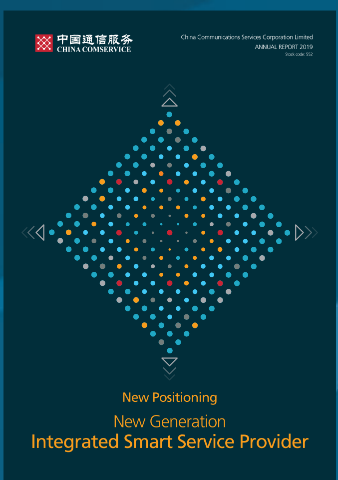
中国通信服务
CHINA COMSERVICE

China Communications Services Corporation Limited
ANNUAL REPORT 2019
Stock code: 552

New Positioning

New Generation
Integrated Smart Service Provider

The development of Digital Economy and Smart Society and the vigorous expedition of New Infrastructure such as 5G by the government will bring the Company new opportunities in Various Levels

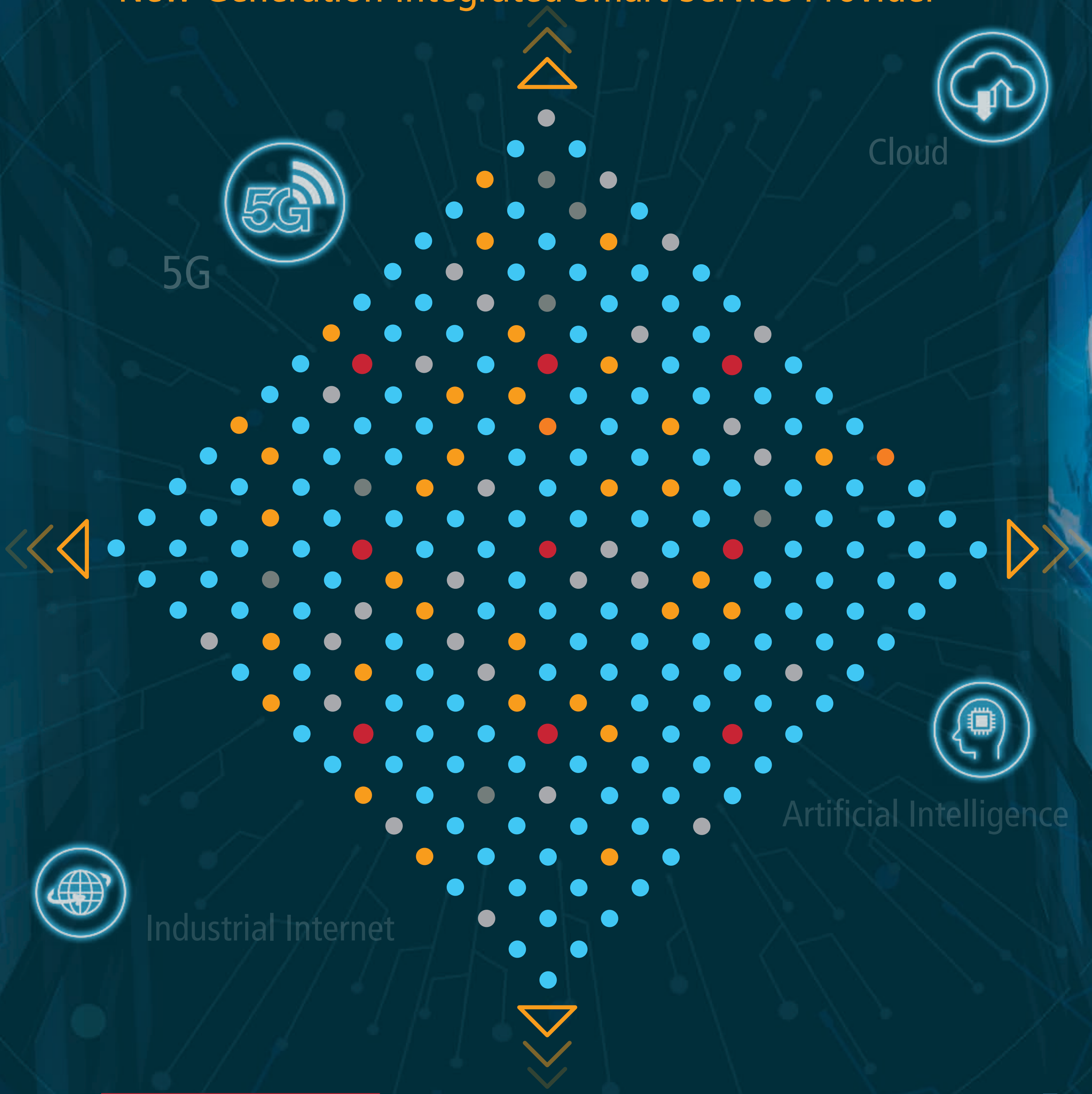


Design story

The 9 red points in the center signify the Company's logo while representing the 3 business segments and 9 businesses of the Company. The 4-layer die cut design symbolizes not only the 4-layer structure of the Company as a New Generation Integrated Smart Service Provider, but also the 4 unique capabilities of the Company. With China Comservice as its core, the Company establishes symbiotic ecosystem by strengthening the collaboration with business partners in the field to reflect the Company's new strategic position and integrate itself into the value philosophy of society, industry and customer development through horizontal and vertical development.

Seizing New Opportunities and Pinpointing New Position

New Generation Integrated Smart Service Provider



For over 13 years since its listing, the Company has witnessed various new changes, evolvement of technologies and techniques in its industry. Leveraging on the strategic mindset with foresight and efficient execution of the management of the Company, the Company pinpoints its own position and performs continuous innovation and transformation. Thus, the Company achieves a favourable result with its revenue sustained an increase for 13 consecutive years at various stage of industrial cycles in the past.

Facing new market opportunities, the Company will target towards value-driven transformation. Leveraging on our 4T capabilities, namely Communications Technology, Information Technology, Data Technology and Operational Technology, we believe that in the new era of Digital Society, we will not only benefit from new opportunities from traditional telecommunications infrastructure, but in a larger extent, we will also see new demands in various areas from the digital transformation of industries and Industrial Internet, which brings new opportunities of higher value.

Possess Solid Capability in

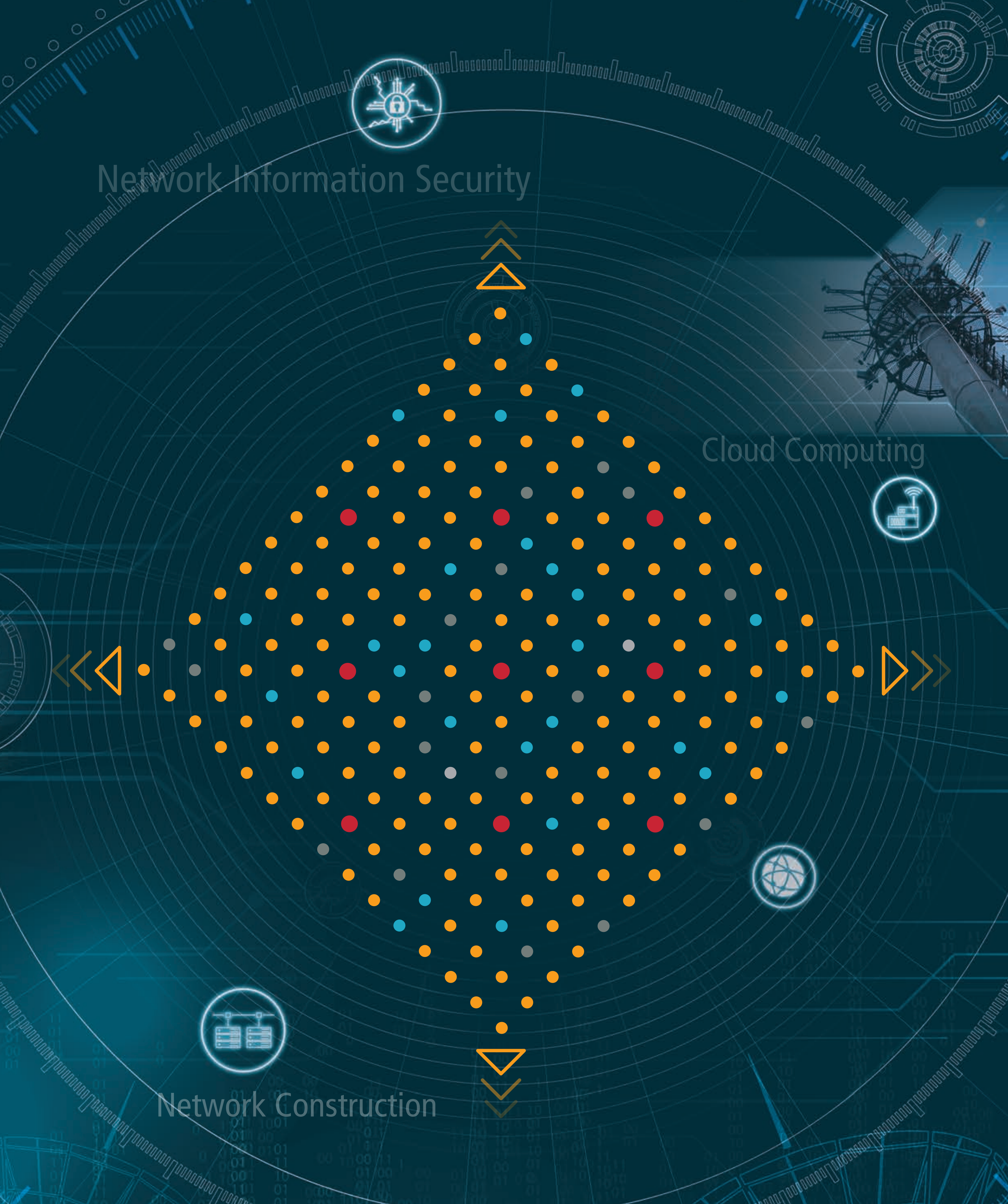
Communications Technology (CT)

Consultation
Design Planning

» More than **60 years'** experience

» **The largest** telecommunications infrastructure service provider in China

» **Network builder for the world-class** infrastructure



In the era of 5G, leveraging on its over 60 years of experience and the leading advantages as the largest telecommunications infrastructure service provider in China, the Group will meet the higher level demand in the fields of intelligentization, network information security etc. while fully supporting operators to build new generation information infrastructure network.

Equipped with Strengthening Capabilities in

Information Technology (IT) and Data Technology (DT)

» Rank **5th** in the "100 Most Competitive Software & IT Service Enterprises 2019"

» **"Leading Enterprises"** in the voting for the Leading Enterprises for Information Technology Industry in 2019

» More than **30** smart product solutions

» More than **20** smart product research and development centers

» More than **20,000** talents for consultation and research and development

Based on its dispersed research and development system, the Company enhances the synergy of internal resources and the collaboration with strategic partners by establishing ecosystem alliances in Smart City, Cloud Computing, IoT, Network Information Security, etc., so as to forge integrated smart solutions. The Company continues the iterative research and development on products so as to enhance capabilities in products and services, and seize opportunities from smart applications in various sectors and Industrial Internet.

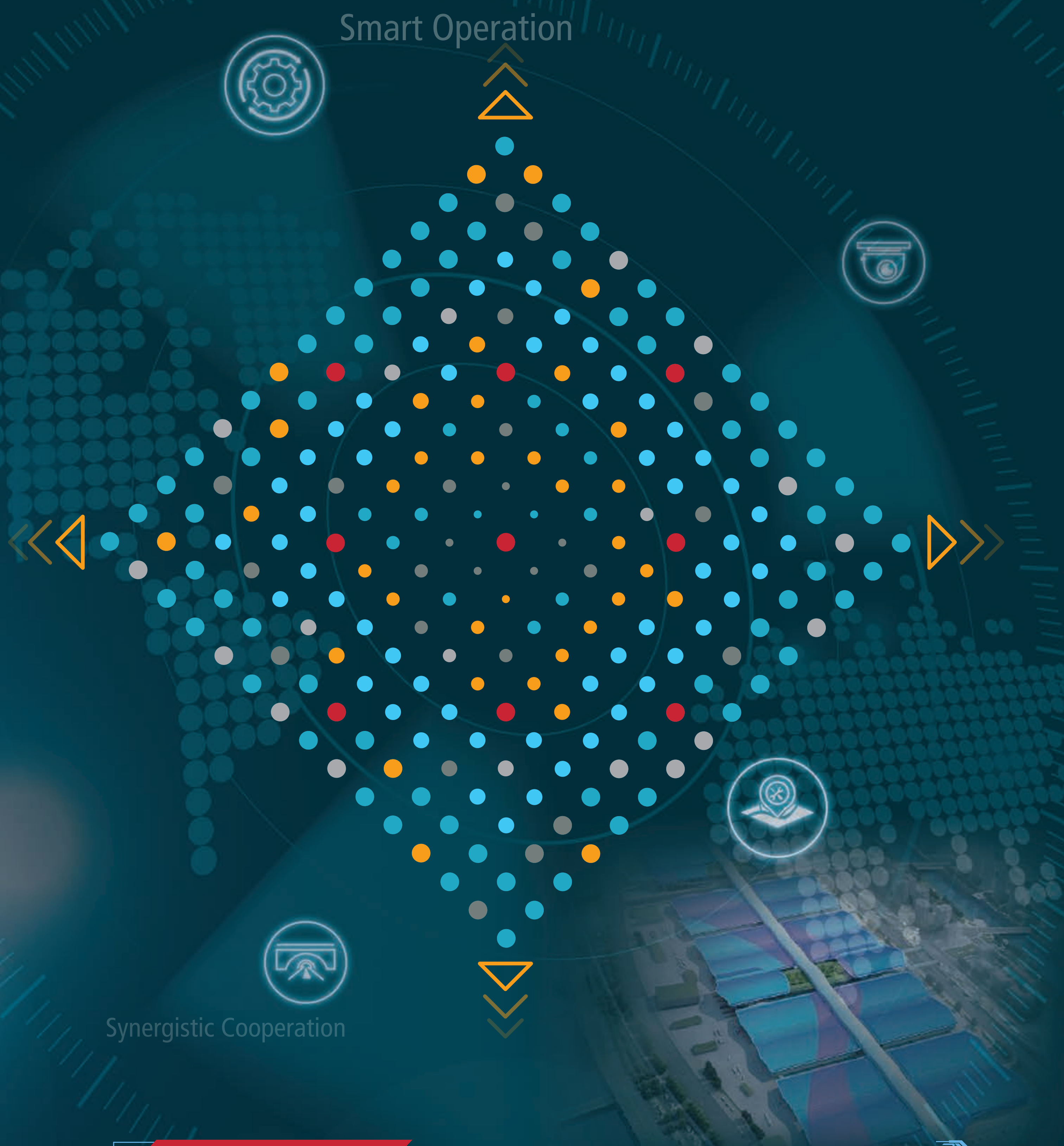
Utilize Mature Capability in

Operational Technology (OT)

Service Team

» Service team covering the three levels of province, city and county **nationwide**, which is supported by frontline marketing and backstage professional support in various regions

» Break the boundaries of **organizations, regions, markets and talents** to realize synergies throughout the whole Group



Utilizing its local resources that have been used to serve customers in various regions for a long time, the Company assists customers to conduct smart operation through smart measures so as to support the local implementation and operation of customers' projects.

Integrate 4T capabilities and position itself as "New Generation Integrated Smart Service Provider"

Given new demands of clients for full life cycle integrated services of smart applications, we believe that by leveraging on the Company's 4T capabilities and neutral position, we can provide clients with integrated comprehensive smart solutions that are "cross-platform, cross-connection, cross-application, cross-region, cross-supplier" to meet their new demands. The new strategic position as a "New Generation Integrated Smart Service Provider" will continue to lead sustained development of the Company and further promote value-driven transformation, thus reflecting the value of integrated smart services and propelling the Group to achieve an even more glorious results in the new era.

CONTENTS

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

MILESTONES

2006

AUGUST

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

DECEMBER

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

2007

AUGUST

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

2008

APRIL

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

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

MAY

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

2009

MARCH

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

MAY

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

NOVEMBER

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

2010

APRIL

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

2011

MARCH

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

JUNE

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

MILESTONES

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 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.

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" (ZhongTongFu) 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.

DECEMBER

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

2017

MAY

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

NOVEMBER TO DECEMBER

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

2018

MARCH

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

MAY

- The Company released the Smart Society Product Portfolio at China International Big Data Industry Expo and established "Smart Service Industrial Ecosystem Alliance" with business partners.

AUGUST

- The Company has been included in the list of State-owned Enterprise Reform "Double-hundred Action" by the State-owned Assets Supervision and Administration Commission of the State Council.

2019

MAY

- The Company released the new position of "New Generation Integrated Smart Service Provider" during the China International Big Data Industry Expo.

AUGUST

- The Company established the Strategy Committee which reviewed the high-quality development plan for a hundred-billion enterprise.

DECEMBER

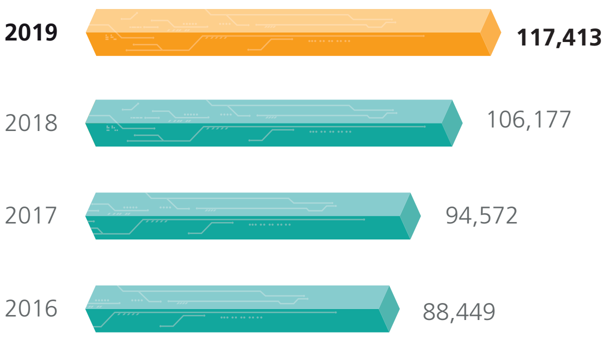
- The Company's domestic non-telecom operator customers became the largest customer group[1] for the first time.

[1] Customers here are classified into four categories, including the domestic non-telecom operator customers, China Telecom, other domestic telecom operator customers and overseas customers.

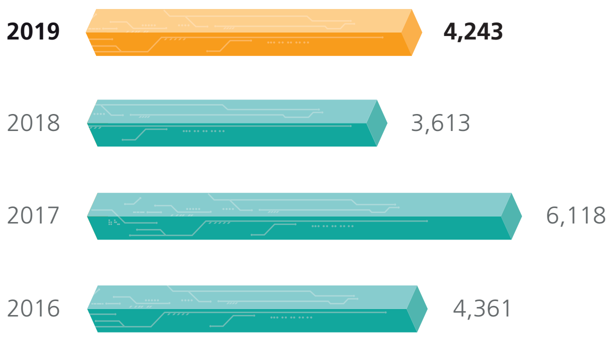
FINANCIAL HIGHLIGHTS

	2019	2018	Change
Revenues (RMB million)	**117,413**	106,177	10.6%
Profit attributable to equity shareholders of the Company (RMB million)	**3,049**	2,901	5.1%
Free cash flow[1] (RMB million)	**4,243**	3,613	17.4%
Basic earnings per share (RMB)	**0.440**	0.419	5.1%
Total dividend per share (RMB)	**0.1585**	0.1508	5.1%
of which: Final dividend per share (RMB)	**0.1321**	0.1257	–
Special dividend per share (RMB)	**0.0264**	0.0251	–

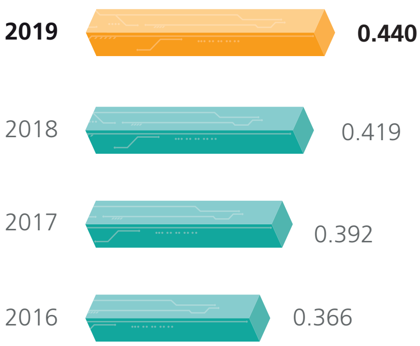
REVENUES
(RMB million)



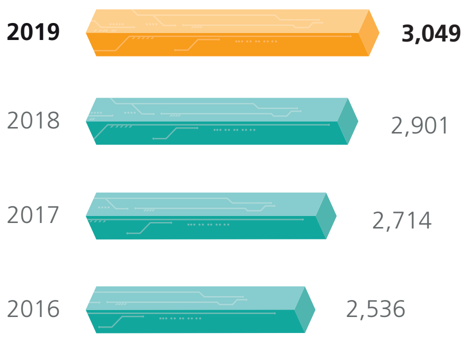
FREE CASH FLOW
(RMB million)



BASIC EARNINGS PER SHARE
(RMB)

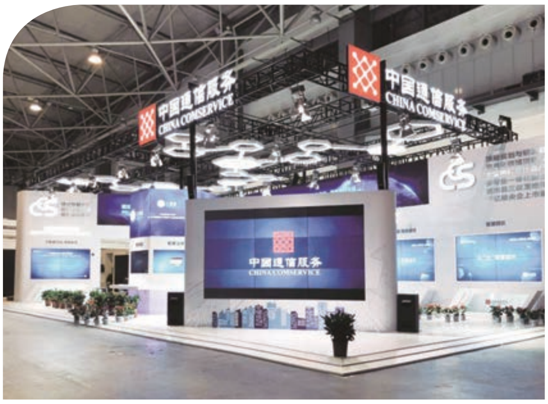


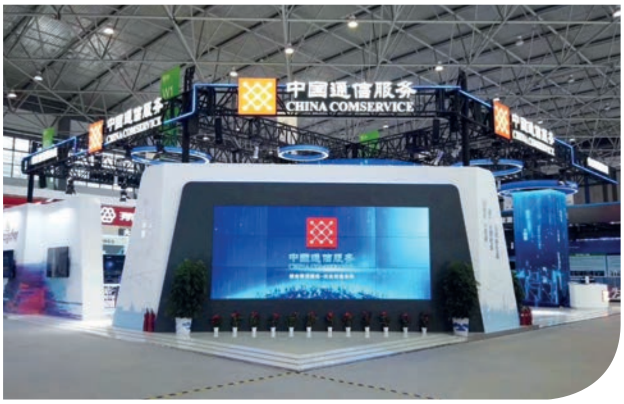
PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY
(RMB million)



[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 that positions itself as a "New Generation Integrated Smart Service Provider" and commits to "making our society smarter, making our life better, and making our employees happier". The Group provides integrated comprehensive smart solutions for the informatization and digitalization sectors, including telecommunications infrastructure services, business process outsourcing services as well as applications, content and other services. Our shareholders include China Telecommunications Corporation, China Mobile Communications Group Co., Ltd., China United Network Communications Group Company Limited and China National Postal and Telecommunications Appliances Co., Ltd. Meanwhile, all the three telecommunications operators in the PRC and China Tower Corporation Limited are our customers. Domestic non-telecom operator represented by the customers from government, transportation, electricity, park, Internet & IT, is currently the largest customer group of the Company. At the same time, the Company provides services to 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 2019, the total issued share capital of the Company was 6,926,018,400, of which 2,391,420,240 were H shares.

Over the ten years since its listing, the Company has received many awards in the capital market. In 2019, the Group won various awards, including: in the "15th Asian ESG Awards" held by *Corporate Governance Asia*, an authoritative journal on corporate governance in Asia, Mr. Zhang Zhiyong, the Chairman of the Company was honored with the "Asian Corporate Director" award while the Company was awarded "The Best of Asia — Icon on Corporate Governance" ; in the "9th Asian Excellence Recognition Awards", Mr. Si Furong, an Executive Director and the President of the Company, won the "Best CEO" award while the Company was also honored with "Best Investor Relations" award. In "The Asset ESG Corporate Awards 2019" held by *The Asset*, an authoritative financial magazine, Mr. Si Furong was honored with the accolade of the "Best CEO" award while the Company was also honored with the "Gold Award — Corporate Governance, Social Responsibility and Investor Relations". In the 2019 "Golden Hong Kong Equities Awards", the Group was awarded the "Best TMT Company" and the "Most Socially Responsible Listed Company". In 2019, the Group ranked 86th in the "2019 FORTUNE China 500" published by *FORTUNE China* and ranked 1,502nd in the "2019 Forbes Global 2000 — World's Largest Public Companies" by *Forbes*. Mr. Si Furong also entered the 2019 *Forbes China* "Best Multinational CEO List".

The Company's industry influence remarkably improved in recent years. The Company ranked 5th in "100 Most Competitive Software & IT Service Enterprises 2019" organized by the Ministry of Industry and Information Technology of the PRC and coordinated by China Information Technology Industry Federation, up by one place compared to last year's ranking. The Company was awarded the title of "Leading Enterprises" in the voting for the Leading Enterprises of Information Technology Industry in 2019 by China Information Technology Industry Federation. In 2019, the Group was awarded the "Excellent Enterprise" for the "Belt and Road" 2019 Information Technology Industry by China Information Technology Industry Federation. The 4G Project in Nepal, the National Broadband Project in Saudi Arabia and the Optical Cable Backbone Network Project in Tanzania were awarded the Top 100 Outstanding "Belt and Road" Cases for the 2019 Information Technology Industry.

COMPANY PROFILE AND CORPORATE INFORMATION

HONORARY CHAIRMAN

Mr. Wang Xiaochu

BOARD OF DIRECTORS

Executive directors

Mr. Zhang Zhiyong (Chairman)
Mr. Si Furong
Ms. Zhang Xu

Independent non-executive directors

Mr. Siu Wai Keung, Francis
Mr. Lv Tingjie
Mr. Wu Taishi
Mr. Liu Linfei

BOARD COMMITTEES

Strategy Committee

Mr. Zhang Zhiyong (Committee Chairman)
Mr. Si Furong
Mr. Lv Tingjie

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. Lv Tingjie (Committee Chairman)
Mr. Wu Taishi
Mr. Liu Linfei

Non-Competition Undertaking Review Committee

Mr. Lv Tingjie (Committee Chairman)
Mr. Siu Wai Keung, Francis
Mr. Liu Linfei

Right of First Refusal and Priority Right Committee

Mr. Liu Linfei (Committee Chairman)
Mr. Siu Wai Keung, Francis
Mr. Wu Taishi

SUPERVISORY COMMITTEE

Ms. Han Fang (Committee Chairperson)
Mr. Hai Liancheng (Independent Supervisor)
Mr. Si Jianfei (Employee Representative Supervisor)

LEGAL NAME (IN CHINESE)

中國通信服務股份有限公司

LEGAL NAME (IN ENGLISH)

China Communications Services Corporation Limited

LEGAL REPRESENTATIVE

Mr. Si Furong

COMPANY SECRETARY

Mr. Chung Wai Cheung, Terence

INTERNATIONAL AUDITORS

Deloitte Touche Tohmatsu

LEGAL ADVISORS

Freshfields Bruckhaus Deringer King & Wood Mallesons

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 1101–1102 11/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

In 2019, the Group adhered to the overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" and pinpointed its new position as "New Generation Integrated Smart Service Provider". By firmly capturing the changes in the market and vigorously penetrating into industrial ecosystems, the Group achieved favourable results and made a solid progression towards intelligent and digital transformation.

Zhang Zhiyong
Chairman

CHAIRMAN'S STATEMENT

Dear Shareholders,

In 2019, against the backdrop where overall macro-economy faced downward pressure and domestic telecommunications industry witnessed slowdown in growth, the Group, with concerted efforts and strong determination, pinpointed the new position of "New Generation Integrated Smart Service Provider", adhered to the overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development", focused on opportunities including "Cyberpower", "Digital China", "Smart Society" and "Network Information Security" and vigorously penetrated into industrial ecosystems, thus achieving favourable development. During the year, the Group's total revenues, profit and free cash flow[1] achieved steady growth, overall efficiency remained robust, and customer and business structures were further optimized, which all enabled the Group's solid progression towards intelligent and digital transformation.

OPERATING PERFORMANCE

In 2019, businesses related to digital services in domestic non-telecom operator (the "domestic non-operator") market served as the main growth driver of the Company. Meanwhile, OPEX[2] and intelligentization businesses in the domestic telecommunications operator market also provided sound support for the growth of the Group. Total revenues for the year amounted to RMB117,413 million, representing a year-on-year increase of 10.6%; profit attributable to equity shareholders of the Company was RMB3,049 million, representing a year-on-year increase of 5.1%. Free cash flow remained healthy and amounted to RMB4,243 million, representing a year-on-year increase of 17.4%. The favourable results of operations and free cash flow provided strong support for the Group's development, and laid a solid foundation for the Group's enterprise transformation and responses to changes in industry development.

DIVIDEND

The Board has proposed to distribute a final dividend of RMB0.1321 per share for the financial year ended 31 December 2019, representing a dividend payout ratio of 30%. Moreover, in view of the Group's favourable operating results and free cash flow level for the year, the Board has proposed to distribute a special dividend of RMB0.0264 per share for 2019. Taking into consideration of the above factors, the Company's total dividend for 2019 is RMB0.1585 per share, representing a total dividend payout ratio of 36%.

MARKET DEVELOPMENT

In 2019, the Group adhered to the three main development tracks of the domestic non-operator market, the domestic telecommunications operator market and the overseas market, focused on the digitalization and intelligentization demands in society and industries, forged its integrated smart service capabilities and accelerated market development and deployment. As a result, we achieved satisfactory results with business and revenue structures continuously optimized and development quality noticeably enhanced.

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

2 OPEX refers to the operating expenditure of domestic telecommunications operators.

CHAIRMAN'S STATEMENT

In 2019, with the Group's long-term investment and devotion to the field of smart service, the domestic non-operator market sustained a rapid and healthy development trend in recent years, and customers in the market became the largest customer group[3] for the first time. The development quality of the domestic non-operator market was enhanced, which became increasingly significant to the profit growth of the Group. During the year, the revenue from such market increased by 25.2% year-on-year which mirrored the growth rate for the same period of last year[4]. The revenue from such market accounted for 35.5% of the total revenues, representing an increase of 4.1 percentage points compared with the same period of last year, of which, revenue from the Core Businesses[5] in the domestic non-operator market increased by 29.8% year-on-year, accounting for 92.4% of the revenue from such market, with development quality of the market further enhanced. In 2019, the amount of newly signed contracts in the domestic non-operator market increased by over 26% year-on-year, indicating a strong development momentum in the future.

In 2019, the Group firmly adhered to the "Dual Growth Drivers+" (i.e. CAPEX[6] and OPEX + Smart Applications) development strategy in the domestic telecommunications operator market. The revenue from such market increased by 3.9% year-on-year, and such growth echoed the growth of the annual CAPEX[7] of such customer group. Revenue from such market accounted for 61.7% of total revenues, and represented a decrease of 4.0 percentage points compared to the same period of last year. The Group proactively integrated into the domestic telecommunications operator customers' ecosystems to provide customers with high-quality services in the fields of 5G, Internet of Things ("IoT"), network security, cloud-network integration and other aspects, thus facilitating their transformation and upgrade. The demand for industrial digitalization and intelligentization from domestic telecommunications operators became a new growth driver from such customer group following the OPEX business. During the year, aggregate incremental revenue from business process outsourcing services and ACO Major businesses[8] of the domestic telecommunications operator market accounted for 69.9% of the incremental revenue of such market.

In 2019, the Group's revenue from the overseas market increased by 3.6% year-on-year, accounting for 2.8% of the total revenues. We focused on the opportunities from the "Belt and Road", and made important breakthroughs in relevant major projects in Nepal, Mali, Congo-Brazzaville, Saudi Arabia and other countries, with some projects gradually entering the stage of implementation and delivery since the second half of the year, which have served as an essential support for subsequent development of overseas business. Meanwhile, the Group continued to strengthen overseas operation and management by adopting financial, legal and many other measures to prevent relevant risks overseas.

BUSINESS DEVELOPMENT

In 2019, the Group continued to strengthen its telecommunications infrastructure ("TIS") services business. Despite the fact that 5G construction by domestic telecommunications operators has yet to come into scale, the Group captured the demand for digital infrastructure from the domestic non-operator market against the backdrop of rapid development of Digital Economy, and took advantage of its integrated smart service capabilities to expedite the deployment in key regions and key industries. Through capabilities enabling and driven by smart businesses, we continued to make breakthroughs in large-scale turnkey projects and achieved favourable development in TIS business, which recorded a year-on-year increase of 12.8% in revenue for the year.

3 Customers here are classified into four categories, including the domestic non-operator customers, China Telecom, other domestic telecom operator customers and overseas customers.

4 In 2018, the revenue from the domestic non-operator market reported a year-on-year growth rate of 25.0%.

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

6 CAPEX refers to the capital expenditure of domestic telecommunications operators.

7 In 2019, total capital expenditure from the three domestic telecommunications operators and China Tower increased by 4.3% year-on-year (source: disclosure by the three listed domestic telecommunications operators and China Tower).

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

CHAIRMAN'S STATEMENT

In 2019, the Group continued to expand its business process outsourcing ("BPO") services. We strengthened synergistic operation, promoted pilot operation of platform-oriented network maintenance and established a network-wide supply chain collaboration system. We also unified the IT systems, brands and standards of general facilities management service, in order to boost business development through enhancement of capabilities. During the year, revenue from the Core BPO services[9] increased by 6.9% year-on-year.

In 2019, the Group focused on the demands for industrial smart applications and digital services to constantly enrich smart products and industry solutions, so as to support the digital transformation of its customers. During the year, revenue from the applications, content and other ("ACO") services increased by 17.3% year-on-year, accounting for 13.7% of total revenues, of which the incremental revenue from ACO Major Businesses accounted for 19.5% of the overall incremental revenues. Since 2015, the compound annual growth rates of the revenue of ACO Major Businesses from the domestic telecommunications operator market and the domestic non-operator market reached 14.4% and 23.5%, respectively.

The Group continued to contain its products distribution business of low gross profit. Revenue from such business decreased by 11.5% year-on-year, accounting for 3.7% of the total revenues, representing a year-on-year decrease of 0.9 percentage point. Through the Group's persistent, effective management and control of the products distribution business, the proportion of revenue from such business to our total revenues decreased from 19.4% in 2014 to 3.7% in 2019, representing a decrease of approximately RMB10 billion, which demonstrated the Group's determination to accelerate enterprise transformation and to accumulate strength for further development.

INNOVATION AND TRANSFORMATION

In 2019, the Group deepened innovation and transformation continuously to ride on the new trend in Digital Economy era.

Construction of foundation platforms. The Group continued to promote the construction of "CCSYUN" (our cloud service) and "CCS Open IoT Platform" to drive transformation. Besides, the Group improved network and information security capabilities by the establishment of platforms including cloud security, cloud-based monitoring and content automated testing to satisfy market demand. Furthermore, the Group launched pilot maintenance platform to plan ahead for the new maintenance areas of the 5G and IoT era.

Enhancement of research and development capabilities. By focusing on social and industrial intelligentization demands, the Group increased investment in research and development by way of setting up a dispersed research and development system as well as capitalizing on its ecosystem alliances and research institutions. The Group converged capabilities based on its foundation platforms to accelerate the research and development and the iteration of its products, so as to respond to market demand in a rapid manner and support development through capabilities enabling.

Optimization of ecosystem. On one hand, the Group continuously established the middle platforms for capabilities accumulation and capabilities enabling to optimize internal ecosystem and enrich industrial ecosystem, thus bringing in new partners from government, industries and research and development institutions. On the other hand, the Group emphasized the construction of talent ecosystem by ceaselessly enhancing various expert teams and Comservice Craftsmanship systems, with the view to accumulating adequate reserves of diverse talents.

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

CHAIRMAN'S STATEMENT

CORPORATE GOVERNANCE

The Group has maintained its corporate governance at a high level, with its compliance management, transparency and completeness of information disclosure and safeguard of the interests and rights of the shareholders being widely recognized by the capital market.

The Group leaped to a hundred-billion enterprise in 2018, and in order to promote the Group's high-quality development at the new hundred-billion stage, the board of directors of the Company newly established the Strategy Committee in 2019 which reviewed the high-quality development plan for a hundred-billion enterprise, enabling the Group to enhance strategic analysis, promote the implementation of its strategies, and better steer the development direction to embrace the 5G-driven digital era.

Widely recognized for its constantly honest, prudent approach and satisfactory operating performance, the Group was well awarded in 2019. The Group ranked 86th in the "2019 FORTUNE China 500" published by *FORTUNE China*, and was listed among the "2019 Forbes Global 2000 — World's Largest Public Companies" by *Forbes*. In the voting for "The Asset ESG Corporate Awards 2019" held by the magazine *The Asset*, the Group was awarded "Gold Award — Corporate Governance, Social Responsibility and Investor Relations". The Group was also granted "The Best of Asia — Icon on Corporate Governance" in the 2019 "15th Asian ESG Awards" held by *Corporate Governance Asia*. In addition, the Group won the "Best TMT Company" and the "Most Socially Responsible Listed Company" awards in the voting of the 2019 "Golden Hong Kong Equities Awards". In 2019, I was again awarded the "Asian Corporate Director" in the 2019 "15th Asian ESG Awards" held by *Corporate Governance Asia*. Mr. Si Furong, the President, entered the 2019 *Forbes China* "Best Multinational CEO List" and won the "Best CEO" in the awards by *The Asset* and *Corporate Governance Asia*, respectively.

SOCIAL RESPONSIBILITIES

As a responsible listed company, the Group has always emphasized on the fulfilment of social responsibilities. In the prevention and control of the novel coronavirus (the "COVID-19") epidemic, the Group courageously assumed its responsibility and proactively hastened to the frontline of the fight against the epidemic to provide communications support for local governments, designated hospitals, module hospitals and other enterprises combating at the frontline. In just three days, the Group rapidly completed the 4G/5G wireless network planning and construction for Huoshenshan Hospital and Leishenshan Hospital in Wuhan. Also, the Group provided various medical institutions, including Beijing Xiaotangshan Hospital, West China Hospital of Sichuan University, Xixi Hospital of Hangzhou and the temporary treatment base for COVID-19 patients in Jingzhou, with emergency communication construction and support, to ensure smooth communication at the frontline of the fight against the outbreak.

CHAIRMAN'S STATEMENT

Meanwhile, more than 40 smart applications for epidemic prevention were swiftly developed and promoted by the Group based on Cloud, IoT, Big Data and other foundation platforms in response to the anti-epidemic demands from governments, communities, enterprises and relevant industries. Such applications were utilized in Sichuan, Chongqing, Anhui, Xinjiang, Gansu, Shanghai, Zhejiang etc. Among them, the "Health Declaration and Enquiry System for Migrant Workers of Sichuan Province" gained press coverage of and received recognition from the China Central Television of China Media Group. Confronted with the outbreak, the Group regarded crisis as opportunity and carried out practices on our own businesses and transformation capabilities. The valuable experience accumulated from the outbreak will enable the Group to be well positioned for future vast opportunities arising from the 5G era.

In smart services and communication support for key events, the Group provided integrated smart services for Beijing International Horticultural Exhibition as the general contractor for the "Smart Expo", and provided "Smart Game" integrated solutions for the 7th CISM Military World Games in 2019 as the general contractor for informatization construction. Acting as the essential support team, the Group also rendered informatization solutions and telecommunication support services to events such as Boao Forum for Asia and China International Import Expo and received recognition from government and relevant partners.

In poverty alleviation, the Group proactively devoted RMB14.79 million to carry out poverty alleviation missions in respect of employment, training, industry and public welfare.

In caring for employees, the Group contributed RMB24.13 million to improve the production and office environments of our frontline employees and resolved requests from them during the year. In addition, the Group contributed RMB5.82 million to the relief fund for supporting employees in need, which showed care for our employees in a practical manner.

FUTURE OUTLOOK

In 2019, the Group adhered to the overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" and pinpointed its new position as "New Generation Integrated Smart Service Provider". By firmly capturing the changes in the market and adhering to the main development tracks, the Group achieved favourable results and made a solid step towards high-quality development.

CHAIRMAN'S STATEMENT

Currently, the domestic and global economic environments are experiencing profound adjustment, and the COVID-19 epidemic has increased the downward pressure on the domestic and international economies, and put considerable pressure to the Group's operation and development during such period. At the same time, the COVID-19 epidemic has brought changes to the pattern of production, daily life and demand in the society, accelerating the digitalization progress of the society and industries, which has also brought the Group with rare opportunities. From the macro perspective, there is no change to the basic trend that the economy of China is still heading for long-term prosperity; there is no change to the development advantages accumulated since reform and opening up, including the technological base, the size of the market, and the domestic demand potential; there is no change to the regional economic development strategy and the trend of advancement of the "Belt and Road". From the perspective of industrial development and technological progress, the further advancement of "Cyberpower", "Network Information Security" and commercial use of 5G, as well as the deep integration of emerging technologies such as 5G, IoT, Artificial Intelligence, Blockchain with the real economy, will create booming demand for digitalization from society and industries. During the epidemic, cutting-edge technologies such as 5G have played an important role and fostered great market demand. "New Infrastructure" including data center and Industrial Internet, which is led by 5G infrastructure, will also be the critical foundation for digital transformation of the society and the construction of modern smart city. It will not only generate important driving force for future economic development, but also bring the Group with great potential for growth. In particular, the 5G infrastructure will give rise to application investment in the upstream and downstream of the industry value chain and various industries, which would facilitate the continuous emergence of new demand, new business forms and new applications, creating further growth potential in the domestic telecommunications operator market and the domestic non-operator market.

In the future, the Group will adhere to the overall roadmap and focus on the main development tracks based on its positioning of "New Generation Integrated Smart Service Provider" to fit into the overall development of China, the society and industries, with a view to further promoting value transformation and forming new development advantages.

In the domestic non-operator market, by focusing on opportunities arising from New Infrastructure such as 5G and riding on the accelerating trends of modern smart city upgrade, digital governance and industrial digitalization as the epidemic broke out, the Group will take various measures to continuously expand its business scale in such market and optimize its integrated smart service capabilities, including: speeding up its deployment in key regions such as Beijing-Tianjin-Hebei, Yangtze River Delta, Yangtze River Economic Belt, Guangdong-Hong Kong-Macao Greater Bay Area, intensifying its development in key sectors such as government, electricity and transportation as well as making breakthroughs in key fields such as Industrial Internet, emergency management and network information security.

In the domestic telecommunications operator market, the Group will uphold the "Dual Growth Drivers+" development strategy and take advantage of its advanced deployment in aspects including the 5G construction as well as the research and development for applications. We will also integrate into customers' ecosystem in light of the changing industrial development. Furthermore, the Group will further develop the 5G network construction and the OPEX business, while capturing the demand for smart applications and assisting customers in transformation. By taking all these efforts, the Group will secure the fundamentals of our operation while making new breakthroughs in development.

CHAIRMAN'S STATEMENT

In overseas market, by grasping the opportunities arising from the advancement of "Belt and Road" and leveraging on its "EPC+F+I+O+S"[10] model, the Group will focus on the overseas demand for network infrastructure and digital services with the promotion of its smart products and services, thus realizing steady growth of overseas revenue. Meanwhile, the Group will strengthen collaboration with domestic telecommunications operators, "Go Abroad" Chinese enterprises, and local partners to expand overseas market and explore new development potential.

At the same time, we will allocate more resources to research and development in respect of 5G, Big Data and IoT, as well as improving our dispersed research and development based on our foundation platforms, with a view to enhancing the quality and quantity of smart products and facilitating capabilities enabling for social and industrial development. The Group will enhance its corporate governance by pushing forward the State-owned Enterprise Reform "Double-hundred Action", develop flexible mechanism that is adaptive to the changing market, talent team, innovative mechanism and symbiotic ecosystem, with a view to promoting value transformation and becoming an integrated smart service provider with cutting-edge technologies and supreme intelligence.

Finally, on behalf of the Board, I would like to express my sincere gratitude to our shareholders, customers and all sectors of society for their long-term attention and support, and deeply thank all our employees for their continued dedication and hard work. I would also like to express my sincere gratitude to Mr. Li Zhengmao and Mr. Shao Guanglu, who resigned as non-executive directors of the Company in March 2020, for their outstanding contributions to the development of the Group during their tenure.

Zhang Zhiyong
Chairman

Beijing, PRC
31 March 2020

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

PRESIDENT'S STATEMENT

In 2019, by adhering to the main development tracks, the Group focused on the businesses related to digital services in the domestic non-operator market, the OPEX business and the industry-oriented smart application businesses in the domestic telecommunications operator market, continued to transform and upgrade and promoted high-quality development, thus achieving solid operating results.

Si Furong
President

PRESIDENT'S STATEMENT

Dear Shareholders,

I am very pleased to present the operating results of the Group in 2019.

FINANCIAL PERFORMANCE

In 2019, by adhering to the overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" and focusing on the main development tracks, the Group made good progress on its transformation and upgrade. Driven by the businesses related to digital services in the domestic non-operator market, the OPEX business and the industry-oriented smart application businesses in the domestic telecommunications operator market, the Group effectively coped with the adverse impact caused by the tempered growth of domestic telecommunications operators and downward pressure in the industry value chain. The Group reinforced its operation fundamentals, ensured steady development, and achieved solid operating results. In 2019, the Group's total revenues amounted to RMB117,413 million, representing a year-on-year increase of 10.6%. The Group's gross profit amounted to RMB13,687 million, representing a year-on-year increase of 6.2%, and gross profit margin was 11.7%, representing a year-on-year decrease of 0.4 percentage point, indicating a moderate decline[11]. While increasing the investment in research and development, the Group strengthened its synergistic management and used IT measures to improve management efficiency, and as a result, selling, general and administrative expenses amounted to RMB11,494 million, accounting for 9.8% of total revenues and representing a year-on-year decrease of 0.2 percentage point. Profit attributable to equity shareholders of the Company amounted to RMB3,049 million, representing a year-on-year increase of 5.1%, with a net profit margin of 2.6%. Basic earnings per share amounted to RMB0.440. Free cash flow was RMB4,243 million, with the cash conversion ratio[12] remaining at a healthy and relatively high level.

BUSINESS DEVELOPMENT

In 2019, by focusing on digitalization and intelligentization businesses, the Group increased resources input to extend its integrated smart service capabilities centered on integrated solutions. New development features of the Group emerged with its consultation and planning businesses led the way and drove the development of software services and smart products, as well as the robust growth of digital infrastructure construction business. Meanwhile, the Group vigorously expanded the OPEX business of domestic telecommunications operators and paid close attention to the new business demand arising from the transformation of such customers, thus strengthening its customers' loyalty continuously to ensure the Group's stable fundamentals. Following the business transformation and upgrade of the Group in recent years, its revenue sources became more diversified and its business structure became healthier.

[11] In 2018, gross profit margin of the Group was 12.1%, decreased by 0.8 percentage point year-on-year.

[12] Cash conversion ratio = net cash generated from operating activities / profit attributable to equity shareholders of the Company.

PRESIDENT'S STATEMENT

In 2019, the Group's TIS services recorded a revenue of RMB64,689 million, representing a year-on-year increase of 12.8% and accounting for 55.1% of the total revenues. Capturing the domestic construction opportunities from Digital Economy and Smart Society, the Group has penetrated into the domestic non-operator market by adopting the "Consultant + Staff + Housekeeper" service model[13] and provided digital infrastructure construction related services to its customers. During the year, such revenue from the domestic non-operator market was RMB20,910 million, representing a rapid year-on-year increase of 42.8%, and was the largest revenue growth driver of TIS services. During the year, the Group built up its strength in 5G technologies and capabilities while proactively satisfying 5G network construction demand of the domestic telecommunications operators. However, as the investment of the domestic telecommunications operators in 5G network has yet to come into scale, the TIS revenue from the domestic telecommunications operator market experienced a stable year-on-year growth of 2.1%, amounting to RMB41,153 million.

Revenue from the BPO services amounted to RMB36,637 million, representing a year-on-year increase of 4.4% and accounting for 31.2% of the total revenues. Adhering to the value-driven principle, the Group continued to contain its products distribution business with low gross profit, as a result, revenue from products distribution business for the year reported a year-on-year decrease of 11.5%. Excluding the products distribution business, the Core BPO services progressed well with a year-on-year revenue increase of 6.9%. The Group continued to penetrate into the OPEX business of the domestic telecommunications operators and facilitated the quality improvement of their networks. Revenue from the network maintenance business for the year reported a year-on-year increase of 7.0%. In 2019, the Group continued to establish comprehensive and integrated capabilities for the property management. Leveraging on the "Hui Yun" (慧雲) platform, we enhanced synergistic operation and promoted intelligent transformation. Our property management business extended to fields such as high speed rail, airport and achieved favourable development results. Revenue from the general facilities management (property management) business reported a year-on-year increase of 16.9% and maintained a growth rate of over 15% for two consecutive years[14]. The Group established the supply chain digitalized procurement platform, which enhanced the unified storage capabilities and network-wide operation capabilities. However, revenue growth of the supply chain business slowed down and reported a year-on-year increase of 1.7%, mainly because of the subdued growth in marketing agent and after-sale businesses attributable to the marketing strategy adjustment of the domestic telecommunications operators.

Revenue from the ACO services amounted to RMB16,087 million, representing a rapid year-on-year increase of 17.3%, making it the fastest growing segment among the three major businesses. It accounted for 13.7% of the total revenues, which was 0.8 percentage point higher year-on-year. Through capturing the domestic opportunities arising from the digitalization construction by the government and industries, as well as the intelligent transformation of the domestic telecommunications operators, we provided smart products, smart services and industrial integrated solutions to customers. Currently, we have accelerated the promotion of over 30 smart applications among vertical industrial customers. In 2019, revenue from the Group's system integration, software development and system support businesses reported a year-on-year increase of 23.5% and 14.2% respectively. Revenue from the ACO Major businesses reported a year-on-year increase of 18.6%, surpassing the growth rate of the national software business revenue[15] and demonstrating a sound development result of such businesses.

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

14 In 2018, revenue from the general facilities management business reported a year-on-year increase of 15.9%.

15 In 2019, the national software business revenue reported a year-on-year increase of 15.4% (source: the Ministry of Industry and Information Technology of the People's Republic of China ("MIIT")).

PRESIDENT'S STATEMENT

MARKET EXPANSION

In 2019, the Group's domestic non-operator market continued to maintain a fast growth and recorded a revenue of RMB41,727 million, representing a year-on-year increase of 25.2% and accounting for 35.5% of the total revenues, 4.1 percentage points higher than last year. Of that, revenue from the Core Businesses in the domestic non-operator market reported a year-on-year increase of 29.8%, accounting for 92.4% of the overall revenue of such market. The development quality was further improved and the contribution to the Group's gross profit increased noticeably. By focusing on the intelligentization demand of the government, society and industries, in recent years, the Group has been constructing an industrial ecosystem and penetrating into key industries including electricity, transportation, airport and sport game, as well as increasing investment in research and development to accelerate the development and iteration of smart products. Driven by the development of smart products, the Group's has made remarkable achievements in the development of large-scale projects, including the "Smart Game" for the 7th CISM Military World Games which we provided comprehensive planning, integrated game management and command platform construction services; the Shanghai Lingang Data Center project which we provided "EPC + Operation and Maintenance" in the form of full-process BIM (Building Information Modeling) service; the Digital Government Project for Guangdong province in the form of "Consultation + Software (Smart Government Services) + Integration". Meanwhile, the Group has also accelerated deployment and looked for breakthroughs in the new fields of Industrial Internet, emergency management and network information security, and for instance, we have established the first provincial-level hazardous chemicals monitoring platform in Anhui and the Industrial Internet Big Data Platform in Chongqing.

Upon the issuance of 5G licenses by MIIT in June 2019, the domestic telecommunications operators further accelerated their 5G deployment, of which the construction has yet to come into scale. The Group responded proactively to market changes, and made full use of the "Dual Growth Drivers+" (i.e. CAPEX and OPEX + Smart Applications) development strategy to expand the domestic telecommunications operator market, which realized a revenue of RMB72,420 million, representing a year-on-year increase of 3.9% and accounting for 61.7% of the total revenues. Of that, the revenue from China Telecom amounted to RMB40,633 million, representing a year-on-year decrease of 1.6% and accounting for 34.6% of the total revenues. The Group proactively supported the network construction of the operators, and the aggregate revenue from operators other than China Telecom reported a year-on-year increase of 11.8%, accounting for 27.1% of the total revenues.

In 2019, revenue from the Group's overseas market was RMB3,266 million, representing a year-on-year increase of 3.6% and accounting for 2.8% of the total revenues. The Group's overseas large-scale projects achieved continuous breakthroughs, such as the 4G network construction project in Nepal, the Digital Mali Project, the Ground and Submarine Cables Project in Congo-Brazzaville and the Power Communication Project in Saudi Arabia. In 2019, the Group was awarded the "Excellent Enterprise" for the "Belt and Road" 2019 Information Technology Industry by China Information Technology Industry Federation. The 4G Project in Nepal, the National Broadband Project in Saudi Arabia and the Optical Cable Backbone Network Project in Tanzania were awarded the Top 100 Outstanding "Belt and Road" Cases for the 2019 Information Technology Industry, demonstrating that the business strength and brand awareness of the Group have received wide recognition in the market.

CAPABILITIES ENHANCEMENT

The Group believes it is hardly possible that "a single product, a single ability or a single service" could meet the needs of the society and industry in the future. In view of the new era of the Digital Economy, the Group pinpointed the new position as "New Generation Integrated Smart Service Provider" in 2019. Focusing on the demand of customers from the business sector, the Group accelerated innovation and transformation, kept improving capabilities and strengthening growth momentum.

PRESIDENT'S STATEMENT

In 2019, the Group continued to increase investment in research and development and expedited the construction of foundation platforms. The service capabilities of the Group's "CCSYUN" (our cloud service) Platform and "CCS Open IoT Platform" have been widely recognized. Among them, the "CCSYUN" Platform obtained Trusted Cloud Services Certification (TRUCS) and was awarded the "2019 Innovative Cloud Service Platform" by China Software Industry Association. The "CCS Open IoT Platform" also won "2019 GIOTC IoT Award", "OFweek 2019 Most Popular Development Platform in China IoT Industry". The technology support platform in "CCS Open IoT Platform" was connected to 33 million terminals as at the end of 2019.

The Group has continuously improved the dispersed research and development system based on foundation platforms and propelled the products' research and development as well as the migration of the products' iteration to such foundation platforms through various means, such as the organization of the contest of "Incubating Future from the Cloud". Meanwhile, subject to different industries and nature of the projects, the Group established various research institutions such as the CCS Industrial Internet (Big Data) Research Institute. By establishing ecosystem alliances to converge both internal and external research and development capabilities and resources, enhancing capabilities of its smart products, and enabling capabilities effectively within the Group for development, the Group's software development capabilities have been strengthened and recognized in the industry. We ranked 5th[16] in the "100 Most Competitive Software & IT Service Enterprises 2019" organized by China Information Technology Industry Federation and was awarded the title of "Leading Enterprises" in the voting for the Leading Enterprises for Information Technology Industry in 2019.

The Group has actively implemented the national strategy of "Invigorating China through Science and Education" by emphasizing the introduction and training of talents and providing a sound environment for them. In 2019, the Company pioneered in introducing the position of strategic ecology officer and engaged external expert to hold the office. The Group continued to optimize various professional and craftsmanship systems, for example, the "Comservice Craftsmanship Cup", a labour skill competition, has become an industry-recognized channel for talent selection. Through various activities, including the labour skill competitions and "Pioneer Training Camp for Non-operator Business", the Group could identify professionals and talents to hold key positions that would be suitable for its development and improve the capabilities of the whole team, which plays a crucial role for the Group to achieve a smooth transformation.

Focusing on the establishment of eco-competencies and ecosystems, the Group intensified synergistic management internally and promoted business collaboration externally to improve competitive edges. In 2019, the Group continued to improve the construction of industrial alliances to generate synergies thereof to expand ecological cooperation. Leveraging on the capital resources of Comservice Capital Holding Company Limited, a subsidiary of the Group, we also enriched the industrial ecosystem.

PROSPECTS

Currently, COVID-19 epidemic has brought impact and effect to the Group's daily operation and business development during such period. Meanwhile, the Group will capture the new demand and opportunities arising from the epidemic. By leveraging on the Cloud, IoT and Big Data platforms, the Group will forge smart products for epidemic prevention which will enable us to secure our own operation and support intelligent prevention for epidemic, and assist in work and production resumption of the society. By turning the crisis into an opportunity, the Group will accelerate value transformation and promote high-quality development.

In 2020, positioned as a "New Generation Integrated Smart Service Provider", the Group will charge itself with the mission of being the Builder of Digital Infrastructure, Provider of Smart Products and Platforms, Service Provider of Data Production and Guard of Smart Operation, and adhere to the overall roadmap of "value-driven, seeking steady yet progressive growth and

16 The top four enterprises of the 100 Most Competitive Software & IT Service Enterprises 2019 included Huawei Technologies Co., Ltd., Alibaba (China) Co., Ltd., Beijing Baidu Netcom Science Technology Co., Ltd. and Tencent Technology (Shenzhen) Company Limited.

PRESIDENT'S STATEMENT

high-quality development" to further implement innovation and transformation with a more open-minded attitude. We will establish a platform-based symbiotic ecosystem, provide full life cycle integrated smart services to the society, industries and customers, with a view to creating higher values for shareholders and customers.

In the domestic non-operator market, given the strategic opportunities including "Cyberpower", "Digital China" and "Smart Society", together with the development opportunities from 5G-driven New Infrastructure, the Group will continue to increase investment in research and development, optimize ecosystems, accumulate strengths, accelerate the development of smart products and industrial solutions, improve capabilities of "cross-platform, cross-connection, cross-application, cross-region and cross-supplier" and fuel the digital transformation of the society and industries, thus boosting its image as a "New Generation Integrated Smart Service Provider". Meanwhile, with the focus on the construction of modern smart city, the Group will continue to penetrate further into key sectors including government, electricity, and transportation. Meanwhile, the Group will target on Industrial Internet, emergency management and network information security, with a view to expanding into new markets and capturing new development opportunities.

In the domestic telecommunications operator market, the Group will capture the opportunities arising from 5G network construction, co-build and co-share between operators, new ICT construction, and leverage on the "Dual Growth Drivers+" development strategy to support customers with supreme network construction and intelligent transformation. In the meantime, the Group will expedite the deployment of 5G-driven network construction in the vertical industries and smart application business, and strengthen collaboration with operators for joint development and ecosystem integration so as to maintain solid operating fundamentals.

In the overseas market, the Group will facilitate the transformation of overseas business with the "EPC+F+I+O+S" model, focus on the expansion of large-scale projects, and facilitate the launch of smart products and services in overseas market with reference to the demand for digitalization from overseas customers. At the same time, we will strengthen collaboration with the domestic telecommunications operators, the "Go Abroad" Chinese enterprises and local partners to synergistically expand overseas market and seek new development momentum and breakthroughs for the overseas businesses.

The Group will take the opportunities arising from the State-owned Enterprise Reform "Double-hundred Action" to further promote diversity of share ownership and improve corporate governance structure. Concurrently, in accordance with the development strategies and business deployment of the Group, we will continuously optimize the market-oriented operation mechanism and improve incentive mechanism, while attracting, reserving and training various types of experts and professionals. With a primary focus on "One CCS", the Group will enhance its research and development system, promote professional integration and synergistic operation, enhance core capabilities and resource allocation efficiency. By adhering to the new development principle of "innovation, coordination, green, openness and sharing", the Group is committed to building an ecosystem characterized by joint development, joint management and symbiotic relationship, and we will collaborate with all parties in the industry value chain to share one another's capabilities and create value together, thus enabling the Group to integrate into the development of the society, industry and customers and realizing a sustainable and healthy development.

2020 is the last year of the target for a moderately prosperous society in all respects and the 13th Five-Year Plan of China. As a "New Generation Integrated Smart Service Provider", we will follow the new development principle and take a bold step to promote the high-quality development and create a better future.

Si Furong
President

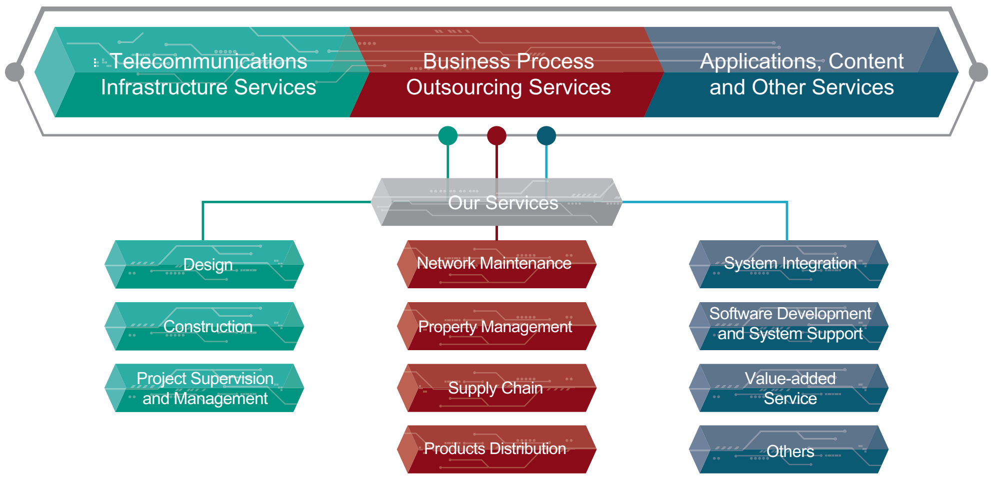
Beijing, PRC
31 March 2020

BUSINESS OVERVIEW

The Group is a leading service provider in the informatization sector in the PRC that positions itself as a "New Generation Integrated Smart Service Provider" and commits to "making our society smarter, making our life better, and making our employees happier". The Group provides integrated comprehensive smart solutions for the informatization and digitalization sectors, including telecommunications infrastructure services, business process outsourcing services as well as applications, content and other services, and its customers include domestic telecommunications operator customers, domestic non-telecom operator customers ("domestic non-operator customers"), represented by government, transportation, electricity, park, Internet & IT, as well as overseas customers.

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

WE PROVIDE INTEGRATED COMPREHENSIVE SMART SOLUTIONS FOR THE INFORMATIZATION AND DIGITALIZATION SECTORS



(In RMB million, except percentages)	**Revenue in 2019**	Revenue in 2018	Change
Domestic telecommunications operator customers	72,420	69,705	3.9%
Of which: China Telecom	40,633	41,279	–1.6%
China Mobile, China Unicom, China Tower	31,787	28,426	11.8%
Domestic non-operator customers	41,727	33,317	25.2%
Overseas customers	3,266	3,155	3.6%
Total	117,413	106,177	10.6%

BUSINESS OVERVIEW

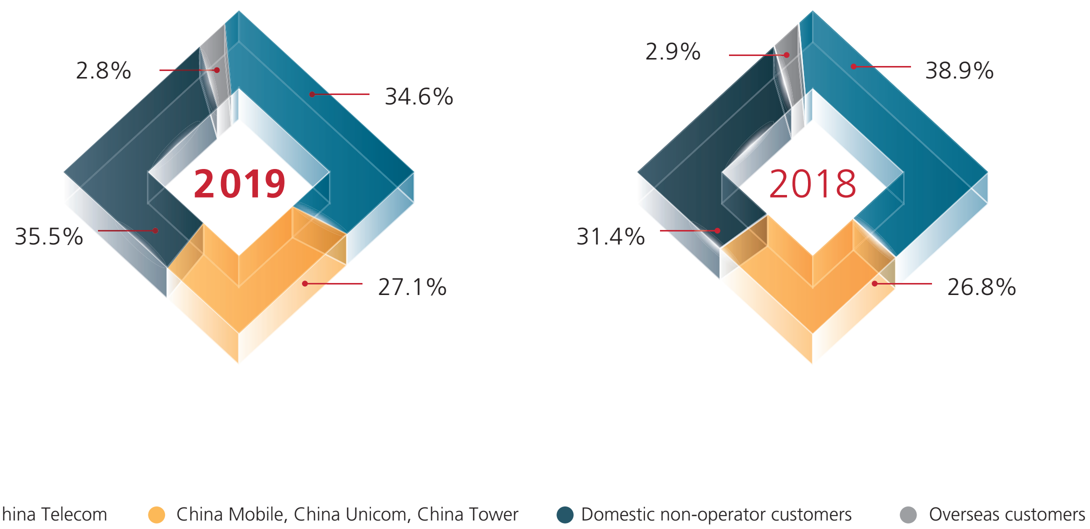
MARKET EXPANSION

In 2019, the Group adhered to the overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" and focused on the three key missions of "Bolstering Cyberpower Strategy, Building First-class Enterprise, Serving a Good Life". While seeking further development of the CAPEX[1] business of the domestic telecommunications operator market, the Group transformed its growth momentum and increased its efforts in exploiting the OPEX[2] business of the domestic telecommunications operator market, thereby maintaining the stable fundamentals of its businesses. Besides, the Group pinpointed the new position as a "New Generation Integrated Smart Service Provider" and further expanded the scale of domestic non-operator market by accelerating its ecological deployment, making dedicated development in key industries and elevating the brand influence of "Smart Comservice", and also focused on the development of overseas large-scale turnkey projects, thus realizing high-quality development.

In 2019, the Group continued to promote business structure optimization by proactively containing the products distribution business with lower efficiency. Total revenues of the Group for the year amounted to RMB117,413 million, representing a year-on-year growth of 10.6%, in which, revenue from the Core Businesses[3] (i.e. excluded the products distribution business) achieved a relatively fast growth and reached RMB113,091 million, representing a year-on-year growth of 11.6%.The scales of the Group's overall revenue and revenue from Core Businesses both continued to embark on a journey of high-quality development on a hundred-billion basis.

In 2019, the Group continued to reinforce its market expansion and transform the growth drivers. Revenue from the Core Businesses achieved double-digit growth and its contribution to the total revenues reached 96.3%. During the year, revenue from domestic telecommunications operator customers (including China Tower) amounted to RMB72,420 million, representing a year-on-year increase of 3.9%. Revenue from domestic non-operator customers amounted to RMB41,727 million, representing a year-on-year increase of 25.2%, in which the Core Businesses revenue increased by 29.8%. Revenue from overseas customers amounted to RMB3,266 million, representing a year-on-year increase of 3.6%.

The following charts show the revenue contribution from each customer group:



1 CAPEX refers to the capital expenditure of domestic telecommunications operators.

2 OPEX refers to the operating expenditure of domestic telecommunications operators.

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

BUSINESS OVERVIEW

DOMESTIC TELECOMMUNICATIONS OPERATOR MARKET

In 2019, the Group persisted in the "Dual Growth Drivers+" (i.e. CAPEX and OPEX + Smart Applications) development strategy in the domestic telecommunications operator market by focusing on the network construction business while stepping up its efforts in the operation and maintenance support businesses.

In 2019, with the issuance of 5G licenses by Ministry of Industry and Information Technology and requirement to accelerate construction of new infrastructure by the government, domestic telecommunications operators expedited their 5G deployment. The Group seized the opportunities of 5G construction by domestic telecommunications operators through enhancing its project management and service quality continuously, and commencing its research on the key technologies such as 5G and Internet of Things. Despite the fact that 5G network investment from operators has yet to come into scale, the Group penetrated into traditional infrastructure business and captured opportunities from the 5G co-build and co-share among operators, thus maintaining a stable market share in the domestic telecommunications operator market. Meanwhile, the Group vigorously expanded the OPEX business of domestic telecommunications operator market and increased the investment in research and development to improve its capabilities, which enabled the Group to make breakthroughs in the applications, contents and other service of the operators.

The Group undertook 5G base stations construction

In 2019, the Group overcame the unfavorable effect from the decrease in unit service price of domestic telecommunications operators and realized a steady year-on-year growth of 3.9% in the revenue from domestic telecommunications operator market. Of such revenue, revenue from China Telecom amounted to RMB40,633 million, representing a year-on-year decrease of 1.6%, while aggregate revenues from domestic telecommunications operator customers other than China Telecom amounted to RMB31,787 million, representing a year-on-year growth of 11.8%, which was the largest contributor to the Group's incremental revenue from domestic telecommunications operators.

The Group supported domestic telecommunications operators in 5G construction

BUSINESS OVERVIEW

DOMESTIC NON-OPERATOR MARKET

The Group has been paying close attention to the development trend of industrial digitalization. Through innovation and transformation, the Company achieved rapid business growth in domestic non-operator market and sustained optimization of its revenue structure. In 2019, based on its positioning as a "New Generation Integrated Smart Service Provider", the Group accelerated the transformation towards the direction of digital services by focusing on the development opportunities arising from Smart City, IoT, Big Data, Cloud, Artificial Intelligence, Blockchain etc. We continuously improved service level to promote constructive and interactive development between emerging and traditional businesses.

In 2019, the Group ranked 5th in the "100 Most Competitive Software & IT Service Enterprises 2019" organized by China Information Technology Industry Federation and was awarded the title of "Leading Enterprises" in the voting for the Leading Enterprises for Information Technology Industry in 2019, demonstrating the elevated influence and industry position of various specialties and products in the relevant sectors. In 2019, revenue from domestic non-operator market amounted to RMB41,727 million, representing a year-on-year growth of 25.2%. Among that, the revenue from Core Businesses recorded a year-on-year growth of 29.8%, being the main source of incremental revenue of the Group during the period.

The Group has already developed more than 30 different types of smart products, such as Smart City, Cloud, Smart Emergency Management, IoT Platform, CCS Network Information Security Solution, Smart Transportation, etc., which allowed us to provide smart products portfolio that could be disassembled or combined as per customers' needs, as well as integrated comprehensive smart service covering top-level design to product R&D and operation.

The Group undertook the "Smart Expo" project of the Beijing Horticultural Expo

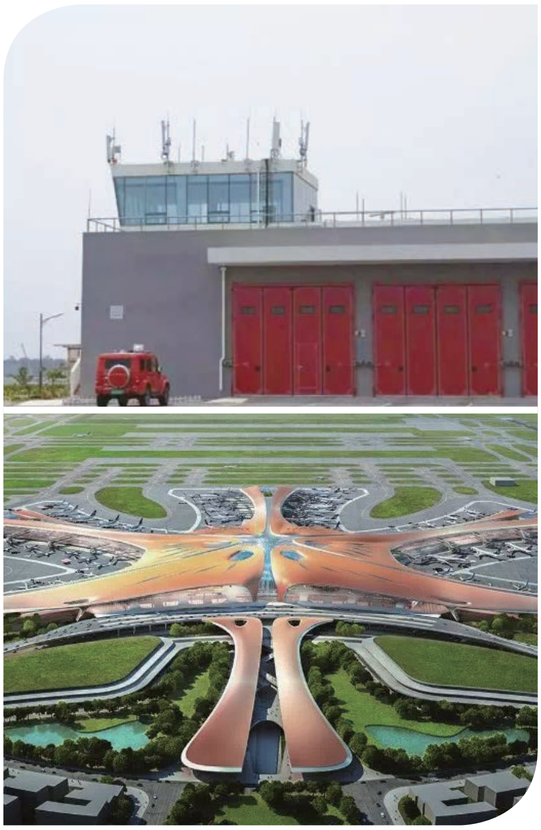
The Group has established over 200 independent business development units across the country and allocated more than 12,000 staff for key industries. During the year, the number of newly signed contracts of RMB ten-million level amounted to nearly 800 with contract amount totaling over RMB20 billion; we also signed over 20 large-scale projects of RMB100 million level. Meanwhile, the Group expedited the establishment of expert teams for its core products which consisted of more than 20,000 consultation experts and software engineers. Leveraging on the "Smart Comservice" platform for capabilities enabling, the Group organized approximately 1,200 trainings for various businesses with more than 37,000 person-times participation for the continuous cultivation of new teams of core professionals.

The Group provided Smart Parking (ETC system) integrated solution for airport

BUSINESS OVERVIEW

The Group stepped up its efforts in the research and development and business development on innovative application of information technology, Industrial Internet, emergency management and network information security while focusing on the electricity, transportation and other key industries to take up the strategic position of the industry. The Group established the China Comservice Internet of Energy Ecosystem Alliance, with annual new contract value of over RMB5 billion; we also established the Smart Transportation Ecosystem Alliance, with annual new contract value of over RMB6 billion.

The Group undertook the project of Smart Community and was awarded the "Best Prize of Innovative Urban Planning"


The Group undertook the communication planning and design project for Beijing Daxing International Airport


The Group undertook the project of "Easy Check (易安檢)" passenger big data platform for the Guangzhou Baiyun International Airport

BUSINESS OVERVIEW

OVERSEAS MARKET

In 2019, as a result of the continuous optimization of overseas deployment and business structure as well as the adoption of a proactive and steady expansion strategy, the scale of overseas business increased steadily and revenue from overseas customers amounted to RMB3,266 million, representing a year-on-year growth of 3.6%.

By continuously following up with the "Belt and Road" Initiative closely, the Group focused on the expansion of large-scale projects, took the advantage of the integrated comprehensive service, and expedited transformation and upgrade to facilitate the promotion of smart products into the overseas market. In 2019, the Group was awarded the "Excellent Enterprise" for the "Belt and Road" 2019 Information Technology Industry. The 4G Project in Nepal, the Digital Mali Project, the Ground and Submarine Cables Project in Congo-Brazzaville and the Power Communication Project in Saudi Arabia were launched and implemented smoothly and the Niger Broadband Infrastructure Project (phase II) progressed well during the year. In addition, while penetrating into the telecommunications infrastructure services including design, construction and supervision, the Group also focused on the development of key products including Smart City, Smart Education and Intelligent Building and key industries including government, transportation, electricity and information security so as to elevate the proportion of the transformational and emerging businesses, further diversify the overseas business and customer structures, and therefore the results of its overseas business' transformation was manifested.

The Group was awarded "Excellent Enterprise" for the "Belt and Road" 2019 Information Technology Industry and 3 projects were awarded the Top 100 Outstanding "Belt and Road" Cases

The Group undertook the 4G Project in Nepal

BUSINESS OVERVIEW

The Group undertook communications network construction project

BUSINESS EXPANSION

As the leading service provider in the informatization sector in the PRC that provides integrated comprehensive smart solutions in the informatization and digitalization sectors, we offer telecommunications infrastructure services, including design, construction and supervision; business process outsourcing services, including management of infrastructure for information technology (Network Maintenance), general facilities management (Property Management), supply chain and products distribution; and applications, content and other services, including system integration, software development and system support as well as value-added services.

Telecommunications Infrastructure Services

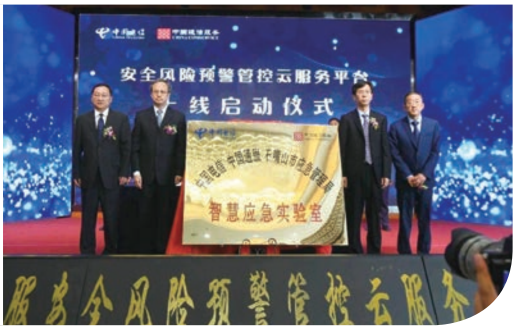
As the largest telecommunications infrastructure service provider in China, the Group possesses all the highest-grade qualifications in the communications construction industry in China. In 2019, revenue from telecommunications infrastructure services amounted to RMB64,689 million, representing a year-on-year growth of 12.8%.

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, as well as the integrated EPC (engineering, procurement and construction) and full-process engineering consultation services. In 2019, the Group fully addressed the needs of customers including the three domestic telecommunications operators and China Tower, and maintained solid market leading position. The Group's revenue of telecommunications infrastructure services from domestic telecommunications operator customers amounted to RMB41,153 million, representing a year-on-year growth of 2.1%.

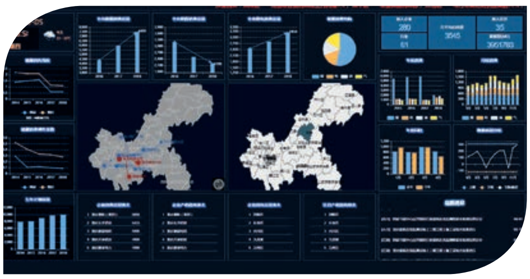
BUSINESS OVERVIEW

The Group also provides various integrated smart services, including construction services of ancillary communications networks, integrated solutions for informatization and smart solutions for intelligentization of industries, to domestic non-operator customers in sectors such as government, construction, transportation, power, financial institutions, broadcasting, as well as overseas customers. The Group continuously deepened the development in the fields of Smart City, Intelligent Building, Smart Park and Smart Game and achieved remarkable results in the expansion of large-scale projects. In addition, the Group rode on the industry trend to accelerate the deployment and development of Industrial Internet, emergency management and network information security. In 2019, revenue of telecommunications infrastructure services from domestic non-operator customers amounted to RMB20,910 million, representing a year-on-year growth of 42.8%, maintaining a strong growth trend continuously.

The Group undertook the project of "Smart Game" for the 7th CISM Military World Games, and provided full-process integrated comprehensive smart services



The Group developed emergency management cloud platform in cooperation with operator, and introduced the Group's risk monitoring and early warning system for safe production



The Group promoted its energy consumption testing cloud platform for the electricity market

In the future, the domestic telecommunications operators are expected to increase their investment in 5G. The Group will further explore market potential and capture the opportunity of 5G construction by making innovation on business models, such as the EPC and full-process engineering consultation service. The Group will further promote the implementation of the "Dual Growth Drivers+" development strategy and integrate itself into the transformation ecology of the operators so as to maintain healthy development for the traditional infrastructure business from the domestic telecommunications operators.

BUSINESS OVERVIEW

With the further implementation of national strategies of "Cyberpower", "Digital China" and "Smart Society", the government requests to accelerate the construction of New Infrastructure, including 5G, Data Centers, IoT and Industrial Internet. Accordingly, the 5G construction of domestic telecommunications operators, together with the 5G-driven markets of broadcasting and other vertical industry operator market, will expand continuously while demand for New Infrastructure such as AI, IoT and Industrial Internet and industrial digitalization will increase persistently. In addition, the continuous advancement of the government's "Belt and Road" Initiative will lead to greater potential in overseas market. All of the above will create new opportunities for the growth of the Group.

The Group undertook the construction of new infrastructure projects including data center

BUSINESS OVERVIEW

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 (Property Management), supply chain and products distribution. The target customers of our services include domestic and overseas telecommunications operator customers, government agencies and enterprises customers. In 2019, the Group continued to exploit the OPEX business of domestic telecommunications operators and the revenue from the Core BPO[4] services amounted to RMB32,315 million, representing a year-on-year growth of 6.9% while the overall revenue from the business process outsourcing services (i.e. including the products distribution business contained by the Group) amounted to RMB36,637 million, representing a year-on-year increase of 4.4%.

The Group provides Network Maintenance services for telecommunications operators covering fiber optic cables, electric cables, mobile base stations, network equipment and terminals. In 2019, the Group proactively undertook on-site integrated maintenance services from the three domestic telecommunications operators and China Tower, and facilitated a relatively fast development of the Group's maintenance services, with a revenue of RMB15,827 million, representing a year-on-year growth of 7.0%.

The Group provides Property Management services to domestic telecommunications operators and domestic non-operator customers for their data centers, cloud computing bases, commercial buildings, high-end residential buildings, high-speed railway stations and airports, etc. During the year, the Group continued to develop the brand-building of "China Comservice Properties", and promoted the construction of IT platform of intelligent building to enhance the synergistic operational capabilities of Property Management services. In 2019, revenue from the Property Management business of the Group was RMB6,168 million, representing a year-on-year growth of 16.9%.

The Group undertook network maintenance business

The Group provides logistics and transportation, warehousing and auxiliary services, procurement agent, inspection service and value-added services of supply chain to domestic telecommunications operators and domestic non-operator customers. We possess the industry-recognized AAAAA logistics qualification and is one of the top 50 logistics enterprises in China. In 2019, the Group further implemented the consolidation of supply chain businesses and established a full-process and network-wide integrated operating system for synergistic operation to improve service capability, thus achieving economies of scale and providing customers with nationwide integrated logistics services. The Group intensified the development efforts on the upstream and downstream customers in the information industry, with businesses covering the three domestic

4 Core BPO services include management of infrastructure for information technology (Network Maintenance), general facilities management (Property Management) and supply chain services.

BUSINESS OVERVIEW

telecommunications operators. We won again the bid for the annual transportation businesses of Yangtze Optical Fibre and Cable, and FiberHome Telecommunication Technologies. We also established strategic cooperation partnerships with various equipment manufacturers such as Inspur to expand businesses throughout the country. In 2019, development of supply chain business moderated mainly because of a subdued growth in marketing agent and after-sale businesses attributable to the marketing strategy adjustment of the domestic telecommunications operators. The Group's revenue in supply chain service was RMB10,320 million, representing a year-on-year increase of 1.7%. In the future, China Comservice Supply Chain Management Company Ltd. ("Supply Chain Company") will further improve synergistic operation capability and drive the expansion of the Group's supply chain business.

The Supply Chain Company of the Group entered into strategic cooperation agreement with its business partners

The Group was awarded the prize of "Excellent Cooperative Partner" by customers for its supply chain business

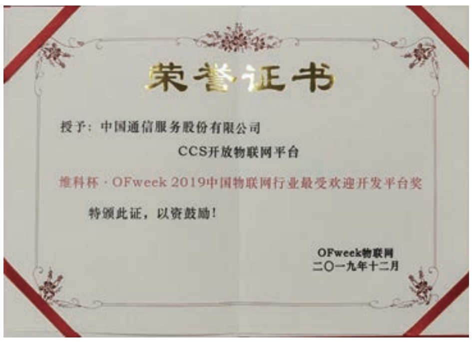
Products distribution business mainly refers to the distribution of communication products. The Group provides terminals distribution and device distribution services to domestic telecommunications operator customers and provides distribution and procurement services of IT devices, auxiliary machinery and equipment to domestic non-operator customers. In 2019, the Group proactively contained the products distribution business with lower efficiency and realized revenue of RMB4,322 million, representing a year-on-year decrease of 11.5%.

The Group believes that the OPEX market of domestic telecommunications operators have enormous room and potential to grow, and the domestic non-operator market also have strong demands for business process outsourcing. Particularly, the continuous acceleration in the construction of new infrastructure such as 5G, Data Centers by the government is expected to bring broader market potential for the Group. The business process outsourcing services have the features of possessing 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 high value business sectors to pursue a more efficient and larger scale development in such market.

Applications, Content and Other Services

The Group provides system design and construction, software development and system support as well as value-added services to customers including domestic telecommunications operators, government agencies and enterprises customers. In 2019, the Group optimized the ecological deployment of smart industry and positioned itself as a "New Generation Integrated Smart Service Provider". By leveraging on more than 20 research centers across the nation and focusing on customers' needs, the Group promoted the research and development of the core platforms, further enriched the smart product portfolio, built leading capabilities and solutions to drive the convergence of our products and businesses on the foundation platforms. In 2019, the Group's "CCSYUN" (cloud service) Platform obtained the Trusted Cloud Services Certification (TRUCS) and was awarded the "2019 Innovative Cloud Service Platform" by China Software Industry Association. The Company was included in "2019 IoT Panoramic Map Report" and the "CCS Open IoT Platform" won the Bronze Medal of "2019 GIOTC IoT Award" and "OFweek 2019 Most Popular Development Platform in China IoT Industry". The Group's software development and application solutions have been widely recognized by the society. The revenue of applications, content and other services amounted to RMB16,087 million, representing a year-on-year increase of 17.3%.

The Group's "CCSYUN" (cloud service) Platform obtained Trusted Cloud Services Certification (TRUCS) and was awarded the "2019 Innovative Cloud Service Platform"



The Group's "CCS Open IoT Platform" won the Bronze Medal of "2019 GIOTC IoT Award" and "OFweek 2019 Most Popular Development Platform in China IoT Industry"

BUSINESS OVERVIEW

In 2019, the Group leveraged on the strength of its integrated service, system design and construction, software iterative development and system operation and maintenance support capabilities to further improve the dispersed research and development system and expand ecosystem through external collaboration. Currently, the Group has more than 70 research and development teams consisting of more than 500 research and development specialists. During the year, the Group has established and started the operation of Ecosystem Alliances on Cloud Computing, IoT, Smart City, Internet of Energy and Smart Transportation, converging both internal and external technologies, products and industrial resources of the Group to build up leading integration capabilities. The Group has established adaptive research and development teams for Smart Airport and Industrial Internet (Big Data) to build up leading industrial solutions and customization capabilities. In the field of network information security, the Group strengthened the building of brand, product and service capabilities and was included in the 2019 Cyber Security Top 100 Report: Leader Matrix in China by AQNIU. In respect of emergency management, the Group launched the Emergency Management Integrated Solution, aiming to support the modernization of national governance system. Besides, the Group continuously upgraded its existing group-level products and some has reached an industry-leading level. For example, the "Smart Transportation" was granted the Excellent Solution of the Smart Transportation Award and "Smart Court" was awarded as one of the Top 10 Smart Court Innovative Products in China. Currently, the Group owns more than 30 smart products and could satisfy the needs of the government and enterprise customers effectively. Meanwhile, the Group participated in a series of important expos, including the Big Data Expo in Guizhou, the World IoT Expo in Wuxi, the National Governance Intelligentization Expo, the Security Protection Expo in Xi'an and the Industrial Internet Summit in Chongqing, which further improved the industry status and influence.

The Group established the China Comservice Industrial Internet (Big Data) Research Institute

The Group entered into strategic cooperation with its business partners on Industrial Internet

The Group presented its CCS Network Information Security Solution in the 2019 Network Security Expo

The Group participated in the China International Big Data Industry Expo 2019 and entered into strategic cooperation with its business partners on Smart City

BUSINESS OVERVIEW

The domestic non-operator customers are the major customer group of our applications, content and other services, which contribute more than 50% of the overall revenue from such services. In 2019, the revenue from domestic non-operator customers for applications, content and other services increased by 20.6% year-on-year, which was a major driver for the growth of this segment.

With the further implementation of "Digital China", "Cyberpower", and "Smart Society", the central government's initiatives to accelerate 5G development, together with the expedition on the construction of New Infrastructure including 5G, Artificial Intelligence, Data Centers, IoT and Industrial Internet, a broad market for the telecommunications infrastructures services and business process outsourcing services of the Group emerges. In addition, the deepened integration of new technologies, including 5G, with various industries will boost the demand for smart applications and the increase of investment from various industry. The applications, content and other services will also face significant opportunities. The Group will capture the development opportunities of the new era, focus on customer needs and speed up value transformation and ecosystem construction. And by leveraging on our own advantages and utilizing new technologies such as 5G, the Group will improve capabilities and intensify the construction of middle platform for capabilities accumulation. Leveraging on the industry alliances as its base and our platforms such as CCSYUN (cloud platform) and IoT platform, we will build general competence and industry solutions to expedite business development.

The Group participated in the World IoT Expo 2019

A subsidiary of the Group participated in the Third Summit Forum for Chinese Artificial Intelligence and Big Data in Hainan, and was named as the "2019 Top Ten Big Data Enterprises in Hainan Province"

BUSINESS OVERVIEW

CONTENTS OF CERTAIN GROUP-LEVEL (SMART) PRODUCTS OF THE GROUP

1	Data Center/ Cloud Computing/ PaaS Cloud Platform (CCSYUN Platform)	Based on industry-leading private/hybrid cloud integrated solution, the Group provides integrated cloud services covering cloud construction, cloud migration and cloud management, as well as cloud platform products to our customers. On the downstream, the Group effectively manages and utilizes cloud computing infrastructure, while on the upstream, the Group provides a variety of components and integration services for software applications.
2	IoT (CCS Open IoT Platform)	Open IoT Platform supports smart applications and is connectable with intelligent devices. It allows data sharing within the platform and enables establishment of an open, cooperative and win-win ecological chain. The platform opens up to terminals and application vendors, and provides comprehensive, standardized support services through smart services.
3	Network Information Security (CCS Network Information Security)	It possesses the most complete and highest-level information security profession qualifications across the industry, with integrated security service capabilities and a team of security experts providing customized services for customers. Such services cover security demand for informatization construction throughout the life cycle, including consultation, evaluation, design, implementation, supervision and training. It provides a full range of services including data security, security management, application security and system security.
4	Smart Emergency Management	The Smart Emergency Management helps enterprises and the regulatory authorities with effective accident warning and regional regulatory decision making upon collecting data in relation to daily work, security monitoring and emergency management.
5	Industrial Internet	Leveraging on the Group's unique capabilities matrix, including 4T (i.e. CT (Communications Technology, with over 60 years' experience in network design, construction and maintenance), IT (Information Technology, including Cloud Construction, Cloud Management, Cloud Migration and innovative development), DT (Data Technology, with experience in massive data management and mining), and OT (Operational Technology, with nationwide entities at provincial, city and county level)), 4P (CCS Open IoT Platform, CCSYUN(cloud service) Platform, data middle platform and network information security platform) and 4S (design and consultation, software development, project implementation and project supervision), the Industrial Internet provides integrated Industrial Internet service system to customers from government and industrial enterprises to address the four difficulties, namely the "connection, platform, data and security".

BUSINESS OVERVIEW

6	Smart City	To bolster precise city management and urban services, as well as modernization of urban governance through effective integration and resource sharing of city information, the Group uses Smart City top-level design as the entry point to build up Smart City Big Data platform, city operation management platform and smart applications that allow for flexible disassembly and reorganization.
7	Smart Town	Leveraging on IoT, Big Data and other technologies, the Group constructs the Smart Town Comprehensive Big Data Management Platform and realizes five applications, namely landscape protection, hazard warning, "River Chief System" river and water quality protection and monitoring, pipe and grid network and resource management in towns. Through a combination of platform+application+services, the Group provides Smart Town comprehensive solution.
8	Smart Park	The Group provides integrated turnkey solutions for construction of parks, including consultation, planning, construction, operation and maintenance. Based on a co-sharing platform, the Group provides unified management and differentiated services for the parks with marketing, management and services as the three major integrated application systems.
9	Intelligent Building	Leveraging on the Intelligent Building Management System (CCS-iBMS) as the core, the Group realizes integration and interconnection among self-control system of building equipment, and also automation systems of office, security, fire protection and communications etc, so as to provide visualized management, operation and service.
10	Smart Procuratorial Services	Smart Procuratorial Services is a comprehensive intelligent service platform based on electronic inspection and a consolidation of "Information Perception, Network Transmission, Knowledge Services, Procuratorial Applications and Operation Management". It provides smart public prosecution, smart civil and administrative prosecution and smart appeal service for inspection.
11	Smart Government Services	Smart Government Services utilizes integrated government services platform as the core and is supported by Big Data and data co-sharing platforms, together with the government service hotline ("12345") and the hall of Smart Government Services, act as the extension and window of government service.
12	Smart Justice	Taking the construction of public law service systems as pivot and leveraging on government services cloud platform, the Group builds the integrated administration and management platform that consists of law consultation, law services, administration services, data monitoring via multiple channels such as physical, online and phone.

BUSINESS OVERVIEW

13	Smart Court	By integrating advanced technologies such as Big Data, AI and IoT, the Group provides court system with full-service and full-cycle integrated ICT solutions.
14	Smart Prison	Focusing on safety and defense, the Smart Prison establishes a monitoring system combining "human defense, physical defense, technological defense and joint defense" in order to maintain the prison being managed, monitored and controlled in all aspects.
15	Smart Highway	By integrating frontier technologies, the Group develops the new generation Smart Highway operation and management platform which possesses full capabilities in three major highway informatization areas — surveillance, toll, as well as maintenance and operation. Meanwhile, through massive real-time data collection and intelligent analysis, the Group assists the highway operators to enhance the capabilities of emergency command and dispatch, operation surveillance management and public travel services.
16	Smart Airport	The Group consolidates the research and development capabilities of each key product centers to establish an integrated smart airport service system and assist each airline group in the civil aviation industry of China to establish a "safe, green, smart and humanistic" airport and realizing the goal to be a world-class airport with "high technologies, high standards and high quality".
17	Smart Sport/ Smart Game	Based on informatization platforms, such as the game results platform, stadium operation platform, game management platform and game command platform, the Group provides full-process and integrated services to various sport games from preparation, construction to operation.
18	Smart Finance	Adopting a B2B2C model, the Smart Finance provides full-process, modularized integrated fintech solutions, including financial information system, financial products operation and financial data services, to enterprise customers and financial institutions.

BUSINESS OVERVIEW

19	Smart Water Conservancy	Targeting at government departments and related enterprises that are relevant with water conservation, marine protection and environmental protection, the Group constructs an comprehensive water conservancy information platform that provides analysis of data collected from water level measurement, hydraulic engineering, video recognition and automatic control. The platform provides effective support for the enforcement and monitoring of water law, water resources management, flood-alarming and river/lake management.
20	Smart Agriculture	The Smart Agriculture is a comprehensive production management platform giving a full view of information about agricultural production, providing smart management of agricultural production based on expertise and realizing a new agricultural production management concept of "precise perception, all-around control, interactive farming and smart decision". It provides professional assistance to refined management of agriculture in large scale.
21	Smart Exhibition	The Smart Exhibition provides an integrated exhibition showcase service from design and planning to professional implementation for exhibition halls, expos and enterprises of various scale.
22	Smart Customer Service	Based on traditional call centers, the Group provides customized one touch access and number recognition customer service platform with all channels by integrating different functions such as multimedia CS centers, sales service centers and customer management centers, thus enhancing enterprise efficiency, service quality and assisting customers to develop market.
23	Smart Enterprise	The Smart Enterprise provides multiple leading public cloud (SaaS) products to enterprises, helping them to realize integrated digital transformation in respect of human resources, events and devices, including talent management, enterprise resource management, full-channel marketing management, cloud procurement management, expense management, business intelligent analysis and other functions.
24	Smart Education	The Group changes the traditional learning mode by utilizing informatization technologies to realize the integration of online learning and offline training for the adoption of mixed learning mode. Leveraging on mobile internet, cloud computing, live broadcast, AR/VR and other technologies, the Group provides enterprises with one-stop training solutions to help them build learning organizations.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

OVERVIEW

In 2019, the Group continued to adhere to its overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" and pinpointed its new position of "New Generation Integrated Smart Service Provider" by adapting to the development trend of the industry. The Group's operations remained stable, with total revenues for the year amounted to RMB117,413 million, representing an increase of 10.6% as compared to 2018; profit attributable to the equity shareholders of the Company was RMB3,049 million, representing an increase of 5.1% as compared to RMB2,901 million in 2018, with basic earnings per share amounted to RMB0.440; free cash flow was RMB4,243 million, representing an increase of 17.4% as compared to RMB3,613 million in 2018. Cash conversion ratio was 157.8%, which continued to remain at a healthy and relatively high level.

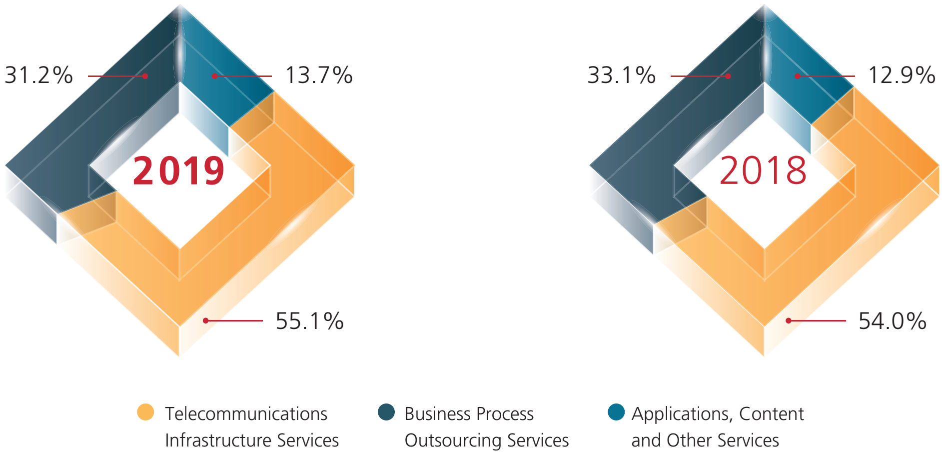
TOTAL REVENUES

The Group's total revenues in 2019 amounted to RMB117,413 million, representing an increase of 10.6% as compared to 2018. From the business perspective, the revenue from telecommunications infrastructure ("TIS") services was RMB64,689 million, representing a year-on-year growth of 12.8%; the revenue from business process outsourcing ("BPO") services was RMB36,637 million, representing a year-on-year increase of 4.4%, of which the revenues from Core BPO services (i.e. excluding products distribution business) was RMB32,315 million, representing a year-on-year increase of 6.9%; and the revenue from applications, content and other ("ACO") services was RMB16,087 million, representing a year-on-year growth of 17.3%. Taking full advantage of the opportunities arising from the construction of Digital Economy and Smart Society in China, the Group improved its integrated smart service capabilities to drive rapid growth of businesses relating to digitalization construction, thus TIS services became the major driver of its overall revenue growth. Meanwhile, the Group consolidated the capabilities of research and development and products by increasing its investment in research and development, which in turn stimulated the growth of its businesses such as system integration and software development, making the ACO services continued to be the fastest growing business segment. The Group continued to take advantage of the opportunities arising from the OPEX business of domestic telecommunications operators, so the continuous growth of its Core BPO services provided important support to the overall growth of the Group. Construction, system integration and management of infrastructure for information technology (Network Maintenance) were the three largest contributors to the total incremental revenues of the Group.

From the market perspective, the incremental revenue from the domestic non-operator market surpassed those generated from the domestic telecommunications operator market in 2019, and the revenue from such market amounted to RMB41,727 million, representing a year-on-year increase of 25.2%, in which, revenue from the Core Businesses of such market amounted to RMB38,544 million, representing a rapid year-on-year increase of 29.8%. Revenue from the domestic telecommunications operator market amounted to RMB72,420 million, representing a year-on-year growth of 3.9%; and revenue from the overseas market amounted to RMB3,266 million, representing a year-on-year increase of 3.6%. In 2019, the Group continued to cultivate and upgrade various smart applications in key industries, focused on the development of integrated smart solutions and accelerated the deployment in fields such as Industrial Internet, emergency management and network information security, thus the businesses from the domestic non-operator market sustained a rapid growth and continued to contribute the largest incremental revenue to the Group. Meanwhile, the Group effectively implemented "Dual Growth Drivers+" (i.e. CAPEX and OPEX + Smart Applications) development strategy in the domestic telecommunications operator market. The Group not only fully exploited the traditional infrastructure businesses and continued to vigorously develop OPEX business, but also paid close attention to the demand for transformation and upgrade from domestic telecommunications operators to provide them with informatization support services, thus driving the further increase in contribution from the ACO services. All the above measures enabled the Group to realize steady development in the domestic telecommunications operator market.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

BUSINESS REVENUE MIX



The following table sets forth a breakdown of our total revenues for 2018 and 2019, together with their respective changes:

	2019 RMB'000	2018 RMB'000	Change
Telecommunications Infrastructure Services			
Design services	10,239,043	10,605,020	–3.5%
Construction services	50,734,438	42,862,805	18.4%
Project supervision and management services	3,715,334	3,891,611	–4.5%
	64,688,815	57,359,436	12.8%
Business Process Outsourcing Services			
Management of infrastructure for information technology (Network Maintenance)	15,826,644	14,793,165	7.0%
General facilities management (Property Management)	6,168,074	5,277,821	16.9%
Supply chain	10,320,178	10,148,648	1.7%
Sub-total of Core BPO Services	32,314,896	30,219,634	6.9%
Products distribution	4,322,284	4,883,188	–11.5%
	36,637,180	35,102,822	4.4%
Applications, Content and Other Services			
System integration	9,108,195	7,372,535	23.5%
Software development and system support	2,856,311	2,501,901	14.2%
Value added services	2,035,012	1,934,382	5.2%
Others	2,087,576	1,905,561	9.6%
	16,087,094	13,714,379	17.3%
Total	117,413,089	106,176,637	10.6%

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Telecommunications Infrastructure Services

In 2019, the Group's revenue from TIS services amounted to RMB64,689 million, representing an increase of 12.8% as compared to RMB57,359 million in 2018. Of which, the construction services recorded revenue of RMB50,735 million, representing an increase of 18.4% as compared to 2018, being the largest contributor to the overall incremental revenues. TIS services was the primary source of revenue of the Group and accounted for 55.1% of our total revenues, representing an increase of 1.1 percentage points from 54.0% in 2018. As to the customer structure of the TIS services, the Group's TIS revenue from domestic telecommunications operators amounted to RMB41,153 million and accounted for 63.6% of the total TIS revenues, representing a decrease of 6.7 percentage points from last year. The aggregate TIS revenues from domestic non-operator customers and overseas customers amounted to RMB23,536 million and accounted for 36.4% of the total TIS revenues, representing an increase of 6.7 percentage points from last year, whereas the increase in proportion was driven by domestic non-operator customers.

In 2019, the Group's TIS revenue from domestic telecommunications operators increased by 2.1% over 2018. The Group took advantage of the opportunities arising from the gradually increasing investment in the construction of 5G network by the domestic telecommunications operators, coordinated the allocation of resources and improved delivery capability and service quality, and therefore maintained market share. However, the domestic telecommunications operators have not yet invested in 5G network in scale while adjusting their investment structure at the same time, the Group's TIS revenue from the domestic telecommunications operator customers maintained a steady growth. Meanwhile, the aggregate TIS revenues from domestic non-operator customers and overseas customers increased by 38.2% over 2018, in which the TIS revenue from domestic non-operator customers recorded a significant year-on-year growth of 42.8%, showing a remarkably enhanced growth momentum. With the Group's further penetration into key industries and the enhancement on its integrated smart service capabilities, the business development in the domestic non-operator market played an increasingly prominent role in driving the TIS business.

Business Process Outsourcing Services

In 2019, the Group's revenue from BPO services amounted to RMB36,637 million, representing an increase of 4.4% as compared to RMB35,103 million in 2018, accounting for 31.2% of our total revenues, a decrease of 1.9 percentage points as compared to 33.1% in 2018. Excluding the products distribution business, revenue from the Core BPO services amounted to RMB32,315 million, representing a year-on-year growth of 6.9%. In terms of customer structure of the BPO services, the BPO revenue from the domestic telecommunications operators amounted to RMB24,454 million, representing an increase of 4.0% over 2018, and accounting for 66.7% of the total revenues from the BPO services, representing a decrease of 0.3 percentage point over 2018. The aggregate BPO revenues from the domestic non-operator customers and overseas customers amounted to RMB12,183 million, representing an increase of 5.1% over 2018, accounted for 33.3% of the total revenues from the BPO services, representing an increase of 0.3 percentage point over 2018.

In 2019, among each of the business under the Group's BPO services, revenue from the Network Maintenance business maintained a favourable growth and amounted to RMB15,827 million, representing an increase of 7.0% as compared to 2018. The Network Maintenance business was the third largest contributor to the overall incremental revenues, which was primarily the result of the Group's focus on the OPEX business and continuous maintenance outsourcing demand of domestic telecommunications operators. Revenue from the Property Management business amounted to RMB6,168 million, representing an increase of 16.9% as compared to 2018, maintaining a favourable growth momentum. Revenue from the supply chain business amounted to RMB10,320 million, representing an increase of 1.7% as compared to 2018. The slowdown in growth of the supply chain business was mainly due to the adjustment of marketing strategy by domestic telecommunications operators which led to the subdued growth in marketing agent and after-sale businesses of the Group. Besides, revenue from the products distribution business amounted to RMB4,322 million, representing a decrease of 11.5% as compared to 2018, mainly due to the fact that the Group adhered to the principle of efficient development and continued to proactively contain products distribution business with relatively low efficiency.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Applications, Content and Other Services

In 2019, the Group's revenue from ACO services amounted to RMB16,087 million, representing an increase of 17.3% as compared to RMB13,715 million in 2018, making it the fastest-growing business segment for the year. Of which, the system integration business recorded revenue of RMB9,108 million, representing an increase of 23.5% as compared to 2018, being the second largest contributor to the overall incremental revenues. The revenue from ACO services accounted for 13.7% of the Group's total revenues, representing an increase of 0.8 percentage point from 12.9% in 2018, and such proportion has been constantly growing in the past five consecutive years. In terms of the customer structure of ACO services, the Group's ACO revenue from domestic telecommunications operators amounted to RMB6,813 million and accounted for 42.4% of the total ACO revenues, representing a decrease of 0.4 percentage point from the corresponding period of last year. Aggregate ACO revenues from domestic non-operator customers and overseas customers amounted to RMB9,274 million, accounting for 57.6% of the total ACO revenues, representing an increase of 0.4 percentage point from the corresponding period of last year, which was driven by the domestic non-operator customers.

In 2019, the development of 5G, Cloud, IoT, Big Data, and Artificial Intelligence further integrated with various industries. The Group took full advantage of such window of opportunities, accelerated deployment in industries to improve its capability to create digital assets. The Group proactively adapted to the national strategies, including "Cyberpower", "Digital China" and "Smart Society", as well as the "Belt and Road" Initiative, and the aggregate ACO revenues from the domestic non-operator customers and overseas customers maintained a rapid growth of 18.2% over 2018. The domestic non-operator customers were the key development focus for the Group, and both the revenue and incremental revenue contribution of such customers from ACO services have surpassed those of the domestic telecommunications operators. The Group's ACO revenue from domestic telecommunications operators increased by 16.2% over 2018, continuing to maintain a rapid growth.

COST OF REVENUES

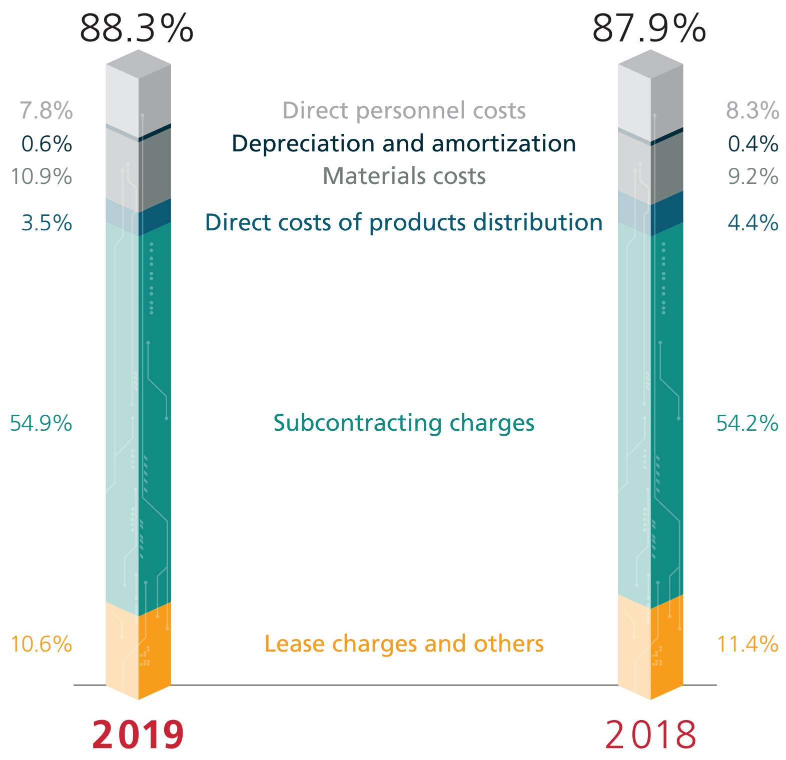
The Group's cost of revenues in 2019 amounted to RMB103,726 million, representing an increase of 11.2% from 2018 and accounting for 88.3% of the total revenues.

The following table sets out a breakdown of the Group's cost of revenues in 2018 and 2019 and their respective changes:

	2019 RMB'000	2018 RMB'000	Change
Direct personnel costs	**9,111,016**	8,747,317	4.2%
Depreciation and amortization	**756,976**	466,096	62.4%
Materials costs	**12,838,003**	9,783,239	31.2%
Direct costs of products distribution	**4,167,579**	4,629,177	–10.0%
Subcontracting charges	**64,462,508**	57,555,216	12.0%
Lease charges and others	**12,390,048**	12,110,626	2.3%
Total cost of revenues	**103,726,130**	93,291,671	11.2%

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

COST OF REVENUES AS A % OF TOTAL REVENUES



Direct Personnel Costs

In 2019, direct personnel costs amounted to RMB9,111 million, representing an increase of 4.2% from RMB8,748 million in 2018. Direct personnel costs accounted for 7.8% of our total revenues, representing a decrease of 0.5 percentage point from 2018. The Group kept a reasonable control over its total headcount and continued to optimize the employee structure to strictly control staff costs. With the growth in its business volume, the Group made use of outsourcing resources reasonably to enhance operating efficiency.

Depreciation and Amortisation

In 2019, depreciation and amortisation amounted to RMB757 million, representing an increase of 62.4% from RMB466 million in 2018. Depreciation and amortisation cost accounted for 0.6% of our total revenues. Significant increase in depreciation and amortisation was due to the application of IFRS 16 (Leases) that certain costs originally credited to lease charges was credited to depreciation and amortisation.

Materials Costs

In 2019, materials costs amounted to RMB12,838 million, representing an increase of 31.2% as compared to RMB9,783 million in 2018. Materials costs accounted for 10.9% of our total revenues, representing an increase of 1.7 percentage points from 2018. The increase in materials costs was mainly attributable to the increase in relevant materials costs caused by the growth of our construction and system integration businesses.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Direct Costs of Products Distribution

In 2019, the direct costs of products distribution amounted to RMB4,168 million, representing a decrease of 10.0% as compared to RMB4,629 million in 2018. Direct costs of products distribution accounted for 3.5% of our total revenues, representing a decrease of 0.9 percentage point over 2018. The decrease in the direct costs of products distribution was mainly because the Group proactively contained certain relatively low efficiency products distribution business.

Subcontracting Charges

In 2019, subcontracting charges were RMB64,462 million, representing an increase of 12.0% as compared to RMB57,555 million in 2018. Subcontracting charges accounted for 54.9% of our total revenues, representing an increase of 0.7 percentage point over 2018. In 2019, the growth of subcontracting charges slowed down significantly as compared to 2018[5]. The Group continued to transform to technology-intensive operation model and focus on high-end businesses, and promoted subcontracting of low-end businesses. In addition, during the reporting period, the Group undertook more turnkey projects in the domestic non-operator market, which have more needs for subcontracting for certain professional work. Business transformation of the Group instigated the company to have stricter control over the subcontracting costs. Through analysis of data on subcontractors, the Group intensified management and supervision of subcontractors throughout the whole process.

Lease Charges and Others

In 2019, lease charges and others were RMB12,390 million, representing an increase of 2.3% over RMB12,111 million in 2018. Lease charges and others accounted for 10.6% of our total revenues, representing a decrease of 0.8 percentage point over 2018. The decrease in proportion over total revenues was mainly due to the application of IFRS 16 (Leases) that certain costs from lease charges were credited to depreciation and amortisation and finance costs.

GROSS PROFIT

In 2019, the Group recorded gross profit of RMB13,687 million, representing an increase of 6.2% over RMB12,885 million in 2018. The Group's gross profit margin in 2019 was 11.7%, representing a decrease of 0.4 percentage point from 12.1% in 2018. Comparing to 2018, the decrease in gross profit margin in 2019 narrowed[6]. In 2019, the Group continued to face downward pressure on gross profit margin due to various factors, including the general decrease in unit service prices of businesses from domestic telecommunications operators and the increase in certain costs that were characterized as fixed in nature, such as labour-related costs. However, the Group continued to optimize its business and customer structure in 2019, and revenue from the Core Businesses as a proportion to our total revenues was 96.3%, representing an increase of 0.9 percentage point as compared to the previous year. In addition, business value from the domestic non-operator market manifested and the gross profit contribution from such market increased during the year as a result of the synergies achieved through the development of smart businesses in such market and the related businesses growth led by the smart businesses. The above factors alleviated the impacts on gross profit margin brought by the factors of external environment to a certain extent. Through various measures such as transformation and upgrade as well as the synergistic use of resources, the Group will strive to improve its gross profit margin by enhancing its service value and competitiveness.

5 In 2018, the Group's subcontracting charges were RMB57,555 million, representing an increase of 22.8% year-on-year, and the proportion to our total revenues increased by 4.7 percentage points over 2017.

6 In 2018, the Group's gross profit margin was 12.1%, representing a decrease of 0.8 percentage point as compared to 2017.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

In 2019, the selling, general and administrative expenses of the Group were RMB11,494 million, representing an increase of 8.3% as compared to RMB10,611 million in 2018. The selling, general and administrative expenses accounted for 9.8% of our total revenues, representing a decrease of 0.2 percentage point from 2018. Of which, the research and development costs were RMB3,276 million, representing an increase of 17.1% as compared to RMB2,798 million in 2018, and accounted for 2.8% of our total revenues, representing an increase of 0.2 percentage point from 2018. The main reasons for the increase in selling, general and administrative expenses were the increase in labour costs characterized as fixed in nature and the proactive increase in investment on research and development from the Group during the year.

FINANCE COSTS

In 2019, the finance costs of the Group were RMB69 million, representing a significant increase of 173.6% as compared to RMB25 million in 2018. It was mainly due to additional interest expenses on lease liabilities of RMB36 million resulting from the application of IFRS 16 (Leases).

INCOME TAX

In 2019, the income tax of the Group was RMB464 million and its effective tax rate was 13.3%, representing a decrease of 1.2 percentage points from 14.5% in 2018. 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 2019, 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 Western China benefited from 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 2019, profit attributable to equity shareholders of the Company was RMB3,049 million, representing an increase of 5.1% over RMB2,901 million in 2018. During the year, in order to reinforce its operation fundamentals, the Group made provision based on a prudent principle for two contractual disputes occurred in previous years according to the progress of the events, which impacted profit attributable to equity shareholders of the Company by RMB86 million. Profit attributable to equity shareholders of the Company accounted for 2.6% of our total revenues, which slightly decreased as compared to 2018. Basic earnings per share of the Company were RMB0.440 (2018: RMB0.419).

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

CAPITAL EXPENDITURE

The Group implemented stringent budget management over capital expenditure, and made adjustments according to changes in market condition. In 2019, capital expenditure amounted to RMB946 million, representing an increase of 14.9% over RMB824 million in 2018. The capital expenditure in 2019 accounted for 0.8% of the total revenues, which remained at approximately the same level as compared to 2018. The capital expenditure of the Group included the purchases of production facilities and equipment, machinery and meters, plant and office buildings, intangible assets and other operating assets.

CASH FLOW

The Group recorded a net cash inflow of RMB3,115 million in 2019, representing an increase of RMB291 million from RMB2,824 million in 2018. Such change was mainly due to the increase of cash generated from operating activities during the reporting period. As at the end of 2019, the balance of cash and cash equivalents of the Group amounted to RMB19,221 million, of which 95.8% was denominated in Renminbi.

The following table sets out our cash flow positions in 2018 and 2019, respectively:

	2019 RMB'000	2018 RMB'000
Net cash generated from operating activities	**4,811,651**	4,260,971
Net cash used in investing activities	**(311,316)**	(550,886)
Net cash used in financing activities	**(1,385,133)**	(885,710)
Net increase in cash and cash equivalents	**3,115,202**	2,824,375

In 2019, net cash generated from operating activities was RMB4,811 million, representing an increase of RMB550 million from RMB4,261 million in 2018. Other than the changes due to the classification of cash outflow in certain leasing activities resulting from the adoption of IFRS 16 (Leases), the increase in operating cash flow was mainly due to the fact that the Group persisted in value-driven principle and put more efforts on management of cash flow, accounts receivable and accounts payable with effective clearing and settlement of accounts receivable while expanding business.

In 2019, net cash used in investing activities was RMB311 million, representing a decrease of RMB240 million from RMB551 million in 2018. The decrease was mainly attributable to the decrease in the fund for purchasing short-term wealth management products and structured deposits at banks after considering the Group's overall funding arrangement.

In 2019, net cash used in financing activities was RMB1,385 million, representing an increase of RMB499 million from RMB886 million in 2018. The increase was mainly due to an additional repayment of principal of lease liabilities of RMB350 million resulting from the application of IFRS 16 (Leases).

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

WORKING CAPITAL

As at the end of 2019, the Group's working capital (i.e. current assets net of current liabilities) was RMB22,569 million, representing an increase of RMB786 million from RMB21,783 million at the end of 2018. The increase in working capital was mainly due to the expansion of the Group's business and effective fund management which led to an increase in operating cash flow and current assets.

ASSETS AND LIABILITIES

The Group continued to maintain its solid financial position. As at the end of 2019, the Group's total assets was RMB87,541 million, representing an increase of RMB6,615 million from RMB80,926 million in 2018. Total liabilities was RMB52,503 million, representing an increase of RMB4,406 million from RMB48,097 million in 2018. The liabilities-to-assets ratio was 60.0%, which was slightly higher than 59.4% at the end of 2018.

As at the end of 2019, right-of-use assets amounting to RMB1,896 million were included in non-current assets upon the application of IFRS 16 (Leases) by the Group, among which, leased buildings, motor vehicles and other equipment amounted to RMB1,024 million and leasehold lands amounted to RMB872 million. As at the end of 2018, leasehold lands amounting to RMB723 million were classified as lease prepayments.

As at the end of 2019, current portion of lease liabilities of RMB343 million and lease liabilities of RMB690 million were included in current liabilities and non-current liabilities, respectively, upon the application of IFRS 16 (Leases) by the Group. According to the liquidity, lease liabilities were classified as current and non-current.

INDEBTEDNESS

As at the end of 2019, total indebtedness of the Group was RMB511 million, representing an increase of RMB40 million from RMB471 million as at the end of 2018. Indebtedness of the Group was mainly denominated in US dollar, of which Renminbi loan accounted for 2.6% and US dollar loan accounted for 68.6%; and of which 24.9% was the loans with a fixed interest rate and 75.1% was those with a floating interest rate.

As at the end of 2019, our gearing ratio[7] was 1.5%, which remained at approximately the same level of 1.4% as at the end of 2018.

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.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

CONTRACTUAL OBLIGATIONS

The following table sets out our contractual commitments as at 31 December 2019:

	Total RMB'000	2020 RMB'000	2021 RMB'000	2022 RMB'000	2023 RMB'000	2024 and after RMB'000
Short-term debt	511,234	511,234	–	–	–	–
Long-term debt	–	–	–	–	–	–
Lease commitments	1,519,118	601,725	336,263	163,993	131,018	286,119
Contracted for but not provided capital commitments	543,676	543,676	–	–	–	–
Total of contractual obligations	2,574,028	1,656,635	336,263	163,993	131,018	286,119

EXCHANGE RATE

Most of the Group's revenues and expenses are denominated in Renminbi. As at the end of 2019, the balance of the Group's cash and cash equivalents in foreign currencies accounted for 4.2% of the balance of its total cash and cash equivalents, of which 2.3% and 0.3% were denominated in US dollars and Hong Kong dollars, respectively.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

HONORARY CHAIRMAN

Mr. WANG Xiaochu

age 61, 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. ZHANG Zhiyong

age 54, is the Chairman of our Board of Directors and an Executive Director of our Company in charge of our overall management. Mr. Zhang is also the Vice President of China Telecommunications Corporation, an Executive Vice President of China Telecom Corporation Limited and a Non-Executive Director of China Tower Corporation Limited. Mr. Zhang is a senior engineer and received a bachelor degree in Radio Engineering from the Changchun Institute of Posts and Telecommunications in 1986, a master degree in Control Engineering from the Yanshan University in 2002 and a master of management degree from the BI Norwegian School of Management in 2005. Mr. Zhang previously worked as the General Manager of Beijing branch of China Telecom Corporation Limited, the General Manager of Xinjiang branch of China Telecom Corporation Limited, the Managing Director of the Sideline Industrial Management Department of China Telecommunications Corporation, and also the President and an Executive Director of our Company. Mr. Zhang has over 30 years of operational and management experience in the telecommunications industry in China.

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

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. SI Furong

age 59, 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 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 and a Director of China Tower Corporation Limited. Prior to joining China Telecommunications Corporation, Mr. Si was the Deputy Director of the Personnel Department of the Ministry of Information Industry. Mr. Si has over 30 years of operational and management experience in the telecommunications industry in China.

Ms. ZHANG Xu

age 50, is an Executive Director, Executive Vice President and Chief Financial Officer of our Company. Ms. Zhang graduated from Beijing University of Posts and Telecommunications in 1992 with a bachelor degree in posts and telecommunications management engineering, and she also received a master degree in international commence from The University of New South Wales in 2003. Prior to joining the Company, Ms. Zhang was Divisional Director of General Finance Division of China Telecommunications Corporation's Finance Department. Prior to that, Ms. Zhang served as Divisional Director of Treasury Division of China Telecommunications Corporation's Finance Department, a Director and Vice President of China Telecom (Hong Kong) International Limited and Divisional Director of Headquarter Finance and Accounting Division of China Telecommunications Corporation's Finance Department. Ms. Zhang has over 20 years of experience in telecommunications industry and financial management.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. SIU Wai Keung, Francis

age 66, 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, and also the Non-Executive Director of the Financial Reporting Council. 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 65, 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 Ecommerce 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. ,Shenzhen Aisidi Co., Ltd. and China Satellite Communications 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.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. WU Taishi

age 73, 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 used to serve as an External Director of China Energy Conservation and Environmental Protection Group and China Shipbuilding Industry Corporation, 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, an Independent Non-executive Director of China Railway Construction Corporation Limited and an Independent Director of Power Construction Corporation of China, Ltd. Mr. Wu has extensive experience in financial management.

Mr. LIU Linfei

age 63, 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 and mergers and acquisitions.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

Ms. HAN Fang

age 47, is the Chairperson of our Supervisory Committee. Ms. Han is the Vice President of the Audit Department of China Telecommunications Corporation. Ms. Han graduated from the Beijing University of Posts and Telecommunications with a bachelor's degree in engineering management in 1995. She obtained a master degree in business administration at the Norwegian School of Management in 2007. Ms. Han is an international internal auditor, a qualified accountant in PRC and a senior accountant. She worked as a Supervisor of the Supervisory Committee of China Telecom Corporation Limited, the Chief Accountant of China Telecom Global Limited and a Divisional Director of the General Audit Division of China Telecommunications Corporation's Audit Department. Ms. Han has over 20 years of finance and audit experience in the telecommunications industry.

Mr. HAI Liancheng

age 75, 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.. Since Mr. Han retired in January 2006, he served as 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.

Mr. SI Jianfei

age 57, is an Employee Representative Supervisor and senior manager of the Company. Prior to that, Mr. Si was the Director of the General Manager's Office and Office of Board of Directors of the Company and concurrently served as the General Manager of Beijing Hongxiang Hotel. Mr. Si graduated from University of International Business and Economics in 2002 with an MBA degree. Mr. Si joined the Sideline Industrial Management Department of China Telecommunications Corporation in 2003 and served as the Divisional Director of the General Management Division. Prior to that, Mr. Si was the Deputy Director of Corporate Affairs Department of China Telecom Corporation Limited Xinjiang Branch. Mr. Si has over 20 years working experiences in the telecommunications industry.

MANAGEMENT

Mr. ZHANG Zhiyong

(Please refer to the "Executive Directors" section)

Mr. SI Furong

(Please refer to the "Executive Directors" section)

Ms. ZHANG Xu

(Please refer to the "Executive Directors" section)

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. XU Chuguo

age 56, is an Executive Vice President of our Company. Mr. Xu is a professor-level senior engineer. Mr. Xu is a director and the General Manager of China Communications Services International Limited, a wholly-owned subsidiary of the Company. Mr. Xu graduated from Chongqing University of Posts and Telecommunications in 1987 with a bachelor degree in telecommunications engineering and received an EMBA degree from Peking University Guanghua School of Management in 2006. Mr. Xu previously served as the Director of The 3rd Engineering Bureau and the Deputy General Manager of the predecessor of China International Telecommunications Construction Corporation, the General Manager of China International Telecommunications Construction Corporation (a wholly-owned subsidiary of the Company). Mr. Xu has over 30 years of market development, operational and managerial experience in domestic and overseas telecommunications industry.

Mr. LIANG Shiping

age 50, is an Executive Vice President of our Company. Mr. Liang joined the Company in August 2008 and served as Director of the Marketing Department of the Company. Mr. Liang received a bachelor's degree in Computer Engineering from the Computer Science Department of Jilin University in 1992 and master's degree in Computer Application from the Sixth Research Institute of the Ministry of Machinery and Electronics Industry in 1996. Prior to joining the Company, Mr. Liang served at the Data Communication Bureau of the Ministry of Posts and Telecommunications, the Multimedia Bureau of the Telecom Administration of the Ministry of Posts and Telecommunications and the Technology Development Department of China Telecom Data Communication Bureau. From October 2000 to August 2008, Mr. Liang served as a Divisional Director of the Planning Division of the Data Communication Bureau and the Application Development Division of the Corporate Informatization Department of China Telecommunications Corporation. Mr. Liang has over 20 years of experience in telecommunications and IT industry.

Mr. YAN Dong

age 48, 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 46, is the Company Secretary and Deputy Chief Financial Officer of our Company. Mr. Chung graduated from Melbourne University, Australia in 1996, with a bachelor of commerce degree and received a master's degree in business administration from the Australian Graduate School of Management in 2005. Mr. Chung is a member of the Hong Kong Institute of Certified Public Accountants and the CPA Australia. Mr. Chung previously worked in an international accounting firm, China Mobile Limited and China Telecom Corporation Limited, and has over 20 years of extensive experience in auditing, company secretary and financial management of listed companies.

REPORT OF THE DIRECTORS

The board of directors (the "Board") of China Communications Services Corporation Limited (the "Company") is pleased to present the Report of the Directors of the Company, together with the audited financial statements of the Company and its subsidiaries (the "Group") prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2019.

PRINCIPAL BUSINESSES

The Group is a leading service provider in the informatization sector in the PRC, positioned as "New Generation Integrated Smart Service Provider", which provides integrated comprehensive smart solutions in the field of informatization and digitalization. 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 ("property management"), supply chain and products distribution; and applications, content and other services, including system integration, software development and system support, and value-added services. The major customers of the Group include domestic telecommunications operator customers, domestic non-telecom operator customers such as government agencies, industrial customers and small and medium enterprises, and overseas customers.

RESULTS

Results of the Group for the year ended 31 December 2019 and the financial position of the Group as at that date are set out in the audited financial statements on page 134 to page 234 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 2019, 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 RMB0.1321 per share and a special dividend of RMB0.0264 per share, and the total dividend is RMB0.1585 per share (pre-tax) for the year ended 31 December 2019. The dividend proposal will be submitted for consideration at the annual general meeting to be held on 15 June 2020 (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 Stock Exchange of Hong Kong Limited (the "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, 14 August 2020 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 184 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 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 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.

REPORT OF THE DIRECTORS

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
Zhang Zhiyong	Chairman Executive Director	16 March 2018 16 March 2018[2]
Si Furong	Executive Director President	21 February 2014 19 December 2013
Zhang Xu	Executive Director Chief Financial Officer Executive Vice President	13 December 2018 14 November 2018 14 November 2018
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
Xu Chuguo	Executive Vice President	21 July 2014
Liang Shiping	Executive Vice President	3 March 2010
Yan Dong	Executive Vice President Chief Risk Officer	18 June 2013
Chung Wai Cheung, Terence	Company Secretary Deputy Chief Financial Officer	16 October 2006

On 20 March 2020, Mr. Li Zhengmao and Mr. Shao Guanglu both resigned as a non-executive director of the Company.

Note:

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

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

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.

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

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

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

REPORT OF THE DIRECTORS

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

As at 31 December 2019, the share capital of the Company was RMB6,926,018,400 divided into 6,926,018,400 shares with a nominal value of RMB1.00 each. The share capital of the Company was comprised of the following:

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

REPORT OF THE DIRECTORS

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

As at 31 December 2019, the interests or short positions of persons who at any of the Company's general meetings (excluding the directors and supervisors of the Company) are entitled to exercise or control the exercise of 5% or more of the voting power in the shares and underlying shares of equity derivatives of the Company in each class as recorded in the register required to be maintained under Section 336 of the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong) (the "SFO") were as follows:

Name of shareholder	Class of shares	Capacity	Number of shares held	Percentage of the respective class of share (%)	Percentage of the total number of shares in issue (%)
China Telecommunications Corporation	Domestic shares	Beneficial owner	3,559,362,496 (L)	78.49	51.39
China Mobile Communications Group Co., Ltd.	Domestic shares	Beneficial owner	608,256,000 (L)	13.41	8.78
China United Network Communications Group Company Limited	Domestic shares	Beneficial owner	236,300,000 (L)	5.21	3.41
Hermes Investment Management Ltd	H shares	Investment manager	237,844,000 (L)	9.95	3.43
Citigroup Inc.	H shares	2,278,674 shares as interests of controlled corporations and 215,637,725 shares as approved lending agent	217,916,399 (L)	9.11	3.15
	H shares	Interests of controlled corporations	808,000 (S)	0.03	0.01
	H shares	Approved lending agent	215,637,725 (P)	9.01	3.11
BlackRock, Inc.	H shares	Interests of controlled corporations	191,233,557 (L)	7.99	2.76
	H shares	Interests of controlled corporations	224,000 (S)	0.01	0.00

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

Save as stated above, as at 31 December 2019, in the register required to be maintained under Section 336 of the SFO, no other persons were recorded as holding any interests or short positions in the shares or underlying shares of the equity derivatives of the Company.

REPORT OF THE DIRECTORS

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

As at 31 December 2019, 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 2019, 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.

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. 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).

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 2019 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 45 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 2019.

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 2019.

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 235 to 236 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 2019.

BANK LOANS AND OTHER BORROWINGS

Please refer to note 34 to the audited financial statements for details of bank loans and other borrowings of the Group as at 31 December 2019.

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 2019.

DISTRIBUTABLE RESERVES

Please refer to note 48 to the audited financial statements for details of the movements in the reserves of the Company for the year ended 31 December 2019.

REPORT OF THE DIRECTORS

DONATIONS

For the year ended 31 December 2019, the Group made charitable and other donations of a total amount of RMB2.43 million.

SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES

Please refer to note 47 and note 23 to the audited financial statements for details of the Company's subsidiaries, the Company's associated companies and joint ventures as at 31 December 2019.

CHANGES IN EQUITY

Please refer to the consolidated statement of changes in equity contained in the audited financial statements (pages 138 to 139 of this annual report).

PLAN OF EMPLOYEES' RETIREMENT BENEFITS

Please refer to note 41 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) of the Group represented 62.0% of the total revenues of the Group; of which, the revenue from the largest customer of the Group represented 34.6% of the total revenues of the Group. The purchases from the five largest suppliers of the Group accounted for less than 2.6% 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), Mr. Zhang Zhiyong and Mr. Si Furong (positions of them setting out in the "Profiles of Directors, Supervisors and Senior Management" section of this annual report), none of the directors of the Company, their close associates, or any shareholder (holding more than 5% of the issued share capital of the Company) has any interests in such suppliers or customers.

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

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

1 on condition that it will not result in a breach by China Telecom and the Company of the Non-Competition Agreement signed between them, when China Tower invites public tender for the design, construction, supervision and maintenance of its telecommunications towers and related ancillary facilities, China Tower will select the Company on a preferential basis, provided that the terms are the same;

2. in the event of an injection of telecommunications assets into China Tower (acquisition by China Tower), the existing maintenance agreements entered into between the Company and the respective promoters of China Tower will remain valid. Upon the expiration of such maintenance agreements and when China Tower invites tender for the maintenance services, China Tower will consider the Company on a preferential basis, provided that the terms are the same; and

3. China Tower will not compete in contravention of the contents of the Non-Competition Agreement.

CONTINUING CONNECTED TRANSACTIONS

China Telecom is the controlling shareholder of the Company. Pursuant to Chapter 14A of the Listing Rules, the transactions between the Group and China Telecom and its subsidiaries (excluding the Group and including China Telecom Corporation Limited, collectively the "China Telecom Group") constitute connected transactions of the Group. The Group has entered into several connected transaction agreements with certain connected persons of the Group as described in the paragraphs below. The Company has complied with the disclosure requirements of the connected transactions under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS 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 no 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.

On 28 September 2018, the Company based on the 2015 Agreements and entered into supplemental agreements with China Telecom in respect of the aforementioned seven agreements (the "2018 Supplemental Agreements") to, among other things, renew each of the 2015 Agreements for a further term of three years from 1 January 2019 to 31 December 2021, change contact information of China Telecom and adjust the terms related to tender process of the Engineering Framework Agreement pursuant to the applicable PRC regulations. Other key terms of each of the 2015 Agreements remain unchanged.

REPORT OF THE DIRECTORS

Subject to approval from the shareholders (if applicable), the aforementioned seven amended continuing connected transactions agreements will be automatically renewed for a further period of no more than three years each time, unless terminated by either party by giving a written notice three months in advance. In connection with the entering into the 2018 Supplemental Agreements, the Company also set new annual caps for the three years ending 31 December 2021 in respect of the transactions contemplated under the seven continuing connected transactions agreements. The 2018 Supplemental Agreements and the new annual caps (excluding the new annual caps for the Property Leasing Framework Agreement and Centralized Services Agreement that did not require any independent shareholders' approval under the Listing Rules) were approved by the independent shareholders of the Company at the extraordinary general meeting held on 13 December 2018.

The Board considers that it is in the interest of the Company to enter into the 2018 Supplemental 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 2018 Supplemental Agreements are set out below.

ENGINEERING FRAMEWORK AGREEMENT AND SUPPLEMENTAL 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 market price or prices obtained through tender process. According to the supplemental agreement to the Engineering Framework Agreement entered into between the Company and China Telecom, the parties amended the thresholds which the project must be determined through tender process under the Engineering Framework Agreement: whenever the value of any design or project supervision and management project exceeds RMB1 million, or the value of any construction project exceeds RMB4 million, the award of the relevant project 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. The amendments were made in accordance with the Provisions on Projects Subject to Tender Process issued under the Order No. 16 of the National Development and Reform Commission of the PRC in March 2018, which increased (i) the threshold for design or project supervision and management projects that must be determined through tender process from RMB0.5 million to RMB1 million, and (ii) the threshold for construction project that must be determined through tender process from RMB2 million to RMB4 million. China Telecom Group (including the Group) has also adjusted the internal guidelines and increased such thresholds accordingly.

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. 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. The payment for engineering related services provided by the Company under the Engineering Framework Agreement is normally made in accordance with the work progress of practical work following the general market practice in the industry.

ANCILLARY TELECOMMUNICATIONS SERVICES FRAMEWORK AGREEMENT AND SUPPLEMENTAL 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, server 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 electronic authentication.

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. 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;

(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 costs and profits, the business and financial departments of the relevant subsidiary of the Company will (i) review and compare the costs and profit margins of similar and comparable transactions conducted in the most recent year entered into with China Telecom Group or independent third parties, or (ii) where such comparison is not practicable, consider for reference the recent profit margins of comparable enterprises engaging in providing similar services in the relevant industry. Factors considered would also include, but not limited to, the scale of the comparable enterprises, quality of services, transaction size, supply and demand, labor cost, local commodity prices and economic development levels.

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. 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. Subject to the terms and conditions set out above, the payment for the ancillary telecommunications services is made in the manner provided for in each specific contract entered into between the parties with reference to the market practices.

REPORT OF THE DIRECTORS

OPERATION SUPPORT SERVICES FRAMEWORK AGREEMENT AND SUPPLEMENTAL AGREEMENT

The Operation Support Services Framework Agreement governs the arrangements between the Group and China Telecom Group with respect to mutual provision of operation support services. Pursuant to this 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. Subject to the terms and conditions set out above, the payment for the operation support services is made in the manner provided for in each specific contract entered into between the parties with reference to the market practices.

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 AND SUPPLEMENTAL AGREEMENT

The IT Application Services Framework Agreement governs the arrangements between the Group and China Telecom Group with respect to mutual provision of IT application services. Pursuant to this 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. Subject to the terms and conditions set out above, the payment for the IT application service is made in the manner provided for in each specific contract entered into between the parties with reference to the market practices.

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 AND SUPPLEMENTAL 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 AND SUPPLEMENTAL AGREEMENT

The Property Leasing Framework Agreement governs the arrangements with respect to the mutual leasing of properties between the Group and China Telecom Group. China Telecom Group currently lease 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 lease 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.

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. 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 independent third parties 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. Both parties will review the rental every three years and decide, after negotiation, on whether to adjust the rental charges and the amount of such adjustment.

SUPPLIES PROCUREMENT SERVICES FRAMEWORK AGREEMENT AND SUPPLEMENTAL 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;

(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. 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;

(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, 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.

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.

CONTINUING CONNECTED TRANSACTIONS BETWEEN THE COMPANY AND CHINA TELECOM GROUP FINANCE CO., LTD. ("CHINA TELECOM FINANCE")

On 1 February 2019, the Company and China Telecom Finance entered into the Financial Services Framework Agreement ("Financial Services Framework Agreement"). The Financial Services Framework Agreement was with effect from 1 February 2019 until 31 December 2021. Subject to the compliance with relevant laws and regulations and relevant regulatory requirements, both parties shall negotiate and agree on the renewal arrangement. Upon the Financial Services Framework Agreement becoming effective, each of the services under the Financial Services Framework Agreement, except the deposit services, can be provided by China Telecom Finance to the Group immediately in accordance with the business scope of China Telecom Finance as approved by the China Banking and Insurance Regulatory Committee ("CBIRC"). The deposit services under the Financial Services Framework Agreement and the annual cap were approved by the independent shareholders of the Company at the extraordinary general meeting held on 18 April 2019.

China Telecom Finance was jointly established by China Telecom, China Telecom Corporation Limited ("China Telecom Corporation") and the Company, representing 15%, 70% and 15% of the total registered capital of China Telecom Finance, respectively. Given China Telecom is the controlling shareholder of the Company, China Telecom Corporation is a subsidiary of China Telecom, and thus China Telecom Finance is a connected person of the Company under Chapter 14A of the Listing Rules as an associate of the Company's substantial shareholder. Accordingly, the transaction under the Financial Services Framework Agreement constitutes a continuing connected transaction of the Company. Details of the Financial Services Framework Agreements are set out below.

FINANCIAL SERVICES FRAMEWORK AGREEMENT

Pursuant to the Financial Services Framework Agreement, China Telecom Finance has agreed to provide financial services to the Group, including deposit services, loan services and other financial services. The Group and China Telecom Finance will cooperate on a non-exclusive basis, and the Group may select at its discretion other financial institutions to provide the relevant financial services. The terms of the financial services offered to the Group by China Telecom Finance shall be equivalent to or more favorable than those offered to the Group by the major cooperative commercial banks of the Group for the financial services in the same period and of the same type. China Telecom Finance shall provide the following financial services to the Group in accordance with the major terms set out above, with relevant pricing policies as below:

(i) Deposit Services

The deposit interest rates offered by China Telecom Finance to the Group shall comply with the relevant requirements of the People's Bank of China and be with reference to the deposit benchmark interest rates promulgated by the People's Bank of China from time to time (if any) and the deposit interest rates offered by the major cooperative commercial banks of the Group for the deposit services in the same period and of the same type, and the deposit services shall be conducted on normal commercial terms or better. The deposit interest rates offered by China Telecom Finance shall be equivalent to or higher than those provided by the major cooperative commercial banks of the Group. Under the same conditions, the interest rates of the deposits services provided by China Telecom Finance to the Group shall be the same as those offered by China Telecom Finance to other member companies of China Telecom for the deposit services in the same period and of the same type.

REPORT OF THE DIRECTORS

(ii) Loan Services

The loan interest rates offered by China Telecom Finance to the Group shall comply with the relevant requirements of the People's Bank of China and be with reference to the loan benchmark interest rates promulgated by the People's Bank of China from time to time (if any) and the loan interest rates offered by the major cooperative commercial banks of the Group for the loan services in the same period and of the same type, and the loan services shall be conducted on normal commercial terms or better. The loan interest rates offered by China Telecom Finance shall be equivalent to or lower than those provided by the major cooperative commercial banks of the Group. Under the same conditions, the interest rates of the loan services provided by China Telecom Finance to the Group shall be the same as those offered by China Telecom Finance to other member companies of China Telecom for the loan services in the same period and of the same type. The Group will not be required by China Telecom Finance to provide guarantee by any of the Group's assets or through other means for the loan services provided to the Group.

(iii) Other Financial Services

China Telecom Finance will provide financial services (other than deposit and loan services) including financial and financing advice, credit authentication, guarantees, bill acceptance and discounting, fund transfer and settlement and designs of relevant settlement and clearance arrangement to the Group under the Financial Services Framework Agreement. The fees charged for providing the other financial services mentioned above by China Telecom Finance to the Group shall comply with the fees standard promulgated by regulatory authorities including the People's Bank of China or the CBIRC (if applicable), and with reference to the handling fees standard charged by the major cooperative commercial banks of the Group for the other financial services of the same type, and the other financial services shall be conducted on normal commercial terms or better. The handling fees standard shall be equivalent to or lower than those charged by the major cooperative commercial banks of the Group. Under the same conditions, the fees standard charged to the Group by China Telecom Finance shall be the same as those charged to other member companies of China Telecom by China Telecom Finance for the other financial services of the same type.

For each of the specific transactions with China Telecom Finance under the Financial Services Framework Agreement, China Telecom Finance has been appointed as one of the financial institutions to provide financial services to the Group under the terms and conditions of the Financial Services Framework Agreement. Prior to entering into any specific agreements with China Telecom Finance in respect of the transactions under the Financial Service Framework Agreement, the Group will compare the rates or fees and the other relevant transaction terms (e.g. transaction approval conditions, procedures or time limit) offered by China Telecom Finance with those offered by the major cooperative commercial banks of the Group for the deposits, loans or other financial services in the same period and of the same type. Only when the rates or fees or the other relevant transaction terms offered by China Telecom Finance are equivalent to or more favorable than those offered by the major cooperative commercial banks of the Group, the Group may enter into transactions with China Telecom Finance at its discretion. Under the circumstances which the Group considers appropriate, the Group may engage additional or other financial institutions other than China Telecom Finance to provide financial services.

REPORT OF THE DIRECTORS

The following table sets out the annual caps and actual amounts of the above-mentioned continuing connected transactions of the Group during the year ended 31 December 2019:

Unit: RMB million

	Year ended 31 December 2019 Annual Caps	Year ended 31 December 2019 Actual Amounts	Year ending 31 December 2020 Annual Caps	Year ending 31 December 2021 Annual Caps
Transactions with China Telecom				
Engineering related services provided to China Telecom Group	26,000	16,386	33,000	35,000
Ancillary telecommunications services provided to China Telecom Group	20,000	14,758	24,000	27,000
Operations support service provided to/by China Telecom Group				
Revenue	3,800	3,568	4,000	4,200
Expenditure	1,600	736	2,000	2,400
IT application services provided to/by China Telecom Group				
Revenue	3,600	3,095	4,300	5,000
Expenditure	500	154	500	500
Centralized services provided to China Telecom Group	450	370	450	450
Property leasing provided to/by China Telecom Group				
Revenue	230	129	240	250
Expenditure	270	203	300	330
Supplies procurement services provided to/by China Telecom Group				
Revenue	6,000	2,697	6,500	7,000
Expenditure	5,000	1,121	5,200	5,400
Transactions with China Telecom Finance				
Maximum daily balance of deposits under the deposit services provided by China Telecom Finance (including the interest accrued thereon)	7,500	2,148	8,000	8,500

REPORT OF THE DIRECTORS

The independent non-executive directors of the Company have confirmed that all the continuing connected transactions for the year ended 31 December 2019 to which the Group was a party:

1. had been entered into by the Group in the ordinary and usual course of business;

2. had been entered into on normal commercial terms or better; and

3. had been entered into according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The independent non-executive directors have further confirmed that:

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

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

1. nothing has come to their attention that causes them to believe that the continuing connected transactions disclosed above have not been approved by the Board;

2. for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company;

3. nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions;

4. with respect to the actual amount of each 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.

Save as disclosed above, none of other related-party transactions set out in the note 45 of the consolidated financial statements constitute connected transactions or continuing connected transactions that are required to be disclosed under the Listing Rules.

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

Except for the disclosure in this annual report, as at 31 December 2019, 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.

EVENT AFTER THE REPORTING PERIOD

As most of the Group's operations are located in China, the outbreak of the 2019 Novel Coronavirus ("COVID-19") in China and the subsequent quarantine measures imposed by the Chinese government, the Group complied with government policy guidelines and stopped certain of its operation activities, which have had an impact on the Group's business to a certain extent. With the adjustment of government quarantine measures, the Group had resumed operation activities successively since March 2020.

The Group will keep continuous attention on the developments of and changes in this situation, timely assess and actively respond to its impacts on the financial position, operating results and other aspects of the Group.

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, or causes the Group could not carry out and deliver its businesses normally, 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.

REPORT OF THE DIRECTORS

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 2019. 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 2020 will be proposed at the upcoming AGM.

By order of the Board
Zhang Zhiyong
Chairman

Beijing, PRC
31 March 2020

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. At the first meeting of the fifth session of the Supervisory Committee convened on 23 March 2019, we reviewed and approved proposals such as the Company's 2018 financial report, profit allocation and dividend distribution plan, auditors' report issued by the external auditors, the Company's work report on internal control for 2018 and work plan for 2019, the work report of the Supervisory Committee for 2018 and the work plan of the Supervisory Committee for 2019 and formed resolutions. At the second meeting of the fifth session of the Supervisory Committee convened on 23 August 2019, we reviewed and approved proposals such as the Unaudited Interim Financial Report for 2019, the Report on the Review of the Interim Financial Report for 2019 issued by the external auditors and the internal control work report for the first half of 2019 and work plan for the second half and formed resolutions. The meetings of the Supervisory Committee provided management suggestions to the continuous enhancement of internal management and risk prevention of the Group. During the reporting period, the members of the Supervisory Committee attended the board meetings for 2019, 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.

The Supervisory Committee is of the opinion that during the reporting period, the Company continued to innovate and transform and allocate resources pursuant to the needs of the markets, strengthened corporate governance and fulfilled social responsibilities. In 2019, the Company's total revenues amounted to RMB117,413 million and net profit amounted to RMB3,049 million, which reached a record high.

The Supervisory Committee is of the opinion that, in 2019, all members of the Board and senior management of the Company 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 2019 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 2020, 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
27 March 2020

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 joint stock limited company incorporated in the PRC with limited liability and listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company has not only complied with the relevant provisions of the 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 basic 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 2019, the Company was awarded "The Best of Asia — Icon on Corporate Governance" and "Asian Corporate Director" by *Corporate Governance Asia*. Moreover, the Company was also awarded the "Gold Award — Corporate Governance, Social Responsibility and Investor Relations" by *The Asset*.

Throughout the year ended 31 December 2019, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

CORPORATE GOVERNANCE REPORT

CORPORATE STRUCTURE OF THE COMPANY

CORPORATE GOVERNANCE REPORT

GENERAL MEETING

Pursuant to the Company's Articles of Association, the general meetings are classified as annual general meeting (the "AGM") and extraordinary general meeting (the "EGM"). The AGM is convened once a year and within six months after the end of a financial year. A resolution will be proposed for consideration in respect of each independent matter. The details of the voting procedures will be set out in the notices of the general meetings in accordance with the provisions of the Articles of Association and the Listing Rules. In accordance with the Listing Rules, all the resolutions were voted by poll in the general meeting held in 2019.

For the EGM of 2019, a physical meeting was held in Beijing on 18 April 2019, at which the resolution regarding the non-exempt continuing connected transactions and proposed annual caps under the Financial Services Framework Agreement entered into between the Company and China Telecom Group Finance Co., Ltd. were considered and approved. Pursuant to Chapter 14A of the Listing Rules, China Telecom, being a connected person to the Company, abstained from voting on the resolution related to the connected transactions. Shareholders and authorized proxies representing 76.96% of the total voting shares of the Company were present at the EGM, and the percentage of votes cast in favour of that resolution was 68.48%.

For the 2018 AGM, a physical meeting was held in Beijing on 21 June 2019, at which the resolutions, including the 2018 financial statements, profit distribution proposal and dividend declaration proposal, appointment of auditors, report of the Directors, and report of the Supervisory Committee were considered and approved. Shareholders and authorized proxies representing 87.04% of the total voting shares of the Company were present at the AGM, and the percentage of votes cast in favour of each resolution was over 78%.

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

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

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

(1) Two (2) or more shareholders holding in aggregate 10% or more of the shares carrying the right to vote at the meeting sought to be held shall sign one (1) or more counterpart requisition(s) stating the object of the meeting and requiring the Board to convene an extraordinary general meeting or a class meeting thereof. The Board shall as soon as possible proceed to convene an extraordinary general meeting or a class meeting thereof after receipt of such requisition(s). The amount of shareholdings referred to above shall be calculated as at the date of deposit of the requisition(s).

(2) If the Board fails to issue a notice of such a meeting within thirty (30) days from the date of receipt of the requisition(s), the requisitionists may themselves convene such a meeting (in a manner as similar as possible to the manner in which general meetings are convened by the Board) within four (4) months from the date of receipt of the requisition(s) by the Board.

CORPORATE GOVERNANCE REPORT

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), roadshows and daily meetings. The above arrangements enable shareholders and investors keep abreast of the latest operating status and development prospects of the Company, and also enable the Company to get different opinions from the market in an effective and timely way. The details of the communication with the shareholders are set out in the section of "Investor Relations" of this annual report and the website of the Company.

BOARD OF DIRECTORS

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

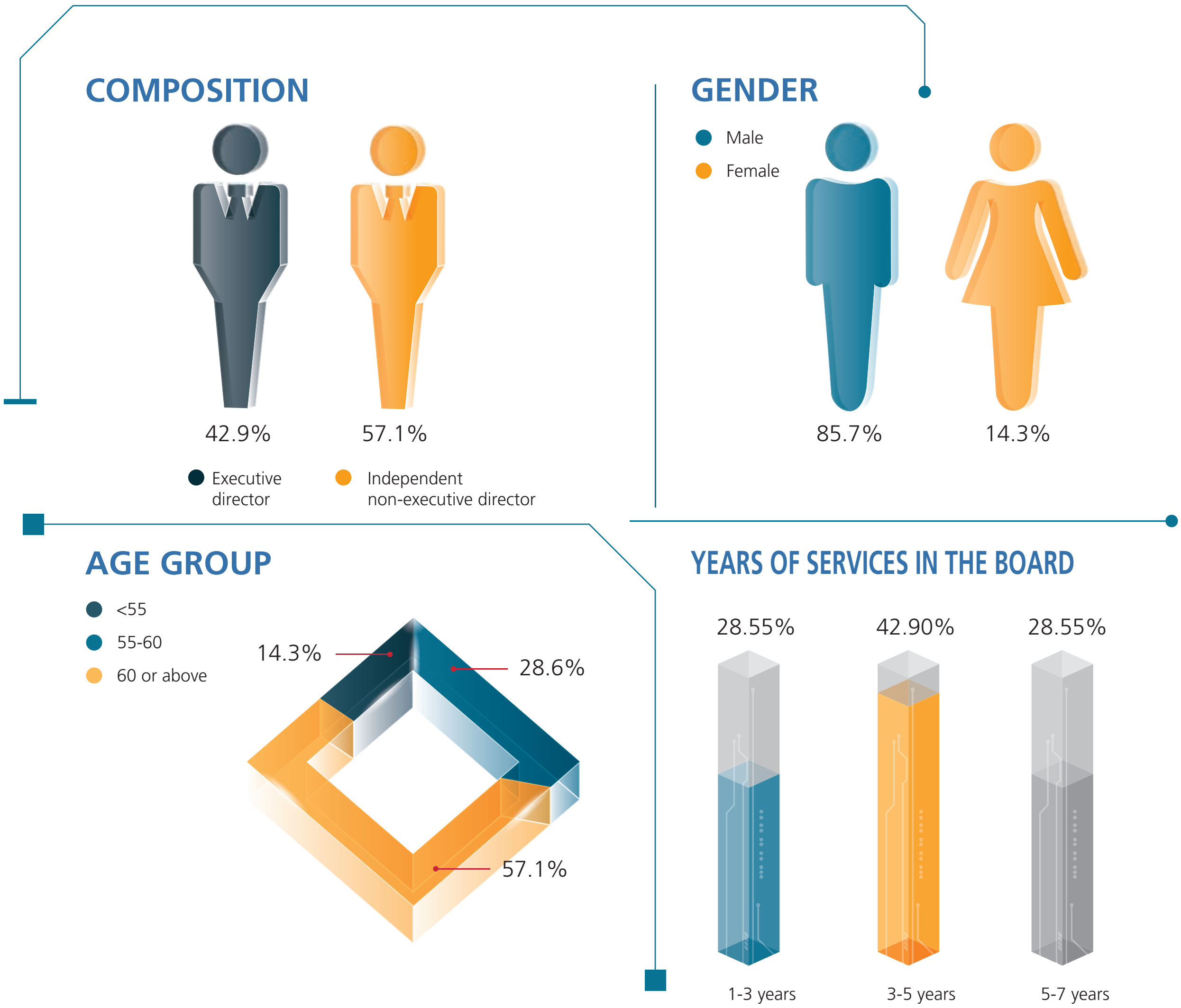
CHAIRMAN AND PRESIDENT

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

CORPORATE GOVERNANCE REPORT

COMPOSITION OF THE BOARD AND DIVERSITY POLICY

As of the date of this report, the Board comprised seven directors, including three executive directors (Mr. Zhang Zhiyong, Mr. Si Furong and Ms. Zhang Xu), and four independent non-executive directors (Mr. Siu Wai Keung, Francis, Mr. Lv Tingjie, Mr. Wu Taishi and Mr. Liu Linfei).



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, which is in line with the Company's board diversity policy. The Nomination Committee of the Board will also review the Board structure at least annually. The Board has four 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.

CORPORATE GOVERNANCE REPORT

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.

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 based on 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.

The term of office of the Board members of the Company are three years, commencing from the EGM held on 13 December 2018 approving the fifth session of the Board. 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.

CORPORATE GOVERNANCE REPORT

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 2019, the Board held four meetings. In addition to general matters such as review of the annual and interim financial statements, dividend distribution, Corporate Governance Report, ESG Report and budget, the Board also considered the resolutions regarding to amendment of the Audit Committee Charter, the non-exempt continuing connected transactions under the Financial Services Framework Agreement entered into between the Company and China Telecom Group Finance Co., Ltd, set up of the Strategy Committee and the high-quality development plan for a hundred-billion enterprise of the Group. For the resolutions such as the continuing connected transactions and the proposed annual caps, directors with conflict of interests abstained from voting.

In 2019, the Chairman of the Company had a meeting with the independent non-executive directors without the presence of other directors.

The attendance record of the Company's directors in Board meetings, board committee meetings and general meeting(s) in 2019 were as follows:

	Attendance in 2019/Meeting convened during period of appointment						
	Board of Directors	Strategy Committee	Audit Committee	Non-competition Undertaking Review Committee	Independent Board Committee	AGM	EGM
Executive Directors							
Zhang Zhiyong	4/4[1]	1/1	–	–	–	1/1	1/1
Si Furong	4/4	1/1	–	–	–	1/1	1/1
Zhang Xu	4/4[2]	–	–	–	–	1/1	1/1
Independent Non-executive Directors							
Siu Wai Keung, Francis	4/4	–	2/2	2/2	1/1	1/1	1/1
Lv Tingjie	4/4[3]	1/1	2/2[3]	2/2[3]	1/1	0/1	0/1
Wu Taishi	4/4	–	–	–	1/1	1/1	1/1
Liu Linfei	4/4	–	2/2	2/2	1/1	1/1	1/1
Resigned Directors							
Li Zhengmao[4]	4/4[5]	1/1	–	–	–	0/1	0/1
Shao Guanglu[6]	4/4[7]	1/1[8]	–	–	–	0/1	0/1

Notes:
(1) Mr. Zhang Zhiyong appointed another director to attend one meeting.
(2) Ms. Zhang Xu appointed another director to attend one meeting.
(3) Mr. Lv Tingjie appointed another director to attend one meeting.
(4) Mr. Li Zhengmao resigned as a non-executive director of the Company on 20 March 2020.
(5) Mr. Li Zhengmao appointed another director to attend two meetings.
(6) Mr. Shao Guanglu resigned as a non-executive director of the Company on 20 March 2020.
(7) Mr. Shao Guanglu appointed another director to attend two meetings.
(8) Mr. Shao Guanglu appointed another director to attend one meeting.

CORPORATE GOVERNANCE REPORT

DIRECTOR'S TRAINING

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

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

In 2019, the training records of the directors of the Company were as follows:

	Attend training and/or seminar relevant to the Company's industry and business, director's duties and/or corporate governance	Give a speech at the meeting relevant to the Company's industry and business, director's duties and/or corporate governance	Read information relevant to the Company's industry and business,director's duties and/or corporate governance; and/or read regular updates issued by the Company
Executive Directors			
Zhang Zhiyong	✓	✓	✓
Si Furong	✓	✓	✓
Zhang Xu	✓	✓	✓
Independent Non-executive Directors			
Siu Wai Keung, Francis	✓	—	✓
Lv Tingjie	—	✓	✓
Wu Taishi	—	—	✓
Liu Linfei	✓	—	✓

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

As an important part of a sound corporate governance practice, the Board has set up five board committees since the listing of the Company: 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 are 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 review and supervision. In August 2019, the Company newly set up a Strategy Committee to further enhance its corporate governance. The list of members of each committee is published on the websites of the Company and the Stock Exchange.

Strategy Committee

During the reporting period, the Strategy Committee is chaired by the Chairman of the Company and consists of five directors, including two executive directors (Mr. Zhang Zhiyong and Mr. Si Furong), the then two non-executive directors (Mr. Li Zhengmao and Mr. Shao Guanglu) and one independent non-executive director (Mr. Lv Tingjie). The Strategy Committee is mainly responsible for studying and making recommendations on the mid-to-long-term plan for development strategy, operating objectives and development direction of the Group. Meeting(s) shall be held at least once a year or as when necessary according to the Strategy Committee Charter.

In 2019, the Strategy Committee held one meeting and mainly reviewed the resolution of the high-quality development plan for a hundred-billion enterprise of the Group.

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, reviewing the effectiveness of the internal audit 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 2019, the Audit Committee passed one written resolution and held two meetings, and mainly reviewed the resolutions of the amendment of the Audit Committee Charter, the audited financial report of the Company of 2018, interim report of 2019, 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.

CORPORATE GOVERNANCE REPORT

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 2019, the Remuneration Committee did not hold any meeting.

Nomination Committee

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

In 2019, the Nomination Committee passed one written resolution, and mainly reviewed the resolution regarding the structure and composition of the Board.

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 2019, the Non-competition Undertaking Review Committee held two meetings, and mainly reviewed the implementation of the non-competition undertakings by China Telecom, and made 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 2019. 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 2019, the Right of First Refusal and Priority Right Committee did not hold any meeting.

CORPORATE GOVERNANCE REPORT

Independent Board Committee

Pursuant to the relevant requirements under the Listing Rules, a listed company shall establish an Independent Board Committee (which shall consist only of independent non-executive directors) to advise independent shareholders in relation to transactions that are subject to independent shareholder's approval (such as connected transactions) as to whether the terms of the relevant transaction or arrangement are fair and reasonable and whether such a transaction or arrangement is in the interests of the Company and its shareholders as a whole.

The Company held an Independent Board Committee meeting on 1 February 2019, at which all independent non-executive directors of the Company attended. The Independent Board Committee mainly reviewed the resolution regarding the non-exempt continuing connected transactions under the Financial Services Framework Agreement entered into between the Company and China Telecom Group Finance Co., Ltd. and proposed annual caps and made its recommendations to the independent shareholders. Details of this resolution and the Independent Board Committee's recommendation were contained in the circular dispatched to shareholders on 27 February 2019.

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). The term of service of the supervisors are three years, commencing from the EGM on 13 December 2018 approving the fifth session of the Supervisory Committee. The supervisors may serve consecutive terms if re-elected upon the expiry of their terms of service. 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 2019, 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

The Articles of Association of the Company did not have any changes during 2019.

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 2019.

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 seven consecutive years since they were initially appointed at the 2012 annual general meeting on 27 June 2013. The remuneration received by the external auditors for the audit services provided to the Company during the year amounted to RMB34.7 million. No non-audit services were provided to the Company by the external auditors during the year.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

The responsibility statement of Deloitte Touche Tohmatsu, our external auditors, regarding its Independent Auditor's Report on the financial statements of the Group is set out on pages 129 to 133 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

Risk Management and Internal Control System

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

The Company attaches great importance to risk management in the course of its daily operation. With a decade of development since the listing, the Company has established a risk management culture appropriate to its business practices. The Company put in place a set of practicable risk management methods as well as a sound organization structure and management mechanism for risk management, which solidified risk management procedures, enhanced risk management efficiency and basically established a comprehensive risk management mechanism. In 2019, the Company took into account the requirements of Rule C.2 of the Corporate Governance Code of the Stock Exchange and continued to strengthen the identification, classification and assessment and control of risks and closely monitored any possible material risks, without any material risk issue during the year. After strict identification and assessment and analysis of risks, the Company conducted assessment on the potential risks that the Company may be exposed to in 2020, such as market risks and financial risks, and proposed practicable corresponding solutions. The Company formulated the annual risk management report which sets out the risk management work in 2019 and the assessment of material risks and the control plan for 2020.

CORPORATE GOVERNANCE REPORT

Since its listing in 2006, the Company has formulated the internal control manual, internal control assessment rules and other systems based on the COSO internal control framework. Over the years, the Company has striven to improve the systems related to internal control and risk management in light of the changes in internal and external operating environments and business development requirements.

The risk management department of the Company has established an internal audit division, which is responsible for organizing the Company's daily risk management and internal control assessment, and reporting to the Audit Committee and the Board of Directors to ensure that the Board and management maintain and operate a sound risk management and internal control system in accordance with established procedures and standards. In 2019, 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 Company has formulated guidelines on information disclosure management to regulate the disclosure of the periodical result announcements, sensitive information and other important information of the Company and to make proper disclosure in accordance with the requirements of the Stock Exchange. The Company has established a progressive accountability, verification and reviewing system, to ensure the truthfulness, accuracy and timeliness of information disclosure. The Company will appoint external independent advisors, such as legal advisors, for reviewing and verifying when necessary. The Executive Vice President and the Company Secretary of the Company are responsible for coordinating and organizing information disclosure to ensure the compliance of the information disclosure. The Company Secretary is responsible for the daily management of information disclosure, including the disclosure of inside information. The Company also has the Office of the Board to assist in the detailed work regarding information disclosure.

In order to fulfill the requirements of the 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 of Connected Transactions of China Communications Services Corporation Limited". The Company enters into a connected transaction framework agreement with China Telecommunications Corporation and applies for the annual caps of connected transactions every three years. At the end of each year, the Company evaluates the connected transactions entered into in each province in the previous year. In order to ensure the compliance and effective operation of connected transactions on financial services with China Telecom Group Finance Co., Ltd., the Company has formulated the "Administrative Measures of Connected Transactions on Financial Services of China Communications Services Corporation Limited", through transaction verifying mechanism, daily monitoring mechanism, price checking mechanism and contingency planning mechanism, providing safeguards for the internal control of connected transactions on financial services, to ensure compliance with relevant regulatory requirements. The Company develops the monthly budget for deposit services, monitors the total amount of deposits of the provincial companies, and ensures that the caps of connected transactions is not exceeded. In addition, the risk identification and control targets for connected transactions formulated by the Company are set out in the internal control manual. A series of internal control procedures have been established in respect of the submission, confirmation and delivery of budgets for connected transactions, signing and execution of contracts, reconciliation with connected parties, data verification, accounting, verification of information disclosure and information disclosure, and on-going improvements are made to the management process for connected transactions.

Annual Risk Management and Internal Control Assessment

The Company continues to focus on strengthening internal control and risk management and has sound internal control and management systems in place. The main internal control and risk management measures of the Company in 2019 are summarized as below:

In 2019, the internal audit division of the Company took the lead in organizing self-assessment for internal control within the whole Group. During the year, the Company continued its risk-oriented internal control self-assessment, which was organized from top to bottom and under an unified manner. With the changes in the Company's internal and external environments as well as the continuous expansion of its business scale, the Company increased its attention to comprehensive risk management. On the basis of its risk-oriented internal control self-assessment system and a comprehensive assessment, the Company identified the key areas and points to focus on according to the major risks that might be faced by the Company during the year, and effectively and adaptively prepare the list of contents to be addressed for the self-assessment in the year, so as to accomplish a comprehensive and well-targeted inspection and 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, led by the audit division, and organized and coordinated by the relevant departments. With the business departments playing a leading role in dealing with the risk management issues at source, the Company further promoted the effective combination between the self-assessment and daily operation management and ensured the effectiveness of the self-assessment work. The business departments were to decide on the persons responsible, exert themselves as the first line of defense of risk management, and instill the risk prevention awareness into all areas of the Company's operations, so as to enhance the effectiveness of their self-assessment efforts and promote the improvement of their management.

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

In 2019, the Company continued to promote the execution of audit project plan and conduct comprehensive internal audit, strengthened the supervision and inspection on carrying out the state's policies and fulfilling the social responsibilities. The Company made independent and objective supervision and assessment of the operation activities and the appropriateness, compliance and effectiveness of its internal control, with an aim to enhance its operation and create more value for the Company, improve the processes for risk management, control and corporate governance and contribute to the fulfillment of its strategic goals. In light of the requirement on annual key risk control and the characteristics of its operation and management, the internal audit in this year mainly included, among others, economic accountability audit, revenues audit and audit for construction work with focuses on relevant matters such as income and cost accounting, cash management, subcontracting management, and product distribution business management. Upon the request of the management of the Company and in light of the needs of relevant business departments, the internal audit division made use of the data from the audit and the audit outcomes to hold the audit joint meeting, so as to provide advice for the decision-making and operation and management activities of the Company.

CORPORATE GOVERNANCE REPORT

In 2019, focusing on the core businesses and key risks, the Company strengthened the audit supervision of the engineering construction services, promoted the effective implementation of the Company's strategy, improved the risk prevention capability, as well as focusing on the corporate funding security related to key business processes and control points. The Company pushed forward the audit informatization, conducted the system restructuring and standardization on the audit management modules such as planning management, project management, risk standardization and risk pre-warning, thus making meaningful progress in the audit informatization. We improved the audit effectiveness and efficiency through audit informatization and the expansion of the audit scope.

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 2019. 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 2019 to 31 December 2019, which were mainly based on the data provided by the Group and certain large-scale subsidiaries. There is no significant change in the scope of this report from that of the 2018 Environmental, Social and Governance Report. This report has complied with all the "comply or explain" provisions as set out in the Guideline. We did not disclose certain key performance indicators which are required to be disclosed by the Stock Exchange but not directly related to the business of the Group or have minimal influence.

OVERVIEW

The Group is a leading service provider in the informatization sector in the PRC that positions itself as a "New Generation Integrated Smart Service Provider" and commits to "making our society smarter, making our life better, and making our employees happier". The Group provides integrated comprehensive smart solutions in the informatization and digitalization sectors. It consistently upholds its principle of "customer-oriented, outstanding performance, efficient resources allocation and innovative leadership". On the back of our fundamental missions of serving our customers, bringing returns to our shareholders, caring about our employees and giving back to society, we devote ourselves to providing a series of services covering high-quality, efficient and secured telecommunications infrastructure services, business process outsourcing services and applications, content and other services. We place a strong emphasis on scientific development and corporate social responsibility, deliver value to our customers and the society, promote sustainable development, and align our corporate development with society and environment.

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

The board of directors (the "Board") of China Communications Services Corporation Limited (the "Company") undertakes full responsibility for the Environmental, Social and Governance Report of the Group. The Group strictly complies with the provisions under the Guideline. The Board of the Company attaches great importance to the environmental, social and governance work and is responsible for evaluating and determining risks relevant to the Group to ensure the Company has effective risk management and internal control systems in place and for determining the Company's environmental, social and governance approaches and strategies, conducting periodic reviews on the Company's performance and approving the disclosures set out in the Company's Environmental, Social and Governance Report. The report has been reviewed and approved to publish by the Board.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Strategic Planning Department of the Group is responsible for the overall planning of the "Environmental, Social and Governance Report" as well as the forming of working group together with the relevant departments of the headquarter and companies at the provincial level, which is responsible for the implementation of the environmental, social and governance strategies of the Company. The Strategic Planning Department is also responsible for the management and monitoring of the effectiveness and preparation for information disclosure of the "Environmental, Social and Governance Report" as well as the fundamental management works.

The Group has established an information collection system for the "Environmental, Social and Governance Report" and keeps improving such system, some items of which are subject to performance appraisal. The Group promotes communication with its stakeholders, including the government, shareholders, employees, customers and suppliers, by means of announcement, periodic report, meeting, symposium, interview, special communication and activity to hear their expectations and requests carefully. Opinions and suggestions from all parties are collected and addressed by the Group in a proactive manner.

Stakeholders	Mechanism and Means of communication	Expectation on the Company	Company Response
Government and Regulatory Authorities	Meeting	Abide by laws and regulations	Comply with laws and operate in good faith
	Report and statement	Fulfill requirement of the government	Pay tax in accordance with law and promote employment
	Report and visit	Promote construction of industrial ecosystem	Innovate smart products and services
Shareholders and Investors	Periodic report and announcement	Preserve and increase asset value	Operate in a stable and healthy manner and continuously create values for shareholders
	Special report and visit	Regulate corporate governance	Improve corporate governance and continuously improve internal control
	Daily communication	Prevent operating risks	Protect interests of investors, particularly minority shareholders in accordance with the laws
	Investor meeting	Regulate information disclosure	Disclose corporate information in strict accordance with rules
Employees	Staff representative supervisor and staff meeting	Protect legal interests	Regulate labour management
	Employee symposium with management	Realize career development	Strengthen employee training and streamline career development path
	Employee questionnaire	Participate in management	Improve income distribution and benefit package mechanism
	Letter and visit	Care about employees	Care about employees' physical and mental health and improve working condition
Suppliers	Supplier selection and engagement	Establish a clear procurement system, a strict process and a set of regulated conduct	Establish a synergistic and lawful procurement management system with separated supplier selection function, procurement function and monitoring function
	Subcontract management	Show explicit requirement and implement transparent management	Set up a supplier resource pool, ensure supplier qualification and service capability, provide necessary trainings and intensify full-process management on a project basis
Customers	Contract fulfillment	Provide high cost-performance value solutions (services and products) to cater for customer needs	Further understand customer needs, innovate smart products and satisfy customer-tailored demand
	Visit and conference	Provide excellent services	Realize full life cycle business management through project report, regular meeting and project feedback
	Roadshow and exhibition	Respond quickly	Respond immediately to customers
Community	Community communication activity	Protect environment	Implement energy saving and emission reduction and reduce water and electricity consumption
	Community construction activity	Secure emergency communications	Actively respond to disaster relief and communications safeguard
	Public welfare activity	Care about the underprivileged	Conduct poverty-alleviation activities and help the disabled and the poor

ENVIRONMENTAL PROTECTION AND RESOURCES UTILISATION

As an informatization 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 in respect of environmental protection and resources utilisation, and embarked on energy saving and emission reduction activities to ensure that we can meet our energy conservation and emission reduction goals and strive to minimize the impact on the environment and natural resources in production operations. In 2019, the total energy consumption of the Group was approximately 162,000 tons of standard coal (2018: approximately 150,000 tons of standard coal).

According to the energy report of the Group, the emission of greenhouse gases arising from energy consumption of the Group in 2019 pursuant to the Greenhouse Gas Protocol was approximately 415,800 tons (2018: approximately 388,300 tons).

Type of Emissions	2019	2018
Total greenhouse gas emissions (10,000 T)	**41.58**	38.83
Direct emissions (Scope 1)	**27.15**	25.28
Indirect emissions (Scope 2)	**14.43**	13.55

Note: Scope 1 direct greenhouse gas emissions include greenhouse gas emissions from the consumption of natural gas, coal, gasoline and diesel fuel.
Scope 2 indirect greenhouse gas emissions include greenhouse gas emissions from the purchase of electricity and heating.
Total greenhouse gas emissions are the sum of Scope 1 direct greenhouse gas emissions and Scope 2 indirect greenhouse gas emissions.

Direct/Indirect energies by type

Electricity (GWh)
2019: 213.51
2018: 200.63

Diesel fuel (Million L)
2019: 15.29
2018: 13.20

Gasoline (Million L)
2019: 98.76
2018: 93.21

Natural gas
(Million standard cubic meter)
2019: 7.73
2018: 7.21

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As for water consumption, the Group's water supply is provided by the owner or property manager of the office building, thus the Group does not have direct control over the water consumption. However, the Group attaches great importance to the reasonable and efficient usage and reduce the consumption of water resource. We also strive to promote and advocate water conservation by regular public service announcements to raise our employees' awareness of water conservation.

The Group takes various steps, including posting water conservation notice, advocating multi-usage of water, installing water-saving taps, and checking for water leaks, to further intensify the management of water resource utilization.

The Group has made great efforts to promote water conservation in our provincial companies. The Group proposes to adopt effective measures to reduce squandering of water resource and each provincial company made active responses. The Group's total water consumption for 2019 was approximately 5.90 million tons.

As a "New Generation Integrated Smart Service Provider", the Group firmly follows the principle of green development, implements various energy saving and emission reduction policies and regulations issued by the government, improves energy conservation awareness within the Group, performs reasonable control over total energy consumption and endeavors to realize green and high-quality development. The Group provides integrated green services to the external customers. It integrates the energy conservation concept into each service including consultation, design, construction, maintenance, general facilities management and supply chain and renders energy saving services during the process of infrastructures construction, joint construction and sharing, energy saving reform and big data application by leveraging on the advanced energy-saving technologies and products to help customers with energy saving and emission reduction.

The Group realized energy saving and consumption reduction and achieved its energy saving target in a full manner by adopting various measures. In 2019, the Group's energy consumption was 13.77 kg of standard coal equivalent per revenue of RMB10,000, representing a year-on-year decrease of 2.8%.

The Group further improves the organizational system, management system and work process relevant to energy saving and emission reduction and the informatization level in monitoring and controlling its energy saving and emission reduction, through which the Group's energy consumption has been effectively reduced. The Group uses various methods, both online and offline, to minimize the energy consumption within the Group, including the implementation of a paperless office to effectively reduce the consumption of paper-made resources, using a vehicle management system to strictly control fuel charges and effectively reduce oil consumption, and installing GPS on vehicles to help to find the shortest route for driving while ensuring safety and reducing oil consumption and vehicle exhaust.

Our provincial companies and professional companies organized diversified trainings on energy saving and emission reduction, promoted new technologies and new businesses in relation to energy saving. The companies also actively participated in seminars in relation to energy-saving and environment-friendly products and businesses to share energy saving experience and results and promote energy-saving products in collaboration with its partners.

The Group also proactively helps customers in implementing energy saving and emission reduction. The energy saving elements are integrated into each part of services provided to customers. The Group makes strong efforts to promote the establishment of green base stations and green data centers and facilitate the recycling of waste materials. During the new construction and reconstruction of equipment rooms, IDCs and other infrastructures, the Group follows the advanced development principle of green and energy saving, adopts the form of contracted energy management and entrusted energy management, provides green consultation, design, construction, maintenance, general facilities management and other services to promote the application of energy-saving products, energy consumption monitoring platform and big data applications, enabling customers to save energy while raising efficiency.

China Comservice Energy Saving Technology Co., Ltd. (中通服節能技術服務有限公司), a subsidiary of the Group, collects returned network equipment and inefficient equipment of high–energy consumption for recycling and disposal via a green auction platform, which is supported by 26 warehouses & logistics systems, 1,100 reliable recyclers and 16 valuation techniques. In 2019, waste and obsolete products of approximately RMB10.69 billion were disposed of through auction at a total price of approximately RMB1.1 billion, which not only helped its customers to improve economic efficiency but also minimized the risk of waste emission.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group will continue to increase investment in the research and development of new energy saving technologies and businesses, further follow and implement the development principles of innovation, coordination, green, openness and sharing and establish a green ecosystem and green Comservice to achieve digital life. While ensuring energy saving and emission reduction within the Group, we assume more social responsibilities related to energy saving and emission reduction. Together with its customers and partners, the Group will intensify the application of 5G, Big Data, Cloud Computing, Internet of Things and other new technologies to inject new momentum into energy saving and emission reduction. Through innovation of management and technology, the Group is committed to improving efficiency in all aspects, realizing energy saving target and making a better life.

Consumption of Packaging Materials

The Group operates in the informatization communications services industry and is mainly engaged in design, construction and supervision, management of infrastructure for information technology, etc. There is no substantial usage of packaging materials in the course of production and operation.

Climate Change

Climate change not only has profound effects on the global ecosystem, but also has significant impacts on the global economy. The carbon dioxide emission is adopted by the PRC as an important indicator for the evaluation of enterprises' performance in production and operation, which is certain to bring some pressure on the enterprises to adapt to climate change. Enterprises must realize the effects of risks and policies associated with climate change on their operations, and capture the opportunities arising therefrom.

Consensus on the control of greenhouse gas emission, promotion of green and low-carbon development and responding to climate change and greenhouse gas emission has been reached worldwide. In 2019, the Group had active studies and discussions on the target and system in relation to the control of greenhouse gas emission, promotion of green and low-carbon development and adaption to climate change and organized relevant capabilities construction, scientific research and publicity work in fighting against climate change and endeavored to improve its capability in environmental management to assist in containing the rise in global temperatures.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

HUMAN RESOURCES MANAGEMENT

Employment

The Group had approximately 91,000 employees as at 31 December 2019. We are committed to ensuring equal development opportunities for both genders, protecting and enhancing the rights of female employees. Our employees are located primarily in the PRC with certain number of them located in the other districts such as Africa, Middle East and Southeast Asia. Our employees are divided into contract employees, dispatched employees, part-time employees and other employees.

Indicator	2019	2018
Total employees (As at the end of the year)	**91,564**	93,087
By type		
Contract employees	**87,706**	88,930
Dispatched employees	**3,500**	3,713
Part-time employees	**99**	166
Others	**259**	278
By geographic location (%)		
Mainland China	**96.4**	96.4
Hong Kong, Macau, Taiwan and overseas	**3.6**	3.6

Total number of newly hired employees
2019: 10,024
2018: 10,619

Total number of resigned employees
2019: 11,547
2018: 16,733

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Contract + Dispatched

By gender

2019
2018

73.7%
73.9%

26.3%
26.1%

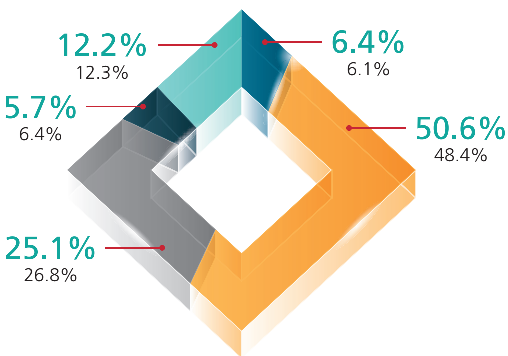
By age

2019
2018

30 or below	31-40	41-50	51 and above
17.9%	42.6%	28.2%	11.3%
19.8%	43.3%	26.0%	10.9%

By education level

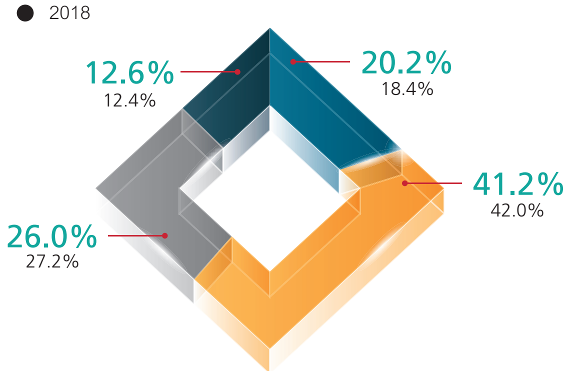
2019
2018



Post-graduate or above
University graduate
College graduate
Technical school graduate
High school graduate or below

By nature

2019
2018



Administration and management
Telecommunications infrastructure services
Business process outsourcing services
Applications, content and other services

Contract

Employees attending the trade union

2019
2018

100%
100%

Employees of ethnic minority

2019
2018

2.4%
2.2%

Female management

2019
2018

1.7%
1.5%

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As a state-owned enterprise, the Group assumes its important social responsibilities for stabilizing employment in the society by providing large number of job opportunities and encouraging the upstream and downstream enterprises to provide numerous job opportunities every year, which plays a significant role in attracting talents and addressing the problem of graduates employment.

The Group helps its employees to enhance personal capabilities and raise social value by offering trainings and exercises on their skills such as technical skills and management expertise. Meanwhile, the Group actively responds to the call of the government of "mass entrepreneurship and innovation", and for employees who are ambitious in setting up their own businesses, the Group provides favourable policies and support their innovation and entrepreneurship.

We consider our employees as an important resource and attach much importance to safeguarding their interests. We have various internally equitable and externally competitive remuneration system in place to cater for different positions and pay the relevant insurance for our employees. We have established a corporate annuity system.

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 incentivizes their proactivity.

The Group held various trainings to enhance the skills and capabilities of employees

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Labor Standards

The Group has always complied with laws and regulations on recruitment and dismissal, working hours and anti-discrimination. Our employees are entitled to national holidays. The Group strictly abides by and implements the laws and regulations in relation to labor employment and labor rights protection, including the PRC Labor Law, the PRC Labor Contract Law and the PRC Trade Union Law, pursuant to which, the Group protects the labor rights, democracy and spiritual and cultural rights of its employees. It strengthens labor employment management in a lawful and standard manner and ensures the entering into labor contracts with contract employees and makes contributions to the social security fund. It also stipulates the form and contents of contracts entered into with the labor dispatching institutions and checks if labor contracts are duly entered into by the labor dispatching institutions and contributions for the dispatched employees are made to the social security fund in order to protect the interests of the dispatched employees.

The Group stands on various labor policies, including but not limited to, the gender equality and equal pay for equal work. It protects employee privacy in compliance with laws and implements a paid holiday system. Child labor and forced labor are strictly forbidden in the Group. In 2019, there was no child labor and forced labor in the Group. The Group also supports the trade union to perform its duties and responsibilities lawfully and encourages employee engagement to maintain a harmonious and stable labor relationship.

Development and Training

We attach great importance to trainings and have established a three-tier training system covering the headquarter, provincial companies and professional companies. By leveraging the advantageous strengths of the 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 2019, a wide range of trainings were provided by the Group. It organized relevant leadership trainings for the management of its provincial companies and an industry leader training camp for the management reserves of its provincial companies to improve the integrity and leadership of the management. In respect of core business products, it organized marketing elites training camps, a speech training class on advanced products, a smart airport training camp, a smart emergency management product training class, an Internet of Things pre-sale consultation training camp, an advanced cloud engineer training class and a Beijing-Tianjin-Hebei collaborative development training camp. In order to improve professional abilities, the Group organized an advanced training class for frontline project managers and key 5G technologies and network evolvement seminars for its technical experts. Through various targeted and diversified trainings, the Group continuously improves the overall employee quality, enhances its competitive edge and capabilities for high-quality development. The Group also organized various lectures on mental health, seminars targeted for female employees and seminars in other themes.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Overall training situation

Total training expense (RMB million)
2019: 175
2018: 144

Total number of trainings (Person-time)
2019: 569,252
2018: 491,358

Total training hours (Hour)
2019: 16,698,979
2018: 13,311,916

Average training expense (RMB/person-time)
2019: 307
2018: 294

Average training hours (Hour/person-time)
2019: 29
2018: 27

Types of Training	Unit	2019	2018
Safe production training	No. of trainings	14,040	12,378
	Person-time	219,057	185,710
Anti-corruption training and activities	No. of trainings	1,628	1,490
	Person-time	46,193	39,299
Operation management training	No. of trainings	3,446	3,058
	Person-time	60,267	52,730
Technical expertise training	No. of trainings	13,179	12,294
	Person-time	192,374	174,622
Other training	No. of trainings	2,259	1,496
	Person-time	51,361	38,997

Training Description by Position/Gender	Unit	2019	2018
Senior management	Person-time	1,376	1,446
Middle management	Person-time	39,481	30,750
General employees	Person-time	528,395	459,162
Male employees	Person-time	429,935	368,970
Female employees	Person-time	139,317	122,388


The Group put emphasis on training management reserves

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In 2019, the Group launched a new series of industry leader training camp, participated by 41 management reserves from the provincial companies of the Group. Through continuous innovation on the scenarios, contents and forms of training, the industry leader training camp further improves the leadership awareness of the cadres, assists the provincial companies and professional companies of the Group in discovering and identifying talents and continuously expands the management reserves team and strengthens the development of the Group's human resources.

In 2019, the Group targeted to improve the capability of the marketing team and organized three "China Comservice Training Camp for the Elite of Marketing" to provide trainings to 161 marketing elites from the provincial companies, which effectively improved the cognitive competence on marketing, customer insight and presentation and expression skills of the trainees and developed many marketing elites who have market awareness, understand customer needs, are good at communication and expression, have influence and are familiar with sales procedures.

In 2019, by focusing on the frontline 5G technology talents of professional companies, designers and engineering technicians from the designing institute from each province, the Group organized three "China Comservice key 5G Technologies and Network Evolvement Seminars" to 172 technical experts. Through trainings on 5G origination, application scenarios and networks, the participants mastered key 5G network technologies, wireless network planning and station solutions deployment, improved their capabilities in working out solutions to 5G planning and construction as well as product delivery. The trainings play an important role in promoting and implementing company policies, improving technology strengths and expanding talent pool for 5G business development of the Group.

The Group attaches great importance to the training of its frontline employees. By spreading and inheriting the "Comservice Craftsmanship Spirit", the Group endeavors to develop employees with high-level expertise in different fields and professions to fuel the development of the Group. In 2019, the Group won a number of awards including all the three grand prizes in the "Information System Wiring & Smart Family Occupational Skill Competition" jointly organized by China Association of Communication Enterprises and China National Defense and Post & Telecommunication Trade Union.

The Group showed the "Comservice Craftsmanship Spirit" in industry competitions

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Our international subsidiary organized a safety training to 341 employees in Nepal, which improved the safe production awareness, safe production capabilities and communications infrastructure construction capability of the communication contractors in Nepal.

Thanks for the training given by the China Communications Services International Limited. In the past, I didn't know the importance of safe production. Through this training, I feel safe production not only protects my own work but also ensures a happy life of my family. In the future work, I will change my bad habits, follow the safe production procedures and always produce in a safe manner.

—— Narendra Kunwar, a local employee in Nepal

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 Labor 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 provincial companies under the Group are required to make a standard provision for safe production expenses to ensure sufficient funds are invested in safe production. Each professional company is required to provide necessary protective equipment in special work scenarios and to the frontline construction employees to ensure their life security.

The Group adopted competitions instead of trainings to enhance safe production

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group launched "Safe Production Month" activities to carry out promotions and trainings on safe production, aiming to continuously improve safe production management and raise safety awareness of employees in workplace. Periodic self-inspection and irregular checks were conducted by the provincial companies within the Group on safe production to eliminate potential safety threats and prevent significant risks. The provincial companies formulated emergency management measures and conducted safety production drills in different scenarios in order to improve their emergency management and response capabilities.

The Group made an overall plan to address the problem of imbalanced development of safe production management in the construction segment of the Group. It invited an expert group to formulate the *Manual for Safe Production of Information Communications Engineering*, which was published and issued in May 2019. Being the first manual elaborating the management and operation of safe production of information communications engineering in a systematic manner in the industry, it does not only provide standards of construction management and operation for the whole process of the Group's safe production, but also provides standards for the whole communications industry and drives the implementation of safe production in the industry. The headquarter of the Group organized two faculty trainings nationwide to provide top-down trainings on safe production to its provincial companies. About tens of thousands of employees attended the trainings, driving the education and training on safe production to be effectively conducted throughout the Group. Besides, the Group increased the frequency of inspection and innovated inspection method to make sure safe production is duly implemented at the basic level of the Group.

The Group formulated safe production standard for the industry

In 2019, no significant accident in respect of safe production occurred within the Group.

Indicator of Health and Safety	Unit	2019	2018
Safe production training	Time	14,040	12,378
Safe production training	Person-time	219,057	185,710
Workplace Fatalities	Person	0	0


The Group organizes safety drills regularly

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 Regulation on the Implementation of 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. Meanwhile, we conducted trainings on specific skills and safety education to personnel in the supply chain and regulated the management on safe production, ensuring that the suppliers comply with the national and local regulations on salary payment and employment management.

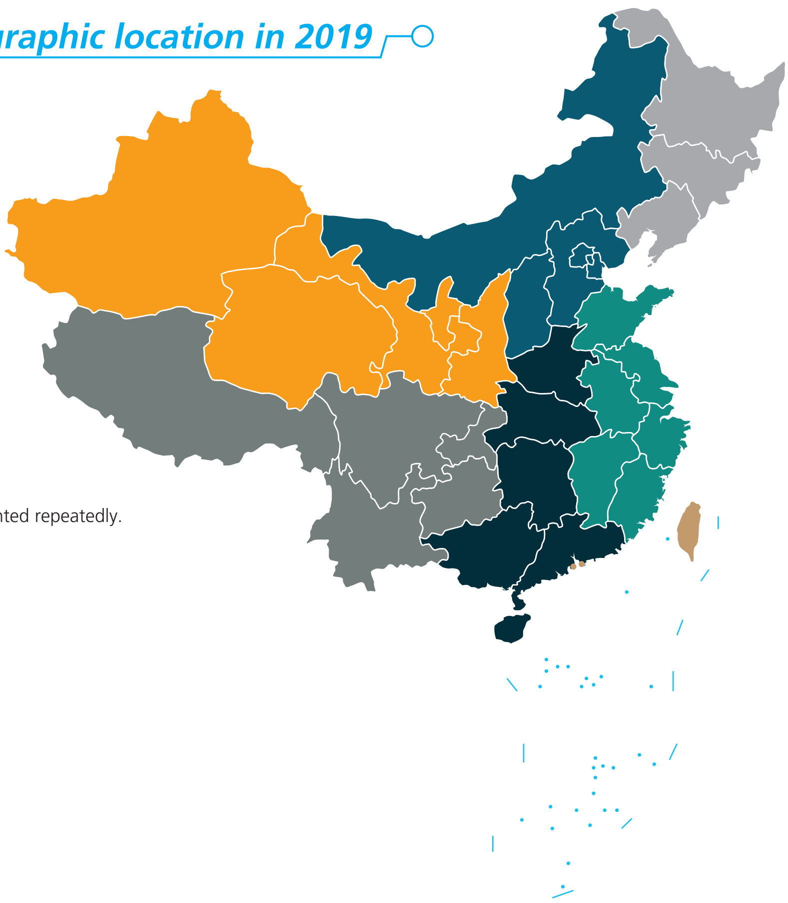
The Group adopts a hierarchical supplier approval system and formulated the China Comservice Engineering Service Procurement Management Measures, the Group strictly controls the eligibility of suppliers with stringent selection based on their general information. Routine and annual assessments are conducted on supplier performance and an exit system and a blacklist system was established. The assessment results are used for the selection of suppliers in order to promote the suppliers to improve their service quality and safety management.

The Group follows five procurement principles: legal compliance principle (to abide by national laws and regulations and relevant industry rules); fair, open and just principle (to insist on a transparent system, strict procedure, standardized operation and scientific selection); cost reduction and efficiency improvement principle (to reduce operating costs and realize high-quality development); tolerable risk principle (to prohibit "outsourcing substituting management", focus on project quality and safe management and prevent risks related to laws, employment and safety) and integrity principle (to prevent the rules and discipline violation, including the abuse of power for its own profit and interests conveyance).

Numbers of suppliers by geographic location in 2019

Geographic Location	Unit (Number)
Northeast region	717
Northwest region	1,905
Mid-South region	4,152
Southwest region	2,286
North China region	1,109
East China region	5,027
Hong Kong, Macau and Taiwan	2
Overseas	19
Total	15,217

Note: Suppliers operating in more than one region are counted repeatedly. The number of repeated counts is 1,864.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group implements hierarchical management over its headquarter, provincial companies and professional companies. The headquarter is responsible for the establishment of a synergistic procurement system, preparation of procurement management measures and IT management requirements, and inspection and assessment of the procurement management of the provincial companies. A provincial company is responsible for the establishment of a provincial procurement system and implementation of centralized management over the suppliers within its province by IT means and also responsible for the establishment of implementation measures for procurement management, improvement of corresponding internal controls, and inspection and assessment of the procurement management of professional companies. A professional company is responsible for the specific implementation of its own procurement management, establishment of management standards or specific measures and is subject to inspection and assessment by the headquarter and the provincial company of the Group.

The Group has considered business subcontracting as the key area for auditing and supervision. We conducted audits and reviews on supplier admission, tendering and bidding, subcontracting pricing, signing of subcontracting contracts, materials procurement and settlement of subcontracting costs, with the aim to prevent illegal and non-compliant activities such as violation of the administrative measures of the Company and interests conveyance.

Through continuous amendments and improvement on the mechanism, the Group drives the implementation of procurement system and further improves management, implementation and monitoring capabilities. It strictly follows the selection and examination procedures to kick out the disqualified suppliers, instructs suppliers to improve their awareness of safe production, provides full insurance coverage for the working personnel of subcontractors, eliminates hidden risks and promotes the healthy development of the Company through the establishment of IT systems and standardization of management processes.

Product Liability and Customers

The Group has committed to providing high-quality, efficient and safe informatization services to customers and makes contributions to "Building Smart Society, Boosting Digital Economy, Serving a Good Life". The Group has complied with applicable laws and regulations in relation to product liability.

The Group always focuses on customers and provides them with quality products and services. Relying on its smart products and services, the Group helps the government to improve urban management, emergency management and ecological and environmental control. With established local supporting teams all over the country, the Group keeps active communications with customers, makes timely response and provides services subject to customer needs and emphasizes the protection of customer information, which has been well received by the broad customers.

In Sichuan, the Group established an integrated government service platform for the government of Sichuan province, the first in the country covering province, cities and counties. The platform provides online services to the public, whereby people can "stay at home and just click the mouse" to handle government affairs. In 2019, over hundreds of millions of cases were processed online and the big data about government services was also collected for analysis through the platform to support the decision-making process of the government.

In Ningxia, the Group established a "Safety Alert and Risk Control Platform" for the government of Shizuishan, Ningxia. The platform has been applied to over 200 local hazardous chemicals manufacturers to assist the government to make real-time analysis and assessment on the production condition and risks of such enterprises. It formed a looped management over the full life cycle of the risks associated with the enterprises and improved the alert management of the enterprises in aspects of "people, machine, material, environment and management".

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In Zhejiang, the Group completed the comprehensive environmental improvement project for 1,075 small towns in Zhejiang Province by leveraging on its smart pipeline management system, smart light poles and smart cloud booths. Through data integration, the smart small-town comprehensive environment management system made analysis on the omissions and difficulties of human control, addressed the problems that existed in environmental governance, improved environmental governance prejudgment, extended the scope of ecological environment governance and effectively improved the quality of production, living and ecological environment in small towns.

In 2019, the Group provided integrated informatization construction service for many significant national events, including the Beijing International Horticultural Exhibition and the 7th CISM Military World Games, and also provided information communications network construction and communication security protection services for other important events, including "The 2nd Digital China Summit", "Boao Forum for Asia Annual Conference 2019", the "Sixth World Internet Conference (Wuzhen Summit)", "The Second Western China International Fair for Investment and Trade", "The 14th FINA World Swimming Championships (25m)" and "2019 Guangxi Pingnan International Half Marathon", showing the brand of "Comservice" in the new era.

The China Telecom Prime IP Backbone Network (CN2) Construction Project undertaken by China Communications Technology Co., Ltd (a subsidiary of the Group) garnered the "Classic Project" by China Association of Construction Enterprise Management. The Company insists on "365 days safe production & compliant operation" to drive the substantive change in and facilitate the safety and quality work of the Company.

The Group provided communication support for major events

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group has participated in the natural disaster relief and telecommunications network restoration during and after major disasters and public safety incidents to fulfil our corporate social responsibilities. We assist in the repair of communications lines to ensure smooth communications network.

In 2019, more than 39,000 person-times of the Group with more than 12,000 vehicle-times participated in disaster-relief work for a total of over 53,000 hours and repaired more than 32,000 communication facilities. It also actively participated in post-disaster epidemic prevention and disinfection and environmental cleaning, fully demonstrating our corporate capabilities and commitment to social responsibility in disaster relief.

On 17 June 2019, a 6.0-magnitude earthquake hit Changning in Yibin, Sichuan province, which caused a large area of breakdown of base stations, outage of several optical cables and shutdown of various transformer substations and dozens of communication lines. Immediately after the earthquake, our Sichuan subsidiary dispatched 48 rescue teams consisting of over 160 workers with 54 vehicles, 95 oil engines, 15 welding machines and a large number of optical cables, splice closures and other logistics materials for the earthquake relief. The Group made outstanding contribution to the resumption of the operators' communications with great efforts and successfully completed the 6•17 communications repair task. In response to the catastrophe, the excellent attitude and professional quality showed by the rescue team of our Sichuan subsidiary was highly recognized by the authorities and customers and also received attentions from media.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The flood brought by the consecutive rainstorms in Guangdong, Jiangxi and many other regions caused a large area of power outage and breakdown of base stations, affected more than ten thousand broadband users and resulted in direct economic loss of tens of millions of RMB. Our Guangdong subsidiary and Jiangxi subsidiary immediately organized several rescue teams for the repair of optical cables and mobile base stations and logistics support to be engaged in disaster relief work as arranged by the "emergency communications command center". The Group dispatched more than 600 person-times with rescue vehicles of 151 vehicle-times, oil engines of 340 engine-times and other equipment to support the full recovery of communications in the disaster-affected areas and was highly recognized by the local governments and telecommunications operators.

Due to rainy and snowy weather in different regions of Gansu province, heavy snow knocked down high-voltage power lines and caused large areas of power outage in Longnan, Gannan, Qingyang and Pingliang. More than 700 power outages occurred at peak, and the disaster caused over 1,200 cumulative power outages.

Immediately after the occurrence, our Gansu subsidiary launched a snowstorm emergency plan and dispatched a total of 620 person-times, 290 vehicle-times and oil engines of more than 780 machine-times to ensure the resumption of communications network. The emergency response was not only a test for our emergency management plan, but also an on-site emergency drill. It achieved desired effect and received recognition and praise from the operators.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Information Security and Privacy Protection/Network Security

The Group attaches great importance to the information, privacy and data security of the Company, its employees and customers. It strictly abides by the PRC Network Security Law, the Rules Protecting Personal Information of Telecommunications and Internet Users and other laws and regulations, keeps improving each network and information-related systems, intensifies controls over various network and information security risks, addresses network security vulnerabilities in time and ensures contents and information security. For customer-oriented APPs, the Group makes individual assessment on its ability in protecting personal information, carries out specific rectification work and ensures requirement of each department is duly satisfied and users' personal information is effectively protected.

The Group strengthens the relevant trainings on information security and privacy protection for its employees. It improves the employees' awareness of network information security by utilizing online promotional videos and organizing lectures on network information security. In 2019, the Group organized 5 trainings on network and information security knowledge such as policy interpretation, cutting-edge technologies and solutions to the relevant management and technical personnel, with a total of 302 person-times participation. The Group also organized 5,398 employees to attend the network information security contest to improve their know-how and skills on network and information security.

The Group proactively attended China Cybersecurity Week & Cybersecurity Expo and set up a Q&A section for cybersecurity knowledge in order to spread the theme that "cybersecurity aims for people and relies on people".

In 2019, no occurrence of leakage of customer privacy and information was identified within the Group. In line with customer needs, the Group enters into relevant agreements on information security and signs confidentiality agreements with relevant employees, if necessary, and strictly complies with the terms under such agreements. For data involving confidential information of government or other customers, the Group adopts Internet isolation and data encryption to prevent information leakage.

Intellectual Property Protection

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

In the process of its research and development of smart society products, the Group attaches great importance to the protection of intellectual properties and the application of corresponding patents or software copyrights.

In 2019

Received **355** new authorized patents

Applied for **408** new patents

Obtained **962** new software copyrights

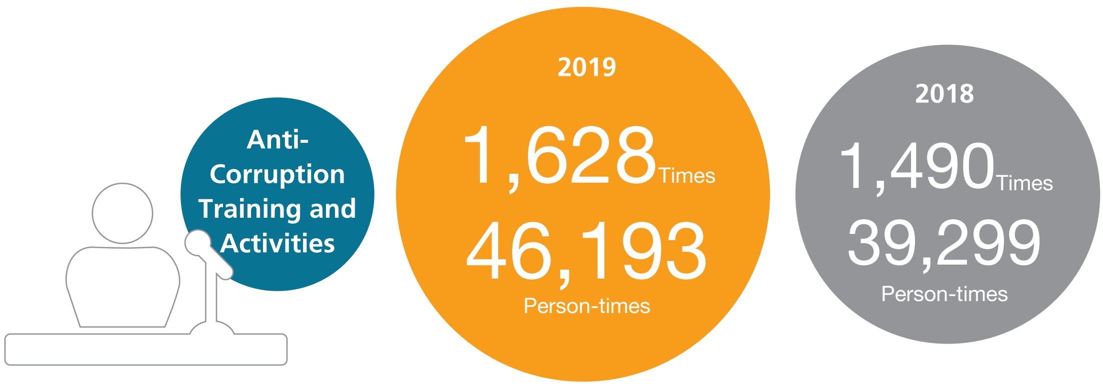
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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, creditors, customers and partners 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, themed conferences and new internet media to procure our management and employees to comply with relevant laws and regulations. In addition, we further reinforce our daily supervision in respect of anti-corruption and focus on priorities to conduct supervision and inspection by combined internal efforts such as the audit department and discipline inspection department, and strictly prevent activities such as bribery, blackmail, fraud and money laundering. The Group intensifies peer supervision and actively promotes joint supervision and particularly keeps a close watch on major festivals or holidays. It sets 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 with anti-corruption responsibility letters signed with the relevant responsible parties. The Group will duly address relevant illegal and non-compliant activities according to the requirements of laws, regulations, rules and disciplines, with a view to safeguarding the normal operation of its businesses.

Each provincial company and professional company of the Group also organized different anti-corruption trainings and activities for a large number of people to make anti-corruption training available for everyone and improve their anti-corruption awareness.



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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

COMMUNITY PARTICIPATION

The Group carefully implements the poverty relief tasks from the government, sticks to the fundamental principle of targeted poverty relief, combines poverty relief with education and training, keeps a balance between development-oriented poverty relief and protection-oriented poverty relief, focuses on the 6 poverty-stricken counties and organizes poverty relief activities in various forms, including education and training, industrial development, public welfare and consumption. The Group fulfills its social responsibility by promoting the poverty relief program and assisting the central government and local government in achieving their poverty relief tasks in all aspects. In 2019, the Group issued the "2019 China Comservice Poverty Relief Implementation Scheme". The provincial companies of the Group have aggregately enrolled 77 registered impoverished households; and post colleges owned by the provincial companies have enrolled totally 27 registered impoverished students, granted student subsidies of RMB0.21 million and organized skill trainings and career talks participated by 695 person-times. The Group's investment in consumption-led poverty relief amounted to RMB14.79 million.

In view of the requirement of the local poverty-relief office and its parent company, our Guangxi subsidiary focused on poverty relief through training. It focused on the most urgent problem to be settled through training during the poverty relief campaign and organized various training programs. By organizing e-commerce-themed trainings in rural areas, it focused on problem solving, relied on its technology training resources and adopted a theory and on-site teaching method in a top-down manner, i.e., providing trainings to cadres responsible for poverty relief first and then bringing them to the villages and fields, which were well-received by the public. A total of 345 households joined the e-commerce industry chain, and 142 registered poverty-stricken households were encouraged to commence online marketing and 16 of them concluded transactions during on-site e-commerce marketing practices. Various leaders stood out during the e-commerce-led poverty relief campaign, driving the increase of the poverty-stricken people's income. The poverty relief training program received unanimous recognition from the local poverty-relief office and cadres who received training and made great contributions to the poverty relief of Guangxi.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Our Xinjiang subsidiary aligned poverty relief campaign to its operation development to improve the production skills and fortune-making capabilities of the minorities. During project construction, it firstly hired the nearby impoverished minority villagers in Jiayi Village, Jiayi Town, Yutian County and Akeqima Village, Ruokeya County, Minfeng County and provided them with pre-job trainings on construction and production safety. Aiming to drive poverty relief undertaking, it has provided 60 jobs with monthly salary no less than RMB3,500. It helped the impoverished minority villagers in south Xinjiang to master professional skills and realize poverty relief of both individuals and households and improved the fortune-making ability of the surplus labors in rural areas, and received local appreciation.

The management of our Chongqing subsidiary brought daily necessities to the Special Child Service Center in Chongqing. It expressed its willingness to continue to pay close attention to the special group. Meanwhile, the positive energy from the children channeled to the company, which inspired and encouraged more kind-hearted people and enterprises to bring warmth and care to the children.

Our international subsidiary actively participated in various local public welfare activities. In the theme of "Love Without Borders", the South Africa Branch made a donation of 74,000 South African Rand (approximately RMB36,000) to a local school for the deaf. The donation was used to purchase hearing-aids for the deaf students and helped them to solve practical difficulties, which showed the Group's fulfillment of social responsibility.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Since its establishment over ten years ago, as a fulfillment of its social responsibility, our Saudi Arabia subsidiary has always respected the local belief and culture. It has organized the "Warm Ramadan" activity for many consecutive years. During the year, the subsidiary mobilized all the staff to donate their old clothes and sundries to the refugees in the surrounding war-torn countries.

The vice president of the Group and the general manager of China Telecom (Beijing) invited 8 manufacturer representatives to visit the industry-based poverty relief project in Shufu County, Xinjiang, a targeted poverty alleviation project. They paid visits to local manufacturers and orchard bases in which they have invested together with the manufacturer representatives and organized the representatives to negotiate with the government of Shufu County in respect of cooperation intentions and also expressed their solicitude to local poverty-stricken households.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Caring about Employees

The Group upholds the philosophy of "Dignity within the Company and Respect to Employees" and shows sincere and enhanced care about its employees. In 2019, the Group endeavored to become an outstanding enterprise trusted by the employees and recognized by the society. It learns about the thoughts of employees in a timely manner. Throughout the year, it resolved requests from them, made significant input in renovating, constructing and purchasing new properties to improve the production and living condition of employees, and set up the "Four Small Facilities" including the "Small Canteens, Small Restrooms, Small Shower Rooms and Small Activity Rooms" in a timely manner. During 2019, 562 "Four Small Facilities" were newly constructed and 1,449 were renovated with total investment of RMB24.13 million to fulfill its social responsibility for caring about employees.

The Group cares about its employees stationed outside of the province, enhances rights protection for female employees, and frequently helps and supports the poor, ensuring that students from poverty-stricken families can go to school and keeps them warm in winter and cool in summer. It focuses on the basic problems existed within the Group, such as the improvement of dining conditions, working environment and healthy drinking water supply, and helps to alleviate the economic burdens of employees who suffered from serious illnesses or chronic diseases. It spent a total amount of RMB5.82 million in poverty alleviation throughout the year.

The Group showed care for employees through multiple measures

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The diversified cultural and sport activities of the Group

The provincial companies and professional companies of the Group organized various group activities with its customers, for instance, skills competition and safety drills depending on different profession and business nature, as well as Spring Festival parties with customers and partners, which improved customer recognition, boosted the brand image of "China Comservice" and enhanced the Group's human-based management and its reputation in the industry.

The Group seeks to create a good environment characterized by "happy work and healthy life" for its employees. The headquarter, provincial companies and professional companies of the Group organized a series of diversified cultural and sports activities beneficial to the physical and mental health of employees and conducive to the Group's culture construction, including spring sports games, brisk walk competitions, balls competitions, singing activities, art performance, and lectures on mental health, which relieved the mental stress of employees arising from busy work, enhanced staff's sense of identity with enterprise and employee happiness and improved enterprise cohesion.

INVESTOR RELATIONS

The Company attaches great importance to maintaining close and effective communication with the capital market, and builds sound relationship with investors through proactive interaction of various means. In 2019, the Company further strengthened its investor relations' initiatives under the principle of high transparency, accuracy, timeliness, fairness and effectiveness.

The Company keeps improving the two-way communication channels with the capital market in order to maintain favourable and long-term interaction with its shareholders and investors. On one hand, the Company endeavours to provide diversified communication channels for capital market, while proactively responding to the major issues that it concerns and explaining our strategies, development measures, transformation progress, latest industry development and related information, thereby facilitating investors to conduct a more comprehensive analysis and have better knowledge of the investment value of the Company. On the other hand, the investor relations team of the Company closely monitors the feedback from the capital market and reports the opinions, suggestions and expectation to the management in a timely manner. Such action is beneficial to the formulation of operation, management and development strategies of the Company, and makes great contributions to promote sustainable development and enhance corporate value of the Company.

INVESTOR RELATIONS ACTIVITIES

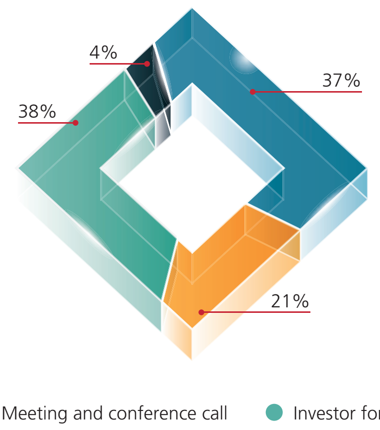
In 2019, the Company maintained direct and close communications with its investors through diverse channels including investor and press conferences, non-deal roadshows, investor forums organized by investment banks, one-on-one meetings, teleconferences and video conferences to achieve effective interactions with investors. During the year, the Company held meetings and communicated with analysts and investors through the above channels over 660 person-times, which increased by over 40% year-on-year. The Company proactively conducted good communications with analysts to enhance their understandings on the current and future development direction of the Company which also raised the awareness of the Company among investors. As of the date of this report, nine more investment banks in the capital market initiated coverage or resumed coverage of the Company with the issuance of research reports as compared with the end of 2018. All such analysts from the investment banks rated the Company positively with "Buy", "Overweight" and "Hold" ratings. At the same time, through the new coverage and research by mainland brokers, the Company also proactively participated in investor forums held by mainland brokers to connect with more mainland investors. The increased coverage by the capital market on the Company and our more proactive communications with the market effectively facilitated our stock trading that daily average trading volume in 2019 exceeded 13.5 million shares, increased by 57% year-on-year.

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

2019 Interim Results Presentation

INVESTOR RELATIONS

ATTENDANCE ANALYSIS OF INVESTOR RELATIONS ACTIVITIES IN 2019



List of Investor Relations Activities of the Company in 2019

Date	Event	Venue
1/2019	UBS Greater China Conference 2019	Shanghai
1/2019	Crosby Peacock Series Corporate Day	Hong Kong
3/2019	2018 Annual Results Announcement — Analyst Briefing — Press Conference	Hong Kong
3/2019	Non-deal Roadshow	Hong Kong
4/2019	Nomura Greater China TMT Corporate Day 2019	Hong Kong
5/2019	The 15th BOCI Investors Conference	Beijing
5/2019	J.P. Morgan Global China Summit 2019	Beijing
5/2019	HSBC 6th Annual China Conference	Shenzhen
5/2019	Macquarie Greater China Conference 2019	Hong Kong
5/2019	Goldman Sachs TechNet Conference — Asia Pacific 2019	Hong Kong
5/2019	Morgan Stanley Fifth Annual China Summit	Beijing
6/2019	UBS Asia TMI Conference 2019	Hong Kong
7/2019	Haitong TMT Corporate Day	Hong Kong
8/2019	2019 Interim Results Announcement — Analyst Briefing — Press Conference	Hong Kong
8/2019	Non-deal Roadshow	Hong Kong
11/2019	Goldman Sachs China Conference 2019	Shenzhen
11/2019	Citi 14th China Investor Conference	Macau
11/2019	Morgan Stanley Eighteenth Annual Asia Pacific Summit	Singapore
12/2019	Nomura Corporate Day	Hong Kong
12/2019	Everbright Securities 2020 Annual Conference	Shanghai

INVESTOR RELATIONS

SHAREHOLDING STRUCTURE

In 2019, 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 its shareholders, including structure and position changes of shareholders, shareholder type, geographical distribution and investment styles. When organizing its roadshows, the Company would develop a targeted visiting list of shareholders and potential investors by referencing on the above information. Such practice facilitated a more proactive and targeted interactive communications between the Company and investors, thereby significantly enhancing the efficiency and effectiveness of investor relations initiatives.

The Company's shares have been admitted in the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect Programmes which are open for trading by investors from Mainland China. According to the information from the Central Clearing and Settlement System operated by the Hong Kong Securities Clearing Company Limited, as at 31 December 2019, 3.25% of the issued H share capital of the Company was held by the investors from Mainland China through China Securities Depository and Clearing Corporation Limited.

SHAREHOLDING STRUCTURE[1] AT OF 31 DECEMBER 2019

- 51.39% China Telecommunications Corporation
- 8.78% China Mobile Communications Group Co., Ltd.
- 3.41% China United Network Communications Group Company Limited
- 1.89% China National Postal and Telecommunications Appliances Co., Ltd.
- 3.43% Hermes Investment Management Ltd
- 3.15% Citigroup Inc.
- 2.76% BlackRock, Inc.
- 25.19% Other public shareholders

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

INVESTOR RELATIONS

INFORMATION DISCLOSURE

The Company has strictly complied with the information disclosure requirements for listed companies and has considered information disclosure as the responsibility and obligation that must be discharged for the protection of investors' interest. We have made information disclosure with consistent adherence to the principle of accuracy, timeliness, openness and fairness and dedicate to improving the transparency of the Company in respect of information disclosure and facilitating the capital market to gain a better understanding of the Company.

In 2019, in accordance with the Listing Rules, the Company published approximately 15 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, connected transactions, poll results for general meetings and change of principal place of business in Hong Kong, details of which are as follows:

1/02/2019	Audit committee charter
1/02/2019	Announcement relating to continuing connected transactions and discloseable transactions under the financial services framework agreement
27/02/2019	Circular relating to the continuing connected transactions under the financial services framework agreement and notice of the EGM
27/02/2019	Notice of extraordinary general meeting to be held on 18 April 2019, form of proxy and attendance slip
12/03/2019	Announcement relating to the date of board meeting to approve the 2018 annual results
28/03/2019	Announcement of annual results for the year ended 31 December 2018
18/04/2019	Announcement of poll results of the extraordinary general meeting held on 18 April 2019
24/04/2019	2018 annual report
24/04/2019	Notice of annual general meeting to be held on 21 June 2019, form of proxy and attendance slip
21/06/2019	Announcement of poll results of the 2019 annual general meeting held on 21 June 2019 and payment of dividend
1/08/2019	Announcement of the list of directors and their role and function
14/08/2019	Announcement relating to the date of board meeting to approve the 2019 interim results
27/08/2019	Announcement of interim results for the six months ended 30 June 2019
13/09/2019	2019 interim report
23/09/2019	Announcement of change of principal place of business in Hong Kong

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

INVESTOR RELATIONS

In the beginning of 2019, the Company published the upgraded corporate website and added "Digital and Informatization Solutions" page to introduce various smart services that the Company offers for different industries. Such upgrade is honored with international awards, such as the Silver Award in "Websites — Investor Relations" and the Bronze Award in "Websites — Corporate Web Sites" in the 2019 "Galaxy Awards" and the "Best IR Website (small to mid-cap)" award in the IR Magazine Awards — Greater China 2019 organized by *IR Magazine*, a renowned international magazine focusing on investor relations. The website is recognized for its creativity, effective enhancement of users' experience, engaging content for users' needs as well as multiplatform access.

The Company's website

Annual report is not only an important document for information disclosure of a listed company in accordance with the regulatory requirement, the Company can also disclose more comprehensive information to investors through the annual report, such as its operating philosophy, strategies, current operating performance, development trends, corporate governance and social responsibility. The Company therefore puts great emphasis on the preparation of annual report. Through the detailed disclosures in the annual report, investors are able to have more adequate and comprehensive understanding of the Company.

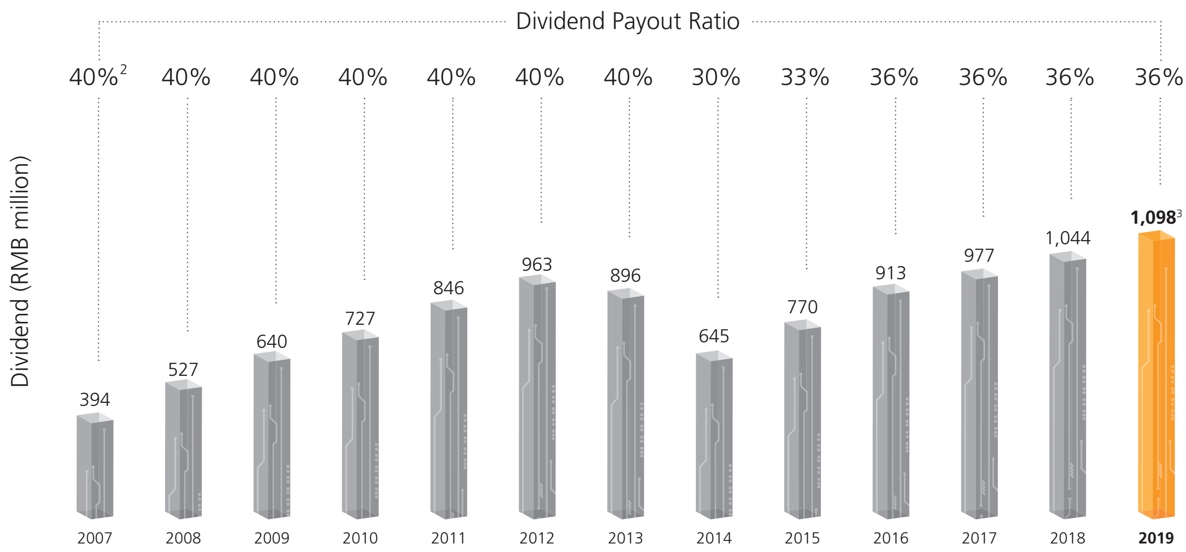
In 2019, the preparation and design of the 2018 annual report of the Company were again recognized by international award organizations and received Platinum Award and ranked 24th in the Top 100 Reports Worldwide of the "Vision Awards" in "The League of American Communications Professionals" (LACP) and 3 Gold Awards in "Cover Photo & Design","Traditional Annual Report" and "Infographics" in "International ARC Awards".

INVESTOR RELATIONS

DIVIDEND

The Company always values the interests and returns to shareholders since its listing, and distributes relatively stable and sustainable dividend to shareholders. The Company determines the dividend payment for the year with reference to factors such as the Company's results performance, financial position, cash flow, long-term development and business needs and other investment opportunities in the year. In 2019, 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 RMB0.1321 per share (equivalent to a payout ratio of 30%) and a special dividend of RMB0.0264 per share. Total dividend for 2019 is RMB0.1585 per share (equivalent to a payout ratio of 36%).

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



[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 2019 annual general meeting to be held on 15 June 2020.

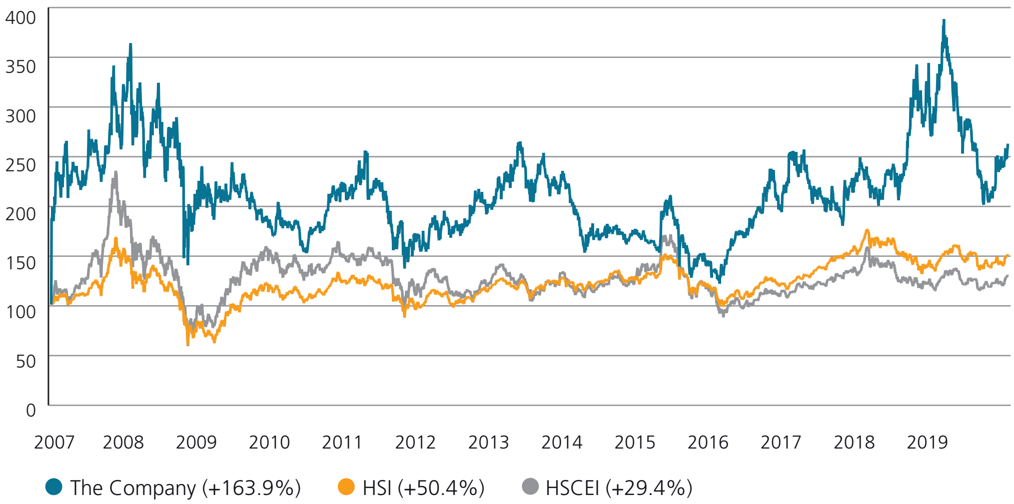
INVESTOR RELATIONS

SHARE PRICE PERFORMANCE

The H shares issued by the Company were listed on the Stock Exchange on 8 December 2006 at an offer price of HK$2.2 per share. Since its listing, the Company has captured market opportunities and adapted to the industry development trend, and thereby achieved sustainable and steady development through the implementation of forward-looking development strategies, enhancing competitiveness continuously by innovation and transformation, as well as adhering to the principle of sound corporate governance. Besides, the Company implemented practical and effective investor relations initiatives. The price of the Company's H shares has been maintaining a favourable overall performance since its listing.

Share Price Performance Since Listing

From 8 December 2006 to 31 December 2019



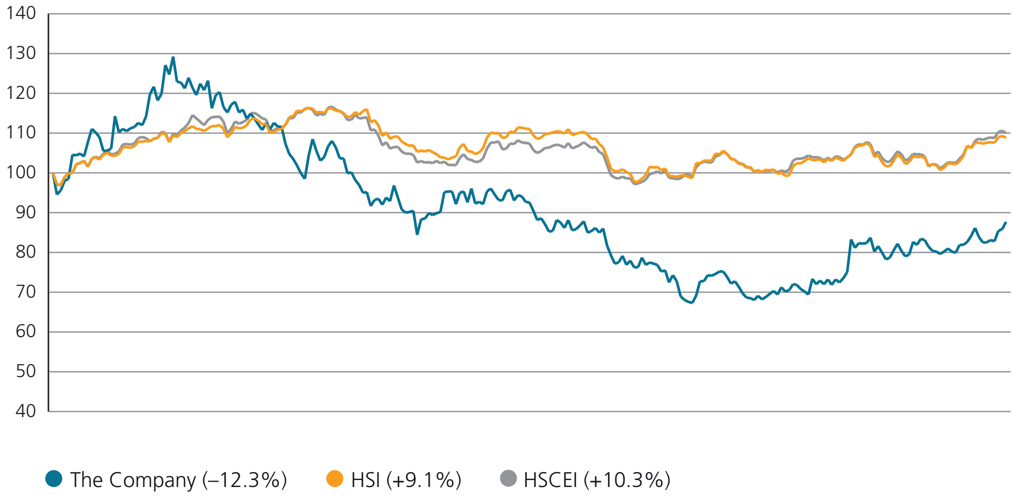
In 2019, global stock markets benefited from the expansionary monetary policy of the Europe and the United States in general while they were volatile due to the US-China trade negotiation. In the beginning of 2019, relevant department of Chinese government stated that temporary 5G license would be issued in certain cities and the market focused on 5G related stocks. Such news significantly stimulated the share price of the Company which reached the new high (HK$8.50) since listing as the market expected that the results of the Company would benefit from 5G network construction during the year. The stock price of the Company then retreated due to several factors, including a gap between market's high expectation while domestic telecommunications operators did not significantly increase investment in 2019, and performance indicators of the Company pending further improvement in short-term during transformation etc. Thus, the Company's stock performance was relatively weak in the first three quarters. Entering the fourth quarter, the Company's stock price stabilized and then increased as Ministry of Industry and Information Technology announced the official commercial use of 5G, stimulating the stock prices of 5G related companies. As at 31 December 2019, stock price of the Company decreased by 12.3% year-on-year (In 2018, stock price of the Company increased by 23.7% year-on-year).

2019	Highest	Lowest	Closing
Price per H share of the Company (HK$)	8.50	4.31	5.68

INVESTOR RELATIONS

Share Price Performance in 2019

From 1 January 2019 to 31 December 2019



As at 31 December 2019, 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 2019, the Company's total market capitalization was about HK$39.3 billion.

INVESTOR RELATIONS

MAJOR AWARDS AND RECOGNITIONS IN 2019

1. "15th Asian ESG Awards" by *Corporate Governance Asia*

- The Best of Asia — Icon on Corporate Governance
- Asian Corporate Director
- ESG Influencer

2. "9th Asian Excellence Recognition Awards" by *Corporate Governance Asia*

- Best CEO
- Best Investor Relations

3. "The Asset ESG Corporate Awards 2019" by *The Asset*

- Gold Award — Corporate Governance, Social Responsibility and Investor Relations
- Best CEO

4. "Best Multinational CEO List" by *Forbes China*

- Mr. Si Furong, an Executive Director and the President of the Company

5. "Golden Hong Kong Equities Awards" by *Zhitong Finance and Tonghuashun Finance*

- Best TMT Company
- Most Socially Responsible Listed Company

6. "IR Magazine Awards — Greater China 2019" by *IR Magazine*

- Best IR Website (small to mid-cap)

7. "2019 Galaxy Awards"

- Silver Award in "Websites — Investor Relations"
- Bronze Award in "Websites — Corporate Web Sites"

8. "Vision Awards" by *LACP*

- Platinum Award
- Rank 24th in the Top 100 Annual Reports Worldwide

9. "International ARC Awards"

- Gold Award in "Cover Photo & Design"
- Gold Award in "Traditional Annual Report"
- Gold Award in "Infographics"

10. "100 Most Competitive Software & IT Service Enterprises 2019" coordinated by *China Information Technology Industry Federation*

- Rank 5th

11. "2019 FORTUNE China 500" by *FORTUNE China*

- Rank 86th

12. "2019 Forbes Global 2000 — World's Largest Public Companies" by *Forbes*

- Rank 1502nd

INVESTOR RELATIONS

RECOGNITIONS AND HONOURS IN THE CAPITAL MARKET

The Company has always been well recognized by the capital market. It has been admitted in certain indices in Hong Kong, including the "Hang Seng Composite Index", "Hang Seng Composite LargeCap & MidCap Index", "Hang Seng China State-holding Enterprises Index", "Hang Seng Internet & Information Technology Index", "Hang Seng Composite Industry Index — Information Technology", "Hang Seng Stock Connect Hong Kong Composite Index" and "Hang Seng SCHK China Technology Index".

As of the date of this report, approximately 18 international and mainland investment banks and institutions prepared and published research reports for the Company on a regular basis, among which nine investment banks initiated or resumed coverage on the Company in this year and significantly raised awareness of the Company in the capital market. Since its listing, the Company's investment value has also been recognized by the capital market. As of the date of this report, major research institutions maintained positive investment ratings such as "Buy", "Overweight"or "Hold" on the Company.

The Company has been dedicated to improving its management and operation in all aspects. In 2019, the Company was recognized by many domestic and overseas organizations and institutions. Authoritative institutions such as *Corporate Governance Asia* and *The Asset* offered recognitions and awards to the Company in respect of its ESG, corporate governance and investor relations. *Corporate Governance Asia* awarded "Asian Corporate Director" to the Chairman, Mr. Zhang Zhiyong while the President, Mr. Si Furong was awarded the "Best CEO". Mr. Si was also awarded the "Best CEO" by *The Asset* and entered the 2019 *Forbes China* "Best Multinational CEO List". These awards demonstrated the capital market's recognition to our management. At "Golden Hong Kong Equities Awards", the Company was granted "Best TMT Company" and "Most Socially Responsible Listed Company". Furthermore, the Company received various awards from international assessment institutions in respect of the Company's annual report and website.

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 1101–1102, 11/F., Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong
Telephone: (852) 3699 0000
Facsimile: (852) 3699 0120
Email: ir@chinaccs.com.hk

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of China Communications Services Corporation Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 134 to 234 which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition of construction service from non-telecom operators	
We identified revenue recognition of construction service from non-telecom operators as a key audit matter due to the judgement of recognising revenue over time or at a point in time since there is no standard contract terms with non-telecom operators and some contracts might not meet the criteria for recognising revenue over time. Revenue from construction contracts with non-telecom operators for construction services signed in 2019 and not yet completed on 31 December 2019 amounts to RMB5,733 million. Details of revenue recognised on construction service and the related accounting policy of contract revenue are disclosed in notes 4 and 2(s) to the consolidated financial statements, respectively.	Our audit procedures in relation to revenue recognition of construction service from non-telecom operators included: • Understanding and testing the key controls related to recognising revenue over time or at a point in time; • Testing the completeness and accuracy of the list of the construction contracts with non-telecom operators for construction services signed in 2019 and not yet completed on 31 December 2019; and • Reviewing the terms of construction contracts, on a sample basis, to evaluate whether one of the following criteria for recognising revenue over time is met: 1. The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs; 2. The Group's performance creates or enhances an asset that the customer controls as the Groups performs; or 3. The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.

INDEPENDENT AUDITOR'S REPORT

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

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.

- 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.

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

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 Ip Yat Hung.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
31 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

	Notes	**2019 RMB'000**	2018 RMB'000
Revenues	4	**117,413,089**	106,176,637
Cost of revenues	5	**(103,726,130)**	(93,291,671)
Gross profit		**13,686,959**	12,884,966
Other operating income	6	**1,554,755**	1,244,889
Selling, general and administrative expenses		**(11,494,404)**	(10,611,071)
Other operating expenses	7	**(333,299)**	(173,722)
Finance costs	8	**(68,888)**	(25,179)
Share of profits of associates and joint ventures		**148,478**	105,421
Profit before tax	9	**3,493,601**	3,425,304
Income tax	10	**(463,802)**	(497,405)
Profit for the year		**3,029,799**	2,927,899
Attributable to:			
Equity shareholders of the Company		**3,049,229**	2,901,324
Non-controlling interests		**(19,430)**	26,575
Profit for the year		**3,029,799**	2,927,899
Basic earnings per share (RMB)	15	**0.440**	0.419

The notes on pages 142 to 234 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Profit for the year		**3,029,799**	2,927,899
Other comprehensive income/(expense) for the year (after tax)			
Item that will not be reclassified to profit or loss (after tax):			
Equity instruments at fair value through other comprehensive income:			
Net movement in the fair value reserve	11	**263,452**	(205,066)
Item that may be subsequently reclassified to profit or loss (after tax):			
Exchange differences on translation of financial statements of subsidiaries outside Mainland China		**(2,646)**	9,968
		260,806	(195,098)
Total comprehensive income for the year		**3,290,605**	2,732,801
Attributable to:			
Equity shareholders of the Company		**3,309,973**	2,706,214
Non-controlling interests		**(19,368)**	26,587
Total comprehensive income for the year		**3,290,605**	2,732,801

The notes on pages 142 to 234 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	**31 December 2019 RMB'000**	31 December 2018 RMB'000
Non-current assets			
Property, plant and equipment, net	16	**4,369,251**	4,384,700
Right-of-use assets	17	**1,895,996**	–
Investment properties	18	**563,820**	606,065
Construction in progress	19	**282,365**	342,427
Lease prepayments	20	**–**	722,672
Goodwill	21	**103,005**	103,005
Other intangible assets	22	**505,278**	355,339
Interests in associates and joint ventures	23	**418,336**	318,059
Financial assets at fair value through profit or loss	31	**818,268**	–
Equity instruments at fair value through other comprehensive income	24	**4,088,204**	3,737,553
Deferred tax assets	25	**690,341**	622,202
Other non-current assets	26	**553,819**	1,220,145
Total non-current assets		**14,288,683**	12,412,167
Current assets			
Inventories	27	**1,974,150**	2,253,027
Accounts and bills receivable, net	28	**19,092,825**	18,668,024
Contract assets, net	29	**17,153,529**	15,664,758
Prepayments and other current assets	30	**8,771,768**	8,646,123
Financial assets at fair value through profit or loss	31	**4,567,824**	5,046,898
Restricted deposits	32	**2,471,515**	2,128,757
Cash and cash equivalents	33	**19,220,764**	16,106,246
Total current assets		**73,252,375**	68,513,833
Total assets		**87,541,058**	80,926,000
Current liabilities			
Interest-bearing borrowings	34	**511,234**	462,003
Accounts and bills payable	35	**30,674,619**	28,279,533
Current portion of lease liabilities	36	**343,281**	–
Contract liabilities	37	**10,087,102**	8,648,060
Accrued expenses and other payables	38	**8,730,235**	9,017,427
Income tax payable		**337,372**	323,514
Total current liabilities		**50,683,843**	46,730,537
Net current assets		**22,568,532**	21,783,296
Total assets less current liabilities		**36,857,215**	34,195,463

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	31 December 2019 RMB'000	31 December 2018 RMB'000
Non-current liabilities			
Interest-bearing borrowings	34	**–**	8,922
Lease liabilities	36	**690,172**	–
Other non-current liabilities	39	**295,527**	617,488
Deferred tax liabilities	25	**833,744**	740,192
Total non-current liabilities		**1,819,443**	1,366,602
Total liabilities		**52,503,286**	48,097,139
Equity			
Share capital	40	**6,926,018**	6,926,018
Reserves		**27,637,892**	25,405,305
Equity attributable to equity shareholders of the Company		**34,563,910**	32,331,323
Non-controlling interests		**473,862**	497,538
Total equity		**35,037,772**	32,828,861
Total liabilities and equity		**87,541,058**	80,926,000

The notes on pages 142 to 234 form part of these consolidated financial statements.

The consolidated financial statements on pages 134 to 234 were approved and authorised for issue by the board of directors on 31 March 2020 and are signed on its behalf by:

Zhang Zhiyong
Chairman

Zhang Xu
Executive Vice President and Chief Financial Officer, Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

		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 31 December 2018 (audited)		**6,926,018**	**4,529,310**	**1,851,936**	**1,219,710**	**225,299**	**2,197,233**	**15,575**	**(68,310)**	**15,434,552**	**32,331,323**	**497,538**	**32,828,861**
Adjustments	3	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(32,754)**	**(32,754)**	**(341)**	**(33,095)**
Balance as at 1 January 2019 (restated)		**6,926,018**	**4,529,310**	**1,851,936**	**1,219,710**	**225,299**	**2,197,233**	**15,575**	**(68,310)**	**15,401,798**	**32,298,569**	**497,197**	**32,795,766**
Changes in equity for the year ended 31 December 2019													
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,049,229**	**3,049,229**	**(19,430)**	**3,029,799**
Other comprehensive income/ (expense) for the year		**–**	**–**	**–**	**–**	**–**	**263,452**	**(2,708)**	**–**	**–**	**260,744**	**62**	**260,806**
Total comprehensive income/ (expense) for the year		**–**	**–**	**–**	**–**	**–**	**263,452**	**(2,708)**	**–**	**3,049,229**	**3,309,973**	**(19,368)**	**3,290,605**
Dividend declared	14(b)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,044,444)**	**(1,044,444)**	**–**	**(1,044,444)**
Distribution to non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(4,155)**	**(4,155)**
Appropriation		**–**	**–**	**–**	**119,831**	**–**	**–**	**–**	**–**	**(119,831)**	**–**	**–**	**–**
Appropriation of specific reserve		**–**	**–**	**–**	**–**	**681,925**	**–**	**–**	**–**	**(681,925)**	**–**	**–**	**–**
Utilisation of specific reserve		**–**	**–**	**–**	**–**	**(636,950)**	**–**	**–**	**–**	**636,950**	**–**	**–**	**–**
Others		**–**	**–**	**(188)**	**–**	**–**	**–**	**–**	**–**	**–**	**(188)**	**188**	**–**
Balance as at 31 December 2019		**6,926,018**	**4,529,310**	**1,851,748**	**1,339,541**	**270,274**	**2,460,685**	**12,867**	**(68,310)**	**17,241,777**	**34,563,910**	**473,862**	**35,037,772**
Balance as at 1 January 2018		6,926,018	4,529,310	1,852,461	1,051,256	198,140	2,402,299	5,619	(68,310)	13,706,102	30,602,895	490,166	31,093,061
Changes in equity for the year ended 31 December 2018													
Profit for the year		–	–	–	–	–	–	–	–	2,901,324	2,901,324	26,575	2,927,899
Other comprehensive (expense)/ income for the year		–	–	–	–	–	(205,066)	9,956	–	–	(195,110)	12	(195,098)
Total comprehensive (expense)/ income for the year		–	–	–	–	–	(205,066)	9,956	–	2,901,324	2,706,214	26,587	2,732,801
Dividend declared	14(b)	–	–	–	–	–	–	–	–	(977,261)	(977,261)	–	(977,261)
Distribution to non-controlling interests		–	–	–	–	–	–	–	–	–	–	(13,589)	(13,589)
Appropriation		–	–	–	168,454	–	–	–	–	(168,454)	–	–	–
Appropriation of specific reserve		–	–	–	–	570,948	–	–	–	(570,948)	–	–	–
Utilisation of specific reserve		–	–	–	–	(543,789)	–	–	–	543,789	–	–	–
Others		–	–	(525)	–	–	–	–	–	–	(525)	(5,626)	(6,151)
Balance as at 31 December 2018		6,926,018	4,529,310	1,851,936	1,219,710	225,299	2,197,233	15,575	(68,310)	15,434,552	32,331,323	497,538	32,828,861

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

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 2019, the Company transferred RMB120 million (2018: RMB168 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 equity instruments at fair value through other comprehensive income held at the end of the reporting period.

(f) Exchange reserve

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

The notes on pages 142 to 234 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 **RMB'000**	2018 RMB'000
Operating activities		
Profit before tax	**3,493,601**	3,425,304
Adjustments for:		
Depreciation and amortisation	**1,251,618**	838,137
Impairment losses on accounts receivable, other receivables and contract assets, net	**264,630**	289,992
Impairment losses on inventories, net	**37,988**	27,944
Impairment losses on associates	**8,815**	–
Interest income	**(245,370)**	(181,612)
Finance costs	**68,888**	25,179
Share of profits of associates and joint ventures	**(148,478)**	(105,421)
Dividend income	**(143,868)**	(1,575)
Investment income and fair value gains of financial instruments at fair value through profit or loss	**(220,203)**	(252,058)
Gain on disposal of associates and subsidiaries	**(687)**	(20,206)
Gain on disposal of property, plant and equipment, construction in progress, other intangible assets, leasehold lands and termination of lease, net	**(44,845)**	(48,588)
Exchange differences, net	**11,944**	23,899
Write-back of non-payable liabilities	**(54,806)**	(37,184)
Operating profit before changes in working capital	**4,279,227**	3,983,811
Decrease in inventories	**240,889**	5,078
Increase in accounts and bills receivable	**(583,035)**	(188,956)
Increase in contract assets	**(1,518,487)**	(4,208,117)
Increase in prepayments and other current assets	**(507,502)**	(166,367)
Increase in accounts and bills payable	**2,395,086**	3,693,666
Increase in contract liabilities	**1,439,042**	358,185
(Decrease)/increase in accrued expenses and other payables	**(557,856)**	1,177,350
Net cash inflow from operations	**5,187,364**	4,654,650
Interest paid	**(67,312)**	(20,598)
Interest received	**221,854**	206,616
Income tax paid	**(530,255)**	(579,697)
Net cash generated from operating activities	**4,811,651**	4,260,971

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
Investing activities			
Payments for purchase of property, plant and equipment, construction in progress, other intangible assets and investment properties		**(1,025,735)**	(932,087)
Payments for leasehold lands		**(154,474)**	(55,292)
Proceeds from disposal of property, plant and equipment and other intangible assets		**71,005**	201,428
Proceeds from disposal of leasehold lands		**15,416**	66,716
Restricted bank deposits (paid)/received		**(95,460)**	626,116
Dividends received		**207,608**	55,928
Proceeds from disposal of investments		**1,869**	17,270
Payments for acquisition of wealth management products and structured deposits		**(9,950,000)**	(10,650,000)
Proceeds from disposal of wealth management products and structured deposits		**10,450,000**	10,650,000
Payments for acquisition of investments		**(88,965)**	(759,359)
Other cash paid related to investing activities		**(176)**	(21,237)
Other cash received related to investing activities		**257,596**	249,631
Net cash used in investing activities		**(311,316)**	(550,886)
Financing activities			
Proceeds from bank and other loans		**125,945**	793,786
Repayments of bank and other loans		**(98,603)**	(660,823)
Repayments of leases liabilities		**(350,303)**	–
Dividends paid		**(1,062,172)**	(1,013,058)
Other cash paid related to financing activities		**–**	(5,768)
Other cash received related to financing activities		**–**	153
Net cash used in financing activities		**(1,385,133)**	(885,710)
Net increase in cash and cash equivalents		**3,115,202**	2,824,375
Cash and cash equivalents at beginning of year		**16,106,246**	13,266,631
Effect of foreign exchange rate changes		**(684)**	15,240
Cash and cash equivalents at end of year	33	**19,220,764**	16,106,246

The notes on pages 142 to 234 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 service provider in the PRC that provides integrated comprehensive smart solutions in the field of informatisation and digitalization. The Group offers telecommunications infrastructure services, including design, construction and project supervision and management; business process outsourcing services, including management of infrastructure for information technology, general facilities management, supply chain and products distribution; and applications, content and other services, including system integration, software development and system support, and value-added services.

(b) Organisation

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

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

(i) CTC underwent a restructuring programme in connection with its full range of telecommunications related services, namely (1) telecommunications infrastructure design, construction and project supervision and management; (2) business process outsourcing (including management of infrastructure for information technologies business, general facilities management and distribution of telecommunications services and products); and (3) a variety of other services including applications, content and others.

(ii) The net assets were injected into the Company by ways of asset injection of those subsidiaries carrying on the Predecessor Operations in consideration of approximately 3,623.4 million ordinary shares with a par value of RMB1.00 each.

(iii) The Group, immediately after the Restructuring, contains substantially all of the operating assets and liabilities relating to the Predecessor Operations, comprising (1) telecommunications infrastructure design, construction and project supervision and management; (2) business process outsourcing (including management of infrastructure for information technologies business, general facilities management, distribution of telecommunications services and products); and (3) a variety of other services including applications, content and others.

(iv) In connection with the Restructuring, certain assets and liabilities historically associated with the Predecessor Operations were not transferred to the Company and were retained by CTC.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. PRINCIPAL ACTIVITIES AND ORGANISATION (continued)

(b) Organisation (continued)

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

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

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

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.

1. PRINCIPAL ACTIVITIES AND ORGANISATION (continued)

(b) Organisation (continued)

The Company established China Comservice Supply Chain Management Company Ltd. in July 2015. The initial registered capital was RMB50 million. The Company paid the capital contribution of RMB10 million and RMB40 million respectively on 24 August 2015 and 30 March 2017. In December 2017, the registered capital of China Comservice Supply Chain Management Company Ltd was increased to RMB108.41 million. In 2018, the registered capital of China Comservice Supply Chain Management Company Ltd was increased to RMB928.73 million.

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

The Company established Comservice Capital Holding Company Limited in May 2017. The registered capital is RMB500 million. The Company paid the capital contribution of RMB100 million and RMB400 million respectively on 29 June 2017 and 29 June 2018.

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

In 2018, the Company's subsidiaries, Guangdong Communications Services Company Limited, Zhejiang Communications Services Holdings Group Company Limited, Shanghai Communications Services Company Limited and Jiangsu Communications Services Company Limited, made capital reduction of RMB120 million, RMB100 million, RMB100.32 million and RMB100 million, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise the Group and its interests in associates and joint ventures.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

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 IFRS 16 *Leases (since 1 January 2019)* or IAS 17 *Leases (before application of IFRS 16)*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

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

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

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

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

Judgements made by management in the application of IFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 44.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation

(i) Business combinations involving enterprises under common control

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

(ii) Business combinations involving entities not under common control

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

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

(iii) Subsidiaries and non-controlling interests

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

a. has power over the investee;

b. is exposed, or has rights, to variable returns from its involvement with the investee; and

c. has the ability to use its power to affect its returns.

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

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

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

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 *Financial Instruments*, or when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(iv) Investments in associates and joint ventures

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

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

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

When the Group's share of losses exceeds its interest in the associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 group 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 the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

(e) 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) 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.

(g) Construction in progress

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

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

(h) Lease prepayments (before application of IFRS 16 on 1 January 2019)

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Intangible assets (other than goodwill)

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

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

a. the technical feasibility of completing the intangible asset so that it will be available for use or sale;

b. the intention to complete the intangible asset and use or sell it;

c. the ability to use or sell the intangible asset;

d. how the intangible asset will generate probable future economic benefits;

e. the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

f. the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads and borrowing costs, where applicable (see note 2(v)). 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.

(j) Leases

Definition of a lease (upon application of IFRS 16 in accordance with transitions in note 3.1)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, or modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Leases (continued)

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 3.1)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases and leases of low-value assets

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

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Leases (continued)

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 3.1) (continued)

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 *Financial Instruments ("IFRS 9")* and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

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

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

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

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment;
- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Leases (continued)

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 3.1) (continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities and lease incentives from lessor by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessor (upon application of IFRS 16 in accordance with transitions in note 3.1)

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term.

Rental income which are derived from the Group's ordinary course of business are presented as revenue.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Leases (continued)

The Group as a lessor (upon application of IFRS 16 in accordance with transitions in note 3.1) (continued)

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies IFRS 15 *Revenue from Contracts with Customers* to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

(k) Leased assets (prior to 1 January 2019)

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of long-lived assets

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

– property, plant and equipment;

– right-of-use assets/lease prepayments (before application of IFRS 16);

– investment properties;

– construction in progress;

– goodwill; and

– other intangible assets with finite useful lives.

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

– Calculation of recoverable amount

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

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of cash-generating units) and then, to reduce the carrying amount of the other assets in the unit (or group of cash-generating 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Impairment of long-lived assets (continued)

– 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 realisable value.

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

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

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

(n) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for accounts receivable arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss, except that at the date of initial application of IFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

(i) *Amortised cost and interest income*

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) *Equity instruments designated as at fair value through other comprehensive income ("FVTOCI")*

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the fair value reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained earnings.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other operating income" line item in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

(iii) *Financial assets at FVTPL*

Financial assets that do not meet the criteria for being measured at amortised cost or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss.

Impairment of financial assets and other items subject to impairment assessment under IFRS 9

The Group performs impairment assessment under expected credit losses ("ECL") model on financial assets (including accounts and bills receivable, financial assets included in prepayments and other current assets, long term receivables, restricted deposits and cash and cash equivalents), lease receivables and contract assets which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for accounts receivable, lease receivables and contract assets. The ECL on these assets are assessed individually for debtors with significant balances, and collectively using a provision matrix with appropriate groupings based on shared credit risk characteristics and type of customers, such as receivables from telecommunications operators and non-telecom operators.

For all other instruments, i.e. financial assets included in prepayments and other current assets, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) *Significant increase in credit risk*

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (continued)

(i) *Significant increase in credit risk (continued)*

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in the financial instrument's external (if available);
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk.

(ii) *Definition of default*

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (continued)

(iii) *Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

(iv) *Write-off policy*

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) *Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with IFRS 16 (since 1 January 2019) or IAS 17 (prior to 1 January 2019).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (continued)

(v) *Measurement and recognition of ECL (continued)*

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of accounts receivable, contract assets, lease receivables and other receivables where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition/initial application of IFRS 9 to measure at FVTOCI, the cumulative gain or loss previously accumulated in the fair value reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments 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.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Financial instruments (continued)

Financial liabilities and equity (continued)

Financial liabilities

All financial liabilities are subsequently measured at FVTPL or at amortised cost using the effective interest method.

(i) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which IFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

(ii) Financial liabilities at amortised cost

Financial liabilities including interest-bearing borrowings, accounts and bills payable, financial liabilities included in accrued expenses and other payables are subsequently measured at amortised cost, using the effective interest method.

(iii) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(o) 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 original maturity at acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) 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) 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.

(q) Income tax

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

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Income tax (continued)

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

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

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) 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.

(s) Revenue from contracts with customers

The Group 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.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Groups performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

As such, revenues from contracts with customers of major telecommunications support services, including construction, management of infrastructure for information technology and design are generally recognised over time during which the services are provided to customers.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service. As such, revenues from products distribution are recognised at a point in time when the control over the products have been transferred to customers. Some construction service contracts with non-telecom operators do not meet any of the criteria for recognising revenue over time and thus revenues from these contracts are recognised at a point in time when the control over the services have been transferred to customers.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Revenue from contracts with customers (continued)

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of a performance obligation is mainly measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

Warranties

If a customer has the option to purchase a warranty separately, the Group accounts for the warranty as a separate performance obligation and allocates a portion of the transaction price to that performance obligation.

If a customer does not have the option to purchase a warranty separately, the Group accounts for the warranty in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* unless the warranty provides the customer with a service in addition to the assurance that the product complies with agreed-upon specification (i.e. service-type warranties).

For service-type warranties, the promised service is a performance obligation. In that case, the Group allocates a portion of the transaction price to the warranty.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Revenue from contracts with customers (continued)

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contract where the period between payment and transfer of the associated goods or services is less than one year, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

(t) 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.

(u) 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(g)), are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) 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.

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated 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 46).

(x) Dividends or profit distributions

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) 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 new and amendments to IFRSs issued by IASB for the first time in the current year:

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

Except for IFRS 16 Leases as described below, the application of the new and 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.

3. CHANGES IN ACCOUNTING POLICIES (continued)

3.1 IFRS 16 Leases

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

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and measured right-of-use assets at the carrying amounts as if IFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying IFRS 16 transition. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease- by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of buildings, motor vehicles and other equipment in the PRC was determined on a portfolio basis; and

v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 3.6%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. CHANGES IN ACCOUNTING POLICIES (continued)

3.1 IFRS 16 Leases (continued)

As a lessee (continued)

	At 1 January 2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018	1,301,802
Lease liabilities discounted at relevant incremental borrowing rates	1,098,638
Less: Recognition exemption – short-term leases	132,759
Recognition exemption – low-value assets	509
Others	14,462
Lease liabilities relating to operating leases recognised upon application of IFRS 16	950,908
Lease liabilities as at 1 January 2019	950,908
Analysed as	
Current	269,303
Non-current	681,605
	950,908

3. CHANGES IN ACCOUNTING POLICIES (continued)

3.1 IFRS 16 Leases (continued)

As a lessee (continued)

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Note	Right-of-use assets RMB'000
Right-of-use assets relating to operating leases recognised upon application of IFRS 16		914,331
Reclassified from lease prepayments	(a)	722,672
Reclassified from prepayments and other current assets		22,578
		1,659,581
By class:		
Leasehold lands		722,672
Buildings		869,722
Motor vehicles		8,946
Other equipment		58,241
		1,659,581

Note:

(a) Upfront payments for leasehold lands in the PRC were classified as lease prepayments as at 31 December 2018. Upon application of IFRS 16, lease prepayments amounting to RMB723 million were reclassified to right-of-use assets.

As a lessor

In accordance with the transitional provisions in IFRS 16, except for sub-leases in which the Group acts as an intermediate lessor, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application and comparative information has not been restated. These changes has had no material impact on the consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. CHANGES IN ACCOUNTING POLICIES (continued)

3.1 IFRS 16 Leases (continued)

The net effects arising from the initial application of IFRS 16 resulted in a decrease in the opening balance of retained earnings at an amount of approximately RMB33 million.

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

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

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

4. REVENUES

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

Disaggregation of revenue

	2019 RMB'000	2018 RMB'000
Revenue from telecommunications infrastructure services	**64,688,815**	57,359,436
Revenue from business process outsourcing services	**36,637,180**	35,102,822
Revenue from applications, content and other services	**16,087,094**	13,714,379
	117,413,089	106,176,637

The Group's major customers are telecommunications operators which include CTC and its subsidiaries (excluding the Group) ("CTC Group") and China Mobile Communications Group Co., Ltd. and its subsidiaries ("CM Group"), each contributing a revenue exceeding 10% of the Group's total revenues. Revenues from the provision of integrated telecommunications support services to CTC Group and CM Group for the year ended 31 December 2019 amounted to RMB40,633 million and RMB23,881 million, respectively (2018: RMB41,279 million and RMB21,219 million, respectively), being 34.6% and 20.3% of the Group's total revenues, respectively (2018: 38.9% and 20.0%, respectively). The revenues derived from areas outside Mainland China for the year ended 31 December 2019 amounted to RMB3,266 million (2018: RMB3,155 million).

For the year ended 31 December 2019, the Group's first three businesses that contributed to the overall revenues were construction, management of infrastructure for information technology and supply chain, the revenues from which amounted to RMB50,735 million, RMB15,827 million and RMB10,320 million, respectively (2018: The Group's first three businesses that contributed to the overall revenues were construction, management of infrastructure for information technology and telecommunications infrastructure design, the revenues from which amounted to RMB42,863 million, RMB14,793 million and RMB10,605 million, respectively).

The Group's rental income for the year ended 31 December 2019 amounted to RMB714 million (2018: RMB691 million).

Revenue from construction contracts with non-telecom operators for construction services signed in 2019 and not yet completed on 31 December 2019 amounted to RMB5,733 million.

The Group generally recognises major telecommunications support services, including construction, management of infrastructure for information technology, design, logistics and warehousing in supply chain, as a performance obligation satisfied over time as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs, or the Group's performance creates and enhances an asset that the customer controls as the Groups performs. Revenue is recognised for these services by measuring the progress towards complete satisfaction of each performance obligation mainly using output method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

4. REVENUES (continued)

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2019 and 2018 and the expected timing of recognising revenue are as follows:

	Telecommunications infrastructure services RMB'000	Business process outsourcing services RMB'000	Applications, content and other services RMB'000
As at 31 December 2019			
Within one year	**27,780,074**	**1,548,614**	**2,287,248**
More than one year but not more than two years	**9,039,588**	**705,149**	**576,260**
More than two years	**7,045,049**	**177,752**	**378,213**
	43,864,711	**2,431,515**	**3,241,721**
As at 31 December 2018			
Within one year	24,689,360	1,157,455	1,218,627
More than one year but not more than two years	7,121,432	190,762	317,312
More than two years	7,417,621	86,278	230,202
	39,228,413	1,434,495	1,766,141

These amounts disclosed above do not include contracts with an original expected duration of one year or less.

5. COST OF REVENUES

	2019 RMB'000	2018 RMB'000
Depreciation and amortisation	**756,976**	466,096
Direct personnel costs	**9,111,016**	8,747,317
Lease charges (2018: Operating lease charges)	**1,117,275**	1,603,223
Materials costs	**12,838,003**	9,783,239
Direct costs of products distribution	**4,167,579**	4,629,177
Subcontracting charges	**64,462,508**	57,555,216
Others	**11,272,773**	10,507,403
	103,726,130	93,291,671

6. OTHER OPERATING INCOME

	2019 RMB'000	2018 RMB'000
Interest income	**245,370**	181,612
Dividend income from equity instruments	**143,868**	1,575
Government grants	**283,910**	279,285
Gain on disposal of associates and subsidiaries	**687**	20,206
Gain on disposal of property, plant and equipment, other intangible assets, leasehold lands, construction in progress and termination of lease	**61,295**	78,641
Penalty income	**3,001**	3,929
Management fee income	**370,324**	329,335
Write-back of non-payable liabilities	**54,806**	37,184
Investment income and fair value gains on wealth management products and structured deposits	**216,349**	252,609
Others	**175,145**	60,513
	1,554,755	1,244,889

7. OTHER OPERATING EXPENSES

	2019 RMB'000	2018 RMB'000
Loss on disposal of property, plant and equipment, construction in progress and other intangible assets	**16,450**	30,053
Donations	**2,430**	1,264
Penalty charge and compensation	**199,790**	33,780
Net foreign exchange loss	**11,944**	23,899
Others	**102,685**	84,726
	333,299	173,722

8. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest on bank and other borrowings	**32,478**	25,179
Interest on lease liabilities	**36,410**	–
	68,888	25,179

For the years ended 31 December 2019 and 2018, no borrowing costs were capitalised in relation to construction in progress.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

9. PROFIT BEFORE TAX

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

	2019 **RMB'000**	2018 RMB'000
(a) Staff costs:		
Salaries, wages and other benefits	**14,948,888**	14,213,728
Contributions to defined contribution retirement schemes	**1,708,579**	1,395,705
	16,657,467	15,609,433
(b) Other items:		
Depreciation		
– Property, plant and equipment (note 16)	**682,691**	659,181
– Right-of-use assets (note 17)	**388,392**	–
– Investment properties (note 18)	**43,585**	44,355
Amortisation		
– Lease prepayments (note 20)	**–**	26,727
– Other intangible assets (note 22)	**136,950**	107,874
Auditors' remuneration	**34,695**	34,495
Materials costs (note 27)	**12,838,003**	9,783,239
Direct costs of products distribution (note 27)	**4,167,579**	4,629,177
Write-down of inventories (note 27)	**56,174**	30,819
Reversal of write-down of inventories (note 27)	**(18,186)**	(2,875)
Impairment losses on accounts receivable, other receivables and contract assets	**560,178**	611,430
Reversal of impairment losses on accounts receivable, other receivables and contract assets	**(295,548)**	(321,438)
Investment income and fair value gains of financial instruments at fair value through profit or loss	**(220,203)**	(252,058)
Lease charges (2018: Operating lease charges)	**1,329,436**	1,905,172
Research and development costs	**3,275,915**	2,798,327

The selling expenses, general and administrative expenses and other expenses of the Group are RMB2,306 million, RMB8,482 million and RMB706 million (2018: RMB2,071 million, RMB7,818 million and RMB722 million), respectively for the year ended 31 December 2019. Research and development costs include RMB2,604 million (2018: RMB2,290 million) relating to staff costs, amount of which is also included in the staff costs disclosed in note 9(a).

10. INCOME TAX

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

	2019 RMB'000	2018 RMB'000
Current tax		
PRC enterprise income tax	**466,882**	521,154
Overseas enterprise income tax	**55,224**	34,782
Deferred tax		
Origination and reversal of temporary differences (note 25)	**(58,304)**	(58,531)
Total income tax	**463,802**	497,405

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

	2019 RMB'000	2018 RMB'000
Profit before tax	**3,493,601**	3,425,304
Expected income tax expense at a statutory tax rate of 25% (2018: 25%) (note (i))	**873,400**	856,326
Differential tax rates on subsidiaries' income (note (i))	**(203,262)**	(214,189)
Non-deductible expenses (note (ii))	**137,586**	132,397
Non-taxable income	**(73,091)**	(58,741)
Tax losses not recognised	**93,957**	51,879
Utilisation of previously unrecognised tax losses	**(25,231)**	(4,719)
Over provision in respect of prior years	**(30,567)**	(28,737)
Others (note (iii))	**(308,990)**	(236,811)
Income tax	**463,802**	497,405

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 2019 and 2018, except for certain domestic subsidiaries of the Group, which are taxed at preferential rates of 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

11. OTHER COMPREHENSIVE INCOME/(EXPENSE)

	2019 **RMB'000**	2018 RMB'000
Changes in fair value of equity instruments at FVTOCI recognised during the year	**350,651**	(271,052)
Net deferred tax (charged)/credited to other comprehensive income	**(87,199)**	65,986
Net movement in the fair value reserve during the year recognised in other comprehensive income/(expense)	**263,452**	(205,066)

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 2019 are as follows:

	Fee RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000 (note)	Pension scheme contributions RMB'000	Share appreciation rights RMB'000	2019 Total RMB'000
Executive Directors						
Zhang Zhiyong (chairman)	–	–	–	–	–	–
Si Furong	–	280	917	128	–	1,325
Zhang Xu	–	167	448	83	–	698
	–	447	1,365	211	–	2,023
Non-Executive Directors						
Li Zhengmao (resigned on 20 March 2020)	–	–	–	–	–	–
Shao Guanglu (resigned on 20 March 2020)	–	–	–	–	–	–
	–	–	–	–	–	–
Independent Non-Executive Directors						
Siu Wai Keung, Francis	300	–	–	–	–	300
Lv Tingjie	170	–	–	–	–	170
Wu Taishi	170	–	–	–	–	170
Liu linfei	170	–	–	–	–	170
	810	–	–	–	–	810
Supervisors						
Han Fang	–	–	–	–	–	–
Hai Liancheng	85	–	–	–	–	85
Si Jianfei	–	183	517	102	–	802
	85	183	517	102	–	887
Total directors' and supervisors' emoluments						3,720

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 2018 are as follows:

	Fee RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000 (note)	Pension scheme contributions RMB'000	Share appreciation rights RMB'000	2018 Total RMB'000
Executive Directors						
Zhang Zhiyong (chairman, appointed on 16 March 2018)	–	–	–	–	–	–
Sun Kangmin (chairman, resigned on 16 March 2018)	–	–	–	–	–	–
Si Furong	–	259	768	98	–	1,125
Zhang Xu (appointed on 13 December 2018)	–	25	46	13	–	84
Hou Rui (resigned on 13 December 2018)	–	165	662	84	–	911
	–	449	1,476	195	–	2,120
Non-Executive Directors						
Li Zhengmao	–	–	–	–	–	–
Shao Guanglu	–	–	–	–	–	–
	–	–	–	–	–	–
Independent Non-Executive Directors						
Zhao Chunjun (resigned on 13 December 2018)	150	–	–	–	–	150
Siu Wai Keung, Francis	280	–	–	–	–	280
Lv Tingjie	150	–	–	–	–	150
Wu Taishi	150	–	–	–	–	150
Liu linfei	150	–	–	–	–	150
	880	–	–	–	–	880
Supervisors						
Han Fang	–	–	–	–	–	–
Hai Liancheng	75	–	–	–	–	75
Si Jianfei	–	172	452	84	–	708
	75	172	452	84	–	783
Total directors' and supervisors' emoluments						3,783

12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

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

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

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

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

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:

	2019	2018
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:

	2019 **RMB'000**	2018 RMB'000
Salaries, allowances and other benefits in kind	**2,514**	2,420
Discretionary bonuses	**4,265**	4,420
Pension scheme contributions	**744**	504
	7,523	7,344

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

(a) The five highest paid employees of the Group (continued)

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

	2019	2018
RMB equivalent		
1,000,001 to 1,500,000	**3**	3
1,500,001 to 2,000,000	**2**	2

(b) Senior management's remuneration

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

	2019	2018
RMB equivalent		
Nil to 1,000,000	**16**	16
1,000,001 to 2,000,000	**5**	5

14. DIVIDENDS

(a) Dividends attributable to the year

	2019 **RMB'000**	2018 RMB'000
Final dividend proposed after the end of reporting period of RMB0.1321 per share (2018: RMB0.1257 per share)	**914,927**	870,601
Special dividend proposed after the end of reporting period of RMB0.0264 per share (2018: RMB0.0251 per share)	**182,847**	173,843
	1,097,774	1,044,444

14. DIVIDENDS (continued)

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

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

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 2019 of RMB3,049,229 thousand (2018: RMB2,901,324 thousand) and number of shares in issue during the year ended 31 December 2019 of 6,926,018 thousand shares (2018: 6,926,018 thousand shares).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 2019	**3,754,659**	**697,101**	**1,597,369**	**3,966,196**	**10,015,325**
Transfer to investment properties (note 18)	**(80)**	–	–	–	**(80)**
Transfer from investment properties (note 18)	**817**	–	–	–	**817**
Transfer from construction in progress (note 19)	**170,303**	**13,639**	**2,078**	**48,982**	**235,002**
Additions	**32,622**	**56,991**	**114,926**	**301,855**	**506,394**
Disposals	**(38,270)**	**(2,958)**	**(157,131)**	**(327,066)**	**(525,425)**
As at 31 December 2019	**3,920,051**	**764,773**	**1,557,242**	**3,989,967**	**10,232,033**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES					
As at 1 January 2019	**1,395,313**	**529,375**	**1,045,247**	**2,660,690**	**5,630,625**
Transfer to investment properties (note 18)	**(39)**	–	–	–	**(39)**
Transfer from investment properties (note 18)	**399**	–	–	–	**399**
Depreciation charge	**139,402**	**74,664**	**135,276**	**333,349**	**682,691**
Depreciation written back on disposals	**(5,010)**	**(1,905)**	**(146,304)**	**(297,675)**	**(450,894)**
As at 31 December 2019	**1,530,065**	**602,134**	**1,034,219**	**2,696,364**	**5,862,782**
NET CARRYING VALUE					
As at 31 December 2019	**2,389,986**	**162,639**	**523,023**	**1,293,603**	**4,369,251**
As at 1 January 2019	**2,359,346**	**167,726**	**552,122**	**1,305,506**	**4,384,700**

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 2018	3,425,185	629,049	1,608,769	3,944,527	9,607,530
Transfer to investment properties (note 18)	(57,855)	–	–	(225)	(58,080)
Transfer from investment properties (note 18)	20,340	–	–	–	20,340
Transfer from construction in progress (note 19)	378,072	3,944	6,102	28,003	416,121
Additions	41,904	76,935	129,435	295,085	543,359
Disposals	(52,987)	(12,827)	(146,937)	(301,194)	(513,945)
As at 31 December 2018	3,754,659	697,101	1,597,369	3,966,196	10,015,325
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES					
As at 1 January 2018	1,294,001	481,318	1,035,009	2,606,827	5,417,155
Transfer to investment properties (note 18)	(24,080)	–	–	–	(24,080)
Transfer from investment properties (note 18)	8,059	–	–	–	8,059
Depreciation charge	140,855	61,029	147,545	309,752	659,181
Depreciation written back on disposals	(23,522)	(12,972)	(137,307)	(252,211)	(426,012)
Impairment loss eliminated on disposals	–	–	–	(3,678)	(3,678)
As at 31 December 2018	1,395,313	529,375	1,045,247	2,660,690	5,630,625
NET CARRYING VALUE					
As at 31 December 2018	2,359,346	167,726	552,122	1,305,506	4,384,700
As at 1 January 2018	2,131,184	147,731	573,760	1,337,700	4,190,375

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

Up to the date of issue of these consolidated financial statements, the Group is still in the process of applying for or changing registration of the title certificates of certain of its properties with an aggregate carrying amount of approximately RMB286 million as at 31 December 2019 (2018: RMB218 million). The directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

17. RIGHT-OF-USE ASSETS

	Leasehold lands RMB'000	Buildings RMB'000	Motor vehicles RMB'000	Other equipment RMB'000	Total RMB'000
As at 1 January 2019					
Carrying amount	722,672	869,722	8,946	58,241	1,659,581
As at 31 December 2019					
Carrying amount	872,116	983,708	1,757	38,415	1,895,996
For the year ended 31 December 2019					
Depreciation charge	24,448	329,118	1,260	33,566	388,392
Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of IFRS 16					1,223,446
Expense relating to leases of low-value assets, excluding short-term leases of low value assets					105,990
Total cash outflow for leases					1,867,601
Additions to right-of-use assets					769,652

The Group leases leasehold lands, buildings, motor vehicles and other equipment for its operations. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Group entered into short-term leases mainly for buildings, motor vehicles and other equipment. As at 31 December 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above in this note.

As at 31 December 2019, the Group entered into new leases for buildings, motor vehicles and other equipment that have not yet commenced, the total future undiscounted cash flows over the non-cancellable period amounted to RMB1,519 million.

18. INVESTMENT PROPERTIES

	2019 **RMB'000**	2018 RMB'000
Cost		
As at 1 January	**1,209,506**	1,185,369
Additions	**1,717**	–
Transfer from property, plant and equipment (note 16)	**80**	58,080
Transfer to property, plant and equipment (note 16)	**(817)**	(20,340)
Disposals	**–**	(13,603)
As at 31 December	**1,210,486**	1,209,506
Accumulated depreciation		
As at 1 January	**603,441**	547,502
Transfer from property, plant and equipment (note 16)	**39**	24,080
Transfer to property, plant and equipment (note 16)	**(399)**	(8,059)
Depreciation charge	**43,585**	44,355
Depreciation written back on disposals	**–**	(4,437)
As at 31 December	**646,666**	603,441
Net carrying value		
As at 31 December	**563,820**	606,065
As at 1 January	**606,065**	637,867
Fair value	**2,641,598**	2,390,014

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

18. 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:

	2019 **RMB'000**
Within one year	**120,525**
In the second year	**75,742**
In the third year	**61,088**
In the fourth year	**36,643**
In the fifth year	**26,750**
After five years	**90,170**
As at 31 December	**410,918**

	2018 RMB'000
Within one year	109,734
After one year but within five years	289,064
After five years	74,880
As at 31 December	473,678

During the year ended 31 December 2019, RMB146 million (2018: RMB143 million) has been recognised as rental income in the consolidated statement of profit or loss and RMB57 million (2018: RMB53 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 RMB25 million as at 31 December 2019 (2018: RMB32 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.

19. CONSTRUCTION IN PROGRESS

	2019 RMB'000	2018 RMB'000
Cost:		
As at 1 January	**342,427**	539,359
Additions	**304,235**	286,700
Disposals	**(6,873)**	(1,424)
Transfer to other intangible assets (note 22)	**(120,622)**	(61,587)
Transfer to property, plant and equipment (note 16)	**(235,002)**	(416,121)
Transfer to leasehold lands (note 20)	**(1,800)**	(4,500)
As at 31 December	**282,365**	342,427

20. LEASE PREPAYMENTS

	2018 RMB'000
Cost:	
As at 1 January	1,016,044
Additions	20,409
Transfer from construction in progress (note 19)	4,500
Disposals	(18,694)
As at 31 December	1,022,259
Released to profit or loss:	
As at 1 January	277,158
Amortisation charge	26,727
Disposals	(4,298)
As at 31 December	299,587
Net carrying value:	
As at 31 December	722,672
As at 1 January	738,886

Lease prepayments represent payments for land use rights paid to the PRC authorities. The Group's land use rights are located in the PRC and are with remaining terms ranging from 10 to 62 years as at 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

21. GOODWILL

	2019 **RMB'000**	2018 RMB'000
Cost and carrying amount	**103,005**	103,005

	2019 **RMB'000**	2018 RMB'000
Impairment tests for cash-generating units containing goodwill		
China International Telecommunications Construction Corporation ("CITCC")	**103,005**	103,005

The recoverable amounts of cash-generating units containing goodwill arising from the acquisition of CITCC are determined based on value in use calculation. The calculation uses cash flow projection based on financial budget approved by management covering a five-year period and pre-tax discount rates is 12.07% (2018: 10.44%).

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.

22. OTHER INTANGIBLE ASSETS

	2019 RMB'000	2018 RMB'000
Cost:		
As at 1 January	**978,116**	864,157
Additions	**171,473**	76,707
Transfer from construction in progress (note 19)	**120,622**	61,587
Disposals	**(15,649)**	(24,335)
As at 31 December	**1,254,562**	978,116
Accumulated amortisation:		
As at 1 January	**622,777**	538,467
Amortisation charge	**136,950**	107,874
Written back on disposals	**(10,443)**	(23,564)
As at 31 December	**749,284**	622,777
Net carrying value:		
As at 31 December	**505,278**	355,339
As at 1 January	**355,339**	325,690

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

23. INTERESTS IN ASSOCIATES AND JOINT VENTURES

	2019 RMB'000	2018 RMB'000
Share of net assets	**418,336**	318,059

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

24. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The equity instruments mainly represent ordinary shares of entities listed in mainland China. These investments are not held for trading, instead, they are held for long-term strategic purposes. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realizing their performance potential in the long run.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

25. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net balance	
	31 December 2019 RMB'000	31 December 2018 RMB'000	**31 December 2019 RMB'000**	31 December 2018 RMB'000	**31 December 2019 RMB'000**	31 December 2018 RMB'000
Impairment losses, primarily for receivables and inventories	**346,229**	308,864	**–**	–	**346,229**	308,864
Revaluation of property, plant and equipment	**–**	–	**(68)**	(68)	**(68)**	(68)
Unused tax losses (note (i))	**49,726**	30,343	**–**	–	**49,726**	30,343
Changes in fair value	**–**	–	**(833,399)**	(741,215)	**(833,399)**	(741,215)
Unpaid expenses	**290,904**	282,995	**–**	–	**290,904**	282,995
Others	**3,482**	–	**(277)**	1,091	**3,205**	1,091
Deferred tax assets (liabilities)	**690,341**	622,202	**(833,744)**	(740,192)	**(143,403)**	(117,990)

Movements in deferred tax assets and liabilities for the years ended 31 December 2019 and 2018 are as follows:

	As at 31 December 2018 RMB'000	Adjustments RMB'000 (note 3)	**As at 1 January 2019 RMB'000 (restated)**	Recognised in profit or loss RMB'000 (note 10(a))	Recognised in other comprehensive income RMB'000 (note 11)	**As at 31 December 2019 RMB'000**
Impairment losses, primarily for receivables and inventories	308,864	–	**308,864**	37,365	–	**346,229**
Revaluation of property, plant and equipment	(68)	–	**(68)**	–	–	**(68)**
Unused tax losses (note (i))	30,343	–	**30,343**	19,383	–	**49,726**
Changes in fair value	(741,215)	–	**(741,215)**	(4,985)	(87,199)	**(833,399)**
Unpaid expenses	282,995	–	**282,995**	7,909	–	**290,904**
Others	1,091	3,482	**4,573**	(1,368)	–	**3,205**
Deferred tax assets (liabilities)	(117,990)	3,482	**(114,508)**	58,304	(87,199)	**(143,403)**

25. DEFERRED TAX ASSETS AND LIABILITIES (continued)

	As at 1 January 2018 RMB'000	Recognised in profit or loss RMB'000 (note 10(a))	Recognised in other comprehensive income RMB'000 (note 11)	As at 31 December 2018 RMB'000
Impairment losses, primarily for receivables and inventories	280,555	28,309	–	308,864
Revaluation of property, plant and equipment	(68)	–	–	(68)
Unused tax losses (note (i))	26,850	3,493	–	30,343
Changes in fair value	(796,139)	(11,062)	65,986	(741,215)
Unpaid expenses	241,085	41,910	–	282,995
Others	5,210	(4,119)	–	1,091
Deferred tax assets (liabilities)	(242,507)	58,531	65,986	(117,990)

Notes:

(i) Expiry of recognised tax losses

	2019 RMB'000	2018 RMB'000
Year of expiry		
2019	**–**	17,092
2020	**1,558**	2,439
2021	**43,123**	43,719
2022	**78,715**	79,068
2023	**35,408**	56,856
2024	**172,650**	–
	331,454	199,174

(ii) As at 31 December 2019, the Group has not recognised deferred tax assets in respect of tax losses of RMB860.1 million (2018: RMB840.6 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 2020 to 2024 (2018: 2019 to 2023).

26. OTHER NON-CURRENT ASSETS

Other non-current assets mainly represent the long-term receivables arising from provision of telecommunications infrastructure services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

27. INVENTORIES

	2019 RMB'000	2018 RMB'000
Construction materials	**755,919**	817,973
Finished goods	**998,133**	1,333,760
Spare parts and consumables	**220,098**	101,294
	1,974,150	2,253,027

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

	2019 RMB'000	2018 RMB'000
Carrying amount of inventories consumed and sold		
– Materials costs	**12,838,003**	9,783,239
– Direct costs of products distribution	**4,167,579**	4,629,177
Reversal of write-down of inventories	**(18,186)**	(2,875)
Write-down of inventories	**56,174**	30,819
	17,043,570	14,440,360

28. ACCOUNTS AND BILLS RECEIVABLE, NET

	2019 RMB'000	2018 RMB'000
Bills receivable	**363,350**	276,034
Accounts receivable	**20,287,259**	19,806,523
	20,650,609	20,082,557
Less: allowance for credit losses	**(1,557,784)**	(1,414,533)
	19,092,825	18,668,024

As at 1 January 2018, accounts and bills receivable from contracts with customers amounted to RMB18,620 million.

(a) Included in accounts and bills receivable are amounts due from CTC Group, associates of the Group and associates of CTC Group of RMB9,286 million (2018: RMB10,620 million) as at 31 December 2019. 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.

28. ACCOUNTS AND BILLS RECEIVABLE, NET (continued)

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

	2019 RMB'000	2018 RMB'000
Current	**844,908**	1,736,665
Within 1 year	**15,413,416**	14,839,588
After 1 year but less than 2 years	**2,038,087**	1,376,626
After 2 years but less than 3 years	**454,502**	435,583
After 3 years	**341,912**	279,562
	19,092,825	18,668,024

(c) Credit losses of accounts and bills receivable

Credit 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 credit loss is written off against accounts and bills receivable directly (see note 2(n)).

Details of impairment assessment of accounts receivable are set out in note 43(a).

29. CONTRACT ASSETS, NET

	2019 RMB'000	2018 RMB'000
Telecommunications infrastructure services	**14,540,160**	13,219,615
Business process outsourcing services	**671,738**	647,111
Applications, content and other services	**2,201,628**	2,028,796
	17,413,526	15,895,522
Less: allowance for credit losses	**(259,997)**	(230,764)
	17,153,529	15,664,758

As at 1 January 2018, contract assets amounted to RMB11,637 million.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

30. PREPAYMENTS AND OTHER CURRENT ASSETS

	2019 RMB'000	2018 RMB'000
Advances to staff	**97,340**	86,002
Amounts due from CTC Group, associates of the Group and associates of CTC Group	**1,960,684**	1,726,998
Prepayments in connection with construction work and equipment purchases	**2,665,403**	2,722,854
Prepaid expenses and deposits	**1,399,747**	1,397,136
Others	**2,648,594**	2,713,133
	8,771,768	8,646,123

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.

31. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 RMB'000	2018 RMB'000
Wealth management products	**703,420**	–
Structured deposits	**3,864,404**	5,046,898
Equity instruments	**818,268**	–
	5,386,092	5,046,898
Analysed for reporting purpose as:		
Current assets	**4,567,824**	5,046,898
Non-current assets	**818,268**	–
	5,386,092	5,046,898

As at 31 December 2019 and 2018, the wealth management products and structured deposits were issued by banks in the PRC with variable returns linked to gold price, foreign exchange rates or floating interest rates.

As at 31 December 2019 and 2018, the Group has the rights to redeem the wealth management products and structured deposits at expected maturity dates within 12 months after the end of reporting period.

32. 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.

33. CASH AND CASH EQUIVALENTS

	2019 RMB'000	2018 RMB'000
Cash at bank and in hand	**16,276,210**	16,011,556
Cash at China Telecom Group Finance Co., Ltd. ("China Telecom Finance")	**2,147,014**	–
Deposits at bank with original maturity less than three months	**797,540**	94,690
Cash and cash equivalents	**19,220,764**	16,106,246

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.

34. INTEREST-BEARING BORROWINGS

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

	2019 RMB'000	2018 RMB'000
RMB denominated		
Loan from CTC Group		
– unsecured	**13,280**	13,280
USD denominated		
Borrowings from banks		
– unsecured	**350,903**	393,947
Other denominated		
Borrowings from banks		
– unsecured	**147,051**	54,776
	511,234	462,003

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

34. INTEREST-BEARING BORROWINGS (continued)

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

	2019	2018
RMB denominated		
Loan from CTC Group		
– unsecured	**2.39%**	2.39%
USD denominated		
Borrowings from banks		
– unsecured(fixed interest rate)	**3.43%–4.90%**	3.43%–4.90%
– unsecured(floating interest rate)	**London Interbank Offered Rate ("Libor") +1.00%–1.70%**	Libor +1.00%–1.35%
Other denominated		
Borrowings from banks		
– unsecured(fixed interest rate)	**2.91%–10.63%**	2.45%–9.24%
– unsecured(floating interest rate)	**Kiev Interbank Offered Rate ("Kibor") +1.00%**	N/A

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

	2019 RMB'000	2018 RMB'000
USD denominated		
Borrowings from banks		
– unsecured	–	8,922

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

	2019	2018
USD denominated		
Borrowings from banks		
– unsecured	–	3.43%–3.83%

34. INTEREST-BEARING BORROWINGS (continued)

The Group's borrowings were repayable as follows:

	2019 RMB'000	2018 RMB'000
Within 1 year	**511,234**	462,003
After 1 year but within 2 years	**–**	8,922
	511,234	470,925

As at 31 December 2019 and 2018, no borrowings from bank were subject to financial covenants.

35. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	2019 RMB'000	2018 RMB'000
Accounts payable	**28,773,659**	27,067,452
Bills payable	**1,900,960**	1,212,081
	30,674,619	28,279,533

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

	2019 RMB'000	2018 RMB'000
Within 1 year	**28,596,463**	25,945,423
After 1 year but less than 2 years	**1,363,485**	1,651,120
After 2 years but less than 3 years	**433,210**	364,176
After 3 years	**281,461**	318,814
	30,674,619	28,279,533

Included in accounts and bills payable are amounts due to CTC Group, associates of the Group and associates of CTC Group of RMB1,447 million (2018: RMB1,118 million) as at 31 December 2019. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

36. LEASE LIABILITIES

	2019 RMB'000
Lease liabilities payable:	
Within 1 year	**343,281**
After 1 year but within 2 years	**241,228**
After 2 years but within 5 years	**282,353**
After 5 years	**166,591**
	1,033,453
Less: Amount due for settlement with 12 months shown under current liabilities	**343,281**
Amount due for settlement after 12 months shown under non-current liabilities	**690,172**

37. CONTRACT LIABILITIES

	2019 RMB'000	2018 RMB'000
Telecommunications infrastructure services	**7,286,501**	6,865,112
Other services	**2,800,601**	1,782,948
	10,087,102	8,648,060

As at 1 January 2018, contract liabilities amounted to RMB8,290 million.

When the Group receives an advance payment before the performance obligation is satisfied, this will give rise to contract liabilities, until the operating revenues recognised on the relevant contract exceed the amount of the advance payment.

The following table shows how much of the revenue recognised relates to carried-forward contract liabilities.

	Telecommunications infrastructure services RMB'000	Other services RMB'000
For the year ended 31 December 2019		
Revenue recognised that was included in the contract liability balance at the beginning of the year	**6,745,270**	**1,757,644**
For the year ended 31 December 2018		
Revenue recognised that was included in the contract liability balance at the beginning of the year	6,792,991	1,441,206

38. ACCRUED EXPENSES AND OTHER PAYABLES

	2019 **RMB'000**	2018 RMB'000
Wages and welfare payable	**1,561,988**	1,587,977
Amounts due to CTC Group, associates of the Group and associates of CTC Group (note (i))	**467,791**	443,187
Advance lease payments received	**42,274**	29,364
Other taxes payable	**591,905**	650,481
Special dividend and profit distribution payable to CTC Group (note (ii))	**29,300**	29,300
Dividend payable	**15,896**	22,832
Payables for construction and purchase of property, plant and equipment	**20,384**	33,758
Others (note (iii))	**6,000,697**	6,220,528
	8,730,235	9,017,427

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 2019.

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 RMB170 million has been paid to CTC and its subsidiaries by 31 December 2019.

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

39. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities mainly represent the deferred income arising from government grants and termination benefits.

40. SHARE CAPITAL

	2019 RMB'000	2018 RMB'000
Registered, issued and fully paid:		
4,534,598,160 (31 December 2018: 4,534,598,160) domestic shares of RMB1.00 each	**4,534,598**	4,534,598
2,391,420,240 (31 December 2018: 2,391,420,240) H shares of RMB1.00 each	**2,391,420**	2,391,420
	6,926,018	6,926,018

	2019 Thousand shares	2018 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 and long-term interest bearing borrowings. The Group aims to maintain the gearing ratio at a reasonable level. The Group's ratio as at 31 December 2019 was 1.5% (2018: 1.4%). 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.

41. 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 14% to 20% (2018: 13% to 27%) 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.

42. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

As at 31 December 2019, the Group had capital commitments for acquisition and construction of property, plant and equipment and other non-current assets as follows:

	2019 **RMB'000**	2018 RMB'000
Contracted for but not provided	**543,676**	500,340

(b) Operating lease commitments

As at 31 December 2018, the Group's total future minimum lease payments under non-cancellable operating leases were payable as follows:

	2018 RMB'000
Within 1 year	508,960
After 1 year but within 5 years	630,437
After 5 years	162,405
	1,301,802

The Group mainly 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 2019, the Group had no material contingent liabilities and no financial guarantees issued.

43. 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 and impairment assessment

The Group's credit risk is primarily attributable to accounts receivable and contract assets arising from contracts with customers 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 60% of the total accounts and bills receivable as at 31 December 2019 (2018: 67%). The Group has no significant credit risk with any of these customers since they are large state-owned companies in the telecommunications industry.

The credit risk on cash at banks and restricted bank deposits is limited because the counterparties are banks with high credit rankings, mainly the four large state-owned banks.

The credit risk on wealth management products and structured deposits is limited because the counterparties are reputable financial institutions.

The amounts of cash and cash equivalents, restricted deposits, accounts and bills receivable, contract assets, other receivables 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.

The Group recognises a loss allowance for ECL on financial assets and contract assets. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(a) Credit risk and impairment assessment (continued)

Accounts receivable and contract assets arising from contracts with customers

The Group applied the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all accounts receivable and contract assets. To measure the ECL, accounts receivable and contract assets have been grouped based on shared credit risk characteristics.

The contract assets relate to unbilled revenues and have substantially the same risk characteristics as the accounts receivable for the same type of contracts. The Group has therefore concluded that the expected loss rates for the accounts receivable are a reasonable approximation of the loss rates for the contract assets. As at 31 December 2019 and 2018, the credit loss allowance of contract assets was not material.

The following table provides information about the exposure to credit risk for accounts receivable which are assessed based on provision matrix within lifetime ECL. Debtors with significant outstanding balances with gross carrying amounts of RMB1,089 million as at 31 December 2019 were assessed individually (2018: RMB1,984 million). In addition, 100% loss allowance provision has been made regarding balances due from telecommunications operators aged over 4 years of RMB248 million (2018: RMB243 million) and balances due from non-telecom operators aged over 3 years of RMB319 million (2018: RMB261 million)as at 31 December 2019.

	2019			2018		
	Expected loss rate	**Gross carrying amount RMB'000**	**Loss allowance provision RMB'000**	Expected loss rate	Gross carrying amount RMB'000	Loss allowance provision RMB'000
Telecommunications operators						
Within 1 year	**0.3%**	**10,823,868**	**(32,472)**	0.3%	11,367,532	(34,103)
After 1 year but within 2 years	**2%**	**1,493,459**	**(29,869)**	2%	984,086	(19,682)
After 2 years but within 3 years	**20%**	**394,278**	**(78,856)**	20%	309,931	(61,986)
After 3 years but within 4 years	**50%**	**137,940**	**(68,970)**	50%	76,110	(38,055)
		12,849,545	**(210,167)**		12,737,659	(153,826)
Non-telecom operators						
Within 1 year	**1%**	**5,059,355**	**(50,594)**	1%	4,008,595	(40,086)
After 1 year but within 2 years	**10%**	**568,218**	**(56,822)**	10%	400,721	(40,072)
After 2 years but within 3 years	**20%**	**153,963**	**(30,793)**	20%	171,995	(34,399)
		5,781,536	**(138,209)**		4,581,311	(114,557)

Expected loss rates are based on actual loss experience over the past 1 to 4 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(a) Credit risk and impairment assessment (continued)

Accounts receivable and contract assets arising from contracts with customers (continued)

The following table shows the movement in lifetime ECL that has been recognised for accounts receivable under the simplified approach.

	RMB'000
As at 1 January 2018	1,325,499
Changes due to financial assets recognised as at 1 January 2018:	
– Impairment loss recognised	246,561
– Impairment loss reversed	(255,339)
– Uncollectible amounts written off	(44,305)
New financial assets originated	142,117
As at 31 December 2018	1,414,533
Changes due to financial assets recognised as at 1 January 2019:	
– Impairment loss recognised	160,450
– Impairment loss reversed	(188,527)
– Uncollectible amounts written off	(16,326)
New financial assets originated	187,654
As at 31 December 2019	1,557,784

The Group writes off an accounts receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

(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 of interest-bearing borrowings are disclosed in note 34.

The Group is also exposed to cash flow interest rate risk in relation to wealth management products and structured deposits, and short-term debts carrying interests at variable rates. The Group manages its exposure to interest rate risk by closely monitoring the change in the market interest rate.

The management of the Group considers the fluctuation in interest rates on wealth management products and structured deposits, and short-term debts carrying interests at variable rates is insignificant due to short maturity. Therefore, no sensitivity analysis is presented.

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(c) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table show the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and lease 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:

	2019		2018	
	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 34)	**517,090**	**511,234**	467,332	462,003
Accounts and bills payable (note 35)	**30,674,619**	**30,674,619**	28,279,533	28,279,533
Current portion of lease liabilities (note 36)	**355,639**	**343,281**	–	–
Accrued expenses and other payables (note 38)	**8,730,235**	**8,730,235**	9,017,427	9,017,427
	40,277,583	**40,259,369**	37,764,292	37,758,963

(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. 95.8% (2018: 95.3%) of the Group's cash and cash equivalents and 2.6% (2018: 2.8%) of the Group's short-term debt and long-term debt as at 31 December 2019 are denominated in RMB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk (continued)

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) 31 December 2019					
	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	**434,002**	**48,986**	**91,400**	**41,894**	**1,123**	**191,462**
Accounts receivable	**335,471**	**95,152**	**6,791**	**190,057**	**8,218**	**216,451**
Contract assets	**222,146**	**8,809**	**72**	**24,563**	**42,798**	**226,832**
Accounts payable	**(189,945)**	**(360,260)**	**(25,288)**	**(58,355)**	**(24,554)**	**(189,536)**
Short-term interest-bearing borrowings	**(350,903)**	**–**	**–**	**–**	**–**	**(147,051)**
Overall net exposure	**450,771**	**(207,313)**	**72,975**	**198,159**	**27,585**	**298,158**

	Exposure to foreign currencies (expressed in RMB) 31 December 2018					
	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	313,705	83,530	96,929	91,751	4,058	163,371
Accounts receivable	319,950	82,539	4,848	133,615	4,424	234,293
Contract assets	90,031	32,777	–	61,374	45,887	210,747
Accounts payable	(61,963)	(315,046)	(24,878)	(44,009)	(32,893)	(159,448)
Short-term interest-bearing borrowings	(393,947)	–	–	–	–	(54,776)
Long-term interest-bearing borrowings	(8,922)	–	–	–	–	–
Overall net exposure	258,854	(116,200)	76,899	242,731	21,476	394,187

43. 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	
	2019	2018	**2019**	2018
United States dollars	**6.92**	6.70	**6.98**	6.86
Hong Kong dollars	**0.89**	0.86	**0.90**	0.88
Nigerian Naira	**0.02**	0.02	**0.02**	0.02
Saudi Arabian Riyal	**1.84**	1.79	**1.86**	1.83
Ethiopian Birr	**0.23**	0.24	**0.22**	0.24

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.

	2019			2018		
	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%**	**16,904**	**–**	5%	9,707	–
	(5)%	**(16,904)**	**–**	(5)%	(9,707)	–
Hong Kong dollars	**5%**	**(7,774)**	**–**	5%	(4,358)	–
	(5)%	**7,774**	**–**	(5)%	4,358	–
Nigerian Naira	**5%**	**2,737**	**–**	5%	2,884	–
	(5)%	**(2,737)**	**–**	(5)%	(2,884)	–
Saudi Arabian Riyal	**5%**	**7,431**	**–**	5%	9,102	–
	(5)%	**(7,431)**	**–**	(5)%	(9,102)	–
Ethiopian Birr	**5%**	**1,034**	**–**	5%	805	–
	(5%)	**(1,034)**	**–**	(5)%	(805)	–

43. 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 entities' profit after tax measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purpose.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2018.

(e) Price risk

The Group is exposed to equity price changes arising from equity investments at FVTPL and designated as at FVTOCI. Other than certain unquoted equity securities, 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 investment portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

The price risk on wealth management products and structured deposits is limited because maturity period of these investments is short.

At 31 December 2019, it is estimated that an increase/(decrease) of 5% (2018: 5%) in the relevant share price (for listed investments) as applicable, with all other variables held constant, would have increased/(decreased) the Group's other components of consolidated equity as follows:

	2019		2018	
	Increase/ (decrease) in equity price	**Effect on other components of equity RMB'000**	Increase/ (decrease) in equity price	Effect on other components of equity RMB'000
Changes in the relevant equity price risk variable:				
Increase	**5%**	**153,016**	5%	139,843
Decrease	**(5%)**	**(153,016)**	(5%)	(139,843)

The sensitivity analysis indicates the instantaneous change in the Group's other components of consolidated equity that would arise assuming that the changes in the share price had occurred at the end of the reporting period and had been applied to remeasure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period.

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(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.

	2019			
	Level 1 RMB'000	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Financial Assets				
Equity instruments at fair value through other comprehensive income (note (i))	**47,339**	**–**	**4,040,865**	**4,088,204**
Financial assets at fair value through profit or loss				
– Wealth management products and structured deposits (note (ii))	**–**	**–**	**4,567,824**	**4,567,824**
– Equity instruments at fair value through profit or loss (note (iii))	**–**	**–**	**818,268**	**818,268**

	2018			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial Assets				
Equity instruments at fair value through other comprehensive income (note (i))	42,684	–	3,694,869	3,737,553
Financial assets at fair value through profit or loss				
– Wealth management products and structured deposits (note (ii))	–	–	5,046,898	5,046,898
Financial Liabilities				
Financial liabilities at fair value through profit or loss				
– Trading financial liabilities				
– Foreign currency forward contract	–	192	–	192

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(f) Fair value (continued)

(i) Financial instruments carried at fair value on a recurring basis (continued)

Notes:

(i) One of the invested entities was listed on Shanghai Stock Exchange in 2018 and the Group is contractually prevented from selling the shares immediately following the initial public offering. At the end of each reporting period, the Group involves external valuer to determine the fair value of the listed equity security that is within the restricted period, based on the quoted price of the identical unrestricted shares traded in stock exchange and adjusted to reflect the effect of restriction. An increase in the discount rate of lack of marketability used in isolation would result in a decrease in the fair value measurement of this equity instrument and vice versa, and the discount rate is 11.50% (2018: 13.85%). A 5% increase in the discount rate holding all other variables constant would decrease the carrying amount of this equity instrument by RMB26 million as at 31 December 2019 (2018: RMB30 million).

(ii) At the end of each reporting period, the Group determines the fair value of the wealth management products and structured deposits by estimating the discounted cash flow upon them. The future cash flows are estimated based on expected recoverable amounts, and discounted at a rate that reflects the credit risk of various counterparties.

(iii) One of the invested entities was China Telecom Finance. At the end of each reporting period, the Group involves external valuer to determine the fair value of China Telecom Finance based on P/B multiples of comparable companies and discount rate for lack of marketability.

(ii) Reconciliation of level 3 fair value measurement

	Equity instruments at fair value through other comprehensive income RMB'000	Wealth management products and structured deposits RMB'000	Equity instruments at fair value through profit or loss RMB'000
As at 1 January 2019	**3,694,869**	**5,046,898**	**–**
Purchase	**–**	**9,950,000**	**64,430**
Transferred from deposit paid	**–**	**–**	**750,000**
Settlements	**–**	**(10,450,000)**	**–**
Total gains			
– in profit or loss	**–**	**20,926**	**3,838**
– in other comprehensive income	**345,996**	**–**	**–**
As at 31 December 2019	**4,040,865**	**4,567,824**	**818,268**

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(f) Fair value (continued)

(ii) Reconciliation of level 3 fair value measurement (continued)

	Equity instruments at fair value through other comprehensive income RMB'000	Wealth management products and structured deposits RMB'000
As at 1 January 2018	3,952,268	1,262,409
Purchase	–	10,650,000
Settlements	–	(6,900,000)
Total gains (losses)		
– in profit or loss	–	34,489
– in other comprehensive income	(257,399)	–
As at 31 December 2018	3,694,869	5,046,898

(iii) Fair values of financial instruments carried at other than fair value

The fair values of financial assets and financial liabilities recorded at amortised cost are not materially different from their carrying amounts, which are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

44. 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 21, other significant accounting estimates and judgements are summarised as follows:

(a) Revenue recognition of construction service

As explained in note 2(s), revenue from construction service are recognised over time. Revenue recognition of construction service on an uncompleted project is dependent on estimating the progress towards complete satisfaction of the performance obligation, which is based on output method. Actual outputs may be higher or lower than that estimated at the end of the reporting period, which would affect the revenue recognised in future years as an adjustment to the amounts recorded to date.

44. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(b) Provision of ECL for accounts receivable and contract assets

Accounts receivable and contract assets with significant balances are assessed for ECL individually. In addition, the Group uses provision matrix to calculate ECL for the accounts receivable and contract assets which are individually insignificant. The provision rates are based on nature of debtors as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration reasonable and supportable forward-looking information that is available without undue cost or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's accounts receivable and contract assets are disclosed in notes 43(a), 28 and 29 respectively.

(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, right-of-use assets 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.

44. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(e) Deferred tax assets

The recognition of deferred tax assets requires assessment of the temporary differences which arise as a consequence of different accounting and tax treatments. These temporary differences result in deferred tax assets are included within the consolidated statement of financial position. Deferred tax assets are measured using substantially enacted tax rates expected to apply when the temporary differences reverse. Deferred tax assets are not recognised where it is more likely than not that the asset will not be realised in the future. This evaluation requires judgements to be made including the forecast of future taxable income. Recognition therefore, involves the management's judgement regarding the future financial performance of the particular legal entity in which the deferred tax asset has been recognised and interpretation of country specific tax law and the likelihood of settlement. However, the actual tax assets could differ from the provision and in such event the Group would be required to make an adjustment in a subsequent period which could have a material impact on the Group's profit or loss.

(f) Fair value measurement of financial instruments

Certain of the Group's equity investments are measured at fair values with fair values being determined based on unobserved inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See note 43(f) for further disclosures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

45. 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:

	2019 **RMB'000**	2018 RMB'000
Engineering related services revenue (note (i))	**16,386,268**	18,646,185
IT application services revenue (note (ii))	**3,094,988**	2,386,995
Provision of ancillary telecommunications services revenue (note (iii))	**14,758,217**	13,975,887
Provision of operation support services revenue (note (iv))	**3,567,633**	3,092,211
Supplies procurement services revenue (note (v))	**2,697,304**	3,079,803
Property leasing services revenue (note (vi))	**128,729**	97,532
Management fee income (note (vii))	**370,324**	329,335
Property leasing services charges (note (viii))	**202,655**	237,519
IT application services charges (note (ix))	**153,874**	285,363
Operation support services charges (note (x))	**736,005**	703,993
Supplies procurement services charges (note (xi))	**1,121,107**	1,811,076
Interest expenses (note (xii))	**17,847**	1,403
Net deposit to China Telecom Finance (note (xiii))	**2,147,014**	–
Interest income of deposits to China Telecom Finance (note (xiv))	**3,020**	–

45. RELATED PARTIES (continued)

(a) Transactions with CTC Group (continued)

Notes:

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

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

(iii) The amount represents ancillary telecommunications services such as maintenance of network facilities (including optical ducts and cables, exchange buildings and base stations), operation of distribution channels, fixed line and wireless value-added service, internet contents and information services provided to CTC Group.

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

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

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

(vii) The amount represents management fee in respect of headquarters management function services ("Centralised Services") provided to CTC Group.

(viii) The amount represents rentals from leases (2018: 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 and payable to CTC Group in respect of the loans and lease liabilities from CTC Group.

(xiii) The amount represents net deposits under deposit services provided by China Telecom Finance.

(xiv) The amount represents the interest income from deposit services provided by China Telecom Finance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

45. RELATED PARTIES (continued)

(a) Transactions with CTC Group (continued)

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

	2019 RMB'000	2018 RMB'000
Cash and cash equivalents	**2,147,014**	–
Accounts and bills receivable, net	**8,863,454**	10,279,477
Contract assets, net	**8,760,826**	9,086,987
Prepayments and other current assets	**759,769**	776,901
Total amounts due from CTC Group	**20,531,063**	20,143,365
Interest-bearing borrowings	**13,280**	13,280
Accounts and bills payable	**608,905**	449,365
Contract liabilities	**550,012**	650,723
Accrued expenses and other payables	**409,680**	392,438
Current portion of lease liabilities	**123,506**	–
Lease liabilities	**314,655**	–
Total amounts due to CTC Group	**2,020,038**	1,505,806

As at 31 December 2019, the Group has recognised credit losses of RMB349 million (2018: RMB243 million) in respect of amounts due from CTC Group.

As at 31 December 2019, the Group has recognised right-of-use assets of RMB394 million under lease contracts with CTC Group. For the year ended 31 December 2019, the amount of lease payment made to CTC Group was RMB134 million.

As at 31 December 2019, the Group has capital commitments to CTC Group for acquisition and construction of property, plant and equipment and other assets as follows:

	2019 RMB'000	2018 RMB'000
Contracted for but not provided	**459,437**	446,466

45. RELATED PARTIES (continued)

(a) Transactions with CTC Group (continued)

As at 31 December 2018, the Group's total future minimum lease payments to CTC Group under non-cancellable operating leases were payable as follows:

	2018 RMB'000
Within 1 year	133,571
After 1 year but within 5 years	202,647
After 5 years	64,383
	400,601

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 ("2015 Agreements ") 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. On 28 September 2018, the Company entered into the 2018 Supplemental Agreements with CTC based on the 2015 Agreements to renew each of the 2015 Agreements for a further term of three years from 1 January 2019 to 31 December 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

45. RELATED PARTIES (continued)

(a) Transactions with CTC Group (continued)

According to these Supplement Agreements for the year ended 31 December 2019, (i) the annual cap for the service charges receivable by the Company from CTC Group under the Engineering Related Services Framework Agreement was RMB26,000 million; (ii) the annual cap for the service charges receivable by the Company from CTC Group under the Ancillary Telecommunications Services Framework Agreement was RMB20,000 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 RMB3,800 million and RMB1,600 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 RMB3,600 million and RMB500 million respectively; (v) the annual cap for the service charges receivable by the Company from CTC Group under the Centralised Services Framework Agreement was RMB450 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 RMB230 million and RMB270 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 RMB6,000 million and RMB5,000 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.

45. 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.

On 1 February 2019, the Group and China Telecom Finance entered into the Financial Services Framework Agreement, pursuant to which China Telecom Finance has agreed to provide financial services to the Group, including deposit services, loan services and other financial services.

According to the Financial Services Framework Agreement for the year ended 31 December 2019, the annual cap in respect of the maximum daily balance of the Group's deposits with China Telecom Finance (including the interest accrued thereon) under the deposit services was RMB7.5 billion.

The terms of the financial services offered to the Group by China Telecom Finance shall be equivalent to or more favorable than those offered to the Group by the major cooperative commercial banks of the Group for the financial services in the same period and of the same type.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

45. 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:

	2019 RMB'000	2018 RMB'000
Engineering related services revenue (note (i))	**3,247,327**	3,217,170
IT application services revenue (note (ii))	**83,571**	54,935
Provision of ancillary telecommunications services revenue (note (iii))	**1,531,402**	1,565,142
Provision of operation support services revenue (note (iv))	**73,501**	68,366
Supplies procurement services revenue (note (v))	**171,621**	149,113
Property leasing services revenue (note (vi))	**3,966**	2,543
Property leasing services charges (note (vii))	**3,289**	6,200
IT application services charges (note (viii))	**124,724**	3,078
Operation support services charges (note (ix))	**1,727,336**	350,278
Supplies procurement service charges (note (x))	**42,221**	188
Interest expenses (note (xi))	**5**	–

Notes:

(i) The amount represents telecommunications infrastructure services such as design, construction and project management provided to associates of the Group and 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 the Group and associates of CTC Group.

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

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

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

(vii) The amount represents rentals from lease (2018: operating leases) in respect of business premises paid and payable to associates of the Group and associates of CTC Group.

(viii) The amount represents the charge paid and payable to associates of the Group and associates of CTC Group for basic telecommunications service, value-added service and information application service.

45. RELATED PARTIES (continued)

(b) Transactions with associates of the Group and associates of CTC Group (continued)

Notes: (continued)

(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 the Group and associates of CTC Group for supplies procurement services, warehousing, transportation and installation services.

(xi) The amount represents the interest paid and payable associates of CTC Group in respect of lease liabilities from associates of CTC Group.

Amounts due from/to associates of the Group and associates of CTC Group included in respective balances are summarised as follows:

	2019 RMB'000	2018 RMB'000
Accounts and bills receivable, net	**422,635**	340,641
Contract assets, net	**225,008**	173,010
Prepayments and other current assets	**1,200,915**	950,097
Total amounts due from associates of the Group and associates of CTC Group	**1,848,558**	1,463,748
Accounts and bills payable	**838,139**	668,839
Contract liabilities	**742,458**	761,110
Current portion of lease liabilities	**125**	–
Lease liabilities	**113**	–
Accrued expenses and other payables	**87,411**	80,049
Total amounts due to associates of the Group and associates of CTC Group	**1,668,246**	1,509,998

As at 31 December 2019, associates of CTC Group has recognised right-of-use assets of RMB216 thousand under lease contracts with associates of CTC Group. For the year ended 31 December 2019, the amount of lease payment made to associates of CTC Group was RMB58 thousand.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

45. RELATED PARTIES (continued)

(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 45(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.

(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:

	2019 RMB'000	2018 RMB'000
Salaries and other emoluments	**5,914**	6,737
Retirement benefits	**2,642**	2,069
Discretionary bonuses	**16,619**	17,148
	25,175	25,954

45. RELATED PARTIES (continued)

(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 14% to 20% (2018: 13% to 27%) 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 2019 and 2018, 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 45(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.

46. SEGMENT REPORTING

The Group principally has one operating segment, which is the provision of integrated comprehensive smart solutions in the field of informatisation and digitalization. Therefore, no additional segment information has been presented. Additional information about major customers and geographical areas of the Group has been disclosed in note 4.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

47. SUBSIDIARIES

The following list contains only the particulars of subsidiaries at 31 December 2019 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 31 December 2019 Directly %	31 December 2018 Directly %	Issued and paid up capital	Principal activities
Guangdong Communications Services Company Limited	Limited Liability Company	The PRC	**100**	100	RMB2,688 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	RMB998 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	RMB876 million	Provision of integrated telecommunications support services through its subsidiaries in Shanghai Municipality
Fujian Communications Services Company Limited	Limited Liability Company	The PRC	**100**	100	RMB281 million	Provision of integrated telecommunications support services through its subsidiaries in Fujian Province
Hubei Communications Services Company Limited	Limited Liability Company	The PRC	**100**	100	RMB297 million	Provision of integrated telecommunications support services through its subsidiaries in Hubei Province
Jiangsu Communications Services Company Limited	Limited Liability Company	The PRC	**100**	100	RMB578 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

47. 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 2019 Directly %	31 December 2018 Directly %	Issued and paid up capital	Principal activities
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	RMB131 million	Provision of integrated telecommunications support services through its subsidiaries in Guizhou Province
Yunnan Communications Services Company Limited	Limited Liability Company	The PRC	**100**	100	RMB238 million	Provision of integrated telecommunications support services through its subsidiaries in Yunnan Province
Shaanxi Communications Services Company Limited	Limited Liability Company	The PRC	**100**	100	RMB145 million	Provision of integrated telecommunications support services through its subsidiaries in Shaanxi Province
Gansu Communications Services Company Limited	Limited Liability Company	The PRC	**100**	100	RMB129 million	Provision of integrated telecommunications support services through its subsidiaries in Gansu Province
Qinghai Communications Services Company Limited	Limited Liability Company	The PRC	**100**	100	RMB68 million	Provision of integrated telecommunications support services through its subsidiaries in Qinghai Province
Xinjiang Communications Services Company Limited	Limited Liability Company	The PRC	**100**	100	RMB195 million	Provision of integrated telecommunications support services through its subsidiaries in Xinjiang Uygur Autonomous Region

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

47. 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 2019 Directly %	31 December 2018 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	RMB929 million	Provision of integrated telecommunications support services
Inner Mongolia Autonomous Region Communications Services Company Limited	Limited Liability Company	The PRC	**100**	100	RMB5 million	Provision of integrated telecommunications support services in Inner Mongolia Autonomous Region
Comservice Capital Holding Company Limited	Limited Liability Company	The PRC	**100**	100	RMB500 million	Management of Group capital

Sino-British Submarine System Co., Ltd., China Comservice Software Tech. Co., Ltd., and Zhongshutong Information Co., Ltd. are non-wholly owned subsidiaries of the Group. The Group's cumulative non-controlling interest is RMB474 million as at 31 December 2019 (2018: RMB498 million). The non-controlling interests are individually and in aggregate not material to the Group's financial condition or results of operation for both years.

48. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	31 December 2019 RMB'000	31 December 2018 RMB'000
Non-current assets		
Property, plant and equipment, net	**15,548**	17,230
Construction in progress	**11,591**	36,028
Other intangible assets	**169,826**	96,909
Investments in subsidiaries	**13,772,534**	13,572,534
Interests in associates and joint ventures	**23,605**	28,284
Financial assets at fair value through profit or loss	**753,838**	–
Other non-current assets	**–**	750,000
Total non-current assets	**14,746,942**	14,500,985
Current assets		
Inventories	**326**	329
Prepayments and other current assets	**1,796,998**	2,304,791
Restricted deposits	**500,000**	–
Cash and cash equivalents	**1,251,013**	228,791
Total current assets	**3,548,337**	2,533,911
Total assets	**18,295,279**	17,034,896
Current liabilities		
Accounts and bills payable	**50**	–
Accrued expenses and other payables	**1,188,969**	83,320
Income tax payable	**4,386**	3,572
Total current liabilities	**1,193,405**	86,892
Net current assets	**2,354,932**	2,447,019
Total assets less current liabilities	**17,101,874**	16,948,004
Total liabilities	**1,193,405**	86,892
Equity		
Share capital	**6,926,018**	6,926,018
Reserves	**10,175,856**	10,021,986
Total equity	**17,101,874**	16,948,004
Total liabilities and equity	**18,295,279**	17,034,896

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

48. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

The movements of equity of the Company are as follows:

	Share capital RMB'000 (note 40)	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2018	6,926,018	4,529,310	1,966,293	1,051,256	1,767,844	16,240,721
Profit for the year	–	–	–	–	1,684,544	1,684,544
Distribution of dividend (see note 14(b))	–	–	–	–	(977,261)	(977,261)
Appropriation	–	–	–	168,454	(168,454)	–
At 31 December 2018	6,926,018	4,529,310	1,966,293	1,219,710	2,306,673	16,948,004
Profit for the year	**–**	**–**	**–**	**–**	**1,198,314**	**1,198,314**
Distribution of dividend (see note 14(b))	**–**	**–**	**–**	**–**	**(1,044,444)**	**(1,044,444)**
Appropriation	**–**	**–**	**–**	**119,831**	**(119,831)**	**–**
At 31 December 2019	**6,926,018**	**4,529,310**	**1,966,293**	**1,339,541**	**2,340,712**	**17,101,874**

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.

49. POSSIBLE IMPACT OF AMENDMENTS TO STANDARDS, NEW STANDARDS AND INTERPRETATION ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these consolidated financial statements, the IASB has issued the following amendments to standards and new standards which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these consolidated financial statements.

IFRS 17	Insurance Contracts[1]
Amendments to IFRS 3	Definition of a Business[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[5]
Amendments to IAS 1 and IAS 8	Definition of Material[4]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[4]

1 Effective for annual periods beginning on or after 1 January 2021
2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
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 2020
5 Effective for annual periods beginning on or after 1 January 2022

In addition to the above new and amendments to standards, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in IFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

The Group is in the process of making an assessment of the impact that will result from adopting the amendments to standards and new standards issued by the IASB which are not yet effective for the accounting period ended on 31 December 2019. So far the Group believes that the adoption of these amendments to standards and new standards is unlikely to have a significant impact on its financial position and the results of operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

50. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	As at 31 December 2018 RMB'000	Adjustments RMB'000 (note 3)	**As at 1 January 2019 RMB'000**	Accruals RMB'000	Financing cash flows RMB'000	Foreign exchange translation RMB'000	Lease modified RMB'000	**As at 31 December 2019 RMB'000**
Borrowings (note 34)	470,925	–	**470,925**	–	32,342	7,967	–	**511,234**
Dividends payable	52,132	–	**52,132**	1,048,599	(1,062,172)	6,637	–	**45,196**
Lease liabilities (note 36)	–	950,908	**950,908**	554,267	(350,303)	–	(121,419)	**1,033,453**
Others	–	–	**–**	5,000	(5,000)	–	–	**–**
	523,057	950,908	**1,473,965**	1,607,866	(1,385,133)	14,604	(121,419)	**1,589,883**

	As at 1 January 2018 RMB'000	Accruals RMB'000	Financing cash flows RMB'000	Foreign exchange translation RMB'000	As at 31 December 2018 RMB'000
Borrowings (note 34)	326,518	–	132,963	11,444	470,925
Dividends payable	58,813	990,850	(1,013,058)	15,527	52,132
Others	–	5,615	(5,615)	–	–
	385,331	996,465	(885,710)	26,971	523,057

51. EVENT AFTER THE REPORTING PERIOD

As most of the Group's operations are located in China, the outbreak of the 2019 Novel Coronavirus ("COVID-19") in China and the subsequent quarantine measures imposed by the Chinese government, the Group complied with government policy guidelines and stopped certain of its operation activities, which have had an impact on the Group's business to a certain extent. With the adjustment of government quarantine measures, the Group had resumed operation activities successively since March 2020.

The Group will keep continuous attention on the developments of and changes in this situation, timely assess and actively respond to its impacts on the financial position, operating results and other aspects of the Group.

52. IMMEDIATE AND ULTIMATE HOLDING COMPANY

At 31 December 2019, the directors of the Company consider the immediate and ultimate holding company of the Group to be CTC, a state-owned enterprise established in the PRC. CTC does not produce financial statements available for public use.

FINANCIAL SUMMARY

(Amounts in thousands, except per share data)

	For the year ended 31 December				
	2019	2018	2017	2016	2015
	RMB	RMB	RMB	RMB	RMB
Results					
Revenue from telecommunications infrastructure services	**64,688,815**	57,359,436	50,510,988	45,886,950	39,209,267
Revenue from business process outsourcing services	**36,637,180**	35,102,822	32,763,685	32,533,602	33,014,030
Revenue from applications, content and other services	**16,087,094**	13,714,379	11,297,738	10,028,804	8,736,649
Total Revenues	**117,413,089**	106,176,637	94,572,411	88,449,356	80,959,946
Depreciation and amortisation	**(756,976)**	(466,096)	(472,621)	(455,215)	(447,031)
Direct personnel costs	**(9,111,016)**	(8,747,317)	(8,647,493)	(8,316,693)	(8,731,020)
Materials costs	**(12,838,003)**	(9,783,239)	(9,327,654)	(8,281,024)	(7,799,871)
Direct costs of products distribution	**(4,167,579)**	(4,629,177)	(6,594,772)	(9,764,598)	(12,652,927)
Subcontracting charges	**(64,462,508)**	(57,555,216)	(46,858,020)	(41,016,647)	(31,811,771)
Lease charges and others	**(12,390,048)**	(12,110,626)	(10,459,491)	(8,925,014)	(8,129,685)
Cost of revenues	**(103,726,130)**	(93,291,671)	(82,360,051)	(76,759,191)	(69,572,305)
Gross profit	**13,686,959**	12,884,966	12,212,360	11,690,165	11,387,641
Other operating income	**1,554,755**	1,244,889	1,014,492	943,021	854,051
Selling, general and administrative expenses	**(11,494,404)**	(10,611,071)	(9,885,426)	(9,501,481)	(9,306,152)
Other operating expenses	**(333,299)**	(173,722)	(126,278)	(95,232)	(109,170)
Finance costs	**(68,888)**	(25,179)	(47,119)	(46,667)	(51,392)
Share of profits of associates and joint ventures	**148,478**	105,421	63,782	66,095	49,985
Profit before tax	**3,493,601**	3,425,304	3,231,811	3,055,901	2,824,963
Income tax	**(463,802)**	(497,405)	(482,733)	(502,706)	(487,446)
Profit for the year	**3,029,799**	2,927,899	2,749,078	2,553,195	2,337,517
Attributable to:					
Equity shareholders of the Company	**3,049,229**	2,901,324	2,714,213	2,536,249	2,334,412
Non-controlling interests	**(19,430)**	26,575	34,865	16,946	3,105
Profit for the year	**3,029,799**	2,927,899	2,749,078	2,553,195	2,337,517
Basic earnings per share (RMB)	**0.440**	0.419	0.392	0.366	0.337

FINANCIAL SUMMARY

(Amounts in thousands, except per share data)

	At 31 December				
	2019	2018	2017	2016	2015
	RMB	RMB	RMB	RMB	RMB
Financial position					
Property, plant and equipment, net	**4,369,251**	4,384,700	4,190,375	4,215,616	4,331,796
Right-of-use assets	**1,895,996**	–	–	–	–
Equity instruments at fair value through other comprehensive income	**4,088,204**	3,737,553	–	–	–
Other non-current assets	**3,935,232**	4,289,914	4,199,679	3,837,012	4,212,497
Inventories	**1,974,150**	2,253,027	2,275,735	2,221,334	2,883,989
Accounts and bills receivable, net	**19,092,825**	18,668,024	30,370,500	29,362,985	27,520,829
Contract assets, net	**17,153,529**	15,664,758	–	–	–
Prepayments and other current assets	**8,771,768**	8,646,123	11,815,129	6,740,547	6,873,074
Financial assets at fair value through profit or loss	**4,567,824**	5,046,898	1,262,514	–	–
Cash and cash equivalents	**19,220,764**	16,106,246	13,266,631	13,324,079	9,535,851
Restricted deposits	**2,471,515**	2,128,757	3,354,288	2,892,408	2,555,290
Total assets	**87,541,058**	80,926,000	70,734,851	62,593,981	57,913,326
Interest-bearing borrowings	**511,234**	462,003	308,876	46,697	177,005
Accounts and bills payable	**30,674,619**	28,279,533	24,600,681	20,399,409	19,699,385
Current portion of lease liabilities	**343,281**	–	–	–	–
Contract liabilities	**10,087,102**	8,648,060	–	–	–
Receipts in advance for contract work	**–**	–	4,997,284	4,046,097	2,911,542
Accrued expenses and other payables	**8,730,235**	9,017,427	11,320,729	9,730,662	8,691,602
Income tax payable	**337,372**	323,514	339,393	351,647	309,261
Non-current liabilities	**1,819,443**	1,366,602	348,237	971,687	914,922
Total liabilities	**52,503,286**	48,097,139	41,915,200	35,546,199	32,703,717
Equity attributable to equity shareholders of the Company	**34,563,910**	32,331,323	28,329,098	26,573,429	24,760,813
Non-controlling interests	**473,862**	497,538	490,553	474,353	448,796
Total equity	**35,037,772**	32,828,861	28,819,651	27,047,782	25,209,609
Total liabilities and equity	**87,541,058**	80,926,000	70,734,851	62,593,981	57,913,326

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