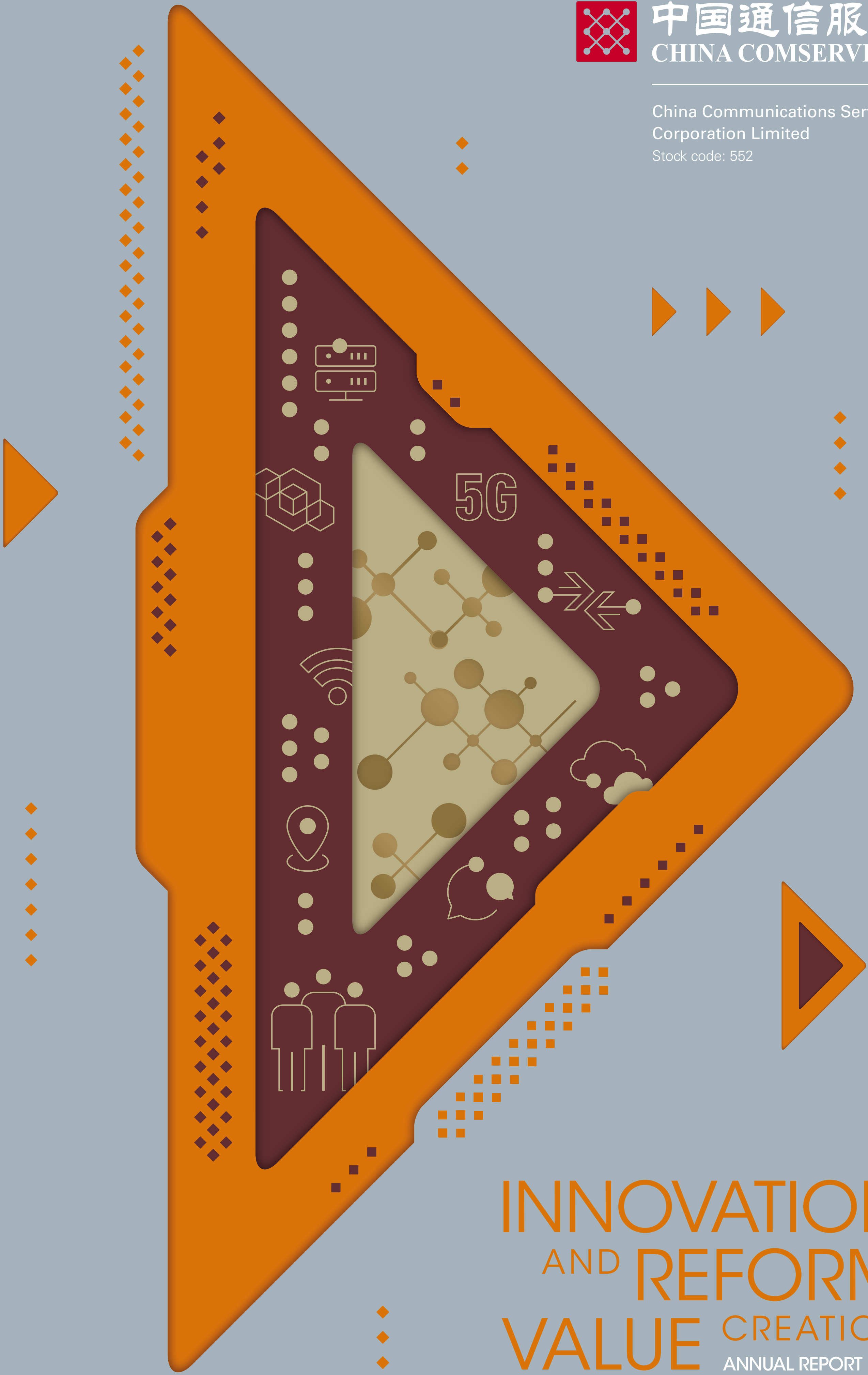
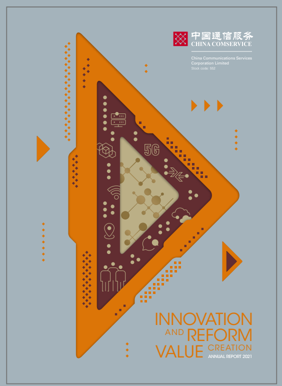
中国通信服务
CHINA COMSERVICE

China Communications Services
Corporation Limited
Stock code: 552



INNOVATION AND REFORM VALUE CREATION

ANNUAL REPORT 2021



Design Story

The theme of this year is innovation and reform as well as value creation.

The cover design utilizes three levels of colors to represent the different stages of development of the Group, and a triangle is used to indicate that the enterprise is pioneering and forging ahead in its new development stage.

The Group has strengthened technological innovation and continued to promote enterprise reform. The dots and lines at the third layer connect to be the logo of the Group which signifies the main mission of value creation, and echoes with the theme.

CONTENTS

DIGITAL ECONOMY

INNOVATION

As the largest telecommunications infrastructure service provider in China with over 60 years of service experience and comprehensive service capabilities, adhering to "1 Positioning, 4 Roles", China Comservice continues to promote its technological innovation with a focus on the key technologies and applications and builds core capabilities.

Seize the Opportunities

Digital Infrastructure, Data Center, Cybersecurity, Industrial Digitalization, Industrial Smart Solutions......

REFORM

In 2021, China Comservice implemented a number of reform initiatives, including the introduction of State Grid Information & Telecommunication Technology Group Co., Ltd. as a strategic shareholder of the Company, introduction of four strategic investors at the subsidiary level, and the implementation of the Share Appreciation Rights Incentive Scheme.

Promote Development

Enhance the competitiveness of the Company, impetus of development, and creativity and vitality of our employees through reform.

Value Creation

Penetrate **High-value Industries,**

Develop **High-value Businesses,**

Deploy in **High-value Regions,**

Promote technological **innovation** and continuously deepen **reform,**

With value creation as our main mission,

Promote high-quality development of the Company

MILESTONES

MILESTONES

Build World-class Network
Service Provider for Telecommunications Operators

Research and Development of Smart Product Portfolio
Service Provider in the Informatization Sector

New Journey for Smart Services
New Generation Integrated Smart Service Provider

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 Comservice Software Tech. 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.

2012

JANUARY
The Company established a wholly-owned subsidiary, Shandong Communications Services Company Limited.

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.

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.

2016

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

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.

2017

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

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.

2020

JANUARY TO FEBRUARY
The Company hastened to the frontline of combating the COVID-19 by completing the communication construction and support for Huoshenshan Hospital and Leishenshan Hospital in Wuhan, etc.

JULY
The Company purchased property as the bases for the smart production, operation and research and development.

SEPTEMBER
Mr. Huang Xiaoqing was appointed as the President of the Company and appointed as an Executive Director of the Company on 21 October 2020.

DECEMBER
The Company was awarded the title of "Advanced Group in Fighting against COVID-19 in the Industry and Information Technology System" by the Ministry of Industry and Information Technology.

The Company established the China Comservice General Research Institute.

2021

FEBRUARY
The headquarters of the Company was moved to Block No.1, Compound No.1, Fenghuangzui Street, Fengtai District, Beijing.

MARCH
The change of address of the headquarters and principal place of business of the Company was completed.

JUNE
China Telecommunications Corporation, the controlling shareholder of the Company, proposed a share transfer of 166,000,000 domestic shares of the Company (representing 2.40% of the total issued share capital of the Company) to State Grid Information & Telecommunication Technology Group Co., Ltd.

The Company entered into a Digital New Infrastructure Strategic Cooperation Framework Agreement with State Grid Information & Telecommunication Technology Group Co., Ltd. to further strengthen strategic cooperation in the fields of informatization and intelligentization of the power industry, and promote the Group's development in vertical industries including power industry and new businesses.

The wholly-owned subsidiary of the Group, China Comservice Supply Chain Management Company Ltd. introduced four strategic investors including COSCO SHIPPING (Tianjin) Company Limited, Zhilian Shenzhen International Smart Logistics (Shenzhen) Co.,Ltd., Guoxin Shuangbai No. 1 (Hangzhou) Equity Investment Partnership (Limited Partnership) and Gongqingcheng Orient Securities Sucheng Investment Partnership (Limited Partnership), injecting a total of RMB900 million into it.

AUGUST
The Company ranked 4th in the "100 Most Competitive Software & IT Service Enterprises 2021" coordinated by China Information Technology Industry Federation.

SEPTEMBER
Mr. Zhang Zhiyong resigned from his position as the Chairman, an Executive Director, and the Chairman of the Strategy Committee of the Company.

NOVEMBER
The share transfer procedures among China Telecommunications Corporation, the controlling shareholder of the Company, and State Grid Information & Telecommunication Technology Group Co., Ltd. was completed. State Grid Information & Telecommunication Technology Group Co., Ltd. officially became the strategic shareholder of the Company.

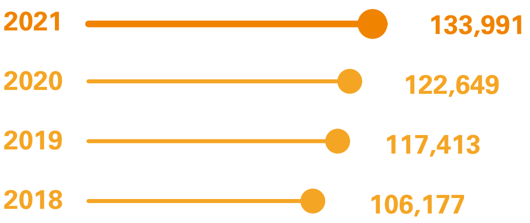
DECEMBER
The Share Appreciation Rights Incentive Scheme was approved by government regulatory authorities and the general meeting. There are approximately 207.27 million shares of Share Appreciation Rights under the Initial Grant.

[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.

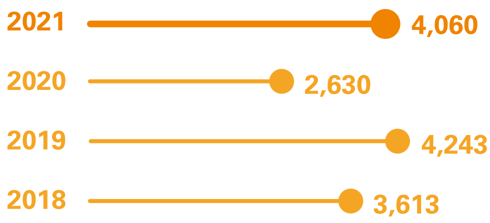
FINANCIAL HIGHLIGHTS

	2021	2020	Change
Revenues (RMB million)	**133,991**	122,649	9.2%
Profit attributable to equity shareholders of the Company (RMB million)	**3,157**	3,081	2.5%
Free cash flow[1] (RMB million)	**4,060**	2,630	54.4%
Basic earnings per share (RMB)	**0.456**	0.445	2.5%
Total dividend per share (RMB)	**0.1732**	0.1602	8.1%
of which: Final dividend per share (RMB)	**0.1641**	0.1335	–
Special dividend per share (RMB)	**0.0091**	0.0267	–

Revenues
(RMB million)

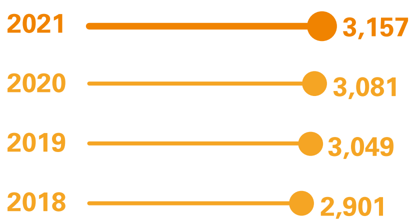


Free Cash Flow
(RMB million)



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 adheres to the position as a "New Generation Integrated Smart Service Provider", plays the part in "Builder of Digital Infrastructure", "Provider of Smart Products and Platforms", "Service Provider of Data Production" and "Guard of Smart Operation" ("1 Positioning, 4 Roles") and commits to "Building Smart Society, Boosting Digital Economy, Serving a Good Life". 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, State Grid Information & Telecommunication Technology Group Co., Ltd. and China National Postal and Telecommunications Appliances Co., Ltd. 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 2021, the total issued share capital of the Company was 6,926,018,400, of which 2,391,420,240 were H shares.

Over the fifteen years since its listing, the Company has received many awards in the capital market. In 2021, the Company won various awards, including: in the "16th Asian ESG Awards" held by *Corporate Governance Asia*, a well-known journal on corporate governance in Asia, the Company was awarded "Asia's Icon on ESG", "ESG Influencer" and "Asian Corporate Director"; and in its "11th Asian Excellence Award", the Company was awarded "Asia's Best CEO", "Asia's Best CFO" and "Best Investor Relations Company". In "The Asset ESG Corporate Awards 2021" held by *The Asset*, a financial magazine in Asia, the Company was honored with "Gold Award". In *Institutional Investor's* "2021 All-Asia Executive Team" Rankings, the Company was named as "Honored Company" again and also won the accolades of "Best CEO", "Best CFO", "Best IR Professional", "Best IR Program" and "Best ESG" in the relevant category. In the "6th Golden Hong Kong Equities Awards Ceremony", the Company was awarded the "2021 Golden Hong Kong Equities Grand Award". In 2021, the Company ranked 87th in the "2021 FORTUNE China 500" published by *FORTUNE China* and ranked 1,337th in the "2021 Forbes Global 2000" by *Forbes*.

The Company's industry influence remarkably improved in recent years. The Company ranked 4th in "100 Most Competitive Software & IT Service Enterprises 2021". The Company was also shortlisted in the "Top 100 Cybersecurity Enterprises in China" Industry Report by "AQNIU" for three consecutive years.

HONORARY CHAIRMAN
Mr. Wang Xiaochu

BOARD OF DIRECTORS
Executive directors
Mr. Huang Xiaoqing
Ms. Zhang Xu

Non-executive directors
Mr. Gao Tongqing
Mr. Mai Yanzhou
Mr. Huang Zhen

Independent non-executive directors
Mr. Siu Wai Keung, Francis
Mr. Lv Tingjie
Mr. Wu Taishi
Mr. Liu Linfei

BOARD COMMITTEES
Strategy Committee
Mr. Huang Xiaoqing
Mr. Gao Tongqing
Mr. Mai Yanzhou
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. Ye Lichun (Committee Chairperson)
Mr. Hai Liancheng (Independent Supervisor)
Mr. Si Jianfei (Employee Representative Supervisor)

REGISTERED NAME (IN CHINESE)
中國通信服務股份有限公司

REGISTERED NAME (IN ENGLISH)
China Communications Services Corporation Limited

LEGAL REPRESENTATIVE
Mr. Huang Xiaoqing

COMPANY SECRETARY
Mr. Chung Wai Cheung, Terence

INTERNATIONAL AUDITOR
PricewaterhouseCoopers
(Registered Public Interest Entity Auditors)

LEGAL ADVISORS
Freshfields Bruckhaus Deringer
King & Wood Mallesons

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
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www.chinaccs.com.hk

STATEMENT FROM THE BOARD

Huang Xiaoqing
Executive Director & President

"In 2021, the Group proactively responded to the challenges from the COVID-19 pandemic. Adhering to '1 Positioning, 4 Roles', the Group started the new stage of development, practised the new development philosophy, serviced the new development landscape. The Group focused on value creation, expanded markets proactively, and accelerated the reform and innovation, leading to a further enhancement in its development quality."

Dear Shareholders,

In 2021, by adhering to the overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" and leveraging its strengths as a "New Generation Integrated Smart Service Provider", the Group overcame the setbacks from the COVID-19 pandemic, expanded markets proactively and achieved satisfactory operating performance by taking a firm grip of the significant opportunities brought by digital economy, Cyberpower and National Big Data Strategy. Meanwhile, the Group started the new stage of development, practised the new development philosophy and serviced the new development landscape; and focused on State-owned Enterprise Reform and value creation with transitory results achieved, leading to a further enhancement in its development quality and laying a more solid foundation for future development.

OPERATING PERFORMANCE

In 2021, the Group capitalized on the opportunities arising from the acceleration in the digital infrastructure construction and the promotion of integrated development of digital economy and real economy in China, the domestic non-telecom operator ("domestic non-operator") market achieved sound development and was the largest growth driver of the Group's results. In addition, the supply chain business, which has been consolidated and cultivated, and applications, content and other ("ACO") services also contributed notably to the results growth. The total revenues of the Group increased by 9.2% year-on-year to RMB133,991 million for the year. Profit attributable to the equity shareholders of the Company amounted to RMB3,157 million, representing a year-on-year increase of 2.5% (excluding the effect of depreciation arising from the Group's property acquired in 2020 as the bases for the smart production, operation and research and development, which was transferred to fixed assets in February 2021, profit attributable to the equity shareholders of the Company in 2021 was RMB3,247 million, representing a year-on-year increase of 5.4%). Gross profit margin was 11.0%, and the decline of gross profit margin has been moderating and stabilizing gradually[1]. Free cash flow[2] remained healthy at RMB4,060 million, representing a year-on-year increase of 54.4%. Good operating results and sufficient free cash flow have provided solid support for the subsequent development of the Group.

DIVIDEND

In view of factors including the Group's operating results, and to further increase shareholders' return, the Board has proposed to increase the dividend payout ratio of final dividend from 30% in the past to 36% for the financial year ended 31 December 2021, representing a final dividend of RMB0.1641 per share with a year-on-year increase of 22.9%. Besides, the Board has also proposed to distribute a special dividend of RMB0.0091 per share for 2021. Taking into consideration of the above factors, the Company's total dividend for 2021 is RMB0.1732 per share, representing a year-on-year increase of 8.1% and a total dividend payout ratio of 38%.

MARKET DEVELOPMENT

In 2021, the Group actively expanded the domestic non-operator market and the revenue from such market amounted to RMB57,446 million, representing a year-on-year increase of 15.9% and accounting for 42.9% of the total revenues, an increase of 2.5 percentage points year-on-year. Domestic non-operator market was the largest contributor to revenue growth among the customer groups[3]. The Group continued to make breakthroughs in digital infrastructure and industrial smart solutions, with sizeable projects valued above RMB10 million kept increasing, and the development quality of the domestic non-operator market gradually elevated.

1 In 2020, gross profit margin of the Group was 11.2%, representing a decline of 0.5 percentage point as compared to 2019.
2 Free cash flow = Profit for the year + Depreciation and amortization – Changes in working capital – Capital expenditure
3 Customers here are classified into four categories, including the domestic non-operator customers, China Telecom, other domestic telecommunications operator customers and overseas customers.

In 2021, the Group seized market opportunities in 5G, data centers, cloud-network integration and network information security, adhered to the development strategy of "CAPEX + OPEX + Smart Applications"[4] and provided customers with integrated services for new information infrastructure construction and industrial digitalization. The revenue from domestic telecommunications operator market amounted to RMB73,803 million, representing a year-on-year increase of 5.5%, which reversed the year-on-year decrease in revenue[5] from such market, and accounting for 55.1% of the total revenues, representing a year-on-year decrease of 2.0 percentage points. The Group proactively integrated itself into the industry's ecosystem and strengthened cooperation with the domestic telecommunications operators in market expansion and technology research and development for mutual complementarity, leading to favourable results. The above efforts deepened the trust and loyalty from domestic telecommunications operators, while broadening the source of the Group's revenue and enhancing it capabilities.

In 2021, the COVID-19 pandemic continued to rage overseas, which had a relatively large impact on the Group's overseas business. The Group's revenue from overseas market amounted to RMB2,742 million, representing a year-on-year decrease of 11.4% and accounting for 2.0% of the total revenues. Although the protracted pandemic cast greater uncertainties over its overseas business expansion, the Group still proactively expanded its business and built up a reserve of overseas projects in various regions.

BUSINESS DEVELOPMENT

In 2021, the Group fully recognized that the new round of technological revolution and industrial reform had brought huge room of development for China's digital economy industry. As a "New Generation Integrated Smart Service Provider", the Group rode on the trend and supported its customers to build digital infrastructure featuring 5G, cloud computing and other advanced technologies. Revenue from the telecommunications infrastructure ("TIS") services amounted to RMB71,889 million, representing a year-on-year increase of 7.0% and accounting for 53.7% of the total revenues.

In 2021, the Group seized the opportunities arising from the OPEX of domestic telecommunications operators and the development of modern supply chain industry. Revenue from business process outsourcing ("BPO") services amounted to RMB40,624 million, representing a year-on-year increase of 9.0% and accounting for 30.3% of the total revenues. Of which, revenue from our network maintenance business and supply chain business recorded a year-on-year growth of 5.6% and 10.1%, respectively. The growth of supply chain business expedited notably[6] after consolidation, synergistic operation and the introduction of strategic investors. The aggregate contribution to revenue growth from network maintenance and supply chain businesses accounted for 59.1% of the revenue growth of BPO services.

In 2021, the Group stepped up its technology research and development and iterative development of smart products to cater for the demand for upgrade from digitalization of the society and industrial digitalization, with focus placed on key industries such as the government, electricity, transportation and medical care, and provided its customers with digitalization products, platforms and solutions adapted to 5G scenarios. ACO services maintained its rapid growth momentum, with a revenue of RMB21,478 million for the year, representing a year-on-year growth of 18.0%. Its contribution to the total revenues increased by 1.2 percentage points year-on-year to 16.0%.

[4] CAPEX + OPEX + Smart Applications: CAPEX refers to the capital expenditure of domestic telecommunications operators while OPEX refers to the operating expenditure of domestic telecommunications operators.
[5] In 2020, the revenue from the domestic telecommunications operator market recorded a year-on-year decrease of 3.4%.
[6] In 2020, the revenue from the supply chain business recorded a year-on-year growth rate of 5.3%.

STATE-OWNED ENTERPRISE REFORM

Leveraging "Double-hundred Reform", the Group further promoted comprehensive reform, and made certain achievements. In the aspect of introducing strategic investors, in 2021, the Group introduced State Grid Information & Telecommunication Technology Group Co., Ltd. ("State Grid ITT Group") successfully as a strategic shareholder and entered into a Digital New Infrastructure Strategic Cooperation Framework Agreement with State Grid ITT Group. State Grid ITT Group currently holds 166,000,000 domestic shares of the Company, representing 2.40% of the total issued share capital of the Company. The chairman of State Grid ITT Group has been appointed as a Non-executive Director of the Company at present. By introducing State Grid ITT Group as a strategic shareholder of the Group and entering into the strategic cooperation agreement, the Group has further expanded the market in the fields of informatization and intelligentization of the power industry. In 2021, the contract amount from State Grid increased by approximately 20% year-on-year.

In the aspect of mixed-ownership reform at subsidiary level, in 2021, the wholly-owned subsidiary of the Group, China Comservice Supply Chain Management Company Ltd. ("Supply Chain Company"), introduced four strategic investors[7] successfully and the strategic investors have injected a total of RMB900 million into the Supply Chain Company. After the completion of the capital injection, the aggregate equity interest held by strategic investors is approximately 26.015% of the enlarged share capital in the Supply Chain Company. The Supply Chain Company is the only integrated logistics enterprise in the domestic telecommunications industry with a "5A" qualification. The Group introduced strategic investors with synergistic effect for the Supply Chain Company with an aim to build the Supply Chain Company into a leading enterprise of smart supply chain integrated services in the domestic ICT industry to strengthen the Group's competitiveness.

In the aspect of market-oriented incentive mechanism, in 2021, the Group implemented the Share Appreciation Rights Incentive Scheme with the approval of the general meeting. Such scheme aims to deepen the reform of incentive and restraint mechanism and refine the mid- to long-term incentive system, thereby making the interests of the core staff in key positions closely linked to the performance of the Group and fully motivating the key talents. Besides, the Group deeply implemented pilot subdivision of assessment units and empowered the front line with corporate resources to improve the overall efficiency of the Group and employees' sense of gain.

CAPABILITIES ENHANCEMENT

In 2021, the Group pressed on with technological innovation and accelerated the construction of core platforms and products through the "Synergistic + Dispersed" research and development mechanism. The Group currently has developed a wide range of industrial applications and products covering various industries and sectors such as smart city, digital government, smart emergency management, smart game, and smart transportation, together with self-developed core platforms including open Internet of Things ("IoT") platform, cybersecurity platform, emergency management industry middle platform, maintenance digitalization platform, blockchain platform and innovation middle platform. The Group's technological strength has been well recognized by the society. The Group ranked 4th in the "100 Most Competitive Software & IT Service Enterprises 2021" coordinated by China Information Technology Industry Federation; shortlisted in the "Top 100 Cybersecurity Enterprises in China" Industry Report by "AQNIU"[8] for three consecutive years; and the IoT platform was shortlisted in the "2021 China AIoT Industry Panoramic Map Report".

In 2021, the Group continued the efforts to enhance its internal efficiency. Among which, smart cloud-based procurement platform was applied to carry out fully transparent procurement management; subcontracting charges were contained by implementing a whole process management with system control, IT control and personnel management, and the subcontracting charges accounted for 53.2% of the total revenues, representing a decrease of 1.6 percentage points year-on-year. Besides, in order to overcome the difficulties amid the pandemic, the Group adopted various measures to improve the settlement efficiency of accounts receivable, and the ratio of accounts receivable[9] to total revenues was 29.7%, being the lowest level in the past five years.

7 The four strategic investors are COSCO SHIPPING (Tianjin) Company Limited, Zhilian Shenzhen International Smart Logistics (Shenzhen) Co., Ltd., Guoxin Shuangbai No. 1 (Hangzhou) Equity Investment Partnership (Limited Partnership) and Gongqingcheng Orient Securities Sucheng Investment Partnership (Limited Partnership).

8 "AQNIU" is an influential third-party professional media and flagship think-tank in the domestic cybersecurity sector.

9 Accounts receivable comprises accounts receivable, bills receivable and contract assets.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

The Group actively responds to the national strategic requirement, and it has set up a management organization for "Carbon Peak, Carbon Neutrality" and formulated green and low-carbon plans and related implementation programs. The Group consistently follows and implements the development principles of innovation, coordination, green, openness and sharing, continues to increase investment in the research and development of new energy-saving technologies and businesses, establishes a green ecosystem and achieves healthy and sustainable corporate development. Among them, the Group adopted the green photovoltaic technology to change the traditional power supply method for data rooms, and launched a pilot program of using a mixture of solar energy and utility power to supply power for data rooms in Guangdong to make full use of solar energy to achieve energy saving and emission reduction. Leveraging the carbon neutrality data management platform to achieve carbon emission data monitoring and control, the Group built the first carbon neutrality park in the inner ring of Shanghai, serving as a carbon neutrality demonstration and training base.

The Group has high regard for shouldering the responsibilities and hasten to the frontline of pandemic combat and disaster relief. In 2021, when Henan experienced extremely rare and severe rainstorm and communications network disruption, the Group responded promptly and adopted multiple high-tech measures for emergency repair of communication network. In addition, the Group leveraged the advantages of network-wide warehouse resource distribution and coordinated with national and social efforts to deliver emergency rescue equipment and supplies to the disaster-stricken sites within eight hours, efficiently linking up the "lifeline" for disaster relief supplies. Such deeds were reported by Xinhua News Agency and other official media. Following the latest severe outbreak of COVID-19 pandemic in Hong Kong, the Group undertook the 5G network construction and the communications service support for module hospitals in locations such as Kai Tak, Chok Ko Wan and Tsing Yi, ensuring safe and smooth communication network.

In the recently concluded XXIV Olympic Winter Games in Beijing, the Group undertook 135 important communications support projects related to the Olympic Games and properly resolved a variety of emergency situations during the Winter Games support work, which was well-trusted and highly recognized by customers and venue operators, demonstrating the Group's responsibilities, capabilities and commitment, as well as enhancing the corporate brand awareness and reputation.

The Group has always maintained a high standard of corporate governance and attached great importance to corporate management according to relevant laws and risk prevention and control, so as to ensure its healthy and sustainable development. Our efforts have also been widely recognized by the capital market. The Group ranked 87th in *FORTUNE China's* "2021 FORTUNE China 500" and 1,337th in *Forbes*' "2021 Forbes Global 2000". In the "16th Asian ESG Awards" organized by *Corporate Governance Asia*, the Group won the accolades of "Asia's Icon on ESG", "ESG Influencer" and "Asian Corporate Director". The Group was honored with "Gold Award" in "The Asset ESG Corporate Awards 2021" held by *The Asset*, a financial magazine. The Group was named as "Honored Company" in "2021 All-Asia Executive Team" rankings by *Institutional Investor* again. The Group was also awarded "2021 Golden Hong Kong Equities Grand Award" in the "6th Golden Hong Kong Equities Awards Ceremony". The Group also received honors of "Best CEO" and "Best CFO" in rankings from *Institutional Investor* and other institution.

OUTLOOK

Currently, the State has attached great importance to developing digital economy and promoting integrated development of the digital economy and the real economy. Since the outbreak of COVID-19 pandemic, digital technology and digital economy have played an important role in fighting against the COVID-19 pandemic and the resumption of work and life. With China entering a new stage of development, the Group, which acts as a "New Generation Integrated Smart Service Provider", will seize the opportunities brought by the robust development of digital economy, acceleration of digital transformation in society, the fulfillment of national objectives of "Carbon Peak, Carbon Neutrality", the full commencement of "East-To-West Computing Resource Transfer" project, and adhere to the principles of fairness and innovation, seeking steady yet progressive growth, value placed at the first priority, manageable risks, united spirits and efforts, to continuously strengthen its technological innovation capability, synergistic capability in ecosystem, market competitiveness, reform impetus and risk control capability while putting efforts into pandemic prevention and control. The Group will capitalize on its own advantages and strive for market expansion, increase research and development investment to embark on the path of transformation and upgrade towards a technology-oriented enterprise. The Group will focus on value creation, promote reforms and innovation, with a view to achieving high-quality development.

In the domestic non-operator market, the Group will seize the opportunities arising from industrial digitalization and digital infrastructure, capitalizing on its advantages of the "Consultant + Staff + Housekeeper"[10] service model and the "Platform + Software + Service"[11] capabilities. The Group will penetrate key regions, namely the Beijing-Tianjin-Hebei Area, the Yangtze River Delta, the Guangdong-Hong Kong-Macao Area, and the Chengdu-Chongqing Area as well as key sectors including government, transportation, electricity, construction, and will step up its effort to develop key businesses such as data centers, 5G customized network, Industrial Internet, emergency management, digital governance and cybersecurity, thus achieving dual enhancement in the scale and value of market development.

In the domestic telecommunications operator market, by adhering to its "CAPEX + OPEX + Smart Applications" development strategy, the Group will seize the opportunities of 5G, big data and cloud-network integration while vigorously developing the traditionally advantageous businesses to secure the fundamentals of its operation. The Group will provide its customers with multi-scenario informatization products and services, quickly respond and react, with a view to meeting customers' demand for business development and digital transformation, assisting customers to construct integrated digital information infrastructure which is speedy, green, safe and intelligent.

In the overseas market, the Group will develop businesses based on the principles of safety and effectiveness. The Group will actively explore and grasp new opportunities arising from the "dual-circulation with domestic and international development" and normalization of pandemic situation overseas, participate in the construction along the "Belt and Road" and further promote the development and implementation of overseas projects.

10 "Consultant + Staff + Housekeeper" service model is a unique business model adopted by the Group in recent years. "Consultant" means that the Group acts as the "Consultant" to help its customers through leveraging its talents and product 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 relevant businesses and creates values for customers.

11 "Platform + Software + Service" capabilities: utilize core foundation platforms, including cybersecurity and IoT, focus on various smart applications for customer scenarios and the integrated service capabilities covering consultation and planning, project construction, operation and maintenance, to provide customers with customized integrated solution.

The Group has high regard to its own value creation, and it will keep devoting itself to research and development investment by strengthening the support for research and development, optimizing the evaluation mechanism, expediting the conversion of research and development to results, forging strategic core platforms, accumulating flagship products proactively and cultivating expert and talent team, with a view to promoting its technological leadership. The group will expedite its own digital transformation and utilize data as the core element to solve key problems in production and operation and improve the overall operation efficiency. Taking the Supply Chain Company's successful introduction of strategic investors as a starting point, the Group will accelerate business consolidation and synergistic operation. The Group will implement the whole process management with its procurement platform and strictly execute the whole process monitoring on business subcontracting to reduce cost and enhance efficiency. The Group will attach equal importance to the strategies of organic growth and external development and make good use of its capital to support its own development and generate income from its investment.

Last but not least, 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 care and support, and deeply thank all of our employees for their continued dedication and hard work. I would also like to express my sincere gratitude to Mr. Zhang Zhiyong, who resigned as Chairman of the Board, and Ms. Han Fang, who resigned as Chairman of the Supervisory Committee during the year, for their remarkable and outstanding contributions to the development of the Group during their tenure; and my sincere welcome to Mr. Huang Zhen and Ms. Ye Lichun who have joined the Board and Supervisory Committee, respectively.

Huang Xiaoqing
Executive Director & President

Beijing, PRC
30 March 2022

BUSINESS OVERVIEW

The Group is a leading service provider in the informatization sector in the PRC. Adhering to the position as a "New Generation Integrated Smart Service Provider" and leveraging the roles as "Builder of Digital Infrastructure", "Provider of Smart Products and Platforms", "Service Provider of Data Production" and "Guard of Smart Operation" ("1 Positioning, 4 Roles"), the Group commits to "Building Smart Society, Boosting Digital Economy, Serving a Good Life" and provides integrated comprehensive smart solutions for the informatization and digitalization sectors. The Group provides integrated smart solutions including telecommunications infrastructure services, business process outsourcing services, as well as applications, content and other services for its customers including telecommunications operators, governments, industrial customers and SMEs.

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

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

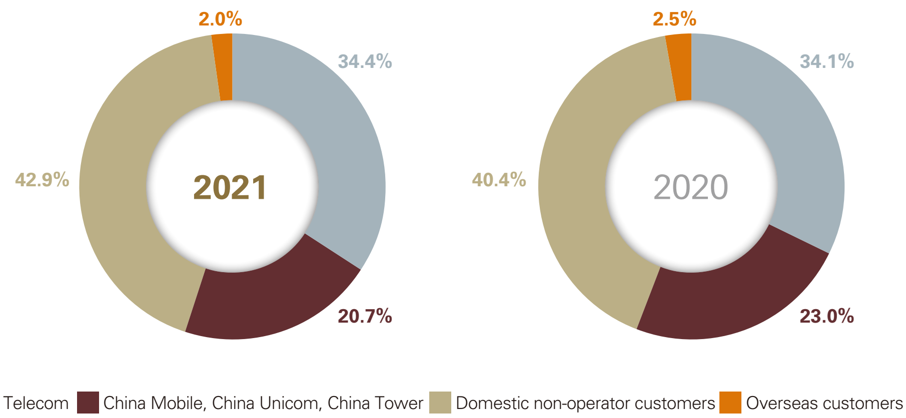
(In RMB million, except percentages)	**Revenue in 2021**	Revenue in 2020	Change
Domestic non-telecom operator customers ("Domestic non-operator customers")	**57,446**	49,578	15.9%
Domestic telecommunications operator customers	**73,803**	69,976	5.5%
Of which: China Telecom	**46,047**	41,777	10.2%
China Mobile, China Unicom, China Tower	**27,756**	28,199	-1.6%
Overseas customers	**2,742**	3,095	-11.4%
Total	**133,991**	122,649	9.2%

MARKET EXPANSION

In 2021, in the face of the complicated domestic and international environments, the Group continued to adhere to the overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development", actively engaged in the trend of building "Digital China", comprehensively participated in "digital infrastructure" and "digital transformation". Along the path of high-quality development, the Group further enhanced market development, seized new opportunities from digital economy, and shifted growth momentums, thereby optimizing its business structure and improving development quality. Total revenues amounted to RMB133,991 million during the year, representing a year-on-year growth of 9.2%.

In 2021, as the Group seized opportunities from digital upgrade in areas such as society, industries and governance, and focused on key industries and sectors, the revenue from the domestic non-operator market for the year amounted to RMB57,446 million, representing a year-on-year increase of 15.9%. As the Group further integrated into the ecosystem of domestic telecommunications operators, seized the opportunities of 5G and data center construction, further developed the traditional businesses of domestic telecommunications operators while vigorously expanding into the transformation business of domestic telecommunications operators such as cloud-network integration, the revenue from domestic telecommunications operator market for the year amounted to RMB73,803 million, representing a year-on-year increase of 5.5%. In overseas market, the Group focused on key countries and key projects and seized new opportunities from normalization of pandemic situation. However, businesses in overseas market were affected by the pandemic, and the revenue from overseas customers amounted to RMB2,742 million, representing a year-on-year decrease of 11.4%.

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



Domestic Non-Operator Market

In recent years, the Group has kept abreast of the development trend of digital economy and industrial digitalization, and attained rapid business growth and continuous optimization of revenue structure in the domestic non-operator market through innovation and transformation. In 2021, with focus on the development opportunities arising from New Infrastructure, smart society, cybersecurity, emergency management, new energy and Dual Carbon Goals, the Group continuously forged the core capabilities and platforms, strengthened the collaboration among internal and external products and services and leveraged its comprehensive strengths, thus achieving positive and interactive development between the emerging businesses and traditional businesses. Revenue from the domestic non-operator market amounted to RMB57,446 million, representing a year-on-year increase of 15.9%.

In 2021, the Group advanced on research and development under the leadership of China Comservice General Research Institute, forged strategic core platforms, elevated the software service capability and developed smart products. As of now, more than 30 products for industrial application have been developed, covering different industries and sectors including smart city, digital government, smart emergency management, smart game and smart transportation. The Group also possesses self-developed core platforms such as open IoT platform, cybersecurity platform, emergency management middle platform, maintenance digitalization platform, blockchain platform and innovation middle platform. The Group could quickly respond to customer needs and provide the comprehensive smart product portfolio that could be disassembled or combined, as well as full-process service capabilities from top-level design to product R&D and operation. For data center business, in particular, the Group leveraged high-end consulting and design capabilities, applied BIM digitalization technology and the profound accumulation on energy conservation and emission reduction technologies to build the brand image of EPC general contractor of data center infrastructure construction. The Group also made achievements in the expansion of key projects. In the field of New Infrastructure, the Group undertook EPC general contracting projects including Xiong'an City Supercomputing Cloud Center Project Phase 1 General Contracting Project for Server Rooms Installation, Xiangyang Internet + Innovation and Entrepreneurship Industrial Park and Guangdong Shanwei Topway Data Center; in the field of smart society, benchmark projects undertaken included Beijing Normal University Hanzhong School Smart System Construction Project in Xinghan New Area, Hanzhong, Shaanxi, Shanghai Pudong South Yanggao Road Reconstruction Project, Information Infrastructure and Smart Management and Control Platform Construction Project of the First Affiliated Hospital, Sun Yat-sen University (Nansha) in Guangzhou, Guangdong Province.

The Group undertook the construction of key data center projects

1. Xiong'an City Supercomputing Cloud Center Project Phase 1 General Contracting Project for Server Rooms Installation
2. Yangtze River Upstream Data Center Project
3. Western Sichuan Industry Park Electromechanical General Contracting Project
4. Xiangyang Internet + Innovation and Entrepreneurship Industrial Park EPC Project

The Group established a sound and localized marketing mechanism across the country with over 14,000 sales personnel deployed in the key industries while constantly enhancing its efforts in collaborated marketing of the group-level products, thus securing over 1,200 new projects with contract amount exceeding RMB10 million each during the year. The Group also accelerated the formation of a technical expert team for its core products, which has gathered over 10,000 consulting experts and relevant software talents. The Group also enhanced capabilities accumulation and enabling by consistent training and informatization means such as the Smart Comservice APP, which continuously fostered critical professional talents and teams for the enterprise. Currently, the annual contract scale secured by the Group from more than 10 industries, including government, construction and real estate, Internet and IT, transportation, electricity, finance, radio and television, water conservancy, education, medical care and SMEs, has exceeded RMB1 billion in each sector.

The Group has achieved success in expanding in key industry sectors

1. Yibin Port 5G Smart Port Project
2. Changsha 5G+ Medical Health Application Pilot Project
3. Yancheng Railway Integrated Passenger Terminal (West Square) Informatization Project

Domestic Telecommunications Operator Market

In 2021, the Group further integrated into the ecosystem of operators in the domestic telecommunications operator market, seized opportunities from traditional businesses and transformation. The Group persisted in the "CAPEX + OPEX + Smart Applications" strategy, seized new opportunities from industrial digitalization, 5G and data center construction, further developed the traditional businesses, explored the market potential of Network Maintenance, Property Management and supply chain businesses, and strived to increase the OPEX market share. The Group comprehensively supported operators' demand for informatization services in the course of transformation by proactively engaging in and expanding the markets including 5G industrial applications, business derived from government and enterprise customers of operators and network information security, which ultimately stabilized the operation fundamentals of domestic telecommunications operators. The revenue from such market amounted to RMB73,803 million, representing a year-on-year increase of 5.5%, of which the revenue from China Telecom amounted to RMB46,047 million, representing a year-on-year increase of 10.2%.

The Group proactively participated in the network construction and maintenance for domestic telecommunications operators

Overseas Market

In 2021, the Group proactively adapted to the new development paradigm of "dual-circulation with domestic and international development" by following the principles of safety, compliance and efficiency, with a focus on key countries and regions such as Saudi Arabia, Hong Kong, Macau and the Philippines. The Group reinforced the internal and external collaboration, with production bases established in the overseas market to promote the capability enabling of smart products overseas, thus propelling the innovation and transformation of overseas businesses and enhancing the quality of development. The COVID-19 pandemic continued to rage overseas, which had a relatively large impact on the Group's overseas business; the revenue from overseas customers amounted to RMB2,742 million, representing a year-on-year decrease of 11.4%. During the year, the Group further enhanced general contracting capability, continued to focus on key regions, key customers and key projects, enhanced the overseas cooperation with leading Chinese enterprises, and fully utilized the resources of domestic financial institutions. New contracts in the overseas market witnessed continuous improvement in terms of quantity and quality, and the number of smart transformation projects such as power, smart hospital increased continually.

The Group proactively expanded overseas projects

BUSINESS EXPANSION

As a 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, etc.

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 2021, revenue from telecommunications infrastructure services amounted to RMB71,889 million, representing a year-on-year growth of 7.0%.

The Group has the capabilities to provide worldwide telecommunications operators with comprehensive telecommunications infrastructure services including planning, design, construction and project supervision for fixed-line, mobile, broadband networks, data centers and supporting systems. In 2021, the Group endeavoured to address the business needs of the domestic telecommunications operator customers as well as supporting the domestic 5G network construction and maintained a solid market leading position. The Group's revenue of telecommunications infrastructure services from domestic telecommunications operators amounted to RMB39,454 million, representing a year-on-year growth of 1.5%.

The Group also provides various services, including construction services of ancillary communications networks, integrated solutions for informatization and intelligentization solutions of industries, to domestic non-operator customers such as government, finance, construction, transportation, emergency management, electricity, and medical care as well as overseas customers. During the year, the Group made constant new breakthroughs in the fields of data centers, building intelligentization, smart campus and electricity engineering. In 2021, the Group's revenue of telecommunications infrastructure services from domestic non-operator customers amounted to RMB30,258 million, representing a year-on-year growth of 17.5%, maintaining a strong development momentum.

The Group supported the construction of domestic 5G base stations

As domestic telecommunications operators continue to increase their investment in New Infrastructure such as 5G and data centers with a view to accelerating the transformation of cloud-network integration, the Group will further integrate into the ecosystem of operators and enhance product and service capabilities, so as to cater for the demand of domestic telecommunications operators for integrated network construction services and maintain the stable development of domestic telecommunications operator business. Meanwhile, with the in-depth implementation of the strategy of Digital China, the construction of new infrastructure facilities will accelerate while industrial digitalization will thrive and the global informatization demands under the normalization of pandemic situation will boom. All of the above will bring potential for market development and the Group will embrace new growth opportunities in both domestic non-operator market and overseas market.

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. The revenue from the business process outsourcing services amounted to RMB40,624 million, representing a year-on-year increase of 9.0%.

The Group provided operation and maintenance services

The Group provides Network Maintenance and network optimization services for telecommunications operators covering fiber optic cables, electric cables, mobile base stations, network equipment and terminals. In 2021, on the basis of stabilizing the Network Maintenance business for domestic telecommunications operators, the Group actively expanded the business of domestic non-operator customers, leading to a largely stable Network Maintenance business with a revenue of RMB16,678 million, representing a year-on-year increase of 5.6%.

The Group provided smart property management solutions to customers

The Group provides Property Management services to domestic and overseas 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 advance on the building of brand, IT platforms and talent teams and leveraged the synergistic operational capabilities to reinforce market development. In 2021, the Group achieved RMB7,127 million of revenue from Property Management services, representing a year-on-year growth of 12.1%.

During the year, the Group penetrated operators' supply chain business and further expanded and developed customers from other sectors. In 2021, the Group's revenue from supply chain services amounted to RMB11,964 million, representing a year-on-year growth of 10.1%. It focused on the upstream and downstream customers, continuously leveraged its advantage in full-process and network-wide synergistic operation in supply chain to provide value-added, integrated and full life cycle supply chain services including logistics and transportation, warehousing and distribution, inspection service and tender agent, digital procurement, repair and disposition to domestic telecommunications operators, government and enterprises customers. During the year, China Comservice Supply Chain Management Company Ltd. introduced strategic investors and completed the capital injection, which is beneficial to the strengthening of the Group's capabilities for professional operations and competitiveness in the supply chain business and fostering the Group's capabilities in general contracting for digital infrastructure and seize the development opportunities of modern supply chain and digital economy.

The Group continuously leveraged its advantage in full-process and network-wide synergistic operation in supply chain to provide value-added, integrated and full life cycle supply chain services

Products distribution business mainly refers to the distribution of communications products. The Group provides terminals sales 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 2021, the products distribution business of the Group achieved a revenue of RMB4,855 million, representing a year-on-year growth of 14.1%.

As the scale of 5G network gradually expands, the Group believes that the OPEX market of domestic telecommunications operators has a favourable room of development, and the domestic non-operator market also sees growing demands for business process outsourcing services. The business process outsourcing services have the features of high customer loyalty, low accounts receivable turnover days and good cash flow. The Group will further consolidate resources to carry out professional operation to pursue a more efficient and larger scale development in such market.

Applications, Content and Other Services

The Group provides system integration, software development and system support as well as value-added services to customers including domestic and overseas telecommunications operators, government agencies and enterprises customers. In 2021, the relevant revenue amounted to RMB21,478 million, representing a year-on-year increase of 18.0%.

The Group provided smart solutions for customers

In 2021, the Group leveraged the strength of its integrated service and capabilities on system integration and software development to keep expanding the ecological cooperation scale, seized the opportunities such as New Infrastructure and digital transformation in China, and vigorously expanded the markets including 5G, data centers, smart city, transportation, electricity, security and emergency management by leveraging the self-developed core platforms and a range of leading "smart series" products, which effectively satisfied the digital transformation demand of government and enterprise customers. Meanwhile, the Group further increased research and development investment, optimized "Synergistic + Dispersed" research and development mechanism, accelerated iteration and development of smart products and solutions, established smart society product portfolio and strengthened synergistic delivery of smart products. With all these measures, the Group satisfied the social and industrial digitalization demand, thus supporting the Group's digital transformation. The Group gained increasing industry recognition and brand influence, as it ranked the 4th in "100 Most Competitive Software & IT Service Enterprises 2021" and has been shortlisted in the "Top 100 Cybersecurity Enterprises in China" Industry Report by "AQNIU" for three consecutive years.

The Group gained increasing industry recognition and brand influence

The Group will seize the opportunities arising from the rapid development of digital economy, keep upgrading its key products, accelerate the construction of strategic core platforms and businesses, improve the software service capabilities and develop smart products, so as to meet the informatization construction demands from customers.

The Group actively participated in various exhibitions to display China Comservice's smart industry application capabilities

CONTENTS OF CERTAIN GROUP-LEVEL PRODUCTS OF THE GROUP

1	CCS Innovation Middle Platform	CCS Innovation Middle Platform builds a middle platform for technological innovation with our own characteristics, its core functions include the R&D management module for the Company and the cloud native R&D collaboration and efficiency development workbench for developers in a closed loop. The platform is committed to enhancing the Company's production digitalization and the R&D management and technological innovation capability. The R&D management module provides R&D management personnel of the Company with whole process management in respect of organization, personnel, R&D project, knowledge database with experience accumulation and other functions. The development workbench offers the one-stop DevOps tools to the R&D personnel and incorporates production commercialization guidelines in the R&D process. The platform aims to support the Company's business innovation and digital transformation.
2	CCS IoT Product Portfolio	CCS IoT positions itself as a new generation digital infrastructure service provider and builds a one-stop full-stack IoT professional service platform, its core functions focus on the challenges customer faced in the course of digital transformation and include full life cycle services for IoT projects and professional support tools in a closed loop. The open IoT platform provides design, R&D and construction personnel with functions including IoT scenario design, equipment connection, agile application development and equipment operation, maintenance and monitoring, to promote the quick implementation of IoT projects and the efficient realization of digital transformation applications. The maintenance cloud product portfolio provides maintenance personnel with functions including cloud migration of resources, matching in the supply and demand and full life cycle business process management, to achieve digitalization of maintenance capability, promote business expansion and accelerate the translation, replication and re-creation of maintenance capability. Combining with the CCS digital service support network, the platform provides enterprises with full-stack, online-offline integrated IoT digital transformation services to help enterprises boost the digital transformation.
3	CCS Cyber Security Product Portfolio	With the idea of "technological innovation, independence and controllability", CCS Cyber Security develops a series of cybersecurity products and services with our own characteristics and advantages. It covers multiple areas including security intelligence, safe operation, data security, password security, professional cybersecurity services and cybersecurity engineering services. It gathers high-quality partners in the industry, focuses on providing comprehensive security solutions and integrated services to the government and relevant departments, providing one-stop security protection to the construction and safeguard of key information infrastructure, as well as comprehensive security support to the country's cybersecurity standards, major projects and essential security activities.

4	CCS Emergency Management Product Portfolio	CCS Emergency Management builds a core product system focusing on "risk monitoring and early alert, emergency rescue and command, comprehensive park surveillance and enterprise security services", with completely self-owned intellectual property rights. It is designed for providing efficient, professional, practical, reliable, comprehensive solutions and integrated services covering the full life cycle to safety supervision and emergency management departments at various levels across the country, industrial parks and enterprises engaging in high-risk industries, to support the implementation of safety supervision, emergency management, risk management and control and emergency rescue. It aims to promote the rapid development of domestic informatization of emergency management and make cities and industries much safer and more intelligent.
5	Industrial Internet	Leveraging 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 levels)), 4P (CCS IoT Platform, CCS Innovation Middle 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".
6	Blockchain	Under the development principles of independence and controllability, the Group builds a new blockchain platform "CCS Chain" with its own characteristics and industry-leading performance and expandability, commits to providing users with a safe, efficient, sound and reliable blockchain technology base. Recognized as "Trusted Blockchain" by China Academy of Information and Communications Technology, the platform leverages cloud-chain integrated service model to provide blockchain underlying service middle platform and scenario applications such as supply chain finance, carbon trading and trusted storage to users. It can help enterprises to exploit the value of blockchain empowering on the basis of their actual demands, and facilitate enterprises' digital transformation and high-quality business development with the positioning of new generation digital service forerunner.

7	Smart Sport	Smart Sport is designed to build the sophisticated capability enabling middle platform for smart sport technological innovation in China, with its core functions covering smart sports events, namely comprehensive sports events and individual sports events, and core digital sport products tailored for provincial and municipal governments and enterprises of the sports industry, aiming to enhance the digitalization of sports industry and promote the technology-driven innovation development of sports industry. Smart Game provides game organizing committees with informatization platform for functions of game results, game management, game command and stadium operation, as well as whole process consulting services and integrated comprehensive operation services, which ultimately supports informatization and intelligentization of whole process management from preparation, construction to operation. Digital Sport provides provincial and municipal governments with application platform functions for sports affairs, mass sports, competitive sports, sports industry and sports big data, to promote the data integration, technology integration and business integration of the sports industry and to build sound sports management and public service systems.
8	Smart City	Smart City is dedicated to integrating innovation and "One City, One Policy" customized services, provides comprehensive smart city solutions through top-level design by utilizing emerging technologies including 5G, artificial intelligence, IoT and cloud computing, so as to develop three major applications scenarios namely digital government, digital economy and one network unified management. Such solutions include "Digital China" consulting services, smart city digital governance platform, city operation management platform, smart city showcase, steering control cabin and specific smart applications that allow for disassembly and combination. The enhancement of effective consolidation, collaboration and sharing of city data resources and smart applications could bolster precise city management and urban services, as well as modernization of urban governance. It can comprehensively elevate the overall competitiveness of local economy, nurture the industry ecosystem and boost the government's transformation and upgrade to digital governance.
9	Digital Government	Incorporating applications of new technologies including cloud computing, big data, artificial intelligence and blockchain, the Group promotes the construction of and reform of Digital Government to achieve "one network unified service" for government services, "one network unified management" for social governance and "one network unified cooperation" for government operation, which enhance government services and social governance. With extensive experience in the information and telecommunications industry and the accumulation in technologies of big data, cloud computing, artificial intelligence and blockchain, Digital Government provides informatization core platforms and solutions for the government's digital transformation, including the integrated government service platform, the unified management platform in one network and the smart government service hall. The integrated government service platform promotes the in-depth integration of decentralized online and offline service channels, service capabilities and service resources; the unified management platform in one network supports governments at all levels to transform decision-making from experience-and-digital-based to intelligence-driven; the smart government service hall provides the government with "convenient service window, smart think tank for government policies, innovation square for business synergy, name card for city image promotion", which becomes the important medium for the government to serve the people and strengthen the close ties between the government and the people.

10	Smart Town	Leveraging IoT, big data, Digital Twin and other technologies, Smart Town builds the integrated digital town management and control platform, achieves comprehensive management of the town's digital infrastructure and collection of various kinds of data, and supports the industry development with nine major digital applications, so as to promote governance and improve people's well-being. By the combination of 1 Platform + 1 Database + 1 Terminal + N Applications + Services, Smart Town provides integrated smart town solutions to support the rural revitalization.
11	Smart Park	With the digital operation platform for industry-city space, Smart Park provides smart park solutions for grand events, entertainment and tourism, happy home, beautiful countryside, health and wellness, worry-free factory, bustling business district, multi-dimensional school town and rural revitalization, renders four comprehensive applications of marketing, management, service and experience, and offers integrated general contracting services and full life cycle management that covers consulting, planning, construction, operation and maintenance.
12	Intelligent Building	Leveraging 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.
13	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.
14	Smart Airport	As the cloud-network integration consolidates the foundation, and 5G empowers the improvement of quality and efficiency, the Group establishes an integrated Smart Airport service system, providing Smart Airport informatization consulting, integrated business solutions and integrated implementation services, and establishes a base for Smart Airport capabilities platform, integrating various Smart Airport applications. The Group assists airport groups in the civil aviation industry of China to establish a "safe, green, smart and humanistic" airport and to realize the goal to be a world-class airport with "high technologies, high standards and high quality".
15	Cloud Computing Engineering	Cloud Computing Engineering provides full life cycle and professional cloud infrastructure (data centers) EPC project general contracting services, possesses 30 major specialties necessary for data center construction, and applies advanced concepts such as energy saving, BIM and modularization to the construction process which provides standardized, modularized and customized services according to customers' needs.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

OVERVIEW

In 2021, by adhering to its overall roadmap of "value-driven, seeking steady yet progressive growth and high-quality development" and positioning itself as a "New Generation Integrated Smart Service Provider", the Group maintained positive growth for the overall results amid the complicated domestic and international environments and seized the important opportunities brought by digital economy, Cyberpower and National Big Data Strategy. Total revenues for the year amounted to RMB133,991 million, representing an increase of 9.2% as compared to 2020; profit attributable to the equity shareholders of the Company was RMB3,157 million, representing an increase of 2.5% as compared to 2020, with basic earnings per share amounted to RMB0.456. Free cash flow was RMB4,060 million with cash conversion ratio[12] being 142.7%, which continued to remain at a healthy and relatively high level.

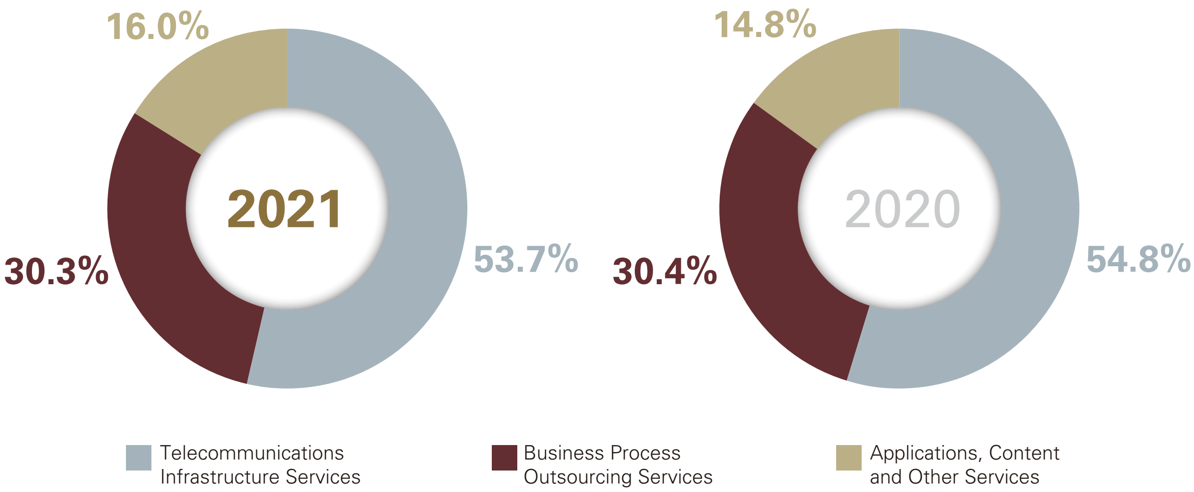
TOTAL REVENUES

The Group's total revenues in 2021 amounted to RMB133,991 million, representing an increase of 9.2% as compared to 2020. From the business perspective, the revenue from telecommunications infrastructure ("TIS") services was RMB71,889 million, representing a year-on-year growth of 7.0%; the revenue from business process outsourcing ("BPO") services was RMB40,624 million, representing a year-on-year increase of 9.0%; the revenue from applications, content and other ("ACO") services was RMB21,478 million, representing a year-on-year growth of 18.0%. In 2021, the Group seized the opportunities arising from 5G, New Infrastructure and social digitalization and enhanced integrated comprehensive smart service capabilities, thus maintaining the continuous and steady growth of the TIS services. Meanwhile, the Group increased investment in research and development, consolidated the capabilities on its research and development as well as product, kept up with opportunities arising from digital transformation of enterprises, and informatization construction of emergency management, smart city upgrade, etc., which stimulated the growth of its businesses such as system integration and software development, making the ACO services continue to be the fastest-growing business segment.

From the market perspective, the revenue from the domestic non-operator market was the main driver for business growth in 2021, and the revenue from such market amounted to RMB57,446 million, representing a year-on-year increase of 15.9%. Revenue from the domestic telecommunications operator market amounted to RMB73,803 million, representing a year-on-year increase of 5.5%; revenue from the overseas market amounted to RMB2,742 million, representing a year-on-year decrease of 11.4%. The Group kept abreast of the development trends of digital economy and industrial digitalization, focused on the development opportunities arising from New Infrastructure, smart society, cybersecurity, emergency management, new energy and Dual Carbon Goals, and achieved positive interaction and development of the emerging and traditional businesses by continuously forging core capabilities and platforms, strengthening the collaboration of internal and external products and services as well as leveraging the comprehensive strengths. As a result, revenue from the domestic non-operator market maintained a strong growth momentum and continued to be the largest contributor to the Group's revenue growth. Meanwhile, the Group effectively implemented the "CAPEX + OPEX + Smart Applications" development strategy in the domestic telecommunications operator market, seized new opportunities of industrial digitalization, 5G and data center construction, further developed the traditional businesses, endeavored to raise the OPEX market share, took initiative to integrate into the whole process of operators' transformation and actively developed businesses in relation to operators' government and enterprise customers and network information security, thereby stabilizing the operation fundamentals of the domestic telecommunications operators.

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

BUSINESS REVENUE MIX



The following table sets forth a breakdown of our total revenues for 2020 and 2021, together with their respective changes:

	2021 RMB'000	2020 RMB'000	Change
Telecommunications Infrastructure Services			
Design services	**10,521,239**	10,372,327	1.4%
Construction services	**57,310,463**	52,952,530	8.2%
Project supervision and management services	**4,057,546**	3,839,714	5.7%
	71,889,248	67,164,571	7.0%
Business Process Outsourcing Services			
Management of infrastructure for information technology (Network Maintenance)	**16,677,957**	15,794,043	5.6%
General facilities management (Property Management)	**7,127,497**	6,357,245	12.1%
Supply chain	**11,963,560**	10,870,747	10.1%
Sub-total of Core BPO Services	**35,769,014**	33,022,035	8.3%
Products distribution	**4,854,569**	4,254,844	14.1%
	40,623,583	37,276,879	9.0%
Applications, Content and Other Services			
System integration	**13,278,131**	11,179,619	18.8%
Software development and system support	**3,634,339**	3,107,772	16.9%
Value added services	**2,386,280**	1,963,321	21.5%
Others	**2,179,736**	1,956,782	11.4%
	21,478,486	18,207,494	18.0%
Total	**133,991,317**	122,648,944	9.2%

Telecommunications Infrastructure Services

In 2021, the Group's revenue from TIS services amounted to RMB71,889 million, representing an increase of 7.0% as compared to RMB67,165 million in 2020. Among which, the construction services recorded revenue of RMB57,310 million, representing an increase of 8.2% as compared to 2020, being the largest contributor to the growth of total revenues. TIS services was the primary source of revenue of the Group and accounted for 53.7% of our total revenues, representing a decrease of 1.1 percentage points from 54.8% in 2020. As to the customer structure of the TIS services, the Group's TIS revenue from domestic telecommunications operators amounted to RMB39,454 million and accounted for 54.9% of the total TIS revenues, representing a decrease of 3.0 percentage points from 2020. The aggregate TIS revenues from domestic non-operator customers and overseas customers amounted to RMB32,435 million and accounted for 45.1% of the total TIS revenues, representing an increase of 3.0 percentage points from 2020, whereas the increase in proportion was driven by domestic non-operator customers.

In 2021, the aggregate TIS revenues from domestic non-operator customers and overseas customers increased by 14.7% over 2020, in which the TIS revenue from domestic non-operator customers recorded a significant year-on-year growth of 17.5%, which was the main growth driver of the TIS business. As a result of the further implementation of Digital China Strategy, the acceleration in the construction of new infrastructure facilities, the prosperous development of industrial digitalization and the market potential brought by the booming informatization demands under the normalization of pandemic situation, the Group captured relevant opportunities in the domestic non-operator market and realized relatively rapid growth. The share of the Group's TIS revenues from domestic telecommunications operators maintained at a stable level and such revenue increased by 1.5% as compared to 2020. As domestic telecommunications operators continued to increase their investment in New Infrastructure such as 5G and data centers with a view to accelerating the transformation of cloud-network integration, the Group further integrated into the ecosystem of operators and enhanced product and service capabilities, so as to cater for the integrated network construction services demand of domestic telecommunications operators and maintained the stable business development of domestic telecommunication operators.

Business Process Outsourcing Services

In 2021, the Group's revenue from BPO services amounted to RMB40,624 million, representing an increase of 9.0% as compared to RMB37,277 million in 2020, accounting for 30.3% of our total revenues, a decrease of 0.1 percentage point as compared to 30.4% in 2020. In terms of customer structure of the BPO services, the BPO revenue from domestic telecommunications operators amounted to RMB26,011 million, representing an increase of 7.3% over 2020, and accounting for 64.0% of the total revenues from the BPO services, representing a decrease of 1.0 percentage point from 2020. The aggregate BPO revenues from the domestic non-operator customers and overseas customers amounted to RMB14,613 million, representing an increase of 12.1% over 2020, and accounting for 36.0% of the total BPO revenues, representing an increase of 1.0 percentage point over 2020.

In 2021, among each of the businesses under the Group's BPO services, revenue from the Network Maintenance business amounted to RMB16,678 million, representing an increase of 5.6% as compared to 2020. Revenue from the Property Management business amounted to RMB7,127 million, representing an increase of 12.1% as compared to 2020 and maintaining a good momentum. Revenue from the supply chain business amounted to RMB11,964 million, representing an increase of 10.1% as compared to 2020. The Group focused on the upstream and downstream customers, continuously leveraged its advantages in full-process and network-wide synergistic operation in supply chain to provide value-added, integrated and full life cycle supply chain services to domestic telecommunications operators, government and enterprise customers. In addition, revenue from the products distribution business amounted to RMB4,855 million, representing an increase of 14.1% as compared to 2020, which was mainly due to the distribution of communications products, including the terminal and device distribution services for domestic telecommunications operator customers and the distribution and procurement services of IT devices, auxiliary accessories and equipment for domestic non-operator customers.

Applications, Content and Other Services

In 2021, the Group's revenue from ACO services amounted to RMB21,478 million, representing an increase of 18.0% as compared to RMB18,207 million in 2020, making it the fastest-growing business segment for the year. In this segment, the system integration business recorded revenue of RMB13,278 million, representing an increase of 18.8% as compared to 2020, being the second largest contributor to the growth of the total revenues. The revenue from ACO services accounted for 16.0% of the Group's total revenues, representing an increase of 1.2 percentage points from 14.8% in 2020, and such proportion has kept growing in the past five years. In terms of the customer structure of ACO services, the Group's ACO revenue from domestic telecommunications operators amounted to RMB8,338 million and accounted for 38.8% of the total ACO revenues, representing an increase of 1.1 percentage points as compared to 2020. Aggregate ACO revenues from domestic non-operator customers and overseas customers amounted to RMB13,140 million, accounting for 61.2% of the total ACO revenues, representing a decrease of 1.1 percentage points over 2020.

In 2021, the Group's ACO revenue from domestic non-operator customers and domestic telecommunications operator customers grew rapidly by 16.7% and 21.5% respectively as compared with 2020. The growth was mainly attributable to the Group's efforts in leveraging its strength in integrated services and capabilities on system integration and software development, further expanding the ecological cooperation scale, and seizing the opportunities of New Infrastructure and digital transformation in China. By utilizing the self-developed core platforms and a range of leading "smart series" products, the Group effectively satisfied the business transformation demand of our customers through vigorously expanding the businesses including 5G, data centers, smart city, transportation, electricity, cybersecurity and emergency management.

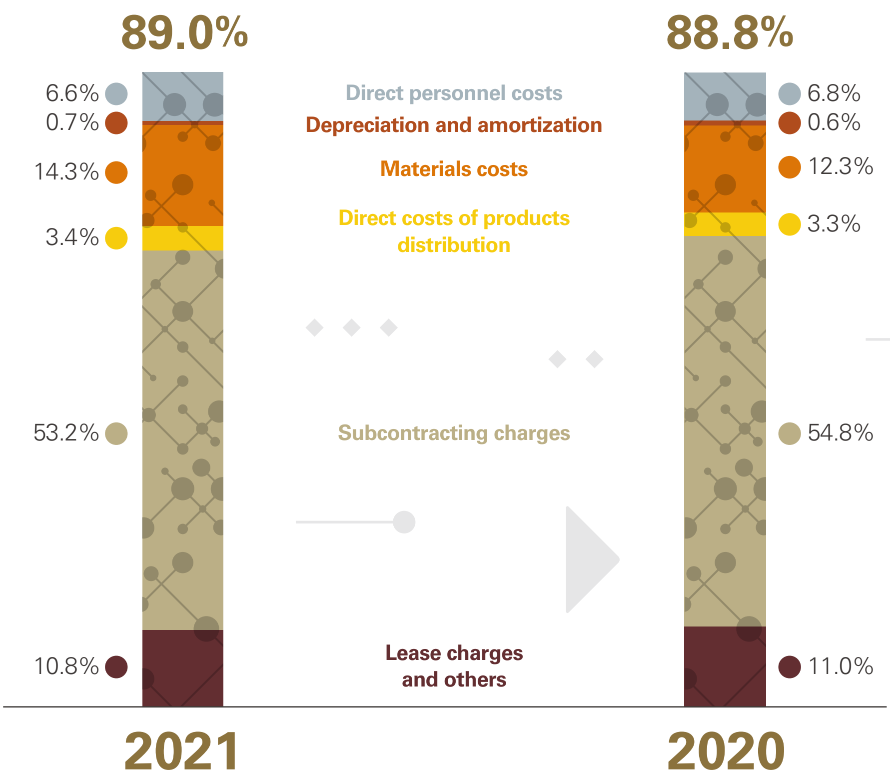
COST OF REVENUES

The Group's cost of revenues in 2021 amounted to RMB119,207 million, representing an increase of 9.5% from 2020 and accounting for 89.0% of the total revenues.

The following table sets out a breakdown of the Group's cost of revenues in 2020 and 2021 and their respective changes:

	2021 RMB'000	2020 RMB'000	Change
Direct personnel costs	**8,804,676**	8,300,338	6.1%
Depreciation and amortization	**908,323**	827,413	9.8%
Materials costs	**19,166,225**	15,057,234	27.3%
Direct costs of products distribution	**4,614,143**	4,067,599	13.4%
Subcontracting charges	**71,239,853**	67,166,028	6.1%
Lease charges and others	**14,473,679**	13,492,696	7.3%
Total cost of revenues	**119,206,899**	108,911,308	9.5%

COST OF REVENUES AS A % OF TOTAL REVENUES



Direct Personnel Costs

In 2021, direct personnel costs amounted to RMB8,805 million, representing an increase of 6.1% from RMB8,300 million in 2020. Direct personnel costs accounted for 6.6% of our total revenues, representing a decrease of 0.2 percentage point from 2020. The Group kept a reasonable control over its total headcount, continued to optimize the employee structure and strictly controlled staff costs, which resulted in the continuous decrease of the proportion of direct personnel costs to total revenues.

Depreciation and Amortization

In 2021, depreciation and amortisation amounted to RMB908 million, representing an increase of 9.8% from RMB827 million in 2020. Depreciation and amortisation cost accounted for 0.7% of our total revenues.

Materials Costs

In 2021, materials costs amounted to RMB19,166 million, representing an increase of 27.3% as compared to RMB15,057 million in 2020. Materials costs accounted for 14.3% of our total revenues, representing an increase of 2.0 percentage points from 2020. The increase was mainly because the Group optimized its business model and undertook major projects in general contracting model proactively, and the businesses of construction, supply chain and system integration involved relatively more materials, so the fast development of those businesses drove the rise of materials costs.

Direct Costs of Products Distribution

In 2021, the direct costs of products distribution amounted to RMB4,614 million, representing an increase of 13.4% as compared to RMB4,068 million in 2020. Direct costs of products distribution accounted for 3.4% of our total revenues, representing an increase of 0.1 percentage point over 2020. The increase of direct costs of products distribution was mainly attributable to the distribution of communications products, including the terminal and device distribution services for domestic telecommunications operator customers and the distribution and procurement services of IT devices, auxiliary accessories and equipment for domestic non-operator customers.

Subcontracting Charges

In 2021, subcontracting charges amounted to RMB71,240 million, representing an increase of 6.1% as compared to RMB67,166 million in 2020. Subcontracting charges accounted for 53.2% of our total revenues, representing a decrease of 1.6 percentage points from 2020. In 2021, the Group strengthened the whole process subcontracting management and enhanced the management and supervision with system control, IT control and personnel management, and so subcontracting charges was effectively managed and its proportion to total revenues decreased significantly, and the increase of subcontracting charges was slower than the growth of total revenues by 3.1 percentage points. The Group will continue to strengthen and regulate the management over subcontracting, with a view to maintaining the growth of subcontracting charges at a relatively reasonable level.

Lease Charges and Others

In 2021, lease charges and others were RMB14,474 million, representing an increase of 7.3% over RMB13,493 million in 2020. Lease charges and others accounted for 10.8% of our total revenues, representing decrease of 0.2 percentage point from 2020.

GROSS PROFIT

In 2021, the Group recorded gross profit of RMB14,784 million, representing an increase of 7.6% over RMB13,738 million in 2020. The Group's gross profit margin in 2021 was 11.0%, representing a decrease of 0.2 percentage point from 11.2% in 2020, and the decrease of gross profit margin has gradually moderated in recent years. The decline in gross profit margin was mainly a result of the factors including the decrease of business unit price due to continuous cost control by domestic telecommunications operators and the increase of rigid costs of the Group. During the year, the Group had a more rigorous screening for high gross profit margin projects, made a balance between the speed and the quality of business development, and guided subsidiaries to develop projects of high gross profit margin through optimizing the performance appraisal system. In addition, the Group continuously strengthened project management and cost control and enhanced the business value creation capability, with a view to improving the gross profit margin.

With the Group's deployment in digital economy, smart society and New Infrastructure areas starting to bear fruit, the Group expects that the proportion of high-value businesses will gradually increase and the gross profit margin of the domestic non-operator market could stabilize and even further improve in the future, thereby driving the Group's overall gross profit margin. In fact, the domestic non-operator market has continued to be the largest contributor to the increase in gross profit of the Group.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

In 2021, the selling, general and administrative expenses of the Group were RMB12,952 million, representing an increase of 9.5% as compared to RMB11,826 million in 2020. The selling, general and administrative expenses accounted for 9.7% of our total revenues, representing an increase of 0.1 percentage point from 2020. In the selling, general and administrative expenses, the research and development costs were RMB4,233 million, representing an increase of 11.9% as compared to RMB3,782 million in 2020, and accounted for 3.2% of our total revenues, representing an increase of 0.1 percentage point from 2020. The increase of selling, general and administrative expenses is commensurate with the increase of cost of revenues.

FINANCE COSTS

In 2021, the finance costs of the Group were RMB79 million, representing an increase of 23.9% as compared to RMB63 million in 2020.

INCOME TAX

In 2021, the income tax of the Group was RMB393 million and its effective tax rate was 11.0%, representing a decrease of 0.4 percentage point from 11.4% in 2020. The decrease in the Group's effective tax rate and the difference between such effective tax rate and the statutory tax rate was mainly due to the increased investment in research and development by the Group. In accordance with the relevant national policies, the Group enjoyed more preferential income tax rate treatments as a high-technology enterprise and the preferential policy of tax deduction before income tax for research and development expenses. In 2021, certain subsidiaries of the Group that fall under the scope of 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. Other than 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 2021, profit attributable to equity shareholders of the Company was RMB3,157 million, representing an increase of 2.5% over RMB3,081 million in 2020. Profit attributable to equity shareholders of the Company accounted for 2.4% of our total revenues, which decreased slightly as compared to 2020. Excluding the effect of depreciation arising from the Group's property acquired in 2020 as the bases for the smart production, operation and research and development (which was transferred to fixed assets in February 2021), profit attributable to the equity shareholders of the Company in 2021 was RMB3,247 million, representing a year-on-year increase of 5.4%. Basic earnings per share of the Company were RMB0.456 (2020: RMB0.445).

CAPITAL EXPENDITURE

The Group implements stringent budget management over capital expenditure and makes adjustment according to changes in market condition. In 2021, capital expenditure of the Group amounted to RMB1,074 million, representing a considerable decrease of 72.9% from RMB3,962 million in 2020. The capital expenditure in 2021 accounted for 0.8% of the total revenues, representing decrease of 2.4 percentage points from 2020. The considerable decrease in capital expenditure was mainly due to the property acquisition in 2020 to serve as the Group's bases for smart production, operation as well as research and development.

CASH FLOW

The Group recorded a net cash inflow of RMB208 million in 2021, representing a decrease of RMB1,648 million from RMB1,856 million in 2020. Such change was mainly due to the increase of cash used in investing activities during the reporting period. As at the end of 2021, the balance of cash and cash equivalents of the Group amounted to RMB21,171 million, of which 96.8% was denominated in Renminbi.

The following table sets out our cash flow positions in 2020 and 2021, respectively:

	2021 **RMB'000**	2020 RMB'000
Net cash generated from operating activities	**4,505,957**	5,453,485
Net cash used in investing activities	**(3,669,549)**	(2,243,695)
Net cash used in financing activities	**(628,351)**	(1,353,860)
Net increase in cash and cash equivalents	**208,057**	1,855,930

In 2021, net cash generated from operating activities of the Group was RMB4,506 million, representing a decrease of RMB947 million from RMB5,453 million in 2020. The Group will continue to strengthen the clearing and settlement of accounts receivable, and put more efforts on management of accounts payable in the meantime.

In 2021, net cash used in investing activities of the Group was RMB3,670 million, representing an increase of RMB1,427 million from RMB2,243 million in 2020. Such cash used in investing activities was primarily for investments in deposit certificates and wealth management products.

In 2021, net cash used in financing activities of the Group was RMB628 million, representing a decrease of RMB726 million from RMB1,354 million in 2020, which was mainly because a subsidiary of the Group, China Comservice Supply Chain Management Company Ltd., introduced strategic investors with the capital injection from minority shareholders.

WORKING CAPITAL

As at the end of 2021, the Group's working capital (i.e. current assets net of current liabilities) was RMB20,962 million, representing a decrease of RMB72 million from RMB21,034 million at the end of 2020.

ASSETS AND LIABILITIES

The Group continued to maintain its solid financial position. As at the end of 2021, the Group's total assets was RMB100,028 million, representing an increase of RMB5,539 million from RMB94,489 million in 2020; and total liabilities was RMB60,418 million, representing an increase of RMB3,116 million from RMB57,302 million in 2020. The liabilities-to-assets ratio was 60.4%, which was slightly lower than 60.6% at the end of 2020.

INDEBTEDNESS

As at the end of 2021, total indebtedness of the Group was RMB813 million, representing an increase of RMB109 million from RMB704 million as at the end of 2020. Indebtedness of the Group was mainly denominated in US dollar, of which Renminbi loan accounted for 8.3% and US dollar loan accounted for 78.3%; and of which 37.5% was the loans with a fixed interest rate and 62.5% was those with a floating interest rate.

As at the end of 2021, our gearing ratio[13] was 2.1%, which was slightly higher than 1.9% as at the end of 2020.

CONTRACTUAL OBLIGATIONS

The following table sets out our contractual commitments as at 31 December 2021:

	Total RMB'000	**2022** RMB'000	**2023** RMB'000	**2024** RMB'000	**2025** RMB'000	**2026 and after** RMB'000
Short-term debt	723,024	723,024	–	–	–	–
Long-term debt	89,808	–	18,362	18,362	18,362	34,722
Lease commitments	173,833	73,709	42,423	25,150	11,456	21,095
Contracted for but not provided capital commitments	160,510	160,510	–	–	–	–
Total of contractual obligations	1,147,175	957,243	60,785	43,512	29,818	55,817

EXCHANGE RATE

Most of the Group's revenues and expenses are denominated in Renminbi. As at the end of 2021, the balance of the Group's cash and cash equivalents in foreign currencies accounted for 3.2% of the balance of its total cash and cash equivalents, of which 1.0% and 0.4% were denominated in US dollars and Hong Kong dollars, respectively.

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

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

HONORARY CHAIRMAN

Mr. WANG Xiaochu

aged 63, is the Honorary Chairman[1] of our Company. Mr. Wang was 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 also 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.

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.

EXECUTIVE DIRECTORS

Mr. HUANG Xiaoqing

aged 57, is the President and an Executive Director of our Company, responsible for our daily operations and management. Mr. Huang is a senior engineer and received a bachelor's degree in telecommunications engineering from Nanjing Institute of Posts and Telecommunications in 1985, and an MBA degree from Macau University of Science and Technology in 2003. Prior to joining the Company, Mr. Huang was the General Manager of Jiangxi Branch of China Telecom. Prior to that, Mr. Huang previously served as the Deputy Director of Jiujiang Telecommunications Bureau in Jiangxi Province, the Director of Xinyu Telecommunications Bureau in Jiangxi Province, the General Manager of Xinyu Branch of China Telecom in Jiangxi Province and the Deputy General Manager of Jiangxi Branch of China Telecom. Mr. Huang has over 30 years of operational and management experience in the telecommunications industry in China.

Ms. ZHANG Xu

aged 52, 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's degree in posts and telecommunications management engineering, and she also received a master's 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.

NON-EXECUTIVE DIRECTORS

Mr. GAO Tongqing

aged 58, is a Non-Executive Director of our Company. Mr. Gao is currently a Vice President of China Mobile Communications Group Co., Ltd., a Vice President of the China Mobile Limited, a Director and Vice President of China Mobile Communication Co., Ltd., and principally in charge of legal and regulatory matters, technology R&D, international business, investment and others. Mr. Gao is also a Non-Executive Director of China Tower Corporation Limited and a Non-Executive Director and Vice Chairman of True Corporation Public Company Limited. Mr. Gao graduated from the Changchun Institute of Posts and Telecommunications with a major in telecommunications engineering and received a doctorate degree in business administration from the Hong Kong Polytechnic University. Mr. Gao previously served as Deputy Director General of Xinjiang Uygur Autonomous Region Posts and Telecommunications Administration, Deputy General Manager and General Manager of Xinjiang Uygur Autonomous Region Telecom Company, General Manager of China Telecom Jiangsu branch, Vice President of China Telecommunications Corporation, and Executive Director and Executive Vice President of China Telecom Corporation Limited. Mr. Gao has extensive experience in management and the telecommunications industry.

Mr. MAI Yanzhou

aged 53, is a Non-Executive Director of our Company. Mr. Mai is currently a Vice General Manager of China United Network Communications Group Company Limited, a Senior Vice President of China United Network Communications Limited, a Director and Senior Vice President of China United Network Communications Corporation Limited, as well as a Director and Senior Vice President of China Unicom (Hong Kong) Limited. Mr. Mai is also a Non-Executive Director and the Deputy Chairman of the Board of PCCW Limited, a Non-Executive Director of HKT Limited and HKT Management Limited, and a Non-Executive Director of China Tower Corporation Limited. Mr. Mai was a university graduate with a master's degree in Electronics and Information Engineering. Mr. Mai previously served as Deputy General Manager of Guangdong Branch of China Network Communications Group Corporation, Deputy General Manager of Guangdong Branch, General Manager of Fujian Branch, as well as General Manager of Liaoning Branch of China Unicom. Mr. Mai served as a Delegate to the 12th National People's Congress. Mr. Mai has worked in the telecommunications industry for a long period of time and has extensive management experience.

Mr. HUANG Zhen

aged 52, is a Non-Executive Director of our Company. Mr. Huang is currently the Chairman of State Grid Information & Telecommunication Technology Group Co., Ltd. Mr. Huang graduated from Xi'an Jiaotong University with a bachelor's degree in Power System and its Automation, and obtained a master's degree from China Electric Power Research Institute and a doctorate degree from Southwest Jiaotong University. Mr. Huang is a professor-level senior engineer. Mr. Huang previously served as the Deputy Director and Chief Engineer of Luzhou Power Bureau of Sichuan Electric Power Company, the Director of Bazhong Power Bureau of Sichuan Electric Power Company, the Divisional Director of Planning Division II of Development & Planning Department of State Grid Corporation of China, the Deputy General Manager of Xinjiang Electric Power Company of State Grid and General Manager of Urumqi Power Supply Company, the Director and General Manager of Ningxia Electric Power Company of State Grid, as well as the General Manager of State Grid Information & Telecommunication Technology Company and Head of Communication Network Construction Preparatory Work Team of State Grid Corporation of China.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. SIU Wai Keung, Francis

aged 68, is an Independent Non-Executive Director of our Company. Mr. Siu is currently an Independent Non-Executive Director of the following listed companies, including CITIC Limited and China International Capital Corporation Limited. Mr. Siu is also an Independent Non-Executive Director of 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. Mr. Siu used to serve as an Independent Non-Executive Director of CGN Power Co., Limited, GuocoLand Limited and Beijing Gao Hua Securities Company Limited. He was also 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

aged 67, 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 currently an Independent Non-executive Director of Beijing Digital Telecom Co., Ltd., and also an Independent Director of 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, an Independent Director of Gohigh Data Networks Technology Co., Ltd., BOE Technology Group Co., Ltd. and China United Network Communications Limited, and also a consultant for the business management and strategic development in many telecommunication enterprises and provide advice and solutions to their development and reform. Mr. Lv has a deep insight in the development of China's communication industry and the management of telecommunication enterprises with extensive management experience.

Mr. WU Taishi

aged 75, is an Independent Non-Executive Director of our Company. Mr. Wu graduated from Department of Management of Fudan University with a bachelor's 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

aged 65, 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's 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.

SUPERVISORS

Ms. YE Lichun

aged 51, is the Chairperson of our Supervisory Committee. Ms. Ye is currently the Vice President of the Audit Department of China Telecommunications Corporation and the Vice President of the Audit Department of China Telecom Corporation Limited. Ms. Ye graduated from the Shanghai University of Finance and Economics in 1999 with a master's degree in Accounting. Ms. Ye is a certified public accountant in PRC and a senior accountant. Ms. Ye previously worked as the Manager of Finance Department of Zhejiang Branch of Chine Telecom, the Vice President of China Telecom Global Limited, and the Vice President of International Business Department of China Telecom Corporation Limited. Ms. Ye has over 20 years of finance and audit experience in the telecommunications industry.

Mr. HAI Liancheng

aged 77, 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

aged 59, 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 30 years working experiences in the telecommunications industry.

MANAGEMENT

Mr. HUANG Xiaoqing

(Please refer to the "Executive Directors" section)

Ms. ZHANG Xu

(Please refer to the "Executive Directors" section)

Mr. LIANG Hongzhi

aged 46, is an Executive Vice President of our Company. Mr. Liang received a bachelor's degree in computer communications from Beijing University of Posts and Telecommunications in 1998 and received a master's degree in computer technology from Beijing University of Posts and Telecommunications in 2005. Prior to joining the Company, Mr. Liang was the Vice President of Government and Enterprise Customers Department of China Telecommunications Corporation. Mr. Liang previously also served as a Director of Government and Enterprise Customers Department of Liaoning Branch of China Telecom, the General Manager of Benxi Branch of China Telecom, and he also served as a Member of the Standing Committee in Liangshan Prefecture and a Deputy Head of the People's Government of Liangshan Prefecture (took a temporary post and received on-the-job training). Mr. Liang has over 20 years of management experience in the telecommunications industry.

Mr. LIANG Shiping

aged 52, 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

aged 50, is an Executive Vice President and Chief Risk Officer of our Company. Mr. Yan is also a Director of New Guomai Digital Culture Co., Ltd (formerly known as 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, the Deputy General Manager and Chief Financial Officer of China International Telecommunications Construction Corporation and the Deputy Managing Director of the Sideline Industrial Management Department of China Telecommunications 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.

Mr. ZHAO Xu

aged 47, is an Executive Vice President of our Company. Mr. Zhao joined the Company in September 2007 and used to serve as Divisional Director of the Business Innovation Division of the Company's Domestic Non-telecom Operator Business Department. Mr. Zhao received a master's degree in Management Science and Engineering from the Beijing University of Posts and Telecommunications in 2000, and Mr. Zhao is also a CFA charterholder. Prior to joining the Company, Mr. Zhao served in the Finance Department and the Office of the Board of China Telecommunications Corporation. Mr. Zhao has over 20 years of experience in the telecommunications and IT industry.

Mr. LI Dong

aged 42, a member of the senior management of the Company. Mr. Li is an intermediate economist and received a bachelor's degree in Labour Economics from Renmin University of China in 2002, and a master's degree in Public Administration from Peking University in 2011. Prior to joining the Company, Mr. Li served as an Director of Discipline Inspection and Supervision Office of China Telecommunications Corporation. Prior to that, Mr. Li worked in the Human Resources Department and Corporate Affairs Department of China United Network Communications Corporation Limited, the General Affairs Office and Discipline Inspection and Supervision Department of China Telecommunications Corporation. Mr. Li has near 20 years of management experience in the telecommunications industry in China.

COMPANY SECRETARY

Mr. CHUNG Wai Cheung, Terence

aged 48, is the Company Secretary and Deputy Chief Financial Officer of our Company. Mr. Chung joined the Company in October 2006. 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 2021.

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 2021 and the financial position of the Group as at that date are set out in the audited financial statements on page 139 to page 217 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 "Statement from the Board", "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 2021, 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".

DIVIDEND POLICY

The Company attaches great importance to the returns of shareholders. Taking into the consideration of the long-term interest and sustainable development of the Company, and with the support of the Group's profitability, the Company strives to maintain the continuity and stability of the dividend policy. The factors to be considered by the Company when formulating the dividend distribution plan are as follows:

1. current and expected operating results and cash flow performance;

2. future business development strategies and operating position, as well as future capital needs;

3. daily working capital needs;

4. expectations of shareholders and investors; and

5. other factors that the Board deems appropriate.

The Board is responsible for formulating the dividend distribution plan and will execute the relevant approval procedures in accordance with relevant laws, rules, regulations and articles of association of the Company before proceeding with the distribution.

DIVIDENDS

The Board proposes a final dividend of RMB0.1641 per share and a special dividend of RMB0.0091 per share, and the total dividend is RMB0.1732 per share (pre-tax) for the year ended 31 December 2021. The dividend proposal will be submitted for consideration at the annual general meeting to be held on 17 June 2022 (the "AGM").

Dividends will be denominated and declared in Renminbi. Dividends will be paid in Renminbi for domestic share shareholders and H share shareholders (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, 12 August 2022 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 177 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 into 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 Southbound Shareholders, will receive all dividends distributed by the Company and will distribute the dividends to the Southbound Shareholders 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 investing 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.

Should the H share shareholders 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 OF THE COMPANY

The following table sets out information concerning the directors 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
Huang Xiaoqing	Executive Director President	21 October 2020 22 September 2020
Zhang Xu	Executive Director Chief Financial Officer Executive Vice President	13 December 2018 14 November 2018 14 November 2018
Gao Tongqing	Non-executive Director	15 June 2020
Mai Yanzhou	Non-executive Director	15 June 2020
Huang Zhen	Non-executive Director	25 February 2022
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

On 30 September 2021, Mr. Zhang Zhiyong resigned as the Chairman and an Executive Director of the Company. On 13 October 2021, the Board has resolved that Mr. Huang Xiaoqing, an Executive Director and President of the Company, exercises the powers of the Chairman of the Company until new appointment is made by the Board.

On 25 February 2022, Mr. Huang Zhen was appointed as a Non-executive Director of the Company.

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.

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.

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
Ye Lichun	Chairperson of the Supervisory Committee	25 February 2022
Hai Liancheng	Independent Supervisor	3 August 2006
Si Jianfei	Employee Representative Supervisor	18 June 2013

On 22 December 2021, Ms. Han Fang resigned as the chairperson and a supervisor of the Supervisory Committee. On 25 February 2022, Ms. Ye Lichun was appointed as a supervisor upon the approval in the extraordinary general meeting, and was elected as the chairperson of the Supervisory Committee on the same day.

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

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.

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.

According to the share transfer agreement between China Telecom and State Grid Information & Telecommunication Technology Group Co., Ltd. on 25 June 2021, China Telecom agreed to transfer 166,000,000 domestic shares of the Company (representing 2.40% of the total issued share capital of the Company) to State Grid Information & Telecommunication Technology Group Co., Ltd. In November 2021, the share transfer had formally completed, and the Company made the relevant announcement on 26 November 2021. Upon the completion of the share transfer, the percentage of shareholding of China Telecom in the total issued share capital of the Company was adjusted from 51.39% to 48.99%.

As at 31 December 2021, 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	3,393,362,496	48.99
China Mobile Communications Group Co., Ltd.	608,256,000	8.78
China United Network Communications Group Company Limited	236,300,000	3.41
State Grid Information & Telecommunication Technology Group Co., Ltd.	166,000,000	2.40
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**

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

As at 31 December 2021, 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 Part XV of 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	3,393,362,496 (L)	74.83	48.99
China Mobile Communications Group Co., Ltd.	Domestic shares	Beneficial owner	608,256,000 (L)	13.41	8.78
China United Network Company Limited	Domestic shares	Beneficial owner	236,300,000 (L)	5.21	3.41
Hermes Investment Management Ltd	H shares	Investment manager	233,207,872 (L)	9.75	3.37
Citigroup Inc.	H shares	6,305,936 shares as interests of controlled corporations and 115,342,737 shares as approved lending agent	121,648,673 (L)	5.08	1.76
	H shares	Interests of controlled corporations	6,522,486 (S)	0.27	0.09
	H shares	Approved lending agent	115,342,737 (P)	4.82	1.67
FMR LLC	H shares	Interests of controlled corporations	119,776,004 (L)	5.01	1.73
BlackRock, Inc.	H shares	Interests of controlled corporations	119,769,335 (L)	5.01	1.73

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

Save as stated above, as at 31 December 2021, in the register required to be maintained under Part XV of Section 336 of the SFO, no other persons were recorded as holding any interests or short positions in the shares or underlying shares of the equity derivatives of the Company.

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

As at 31 December 2021, 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 2021, 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 2021 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 2021.

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 2021.

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 218 to 219 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 2021.

BANK LOANS AND OTHER BORROWINGS

Please refer to note 33 to the audited financial statements for details of bank loans and other borrowings of the Group as at 31 December 2021.

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 2021.

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 2021.

DONATIONS

For the year ended 31 December 2021, the Group made charitable and other donations of a total amount of RMB2.80 million.

SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES

Please refer to note 47 and note 22 to the audited financial statements for details of the Company's subsidiaries, the Company's associated companies and joint ventures as at 31 December 2021.

CHANGES IN EQUITY

Please refer to the consolidated statement of changes in equity contained in the audited financial statements (page 143 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.

SHARE APPRECIATION RIGHTS INCENTIVE SCHEME

At the extraordinary general meeting held by the Company on 22 December 2021, the adoption of the Share Appreciation Rights Incentive Scheme (the "Scheme") was approved by the shareholders of the Company, and the incentive recipients include the management of the Company, the operational management of provincial companies and professional companies of the Group, as well as professional talents, and core management, technical and business personnel, etc. who contributed prominently to the Company's operating results and sustainable development. The Board is of the opinion that the Scheme can further improve the corporate governance structure of the Company, refine the establishment of the mid – to long-term incentive mechanism of the Company, optimize the remuneration system of the Company as a whole, and cope with the fierce industry competition and support the Company's long-term development. In addition, the Scheme is beneficial for the Company to attract, retain and motivate outstanding management and core technical personnel, promote the concept of joint sustainable development between the Company and employees, fully motivate the core management and key personnel of the Company, and support the realization of the corporate strategy. For details of the Scheme, please refer to the Company's circular dated 1 December 2021 in relation to, among other things, "Proposed Adoption of Share Appreciation Rights Incentive Scheme and Proposed Initial Grant".

The Scheme would not involve the grant of share options in respect of new shares or other new securities to be issued by the Company (or any of its subsidiaries) and therefore, it does not fall within the ambit of, and is not subject to the requirements under Chapter 17 of the Listing Rules.

The Board considered and approved the resolution on the implementation of the Initial Grant of the Share Appreciation Rights on 22 December 2021. The total number of the Share Appreciation Rights granted under the Initial Grant is approximately 207.27 million shares, representing 2.993% of the total issued share capital of the Company. For details of the Initial Grant, please refer to the Company's announcement dated 22 December 2021 in relation to the "Initial Grant of the Share Appreciation Rights".

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 55.6% of the total revenues of the Group; of which, the revenue from the largest customer of the Group represented 34.4% of the total revenues of the Group. The purchases from the five largest suppliers of the Group accounted for less than 11.3% 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. Gao Tongqing and Mr. Mai Yanzhou (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.

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 Centralized Services Agreement and the Property Leasing Framework 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.

As each of the 2015 Agreements and the 2018 Supplemental Agreements (the "2018 Agreements") had expired on 31 December 2021, the Company entered into the 2021 Supplemental Agreements (the "2021 Supplemental Agreements") with China Telecom on 22 October 2021 to, among other things, extend the term for three years from 1 January 2022 to 31 December 2024. Other key terms of each of the 2018 Agreements remain unchanged. The 2021 Supplemental Agreements and the new annual caps (excluding the new annual caps for the Centralized Services Agreement and Property Leasing Framework 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 22 December 2021.

The Board considers that it is in the interest of the Company to enter into the 2021 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 such 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 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 thresholds which the project must be determined through tender process under the Engineering Framework Agreement include: 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 other related laws and regulations. In determining the market price, the business and financial department of the relevant subsidiary of the Company shall collect the relevant market information (including but not limited to the change in price for the same or similar type of services), review and compare the costs and profits of transactions conducted in the most recent year of the same or similar type entered into with China Telecom Group or independent third parties, and prepare fee quotes for review by the marketing department of the relevant subsidiary of the Company. 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 at least three comparable transactions of the same or similar type of services provided to China Telecom Group by other service providers in the market; (iii) prices of at least three comparable transactions 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 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 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:

a) 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 at least three comparable transactions of the same or similar type of services provided to China Telecom Group by other service providers in the market; (iii) prices of at least three comparable transactions of the same or similar type of services provided to China Telecom Group and independent third parties previously by the Company;

b) 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 cost and profits, the business and financial department 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.

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 at least two comparable transactions of the same or similar type of services provided to the Company by other service providers in the market; (ii) prices of at least two comparable transactions 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 at least three comparable transactions of the same or similar type of services provided to the Company by other service providers in the market; (ii) prices of at least three comparable transactions 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:

a) 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

b) 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 abovementioned 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 at least three comparable transactions 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 at least three comparable transactions 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:

a) 1% of the contract value at the maximum for procurement services relating to imported telecommunications supplies;

b) 3% of the contract value at the maximum for procurement services relating to domestic telecommunications supplies and other domestic non-telecommunications materials;

c) 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 at least three comparable transactions 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 at least three comparable transactions of the same or similar type of services provided to China Telecom Group and independent third parties by the Company, or prices of at least three comparable transactions 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 ("2019 Financial Services Framework Agreement"). The 2019 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 2019 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 2019 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.

As the 2019 Financial Services Framework Agreement had expired on 31 December 2021, the Company entered into the 2021 Financial Services Framework Agreement with China Telecom Finance on 22 October 2021 to extend the term of 2019 Financial Services Framework Agreement for three years from 1 January 2022 to 31 December 2024. The deposit services under the 2021 Financial Services Framework Agreement and the annual caps were approved by the independent shareholders of the Company at the extraordinary general meeting held on 22 December 2021.

Details of the Financial Services Framework Agreements are set out below.

FINANCIAL SERVICES FRAMEWORK AGREEMENT

Pursuant to the 2021 Financial Services Framework Agreement, China Telecom Finance has agreed to provide financial services to the Group, including deposit services, loan and bill discounting 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.

(ii) Loan and Bill Discounting Services

The interest rates for loan and bill discounting 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 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 bill discounting services in the same period and of the same type and amount, and the loan and bill discounting services shall be conducted on normal commercial terms or better. The interest rates for loan and bill discounting 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 for loan and bill discounting 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 and bill discounting services in the same period and of same type and amount.

China Telecom Finance offers loan and bill discounting services conducted on normal commercial terms or better to the Group. 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 and bill discounting services provided to the Group.

(iii) Other Financial Services

Save as the deposit, loan and bill discounting services, China Telecom Finance will provide other financial services, including financial and financing advice, credit authentication, bill acceptance, fund transfer and settlement and designs of relevant settlement and clearance arrangement to the Group under the 2021 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 2021 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 2021 Financial Services Framework Agreement. Prior to entering into any specific agreements with China Telecom Finance in respect of the transactions under the 2021 Financial Services 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.

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 2021 and its new annual caps:

Unit: RMB million

	Year ended 31 December 2021		Year ending 31 December 2022	Year ending 31 December 2023	Year ending 31 December 2024
	Existing Annual Cap	Actual Amounts	New Annual Cap	New Annual Cap	New Annual Cap
Transactions with China Telecom Group					
Engineering services provided to China Telecom Group	35,000	18,540	24,000	26,000	28,000
Ancillary telecommunications services provided to China Telecom Group	27,000	16,775	23,000	26,000	28,000
Operation support services provided to/by China Telecom Group					
Revenue	4,200	3,838	5,000	5,500	6,000
Expenditure	2,400	787	1,000	1,100	1,200
IT application services provided to/by China Telecom Group					
Revenue	5,000	3,984	6,500	8,000	9,500
Expenditure	500	97	1,000	1,500	2,000
Centralized services provided to China Telecom Group	450	404	550	550	550
Property leasing provided to/by China Telecom Group					
Revenue	250	139	330	350	370
Expenditure					
Right-of-use Assets	N/A	560	650	650	650
Leasing Charges	330	127	350	350	350
Supplies procurement services provided to/by China Telecom Group					
Revenue	7,000	2,770	6,800	7,500	8,500
Expenditure	5,400	2,483	4,000	5,000	6,000
Transactions with China Telecom Finance					
Maximum daily balance of deposits under the deposit services provided by China Telecom Finance (including the interest accrued thereon)	8,500	6,035	8,500	8,500	8,500

The independent non-executive directors of the Company have confirmed that all the continuing connected transactions for the year ended 31 December 2021 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 (Revised) "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 2021, so far as the directors are aware, the Company was not involved in any material litigation or arbitration and no material litigation or claims had been made against, or were pending or threatened against the Company.

RISK FACTORS

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

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

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

In recent years, China is one of the countries with the fastest pace of economic growth around the globe in terms of GDP. However, the current growth rate may not be sustainable. Moreover, any future disaster, such as natural disaster and outbreak of epidemics would potentially slow down the level of economic activities, and in turn affect the economic growth of China, Asia and even the world. If any of the above mentioned reasons causes serious economic downturn in China, 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 is closely related to 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 telecommunications infrastructure of the telecommunications operators in China. Such decreases in capital expenditures may have adverse effect to the Group's revenue and profits.

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

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

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

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

The Group is dedicated in expanding into overseas market and strategically expanding overseas operations. The expansion into markets outside China will subject us to considerable risks, including the changes of the international political situation, 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

PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP were engaged as the international and domestic auditors of the Company respectively for the year ended 31 December 2021. PricewaterhouseCoopers has audited the accompanying financial statements, which were prepared in accordance with International Financial Reporting Standards. A resolution for the reappointment of PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP as the international and domestic auditor of the Company for the year ending 31 December 2022 will be proposed at the upcoming AGM. For the details of the change of the auditors of the Company for the year of 2021, please refer to the circular of the Company dated 28 April 2021.

By order of the Board

Huang Xiaoqing
Executive Director and the President

Beijing, PRC
30 March 2022

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 three meetings. At the fifth meeting of the fifth session of the Supervisory Committee convened on 25 March 2021, we reviewed and approved proposals such as the Company's 2020 financial report, 2020 auditors' report issued by the external auditors, profit allocation and dividend distribution plan for 2020, the Company's work report on risk management and internal control for 2020, the report of the Supervisory Committee for 2020 and the work plan of the Supervisory Committee for 2021 and formed resolutions. At the sixth meeting of the fifth session of the Supervisory Committee convened on 25 August 2021, we reviewed and approved proposals such as the Interim Financial Report for 2021, the Report on the Review of the Interim Financial Report for 2021 issued by the external auditors and the Company's work report on risk management and internal control for the first half of 2021 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. At the seventh meeting of the fifth session of the Supervisory Committee convened on 22 December 2021, we reviewed and approved the proposal on change of supervisor of the Company and formed resolutions. During the reporting period, the members of the Supervisory Committee attended the board meetings and general meetings of the Company for 2021. 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, while facing the severe impact of the COVID-19 pandemic on its production and operation, the Company seized the opportunity of digital transformation and accelerated market expansion under the environment of normalization of pandemic prevention and control. In 2021, the Company's total revenues maintained a positive growth and amounted to RMB133,991 million and net profit amounted to RMB3,157 million. The Company's revenue structure was further optimized, its financial position remained stable and operating results continued to improve, resulting in a continuous increase in the corporate value.

The Supervisory Committee is of the opinion that, in 2021, 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 to the general meeting such as the financial report of the Company for 2021 which was 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 2022, the Supervisory Committee will continue to duly perform our duties in a thoughtful manner, 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 operating activities and promoting the standardized and healthy development of the Company.

By order of the Supervisory Committee
Ye Lichun
Chairperson of the Supervisory Committee

Beijing, PRC
24 March 2022

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.

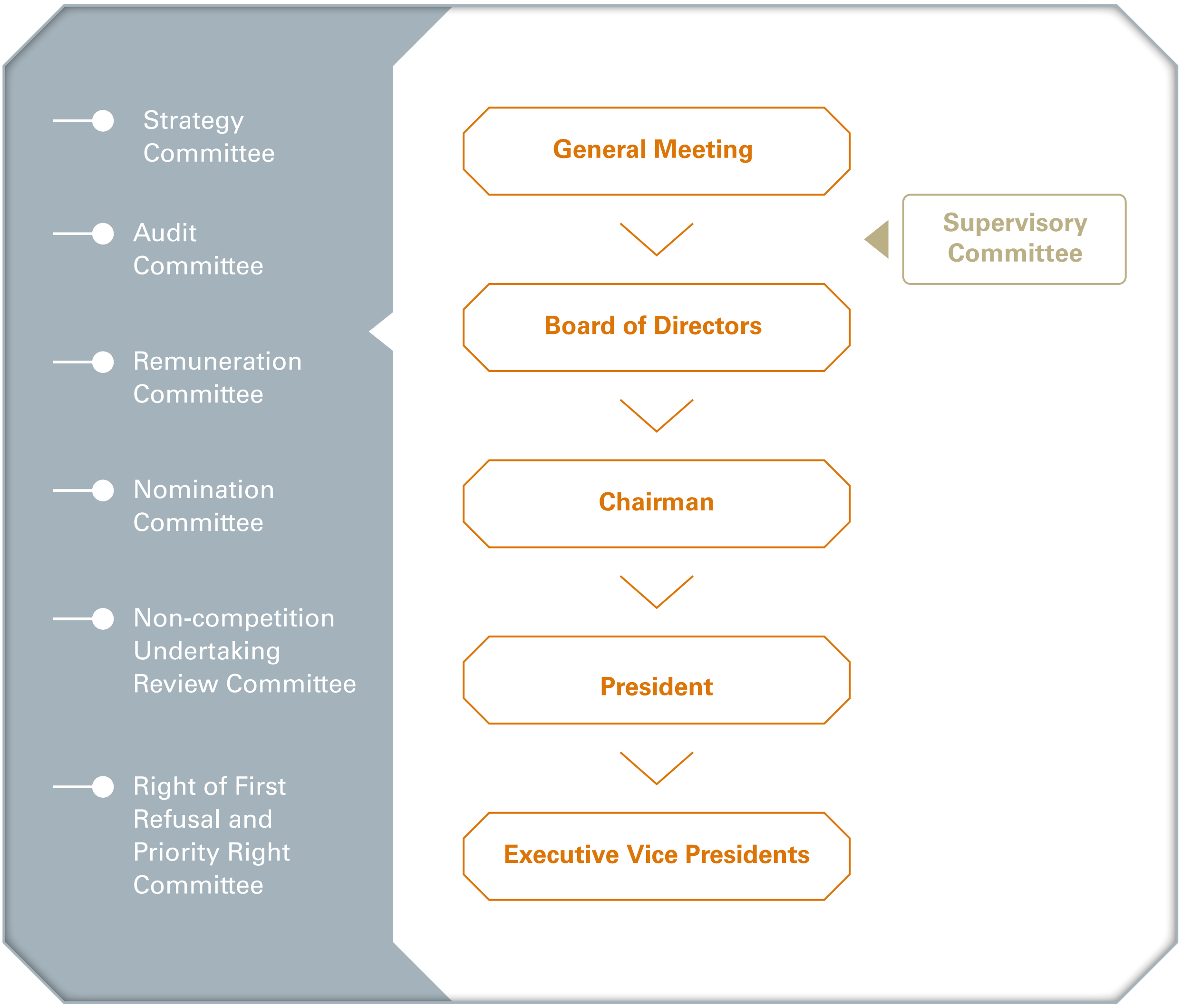
The Company has been recognized by the capital market for its sound corporate governance over the years. In 2021, the Company continued to receive accolades in respect of its corporate management and ESG performance by international institutions such as *The Asset* and *Corporate Governance Asia*.

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 Board believes that, save as disclosed below, the Company complied with all code provisions as set out in the Corporate Governance Code in Appendix 14 to the Listing Rules in force for the year ended 31 December 2021.

Mr. Zhang Zhiyong, the then Chairman of the Company, resigned as an Executive Director and the Chairman of the Company on 30 September 2021, and the Company had yet to appoint a new Chairman before the end of the year. Due to the situation above, no meeting was arranged between the Chairman and the independent non-executive directors without the presence of other directors during the reporting period. However, the Company has internal policies and arrangements to allow all directors of the Company (including the independent non-executive directors) to express their views and raise their concerns to the Company. Upon approval by the Board, Mr. Huang Xiaoqing, an Executive Director and the President of the Company, exercises the powers of the Chairman of the Company with effect from 13 October 2021 until new appointment is made by the Board.

CORPORATE STRUCTURE OF THE COMPANY



GENERAL MEETING

Pursuant to the Company's Articles of Association, the general meetings are classified as annual general meeting (the "AGM") and extraordinary general meeting (the "EGM"). The AGM is convened once a year and within six months after the end of a financial year. A resolution will be proposed for consideration in respect of each independent matter. The details of the voting procedures will be set out in the notices of the general meetings in accordance with the provisions of the Articles of Association and the Listing Rules. In accordance with the Listing Rules, all the resolutions were voted by poll in the general meeting held in 2021.

For the 2020 AGM, a physical meeting was held in Beijing on 18 June 2021, at which the resolutions, including the 2020 financial statements, profit distribution and dividend declaration proposal, appointment of auditors, report of the directors, report of the supervisory committee and the amendments to the Articles of Association, were considered and approved. Shareholders and authorized proxies representing 83.50% 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 82%.

For the 2021 EGM, a physical meeting was held in Beijing on 22 December 2021, at which the resolutions, including the renewal of the non-exempt continuing connected transactions and proposed new annual caps between the Company and the Company's controlling shareholder, China Telecommunications Corporation, the non-exempt continuing connected transactions and proposed annual caps under the 2021 Financial Services Framework Agreement entered into between the Company and China Telecom Group Finance Co., Ltd., and the adoption of Share Appreciation Rights Incentive Scheme, its administrative measures and initial grant, were considered and approved. Pursuant to Chapter 14A of the Listing Rules, China Telecommunications Corporation, being a connected person to the Company, abstained from voting on the resolutions related to the connected transactions. Related to the resolutions of connected transactions, shareholders and authorized proxies representing 70.01% of the total voting shares of the Company in relation to such resolutions were present at the EGM, and the percentage of votes cast in favour of each resolution was over 74%. Related to the resolution of the adoption of share appreciation rights incentive scheme, shareholders and authorized proxies representing 84.70% of the total voting shares of the Company in relation to such resolution were present at the EGM, and the percentage of votes cast in favour of that resolution was 89.51%.

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

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

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

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

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

Pursuant to Article 8.6 of the Company's Articles of Association, when the Company convenes a general meeting, shareholder(s) holding 3% 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 general meeting 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 in accordance with the relevant provisions of the Articles of Association. The Articles of Association and the Rules of Procedure for the Board have clearly defined the scope of duties of the Board and the management of the Company.

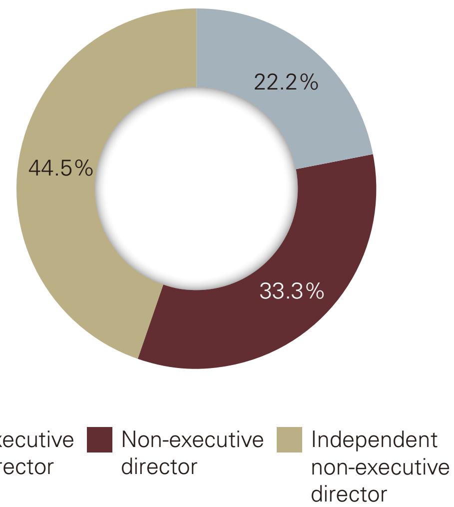
CHAIRMAN AND PRESIDENT

The Company has the positions of Chairman and the President, respectively, and shall arrange different individuals to serve such positions. Our Chairman is responsible for overseeing the operation of the Board and in charge of the Company's overall management. Our President is responsible for the Company's daily operation and management. On 30 September 2021, Mr. Zhang Zhiyong resigned as an Executive Director and the Chairman of the Company. Upon approval by the Board, Mr. Huang Xiaoqing, an Executive Director and the President of the Company, exercises the powers of the Chairman of the Company with effect from 13 October 2021 until new appointment is made by the Board.

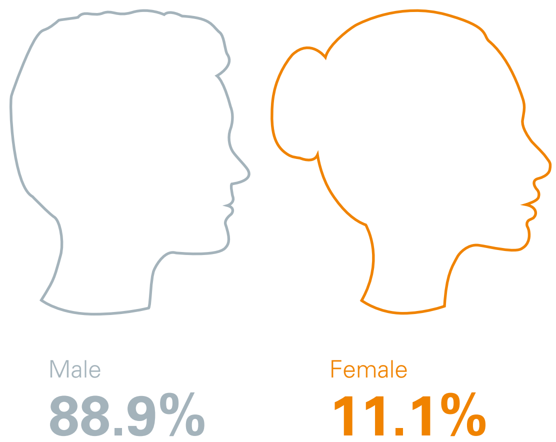
COMPOSITION OF THE BOARD AND DIVERSITY POLICY

As of the date of this report, the Board comprised nine directors, including two executive directors (Mr. Huang Xiaoqing and Ms. Zhang Xu), three non-executive directors (Mr. Gao Tongqing, Mr. Mai Yanzhou and Mr. Huang Zhen) and four independent non-executive directors (Mr. Siu Wai Keung, Francis, Mr. Lv Tingjie, Mr. Wu Taishi and Mr. Liu Linfei).

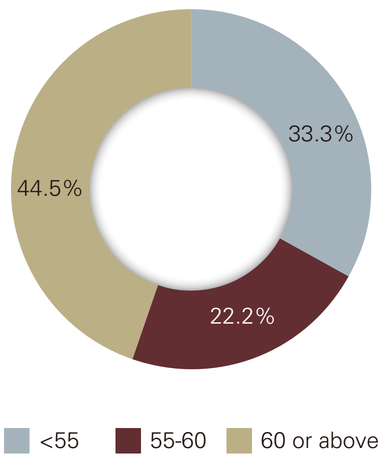
COMPOSITION



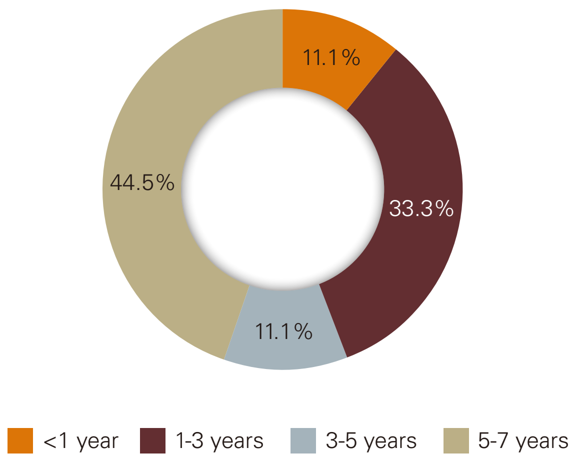
GENDER



AGE GROUP



YEARS OF SERVICES IN THE BOARD



The Company has adopted a board diversity policy, which sets out the approach to achieve diversity on the Board. The Company's board diversity policy gives a number of considerations in aspects including skill, knowledge, professional experience, gender and age. The Board comprises professionals with diversified backgrounds including telecommunications industry, power industry, finance, audit, 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.

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.

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

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. In order to further strengthen the interactive communications with directors, supervisors and the management of the Company, the Company organized an online meeting in 2021 to allow the directors and supervisors to obtain the latest information on the progress of the Company's corporate reform.

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.

NOMINATION AND 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 (including non-executive directors), effective from the date of election. If an independent non-executive director serves more than 9 years in the Company, his further appointment should be subject to a separate resolution to be approved by shareholders. The papers to shareholders accompanying that resolution should include the reasons why the Board believes he is still independent and should be re-elected.

Among the board members of the Company, except for Mr. Gao Tongqing, Mr. Mai Yanzhou, Mr. Huang Xiaoqing and Mr. Huang Zhen, the term of office of other directors are all three years, commencing from the EGM on 13 December 2018 approving the appointment of the fifth session of the Board. The term of office of Mr. Gao Tongqing and Mr. Mai Yanzhou commenced from 15 June 2020 (the date of the AGM approving their appointments) until the expiration of the term of office of the fifth session of the Board. The term of office of Mr. Huang Xiaoqing commenced from 21 October 2020 (the date of the EGM approving his appointment) until the expiration of the term of office of the fifth session of the Board. The term of office of Mr. Huang Zhen commenced from 25 February 2022 (the date of the EGM approving his appointment) until the expiration of the term of office of the fifth session of the Board. The directors of the Company are all eligible for re-election at the expiration of the term of office.

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 dispatched to all directors at least 3 days prior to the date of the meeting. The Board and each of the directors may contact the senior management independently if necessary and obtain additional information from the Company so that the directors can make informed decisions with relevant information.

All minutes of the Board meetings record the details of resolutions considered and decisions made, and are kept by meeting secretary and open for inspection by the directors. A director shall abstain from voting on any board resolution approving any proposal in which he or any of his associates has a material interest, nor shall he be counted in the quorum present at the meeting. In 2021, the Board held six meetings and passed one written resolution. In addition to general matters such as review of the annual and interim financial statements, dividend distribution, Corporate Governance Report, ESG Report and budget, the Board also considered other resolutions, including the appointment of new auditor, the amendments to the articles of association of the Company, the resolution regarding mixed-ownership reform through introduction of strategic investors and the capital injection of China Comservice Supply Chain Management Company Ltd., continuing connected transactions and major transactions, adoption of the share appreciation rights incentive scheme, adoption of Rules of Procedure for the General Meeting and the Rules of Procedure for the Board, adoption of the Rules of Procedures for the Management, adoption of financial administrative measures, appointment of non-executive director and review of the structure and composition of the Board, implementation of the initial grant of the share appreciation rights incentive scheme, establishment of the Strategic Customer Service Centre and the management remuneration, etc.

The attendance record of the Company's directors in Board meetings, board committee meetings and general meeting(s) in 2021 were as follows:

	Attendance in 2021/Meeting convened during period of appointment						
	Board of Directors	Audit Committee	Remuneration Committee	Non-competition Undertaking Review Committee	Independent Board Committee	AGM	EGM
Executive Directors							
Huang Xiaoqing	6/6	–	–	–	–	1/1	1/1
Zhang Xu	6/6	–	–	–	–	1/1	1/1
Non-executive Directors							
Gao Tongqing	6/6[(1)]	–	–	–	–	0/1	0/1
Mai Yanzhou	6/6[(2)]	–	–	–	–	0/1	0/1
Independent Non-executive Directors							
Siu Wai Keung, Francis	6/6	2/2	1/1	2/2	1/1	1/1	1/1
Lv Tingjie	6/6[(3)]	2/2	1/1	2/2	1/1[(4)]	0/1	1/1
Wu Taishi	6/6	–	1/1	–	1/1	1/1	1/1
Liu Linfei	6/6	2/2	–	2/2	1/1	1/1	1/1
Resigned Director							
Zhang Zhiyong[(5)]	3/3[(6)]	–	–	–	–	1/1	1/1

Notes:

1. Mr. Gao Tongqing appointed another director to attend five meetings.
2. Mr. Mai Yanzhou appointed another director to attend six meetings.
3. Mr. Lv Tingjie appointed another director to attend one meeting.
4. Mr. Lv Tingjie appointed another director to attend one meeting.
5. Mr. Zhang Zhiyong resigned as an executive director of the Company on 30 September 2021.
6. Mr. Zhang Zhiyong appointed another director to attend one meeting.

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, anti-corruption 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 2021, 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			
Huang Xiaoqing	✓	✓	✓
Zhang Xu	✓	✓	✓
Non-executive Directors			
Gao Tongqing	✓	✓	✓
Mai Yanzhou	✓	✓	✓
Independent Non-executive Directors			
Siu Wai Keung, Francis	✓	✓	✓
Lv Tingjie	✓	✓	✓
Wu Taishi	✓	–	✓
Liu Linfei	✓	✓	✓

BOARD COMMITTEES

As an important part of a sound corporate governance practice, the Board has set up five board committees 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

The Strategy Committee is chaired by the Chairman of the Company and consists of five directors, including Mr. Zhang Zhiyong, the then executive director, Mr. Huang Xiaoqing, an executive director, Mr. Gao Tongqing and Mr. Mai Yanzhou, the non-executive directors and Mr. Lv Tingjie, an independent non-executive director. 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. In 2021, the Strategy Committee did not hold any meeting.

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 2021, the Audit Committee held two meetings, and mainly reviewed the resolutions of the audited financial report of the Company of 2020, interim report of 2021, report on connected transactions, report on internal control and risk management and appointment of independent auditors. The Audit Committee also met with the external auditors separately to discuss the matters found during the audit and other issues that might be raised by the auditors.

Remuneration Committee

The Remuneration Committee consists of three independent non-executive directors: Mr. Wu Taishi (Chairman), Mr. Siu Wai Keung, Francis and Mr. Lv Tingjie. The Remuneration Committee is mainly responsible for making recommendations to the Board on the Company's policy and structure for remunerations of all directors, on the establishment of a formal and transparent procedure for developing remuneration policy and the remuneration packages of directors.

In 2021, the Remuneration Committee held one meeting and passed one written resolution, and mainly reviewed the resolution regarding the adoption of the share appreciation rights incentive scheme, its administrative measures and initial grant, as well as the initial grant proposal of the share appreciation rights incentive scheme.

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 2021, the Nomination Committee passed one written resolution, and mainly reviewed the resolution regarding the recommendation for the appointment of a non-executive director, as well as reviewing 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 2021, 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 2021. 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 2021, the Right of First Refusal and Priority Right Committee did not hold any meeting.

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 22 October 2021, at which all independent non-executive directors of the Company attended. The Independent Board Committee mainly reviewed the resolutions regarding the renewal of non-exempt continuing connected transactions with China Telecom and proposed new annual caps, and the non-exempt continuing connected transactions under the 2021 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 such resolutions and the Independent Board Committee's recommendation were contained in the circular dispatched to shareholders on 1 December 2021.

SUPERVISORY COMMITTEE

The Company established a Supervisory Committee pursuant to the PRC Company Law. The Supervisory Committee consists of three members: Ms. Ye Lichun (the chairperson), Mr. Hai Liancheng (the external independent supervisor) and Mr. Si Jianfei (the employee representative supervisor). Except for Ms. Ye Lichun, 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 term of service of Ms. Ye Lichun commenced from 25 February 2022 (the date of the EGM approving her appointment) until the expiration of the term of office of the fifth session of the Supervisory Committee. 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 2021, 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

At the annual general meeting of 2020, the shareholders of the Company approved the amendments to the Articles of Association. Due to the change of registered address of the Company, the Board amended the relevant provisions of the Articles of Association. The amended Articles of Association were published on the websites of the Company and "HKExnews" of the Stock Exchange.

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 2021.

REMUNERATION OF THE AUDITORS

The international and domestic auditors of the Company are PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP, respectively. The external auditors have provided audit services to the Company since they were initially appointed at the 2020 annual general meeting on 18 June 2021. The remuneration (including VAT) received by the external auditors for the audit services and non-audit services provided to the Company during the year amounted to RMB28.6 million and RMB0.2 million respectively.

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 PricewaterhouseCoopers, our external auditors, regarding its Independent Auditor's Report on the financial statements of the Group is set out on pages 133 to 138 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 2021, 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 2022, 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 2021 and the assessment of material risks and the control plan for 2022.

Since its listing in 2006, the Company has formulated the internal control manual, internal control assessment rules and other systems based on the COSO internal control framework. Over the years, the Company has striven to improve the systems related to internal control and risk management in light of the changes in internal and external operating environments and business development requirements. In 2021, according to the internal and external regulatory requirements, as well as in response to the strategy of corporate transformation, the Company adapted to the changes in its operation management and policy environment and completed the revision of the internal control manual, and optimized and improved the internal control authority list. We revised the provisions on the R&D projects, guarantee business, capital expenditure, capital management, external investment management, costs and other business processes, and strengthened the management and supervision measures, such as the general control of information system to ensure that the internal control manual satisfies the Company's management needs.

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 2021, the Company further strengthened audit supervision, and attached importance to the audit rectification and 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 2021 are summarized as below:

In 2021, 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 a 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 processes 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 and control processes, 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 2021, the Company further improved the internal audit system, and continued to promote the execution of audit project plan and conduct comprehensive internal audit. 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 and expenses audit and audit for construction work with focuses on relevant matters such as income and cost accounting, cash 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.

In 2021, the Company continued to promote audit standardization and widely applied the standard audit plan to various special audits based on its audit informatization system. The Company utilized informatization audit measures to manage the audit projects so as to improve audit quality and achieve full audit coverage. In 2021, the Company completed not only the planned economic accountability audit, but also the revision of internal control manual and the special audit on the efficiency of internal control process, and promoted the implementation of strategic control to all levels of the Company.

The Board continued to monitor and supervise the risk management and internal control systems of the Company through the Audit Committee, and conducted an annual review on the risk management and internal control systems of the Company and its subsidiaries for the financial year ended 31 December 2021. 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 ("ESG") 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 period from 1 January 2021 to 31 December 2021, and the relevant key performance indicators were mainly from the Group and most of its subsidiaries. There is no significant change in the scope of this report from that of the 2020 ESG 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.

PHILOSOPHY OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE

As a leading service provider in the informatization sector in the PRC, the Group adheres to its position as a "New Generation Integrated Smart Service Provider" and commits to "Building Smart Society, Boosting Digital Economy, Serving a Good Life", providing integrated comprehensive smart solutions in the informatization and digitalization sectors.

Sustainable Development

The Group places strong emphasis on the concept of scientific development and adheres to the sustainable development principle of "customer prioritization, efficient resources allocation, talent orientation, and responsibility". 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 are committed to providing innovative, high-quality, efficient and secure integrated services including telecommunications infrastructure services, business process outsourcing services, applications, content and other services, while delivering value to our customers and the society, promoting sustainable development of itself, and aligning our corporate development with society and environment.

Customer prioritization

Remaining customer-centric with focus on their needs; ensuring the quality of our customers' products and delivery on the basis of high-quality products, solutions and services, ensuring prompt response to customer concerns, and continuously improving their satisfaction

Efficient resources allocation

Gradually improving the synergistic and professional operation of our internal resources to achieve eco-friendly and efficient utilisation of resources through scientific management and innovative application of new technologies; helping our partners achieve low-carbon and intelligent operation leveraging the integration of new technologies and innovation

Talent orientation

Caring about the development of our employees in various aspects, striving to provide them with adequate space of development, comprehensive training system, competitive salary and welfare packages and incentive mechanism while creating a safe and enjoyable working environment for them

Responsibility

Striving to give back to the society by fulfilling our responsibilities as a state-owned enterprise in emergency rescue and disaster relief, etc., actively participating in the projects of rural revitalization and improvement of people's livelihood, and encouraging our employees to actively participate in social welfare activities

ESG Governance Structure

The Board of Directors (the "Board") of China Communications Services Corporation Limited (the "Company") is the highest responsible and decision-making body for environmental, social and governance performance and undertakes overall responsibility. The Board oversees the Group's ESG performance through regular meetings to ensure consistency of its ESG philosophy with its strategies. The Board convenes a meeting annually to review and approve the publication of this report (including the review on the progress of ESG-related goals); and the Company's management is authorized to be responsible for the implementation of the specific ESG work (including the stakeholders identification and communication). The specific division of work is detailed in the diagram below.

Communication with Stakeholders

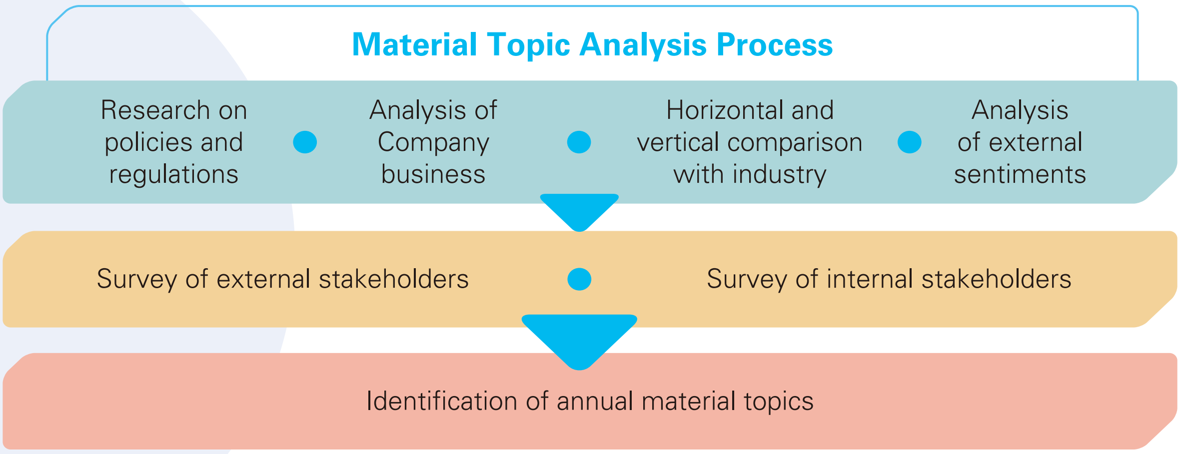
The Group holds high regards of the common interests of its stakeholders, i.e. the government, shareholders, employees, suppliers, customers and communities and attaches great importance to the communication with them. Through collecting and actively responding to their opinions and suggestions by means of announcements, periodic reports, meetings, symposium, interviews, special communication and all kinds of activities, the Group promotes corporate innovation, coordination, green, openness and sharing.

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 or statement	Fulfil requirements of the government	Pay taxes 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 investors 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

Stakeholders	Mechanism and Means of Communication	Expectation on the Company	Company Response
Customers	Contract fulfilment	Provide highly cost-effective solutions (services and products) to cater for customer needs	Further understand customer needs, innovate smart products and satisfy customized demands
	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 the combat against COVID-19 pandemic, disaster relief and communications safeguard
	Public welfare activity	Care about the underprivileged	Conduct poverty-alleviation activities and help the disabled and the poor

Material Topic Identification

Based on the 12 ESG topics set forth in the "Guideline", the Group makes comprehensive analysis on the concerns of stakeholders in accordance with the characteristics of its own businesses and those of the industry in which it operates; and in combination with the Company's strategies, the Group interviews with its employees and conducts research on the issues related to sustainable development, together with the results of internal and external analysis, identifies several material topics, including "Environmental Protection and Climate Change", "Human Resources Management", "Development and Training", "Health and Safety" and "Supply Chain Management". Details of the above are disclosed and analysed in this ESG Report.



ENVIRONMENTAL PROTECTION AND CLIMATE CHANGE

Climate change not only has profound impacts on the global ecosystem, but also brings significant impacts on the global economy. Carbon dioxide emission has been adopted by the PRC as an important indicator for the evaluation of an enterprise's performance in its production and operation, which has raised new requirements for the enterprises to adapt to climate change. We have realized the effects of risks and policies associated with climate change on our operations, and have taken corresponding proactive measures to capitalize on the opportunities arising therefrom and cope with the challenges.

In 2021, the Group actively conducted studies and discussions on the plans in relation to its responses to climate change, the control of greenhouse gas emission, promotion of green and low-carbon development, and built relevant capabilities, organized scientific research and publicity work in fighting against climate change and endeavoured to improve its capability in environmental management, with a view to making contribution to contain the global warming.

Risk Analysis

Type of risk	Description	Potential impact	Response of the Company
Disaster risks	Increase in the frequency and severity of extreme weather conditions such as heavy rains, affecting the progress of business development	Loss of revenue, increase in operating costs	Implement emergency response plans for natural disasters
Technology risks	Awareness of low-carbon emissions is weak and the level of low-carbon technologies still needs to be improved	Failure to apply low-carbon technologies in a timely manner leading to a lag in the process of low-carbon transformation of products	Improve R&D capabilities
Market risks	Customers' shift in demand for products in consideration of climate-related factors	Phase out of existing products	Accelerate iterative upgrades of existing products
Regulatory compliance risks	Implementation of stricter climate-related laws and regulations	Increase in compliance costs	Form working groups to regularly track legal and regulatory requirements
Chronic risks	Temperature rises in the future, increasing energy consumption	Increase in operating costs such as energy costs	Implement energy-saving and emission-reduction measures

The Group actively responds to the country's call on "Carbon Peak, Carbon Neutrality" ("Dual Carbon Goals") while persistently implementing the development principles of innovation, coordination, green, openness and sharing, formulating green and low-carbon plans and related implementation programs, increasing its R&D investment in emerging energy-saving technologies and new businesses, aiming to create a green ecosystem and make China Comservice more eco-friendly.

Our Targets and Actions

During the period of Dual Carbon Goals Rolling Development Plan for 2022-2024

- The growth rate of the Group's total energy consumption does not exceed that of its revenue
- The average annual growth rate of the Group's total electricity consumption and fuel consumption remains reasonable decline

Action 1

The Group establishes a management organization for "Carbon Peak, Carbon Neutrality", with the President as the main person in charge and the leading group comprising Company's management to form a three-level hierarchy, so as to promote the green and low-carbon development of the Group.

Leading Group

Directing the deployment of green development work and studying and making decisions on important issues in respect of "Dual Carbon Goals"

Office of the Leading Group

Implementing the specific "Dual Carbon Goals" tasks and organizing the daily work in respect of "Dual Carbon Goals" of the Group

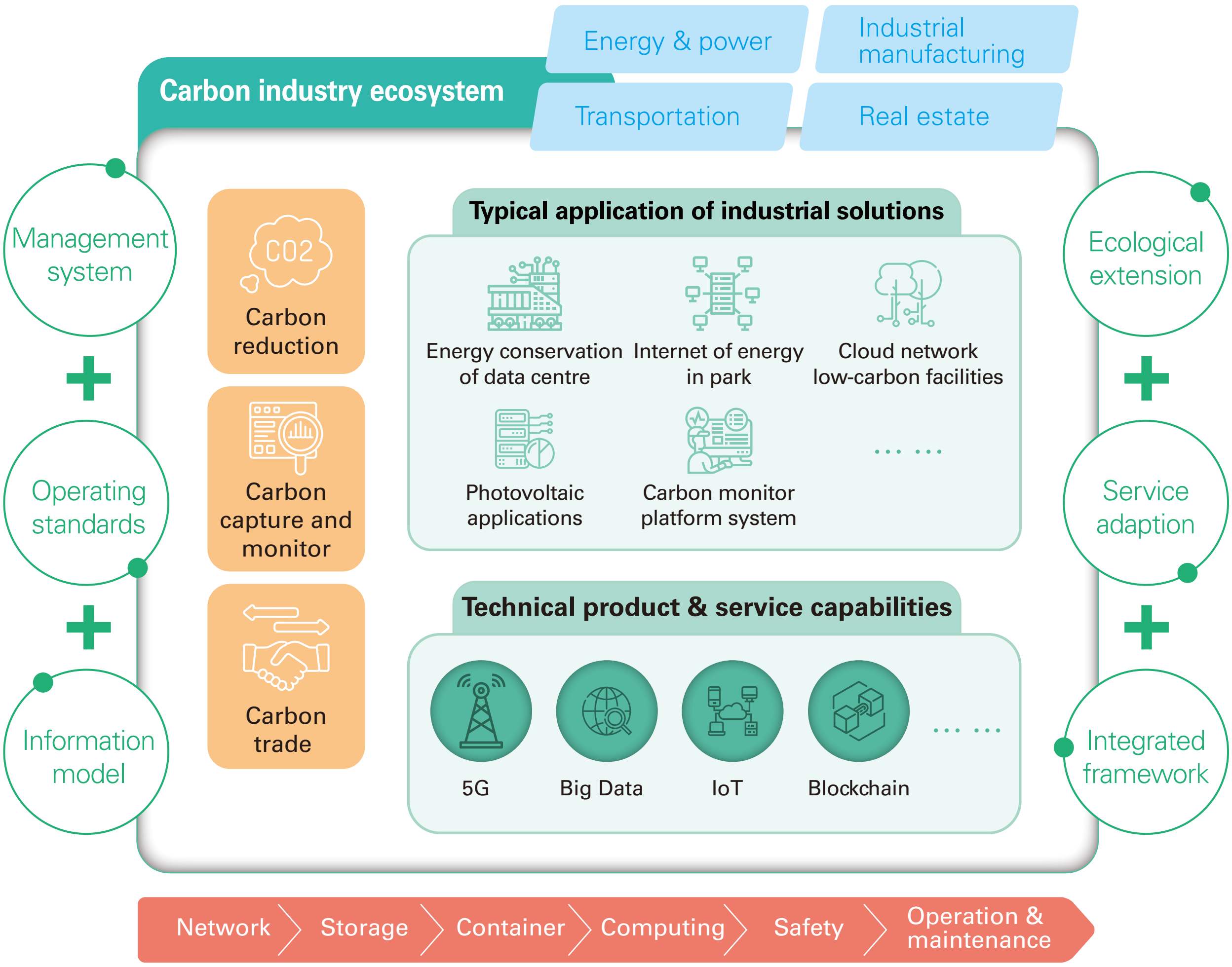
Subsidiaries at all levels

Implementing the Group's "Dual Carbon Goals" plans and objectives, promoting and implementing the "Dual Carbon" projects

The Group conducted a meeting on the topic of "Dual Carbon Goals" with China Electric Power Promotion Council

Action 2

The Group has compiled the Dual Carbon Goals Rolling Development Plan for 2022-2024 and the "30 • 60" Strategic Action Plan for "Carbon Peak, Carbon Neutrality", while actively carrying out "Researches on the Peaks of Carbon Emission and the Paths to Carbon Peak" with focus placed on "Dual Carbon Goals" tasks to improve its organizational system for and rules and regulations on energy conservation and emission reduction, promote the establishment of a restriction and incentive mechanism for energy conservation and emission reduction, with the aim of reducing the total amount of energy consumption. The Group has consolidated the capabilities of its subsidiaries, and used advanced technologies such as big data, Internet of Things, 5G technology, artificial intelligence, and blockchain etc., to provide comprehensive smart services for typical industries such as energy and power, industrial manufacturing, transportation, and real estate, while constantly vitalizing green and low-carbon new growth drivers.



Energy Consumption

As an informatization communications service provider, the Group always strictly complies with relevant national laws and regulations on environmental protection and emission including the Environmental Protection Law of the People's Republic of China and the Energy Conservation Law of the People's Republic of China in its operation. We have conscientiously established an internal management system in respect of environmental protection and resources utilisation, and actively promoted energy-saving and emission-reduction activities.

In 2021, the Group's total energy consumption was approximately 174,000 tons of standard coal, with an energy consumption per revenue of RMB10,000 at 12.96 kg of standard coal (2020: approximately 172,000 tons of standard coal, energy consumption per revenue of RMB10,000 at 14.06 kg of standard coal).

According to the energy report of the Group, the total emission of greenhouse gases arising from energy consumption of the Group in 2021 as accounted pursuant to the Greenhouse Gas Protocol was approximately 562,300 tons (2020: approximately 554,400 tons).

Greenhouse gas emissions (10,000 T)	=	Direct emissions (Scope 1) (10,000 T)	+	Indirect emissions (Scope 2) (10,000 T)
2021: 56.23		**2021: 34.88**		**2021: 21.35**
2020: 55.44		2020: 34.98		2020: 20.46

Note:

1. Scope 1 direct greenhouse gas emissions include greenhouse gas emissions from the consumption of natural gas, coal, gasoline and diesel.
2. Scope 2 indirect greenhouse gas emissions include greenhouse gas emissions from the purchase of electricity and heating.
3. 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)	Gasoline (Million L)	Diesel (Million L)	Natural gas (Million standard cubic meters)
2021: 317.42	**2021: 94.84**	**2021: 13.97**	**2021: 11.93**
2020: 304.18	2020: 94.41	2020: 15.37	2020: 10.96

Waste Discharge

The Group strictly follows the Law of the People's Republic of China on the Prevention and Control of Environment Pollution Caused by Solid Wastes and other laws and regulations regarding waste disposal and utilisation, and carries out waste disposal in accordance with regulatory requirements. Some of the provincial companies and professional companies of the Group places their waste disposal in the hands of relevant property management firms.

Daily garbage[2]
(10,000 T)

2021[1]: 0.73
2020[1]: 0.69

Sewage emissions[2]
(10,000 T)

2021[1]: 87.09
2020[1]: 85.12

Note:

1. The Group started to collect such data in 2020, and adjusted the statistical calibre in 2021 to expand the scope of disclosure to cover most of its subsidiaries, with simultaneous adjustments to the data for 2020 to enhance data comparability, leading to the slight difference between the 2020 data and those disclosed in the 2020 annual report;
2. The Group is an asset-light enterprise, solid wastes are mainly daily garbage; and the sewage it discharges is mainly daily sewage.

Resource Utilisation

In terms of the use of packaging materials, as the Group belongs to the informatization communications service industry, and is mainly engaged in design, construction, supervision, maintenance and other services, therefore, there is no significant usage of packaging materials in its production and operation process.

As for office paper usage, the Group adheres to the principle of striving for economy and tolerating no waste, and strictly controls the use of office paper. In addition, the Group vigorously improves its online office capabilities, continuously improves its service quality with means of informatization, and extensively promotes the introduction of advanced cloud-based office applications such as paperless conference systems and online conference systems. In 2021, the Group's total office paper consumption was approximately 819 tons[1] (2020: approximately 1,142 tons[1]).

As for water consumption, the Group's water supply is provided by the owner or property manager of the office building. The Group attaches great importance to the reasonable and efficient usage of water resource in the normal course of business. We strive to promote and advocate water conservation by measures including daily public notices and installing water-saving taps, to further intensify the management of water resource utilisation and the reduction of unnecessary consumption of water resource. In 2021, the Group's total water consumption was approximately 5.42 million tons (2020: 6.19 million tons).

Eco-friendly Recycling

Several professional companies of the Group collect returned network equipment and inefficient equipment of high-energy consumption for recycling and disposal via a green auction platform. By the introduction of a reverse integrated asset disposal model of "dismantling, transportation, storage and sale", a closed-loop ecological chain of asset disposal, starting from the source of scrap materials till the auction and delivery of assets, has been developed, which not only realizes eco-friendly disposal of waste and obsolete products, but also achieves effective utilisation of resources.

China Comservice Energy Saving Technology Co., Ltd. (中通服節能技術服務有限公司)

China Comservice Energy Saving Technology Co., Ltd. disposed scrap materials like returned network boards and cards, batteries and cables of RMB600 million through the auction platform in 2021, with the accumulative disposal amount reaching RMB16.6 billion. The green auction platform is supported by 26 warehouses & logistics systems, 1,100 reliable recyclers and 16 valuation techniques, covering the operator market, which not only helps its customers to improve economic efficiency but also minimizes the risk of waste emission.

Zhongjie Telecommunications Co., Ltd. (中捷通信有限公司)

Since obtaining its auction license at the end of 2017, Zhongjie Telecommunications Co., Ltd. has been engaged in the business of disposal of waste and obsolete products. In 2021, Zhongjie Telecommunications Co., Ltd. assisted its customers to dispose of assets amounting to RMB970 million, including RMB860 million of copper cables, RMB21 million of obsolete lead-acid batteries, an eco-friendly battery disposal of 3,340 tons, RMB92 million of scrap materials, and disassemble 28,000 equipment racks.

The Group constantly improves its organizational system, management system and work process relevant to energy saving and emission reduction through multiple measures, so as to effectively reduce energy consumption. Campaigns like Energy-saving Promotion Week and National Low-carbon Day are actively carried out by the Group to continuously enhance the energy-saving and environmental-protection awareness of its staff. Energy conservation slogans are put up in venues such as public areas inside the buildings and conference rooms. In addition, the Group strictly implements the assessment and reward and punishment mechanisms in relation to energy saving and emission reduction performance and sets energy-saving and emission-reduction budgetary targets for its provincial companies each year, to ensure accomplishment of its annual energy-saving tasks.

The Group will actively establish and improve its long-term mechanism of resource conservation, improve energy efficiency, and develop recyclable economy, as an effort to fulfil its environmental responsibilities.

Practical Cases of Utilizing Technological Measures to Support Energy Saving and Carbon Reduction

While striving for energy conservation and carbon reduction internally, the Group has expanded the application of new technologies such as 5G, big data, cloud computing, and the IoT, and built up a portfolio of energy-saving technologies and products while promoting the upgrading and carbon reduction of high energy consumption industries.

The first carbon-neutral park in the inner ring of Shanghai (上海市內環首個碳中和園區)

The Group's Shanghai Training Centre resorted to the "low carbonization empowered by digitalization" approach to build the first carbon-neutral park in the inner ring of Shanghai featuring self-built distributed photovoltaic facilities, energy-saving IoT transformation, energy-saving management and smart control, etc., which utilized the carbon-neutral data management platform for real-time data monitoring.


中国节能协会碳中和专业委员会

碳中和证书

经审核，中国通信服务上海公司培训中心（上海市虹口区天宝路879号）2021年1月1日至2021年12月31日年度所产生的温室气体排放量为417.82吨二氧化碳当量，通过自建分布式光伏、节能物联改造、节能管理与智慧控制、购买并注销中国核证自愿减排量CCER，实现2021年度碳中和。

中国节能协会碳中和专业委员会

Xiong'an City Supercomputing Cloud Centre (雄安城市計算（超算雲）中心)

Guangdong Telecom Planning and Design Institute (廣東省電信規劃設計院), a subsidiary of the Group, was commissioned with the design of construction and mechanical and electrical HVAC engineering of Xiong'an City Supercomputing Cloud Centre. The project integrates eco-friendly, low-carbon mechanical and electrical HVAC technology with ultra-low energy consumption building, making it the first smart building in China that hosts a supercomputing cloud centre and a nearly zero-energy building, for which it has received the Nearly Zero-energy Building certification from the China Association of Building Energy Efficiency, and ranked as one of the best samples of nearly zero-energy buildings in China. The Institute innovated the building structure by introducing a stacked modular server room to render the world's first garden-like ecological server room and China's first 48m x 18m large-span pillarless server room. The project integrates the industry-leading fully-submerged and cold-plate liquid-cooling servers, evaporative natural cooling unit, distributed energy station waste-heat cooling technology, data centre urban agglomeration waste-heat recovery technology, gravity heat pipe technology, Panama Power System, lithium battery energy storage and other energy-saving products and technologies, to achieve the world-leading energy efficiency (PUE≤1.09). The project has a gross area of about 40,000 sq.m., and will be able to accommodate more than 3,600 high-density cabinets and a supercomputing system with 10P computing power upon completion.

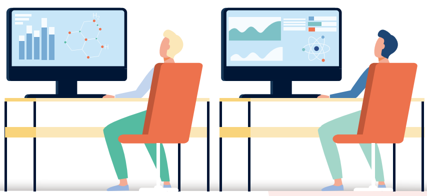
Smart unattended professional warehouse (智慧型無人值守專業倉)

Zhejiang Zhongtong Communication Co., Ltd. (浙江中通通信公司), a subsidiary of the Group, provided its customers with the construction of smart unattended professional warehouses by reengineering the business processes with the help of the two spearhead technologies, i.e. the IoT and artificial intelligence, achieving strengthened access control of external personnel and management of inventory turnover through technical means and inter-connecting the information islands to realize efficient transmit of information, thus streamlining business process, improving operation efficiency, and realizing round-the-clock request response.

Online Energy Audit Platform of Data Center (數據中心在線能源審計平台)

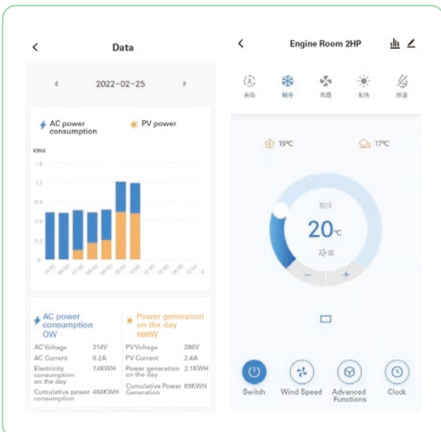
The Online Energy Audit Platform of Shanghai Data Centers developed and maintained by the Group's Shanghai subsidiary covers all the Internet data centers in Shanghai, which captures the energy consumption of the Shanghai data centers through online reporting or data interface, based on which it monitors the data centres for energy saving performance and explores its potential, realizing functions such as data center database, monthly report on energy consumption, energy consumption evaluation and energy audit of data centers.

Up to now, the platform has completed the profile establishment process of all the Internet data centers in Shanghai, realized dynamic management, and established a long-term management mechanism of energy consumption data.



Application of green photovoltaic energy technology (綠色光伏能源技術應用)

Zhongjie Telecommunications Co., Ltd. (中捷通信有限公司), a subsidiary of the Group, is committed to the application of the green photovoltaic energy technology and was the first to introduce the direct-supply mixed-grid solar air conditioning system in Guangdong. The technology adopts a high-speed DSP chip, and enables design and control of all the air conditioning functions such as MPPT for solar energy, DC-DC voltage conversion, PFC (Power Factor Correction), FOC, air conditioning control logic, sampling, fans and valves with just a single chip. It powers the DC inverter air conditioner with a mixture of solar energy and utility power supply through an IPM (intelligent power modules), which uses solar energy as the main source and utility power supply as a backup during the day, and vice versa at night with seamless switch, so as to make full use of the solar energy to achieve emission reduction.



Smart Water Conservancy Cloud Sharing Platform (智慧水利瑞圖共享雲平台)

The Group's high-tech enterprises Tisson Regaltec Communications Technologies Co., Ltd. (天訊瑞達通信技術有限公司) penetrated the water conservancy industry for several years, based on years of ICT technology accumulation in the aspects of IoT, artificial intelligence, video analysis and processing, data governance, GIS, etc., it built the Smart Water Conservancy Cloud Sharing Platform capable of timely detection, scientific deployment, accurate prediction, by remote sensing, unmanned aircraft, unmanned vessels as the main "sky, air, ground" integrated information collection means to support all-round, all-factor, all-weather real-time monitoring, early warning and management during the flood, to form a "predictable, visible, risk-controlled" scientific and technological flood prevention and mitigation management system.

With the intelligent research results of industry-academia-research data from universities and research institutes, the platform establishes intelligent analysis models for flood risk warning, predicting trapped areas, flood evacuation and rescue, etc., predicting and warning the flood situation, simulating the time of flooding, the impact area and the best route for evacuation, etc., and supporting integrated research and judgment for flood risk in an all-around way.

HUMAN RESOURCES MANAGEMENT

Employment

The Group had approximately 88,000 employees as at 31 December 2021. 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 regions such as Southeast Asia, the Middle East and Africa. Our employees are divided into contract employees, dispatched employees, part-time employees and other employees.

Total number of employees

2021: **87,587**

2020: 90,003

Indicator	2021	2020
By type		
Contract employees	**83,871**	85,992
Dispatched employees	**3,380**	3,628
Part-time employees	**140**	62
Others	**196**	321
By geographic location (%)		
Mainland China	**97.6**	96.4
Hong Kong, Macao, Taiwan and overseas	**2.4**	3.6

Total number of newly hired employees
2021: 7,422
2020: 7,946

Total number of resigned employees
2021: 9,822
2020: 9,507

Proportion of male resigned employees
2021: 71.4%

Proportion of female resigned employees
2021: 28.6%

2021 Employee turnover rate

Aged 30 and under	Aged 31-40	Aged 41-50	Aged 51 or above	Male employees	Female employees
2.9%	3.0%	2.7%	2.6%	8.0%	3.2%

In Mainland China
8.9%

In Hong Kong, Macao, Taiwan and overseas
2.3%

Employee Structure (Contract + Dispatch)

By gender

■ 2021 ■ 2020

	2021	2020
Male	73.4%	73.7%
Female	26.6%	26.3%

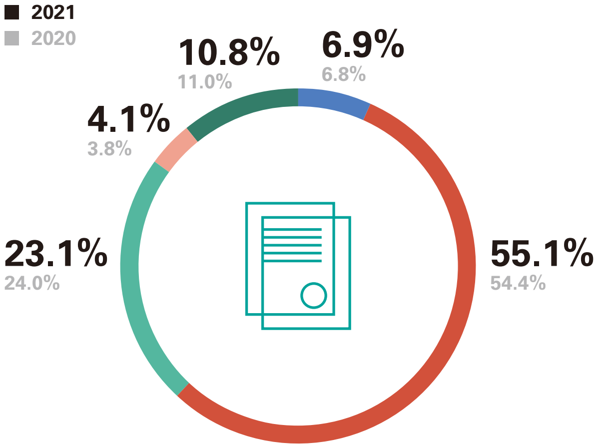
By age

■ 2021 ■ 2020

	2021	2020
Aged 30 and under	14.5%	15.9%
Aged 31-40	40.5%	42.2%
Aged 41-50	30.9%	29.2%
Aged 51 or above	14.1%	12.7%

By education level

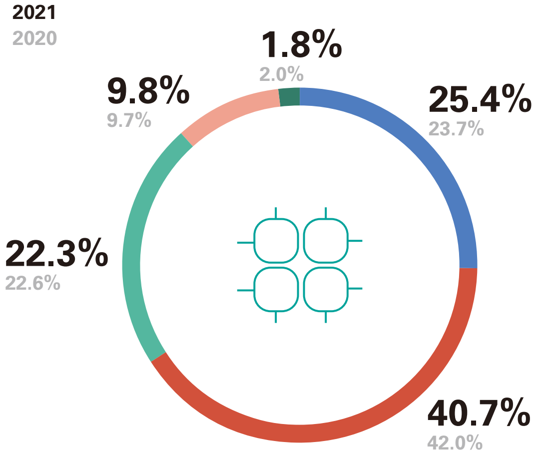
■ 2021 ■ 2020



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

By nature

■ 2021 ■ 2020



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

Contract

	2021	2020
Employees joining the trade union	100%	100%
Female management	1.5%	1.8%
Employees of ethnic minority	2.7%	2.7%

As a state-owned enterprise, the Group undertakes an important social responsibility of mitigating employment pressure and provides a large number of job opportunities in the market every year. In addition, we take into consideration the characteristics of the communications infrastructure construction projects, i.e. strong cyclicality with large demand for temporary labour, and encourage our upstream and downstream partners to hire temporary labour during the installation of communication cables and equipment, bringing about a large number of job opportunities in the market, which has been essential in building up our own talent pool and alleviating the employment pressure of fresh college graduates.

The Group supports its employees in enhancing their personal capabilities and social value by offering trainings and chances to practice 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 provides favourable policies to support the innovation and entrepreneurship of those who are ready to set up their own businesses.

In 2021, the Group formulated and issued the Guiding Opinions on Further Deepening the Innovation of the Human Resources Mechanism and Promoting the Reform of the Three Systems of China Comservice and the Notice on Deepening the Innovation of the Human Resources System and Mechanism at the Headquarters of China Comservice and Promoting the Reform of the Three Systems, aiming to continuously promote the reform of the three systems, i.e. Personnel, Labour and Distribution, improve its market-oriented operating mechanism, and ensure that the total number of employees is controllable and the team structure is optimized, resulting in continuously improvement of the overall quality and productivity.

Remuneration and Performance Management

We consider our employees as an important resource and attach much importance to safeguarding their interests. We formulate and implement the Guidelines of China Comservice on the Market-oriented Remuneration System of Provincial Companies according to the principles of "performance-oriented, internally equitable and externally competitive" remuneration system, strive to expand career development channels for employees, continuously adjust the remuneration resource allocation, further improve the remuneration distribution system closely linking the corporate value and individual performance, and actively promote the position-based dividend incentive mechanism for state-owned technology enterprises among 27 enterprises of the Group to facilitate close linkage between the remuneration level of scientific and technological talents with their innovation capability and contribution to results, with a view to having our employees to share the corporate development achievements and boosting the vitality of the organization and employees. In strict compliance with relevant policies of the PRC, we pay social insurance and housing funds for employees and establish the corporate annuity system so as to safeguard the employees' basic interests.

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 staff promotion follows the principles of fairness, justice, openness and transparency and fully respects employees' the right of choice, the right to know and the right of supervision. In addition, the Group provides the Provincial Company Leaders' Performance Evaluation Indicator System and Scoring Measures every year to ensure the full implementation of the Company's development strategies and tasks for the year, underscoring result-orientation. By closely coordinating the budget, evaluation and resource allocation, the Group gives full play to the motivating and guiding roles of performance evaluation, guides units at all levels to further develop strategic businesses, conduct risk prevention, promote the steady improvement of the Company's value and capability, and further improves the satisfaction to performance evaluation work, so as to advance the sustainable and high-quality development of the Company.

In 2021, the Group formulated and released the Tenure System and Contract Management Measures for Management Members of Companies under China Communications Services Corporation Limited (Provisional) to implement the tenure system and contract management for the management of all levels of companies under the Group, and to evaluate the management members and pay them remuneration and appoint (or dismiss) them according to their tenure and annual performance responsibilities, so as to continuously motivate the vitality and momentum of innovation and entrepreneurship of the operational management team.

In 2021, the Group launched a new round of Share Appreciation Rights Incentive Scheme to promote the mutual coordination and promotion of the interests among shareholders, the Company and participants of the scheme, thereby making the interests of the core staff in key positions closely linked to the corporate performance to fully stimulate the endogenous motivation of backbone talents.

Welfare and 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.

1. 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 insurance.
2. In combination with employment standards, it provides standardized labor contracts to clarify the rights and obligations of both parties, so that the management of labor relations have rules and laws to follow.
3. It also stipulates the contracts entered into between the dispatched employee 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 insurance in order to protect the interests of the dispatched employees.

The Group stands on various labor policies, including but not limited to, gender equality, equal pay for equal work, and treats employees equally in the process of recruitment and promotion, regardless of their gender, age and race. 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 2021, 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.

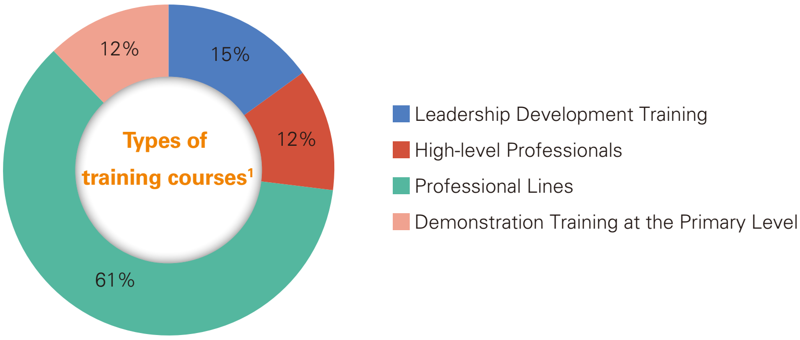
The Group attaches great importance to safeguarding the legal rights and interests of female employees, ensuring the implementation of female employees' maternity leave and breastfeeding leave as well as the regular health check-up system, concerning the physical and mental health and career development of female employees, and providing female employees with a continuously improving labor environment and conditions.

Development and Training

We attach great importance to trainings and have established a three-tier training system covering the headquarters, provincial companies and professional companies currently. By fully leveraging the advantageous resource 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-oriented organization.

Headquarters	Responsible for providing trainings for leaders of provincial companies, management reserves of provincial companies, and experts talents from each business line, as well as a variety of professional business lines trainings led by the China Comservice Headquarters
Provincial companies	Responsible for providing trainings for leaders of professional companies, middle management of provincial companies and all kinds of professional lines in the province, and assisting the headquarters in organizing and sending trainings for all kinds of professional lines
Professional companies	Responsible for conducting all kinds of daily skill improvement training for employees under management

In 2021, the Group focused on the major development targets of the Company, released the China Comservice Training Work Plan 2021. Leveraging the resources of the Company's training center, the Group continuously optimized the training management system, course development system and online training system, organized all kinds of capability enhancement training camps, and endeavored to build up three teams, namely, leaders, expert talents and backbone of the primary level, in order to provide talent support and capability guarantee to promote the Company's innovation and transformation.



A new series of industry leader training camps

The Group completed a new series of industry leader training camps for management reserves of provincial companies, in a bid to assist the provincial companies and professional companies of the Group in discovering and identifying talents, continuously expand the management reserves team and strengthen the development of the Group's human resources. The training was participated by 41 management reserves from the provincial companies of the Group. Through innovation on the scenarios, contents and forms of training, the leadership of the trainees has been further improved.

Training class on subdivision of accounting units and promotion of market-oriented operation mechanism

Targeting to all the responsible persons of Level 2 and Level 3 subdivision of accounting units in the Group, the Group held a training class on "subdivision of accounting units and promotion of market-oriented operation mechanism", striving to enhance the strategic mindset and management ability of the responsible persons of subdivision of accounting units, and to build a team of responsible persons of subdivision of accounting units of China Comservice who "understand strategy, capable of leadership, good at competition and competent in managing accounts".

1 **Leadership development training:** In the context of the main tracks and new challenges of China Comservice in the new era, and towards the requirements of high-quality development of the Company, we are committed to promoting the awareness enhancement, knowledge re-construction and mindset re-creation of the management reserve in each provincial company, so as to build a double-engine management reserve team of "Entrepreneurial Leaders" and "Technical Talents".

High-level professional talents: Cultivate academic and technical leaders with excellent political quality, outstanding professional ability and comprehensive quality in professional areas to become an important reserve force of high-level leading talents of the Company.

Professional lines: Focus on building a team of "hundreds of and thousands of" experts, with the goals of expanding perspectives and enhancing capabilities, and take various training camps and action learning as the vehicle to train for practice, combine training with practice, and devote efforts to cultivate a team of professional backbone talents on each line.

Demonstration training at the primary level: We pay attention to the capability enhancement and development aspirations of the core backbone employees at the frontline, and organize various comprehensive ability and professional skills training courses for frontline employees on 5G key technologies and industry applications, project management, marketing, etc., so as to build a frontline employee team with core competitiveness and cohesion.

"Starfire (星火)" financial empowerment training

Focusing on the annual key work tasks of China Comservice, the financial lecturer team of China Comservice has been empowering the trainees with finance and tax management practice courses, cultivating the trainees' business and financial integration mindset, and building a comprehensive financial expert team that understands policies, being professional, familiar with business and capable of implementation.

Headquarters staff training

In 2021, we held seminars for headquarters staff focusing on the contents of 5G application scenarios, Internet of Things, artificial intelligence and cybersecurity etc. to enable headquarters staff to understand the latest technology applications and development trends in the communications industry and to satisfy their needs for career development and capability enhancement.

The Group's subsidiaries held a number of career training programmes during the year

The Group's subsidiaries actively launched various occupational skills competitions

Total training expense
(RMB million)
2021: 129
2020: 127

Total number of trainings
(Person-time)
2021: 672,390
2020: 748,208

Total training hours
(Hour)
2021: 32,113,610
2020: 7,621,737

Average training expense
(RMB/person-time)
2021: 192
2020: 170

Average training hours
(Hour/person-time)
2021: 48
2020: 10

Types of Training

Indicator	Unit	2021	2020
Safe production training	No. of trainings	**6,179**	4,917
	Person-time	**205,979**	226,219
Anti-corruption training and activities	No. of trainings	**2,081**	2,396
	Person-time	**63,089**	69,764
Operation management training	No. of trainings	**3,486**	4,095
	Person-time	**62,237**	62,575
Technical expertise training	No. of trainings	**42,529**	44,503
	Person-time	**189,352**	297,328
Other training	No. of trainings	**8,047**	5,162
	Person-time	**151,733**	92,322

Training by Position/Gender

Proportion of senior management receiving training	Ratio	**2.3%**	0.2%
Proportion of middle management receiving training	Ratio	**29.6%**	18.0%
Proportion of general employees receiving training	Ratio	**68.1%**	81.8%
Proportion of male employees receiving training	Ratio	**72.6%**	74.2%
Proportion of female employees receiving training	Ratio	**27.4%**	25.8%

Average training hours by position/gender		**2021**
Average training hours received by senior management	Hour/person-time	**84**
Average training hours received by middle management	Hour/person-time	**77**
Average training hours received by general employees	Hour/person-time	**34**
Average training hours received by male employees	Hour/person-time	**46**
Average training hours received by female employees	Hour/person-time	**51**

OPERATING PRACTICES

Health and Safety

The Group follows the national laws and regulations and the requirements of the industry regarding safety of development and construction, and resolutely implements the PRC Labor Law, the PRC Safe Production Law, the PRC Fire Protection Law, the Administrative Regulations on the Work Safety of Construction Projects. It adheres to and continuously improves the basic management system, and promotes the works in strict compliance with China Comservice Safe Production Management Measures and the safety management requirements of units of higher levels regarding densely-populated places and communications materials warehouses.

The Group's Safe Production Committee is the safe production management organization, with the President acting as the director. Provincial companies all set up the Safe Production Committee, to fulfill the safe production responsibility, hold regular committee meetings to discuss and make decisions about important matters related to safe production.

The Group values and fully supports the contribution to safe production funds. The provincial companies under the Group are required to make a standard provision for safe production expenses and effectively manage and utilize such expenses, for the purpose of enhancing labor conditions, improving safety facilities, updating labor protective equipment, conducting education and training, and strengthening safety inspection, etc., so as to provide financial support to the smooth operation of safe production.

In 2021, the Company launched a special inspection and rectification work of potential threats to safety production throughout the Group. The work was carried out in five major aspects, including awareness, system construction and execution, responsibility and strict implementation, potential threat investigation and prevention and control, and compliance with laws and regulations, with a total of 89 items included. A total of 5,210 potential safety threats within the Group were identified, and all of them were rectified by the end of 2021, with a 100% rectification rate. Through this special inspection, the Group identified and promptly rectified potential safe production threats and prevented accidents from occurring at source. In addition, the Group conducted a safe production inspection for six provincial companies and their affiliated companies; meanwhile, companies at all levels conduct a safe production inspection every year.

The Group launched a special inspection and rectification work of potential threats to safe production during the year

Conducting safe production promotion and education training. The Group continuously conducts safe production promotion and education trainings to enhance employees' awareness of safe production. In 2021, we organized three safe production trainings, and companies at all levels of the Group promoted the safe production knowledge via "Safe Production Month" activities and organized to watch "Life is of Paramount Importance" safety education propaganda film in various manners, with 4,464 times throughout the year and a total of 155,087 person-times.

The Group continued to organize safe production promotion and education trainings

Improving the emergency response capability. During the "Safe Production Month", the subsidiaries of the Group launched emergency rescue drills in combination with actual production and operation activities, covering emergency response, communications construction, fire and other scenarios, with a total of 2,329 drills to continuously improve emergency response efficiency and resolution capabilities.

The subsidiaries of the Group conducted emergency rescue drills

Valuing expert. In 2021, the Safe Production Committee of the Group formulated and released the Management Measures for Invited Experts of Safe Production of China Comservice, defined the relevant working mechanism and launched the selection of invited experts for safe production, so as to fully utilize the technical support role of external experts and enhance the education and training as well as supervision and management capabilities of safe production of China Comservice.

To raise the health and safety management level, the Group brings in the internationally recognized Occupational Health and Safety Management System Certificate. As at the end of 2021, many subsidiaries of the Group passed the international OHSAS 18001 certification, the ISO 45001 certification or relevant domestic certifications, etc.

The Group has established and implemented an accident reporting system and collected quarterly statistics on work-related injuries and fatalities. In 2021, no significant accident in respect of safe production or workplace fatalities or serious injuries occurred within the Group, and there was no lost working day due to work-related injuries.

Safe production training
2021: **6,179** No. of trainings; **205,979** Person-times
2020: 4,917 No. of trainings; 226,219 Person-times

Workplace fatalities
2021: **0** Person
2020: 0 Person; 2019: 0 Person

Lost working day due to work-related injuries
2021: **0** Day
2020: 0 Day

Supply Chain Management

We are in compliance with relevant laws and regulations of the PRC, and take into account of actual situation to continuously improve and strengthen the implementation of the relevant administrative rules on procurement, with a focus on strengthening the monitoring and control over key procedures of, among other things, the selection and management of suppliers, contract signing, safety management, financial settlement, supervision and inspection. Meanwhile, we conduct trainings on specific skills and safety education to personnel of suppliers and regulated the management on safe production, ensuring that the suppliers comply with the national and local regulations on salary payment and employment management.

Geographic Location	Unit (Number) in 2021
Northeast region	341
Northwest region	1,551
Mid-South region	2,616
Southwest region	1,513
Northern China region	1,081
Eastern China region	4,646
Hong Kong, Macao and Taiwan	–
Overseas	27
Total	**11,775**

Developing a Supply Chain Environment of Fairness and Justice

The Group implements hierarchical management over its headquarters, provincial companies and professional companies for suppliers. The headquarters is responsible for the establishment of a synergistic procurement system, formulation 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 systems 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 headquarters and the provincial company of the Group.

1 Organizational System

- Adapting to the Company's organizational structure and establishing the system of "three-level procurement and two-level centralized procurement"
- Leveraging the Company's subsidiary, China Comservice Supply Chain Management Company Ltd., to implement centralized procurement
- Establishing "headquarters + 21 provincial companies" centralized procurement center

2 Scope & Plan

- Headquarters-level centralized procurement, provincial-level centralized procurement, professional company procurement
- Classifying procurement types based on business development model, professional nature and other factors

3 Procurement Method

- Procurement methods include tendering, comparison, quotations, competitive bargaining, competitive negotiation, competitive bidding, single-source procurement, etc.
- Implementing procurement according to the content and amount, taking into account both efficiency and effectiveness, to ensure the maximum transparency of procurement

4 Contract & Price

- Formulating and utilizing standardized contract texts and adopting electronic approval throughout the process
- Establishing and implementing an "annual benchmark price" management system to control procurement costs reasonably

5 Supervision

- Comprehensively using the China Comservice procurement management platform to conduct procurement work
- Ensuring procurement data is comprehensive, timely, true and valid
- Improving the review and assessment mechanism to carry out supervision level-by-level

In 2021, targeting the principal business activities and the key issues of supply chain management, the Group rewrote the China Communications Services Corporation Limited Contracting Business Procurement Management Measures and China Communications Services Corporation Limited Procurement Supplier Management Measures on the basis of the previous system to ensure the achievement of procurement objectives, enhance the enterprise's ability to acquire and integrate external resources, improve the efficiency and service level of the supply chain operation, and form a " integrity, efficiency, quality, stability and reliability" green cooperation ecosystem.

Integrity

Efficiency

Quality

Stability

Reliability

Supplier Database Management

The unified information system is used to achieve hierarchical management of the supplier database. After the completion of procurement activities, the procurement execution department will submit an application for entry into the database, and the procurement management department will conduct an audit. For suppliers who are no longer cooperating at the end of the cooperation period, should exit according to requirements and together with those included in the negative list, they will be moved out of the supplier database.

Supplier post-evaluation

The post-evaluation is divided into regular post-evaluation, annual post-evaluation and overall post-evaluation, and the post-evaluation results are aggregated by using a unified information system to ensure that the comprehensive performance of suppliers is reflected objectively. The post-evaluation results of suppliers are used as an important reference basis for all phases of procurement and cooperation.

Supplier rating, rewards and penalty

Suppliers are rated and rewarded or penalized according to their post-evaluation and contribution level to determine their strategic value to the Company. Through rating, an effective competition mechanism of "survival of the fittest" is realized to aggregate high-quality suppliers. There are four ratings: A (preferred), B (eligible), C (reserve) and D (eliminated).

Supplier Negative List

Specify the management standards of the suppliers' negative list at different levels, and prohibit cooperation within the corresponding scope if there are any behaviors listed in the negative list, and ensure the implementation through the unified information system.

Tolerable Risk of Supply Chain

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 remove the disqualified suppliers, to ensure that all suppliers enlisted in the "supplier resource pool" have evidences to prove they possess adequate capabilities to perform the contract and control the risk. Such evidences include enterprise qualifications issued by relevant governmental departments (the construction enterprise qualification, the design qualification, the labor qualification and the safe production permit), product standards and competence certificates recognized by the industry (product certificates and the service capability evaluation), professional certificates of relevant personnel (certificates related to special operations, and certificates of safe production specialists of A, B and C classes). The Group instructs suppliers to improve their awareness of safe production, eliminates hidden risks and promotes the healthy development of the Company through the establishment of IT systems and standardization of management processes.

1 Pre-job training	– Daily safety and technical briefings for construction operations – Unified drills
2 Working with certificates	– Climbing, electricity and other high-risk work scenarios require the appropriate certificates
3 Purchase of insurance	– No insurance, no entry – Work-related injury insurance, with additional commercial insurance for construction business
4 Labor protection	– Pay the safe production fee in full and ensure the usage – Central purchase of labor protective equipment with reliable quality
5 Safety supervision	– Complete on-site supervision by project manager – High frequency of safety inspection

When signing contracts with suppliers, the Group makes the Confidentiality Agreement, Safe Production Agreement, Anti-Corruption Agreement and Environmental Protection Agreement as the main appendixes to the contracts. At the same time, the Group pays great attention to the rights and interests of labor and the payment of rural migrant workers' wages, establishes channels for reporting the above-mentioned risks and ensures the smooth operation, monitors the relevant situation through proactive auditing activities to ensure the contracts are honored, and performs procedures such as termination of cooperation, exit or inclusion in the negative list of suppliers in accordance with the regulations for suppliers with relevant risk behaviors.

Product Liability and Customers

The Group strives to build up a "Superior Service" corporate image and continuously improve its service quality with over 140 subsidiaries having obtained ISO 9001/GB/T 19001 Quality Management System certification. During the year, the Group formulated the China Communications Services Corporation Limited Contracting Business Delivery Management Measures to further regulate the whole process of contracting business (especially engineering business) from project initiation to completion and acceptance, streamline the responsibilities of all internal and external parties and management procedure in the delivery process, and promote the achievement of satisfaction enhancement for both internal management and customers through scientific, regulatory, standardized and effective delivery management.

The Group's quality management system is well recognized by government

1. Determine the department and person responsible for delivery quality management
2. Develop definite delivery quality standards with clients for specific projects
3. Quality control/inspection/assessment during delivery process
4. Use of digital control tools
5. One-time quality acceptance target
6. Data archiving / experience accumulation / continuous improvement

The Group upholds the development concept of "customer-oriented" and is highly concerned about customer perception. Focusing on the characteristics of service towards the government and enterprise customers, companies at all levels of the Group have set up service departments for different customer groups, established direct and efficient communication channels with customers, and actively listens to customers through customer visits, technical exchanges, implementation delivery, maintenance services, after-sales visits and satisfaction surveys at the pre-sales, in-sales and after-sales stages.

Customer Satisfaction Program

In 2021, in order to further enhance customer service capability and service quality, the Group established a strategic customer service center at its headquarters, which is responsible for strengthening and maintaining strategic customer relationships. At the same time, based on the customer satisfaction survey results of the previous year, we continued to engage third-party professional consultancy organizations, collected customers' opinions and appeals from multiple dimensions and provided targeted improvement plans, to further improve the quality of professional services. In 2021, customers were generally satisfied with the service quality of the Group and there were no material complaints and disputes. The Group belongs to the informatization communications services industry, and is mainly engaged in design, construction, supervision, maintenance and other services of communications industry which doesn't involve product recall.

Customers' Satisfaction Survey

The first stage selected more than 7,000 contracts from the Group's engineering and construction in 2020 as samples.

The second stage selected more than 3,000 contracts from the system integration area in 2020 and the first half of 2021 as samples.

Overall Satisfaction in 2020
90.58
Score (out of 100)

Engineering Construction Professional Satisfaction in 2021
91.00
Score (out of 100)

System Integration Professional Satisfaction in 2021
91.70
Score (out of 100)

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 Civil Code, 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 product research and development, the Group attaches great importance to the protection of intellectual properties and the application of corresponding patents or software copyrights.

New authorized patents	New software copyrights	New patents applied for
541	1,220	812

Information Security and Privacy Protection/Cybersecurity

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 Cybersecurity Law, the PRC Data Security Law, the PRC Personal Information Protection and other laws and regulations, keeps improving the Management Measures for Network and Information Security, the Implementation Guide for Data Security and other systems, standardizes internal network, information and data security management, increases risk monitoring and strengthens operational control.

In order to strengthen data security protection, the Group organized the implementation of data security standards, carried out data categorization and classification, compliance assessment and risk self-examination, and forged data security technical capabilities to avoid data abuse or leakage. At the same time, it carried out the special governance for the customer-oriented APP, and the capability self-assessment of the APP in collecting and using users' personal information, so as to effectively protect users' personal information and avoid excessive information collection.


The Group actively participated in various cybersecurity competitions

The Group strengthens the relevant trainings and publicity on network and information security and privacy protection for its employees. In 2021, the Group organized five trainings on network and information security, including contents such as policy interpretation, technology improvement, to the relevant management and technical personnel, with a total of over 400 person-times participation. The Group proactively attended National Security Education Day, China Cybersecurity Week and other publicity activities, effectively raised the awareness of our employees on network and information security and privacy protection through "online and offline" forms of special trainings by external experts, posters, themed Q&As and video broadcasts, making the theme that "cybersecurity aims for people and relies on people" deeply rooted in the public.

The Group organized attack and defense drills and social engineering drills in the whole Group, conducted special investigations and normalized inspections on key issues, and launched the internal and external attack and defense drill which lasted for three weeks, and found and repaired 46 loopholes. Through special investigation of key issues, it rectified 47 weak passwords. By setting up internal crowdsourced testing and daily inspection mechanism, the Group conducted normalized inspection and handling, and established and improved emergency response mechanism and process. In addition, the Group organized internal skill competitions to conduct trainings and promote learning, so as to effectively sharpen the technical capability of employees and continuously improve the cybersecurity level.

In 2021, no occurrence of leakage of customer privacy and information was identified within the Group. In accordance 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 information of government or other customers, the Group adopts Internet isolation, data desensitization and encryption to prevent information leakage.

Cybersecurity capability

Through integration of internal resources, the Group has established a sub-brand of CCS Cyber Security, and set up a professional team to serve the country, customers and industries, so as to provide overall security solutions and comprehensive security services. For three consecutive years, it was shortlisted in "Top 100 Cybersecurity Enterprises in China" report published by "AQNIU", an authoritative media in the cybersecurity industry, and its own core products and services were selected into the "China Cybersecurity Industry Panorama" for multiple times. The brand influence of CCS Cyber Security has gradually expanded.

Cyberspace asset surveying and mapping platform

Conduct continuous detection of customers' cyberspace assets to realize the visualization of security management, help key infrastructure industries to solve the problems of "inaccurate", "incomplete" and "untimely" in mastering their internal and external assets, assist security operation and maintenance personnel to constrict asset exposure to the greatest extent, and build the most fundamental and core network security defense line.

Data security monitoring and management platform

Provide customers with data security and supervision services such as data asset management, data desensitization management, interface security management, access and operation audit management, etc., help customers improve their overall data security capabilities, enhance their data security protection capabilities, and escort the construction of a good data security ecosystem and the development of digital economy.

Comservice crowdsource testing and security vulnerability management platform

Gather information security experts through Internet crowdsourcing, and based on the intelligent control mode of "artificial+automation", provide a complete set of one-stop services with centering network security vulnerability management for operators, government and enterprise customers and entrepreneurial teams, so as to realize the visibility, controllability and manageability of the vulnerability throughout its life cycle.

Anti-corruption

Strengthen integrity construction

The Group always strictly abides by the PRC Criminal Law, the PRC Oversight Law, the Law of PRC Administrative Discipline for Public Officials, the PRC Company Law, the PRC Anti-Money Laundering Law, the PRC Anti-Unfair Competition Law, the Regulation on the Integrity of State-owned Enterprise Officials and other laws and regulations, follows social morality, business ethics and industry rules, and formulates the Code of Conduct and Ethics for Employees, the Code of Conduct and Ethics for Senior Management and Code of Professional Conduct for Employees to supervise the management and employees in respect of the compliance. The Group has been devoted to safeguarding the interests of shareholders, creditors, customers and partners and executing contracts in good faith. When signing contracts with suppliers, we take the Anti-corruption Agreement as the main appendix. We honor commercial credibility and oppose improper competition with a view to preventing corruption in business activities.

The Group attaches great importance to strengthening the integrity and discipline education, and actively guides and supervises the management and employees at all levels to improve their awareness of integrity and red line via warning and education meetings, typical cases publication, integrity promotion, daily conversation and reminder and new media platforms publicity and other means. During the year, the Group held 233 warning and education meetings, proactively conducted integrity publicity activities, and continuously built the ideological defense line of integrity and self-discipline.

The Group actively held warning and education meetings

Improve the supervision system

The Group continues to establish and improve the supervision system in order to strengthen the restriction and supervision to exercises of power. It focuses on key areas and key links, carries out targeted special governance and supervision, optimizes relevant institutional processes, improves risk prevention and control capabilities, and resolutely guards against major risks. The Group focused on "key minorities" and strengthened supervision and inspection in important nodes, strictly and realistically reinforced conversation reminders and daily supervision to management at all levels and personnel in key positions, and conducted 6,496 on-site supervisions and inspections at important festivals. The Group integrates all kinds of supervision forces such as discipline inspection, human resources, audit, risk management, inspection, industry and finance, actively builds a coordinated and efficient supervision system, promotes the integration of all kinds of supervision, and unites supervision efforts.

The Group has continuously strengthened the management of problem clues via letters and visits and the construction of integrity culture. It has established a whistle-blowing mechanism to standardize the reporting process. When our employees and business partners discover corruption and bribery of the Group's personnel, they can report by real-name or anonymously through the post office box (Beijing, 100033 mailbox 33 bin), report by telephone or by visiting the Group in person. The information of the whistleblower will be kept strictly confidential. The Group will investigate the report according to the rules and regulations, timely find out the existing problems and timely solve them, so as to create a clean development atmosphere continuously.

During the year, the Company provided anti-corruption trainings to the directors and employees.

Anti-Corruption Training and Activities	2021		2020	
	2,081 Times	**63,089** Person-times	2,396 Times	69,764 Person-times

The Group attaches great importance to the construction of the anti-corruption system, always maintains a high-pressure in anti-corruption front, strictly enforces discipline and accountability, and has "zero tolerance" for violations of laws and regulations, which would be strictly punished according to the requirements of laws, regulations, disciplines and rules, so as to maintain the normal business order of the Group. During the reporting period, there was no concluded litigation cases regarding corrupt practices brought against the Company or its employees.

Organizational system construction

Leverage the role of the anti-corruption coordination team. Hold regular coordination team meetings, promote the organic integration of audit supervision, accounting supervision and other kinds of supervision, and actively build a synergistic and efficient supervision system.

Improve the primary-level supervision system, and formulate guidelines for the list of 13 supervision items in 4 categories; Use digital means to realize cross-domain data communication and timely alert, and weave densely the primary-level supervision network.

Work style construction

Formulate implementation opinions to further encourage cadres and employees to take responsibility and make a difference in anti-corruption work, and build a new trend and promote healthy atmosphere.

Warning and education enhancement

Promote the integrity education via warning and education meetings, integrity promotion, daily education and reminder, and new media platforms publicity, to make employees hold discipline in awe, keep the vigilance and hold the baseline, thus building a solid integrity and self-discipline ideological defense line.

COMMUNITY PARTICIPATION

China Comservice has always fulfilled the responsibilities as a state-owned enterprise in emergency rescue and natural disaster relief, emergency support and other areas, actively participated in rural revitalization and improvement of people's livelihood, and encouraged employees to participate in social welfare activities, making efforts to give back to the society and contributing to the construction of a harmonious society.

Support for the Winter Olympics

A total of 19 companies under the Group participated in the project construction and key support services of "Beijing 2022 Winter Olympic and Paralympic Winter Games", making positive contributions as a state-owned enterprise to a wonderful, extraordinary and outstanding Winter Olympics, and at the same time showing the brand image and enterprise strength to all sectors of society.

Gongcheng Management Consulting Co., Ltd. (公誠管理諮詢有限公司), a subsidiary of the Group, assisted the installation and connection of radio, television and optical cables and TV terminal equipment in Zhangjiakou Division of the Winter Olympics, and provided supervision services of cable TV multi-channel and local low-latency signal transmission for more than 700 points designated by the Winter Olympic Organizing Committee during the Games, so as to ensure that athletes, spectators and media users in the venues of the Winter Olympics can experience a brand-new wireless interactive broadcast and television service.

China Telecom Construction Co., Ltd. (中通建設股份有限公司), a subsidiary of the Group, undertook the maintenance of 2,719 base stations in Chongli, Xuanhua and other areas of Zhangjiakou, of which 293 are the key support stations for the Winter Olympics. During the Games, the company made every effort to ensure the safe and stable operation of communications facilities and networks for the Winter Olympics, and properly handled different kinds of emergencies in the Winter Olympics support work.

Natural disaster relief

The Group actively practices its social responsibility, supports emergency support all over the country in major natural disasters and public safety incidents without delay, actively assists in repairing communication lines and ensuring smooth communications networks. In the fight against the COVID-19 pandemic, it provided informatization construction services such as 5G base stations and optical fiber broadband for emergency command of governments at all levels and key medical institutions around the country.

In 2021, the Group contributed

manpower >60,500 person-times

vehicle >24,400 vehicle-times

repaired >42,900 areas in communication facilities

participated in natural disaster relief for over 186,200 hours, and actively took part in post-disaster pandemic prevention and disinfection and cleaning work.

"7•20" torrential rain disaster in Henan Province

On 20 July 2021, a torrential rain occurred in Henan. The 4th Engineering Bureau of China International Telecommunication Construction Corporation (CITCC), a subsidiary of the Group, and its Henan Branch, which are located in the disaster area, took the initiative to participate in the front line of flood control and disaster relief, quickly launched emergency plans, actively coordinated resources and speedily organized emergency repairs. The companies under the Group came to Henan after knowing of the flood, and rushed to help the disaster-stricken areas in Henan to make emergency repairs despite the hardship and danger.

The Group dispatched 923 professional emergency repair teams, 3,254 emergency repair personnel, 900 emergency repair vehicles, 635 electricity generators, 747 fiber fusion splicers, 524 OTDRs, 238 optical power meters, and more than 1,200 sets of equipment and tools. The Group restored a total of 15,048 stations, repaired 1,785 points of optical cables, laid 567.3 kilometers length of optical cables, set up 279 electricity-generation base stations, and connected the residential networks and broadband networks involving about 9,000 users.




Typhoon "In-fa"

On 25 July 2021, typhoon "In-fa" landed on the coast of Zhejiang, and Zhejiang, Shanghai and other places ushered in strong winds and heavy rains. In the face of the severe damage caused by typhoon "In-fa" to communications facilities, the Group's Zhejiang subsidiary and Shanghai subsidiary acted swiftly to rescue and provide disaster relief.

The Group's Zhejiang subsidiary timely organized its subsidiaries in Zhejiang to hold a special meeting on fighting against typhoon "In-fa" and protecting communications, deployed and implemented various tasks, and sent a safety expert team to go straight into the front line of the disaster. The Group invested a total of 5,343 rescue person-times, 1,968 vehicle-times, 890 times of electricity generators, 191 times of pumps and 16 times of kayaks, repaired 2,613 power outages and 1,408 service retreats of base stations; made 798 power generations, 176 computer room drainages, 1,251 equipment repairs, 131 pole repairs, 53 pole erections, 670 broken optical cable connections and 661 communication line connections.

The Group's Shanghai subsidiary set up an emergency work team after receiving the relevant alert and prevention requirements against the typhoon "In-fa", urgently deployed various work, and took flood and typhoon prevention as a major event to ensure safety, production and stability. With a high sense of responsibility and efficient working mechanism, the Group was ready to ensure the life and property safety. The Group had a total of 1,114 person-times participated in the flood control and typhoon prevention, carried out 2,926 inspections, solved 1,548 failures, made 871 on-site emergency repairs and dispatched 270 emergency vehicle-times to ensure smooth communication and network during the typhoon period.

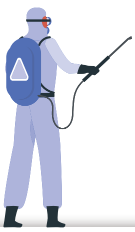
Fighting the COVID-19 pandemic

In 2021, the COVID-19 pandemic continued to wreak havoc. In face of this long fight, all the employees of the Group have been working together and united on the front of pandemic prevention and control, so as to build a solid barrier against the virus.

In May 2021, a local COVID-19 pandemic broke out in Guangdong Province. The Group's Guangdong subsidiary completed the communications support work of vaccination sites and nucleic acid testing sites in Shenzhen, Foshan and other places in the shortest time despite the high temperature and pandemic situation, and provided strong support for pandemic prevention and control with stable wireless network signals. In the meantime, the Guangdong subsidiary practised the concept of "doing practical things for the masses", organized volunteer service teams to fully support the work of nucleic acid testing points, and set up a special vaccination session to build a barrier for the safety and health of employees.

In September 2021, there were confirmed cases of COVID-19 in Putian, Fujian, which spread rapidly. The Group's Fujian subsidiary promptly deployed and implemented various strengthening prevention and control measures. The leading group for pandemic prevention and control made overall arrangements without delay, and set up a special emergency support team to conduct overnight construction and repair for the 157 emergency projects in Putian on the day when the pandemic occurred, laid the optical cable of STN circuit project of the dedicated line for Putian healthcare remote video on the second day, and completed the construction task ahead of schedule.

At the end of 2021, Xi'an City, Shaanxi Province experienced an extremely complicated and severe pandemic situation, which spread rapidly and led to grim situation. The Group's Shaanxi subsidiary quickly completed the network coverage and monitoring project investigation and design of the nucleic acid testing module hospital, successfully realized the network cutover and upgrade of the pandemic headquarters, and contributed to the effective and orderly development of pandemic prevention and control.



Rural vitalization

The Group vigorously promoted the spirit of tackling poverty, formulated and issued the 2021 Key Points of Effective Connection Work in Strengthening and Expanding Poverty Alleviation Achievements and Rural Revitalization in China Comservice, maintained the stability of the existing major assistance policies, and continued the support of the development of poverty-stricken areas and all-round rural development.

The Group cooperates closely with Shufu County to promote the deep processing of agricultural by-products in Shufu County, with an output of 250,000 tons and an output value of RMB40 million in 2021, and provides 50 employment opportunities for local poor groups and other people. The Group helps enterprises to expand sales channels, and has reached long-term cooperation with multiple large-scale farmers and a number of small-scale farmers to promote the high-quality development of local animal husbandry and agricultural production.

The Group actively carries out in-depth employment assistance. It guides all provincial branches to add recruitment opportunities in various kinds of formal and temporary channel agency points, communication construction and maintenance and other labor-intensive posts in poverty-stricken areas. In the major project construction and resumption of production during pandemic prevention and control period, the Group gives priority to the poor laborers in recruitment, and college graduates from poverty-stricken areas under the same conditions in campus recruitment. In 2021, the Group recruited a total of 718 person-times in the employment assistance areas.

The Group actively cooperated with China Charity Federation, a third-party organization, and raised charitable donations totaling RMB1.05 million in total to Shufu County, including the coordination with China Charity Federation to donate 7,400 books, totaling RMB200,000, to the Central Primary School of Bulaqsu Township and Sayibage Township Primary School in Shufu County, and the donation of equipment and materials to the Organization Department of Shufu County, totaling RMB850,000.

1. The Group's Hunan subsidiary sponsored the China Comservice poverty alleviation customized water project in Shibadong Village, Huayuan County, Xiangxi
2. A professional company of the Group's Shanghai subsidiary conducted charity fundraising activities and went to Xichou County, Wenshan Zhuang and Miao Autonomous Prefecture, Yunnan Province to help the local students.

3&4. The Group's subsidiaries worked together to help promote consumer poverty alleviation

Caring About Employees

The Group stays employee-centered, focuses on strengthening its care to employees, and actively launches the employees' sense of happiness program. It learns about employees' thoughts, work and life dynamics, regularly communicates with employees and solves their difficulties to continuously improve their sense of security, sense of gain, sense of achievement, sense of belonging and sense of happiness. The Group insists on "offering helps to the needy in both winter and summer" and "five visits and five congratulations"[2], and always offers visits during festivals to retired senior employees, advanced and model workers and employees in difficulty.

The Group earnestly improves the working and living conditions of frontline employees, encourages primary-level trade unions to improve the working environment for employees by adding water purification equipment and mother-and-baby rooms, and continues to promote the "Four Small Facilities" including the "Small Canteens, Small Restrooms, Small Shower Rooms and Small Activity Rooms", which improves from "being available" to "being better".

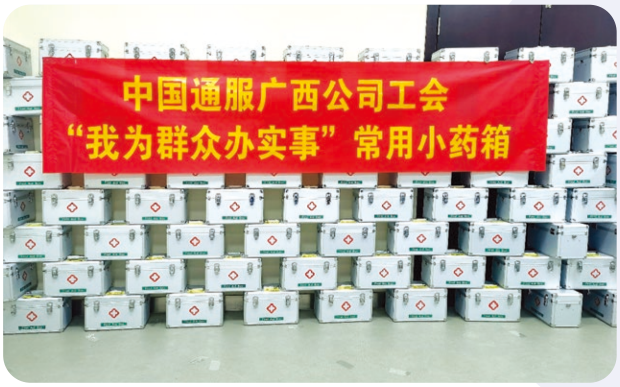
The Group values the strengthening of rights protection for female employees. It takes "serving enterprises and serving women workers" as the main mission, urges subsidiaries at all levels to protect the legitimate rights and special interests of female employees, actively implements the Special Collective Contract for the Protection of Female Employees' Rights and Interests, fully implements labor protection measures, and promotes female employees' qualities and contributions, safeguards their rights and assists and cares for them, so as to effectively protect their legitimate rights and interests from being undermined.

In 2021, the Group continued to make overall plans to promote the important deployment in COVID-19 pandemic prevention and control, worked out the care plan for specific employee groups during the pandemic, arranged special prevention and control funds, and ensured the supplies of pandemic prevention materials such as masks, disposable disinfectant gels, disinfectants and thermometers to meet daily needs.

Jiangsu subsidiary carried out ten practical employee happiness projects with the three major themes of "health, warmth and growth". Employees generally had good feedback on happiness projects, especially satisfied with the canteen construction, food festival activities, "Healthy Comservice" plan, centralized awarding ceremony and other practical projects, which have been well received by employees.

Hubei subsidiary launched the "Rest-assured and satisfied canteen" excellence competition to improve the production and living conditions of the primary staff and stimulate their passion in work.

2 Talk with new employees, the employees who will leave the factory, the employees with fluctuating thoughts, the employees who change positions and the employees who make mistakes; We pay a visit to the employees who are sick and hospitalized, the female employees who have childbirth, the employees who have weddings and funerals in their families, the employees whose family life are difficult, and the employees whose families are not in harmony.



According to the needs of the new health management situation, the trade union of Zhejiang subsidiary started to equip primary-level trade unions in the province with automated external defibrillators (AED). Guangxi subsidiary also provided common first aid supplies for employees.

The Group organized International Women's Day (March 8) activities

The Group held various social activities to encourage employees to express themselves

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 2021, the Company further strengthened its investor relations' initiatives under the principles of high transparency, accuracy, timeliness, fairness and effectiveness.

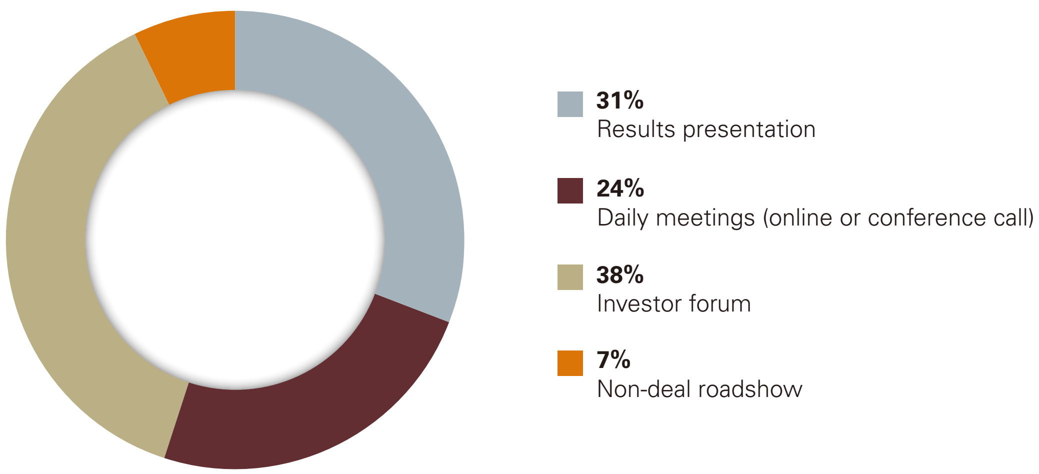
The Company keeps improving the two-way communication channels with the capital market in order to maintain favourable and long-term interaction with its shareholders and investors. Under the continual impact of the COVID-19 pandemic, routine investor communications such as physical results presentation could not be conducted in the usual format according to the social distancing measures. The Company reacts adaptively and continues to adopt an online format to host results presentation. Meanwhile, we communicate with investors via different online conferencing tools to maintain smooth communication with the capital market, while proactively responding to the major issues that it concerns and explaining market opportunities, our position and strategies, development measures, technological innovation and reform, as well as financial condition, thereby facilitating investors to have a better grasp on the overview of the Company and conduct a more comprehensive analysis 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 feedback is beneficial to the formulation of operation, management and development strategies by the management of the Company, promoting sustainable development and enhancing long-term corporate value of the Company.

INVESTOR RELATIONS ACTIVITIES

In 2021, the Company maintained interactive communication with its investors through multiple channels including investor presentation in online platform, press teleconferences, non-deal roadshows, online investor forums organized by investment banks, teleconferences and video conferences to achieve favourable communication proactively with investors, so as to enhance their comprehension on the current and future development direction and strategies of the Company. During the year, the Company held meetings and communicated with analysts and investors for approximately 300 person-times. At the same time, the Company also proactively broadened the investor base in China. Through participating in non-deal roadshows organized by mainland brokers and proactively participating in online investor forums and conferences held by mainland brokers, the Company was in contact with more mainland investors and portion of H shares held by mainland investors increased notably during the 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.

ATTENDANCE ANALYSIS OF INVESTOR RELATIONS ACTIVITIES IN 2021



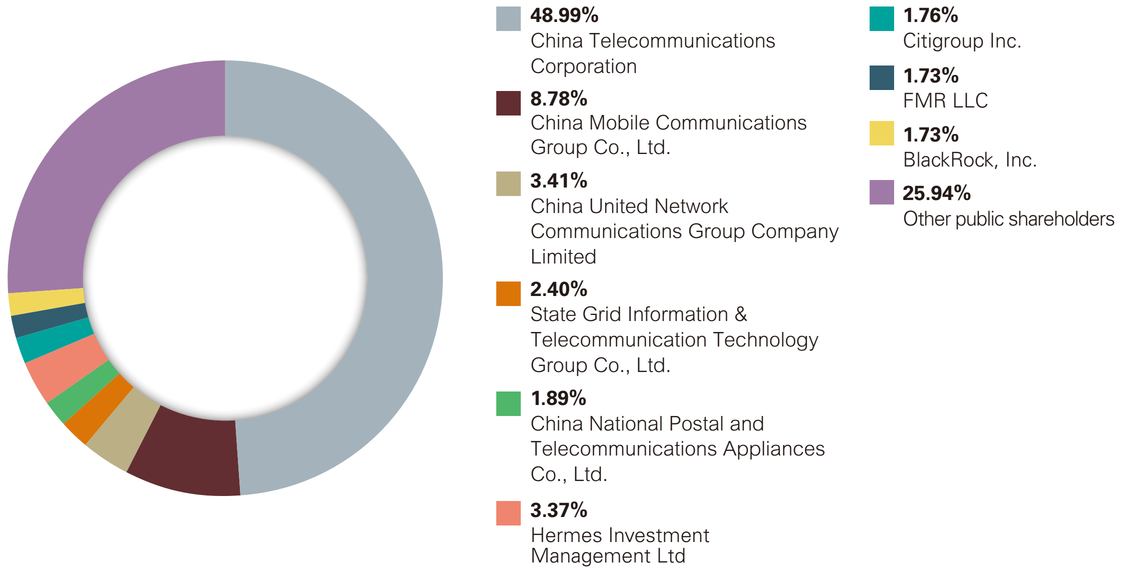
List of Investor Relations Activities of the Company in 2021

Date	Event
1/2021	Morgan Stanley Virtual China New Economy Summit
1/2021	UBS Greater China Conference 2021
1/2021	CGS-CIMB and CGI 3rd Annual HK/China Small-Mid Cap Virtual Corporate Day
3/2021	2020 Annual Results Announcement – Online Analyst Briefing – Press Teleconference
3/2021	Non-deal Roadshow
5/2021	Goldman Sachs Virtual TechNet Conference Asia Pacific 2021
5/2021	Morgan Stanley Virtual China Summit
5/2021	BofA Securities 2021 Innovative China Conference
6/2021	CITICS Capital Market Conference 2021
6/2021	Citi Pan-Asia Regional Investor Conference 2021 (Virtual)
8/2021	2021 Interim Results Announcement – Online Analyst Briefing – Press Teleconference
8/2021	Non-deal Roadshow
9/2021	Jefferies Asia Forum
11/2021	Citi China Investor Conference 2021
11/2021	BofA Securities 2021 China Conference
11/2021	CITICS 2022 Capital Market Annual Conference

SHAREHOLDING STRUCTURE

In 2021, the Company continued to appoint an international survey company to conduct comprehensive surveys on the shareholding structure to keep abreast of the information on its shareholders, including structure and position changes of shareholders, shareholder types, geographical distribution and investment styles. When organizing its roadshows, the Company developed 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. The Company proactively broadened its investor base, especially on mainland investors, to diversify the geographical distribution of investors. According to the information from the Central Clearing and Settlement System operated by the Hong Kong Securities Clearing Company Limited, as at 31 December 2021, 5.09% 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, which increased notably when comparing with the year end of 2020 (1.81%).

SHAREHOLDING STRUCTURE[1] AS OF 31 DECEMBER 2021



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".

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 principles 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.

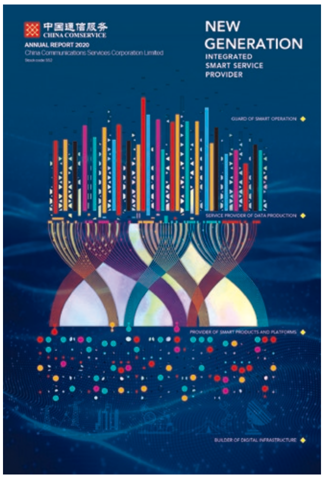
In 2021, in accordance with the Listing Rules, the Company published approximately 28 corporate communications such as announcements and circulars on the websites of the Stock Exchange and the Company. Such publications have objectively and comprehensively disclosed information regarding the Company's results, operating performance, financial information, dividend payment, introduction of strategic investors, adoption of share appreciation rights incentive scheme and poll results for general meetings, details of which are as follows:

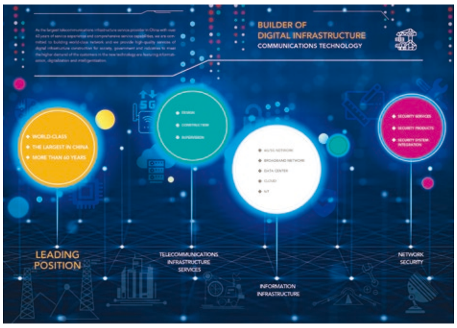
17/03/2021	Announcement relating to the date of board meeting to approve the 2020 annual results
30/03/2021	Announcement of annual results for the year ended 31 December 2020
30/03/2021	Announcement relating to proposed change of auditors
30/03/2021	Announcement relating to change of address of the headquarters, principal place of business and registered address in China and proposed amendment to the articles of association
28/04/2021	2020 annual report
28/04/2021	Circular of proposed appointment of auditors, proposed amendments to the articles of association and notice of annual general meeting
28/04/2021	Notice of annual general meeting to be held on 18 June 2021 and form of proxy
18/06/2021	Announcement of poll results of the annual general meeting held on 18 June 2021, payment of dividend and appointment of auditors
18/06/2021	Articles of Association
18/06/2021	Voluntary announcement relating to introduction of strategic investors of Supply Chain Company
25/06/2021	Announcement relating to introduction of State Grid ITT Group as a strategic shareholder of the company and entering into the strategic cooperation framework agreement
18/08/2021	Announcement relating to the date of board meeting to approve the 2021 interim results
30/08/2021	Announcement of interim results for the six months ended 30 June 2021
14/09/2021	2021 interim report
23/09/2021	Announcement on the progress of share transfer of controlling shareholder
30/09/2021	Announcement of resignation of chairman
30/09/2021	Announcement of the list of directors and their role and function
13/10/2021	Announcement of arrangement for the exercise of relevant powers of chairman
22/10/2021	Announcement relating to the renewal of continuing connected transactions, continuing connected transactions and major transactions under the financial services framework agreement
12/11/2021	Announcement of the delay in despatch of circular
22/11/2021	Announcement relating to proposed adoption of share appreciation rights incentive scheme and proposed initial grant
26/11/2021	Announcement on the completion of share transfer of controlling shareholder
01/12/2021	Circular relating to renewal of continuing connected transactions, continuing connected transactions and major transactions under the financial services framework agreement, proposed adoption of share appreciation rights incentive scheme and proposed initial grant and notice of the extraordinary general meeting
01/12/2021	Notice of extraordinary general meeting to be held on 22 December 2021 and form of proxy
01/12/2021	2020 corporate annual report (available in Chinese version only)
22/12/2021	Announcement of poll results of the extraordinary general meeting held on 22 December 2021
22/12/2021	Announcement relating to initial grant of the share appreciation rights
22/12/2021	Announcement of proposed appointment of non-executive director, resignation of supervisor and proposed appointment of supervisor

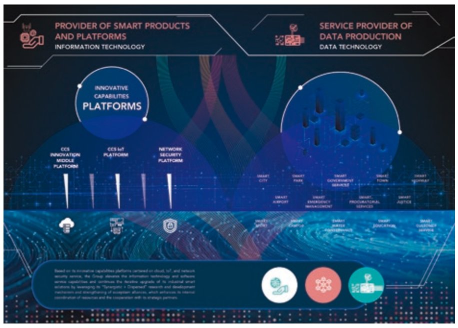
Other than announcements and circulars, the Company's website (www.chinaccs.com.hk) is also one of the important channels for corporate information disclosure and provides capital market, media, shareholders and potential investors with a more convenient and efficient access to the detailed information. Other than introducing the basic information of the Company and disclosing the corporate governance, environmental and social information, the website also showcases the businesses and markets of the Company, while highlighting various smart services we provide for different industries and related cases, such that investors could have a more comprehensive understanding on our transformation in recent years. In addition, a range of detailed information catering for investors' needs, including hot topics concerned by investors such as downloadable historical financial information, stock information, investment value, annual reports, presentation materials and webcasts, investor activities and frequently asked questions of the Company 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.

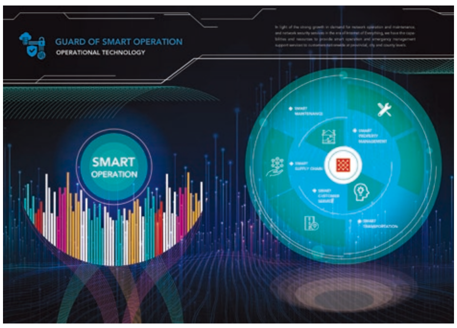
Annual report is not only an important document for information disclosure of a listed company in accordance with the regulatory requirement, the Company can also disclose more comprehensive information to investors through the annual report, such as its operating philosophy, strategies and market position, 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.

The design story of the 2020 annual report emphasized that the development and popularization of the new generation information technology have promoted the deep integration of the digital economy and the real economy, and the acceleration of the digital transformation of society has brought important development opportunities. The Company adheres to the strategic position as a "New Generation Integrated Smart Service Provider", plays the part in "4 Roles"[1], and provides integrated comprehensive smart solutions to our customers, thus creating greater value for the country, society, industries, and customers. In 2021, the preparation and design of the 2020 annual report of the Company were again recognized by international award organizations and received two Gold Awards and ranked 69th in the Top 100 Reports Worldwide of the "Vision Awards" in "The League of American Communications Professionals" (LACP) and three Gold Awards in "Traditional Annual Report", "Cover Photo & Design" and "Printing & Production" in "International ARC Awards".









The Company's 2020 Annual Report design

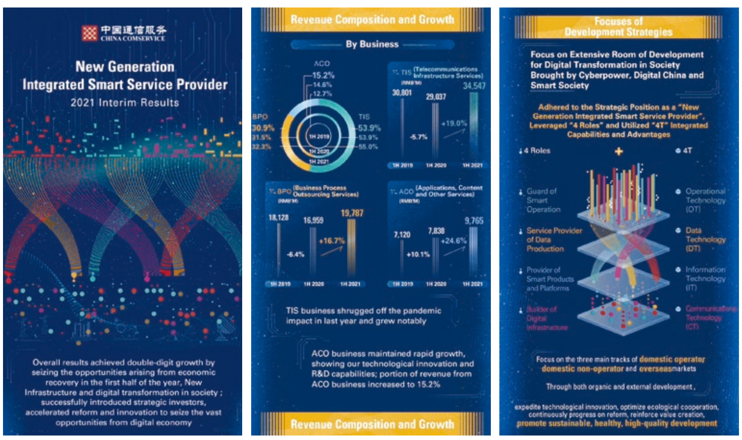
[1] "4 Roles": "Builder of Digital Infrastructure", "Provider of Smart Products and Platforms", "Service Provider of Data Production" and "Guard of Smart Operation".

MULTIPLE CHANNELS OF COMMUNICATION

Subject to the social distancing measures under the outbreak of the COVID-19 pandemic, the Company continued to host results presentation in online format. Through presenting the results on a dual-language platform with Q&A function, management could make a more concrete illustration on the presentation materials while responding to questions raised by investors online on the results of the Company immediately. At the same time, the Company also held teleconferences with the media on the results to maintain a continuous communication with them.

2021 Interim Results online presentation provided real-time Q&A opportunities to investors

As social media has become one of the main channels for receiving market information and daily communication among investors, in order to spread the results highlight in a more convenient and swift manner which enabled a wider range of investors to comprehend the key messages of the Company's results, the Company prepared a dual-language results highlight for 2021 Interim Results in GIF format. The results highlight illustrated key financial indicators such as revenue growth, profit margins and the development features of each market, progress on technological innovation and SOE reform. By presenting the results highlight in social media platforms in a more vivid way, it was circulated in a wider range among the market while investors could have a more profound understanding on the key messages of the Company.

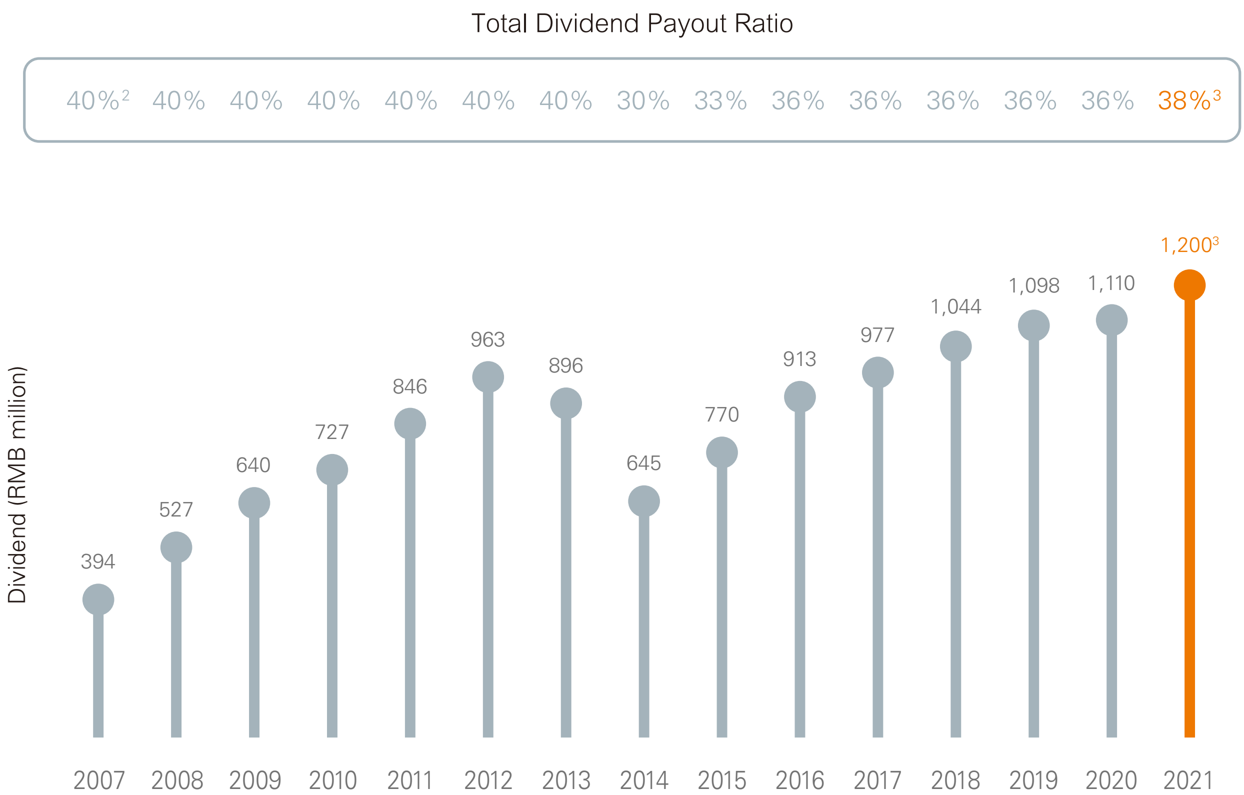


2021 Interim Results dual-language results highlight in social media

DIVIDEND

The Company always values the interests and returns to shareholders since its listing in 2006, 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, as well as consideration of capital market expectation. In 2021, the Company continued to achieve 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 RMB0.1641 per share (equivalent to a payout ratio of 36%) and a special dividend of RMB0.0091 per share. Total dividend for 2021 is RMB0.1732 per share (equivalent to a total payout ratio of 38%).

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 2021 annual general meeting to be held on 17 June 2022.

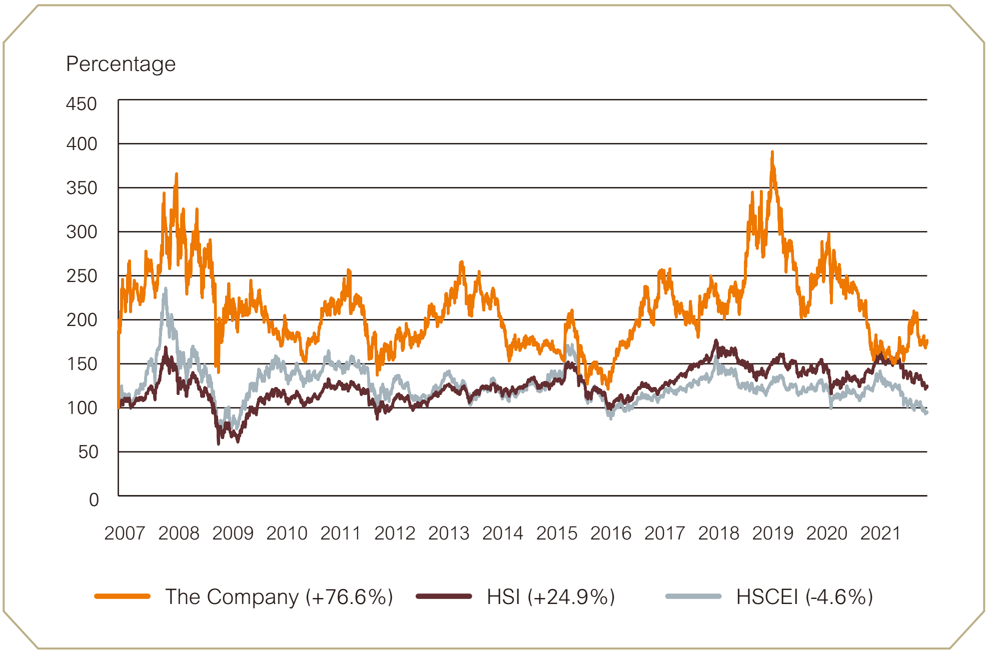
SHARE PRICE PERFORMANCE

The H shares issued by the Company were listed on the Hong Kong Stock Exchange on 8 December 2006 at an offer price of HK$2.2 per share. Since its listing, the Company has firmly captured industry and technology development trend, elevated competitiveness continuously through the implementation of forward-looking development strategies, enhancing efforts on technological innovation and promoting transformation, facilitated sustainable development by grasping market opportunities. At the same time, the Company adhered to the principle of sound corporate governance and implemented practical and effective investor relations initiatives that supported the stock price performance of the Company.

Share Price Performance Since Listing

(Performance relative to indexes)

From 8 December 2006 to 31 December 2021



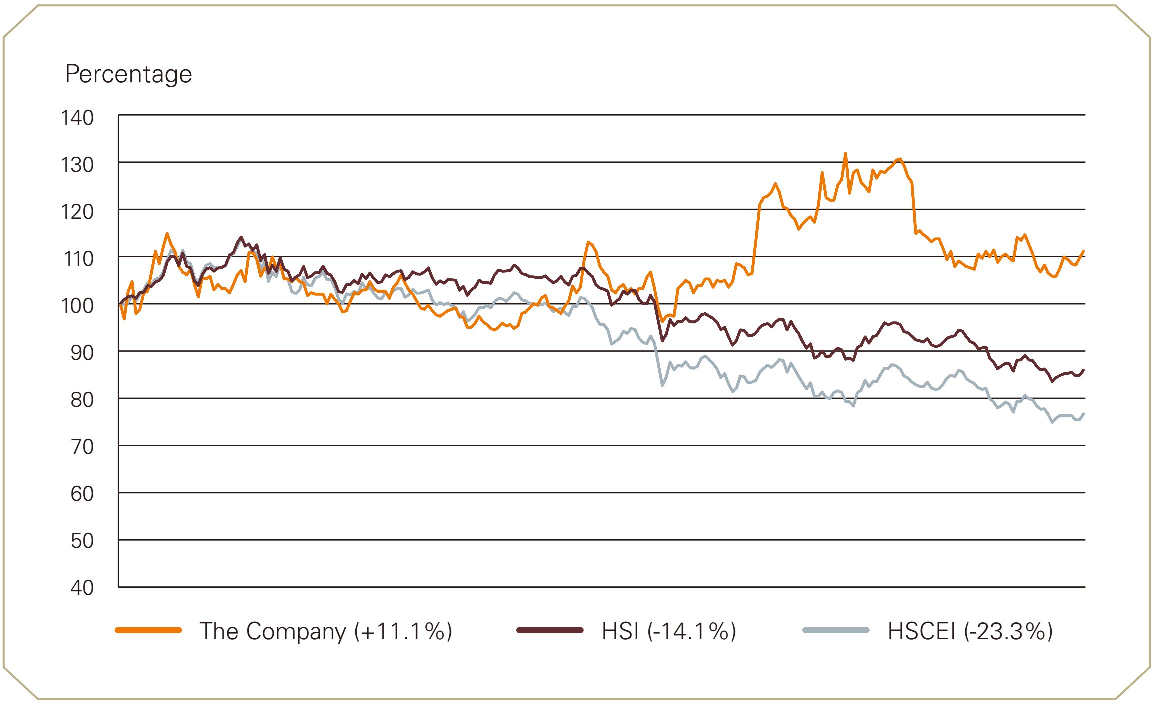
In 2021, despite the persistence of COVID-19 pandemic, major stock markets in the world performed favourably as the global economy started to recover. However, Hong Kong stock market was affected by uncertainties such as strengthening regulation on the Internet industry by China and debt crisis of certain mainland property companies, Hang Seng Index declined year-on-year. As the Company implemented and announced multiple reform-related matters, including the respective introduction of strategic shareholders at company's overall level and subsidiary level in June and the adoption of Share Appreciation Rights Incentive Scheme in November, and driven by the favourable performance of the interim results, stock price of the Company increased against the declining market. As at 31 December 2021, stock price of the Company increased by 11.1% year-on-year compared to the year end of 2020.

2021	Highest	Lowest	Closing
Price per H share of the Company (HK$)	4.57	3.18	3.8

Share Price Performance in 2021

(Performance relative to indexes)

From 1 January 2021 to 31 December 2021



As at 31 December 2021, 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 Hong Kong Stock Exchange, representing approximately 34.5% of the total number of shares of the Company. Based on the closing price as of 31 December 2021, the Company's total market capitalization was about HK$26.3 billion.

MAJOR AWARDS AND RECOGNITIONS IN 2021

1. **"2021 All-Asia Executive Team" Rankings by *Institutional Investor***
   - Honored Company
   - Rank 2nd in the Overall (Small & Midcap) rankings in the telecommunications sector
     * Best CEO
     * Best CFO
     * Best IR Professional
     * Best IR Program
     * Best ESG

2. **"16th Asian ESG Award" by *Corporate Governance Asia***
   - Asia's Icon on ESG
   - ESG Influencer
   - Asian Corporate Director

3. **"11th Asian Excellence Award" by *Corporate Governance Asia***
   - Asia's Best CEO
   - Asia's Best CFO
   - Best Investor Relations Company

4. **"The Asset ESG Corporate Awards 2021" by *The Asset***
   - Gold Award
   - Best Investor Relations Team

5. **The "6th Golden Hong Kong Equities Awards Ceremony" by *Zhitong Finance and Tonghuashun Finance***
   - 2021 Golden Hong Kong Equities Grand Award

6. **"Vision Awards" by *LACP***
   - Two Gold Awards
   - Rank 69th in the Top 100 Annual Reports Worldwide

7. **"International ARC Awards"**
   - Gold Award in "Traditional Annual Report"
   - Gold Award in "Cover Photo & Design"
   - Gold Award in "Printing & Production"

8. **"100 Most Competitive Software & IT Service Enterprises 2021" coordinated by *China Information Technology Industry Federation***
   - Rank 4th

9. **"2021 FORTUNE China 500" by *FORTUNE China***
   - Rank 87th

10. **"2021 Forbes Global 2000" by *Forbes***
    - Rank 1,337th

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 China State-holding Enterprises Index", "Hang Seng Composite Industry Index – Information Technology", "Hang Seng Stock Connect Hong Kong Composite Index"and "Hang Seng SCHK China Technology Index".

The Company has been the focus of and recognized by the capital market, as of the date of this report, about 10 international and mainland investment banks and institutions prepared and published research reports for the Company on a regular basis, 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, and was recognized by many domestic and overseas organizations and institutions. In 2021, authoritative institutions such as *Institutional Investor*, *Corporate Governance Asia* and *The Asset* offered recognitions and awards to the Company in respect of its corporate management, ESG and investor relations. The Company was named as "Honored Company" by *Institutional Investor*. The management of the Company also ranked the second in the "Best CEO" and "Best CFO" in the Overall (Small & Midcap) rankings in the telecommunications sector, while the Company was also recognized in the fields of "Best ESG" and investor relations. *Corporate Governance Asia* awarded "Asia's Best CEO", "Asia's Best CFO" and "Asian Corporate Director" to the management of the Company. These awards demonstrated the capital market's recognition to our management and corporate governance. At the "6th Golden Hong Kong Equities Awards Ceremony", the Company was granted "2021 Golden Hong Kong Equities Grand Award". Furthermore, the Company received various awards from international assessment institutions in respect of the Company's annual report.

OTHER INFORMATION FOR SHAREHOLDERS

Shareholder services

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

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

Shareholder enquiries

Enquiry hotline during normal office hours (Monday to Friday: 9:00–18:00):
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

羅兵咸永道

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

OPINION

What we have audited

The consolidated financial statements of China Communications Services Corporation Limited (the "Company") and its subsidiaries (the "Group"), which are set out on pages 139 to 217, comprise:

- the consolidated statement of financial position as at 31 December 2021;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Our opinion

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 2021, 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 International Standards on Auditing ("ISAs"). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

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

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition of construction services from non-telecom operators
- Revenue recognition of system integration services
- Expected credit losses of accounts receivable and contract assets

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter

Revenue recognition of construction services from non-telecom operators

Refer to Note 2(q) Significant accounting policies and Note 4 Revenues to the consolidated financial statements, respectively.

Revenue derived from construction services from non-telecom operators amounted to RMB28,664 million in 2021. The Group generally recognised revenue over a period of time according to the progress towards completion agreed with the customers based on the output method.

Such revenue was provided to a large number of customers in different industries. The number of contracts was large and the revenue recognised had a significant impact on the financial statements, we were required to put in significant audit efforts on it, therefore, we identified the revenue recognition of construction services from non-telecom operators as a key audit matter.

We performed the following procedures in relation to revenue recognition of construction services from non-telecom operators:

1. Obtained an understanding, and evaluated and tested the applicable internal controls relevant to the revenue recognition of construction services from non-telecom operators;

2. Selected a number of service contracts on a sample basis, and performed contract reviews on major terms and assessed the reasonableness of the basis adopted by management in relation to the revenue recognition method.

3. Performed the following procedures for contracts on a sample basis:

   - Discussed with project management personnel to obtain an understanding of the progress towards completion of the contract works;

   - Examined the supporting documents, such as confirmation of the progress towards completion, project settlement statement etc., obtained by the Group;

   - Assessed the reasonableness of the progress by paying physical field visits to the selected sites of construction projects; and

   - Tested the mathematical accuracy of the revenue based on the progress towards completion and the contract revenue.

4. Performed cut-off tests by examining the supporting documents that management used to recognise the revenue before and after the balance sheet date, such as confirmation of the progress towards completion and project settlement statement to assess whether the revenue had been recognised in the correct accounting period.

Based on our work performed, we found that the revenue recognition of construction services from non-telecom operators made by management is supported by available evidence.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition of system integration services	
Refer to Note 2(q) Significant accounting policies, Note 4 Revenues and Note 44(a) Significant accounting estimates and judgements to the consolidated financial statements, respectively. Revenue from system integration amounted to RMB13,278 million in 2021. Contracts for system integration services of the Group are mostly non-standard contracts. The Group had to make significant judgement when identifying performance obligations and significant estimation when allocating the transaction price to each performance obligation on relative stand-alone selling price basis. Therefore, we identified revenue recognition of system integration services as a key audit matter.	We performed the following procedures in relation to revenue recognition of system integration services: 1. Obtained an understanding, and evaluated and tested the applicable internal controls relevant to the revenue recognition of system integration services; 2. Selected a number of contracts on a sample basis and performed the following procedures: • Reviewed the contract terms to evaluate the reasonableness of the performance obligations identified by the Group; • Obtained the supporting evidence, such as market price information or benchmarked to the gross profit margin of similar business by the Group to evaluate the reasonableness of transaction price allocated to each performance obligation on relative stand-alone selling price basis; and • Evaluated the reasonableness of the method of revenue recognition for each performance obligation based on the provisions laid down in the contract terms. 3. Performed the following procedures for contracts, on a sample basis, to determine if the revenue had been recognised properly over a period of time according to the relevant performance obligations: • Discussed with the project management personnel to understand the progress towards completion of the contract work; • Examined the supporting documents, such as confirmation of the progress towards completion, project settlement statement etc, obtained by the Group; and • Tested the mathematical accuracy of the revenue recognised based on the progress towards completion and the contract revenue. 4. Examined the supporting documents for a sample of contracts, such as receipt notes and acceptance notes issued by the customers, to assess if revenue recognised at a point in time upon the fulfillment of the relevant performance obligation, was supported by adequate evidence to prove that the control of the relevant products had been properly transferred to the respective customers. Based on our work, we found that the revenue recognition of system integration services made by management is supported by available evidence.

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Expected credit losses of accounts receivable and contract assets	
Refer to Note 2 (l) Significant accounting policies, Note 27 Accounts and bills receivable, net, Note 28 Contract assets, net, Note 43 (a) Financial risk management and fair values, and Note 44 (b) Significant accounting estimates and judgements to the consolidated financial statements, respectively. As at 31 December 2021, the carrying amounts of accounts receivable and contract assets amounted to RMB19,542 million and RMB21,774 million, respectively, with loss allowances amounted to RMB1,693 million and RMB240 million, respectively. Provision for credit loss allowance of accounts receivable and contract assets was made based on an assessment of the lifetime expected credit losses. When measuring expected credit losses, the Group had considered credit losses incurred in the past, and adjusted it by taking into consideration of the present conditions and forward looking factors. In assessing forward-looking information, the Group considered factors including economic policies, macroeconomic indicators, industry risks and changes in customers' conditions. We focused on auditing the expected credit losses of accounts receivable and contract assets because the judgement and estimation of expected credit losses is subject to high degree of estimation uncertainty. The inherent risk in relation to the expected credit losses of accounts receivable and contract assets is considered significant due to the subjectivity of significant assumptions and estimates used. Therefore, we identified the expected credit losses of accounts receivable and contract assets as a key audit matter.	We performed the following procedures in relation to expected credit losses of accounts receivable and contract assets: 1. Obtained an understanding, and evaluated and tested the applicable internal control relevant to management assessment of expected credit losses of accounts receivable and contract assets; 2. For accounts receivable and contract assets assessed individually, we reviewed, on a sample basis, documents for supporting management's assessment of the respective financial position and creditworthiness of the customers, historical payment and settlement records, and forecasted future economic conditions, in order to assess the reasonableness of expected credit loss allowance provided by management; 3. For accounts receivable and contract assets assessed collectively by making reference to the credit risk characteristics, we assessed the reasonableness of the grouping, and the respective expected credit losses provision made by management by reviewing, on a sample basis, documents and information, such as historical credit losses incurred, historical payment and settlement patterns of debtors, aging profile of accounts receivable and contract assets, current conditions and forward looking factors; 4. Tested the accuracy of the aging analysis of the accounts receivable and contract assets on a sample basis and recalculated the historical default rate, evaluated the basis adopted by management in determining the forward looking adjustment with the assistance of our internal valuation specialists, and tested the mathematical accuracy of calculation of the expected credit loss allowance. Based on our work, we considered that the significant judgments and estimates made by management in relation to the expected credit losses of accounts receivable and contract assets were supportable by the evidence obtained and procedures performed.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than 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. We report our opinion solely to you, as a body, 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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 this independent auditor's report is Wilson W.Y. Chow.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong,
30 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021

	Notes	**2021 RMB'000**	2020 RMB'000
Revenues	4	**133,991,317**	122,648,944
Cost of revenues	5	**(119,206,899)**	(108,911,308)
Gross profit		**14,784,418**	13,737,636
Other income	6	**1,946,396**	1,687,789
Selling, general and administrative expenses		**(12,951,723)**	(11,826,471)
Other expenses	7	**(213,956)**	(216,802)
Finance costs	8	**(78,624)**	(63,482)
Share of profits of associates and joint ventures		**91,923**	168,928
Profit before tax	9	**3,578,434**	3,487,598
Income tax	10	**(392,673)**	(398,278)
Profit for the year		**3,185,761**	3,089,320
Attributable to:			
Equity shareholders of the Company		**3,157,434**	3,081,475
Non-controlling interests		**28,327**	7,845
Profit for the year		**3,185,761**	3,089,320
Basic/diluted earnings per share (RMB)	15	**0.456**	0.445

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Note	**2021 RMB'000**	2020 RMB'000
Profit for the year		**3,185,761**	3,089,320
Other comprehensive (expense)/income for the year (after tax)	11		
Item that will not be reclassified to profit or loss (after tax):			
Equity instruments at fair value through other comprehensive income:			
Net movements in the fair value reserve		**(517,677)**	205,575
Item that may be subsequently reclassified to profit or loss (after tax):			
Exchange differences on translation of financial statements of subsidiaries outside of Mainland China		**(25,337)**	(35,712)
		(543,014)	169,863
Total comprehensive income for the year		**2,642,747**	3,259,183
Attributable to:			
Equity shareholders of the Company		**2,614,500**	3,251,548
Non-controlling interests		**28,247**	7,635
Total comprehensive income for the year		**2,642,747**	3,259,183

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	Notes	**31 December 2021 RMB'000**	31 December 2020 RMB'000
Non-current assets			
Property, plant and equipment, net	16	**6,212,786**	4,330,733
Right-of-use assets	17	**2,422,952**	2,046,005
Investment properties	18	**1,729,906**	550,022
Construction in progress	19	**576,405**	3,468,094
Goodwill	20	**103,005**	103,005
Intangible assets	21	**683,477**	535,710
Interests in associates and joint ventures	22	**1,285,547**	1,351,368
Financial assets at fair value through profit or loss	30	**111,330**	64,567
Equity instruments at fair value through other comprehensive income	23	**3,672,472**	4,362,469
Deferred tax assets	24	**758,187**	700,738
Other non-current assets	25	**3,196,158**	713,639
Total non-current assets		**20,752,225**	18,226,350
Current assets			
Inventories	26	**1,492,011**	1,676,943
Accounts and bills receivable, net	27	**18,254,155**	18,208,251
Contract assets, net	28	**21,534,745**	19,786,576
Prepayments and other current assets	29	**11,102,020**	9,618,272
Financial assets at fair value through profit or loss	30	**3,364,554**	3,098,634
Restricted deposits	31	**2,357,234**	2,865,265
Cash and cash equivalents	32	**21,171,025**	21,008,490
Total current assets		**79,275,744**	76,262,431
Total assets		**100,027,969**	94,488,781
Current liabilities			
Interest-bearing borrowings	33	**723,024**	704,401
Accounts and bills payable	34	**36,319,980**	33,363,786
Current portion of lease liabilities	35	**490,859**	400,627
Contract liabilities	36	**11,449,171**	10,977,645
Accrued expenses and other payables	37	**9,090,865**	9,499,772
Income tax payable		**239,624**	282,597
Total current liabilities		**58,313,523**	55,228,828
Net current assets		**20,962,221**	21,033,603
Total assets less current liabilities		**41,714,446**	39,259,953

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	Notes	**31 December 2021 RMB'000**	31 December 2020 RMB'000
Non-current liabilities			
Interest-bearing borrowings	33	**89,808**	–
Lease liabilities	35	**1,071,944**	768,662
Other non-current liabilities	38	**197,623**	408,405
Deferred tax liabilities	24	**744,951**	895,912
Total non-current liabilities		**2,104,326**	2,072,979
Total liabilities		**60,417,849**	57,301,807
Equity			
Share capital	39	**6,926,018**	6,926,018
Reserves		**31,481,196**	29,791,666
Equity attributable to equity shareholders of the Company		**38,407,214**	36,717,684
Non-controlling interests	40	**1,202,906**	469,290
Total equity		**39,610,120**	37,186,974
Total liabilities and equity		**100,027,969**	94,488,781

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 139 to 217 were approved and authorised for issue by the board of directors on 30 March 2022 and are signed on its behalf by:

Huang Xiaoqing
President and Executive Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

		Equity attributable to equity shareholders of the Company											
	Notes	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Specific reserve RMB'000	Fair value reserve RMB'000	Exchange reserve RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance as at 1 January 2021		6,926,018	4,529,310	1,851,748	1,560,954	313,782	2,666,260	(22,635)	(68,310)	18,960,557	36,717,684	469,290	37,186,974
Changes in equity for the year ended 31 December 2021													
Profit for the year		–	–	–	–	–	–	–	–	3,157,434	3,157,434	28,327	3,185,761
Other comprehensive expense for the year		–	–	–	–	–	(517,677)	(25,257)	–	–	(542,934)	(80)	(543,014)
Total comprehensive income/(expense) for the year		–	–	–	–	–	(517,677)	(25,257)	–	3,157,434	2,614,500	28,247	2,642,747
Dividend declared	14(b)	–	–	–	–	–	–	–	–	(1,109,548)	(1,109,548)	–	(1,109,548)
Distribution to non-controlling interests		–	–	–	–	–	–	–	–	–	–	(8,606)	(8,606)
Appropriation		–	–	–	145,119	–	–	–	–	(145,119)	–	–	–
Appropriation of specific reserve		–	–	–	–	810,558	–	–	–	(810,558)	–	–	–
Utilisation of specific reserve		–	–	–	–	(765,247)	–	–	–	765,247	–	–	–
Capital contribution from non-controlling interests	40	–	–	185,191	–	–	–	–	–	–	185,191	714,239	899,430
Others		–	–	(613)	–	–	750	–	–	(750)	(613)	(264)	(877)
Balance as at 31 December 2021		6,926,018	4,529,310	2,036,326	1,706,073	359,093	2,149,333	(47,892)	(68,310)	20,817,263	38,407,214	1,202,906	39,610,120
Balance as at 1 January 2020		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
Changes in equity for the year ended 31 December 2020													
Profit for the year		–	–	–	–	–	–	–	–	3,081,475	3,081,475	7,845	3,089,320
Other comprehensive income/(expense) for the year		–	–	–	–	–	205,575	(35,502)	–	–	170,073	(210)	169,863
Total comprehensive income/(expense) for the year		–	–	–	–	–	205,575	(35,502)	–	3,081,475	3,251,548	7,635	3,259,183
Dividend declared	14(b)	–	–	–	–	–	–	–	–	(1,097,774)	(1,097,774)	–	(1,097,774)
Distribution to non-controlling interests		–	–	–	–	–	–	–	–	–	–	(12,351)	(12,351)
Appropriation		–	–	–	221,413	–	–	–	–	(221,413)	–	–	–
Appropriation of specific reserve		–	–	–	–	728,451	–	–	–	(728,451)	–	–	–
Utilisation of specific reserve		–	–	–	–	(684,943)	–	–	–	684,943	–	–	–
Capital contribution from non-controlling interests		–	–	–	–	–	–	–	–	–	–	144	144
Balance as at 31 December 2020		6,926,018	4,529,310	1,851,748	1,560,954	313,782	2,666,260	(22,635)	(68,310)	18,960,557	36,717,684	469,290	37,186,974

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	2021 RMB'000	2020 RMB'000
Operating activities		
Profit before tax	**3,578,434**	3,487,598
Adjustments for:		
Depreciation and amortisation	**1,528,771**	1,350,230
Impairment losses on accounts receivable, other receivables and contract assets, net	**67,643**	127,187
Write-down of inventories, net	**26,188**	60,599
Impairment losses on property, plant and equipment	**–**	965
Interest income	**(372,221)**	(290,493)
Finance costs	**78,624**	63,482
Share of profits of associates and joint ventures	**(91,923)**	(168,928)
Dividend income	**(163,731)**	(161,920)
Investment income and fair value gains of financial instruments at fair value through profit or loss	**(214,092)**	(208,492)
Gain on disposal of a subsidiary	**(6,285)**	–
(Gain)/Loss on disposal of property, plant and equipment, construction in progress, intangible assets, leasehold lands and termination of lease, net	**(105,702)**	8,662
Foreign exchange loss, net	**15,883**	42,415
Write-back of non-payable liabilities	**(35,708)**	(24,717)
Operating profit before changes in working capital	**4,305,881**	4,286,588
Decrease in inventories	**158,745**	236,608
(Increase)/Decrease in accounts and bills receivable	**(82,243)**	719,561
Increase in contract assets	**(1,769,444)**	(2,594,804)
Increase in prepayments and other current assets	**(1,530,852)**	(959,942)
Increase in accounts and bills payable	**2,980,722**	2,697,264
Increase in contract liabilities	**471,526**	890,543
Increase in accrued expenses and other payables	**190,874**	437,185
Net cash inflow from operations	**4,725,209**	5,713,003
Interest paid	**(90,503)**	(63,818)
Interest received	**346,743**	280,788
Income tax paid	**(475,492)**	(476,488)
Net cash generated from operating activities	**4,505,957**	5,453,485

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Note	**2021 RMB'000**	2020 RMB'000
Investing activities			
Payments for purchase of property, plant and equipment, construction in progress, intangible assets and investment properties		**(1,769,213)**	(3,531,568)
Payments for leasehold lands		**–**	(309)
Proceeds from disposal of property, plant and equipment, intangible assets and investment properties		**24,156**	15,326
Proceeds from disposal of leasehold lands		**–**	1,718
Restricted bank deposits received/(paid)		**309,107**	(485,869)
Dividends received		**324,961**	298,238
Proceeds from disposal of a subsidiary		**6,262**	–
Payments for acquisition of equity investments		**(76,575)**	–
Proceeds from disposal of equity investments		**–**	20,338
Payments for acquisition of wealth management products and structured deposits		**(7,588,000)**	(10,978,985)
Proceeds from disposal of wealth management products and structured deposits		**7,566,024**	12,637,767
Payments for acquisition of associates and joint ventures		**(7,660)**	(128,575)
Proceeds from disposal of associates and joint ventures		**3,561**	–
Payments for acquisition of deposits at financial institutions with original maturity more than one year		**(2,359,000)**	–
Other cash paid relating to investing activities		**(138,173)**	(95,555)
Other cash received relating to investing activities		**35,001**	3,779
Net cash used in investing activities		**(3,669,549)**	(2,243,695)
Financing activities			
Proceeds from bank and other loans		**430,415**	388,429
Capital injection from non-controlling interests		**900,000**	144
Repayments of bank and other loans		**(301,915)**	(166,315)
Repayments of leases liabilities		**(526,134)**	(467,840)
Dividends paid		**(1,130,717)**	(1,108,278)
Net cash used in financing activities		**(628,351)**	(1,353,860)
Net increase in cash and cash equivalents		**208,057**	1,855,930
Cash and cash equivalents at beginning of year		**21,008,490**	19,220,764
Effect of foreign exchange rate changes		**(45,522)**	(68,204)
Cash and cash equivalents at end of year	32	**21,171,025**	21,008,490

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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 People's Republic of China (the "PRC") that provides integrated comprehensive smart solutions in the field of informatization 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, contents 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 of China Telecommunications Corporation ("CTC"), a state-owned enterprise under the direct supervision of the State Council of the PRC. The H shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 8 December 2006.

The address of the Company's registered office is Block No.1, Compound No.1, Fenghuangzui Street, Fengtai District, Beijing, PRC 100073. At 31 December 2021, the directors of the Company consider the immediate and ultimate holding company of the Group to be CTC.

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 (the "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 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 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.

(b) Basis of preparation of consolidated financial statements

The consolidated financial statements for the year ended 31 December 2021 comprise the Group and its interests in associates and joint ventures.

For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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* ("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.

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 in the consolidated financial statements of the ultimate controlling party 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 consideration of the business combination by recognising the acquiree's identifiable asset, liabilities and contingent liabilities at their fair value at that date. The excess of the consideration over the fair value of the net identifiable assets acquired is recorded as goodwill (see note 2(d)).

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the International Accounting Standards Committee's *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting* issued in September 2010).

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

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

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

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

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

Changes in the Group's 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* ("IFRS 9"), 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.

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.

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.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Goodwill (continued)

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(j)).

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(j)). 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.

(f) Property, plant and equipment

Property, plant and equipment are initially recorded at cost, less subsequent accumulated depreciation and impairment losses (see note 2(j)). 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 incurred.

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Construction in progress

Construction in progress is stated at cost less impairment losses (see note 2(j)). 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) 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(t)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(j)). Other development expenditure is recognised as an expense in the period in which it is incurred.

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(j)).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leases

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payment that are based 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 that option, and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the Group entities use that rate as a starting point to determine the incremental borrowing rate.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leases (continued)

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option.

Except for Covid-19-Related Rent Concessions in which the Group applied the practical expedient, 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.

For the lessor, the Group derecognises assets held under a finance lease in balance sheet and present them as a receivable at the present value of the lease payments. Lease income from operating leases is recognised in the consolidated income statement on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of long-lived assets

Internal and external sources of information are reviewed at the end of each 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;
- investment properties;
- construction in progress;
- goodwill; and
- 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.

– 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) 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.

(l) 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.

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 FVTPL, except that at 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 ("IFRS 3") applies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

(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 income" line item in profit or loss.

(iii) Financial assets at FVTPL

Financial assets that does 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Financial instruments (continued)

Financial assets (continued)

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 assessment 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 risk, 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. Telecommunications operators include China Telecommunications Corporation and its subsidiaries (excluding the Group) ("CTC Group"), China Mobile Communications Group Co., Ltd. and its subsidiaries ("CM Group"), China Unicom Group and China Tower Corporation Limited, non-telecom operators refer to all of the other customers.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk and credit-impaired since initial recognition, in which case 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) 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).

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) Financial instruments (continued)

Financial assets (continued)

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

(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 and 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. The Group uses a practical expedient in estimating ECL on accounts receivable using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

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.

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 and bills 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) Financial instruments (continued)

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) 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.

(n) 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 can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

(o) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) 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 the end of each 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) 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.

(q) 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 piece of goods or service (or a bundle of goods or services) that is distinct or a series of a piece 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 (included in the revenue from telecommunications infrastructure services described in note 4), management of infrastructure for information technology (included in the revenue from business process outsourcing services described in note 4) 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 a piece of distinct goods or services.

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 (see note 2(l)). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) 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 a piece of distinct goods or a distinct service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised goods 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.

Revenue recognised over time: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of a performance obligation is mainly measured based on the output method, which is to recognise revenue on the basis of direct measurement 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)

(q) 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.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified goods or service before that goods or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified goods or service by another party. In this case, the Group does not control the specified goods or service provided by another party before that goods or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

(r) 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.

(s) Translation of foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Translation of foreign currencies (continued)

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Assets and liabilities of foreign operations are translated into RMB at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Upon the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the equity shareholders of the Company are reclassified to profit or loss.

(t) Borrowing costs

Borrowing costs that directly attributable to the acquisition, construction or production of qualifying assets, which are asset that 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.

(u) 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).

(v) Dividends or profit distributions

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

(w) 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.

For the year ended 31 December 2021

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Related parties (continued)

(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

In the current year, the Group has applied, for the first time, the following amendments to IFRSs issued by the IASB that are mandatorily effective for the current year:

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	"Interest Rate Benchmark Reform – Phase 2"

In addition, the Group has early applied the Amendment to IFRS 16, "Covid-19-Related Rent Concessions beyond 30 June 2021".

The application of the above amendments to IFRSs in the current year has had no material effect on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

4. REVENUES

Revenues are derived from the provision of integrated comprehensive smart solutions.

The Group's revenues by business nature can be summarised as follows:

	2021	2020
	RMB'000	RMB'000
Revenue from telecommunications infrastructure services	**71,889,248**	67,164,571
Revenue from business process outsourcing services	**40,623,583**	37,276,879
Revenue from applications, content and other services	**21,478,486**	18,207,494
	133,991,317	122,648,944

The Group's major customers are telecommunications operators mainly including CTC Group and CM Group. Revenues from the provision of integrated telecommunications support services to CTC Group and CM Group for the year ended 31 December 2021 amounted to RMB46,047 million and RMB18,186 million, respectively (2020: RMB41,777 million and RMB19,285 million, respectively) being 34.4% and 13.6% of the Group's total revenues, respectively (2020: 34.1% and 15.7%, respectively). The revenues derived from areas outside Mainland China for the year ended 31 December 2021 amounted to RMB2,742 million (2020: RMB3,095 million).

For the year ended 31 December 2021, the Group's top three business lines that contributed to the overall revenues were construction included in telecommunications infrastructure services, management of infrastructure for information technology included in business process outsourcing services and system integration included in applications, content and other services, the revenues from which amounted to RMB57,310 million, RMB16,678 million and RMB13,278 million, respectively (2020: The Group's top three business lines that contributed to the overall revenues were construction, management of infrastructure for information technology and system integration, the revenues from which amounted to RMB52,953 million, RMB15,794 million and RMB11,180 million, respectively). Revenues from contracts with non-telecom operators for construction included in telecommunications infrastructure services amounted to RMB28,664 million (2020: RMB24,978 million).

The Group generally accounts for major telecommunications support services, including construction, management of infrastructure for information technology, logistics and warehousing in supply chain, as performance obligations satisfied over time, when the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs, or the Group's performance creates or 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 the output method. For other goods or services, the revenue recognition method is determined based on the specific contract terms.

4. REVENUES (continued)

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2021 and the expected timing of recognising revenue are as follows:

	Telecommunications infrastructure services RMB'000	Business process outsourcing services RMB'000	Applications, contents and other services RMB'000
As at 31 December 2021			
Within 1 year	**37,078,236**	**2,554,166**	**4,079,947**
After 1 year but within 2 years	**10,457,855**	**689,728**	**1,555,503**
After 2 years	**16,506,486**	**1,717,126**	**1,895,769**
	64,042,577	**4,961,020**	**7,531,219**
As at 31 December 2020			
Within 1 year	37,891,935	2,908,711	3,891,190
After 1 year but within 2 years	11,497,911	767,858	1,054,434
After 2 years	8,436,798	2,010,168	1,352,822
	57,826,644	5,686,737	6,298,446

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

5. COST OF REVENUES

	2021 RMB'000	2020 RMB'000
Subcontracting charges	**71,239,853**	67,166,028
Materials costs	**19,166,225**	15,057,234
Direct personnel costs	**8,804,676**	8,300,338
Direct costs of products distribution	**4,614,143**	4,067,599
Expense relating to short-term leases and leases of low-value assets	**1,114,587**	1,056,466
Depreciation and amortisation	**908,323**	827,413
Others	**13,359,092**	12,436,230
	119,206,899	108,911,308

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6. OTHER INCOME

	2021 **RMB'000**	2020 RMB'000
Management fee income	**403,877**	382,224
Interest income	**372,221**	290,493
Input tax credits	**301,821**	192,514
Government grants	**261,145**	349,498
Investment income and fair value gains on wealth management products and structured deposits	**193,894**	189,592
Dividend income from equity instruments at FVTOCI	**163,731**	161,920
Gain on disposal of property, plant and equipment, intangible assets and right of assets	**115,973**	6,211
Write-back of non-payable liabilities	**35,708**	24,717
Gain on disposal of a subsidiary	**6,285**	–
Penalty income	**2,705**	4,569
Others	**89,036**	86,051
	1,946,396	1,687,789

7. OTHER EXPENSES

	2021 **RMB'000**	2020 RMB'000
Bank handling fees	**73,399**	64,903
Penalty charge and compensation	**70,858**	56,006
Net foreign exchange loss	**15,883**	42,415
Loss on disposal of property, plant and equipment, construction in progress and intangible assets	**10,271**	14,873
Donations	**2,796**	2,189
Others	**40,749**	36,416
	213,956	216,802

8. FINANCE COSTS

	2021 **RMB'000**	2020 RMB'000
Interest on bank and other borrowings	**24,552**	21,942
Interest on lease liabilities	**54,072**	41,540
	78,624	63,482

For the years ended 31 December 2021, no borrowing costs were capitalised in relation to construction in progress (2020: Nil).

9. PROFIT BEFORE TAX

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

		2021 RMB'000	2020 RMB'000
(a)	Staff costs:		
	Salaries, wages and other benefits	**15,932,148**	15,209,385
	Contributions to defined contribution retirement schemes	**1,703,830**	1,021,958
		17,635,978	16,231,343
(b)	Other items:		
	Depreciation		
	– Property, plant and equipment (note 16)	**746,188**	668,398
	– Right-of-use assets (note 17)	**549,885**	488,178
	– Investment properties (note 18)	**58,377**	42,977
	Amortisation		
	– Intangible assets (note 21)	**174,321**	150,677
	Auditors' remuneration	**27,187**	35,095
	Materials costs	**19,166,225**	15,057,234
	Direct costs of products distribution	**4,614,143**	4,067,599
	Write-down of inventories	**42,057**	64,267
	Reversal of write-down of inventories	**(15,869)**	(3,668)
	Impairment losses recognised and reversed on accounts receivable, other receivables, contract assets and others, net	**67,643**	127,187
	Expense relating to short-term leases and leases of low-value assets	**1,340,856**	1,268,302

The selling expenses, general and administrative expenses, research and development costs and others of the Group are RMB2,778 million, RMB5,486 million, RMB4,233 million and RMB455 million (2020: RMB2,379 million, RMB5,148 million, RMB3,782 million and RMB517 million), respectively for the year ended 31 December 2021.

10. INCOME TAX

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

	2021 RMB'000	2020 RMB'000
Current tax	**428,763**	415,197
Deferred tax (note 24)	**(36,090)**	(16,919)
Total income tax	**392,673**	398,278

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For the year ended 31 December 2021

10. INCOME TAX (continued)

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

	2021 **RMB'000**	2020 RMB'000
Profit before tax	**3,578,434**	3,487,598
Expected income tax expense at a statutory tax rate of 25% (2020: 25%)	**894,609**	871,900
Differential/preferential tax rates on subsidiaries' income (note (i)(ii))	**(177,809)**	(210,176)
Non-deductible expenses (note (iii))	**208,190**	221,891
Non-taxable income	**(99,407)**	(121,044)
Tax losses not recognised	**119,652**	102,781
Utilisation of previously unrecognised tax losses	**(9,286)**	(8,775)
Over provision in respect of prior years	**(40,503)**	(20,360)
Additional deduction of research and development expenses (note (iv))	**(502,773)**	(437,939)
Income tax	**392,673**	398,278

Notes:

(i) The provision for income tax of the Group is calculated based on a statutory tax 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 2021 and 2020, except for certain domestic subsidiaries of the Group, which are taxed at preferential rates of 15% and 20% (2020: 15%, 10%), where applicable; and for certain overseas subsidiaries of the Group, which are taxed at their respective statutory rates.

(ii) According to the PRC enterprise income tax law and its relevant regulations, certain subsidiaries that are qualified as High and New Technology Enterprise, enterprises under the Western Region Development Program, and Small and Micro enterprises as defined under the tax law are entitled to a preferential income tax rate of 15%, 15% and 20% (2020: 15%, 15%, 10%).

(iii) The amounts represent staff costs in excess of the statutory deductible limits for tax reporting purposes and other non-deductible expenses.

(iv) According to the PRC enterprise income tax law and its relevant regulations, certain research and development expenses of the Group's PRC subsidiaries are qualified for 75% (2020: 75%) additional deduction for tax reporting purpose.

11. OTHER COMPREHENSIVE (EXPENSE)/INCOME

	2021 **RMB'000**	2020 RMB'000
Changes in fair value of equity instruments at fair value through other comprehensive (expense)/income recognised during the year	**(689,997)**	274,265
Net deferred tax credited/(charged) to other comprehensive (expense)/income	**172,320**	(68,690)
Exchange differences on translation of financial statements	**(25,337)**	(35,712)
Net movement in the fair value reserve during the year recognised in other comprehensive (expense)/income	**(543,014)**	169,863

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 2021 are as follows:

	Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000 (note)	Pension scheme contributions RMB'000	2021 Total RMB'000
Executive Directors					
Zhang Zhiyong (resigned on 30 September 2021)	–	–	–	–	–
Huang Xiaoqing	–	245	759	92	1,096
Zhang Xu	–	178	763	96	1,037
	–	423	1,522	188	2,133
Non-Executive Directors					
Gao Tongqing	–	–	–	–	–
Mai Yanzhou	–	–	–	–	–
	–	–	–	–	–
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 (resigned on 22 December 2021)	–	–	–	–	–
Hai Liancheng	85	–	–	–	85
Si Jianfei	–	200	548	97	845
	85	200	548	97	930
Total directors' and supervisors' emoluments					3,873

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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 2020 are as follows:

	Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonus RMB'000 (note)	Pension scheme contributions RMB'000	2020 Total RMB'000
Executive Directors					
Zhang Zhiyong (chairman)	–	–	–	–	–
Huang Xiaoqing (appointed on 21 October 2020)	–	60	82	13	155
Si Furong (resigned on 21 October 2020)	–	289	624	106	1,019
Zhang Xu	–	173	549	70	792
	–	522	1,255	189	1,966
Non-Executive Directors					
Gao Tongqing (appointed on 15 June 2020)	–	–	–	–	–
Mai Yanzhou (appointed on 15 June 2020)	–	–	–	–	–
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	–	194	519	69	782
	85	194	519	69	867
Total directors' and supervisors' emoluments					3,643

12. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

Note:

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

The emoluments of certain executive director or supervisor, and non-executive directors were not borne by the Group and they received remunerations from the parent company and/or from other shareholders. The directors of the Company are of the opinion that the services provided to the Group only occupy an insignificant amount of their time and therefore it is concluded that those directors or supervisors are not remunerated for such services.

The emoluments of executive directors were for their services rendered 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 rendered as directors of the Company.

The emoluments of supervisors were in connection with their services rendered as a supervisor of the Company or 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:

	2021	2020
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:

	2021 RMB'000	2020 RMB'000
Salaries, allowances and other benefits in kind	**2,026**	1,995
Discretionary bonuses	**4,668**	4,972
Pension scheme contributions	**679**	477
	7,373	7,444

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

	2021	2020
RMB equivalent		
1,000,001 to 1,500,000	**3**	3
1,500,001 to 2,000,000	**2**	2

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

(b) Senior management's remuneration

The number of the senior management (excluding non-director and non-supervisor employees presented in note 13 (a)) whose remuneration fell within the following bands:

	2021	2020
RMB equivalent		
Nil to 1,000,000	**15**	18
1,000,001 to 2,000,000	**6**	3

14. DIVIDENDS

(a) Dividends attributable to the year

	2021 RMB'000	2020 RMB'000
Final dividend proposed after the end of reporting period of RMB0.1641 per share (2020: RMB0.1335 per share)	**1,136,560**	924,623
Special dividend proposed after the end of reporting period of RMB0.0091 per share (2020: RMB0.0267 per share)	**63,027**	184,925
	1,199,587	1,109,548

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

	2021 RMB'000	2020 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.1335 per share (2020: RMB0.1321 per share)	**924,623**	914,927
Special dividend in respect of the previous financial year, approved and paid during the year, of RMB0.0267 per share (2020: RMB0.0264 per share)	**184,925**	182,847
	1,109,548	1,097,774

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 2021 of RMB3,157,434 thousand (2020: RMB3,081,475 thousand) and number of shares in issue during the year ended 31 December 2021 of 6,926,018 thousand shares (2020: 6,926,018 thousand shares).

Diluted earnings per share is the same as basic earnings per share as there were no potential dilutive ordinary shares outstanding during both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 2021	4,016,592	804,747	1,558,450	4,045,931	10,425,720
Transfer to investment properties (note 18)	(1,280,912)	–	–	–	(1,280,912)
Transfer from investment properties (note 18)	9,824	–	–	–	9,824
Transfer from construction in process (note 19)	3,282,887	24,933	494	94,222	3,402,536
Additions	57,223	43,408	113,925	274,819	489,375
Disposals	(1,968)	(15,058)	(143,669)	(319,157)	(479,852)
As at 31 December 2021	6,083,646	858,030	1,529,200	4,095,815	12,566,691
Accumulated depreciation and impairment losses					
As at 1 January 2021	1,657,896	669,396	1,056,809	2,710,886	6,094,987
Transfer to investment properties (note 18)	(44,368)	–	–	–	(44,368)
Transfer from investment properties (note 18)	7,722	–	–	–	7,722
Depreciation charge	222,036	63,605	118,369	342,178	746,188
Depreciation written back on disposals	(1,833)	(14,684)	(135,610)	(298,497)	(450,624)
Impairment loss	–	–	–	–	–
As at 31 December 2021	1,841,453	718,317	1,039,568	2,754,567	6,353,905
Net carrying value					
As at 31 December 2021	4,242,193	139,713	489,632	1,341,248	6,212,786
As at 1 January 2021	2,358,696	135,351	501,641	1,335,045	4,330,733

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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 2020	3,920,051	764,773	1,557,242	3,989,967	10,232,033
Transfer to investment properties (note 18)	(13,781)	–	–	–	(13,781)
Transfer from investment properties (note 18)	989	–	–	–	989
Transfer from construction in progress (note 19)	94,123	25,915	2,542	100,638	223,218
Additions	25,315	20,164	101,745	293,537	440,761
Disposals	(10,105)	(6,105)	(103,079)	(338,211)	(457,500)
As at 31 December 2020	4,016,592	804,747	1,558,450	4,045,931	10,425,720
Accumulated depreciation and impairment losses					
As at 1 January 2020	1,530,065	602,134	1,034,219	2,696,364	5,862,782
Transfer to investment properties (note 18)	(12,104)	–	–	–	(12,104)
Transfer from investment properties (note 18)	913	–	–	–	913
Depreciation charge	144,593	69,518	121,613	332,674	668,398
Depreciation written back on disposals	(5,571)	(2,256)	(99,023)	(319,117)	(425,967)
Impairment loss	–	–	–	965	965
As at 31 December 2020	1,657,896	669,396	1,056,809	2,710,886	6,094,987
Net carrying value					
As at 31 December 2020	2,358,696	135,351	501,641	1,335,045	4,330,733
As at 1 January 2020	2,389,986	162,639	523,023	1,293,603	4,369,251

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 RMB212 million as at 31 December 2021 (2020: RMB296 million) to be under its name. 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.

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For the year ended 31 December 2021

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 31 December 2021					
Carrying amount	**849,340**	**1,474,705**	**1,576**	**97,331**	**2,422,952**
As at 31 December 2020					
Carrying amount	878,477	1,100,535	1,670	65,323	2,046,005
For the year ended 31 December 2021					
Depreciation charge	**25,476**	**493,822**	**1,317**	**29,270**	**549,885**
For the year ended 31 December 2020					
Depreciation charge	24,698	437,240	1,358	24,882	488,178

	2021 RMB'000	2020 RMB'000
Expense relating to short-term leases	**1,282,376**	1,234,860
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	**58,480**	33,442
Total cash outflow for leases	**1,828,483**	1,768,649
Additions to right-of-use assets	**1,067,021**	692,922

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 the terms under the 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 2021 and 2020, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

As at 31 December 2021, the Group entered into new leases for buildings, motor vehicles and other equipment that had not yet commenced, the total future undiscounted cash flows over the non-cancellable period amounted to RMB174 million (2020: RMB655 million).

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18. INVESTMENT PROPERTIES

	2021 **RMB'000**	2020 RMB'000
Cost		
As at 1 January	**1,250,786**	1,210,486
Additions	**159**	27,580
Transfer from property, plant and equipment (note 16)	**1,280,912**	13,781
Transfer from right-of-use assets	**7,040**	–
Transfer to property, plant and equipment (note 16)	**(9,824)**	(989)
Disposals	**–**	(72)
As at 31 December	**2,529,073**	1,250,786
Accumulated depreciation		
As at 1 January	**700,764**	646,666
Transfer from property, plant and equipment (note 16)	**44,368**	12,104
Transfer from right-of-use assets	**3,380**	–
Transfer to property, plant and equipment (note 16)	**(7,722)**	(913)
Depreciation charge	**58,377**	42,977
Depreciation written back on disposals	**–**	(70)
As at 31 December	**799,167**	700,764
Net carrying value		
As at 31 December	**1,729,906**	550,022
As at 1 January	**550,022**	563,820
Fair value	**4,287,597**	2,685,137

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

The fair value measurement of the Group's investment properties is categorised as 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 making reference to the rentals achieved in the lettable units of the properties, as well as lettings of other similar properties in the neighbourhood. The discount rate is determined by making reference to the yields derived from analysing the sales transactions of similar commercial properties in the PRC and adjusted by taking into account the market expectation from property investors which reflect factors specific to the Group's investment properties.

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 period were as follows:

	2021 RMB'000	2020 RMB'000
Within one year	**120,905**	142,256
In the second year	**77,665**	81,972
In the third year	**66,028**	60,070
In the fourth year	**55,613**	49,787
In the fifth year	**47,022**	41,241
After five years	**180,862**	129,943
As at 31 December	**548,095**	505,269

During the year ended 31 December 2021, RMB176 million (2020: RMB127 million) had been recognised as rental income in the consolidated statement of profit or loss and RMB74 million (2020: RMB53 million) in respect of direct operating costs relating to investment properties had been recognised as costs in the consolidated statement of profit or loss.

Up to the date of issuance of these consolidated financial statements, the Group was still in the process of applying for or changing the registration of the title certificates of certain of its properties with an aggregate carrying value of approximately RMB33 million as at 31 December 2021 (2020: RMB50 million) to its name. 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

	2021 RMB'000	2020 RMB'000
Cost:		
As at 1 January	**3,468,094**	282,365
Additions	**561,328**	3,478,159
Disposals	**(2,424)**	(202)
Transfer to intangible assets (note 21)	**(48,057)**	(69,010)
Transfer to property, plant and equipment (note 16)	**(3,402,536)**	(223,218)
As at 31 December	**576,405**	3,468,094

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20. GOODWILL

	2021 RMB'000	2020 RMB'000
Cost and carrying amount	**103,005**	103,005

	2021 RMB'000	2020 RMB'000
Impairment testing for group of cash-generating units containing goodwill China International Telecommunications Construction Corporation ("CITCC")	**103,005**	103,005

The recoverable amount of group of cash-generating units relates to goodwill arising from the acquisition of CITCC which was 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 rate adopted is 11.00% (2020: 11.46%). The financial budgets and discount rate had been assessed by the Group as at 31 December 2021, taking into consideration a higher degree of estimation uncertainties in the current year due to uncertainty of volatility in the financial markets.

Cash flows beyond the five years period are extrapolated using zero growth rate.

Key assumptions used for the value in use calculations are the gross margin and revenue growth rate. 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 growth was budgeted based on the actual revenue achieved in the period immediately before the budget period. Management believes any reasonably possible change in the key assumptions would not cause the group of cash-generating units' carrying amount to exceed its recoverable amount.

21. INTANGIBLE ASSETS

	2021 RMB'000	2020 RMB'000
Cost:		
As at 1 January	**1,415,315**	1,254,562
Additions	**275,687**	116,994
Transfer from construction in progress (note 19)	**48,057**	69,010
Disposals	**(45,025)**	(25,251)
As at 31 December	**1,694,034**	1,415,315
Accumulated amortisation:		
As at 1 January	**879,605**	749,284
Amortisation charge	**174,321**	150,677
Written back on disposals	**(43,369)**	(20,356)
As at 31 December	**1,010,557**	879,605
Net carrying value:		
As at 31 December	**683,477**	535,710
As at 1 January	**535,710**	505,278

Intangible assets mainly represent computer software.

22. INTERESTS IN ASSOCIATES AND JOINT VENTURES

	2021 RMB'000	2020 RMB'000
Share of associates	**1,190,683**	1,260,340
Share of joint ventures	**94,864**	91,028
	1,285,547	1,351,368

The Group's associates and joint ventures are 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.

Aggregate financial information of the Group's associates and joint ventures that are not individually material is disclosed below:

	2021 RMB'000	2020 RMB'000
The Group's share of profit of associates	**87,775**	162,954
The Group's share of total comprehensive income of associates	**87,775**	162,954
The Group's share of joint ventures	**4,148**	5,974
The Group's share of total comprehensive income of joint ventures	**4,148**	5,974

23. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The equity instruments mainly represent ordinary shares of entities listed in stock exchanges of 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 recognizing 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 potentials in the long run.

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24. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	31 December 2021 RMB'000	31 December 2020 RMB'000	**31 December 2021 RMB'000**	31 December 2020 RMB'000
Impairment losses, primarily for receivables and inventories	**347,306**	348,742	**–**	–
Tax losses	**58,802**	29,393	**–**	–
Changes in fair values of FVTPL and FVTOCI	**–**	–	**(739,944)**	(894,674)
Accrued expenses	**356,715**	327,476	**–**	–
Others	**3,482**	3,482	**(13,125)**	(9,593)
	766,305	709,093	**(753,069)**	(904,267)
Offsetting	**(8,118)**	(8,355)	**8,118**	8,355
Deferred tax assets/(liabilities)	**758,187**	700,738	**(744,951)**	(895,912)

Movements in deferred tax assets and liabilities for the year ended 31 December 2021 are as follows:

	As at 1 January 2021 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 2021 RMB'000**
Impairment losses, primarily for receivables and inventories	**348,742**	**(1,436)**	**–**	**347,306**
Tax losses	**29,393**	**29,409**	**–**	**58,802**
Changes in fair value of FVTPL and FVTOCI	**(894,674)**	**(17,590)**	**172,320**	**(739,944)**
Accrued expenses	**327,476**	**29,239**	**–**	**356,715**
Others	**(6,111)**	**(3,532)**	**–**	**(9,643)**
	(195,174)	**36,090**	**172,320**	**13,236**

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24. DEFERRED TAX ASSETS AND LIABILITIES (continued)

	As at 1 January 2020 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 2020 RMB'000
Impairment losses, primarily for receivables and inventories	346,229	2,513	–	348,742
Tax losses	49,726	(20,333)	–	29,393
Changes in fair value of FVTPL and FVTOCI	(833,399)	7,415	(68,690)	(894,674)
Accrued expenses	297,528	29,948	–	327,476
Others	(3,487)	(2,624)	–	(6,111)
	(143,403)	16,919	(68,690)	(195,174)

Note:

As at 31 December 2021, the Group had not recognised deferred tax assets in respect of tax losses of RMB1,514.7 million (2020: RMB1,087.6 million) as it is not probable that future taxable profits, against which the losses can be utilized, will be available. According to the PRC enterprise income tax law and its relevant regulations, the tax losses of certain subsidiaries that are qualified as High and New Technology Enterprise can be carried forward for ten years from the year they are incurred. As for other subsidiaries, the tax losses can be carried forward for five years from the year they are incurred.

25. OTHER NON-CURRENT ASSETS

	2021 RMB'000	2020 RMB'000
Deposits at financial institutions with original maturity more than one year	**2,563,841**	200,000
Long-term receivables	**515,280**	433,116
Others	**117,037**	80,523
	3,196,158	713,639

26. INVENTORIES

	2021 RMB'000	2020 RMB'000
Construction materials	**585,109**	651,518
Finished goods	**849,760**	1,008,627
Spare parts and consumables	**57,142**	16,798
	1,492,011	1,676,943

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27. ACCOUNTS AND BILLS RECEIVABLE, NET

	2021 RMB'000	2020 RMB'000
Bills receivable	**405,956**	264,802
Accounts receivable	**19,542,192**	19,610,315
	19,948,148	19,875,117
Less: allowance for credit losses	**(1,693,993)**	(1,666,866)
	18,254,155	18,208,251

(a) The amounts due from CTC Group, associates of the Group and associates of CTC Group (see note 45) are unsecured, interest-free and are expected to be recovered within one year.

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

	2021 RMB'000	2020 RMB'000
Current	**1,112,606**	852,540
Within 1 year	**14,636,676**	14,743,770
After 1 year but less than 2 years	**1,729,092**	2,016,517
After 2 years but less than 3 years	**542,481**	430,743
After 3 years but less than 4 years	**99,950**	62,180
After 4 years but less than 5 years	**36,257**	102,501
Over 5 years	**97,093**	–
	18,254,155	18,208,251

(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(l)).

Details of impairment assessment of accounts receivable are set out in note 43(a).

28. CONTRACT ASSETS, NET

	2021 RMB'000	2020 RMB'000
Telecommunications infrastructure services	**17,771,357**	16,499,707
Business process outsourcing services	**1,381,365**	983,032
Applications, contents and other services	**2,621,771**	2,523,856
	21,774,493	20,006,595
Less: allowance for credit losses	**(239,748)**	(220,019)
	21,534,745	19,786,576

The contract assets relate to the rights of the Group to considerations receivable for work completed and not billed because the rights are conditional upon the Group's future performance in achieving specified milestones 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 when the specific milestones are met.

29. PREPAYMENTS AND OTHER CURRENT ASSETS

	2021 RMB'000	2020 RMB'000
Prepayments in connection with construction work and equipment purchases	**5,368,905**	4,623,314
Other receivables	**3,625,219**	3,315,761
Input VAT deductible	**1,074,711**	979,198
Long-term receivables due within 1 year	**477,580**	152,681
Others	**555,605**	547,318
	11,102,020	9,618,272

Included in other receivables are mainly deposits. The amounts due from CTC Group, associates of the Group and associates of CTC Group (see note 45) are unsecured, interest free and are expected to be recovered within one year.

30. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021 RMB'000	2020 RMB'000
Wealth management products	**2,281,755**	2,076,531
Structured deposits	**1,022,186**	1,022,103
Equity instruments	**171,943**	64,567
	3,475,884	3,163,201
Analysed for reporting purpose as:		
Current assets	**3,364,554**	3,098,634
Non-current assets	**111,330**	64,567
	3,475,884	3,163,201

As at 31 December 2021 and 2020, the wealth management products and structured deposits were issued by banks in the PRC with variable returns linked to foreign exchange rates, floating interest rates or the performance of underlying assets.

As at 31 December 2021 and 2020, the Group is entitled to the rights to redeem these wealth management products and structured deposits at expected maturity dates within 12 months after the end of the reporting period.

31. RESTRICTED DEPOSITS

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

32. CASH AND CASH EQUIVALENTS

	2021 RMB'000	2020 RMB'000
Cash at bank and in hand	**15,116,312**	16,961,389
Cash at China Telecom Group Finance Co., Ltd. ("China Telecom Finance")	**5,964,400**	4,001,266
Deposits at bank with original maturity less than three months	**90,313**	45,835
Cash and cash equivalents	**21,171,025**	21,008,490

Bank balances carry interest at prevailing market interest rates.

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33. INTEREST-BEARING BORROWINGS

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

	2021 RMB'000	2020 RMB'000
RMB denominated		
Loan from CTC Group		
– unsecured	**13,280**	13,280
Borrowings from banks		
– unsecured	**33,330**	10,000
– secured	**21,033**	–
USD denominated		
Borrowings from banks		
– unsecured	**528,514**	546,656
– secured	**18,478**	–
Other denominated		
Borrowings from banks		
– unsecured	**108,389**	134,465
	723,024	704,401

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

	2021	2020
RMB denominated		
Loan from CTC Group		
– unsecured	**2.39%**	2.39%
Borrowings from banks		
– unsecured	**1.50%**	4.35%
– secured	**4.00%**	N/A
USD denominated		
Borrowings from banks		
– unsecured	**2.50%**	N/A
– secured	**3.50%**	N/A
– unsecured (floating interest rate)	**London Interbank Offered Rate ("Libor") +1.00%-1.35%**	Libor +1.00%-1.35%
Other denominated		
Borrowings from banks		
– unsecured	**6.25%-8.57%**	2.80%-10.33%

33. INTEREST-BEARING BORROWINGS (continued)

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

	2021 **RMB'000**	2020 RMB'000
USD denominated		
Borrowings from banks		
– secured	**89,808**	–

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

	2021	2020
USD denominated		
Borrowings from banks		
– secured	**3.50%**	N/A

The Group's borrowings were repayable as follows:

	2021 **RMB'000**	2020 RMB'000
Within 1 year	**723,024**	704,401
After 1 year but within 2 years	**18,362**	–
After 2 years but within 5 years	**71,446**	–
	812,832	704,401

As at 31 December 2021, no borrowings from bank were subject to financial covenants (31 December 2020: nil).

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For the year ended 31 December 2021

34. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

	2021 RMB'000	2020 RMB'000
Accounts payable	**32,759,611**	30,987,698
Bills payable	**3,560,369**	2,376,088
	36,319,980	33,363,786

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

	2021 RMB'000	2020 RMB'000
Within 1 year	**34,147,550**	30,759,309
After 1 year but less than 2 years	**1,226,760**	1,769,256
After 2 years but less than 3 years	**459,884**	428,587
After 3 years	**485,786**	406,634
	36,319,980	33,363,786

The amount due to CTC Group, associates of the Group and associates of CTC Group (see note 45) are unsecured, interest-free and are expected to be settled within on year.

35. LEASE LIABILITIES

	2021 RMB'000	2020 RMB'000
Lease liabilities payable:		
Within 1 year	**490,859**	400,627
After 1 year but within 2 years	**310,607**	267,119
After 2 years but within 5 years	**474,133**	382,229
After 5 years	**287,204**	119,314
	1,562,803	1,169,289
Less: Amount due for settlement within 12 months shown under current liabilities	**490,859**	400,627
Amount due for settlement after 12 months shown under non-current liabilities	**1,071,944**	768,662

The weighted average lessee's incremental borrowing rate applied to lease liabilities is 3.6% (2020: 3.6%).

36. CONTRACT LIABILITIES

	2021 **RMB'000**	2020 RMB'000
Telecommunications infrastructure services	**8,626,944**	8,124,136
Other services	**2,822,227**	2,853,509
	11,449,171	10,977,645

When the Group receives advance payments from customers before the performance obligation is satisfied, the amounts 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 2021		
Revenue recognised that was included in the contract liability balance at the beginning of the year	**5,205,633**	**2,186,145**
For the year ended 31 December 2020		
Revenue recognised that was included in the contract liability balance at the beginning of the year	7,105,557	2,755,007

37. ACCRUED EXPENSES AND OTHER PAYABLES

	2021 **RMB'000**	2020 RMB'000
Wages and welfare payable	**1,570,459**	1,586,944
Amounts due to CTC Group, associates of the Group and associates of CTC Group (note (i))	**415,858**	451,174
Advance lease payments received	**44,633**	44,541
Other taxes payable	**692,149**	764,731
Dividend payable	**11,716**	11,601
Payables for construction and purchase of property, plant and equipment	**40,582**	588,852
Output VAT payable	**1,318,720**	1,276,730
Others (note (ii))	**4,996,748**	4,775,199
	9,090,865	9,499,772

Notes:

(i) The amounts due to CTC Group, associates of the Group and associates of CTC Group (see note 45) are unsecured, interest-free and are expected to be settled within one year.

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

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38. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities mainly represent the deferred income arising from government grants and termination benefits.

39. SHARE CAPITAL

	2021 RMB'000	2020 RMB'000
Registered, issued and fully paid:		
4,534,598,160 (31 December 2020: 4,534,598,160) domestic shares of RMB1.00 each	**4,534,598**	4,534,598
2,391,420,240 (31 December 2020: 2,391,420,240) H shares of RMB1.00 each	**2,391,420**	2,391,420
	6,926,018	6,926,018

	2021 Thousand shares	2020 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 in all material respects.

(a) Capital management

The Group's primary objectives of 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 an 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 defined as 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 debts 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 2021 was 2.1% (2020: 1.9%). In order to maintain or adjust the ratio, the Group may adjust the amount of dividends to be paid to shareholders, issue new shares, return capital to shareholders or sell assets to reduce the gearing ratio.

40. NON-CONTROLLING INTERESTS

During the year ended 31 December 2021, certain non-controlling shareholders injected a total of RMB900 million into a subsidiary of the Company, China Comservice Supply Chain Management Company Ltd. ("Supply Chain Company"). After the completion of the capital injection, the aggregate equity interest held by the non-controlling shareholders is approximately 26.015% of the enlarged share capital of Supply Chain Company. The Group has attributed the premium of RMB185 million to capital reserve, and RMB714 million is carrying amount of the non-controlling interests.

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 8% to 20% (2020: 14% to 19%) of the salaries, bonuses and certain allowances of the employees.

The Group has no other material obligations 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 2021, the Group had capital commitments for acquisition and construction of property, plant and equipment and other non-current assets as follows:

	2021 **RMB'000**	2020 RMB'000
Contracted for but not provided	**160,510**	41,270

(b) Contingent liabilities

As at 31 December 2021, 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(a) Credit risk and impairment assessment (continued)

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 50% of the total accounts and bills receivable as at 31 December 2021 (2020: 56%). 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 bank deposits is limited because the counterparties are financial institutions with high credit rankings, mainly the four large state-owned banks in the PRC, China Telecom Finance and other reputable commercial banks.

The credit risk on wealth management products and structured deposits is limited because the underlying assets invested in have high credit ratings and the issuing parties 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 and contract 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 is performed 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 as at the reporting date, as well as the forecasted future economic conditions.

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 together based on their shared credit risk characteristics.

The contract assets relate to unbilled revenues due to the same group of customers reported as accounts receivable 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.

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 provides information about the exposure to credit risk for accounts receivable which are assessed based on a provision matrix within lifetime ECL. Debtors with significant risk with gross carrying amounts of RMB998 million as at 31 December 2021 were assessed individually (31 December 2020: RMB861 million), the loss allowance provision was RMB623 million (31 December 2020: RMB630 million).

	2021			2020		
	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	**0.2%**	**8,862,024**	**(17,724)**	0.2%	9,770,960	(19,542)
After 1 year but within 2 years	**5.9%**	**953,014**	**(56,228)**	1.7%	1,240,785	(21,093)
After 2 years but within 3 years	**17.7%**	**399,713**	**(70,749)**	21.0%	384,204	(80,683)
After 3 years but within 4 years	**46.1%**	**122,138**	**(56,306)**	60.0%	155,452	(93,271)
After 4 years but within 5 years	**71.3%**	**91,970**	**(65,575)**	100.0%	93,783	(93,783)
Over 5 years	**100.0%**	**162,397**	**(162,397)**	100.0%	134,631	(134,631)
		10,591,256	**(428,979)**		11,779,815	(443,003)
Non-telecom operators						
Within 1 year	**0.5%**	**6,265,049**	**(31,325)**	0.5%	5,513,595	(27,568)
After 1 year but within 2 years	**14.1%**	**966,096**	**(136,220)**	6.8%	837,150	(56,926)
After 2 years but within 3 years	**36.3%**	**332,021**	**(120,524)**	49.0%	214,267	(104,991)
After 3 years but within 4 years	**63.0%**	**73,321**	**(46,192)**	100.0%	95,376	(95,376)
After 4 years but within 5 years	**73.6%**	**35,699**	**(26,275)**	100.0%	173,724	(173,724)
Over 5 years	**100.0%**	**280,565**	**(280,565)**	100.0%	135,751	(135,751)
		7,952,751	**(641,101)**		6,969,863	(594,336)

Expected loss rates were assessed based on actual loss experienced over the past 1 to 5 years. These rates had been adjusted to reflect differences between economic conditions during the period over which the historic data was collected, current conditions and the Group's view of economic conditions over the expected lives of the receivable balances. The Group has considered the uncertainty caused by Covid-19 and the risk that a prolonged pandemic could lead to increased credit default rates accordingly.

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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 Group adjusted the macro factors and weights in ECL model by taking into account the changes of the macro environment. The actual loss definition period of accounts receivable assumed by the Group changed from over 3 years (non-telecom operators) or 4 years (telecommunications operators) to over 5 years based on the accumulation and observation of past historical data.

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 2020	1,557,784
Changes due to financial assets recognised as at 1 January 2020:	
– Impairment loss recognised	433,660
– Impairment loss reversed	(285,121)
– Uncollectible amounts written off	(39,457)
As at 31 December 2020	1,666,866
Changes due to financial assets recognised as at 1 January 2021:	
– Impairment loss recognised	297,637
– Impairment loss reversed	(264,886)
– Uncollectible amounts written off	(6,333)
As at 31 December 2021	1,693,284

The Group writes off an accounts receivable when there is information indicating that the specific 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 process.

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 contract assets under the simplified approach.

	RMB'000
As at 1 January 2020	259,997
Changes due to financial assets recognised as at 1 January 2020:	
– Impairment loss recognised	48,108
– Impairment loss reversed	(88,071)
– Uncollectible amounts written off	(15)
As at 31 December 2020	220,019
Changes due to financial assets recognised as at 1 January 2021:	
– Impairment loss recognised	69,120
– Impairment loss reversed	(49,181)
– Uncollectible amounts written off	(210)
As at 31 December 2021	239,748

(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 33.

The Group is also exposed to cash flow interest rate risk in relation to 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 rates.

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates ("IBORs") with alternative nearly risk-free rates. As disclosed in note 33, the Group's Libor bank loans will not be subject to the interest rate benchmark reform since the loans will become mature within one year. The Group is closely monitoring the transition to new benchmark interest rates.

The management of the Group considers the fluctuation in interest rates on short-term debts carrying interests at variable rates is insignificant due to short maturity. Therefore, no sensitivity analysis is presented.

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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 terms.

The following table shows 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 would be required to repay:

	31 December 2021					
	Carrying amount RMB'000	**Total contractual undiscounted cash flow RMB'000**	**Within 1 year or on demand RMB'000**	**More than 1 year but within 2 years RMB'000**	**More than 2 years but within 5 years RMB'000**	**More than 5 years RMB'000**
Short-term interest-bearing borrowings (note 33)	**723,024**	**725,441**	**725,441**	**–**	**–**	**–**
Long-term interest-bearing borrowings (note 33)	**89,808**	**101,439**	**3,144**	**21,345**	**60,178**	**16,772**
Accounts and bills payable (note 34)	**36,319,980**	**36,319,980**	**36,319,980**	**–**	**–**	**–**
Lease liabilities (note 35)	**1,562,803**	**1,714,253**	**538,064**	**341,098**	**525,115**	**309,976**
Accrued expenses and other payables	**5,438,856**	**5,438,856**	**5,438,856**	**–**	**–**	**–**
	44,134,471	**44,299,969**	**43,025,485**	**362,443**	**585,293**	**326,748**

	31 December 2020					
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but within 2 years RMB'000	More than 2 years but within 5 years RMB'000	More than 5 years RMB'000
Short-term interest-bearing borrowings (note 33)	704,401	709,818	709,818	–	–	–
Accounts and bills payable (note 34)	33,363,786	33,363,786	33,363,786	–	–	–
Lease liabilities (note 35)	1,169,289	1,255,781	415,050	286,698	408,586	145,447
Accrued expenses and other payables	9,499,772	9,499,772	9,499,772	–	–	–
	44,737,248	44,829,157	43,988,426	286,698	408,586	145,447

43. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (continued)

(d) Currency risk

Foreign currency exchange rate risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured. As at 31 December 2021, the Group's foreign currency risk exposure mainly relates to bank deposits and borrowings denominated primarily in USD, the aggregate net liabilities are RMB328 million. To manage the impact of currency exchange rate fluctuations, the Group continually assesses its exposure to foreign currency risks, and a portion of those risks is hedged by using derivative financial instruments, when management considers it necessary. The Group does not expect the appreciation or depreciation of the RMB against foreign currency will materially affect the Group's financial position and result of operations.

(e) Price risk

The Group is exposed to equity price changes arising from equity investments at FVTPL and designated as at FVTOCI.

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 potentials 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 2021, it is estimated that an increase/(decrease) of 5% (2020: 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:

	2021		2020	
	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%**	**139,684**	5%	163,294
Decrease	**(5%)**	**(139,684)**	(5%)	(163,294)

The above sensitivity analysis indicates the instantaneous change in the Group's other components of consolidated equity that would result, 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.

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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.

	2021			
	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))	**435,963**	**–**	**3,236,509**	**3,672,472**
Financial assets at fair value through profit or loss				
– Wealth management products and structured deposits (note (ii))	**–**	**–**	**3,303,941**	**3,303,941**
– Equity instruments at fair value through profit or loss (note (iii))	**–**	**–**	**171,943**	**171,943**

	2020			
	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))	45,796	–	4,316,673	4,362,469
Financial assets at fair value through profit or loss				
– Wealth management products and structured deposits (note (ii))	–	–	3,098,634	3,098,634
– Equity instruments at fair value through profit or loss (note (iii))	–	–	64,567	64,567

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 held immediately following the initial public offering for a period of 5 years. At the end of each reporting period, the Group appointed an external valuer to determine the fair value of the listed equity security which was still within the restriction period. Based on the quoted price of the identical unrestricted shares traded on the stock exchange, adjusted to reflect the effect of restriction computed based on a discount rate determined by the external valuer. An increase in the discount rate attributable to 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 8.50% (2020: 9.90%). The carrying amount is RMB3,222 million (2020: RMB4,303 million), and a 5% increase in the discount rate, holding all other variables constant, would have decreased the carrying amount of this equity instrument by RMB15 million as at 31 December 2021 (2020: RMB24 million).

(ii) At the end of each reporting period, the Group determined the fair value of the wealth management products and structured deposits by estimating the discounted cash flow derived from them. The future cash flows had been estimated based on expected returns, and discounted at a rate that reflects the credit risk of various counterparties.

(iii) The invested entities were private companies. At the end of 31 December 2020, the Group appointed an external valuer to determine the fair value of the invested entity based on discounted cash flows. The future cash flows had been estimated based on long-term revenue growth rates, taking into management's experience and knowledge of market conditions.

(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 2021	**4,316,673**	**3,098,634**	**64,567**
Purchases	**–**	**7,588,000**	**76,575**
Disposals/settlements	**(750)**	**(7,566,024)**	**–**
Transferred to level 1	**(430,260)**	**–**	**–**
Total gains/(losses)			
– in profit or loss	**–**	**183,331**	**30,801**
– in other comprehensive income	**(649,154)**	**–**	**–**
As at 31 December 2021	**3,236,509**	**3,303,941**	**171,943**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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	Equity instruments at fair value through profit or loss RMB'000
As at 1 January 2020	4,040,865	4,567,824	818,268
Purchases	–	10,978,985	–
Settlements	–	(12,637,767)	–
Transferred to interests in associates	–	–	(772,708)
Total gains			
– in profit or loss	–	189,592	19,007
– in other comprehensive income	275,808	–	–
As at 31 December 2020	4,316,673	3,098,634	64,567

(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 addition to those disclosed in note 20, the estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Revenue recognition of system integration

The Group assesses the contracts for system integration services to identify each performance obligation contained in the contracts. Identifying the performance obligations requires judgment in some situations to determine whether multiple promised goods or services in a contract should be accounted for separately or as a group. For the contracts that contain more than one performance obligation, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis. The stand-alone selling price is the price of selling a piece of distinct goods or service underlying each performance obligation. 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.

44. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(b) Provision of ECL for accounts receivable and contract assets

Accounts receivable and contract assets with significant risk are assessed for ECL individually. In addition, the Group uses a provision matrix to calculate ECL for the accounts receivable and contract assets by groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical loss rates, taking into consideration reasonable and supportable forward-looking information that is available without undue costs or efforts. At every reporting date, the historical loss rates are reassessed and changes in the forward-looking information are considered. The provision of ECL is sensitive to changes in estimates. The Group has considered the uncertainty caused by Covid-19 and the risk that a prolonged pandemic could led to increased credit default rates appropriately. The information about the ECL and the Group's accounts receivable and contract assets are disclosed in notes 43(a), 27 and 28 respectively.

(c) 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.

45. RELATED PARTIES

The Group has undertaken significant transactions and maintained relationships with members of CTC Group, the material related party transactions are as below:

(a) Transactions with CTC Group

Because of the relationship between the Group and CTC Group, the terms of these transactions were negotiated between the Group with GTC Group.

The principal transactions with CTC Group which were carried out in the ordinary course of business are as follows:

	2021 RMB'000	2020 RMB'000
Engineering related services revenue (note (i))	**18,540,108**	17,667,912
IT application services revenue (note (ii))	**3,984,124**	3,052,386
Provision of ancillary telecommunications services revenue (note (iii))	**16,775,318**	14,887,858
Provision of operation support services revenue (note (iv))	**3,838,440**	3,421,884
Supplies procurement services revenue (note (v))	**2,769,531**	2,608,574
Property leasing services revenue (note (vi))	**139,361**	138,167
Management fee income (note (vii))	**403,877**	382,224
Property leasing services charges (note (viii))	**126,829**	158,206
IT application services charges (note (ix))	**97,067**	147,786
Operation support services charges (note (x))	**787,387**	877,889
Supplies procurement services charges (note (xi))	**2,482,872**	1,027,061
Interest expenses (note (xii))	**30,944**	19,457
Net deposits placed with China Telecom Finance (note (xiii))	**1,963,134**	1,854,252
Interest income of deposits placed with China Telecom Finance (note (xiv))	**12,829**	8,086
Net lending funds (note (xv))	**67,000**	–
Interest income of lending funds (note (xvi))	**1,819**	–

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For the year ended 31 December 2021

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 short-term 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 deposit under deposit services provided by China Telecom Finance.

(xiv) The amount represents the interest income from deposit services provided by China Telecom Finance.

(xv) The amount represents the net lending of funds to CTC Group.

(xvi) The amount represents the interest income arising from lending funds to CTC Group.

45. RELATED PARTIES (continued)

(a) Transactions with CTC Group (continued)

Amounts due from/to CTC Group included in respective balances are summarised as follows:

	2021	2020
	RMB'000	RMB'000
Cash and cash equivalents	**5,964,400**	4,001,266
Accounts and bills receivable, net	**7,259,911**	7,674,270
Contract assets, net	**9,947,108**	9,271,716
Prepayments and other current assets	**1,216,411**	635,041
Other non-current assets	**213,503**	–
Total amounts due from CTC Group	**24,601,333**	21,582,293
Interest-bearing borrowings	**13,280**	13,280
Accounts and bills payable	**261,457**	357,364
Current portion of lease liabilities	**161,904**	143,450
Contract liabilities	**845,854**	577,932
Accrued expenses and other payables	**335,403**	422,434
Lease liabilities	**699,814**	364,787
Total amounts due to CTC Group	**2,317,712**	1,879,247

As at 31 December 2021, the Group had recognised credit losses of RMB391 million (2020: RMB391 million) in respect of amounts due from CTC Group.

For the year ended 31 December 2021, additional amount of RMB560 million of right-of-use assets had been recognised under new lease contracts entered into with CTC Group (2020: RMB250 million).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

45. RELATED PARTIES (continued)

(a) Transactions with CTC Group (continued)

The terms of the principal agreements agreed with CTC 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 services, 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 tender processes.

(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 negotiated based on market rates, with reference made 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 provision of 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 services; (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 costs, local commodity prices and economic development levels.

(iv) The Group has entered into agreement with CTC pursuant to which the Group takes up the role of providing headquarter management functions to manage assets of the telecommunications support businesses of provinces, municipalities and autonomous regions ("Centralised Services"). 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 parties.

45. RELATED PARTIES (continued)

(a) Transactions with CTC Group (continued)

(v) The Group has entered into Supplies Procurement Services Framework agreement for procurement of telecommunication and non-telecommunication supplies, provision of agency services of supplies procurement, sales of telecommunication supplies and management of biddings, verification of technical specifications, warehousing transportation and installation services. 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 services; (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 on 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 costs, local commodity prices and economic development levels.

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.

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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:

	2021 **RMB'000**	2020 RMB'000
Engineering related service revenue (note (i))	**4,224,040**	3,863,108
IT application service revenue (note (ii))	**247,179**	165,374
Provision of ancillary telecommunications service revenue (note (iii))	**1,767,348**	1,635,027
Provision of operation support service revenue (note (iv))	**136,671**	94,883
Supplies procurement service revenue (note (v))	**230,189**	286,980
Property leasing service revenue (note (vi))	**3,584**	2,886
Property leasing service charges (note (vii))	**2,574**	36,323
IT application service charges (note (viii))	**479,203**	112,801
Operation support service charges (note (ix))	**2,574,729**	1,993,509
Supplies procurement service charges (note (x))	**66,064**	14,993
Interest expenses (note (xi))	**18**	16

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 the Group and 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 services; internet contents and information services provided to associates of the Group and associates of CTC Group.

(iv) The amount represents 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 services such as warehousing, transportation and installation and other related services provided to associates of the Group and associates of CTC Group.

(vi) The amount represents rental received/receivable from operating leases in respect of business premises entered into with associates of the Group and associates of CTC Group.

(vii) The amount represents rentals from short-term leases in respect of business premises paid and payable to associates of the Group and associates of CTC Group.

(viii) The amount represents charges paid and payable to associates of the Group and associates of CTC Group for basic telecommunications services, value-added services and information application services.

(ix) The amount represents charges 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 interest paid and payable to associates of CTC Group in respect of lease liabilities from associates of CTC Group.

45. RELATED PARTIES (continued)

(b) Transactions with associates of the Group and associates of CTC Group (continued)

Amounts due from/to associates of the Group and associates of CTC Group included in respective account balances are summarised as follows:

	2021 RMB'000	2020 RMB'000
Accounts and bills receivable, net	**250,307**	365,759
Contract assets, net	**292,757**	274,771
Prepayments and other current assets	**894,883**	1,240,666
Other non-current assets	**363**	–
Total amounts due from associates of the Group and associates of CTC Group	**1,438,310**	1,881,196
Accounts and bills payable	**1,009,561**	829,503
Contract liabilities	**391,765**	737,413
Current portion of lease liabilities	**104**	604
Lease liabilities	**206**	41
Accrued expenses and other payables	**80,455**	58,040
Total amounts due to associates of the Group and associates of CTC Group	**1,482,091**	1,625,601

The directors of the Company are of the opinion that the above transactions undertaken with related parties were conducted on normal commercial terms in the ordinary course of business.

(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
- Leasing of assets
- Depositing and borrowing money
- Use of public utilities

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For the year ended 31 December 2021

45. RELATED PARTIES (continued)

(c) Transactions with other government-related entities in the PRC (continued)

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 rendered and products sold 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:

	2021	2020
	RMB'000	RMB'000
Salaries and other emoluments	**6,915**	6,905
Retirement benefits	**2,680**	1,829
Discretionary bonuses	**17,922**	17,230
	27,517	25,964

(e) 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.

46. SEGMENT REPORTING

The Group principally has one operating segment, which is the provision of integrated comprehensive smart solutions in the field of informatization 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

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47. SUBSIDIARIES

The following list contains only the particulars of subsidiaries at 31 December 2021 which principally affected the results, assets or liabilities of the Group.

Name of company	Type of legal entity	Place of incorporation/ establishment	Proportion of ownership interest and voting rights held by the Company		Issued and paid up capital	Principal activities
			31 December 2021 Directly %	31 December 2020 Directly %		
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	RMB996 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	RMB317 million	Provision of integrated telecommunications support services through its subsidiaries in Hubei Province
Jiangsu Communications Services Company Limited	Limited Liability Company	The PRC	**100**	100	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

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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 2021 Directly %	31 December 2020 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
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

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For the year ended 31 December 2021

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 2021 Directly %	31 December 2020 Directly %	Issued and paid up capital	Principal activities
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	**73.985**	100	RMB1,255 million	Provision of integrated telecommunications support services
Inner Mongolia Autonomous Region Communications Services Company Limited	Limited Liability Company	The PRC	**100**	100	RMB10 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

China Comservice Supply Chain Management Company Ltd., 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 cumulative carrying amount of the Group's non-controlling interests was RMB1,203 million as at 31 December 2021 (2020: RMB469 million). The non-controlling interests were individually and in aggregate not material to the Group's financial conditions or results of operations for both 2020 and 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

48. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	31 December 2021 RMB'000	31 December 2020 RMB'000
Non-current assets		
Property, plant and equipment, net	**1,684,338**	24,168
Investment properties	**1,548,314**	–
Construction in progress	**16,517**	3,255,278
Intangible assets	**131,807**	167,285
Investments in subsidiaries	**13,897,534**	13,772,534
Interests in associates and joint ventures	**796,254**	786,794
Financial assets at fair value through profit or loss	**–**	–
Other non-current assets	**2,100,000**	37,916
Total non-current assets	**20,174,764**	18,043,975
Current assets		
Inventories	**312**	322
Accounts and bills receivable, net	**50**	179
Prepayments and other current assets	**2,167,319**	2,099,138
Restricted deposits	**503,015**	503,006
Cash and cash equivalents	**132,562**	105,732
Total current assets	**2,803,258**	2,708,377
Total assets	**22,978,022**	20,752,352
Current liabilities		
Interest-bearing borrowings	**–**	1,147,000
Accounts and bills payable	**–**	229
Contract liabilities	**481**	481
Accrued expenses and other payables	**4,412,537**	1,318,239
Income tax payable	**5,136**	4,989
Total current liabilities	**4,418,154**	2,470,938
Net current assets (note (i))	**(1,614,896)**	237,439
Total assets less current liabilities	**18,559,868**	18,281,414
Non-current liabilities		
Other non-current liabilities	**–**	63,184
Total non-current liabilities	**–**	63,184
Total liabilities	**4,418,154**	2,534,122
Equity		
Share capital	**6,926,018**	6,926,018
Reserves	**11,633,850**	11,292,212
Total equity	**18,559,868**	18,218,230
Total liabilities and equity	**22,978,022**	20,752,352

Note:

(i) The current assets of the Company were less than the current liabilities as at December 31, 2021. The current liabilities of RMB2,669 million were debts arising from amounts due to the subsidiaries of the Group, the Company will be able to decide the repayment plans at its own discretion to enable the Company to meet the liabilities as they fall due and carry on the business without a significant curtailment of operations.

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 39)	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2020	6,926,018	4,529,310	1,966,293	1,339,541	2,340,712	17,101,874
Profit for the year	–	–	–	–	2,214,130	2,214,130
Distribution of dividends (note 14(b))	–	–	–	–	(1,097,774)	(1,097,774)
Appropriations	–	–	–	221,413	(221,413)	–
At 31 December 2020	6,926,018	4,529,310	1,966,293	1,560,954	3,235,655	18,218,230
Profit for the year	**–**	**–**	**–**	**–**	**1,451,186**	**1,451,186**
Distribution of dividends (note 14(b))	**–**	**–**	**–**	**–**	**(1,109,548)**	**(1,109,548)**
Appropriations	**–**	**–**	**–**	**145,119**	**(145,119)**	**–**
At 31 December 2021	**6,926,018**	**4,529,310**	**1,966,293**	**1,706,073**	**3,432,174**	**18,559,868**

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 appropriations made to statutory surplus reserve as detailed in notes to the consolidated statement of changes in equity.

49. POSSIBLE IMPACT OF AMENDMENTS TO STANDARDS AND NEW STANDARD ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING YEAR ENDED 31 DECEMBER 2021

Up to the date of issue of these consolidated financial statements, the IASB has issued the following amendments to standards and new standard which are not yet effective for the year ended 31 December 2021 and which have not been adopted in these consolidated financial statements.

IFRS 17	Insurance Contracts and the related Amendments[1]
Amendments to IFRS 3	Reference to the Conceptual Framework[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[1]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use[2]
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to IFRS Standards	Annual Improvements to IFRS Standards 2018-2020[2]

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after 1 January 2022
3 Effective for annual periods beginning on or after a date to be determined

The Group is in the process of making an assessment of the impact that will result from adopting the amendments to standards and new standard issued by the IASB which are not yet effective for the accounting period ended on 31 December 2021. Up to the date of approval of these financial statements, the Group believes that the adoption of these amendments to standards and new standard 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 2021

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 1 January 2021 RMB'000	**Accruals RMB'000**	**Financing cash flows RMB'000**	**Foreign exchange translation RMB'000**	**Lease modified RMB'000**	**As at 31 December 2021 RMB'000**
Borrowings (note 33)	**704,401**	**–**	**128,500**	**(20,069)**	**–**	**812,832**
Dividends payable	**40,901**	**1,118,154**	**(1,130,717)**	**2,678**	**–**	**31,016**
Lease liabilities (note 35)	**1,169,289**	**1,067,021**	**(526,134)**	**–**	**(147,373)**	**1,562,803**
	1,914,591	**2,185,175**	**(1,528,351)**	**(17,391)**	**(147,373)**	**2,406,651**

	As at 1 January 2020 RMB'000	Accruals RMB'000	Financing cash flows RMB'000	Foreign exchange translation RMB'000	Lease modified RMB'000	As at 31 December 2020 RMB'000
Borrowings (note 33)	511,234	–	222,114	(28,947)	–	704,401
Dividends payable	45,196	1,110,125	(1,108,278)	(6,142)	–	40,901
Lease liabilities (note 35)	1,033,453	660,221	(467,840)	–	(56,545)	1,169,289
	1,589,883	1,770,346	(1,354,004)	(35,089)	(56,545)	1,914,591

FINANCIAL SUMMARY

(Amounts in thousands, except per share data)

	For the year ended 31 December				
	2021	2020	2019	2018	2017
	RMB	RMB	RMB	RMB	RMB
Results					
Revenue from telecommunications infrastructure services	**71,889,248**	67,164,571	64,688,815	57,359,436	50,510,988
Revenue from business process outsourcing services	**40,623,583**	37,276,879	36,637,180	35,102,822	32,763,685
Revenue from applications, content and other services	**21,478,486**	18,207,494	16,087,094	13,714,379	11,297,738
Total Revenues	**133,991,317**	122,648,944	117,413,089	106,176,637	94,572,411
Depreciation and amortisation	**(908,323)**	(827,413)	(756,976)	(466,096)	(472,621)
Direct personnel costs	**(8,804,676)**	(8,300,338)	(9,111,016)	(8,747,317)	(8,647,493)
Materials costs	**(19,166,225)**	(15,057,234)	(12,838,003)	(9,783,239)	(9,327,654)
Direct costs of products distribution	**(4,614,143)**	(4,067,599)	(4,167,579)	(4,629,177)	(6,594,772)
Subcontracting charges	**(71,239,853)**	(67,166,028)	(64,462,508)	(57,555,216)	(46,858,020)
Lease charges and others	**(14,473,679)**	(13,492,696)	(12,390,048)	(12,110,626)	(10,459,491)
Cost of revenues	**(119,206,899)**	(108,911,308)	(103,726,130)	(93,291,671)	(82,360,051)
Gross profit	**14,784,418**	13,737,636	13,686,959	12,884,966	12,212,360
Other income	**1,946,396**	1,687,789	1,554,755	1,244,889	1,014,492
Selling, general and administrative expenses	**(12,951,723)**	(11,826,471)	(11,494,404)	(10,611,071)	(9,885,426)
Other expenses	**(213,956)**	(216,802)	(333,299)	(173,722)	(126,278)
Finance costs	**(78,624)**	(63,482)	(68,888)	(25,179)	(47,119)
Share of profits of associates and joint ventures	**91,923**	168,928	148,478	105,421	63,782
Profit before tax	**3,578,434**	3,487,598	3,493,601	3,425,304	3,231,811
Income tax	**(392,673)**	(398,278)	(463,802)	(497,405)	(482,733)
Profit for the year	**3,185,761**	3,089,320	3,029,799	2,927,899	2,749,078
Attributable to:					
Equity shareholders of the Company	**3,157,434**	3,081,475	3,049,229	2,901,324	2,714,213
Non-controlling interests	**28,327**	7,845	(19,430)	26,575	34,865
Profit for the year	**3,185,761**	3,089,320	3,029,799	2,927,899	2,749,078
Basic/diluted earnings per share (RMB)	**0.456**	0.445	0.440	0.419	0.392

FINANCIAL SUMMARY

(Amounts in thousands, except per share data)

	At 31 December				
	2021	2020	2019	2018	2017
	RMB	RMB	RMB	RMB	RMB
Financial position					
Property, plant and equipment, net	**6,212,786**	4,330,733	4,369,251	4,384,700	4,190,375
Right-of-use assets	**2,422,952**	2,046,005	1,895,996	–	–
Equity instruments at fair value through other comprehensive income	**3,672,472**	4,362,469	4,088,204	3,737,553	–
Other non-current assets	**8,444,015**	7,487,143	3,935,232	4,289,914	4,199,679
Inventories	**1,492,011**	1,676,943	1,974,150	2,253,027	2,275,735
Accounts and bills receivable, net	**18,254,155**	18,208,251	19,092,825	18,668,024	30,370,500
Contract assets, net	**21,534,745**	19,786,576	17,153,529	15,664,758	–
Prepayments and other current assets	**11,102,020**	9,618,272	8,771,768	8,646,123	11,815,129
Financial assets at fair value through profit or loss	**3,364,554**	3,098,634	4,567,824	5,046,898	1,262,514
Cash and cash equivalents	**21,171,025**	21,008,490	19,220,764	16,106,246	13,266,631
Restricted deposits	**2,357,234**	2,865,265	2,471,515	2,128,757	3,354,288
Total assets	**100,027,969**	94,488,781	87,541,058	80,926,000	70,734,851
Interest-bearing borrowings	**723,024**	704,401	511,234	462,003	308,876
Accounts and bills payable	**36,319,980**	33,363,786	30,674,619	28,279,533	24,600,681
Current portion of lease liabilities	**490,859**	400,627	343,281	–	–
Contract liabilities	**11,449,171**	10,977,645	10,087,102	8,648,060	–
Receipts in advance for contract work	**–**	–	–	–	4,997,284
Accrued expenses and other payables	**9,090,865**	9,499,772	8,730,235	9,017,427	11,320,729
Income tax payable	**239,624**	282,597	337,372	323,514	339,393
Non-current liabilities	**2,104,326**	2,072,979	1,819,443	1,366,602	348,237
Total liabilities	**60,417,849**	57,301,807	52,503,286	48,097,139	41,915,200
Equity attributable to equity shareholders of the Company	**38,407,214**	36,717,684	34,563,910	32,331,323	28,329,098
Non-controlling interests	**1,202,906**	469,290	473,862	497,538	490,553
Total equity	**39,610,120**	37,186,974	35,037,772	32,828,861	28,819,651
Total liabilities and equity	**100,027,969**	94,488,781	87,541,058	80,926,000	70,734,851

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