 RMB'000	2015 RMB'000
Profit before tax	**3,055,901**	2,824,963
Expected income tax expense at a statutory tax rate of 25% (2015: 25%) (note (i))	**763,975**	706,241
Differential tax rates on subsidiaries' income (note (i))	**(266,932)**	(220,867)
Non-deductible expenses (note (ii))	**188,016**	135,387
Non-taxable income	**(49,281)**	(53,723)
Tax losses not recognised	**50,293**	59,058
Utilisation of previously unrecognised tax losses	**(13,628)**	(8,354)
Over provision in respect of prior years	**(8,686)**	(29,094)
Effect of tax exemptions	**(1,669)**	(1,362)
Others (note (iii))	**(159,382)**	(99,840)
Income tax	**502,706**	487,446

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 2016 and 2015, 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

	2016 RMB'000	2015 RMB'000
Changes in fair value recognised during the year	**2,814**	16,312
Net deferred tax debited to other comprehensive income	**(422)**	(2,447)
Net movement in the fair value reserve during the year recognised in other comprehensive income	**2,392**	13,865

For the year ended 31 December 2016

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 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	–	–	–	–	–	–
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

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 2015 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	2015 Total RMB'000
Executive Directors						
Sun Kangmin(appointed on 19 January 2015)	–	–	–	–	–	–
Li Ping(resigned on 19 January 2015)	–	–	–	–	–	–
Si Furong	–	199	543	78	–	820
Hou Rui	–	140	488	70	–	698
	–	339	1,031	148	–	1,518
Non-Executive Directors						
Li Zhengmao	–	–	–	–	–	–
Zhang Junan	–	–	–	–	–	–
	–	–	–	–	–	–
Independent Non-Executive Directors						
Wang Jun	200	–	–	–	–	200
Zhao Chunjun	150	–	–	–	–	150
Siu Wai Keung, Francis	260	–	–	–	–	260
Lv Tingjie(appointed on 26 June 2015)	75	–	–	–	–	75
Wu Taishi(appointed on 26 June 2015)	75	–	–	–	–	75
Wei Leping(resigned on 26 June 2015)	75	–	–	–	–	75
	835	–	–	–	–	835
Supervisors						
Xia Jianghua(resigned on 11 December 2015)	–	–	–	–	–	–
Han Fang (appointed on 11 December 2015)	–	–	–	–	–	–
Hai Liancheng	75	–	–	–	–	75
Si Jianfei	–	119	334	65	–	518
	75	119	334	65	–	593
Total directors' and supervisors' emoluments						2,946

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 and Mr. Li Ping, non-executive directors, Mr. Li Zhengmao and Mr. Zhang Junan, and supervisors, Ms. Han Fang and Ms. Xia Jianghua, 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 Group.

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

For the year ended 31 December 2016

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:

	2016	2015
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:

	2016 RMB'000	2015 RMB'000
Salaries, allowances and other benefits in kind	1,690	1,929
Discretionary bonuses	3,972	3,286
Pension scheme contributions	398	208
	6,060	5,423

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

	2016	2015
RMB equivalent		
Nil to 1,000,000	–	3
1,000,001 to 1,500,000	5	2

(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:

	2016	2015
RMB equivalent		
Nil to 1,000,000	19	19

14. DIVIDENDS

(a) Dividends attributable to the year

	2016 RMB'000	2015 RMB'000
Final dividend proposed after the end of reporting period of RMB0.1098 per share (2015: RMB0.1011 per share)	**760,477**	700,220
Special dividend proposed after the end of reporting period of RMB0.0220, per share, (2015: RMB0.0101 per share)	**152,372**	69,953
	912,849	770,173

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

	2016 RMB'000	2015 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.1011 per share (2015: RMB0.0931 per share)	**700,220**	644,812
Special dividend in respect of the previous financial year, approved and paid during the year, of RMB0.0101 per share (2015: nil)	**69,953**	–
	770,173	644,812

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 2016 of RMB2,536,249 thousand (2015: RMB2,334,412 thousand) and number of shares in issue during the year ended 31 December 2016 of 6,926,018 thousand shares (2015: 6,926,018 thousand shares).

For the year ended 31 December 2016

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 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

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 2015	3,230,812	488,697	1,643,787	3,572,992	8,936,288
Transfer to investment properties (note 17)	(20,115)	–	–	–	(20,115)
Transfer from investment properties (note 17)	2,930	–	–	–	2,930
Transfer from construction in progress (note 18)	23,428	14,727	5,319	32,370	75,844
Additions	48,800	34,634	112,349	271,340	467,123
Disposals	(39,700)	(6,265)	(147,448)	(193,126)	(386,539)
As at 31 December 2015	3,246,155	531,793	1,614,007	3,683,576	9,075,531
Accumulated depreciation and impairment losses:					
As at 1 January 2015	978,529	337,284	919,879	2,161,752	4,397,444
Transfer to investment properties (note 17)	(840)	–	–	–	(840)
Transfer from investment properties (note 17)	942	–	–	–	942
Depreciation charge	129,383	51,425	159,400	342,239	682,447
Depreciation written back on disposals	(21,278)	(5,178)	(136,950)	(166,515)	(329,921)
Impairment loss eliminated on disposals	–	–	(103)	(6,234)	(6,337)
As at 31 December 2015	1,086,736	383,531	942,226	2,331,242	4,743,735
Net carrying value:					
As at 31 December 2015	2,159,419	148,262	671,781	1,352,334	4,331,796
As at 1 January 2015	2,252,283	151,413	723,908	1,411,240	4,538,844

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

As at 31 December 2016, none of banking facilities and borrowings from banks of the Group were secured by property, plant and equipment. As at 31 December 2015, certain banking facilities and borrowings from banks of the Group were secured by property, plant and equipment with carrying amount of RMB334 million.

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 RMB289 million as at 31 December 2016 (2015: RMB372 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.

For the year ended 31 December 2016

17. INVESTMENT PROPERTIES

	2016 RMB'000	2015 RMB'000
COST		
As at 1 January	**1,084,108**	1,066,782
Transfer from property, plant and equipment (note 16)	**9,922**	20,115
Transfer to property, plant and equipment (note 16)	**(19,955)**	(2,930)
Additions	**–**	141
As at 31 December	**1,074,075**	1,084,108
ACCUMULATED DEPRECIATION		
As at 1 January	**425,922**	384,493
Transfer from property, plant and equipment (note 16)	**763**	840
Transfer to property, plant and equipment (note 16)	**(1,922)**	(942)
Depreciation charge	**41,389**	41,490
Others	**–**	41
As at 31 December	**466,152**	425,922
NET CARRYING VALUE		
As at 31 December	**607,923**	658,186
As at 1 January	**658,186**	682,289
Fair value	**2,290,295**	2,160,543

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.

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:

	2016 RMB'000	2015 RMB'000
Within 1 year	146,868	195,957
After 1 year but within 5 years	123,281	218,975
After 5 years	9,895	39,227
As at 31 December	280,044	454,159

During the year ended 31 December 2016, RMB100 million (2015: RMB107 million) has been recognised as rental income in the consolidated statement of profit or loss and RMB17 million (2015: RMB38 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 RMB57 million as at 31 December 2016 (2015: RMB38 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

	2016 RMB'000	2015 RMB'000
Cost:		
As at 1 January	360,977	234,890
Additions	300,705	259,865
Disposals	(1,596)	(2,692)
Transfer to other intangible assets (note 21)	(49,775)	(55,242)
Transfer to property, plant and equipment (note 16)	(154,679)	(75,844)
Impairment loss	(1,293)	–
As at 31 December	454,339	360,977

For the year ended 31 December 2016

19. LEASE PREPAYMENTS

	2016 RMB'000	2015 RMB'000
Cost:		
As at 1 January	**1,019,344**	1,083,566
Additions	**4,674**	5,102
Disposals	**(12,533)**	(69,324)
As at 31 December	**1,011,485**	1,019,344
Released to profit or loss:		
As at 1 January	**225,758**	211,218
Amortisation charge	**27,262**	27,912
Disposals	**(1,775)**	(13,372)
As at 31 December	**251,245**	225,758
Net carrying value:		
As at 31 December	**760,240**	793,586
As at 1 January	**793,586**	872,348

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 11 to 63 years as at 31 December 2016.

20. GOODWILL

	2016 RMB'000	2015 RMB'000
Cost and carrying amount	**103,005**	103,005

	2016 RMB'000	2015 RMB'000
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 13.55% (2015: 13.13%).

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.

For the year ended 31 December 2016

21. OTHER INTANGIBLE ASSETS

	2016 RMB'000	2015 RMB'000
Cost:		
As at 1 January	**673,456**	562,522
Additions	**60,496**	62,778
Transfer from construction in progress (note 18)	**49,775**	55,242
Disposals	**(38,881)**	(7,086)
As at 31 December	**744,846**	673,456
Accumulated amortisation:		
As at 1 January	**404,225**	312,904
Amortisation charge	**94,572**	94,135
Written back on disposals	**(25,144)**	(2,814)
As at 31 December	**473,653**	404,225
Net carrying value:		
As at 31 December	**271,193**	269,231
As at 1 January	**269,231**	249,618

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

22. INTERESTS IN ASSOCIATES

	2016 RMB'000	2015 RMB'000
Share of net assets	**144,405**	117,196

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

For the year ended 31 December 2016

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016 RMB'000	2015 RMB'000
Unlisted equity securities, at cost	795,223	797,088
Listed equity securities, at quoted market price	71,163	67,984
	866,386	865,072

24. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net balance	
	31 December 2016 RMB'000	31 December 2015 RMB'000	31 December 2016 RMB'000	31 December 2015 RMB'000	31 December 2016 RMB'000	31 December 2015 RMB'000
Impairment losses, primarily for receivables and inventories	250,571	224,494	–	–	250,571	224,494
Revaluation of property, plant and equipment	–	–	(10,066)	(11,349)	(10,066)	(11,349)
Unused tax losses (note (i))	21,374	21,715	–	–	21,374	21,715
Change in fair value (note (ii))	–	–	(9,101)	(8,679)	(9,101)	(8,679)
Unpaid expenses	208,051	162,660	–	–	208,051	162,660
Others	–	–	6,899	5,341	6,899	5,341
Deferred tax assets and (liabilities)	479,996	408,869	(12,268)	(14,687)	467,728	394,182

Movements in deferred tax assets and liabilities for the year ended 31 December 2016 and 2015 are as follows:

	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

24. DEFERRED TAX ASSETS AND LIABILITIES (continued)

	As at 1 January 2015 RMB'000	Recognised in profit or loss RMB'000 (note 10(a))	Recognised in other comprehensive income RMB'000	As at 31 December 2015 RMB'000
Impairment losses, primarily for receivables and inventories	139,241	85,253	–	224,494
Revaluation of property, plant and equipment	(11,349)	–	–	(11,349)
Unused tax losses (note (i))	39,104	(17,389)	–	21,715
Change in fair value (note (ii))	(6,232)	–	(2,447)	(8,679)
Unpaid expenses	153,509	9,151	–	162,660
Others	4,224	1,117	–	5,341
Deferred tax assets and (liabilities)	318,497	78,132	(2,447)	394,182

Notes:

(i) Expiry of recognised tax losses

	2016 RMB'000	2015 RMB'000
Year of expiry		
2017	12,896	33,759
2018	48,943	51,529
2019	33,650	53,193
2020	1,013	3,042
2021	43,967	–
	140,469	141,523

(ii) As at 31 December 2016, the Group's deferred tax liability related to the change in fair value of available-for-sale financial assets reflects in the above table.

(iii) As at 31 December 2016, the Group has not recognised deferred tax assets in respect of tax losses of RMB988.9 million (2015: RMB941.0 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 2017 to 2021.

For the year ended 31 December 2016

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

	2016 RMB'000	2015 RMB'000
Construction materials	**340,712**	452,678
Finished goods	**1,846,337**	2,304,453
Spare parts and consumables	**34,285**	126,858
	2,221,334	2,883,989

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

	2016 RMB'000	2015 RMB'000
Carrying amount of inventories consumed and sold		
– Materials costs	**8,281,024**	7,799,871
– Direct costs of products distribution	**9,764,598**	12,652,927
Reversal of write-down of inventories	**(7,570)**	(1,452)
Write-down of inventories	**65,521**	64,712
	18,103,573	20,516,058

27. ACCOUNTS AND BILLS RECEIVABLE, NET

	2016 RMB'000	2015 RMB'000
Bills receivable	**74,620**	202,069
Unbilled revenues for contract work	**7,027,415**	7,864,033
Trade receivables	**23,587,948**	20,536,104
	30,689,983	28,602,206
Less: impairment losses	**(1,326,998)**	(1,081,377)
	29,362,985	27,520,829

(a) Included in accounts and bills receivable are amounts due from CTC Group, associates of the Group and associates of CTC Group of RMB18,393 million (2015: RMB16,155 million) as at 31 December 2016. 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.

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:

	2016 RMB'000	2015 RMB'000
Current (note)	**12,914,339**	13,211,725
Within 1 year	**14,027,398**	11,666,256
After 1 year but less than 2 years	**1,545,520**	2,131,351
After 2 years but less than 3 years	**875,728**	511,497
Amount past due	**16,448,646**	14,309,104
	29,362,985	27,520,829

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:

	2016 RMB'000	2015 RMB'000
At 1 January	**1,081,377**	624,376
Impairment loss recognised	**416,452**	577,101
Reversal of impairment loss previously recognised	**(154,854)**	(101,648)
Uncollectible amounts written off	**(15,977)**	(18,452)
At 31 December	**1,326,998**	1,081,377

At 31 December 2016, accounts and bills receivable of RMB1,322 million (2015: RMB1,421 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 RMB671 million (2015: RMB511 million) were recognised. The Group does not hold any collateral over these balances.

For the year ended 31 December 2016

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:

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	**12,914,339**	13,211,725
Past due but not impaired		
Within 1 year	**13,064,706**	10,285,576
After 1 year but less than 2 years	**917,257**	1,000,787
After 2 years but less than 3 years	**531,054**	269,883
	27,427,356	24,767,971

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. The Group does not hold any collateral over these balances.

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 2016 are RMB14,652 million (2015: RMB13,448 million).

In respect of construction contacts 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 2016 are RMB65 million (2015: RMB41 million).

29. PREPAYMENTS AND OTHER CURRENT ASSETS

	2016 RMB'000	2015 RMB'000
Advances to staff	**165,721**	172,833
Amounts due from CTC Group, associates of the Group and associates of CTC Group	**1,495,582**	1,430,237
Prepayments in connection with construction work and equipment purchases	**2,136,085**	2,648,540
Prepaid expenses and deposits	**995,378**	709,866
Others	**1,947,781**	1,911,598
	6,740,547	6,873,074

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.

30. 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.

31. CASH AND CASH EQUIVALENTS

	2016 RMB'000	2015 RMB'000
Cash at bank and in hand	**11,746,118**	8,748,298
Deposits at bank with original maturity less than three months	**1,577,961**	787,553
Cash and cash equivalents	**13,324,079**	9,535,851

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.

For the year ended 31 December 2016

32. INTEREST-BEARING BORROWINGS

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

	2016 RMB'000	2015 RMB'000
RMB denominated		
Borrowings from banks		
– unsecured	–	32,953
Loan from CTC Group		
– unsecured	13,280	13,280
USD denominated		
Borrowings from banks		
– secured	–	17,013
– unsecured	33,417	109,590
Other denominated		
Borrowings from banks		
– unsecured	–	4,169
	46,697	177,005

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

	2016	2015
RMB denominated		
Borrowings from banks		
– unsecured	–	5.60%-5.62%
Loan from CTC Group		
– unsecured	2.39%	2.39%
USD denominated		
Borrowings from banks		
– secured	–	5.30%
– unsecured(fixed interest rate)	2.30%-4.14%	1.46%-4.14%
– unsecured(floating interest rate)	Libor+4.00%	–
Other denominated		
Borrowings from banks		
– unsecured	–	8.60%

32. INTEREST-BEARING BORROWINGS (continued)

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

	2016 RMB'000	2015 RMB'000
USD denominated		
Borrowings from banks		
– unsecured	17,343	34,455

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

	2016	2015
USD denominated		
Borrowings from banks		
– unsecured (fixed interest rate)	3.53%-4.14%	3.53%-4.14%
– unsecured (floating interest rate)	–	Libor+4.00%

The Group's borrowings were repayable as follows:

	2016 RMB'000	2015 RMB'000
Within 1 year	46,697	177,005
After 1 year but within 2 years	17,343	18,221
After 2 years but within 5 years	–	16,234
	64,040	211,460

As at 31 December 2016, none of banking facilities and borrowings from banks of the Group were secured by property, plant and equipment. As at 31 December 2015, certain banking facilities and borrowings from banks of the Group were secured by property, plant and equipment with carrying amount of RMB334 million, such banking facilities amounted to RMB131 million. The facilities were utilised to the extent of RMB17 million as at 31 December 2015.

As at 31 December 2016 and 2015, no borrowings from bank were subject to financial covenants.

For the year ended 31 December 2016

33. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	2016 RMB'000	2015 RMB'000
Accounts payable	18,850,843	17,429,304
Bills payable	1,548,566	2,270,081
	20,399,409	19,699,385

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

	2016 RMB'000	2015 RMB'000
Within 1 year	18,582,995	17,984,560
After 1 year but less than 2 years	1,172,268	1,191,927
After 2 years but less than 3 years	357,027	270,058
After 3 years	287,119	252,840
	20,399,409	19,699,385

Included in accounts and bills payable are amounts due to CTC Group, associates of the Group and associates of CTC Group of RMB1,034 million (2015: RMB1,777 million) as at 31 December 2016. 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.

34. ACCRUED EXPENSES AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Wages and welfare payable	1,636,899	1,571,302
Amounts due to CTC Group, associates of the Group and associates of CTC Group (note (i))	1,084,856	792,676
Advances received	1,717,651	1,578,163
Other taxes payable	594,624	806,418
Special dividend and profit distribution payable to CTC Group (note (ii))	54,029	54,029
Dividend payable	29,938	74,016
Payables for construction and purchase of property, plant and equipment	72,851	75,435
Others (note (iii))	4,539,814	3,739,563
	9,730,662	8,691,602

34. 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 to 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 2016.

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 RMB145 million has been paid to CTC and its subsidiaries by 31 December 2016.

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

35. OTHER NON-CURRENT LIABILITIES

	2016 RMB'000	2015 RMB'000
Convertible preference shares and preference shares (note (i))	693,700	649,360
Others (note (ii))	248,376	216,420
	942,076	865,780

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. The effective interest rate as at 31 December 2016 was 4.85% per annum.

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

For the year ended 31 December 2016

36. SHARE CAPITAL

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

	2016 Thousand shares	2015 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 2016 was 2.8% (2015: 3.4%). 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.

37. 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% (2015: 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.

38. 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.

38. 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 the 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 the 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 the 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 the 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.

For the year ended 31 December 2016, compensation expense of RMB53 million in respect of the second phase share appreciation rights was reversed in profit and loss because of failure to satisfy the performance conditions.

39. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

As at 31 December 2016, the Group had capital commitments for acquisition and construction of property, plant and equipment and other non-current assets as follows:

	2016 **RMB'000**	2015 RMB'000
Contracted for but not provided	**347,842**	317,445

39. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(b) Operating lease commitments

As at 31 December 2016, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	2016 RMB'000	2015 RMB'000
Within 1 year	**347,316**	308,106
After 1 year but within 5 years	**389,977**	352,620
After 5 years	**113,988**	122,061
	851,281	782,787

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 2016, the Group had no material contingent liabilities and no material financial guarantees issued.

40. 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 72% of the total trade and bills receivable as at 31 December 2016 (2015: 69%). 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.

40. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(a) Credit risk (continued)

The credit risk on available-for-sale financial assets arises from loss in value through corporate failure. The Group mitigate the credit risk on available-for-sale financial assets by closely monitor its portfolio and minimize investments on these assets. The Group's available-for-sale financial assets are less than 2% of its total assets for both 2016 and 2015.

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 32.

(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 realizable 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:

	2016		2015	
	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 32)	48,084	46,697	179,538	177,005
Account and bills payable (note 33)	20,399,409	20,399,409	19,699,385	19,699,385
Receipt in advance for contract work	4,046,097	4,046,097	2,911,542	2,911,542
Accrued expenses and other payables (note 34)	9,730,662	9,730,662	8,691,602	8,691,602
	34,224,252	34,222,865	31,482,067	31,479,534

40. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(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. 92.8% (2015: 92.2%) of the Group's cash and cash equivalents and 20.7% (2015: 21.9%) of the Group's short-term debt and long-term debt as at 31 December 2016 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.

Exposure to currency risk

	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**

	Exposure to foreign currencies (expressed in RMB) 2015					
	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	450,005	27,211	44,158	35,378	12,133	175,905
Accounts receivable	425,604	34,594	28,829	197,545	45,233	332,287
Accounts payable	(260,798)	(9,163)	(24,234)	(116,817)	(53,036)	(127,598)
Short-term interest-bearing borrowings	(126,603)	–	–	–	–	(4,169)
Long-term interest-bearing borrowings	(34,455)	–	–	–	–	–
Other non-current liabilities	(649,360)	–	–	–	–	–
Overall net exposure	(195,607)	52,642	48,753	116,106	4,330	376,425

For the year ended 31 December 2016

40. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

Exposure to currency risk (continued)

The following significant exchange rates applied during the year:

	Average rate		Spot rate	
	2016	2015	**2016**	2015
United States dollars	**6.72**	6.31	**6.94**	6.49
Hong Kong dollars	**0.87**	0.81	**0.89**	0.84
Nigerian Naira	**0.03**	0.03	**0.02**	0.03
Saudi Arabian Riyal	**1.79**	1.68	**1.85**	1.73
Ethiopian Birr	**0.31**	0.31	**0.31**	0.31

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.

	2016			2015		
	Strengthen/ (weaken) in foreign exchange rate	**Effect on profit after tax and retained profits RMB'000**	**Effect on other components of equity RMB'000**	Strengthen/ (weaken) in foreign exchange rate	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
United States dollars	**5%**	**3,148**	**–**	5%	(7,335)	–
	(5)%	**(3,148)**	**–**	(5)%	7,335	–
Hong Kong dollars	**5%**	**8,686**	**–**	5%	1,974	–
	(5)%	**(8,686)**	**–**	(5)%	(1,974)	–
Nigerian Naira	**5%**	**1,390**	**–**	5%	1,828	–
	(5)%	**(1,390)**	**–**	(5)%	(1,828)	–
Saudi Arabian Riyal	**5%**	**5,983**	**–**	5%	4,354	–
	(5)%	**(5,983)**	**–**	(5)%	(4,354)	–
Ethiopian Birr	**5%**	**926**	**–**	5%	162	–
	(5)%	**(926)**	**–**	(5)%	(162)	–

40. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

Sensitivity analysis (continued)

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, include inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. 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 2015.

(e) Equity 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 Group is also exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of other financial liabilities of the Group. As at the end of the reporting period the Group is exposed to this risk through the share appreciation rights scheme issued by the Company as disclosed in note 38.

At 31 December 2016, it is estimated that an increase/(decrease) of 5% (2015: 5%) in the relevant share price (for listed investments) or the Company's own share price (for the share appreciation rights scheme) as applicable, with all other variables held constant, would have (decreased)/increased the Group's profit after tax (and retained profits) and other components of consolidated equity as follows:

	2016			2015		
	Increase/ (decrease) in equity price	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000	Increase/ (decrease) in equity price	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
Changes in the relevant equity price risk variable:						
Increase	5%	–	2,669	5%	(9,897)	2,549
Decrease	(5%)	–	(2,669)	(5%)	8,763	(2,549)

40. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(e) Equity price risk (continued)

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the changes in the share price or other relevant risk variables 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 or other relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2015.

(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.

	2016			
	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Assets				
Available-for-sale securities				
– Listed equity securities	**71,163**	**–**	**–**	**71,163**

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

(ii) 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.

41. 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 were 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.

For the year ended 31 December 2016

41. 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 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 and loss.

42. 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:

	2016 **RMB'000**	2015 RMB'000
Income from related parties:		
Engineering related services (note (i))	**21,230,290**	20,829,340
IT application services (note (ii))	**2,234,805**	2,055,937
Provision of ancillary telecommunications services (note (iii))	**9,254,535**	8,447,543
Provision of operation support services (note (iv))	**2,570,847**	2,411,244
Supplies procurement service (note (v))	**5,195,763**	5,276,643
Property leasing services (note (vi))	**110,537**	109,402
Management fee (note (vii))	**312,930**	297,177
Expenses paid to related parties:		
Property leasing services (note (viii))	**179,330**	169,015
IT application service (note (ix))	**268,822**	302,902
Operation support service (note (x))	**671,929**	650,431
Supplies procurement service (note (xi))	**2,498,076**	2,736,330
Interest (note (xii))	**4,402**	2,594

42. 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 supplies procurement service, warehousing, transportation and installation 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:

	2016 RMB'000	2015 RMB'000
Accounts and bills receivable, net	**18,004,426**	15,975,972
Prepayments and other current assets	**870,759**	989,614
Total amounts due from CTC Group	**18,875,185**	16,965,586
Interest-bearing borrowings	**13,280**	13,280
Accounts and bills payable	**379,136**	1,304,988
Receipts in advance for contract work	**307,703**	251,746
Accrued expenses and other payables	**569,945**	677,730
Total amounts due to CTC Group	**1,270,064**	2,247,744

42. RELATED PARTIES (continued)

(a) Transactions with CTC Group (continued)

As at 31 December 2016, the Group has recognised impairment losses of RMB191 million (2015: RMB152 million) for bad and doubtful debts in respect of amounts due from CTC Group.

As at 31 December 2016, the Group has capital commitments to CTC Group for acquisition and construction of property, plant and equipment and other assets as follows:

	2016 RMB'000	2015 RMB'000
Contracted for but not provided	261,445	280,373

As at 31 December 2016, the Group's total future minimum lease payments to CTC Group under non-cancellable operating leases were payable as follows:

	2016 RMB'000	2015 RMB'000
Within 1 year	74,820	62,310
After 1 year but within 5 years	134,647	122,553
After 5 year	62,275	88,103
	271,742	272,966

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.

42. RELATED PARTIES (continued)

(a) Transactions with CTC Group (continued)

According to these Supplement Agreements for the year ended 31 December 2016, (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 RMB12,100 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 RMB3,200 million and RMB900 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 RMB2,500 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 RMB430 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 RMB200 million and RMB200 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 RMB6,700 million and RMB4,900 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.

For the year ended 31 December 2016

42. 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.

42. 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:

	2016 RMB'000	2015 RMB'000
Income from related parties:		
Engineering related services (note (i))	**2,534,390**	739,061
IT application services (note (ii))	**75,875**	16,423
Provision of ancillary telecommunications services (note (iii))	**834,194**	73,644
Provision of operation support services (note (iv))	**52,952**	28,825
Supplies procurement services (note (v))	**236,401**	116,560
Property leasing services (note (vi))	**2,655**	1,662
Expenses paid to related parties:		
Property leasing services (note (vii))	**2,118**	2,983
IT application services (note (viii))	**1,978**	649
Operation support services (note (ix))	**44,376**	34,620
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 CTC Group.

(v) The amount represents supplies procurement service such as supplies procurement service, warehousing, transportation and installation 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 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.

For the year ended 31 December 2016

42. 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:

	2016 RMB'000	2015 RMB'000
Accounts and bills receivable, net	**388,196**	179,048
Prepayments and other current assets	**624,823**	440,623
Total amounts due from associates of the Group and associates of CTC Group	**1,013,019**	619,671
Accounts and bills payable	**654,646**	472,258
Receipts in advance for contract work	**126,517**	39,442
Accrued expenses and other payables	**568,940**	168,975
Total amounts due to associates of the Group and associates of CTC Group	**1,350,103**	680,675

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 42(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.

42. 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:

	2016 RMB'000	2015 RMB'000
Salaries and other emoluments	**5,816**	5,687
Retirement benefits	**1,635**	1,342
Discretionary bonuses	**13,698**	11,357
	21,149	18,386

(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 2016 and 2015, there was no material outstanding contribution to post-employment benefit plans.

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

(f) Applicability of the Listing Rules relating to connected transactions

The related party transactions with CTC Group disclosed in note 42(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.

43. SEGMENT REPORTING

The Group principally has one reportable 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.

For the year ended 31 December 2016

44. SUBSIDIARIES

The following list contains only the particulars of subsidiaries at 31 December 2016 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 2016 Directly %	31 December 2015 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	RMB311 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	RMB317 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

44. INVESTMENTS IN 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 2016 Directly %	31 December 2015 Directly %		
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
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	RMB139 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

For the year ended 31 December 2016

44. INVESTMENTS IN SUBSIDIARIES (continued)

Name of company	Type of legal entity	Place of incorporation/ establishment	Proportion of ownership interest and voting rights held by the Company 31 December 2016 Directly %	31 December 2015 Directly %	Issued and paid up capital	Principal activities
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
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	RMB10 million	Provision of integrated telecommunications support services
Inner Mongolia Autonomous Region Communications Services Company Limited	Limited Liability Company	The PRC	**100**	–	RMB5 million	Provision of integrated telecommunications support services in Inner Mongolia Autonomous Region

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 RMB474 million as at 31 December 2016 (2015: RMB449 million). The non-controlling interests are individually and in aggregate not material to the Group's financial condition or results of operation for the current year.

45. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	31 December 2016 RMB'000	31 December 2015 RMB'000
Non-current assets		
Property, plant and equipment, net	**8,744**	10,888
Construction in progress	**24,211**	13,728
Other intangible assets	**62,937**	36,743
Investments in subsidiaries	**12,632,534**	12,627,534
Total non-current assets	**12,728,426**	12,688,893
Current assets		
Inventories	**344**	372
Prepayments and other current assets	**1,171,062**	1,280,846
Restricted deposits	**967,891**	1,213,174
Cash and cash equivalents	**1,353,067**	1,489,189
Total current assets	**3,492,364**	3,983,581
Total assets	**16,220,790**	16,672,474
Current liabilities		
Accrued expenses and other payables	**61,764**	699,782
Income tax payable	**411**	–
Total current liabilities	**62,175**	699,782
Net current assets	**3,430,189**	3,283,799
Total assets less current liabilities	**16,158,615**	15,972,692
Total liabilities	**62,175**	699,782
Equity		
Share capital	**6,926,018**	6,926,018
Reserves	**9,232,597**	9,046,674
Total equity	**16,158,615**	15,972,692
Total liabilities and equity	**16,220,790**	16,672,474

For the year ended 31 December 2016

45. 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 36)	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2015	6,926,018	4,529,310	1,966,293	751,084	1,394,144	15,566,849
Profit for the year	–	–	–	–	1,050,655	1,050,655
Distribution of dividend (see note 14(b))	–	–	–	–	(644,812)	(644,812)
Appropriation	–	–	–	105,066	(105,066)	–
At 31 December 2015	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**

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.

46. POSSIBLE IMPACT OF AMENDMENTS TO STANDARDS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of these consolidated financial statements, the IASB has issued the following amendments to standards, new standards and interpretation which are not yet effective for the year ended 31 December 2016 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]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
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 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 7	Disclosure Initiative[4]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014-2016 Cycle[5]

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 2017
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

The Group is in the process of making an assessment of the impact that will result from adopting the amendments, new standards and interpretation issued by the IASB which are not yet effective for the accounting period ended on 31 December 2016. Except for those described below, so far the Group believes that the adoption of these amendments, new standards and interpretation is unlikely to have a significant impact on its financial position and the results of operations.

For the year ended 31 December 2016

46. POSSIBLE IMPACT OF AMENDMENTS TO STANDARDS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2016 (continued)

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduced new requirements for classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement category for certain simple debt instruments.

Key requirements of IFRS 9 are:

(i) All recognised financial assets that are within the scope of IAS 39 are 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. All other debt investments and equity investments are measured at their fair value at the end of 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) With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

46. POSSIBLE IMPACT OF AMENDMENTS TO STANDARDS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2016 (continued)

IFRS 9 Financial Instruments (continued)

(iii) 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.

(iv) The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of IFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investments, including those currently stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as fair value through other comprehensive income(subject to fulfillment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

For the year ended 31 December 2016

46. POSSIBLE IMPACT OF AMENDMENTS TO STANDARDS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2016 (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.

The directors of the Company consider that the performance obligations are similar to the current identification of separate revenue components under IAS 18 and IAS 11, however, the allocation of total consideration to the respective performance obligations will be based on relative fair values which will potentially affect the timing and amounts of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the directors of the Company performs a detailed review. In addition, the application of IFRS 15 in the future may result in more disclosures in the consolidated financial statements.

46. POSSIBLE IMPACT OF AMENDMENTS TO STANDARDS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2016 (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 2016, the Group has non-cancellable operating lease commitments of RMB851 million as disclosed in note 39. 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 changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

For the year ended 31 December 2016

47. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2016, the directors of the Company consider the immediate and ultimate controlling party of the Group to be CTC Group, a stated-owned enterprise established in the PRC. CTC Group does not produce financial statements available for public use.

FINANCIAL SUMMARY

(Amounts in thousands, except per share data)

	For the year ended 31 December				
	2016 RMB	2015 RMB	2014 RMB	2013 RMB	2012 RMB
Results					
Revenue from telecommunications infrastructure services	**45,886,950**	39,209,267	34,008,077	32,036,241	28,413,360
Revenue from business process outsourcing services	**32,533,602**	33,014,030	31,215,423	29,011,577	26,304,137
Revenue from applications, content and other services	**10,028,804**	8,736,649	7,952,752	7,411,278	6,799,878
Total Revenues	**88,449,356**	80,959,946	73,176,252	68,459,096	61,517,375
Depreciation and amortization	**(455,215)**	(447,031)	(450,741)	(462,103)	(439,095)
Direct personnel costs	**(8,316,693)**	(8,731,020)	(8,892,965)	(9,251,872)	(9,229,460)
Materials costs (note)	**(8,281,024)**	(7,799,871)	(6,662,691)	(6,991,369)	(6,553,291)
Direct costs of products distribution (note)	**(9,764,598)**	(12,652,927)	(13,528,230)	(12,812,718)	(11,092,363)
Subcontracting charges	**(41,016,647)**	(31,811,771)	(25,763,190)	(21,873,785)	(18,447,867)
Operating lease charges and others	**(8,925,014)**	(8,129,685)	(7,196,732)	(6,689,260)	(5,969,932)
Cost of revenues	**(76,759,191)**	(69,572,305)	(62,494,549)	(58,081,107)	(51,732,008)
Gross profit	**11,690,165**	11,387,641	10,681,703	10,377,989	9,785,367
Other operating income	**943,021**	854,051	805,579	802,216	851,336
Selling, general and administrative expenses	**(9,501,481)**	(9,306,152)	(8,777,028)	(8,288,163)	(7,514,881)
Other operating expenses	**(95,232)**	(109,170)	(84,638)	(116,624)	(69,258)
Finance costs	**(46,667)**	(51,392)	(20,430)	(11,232)	(26,030)
Share of profits of associates	**66,095**	49,985	25,700	14,315	4,844
Profit before tax	**3,055,901**	2,824,963	2,630,886	2,778,501	3,031,378
Income tax	**(502,706)**	(487,446)	(463,088)	(493,121)	(585,514)
Profit for the year	**2,553,195**	2,337,517	2,167,798	2,285,380	2,445,864
Attributable to:					
Equity shareholders of the Company	**2,536,249**	2,334,412	2,150,258	2,238,351	2,406,792
Non-controlling interests	**16,946**	3,105	17,540	47,029	39,072
Profit for the year	**2,553,195**	2,337,517	2,167,798	2,285,380	2,445,864
Basic and diluted earnings per share (RMB)	**0.366**	0.337	0.310	0.323	0.353

Note: Since 2016, the Group sub-divided the former distribution of telecommunications services and products service under the BPO services into supply chain business and products distribution business. Accordingly, the former cost of purchase of materials and telecommunication products is sub-divided into materials costs and direct costs of products distribution. For ease of comparison, the historical data of these two costs have been segregated accordingly.

(Amounts in thousands, except per share data)

	At 31 December				
	2016	2015	2014	2013	2012
	RMB	RMB	RMB	RMB	RMB
Financial position					
Property, plant and equipment, net	**4,215,616**	4,331,796	4,538,844	4,686,953	4,517,754
Other non-current assets	**3,837,012**	4,212,497	4,014,077	3,408,183	3,306,161
Inventories	**2,221,334**	2,883,989	2,420,898	2,228,214	1,894,825
Accounts and bills receivable, net	**29,362,985**	27,520,829	27,441,198	25,428,055	21,321,955
Prepayments and other current assets	**6,740,547**	6,873,074	5,833,187	5,027,405	4,773,469
Cash and cash equivalents	**13,324,079**	9,535,851	7,313,515	6,760,237	8,879,491
Restricted deposits	**2,892,408**	2,555,290	1,199,411	712,259	266,979
Total assets	**62,593,981**	57,913,326	52,761,130	48,251,306	44,960,634
Interest-bearing borrowings	**46,697**	177,005	246,818	53,901	409,805
Accounts and bills payable	**20,399,409**	19,699,385	18,815,568	17,080,784	14,843,934
Receipts in advance for contract work	**4,046,097**	2,911,542	1,578,088	1,164,029	1,386,805
Accrued expenses and other payables	**9,730,662**	8,691,602	7,424,966	7,126,497	6,763,252
Income tax payable	**351,647**	309,261	312,796	315,222	309,761
Non-current liabilities	**971,687**	914,922	839,707	222,851	244,918
Total liabilities	**35,546,199**	32,703,717	29,217,943	25,963,284	23,958,475
Equity attributable to equity shareholders of the Company	**26,573,429**	24,760,813	23,029,873	21,772,763	20,502,739
Non-controlling interests	**474,353**	448,796	513,314	515,259	499,420
Total equity	**27,047,782**	25,209,609	23,543,187	22,288,022	21,002,159
Total liabilities and equity	**62,593,981**	57,913,326	52,761,130	48,251,306	44,960,634

CHINA COMMUNICATIONS SERVICES
CORPORATION LIMITED

www.chinaccs.com.hk

Concept, design and printing: iOne Financial Press Limited
www.ione.com.hk

MIX
Paper from responsible sources
FSC™ C007445
www.fsc.org