中国通信服务
CHINA COMSERVICE

中國通信服務股份有限公司

CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED

(A joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 552)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

HIGHLIGHTS

- Innovation and transformation supporting continued steady growth, and "value-driven principle" leading further enhancement in the quality of development.
    - Total revenues were RMB88,449 million, up by 9.3%.
    - Profit attributable to equity shareholders of the Company was RMB2,536 million, up by 8.6%.
    - Free cash flow was RMB4,361 million, up by 22.1%.
    - Gross profit margin and net profit margin were 13.2% and 2.9%, respectively.
- The Board has proposed to pay a final dividend of RMB0.1098 per share and a special dividend of RMB0.0220 per share to appropriately increase shareholders' return. Total dividend for 2016 is RMB0.1318 per share, up by 18.5%.

CHAIRMAN'S STATEMENT

Dear Shareholders,

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

Operating Performance

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

Special Dividend

The Board has proposed to distribute a final dividend of RMB0.1098 per share for the financial year ended 31 December 2016, representing a dividend payout ratio of 30%. Moreover, in view of the Group's outstanding operating results and free cash flow for the year, the Board has proposed to distribute a special dividend of RMB0.0220 per share for 2016. Taking into consideration of the above factors, the Company's total dividend for 2016 is RMB0.1318 per share, representing a year-on-year growth of 18.5% and a total dividend payout ratio of 36%.

1 Two New Markets refer to domestic non-operator market and overseas market.

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

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

Market Expansion

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

In 2016, the Group focused on the breakthrough of key businesses, speeded up the development of the Two New Markets, and demonstrated new energy and new look on its corporate development. With an increasing understanding and confidence among the Group to devote more effort to expanding into the domestic non-operator market, the Group further refined its marketing system and gradually formulated a business expansion mechanism with appropriate separation over the functions of marketing and project delivery. The commercialization of our projects, including smart industrial park, smart security and smart transportation, were accelerated, and significant breakthroughs were achieved by the Group in various sectors, including government, transportation, internet, IT and power. With proactive control of the products distribution business with low efficiency during the year, revenue from domestic non-operator market for the year recorded a year-on-year growth of 3.4%, and accounted for 26.8% of the total revenues. Excluding products distribution business in such market, revenue from the core businesses[5] recorded a year-on-year growth of 28.7% and accounted for more than 70% of the revenue in such market. The revenue structure of domestic non-operator market was further optimized and the gross profit margin recorded a moderate increase. The favourable growth of revenue from the Core Businesses of domestic non-operator market contributed significantly to the overall increase in the total revenues of the Group, demonstrating the sound results of our innovation and transformation. The Group promoted the development of new businesses in regional market, including Africa, the Middle East and South East Asia, and shifted its focus from project hunting to project initiation. The Group also focused on major turnkey projects, further promoted the "China-Africa Partnership Program in Trans Africa Information Superhighway" Project and made further progress. The Group proactively studied the feasibility to set up an industry investment fund with potential partners to promote the scale development of the overseas business. In 2016, the overseas business of the Group resumed steady development and realized a year-on-year growth of 19.3%, accounting for 4.4% of the total revenues.

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

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

Business Structure

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

Reform and Innovation

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

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

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

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

Corporate Governance

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

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

Social Responsibilities

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

Prospects

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

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

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

Sun Kangmin
Chairman

Beijing, PRC
30 March 2017

PRESIDENT'S STATEMENT

Dear Shareholders,

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

Financial Performance

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

Business Development

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

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

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

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

Customer Development

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

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

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

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

Efficiency Enhancement

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

Prospects

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

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

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

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

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

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

Si Furong
President

Beijing, PRC
30 March 2017

[10] The three-step strategy covers business replication, capability extension and informatization innovation.

[11] EPC+ refers to the business model which comprises EPC (engineering, procurement and construction) + solutions + operating services and financing.

GROUP RESULTS

China Communications Services Corporation Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016, extracted from the audited consolidated financial statements of the Group as set out in its 2016 annual report.

Consolidated Statement of Profit or Loss
For the year ended 31 December 2016

	Notes	**2016** **RMB'000**	2015 *RMB'000*
Revenues	*4*	**88,449,356**	80,959,946
Cost of revenues	*5*	**(76,759,191)**	(69,572,305)
Gross profit		**11,690,165**	11,387,641
Other operating income	*6*	**943,021**	854,051
Selling, general and administrative expenses		**(9,501,481)**	(9,306,152)
Other operating expenses		**(95,232)**	(109,170)
Finance costs	*7*	**(46,667)**	(51,392)
Share of profits of associates		**66,095**	49,985
Profit before tax	*8*	**3,055,901**	2,824,963
Income tax	*9*	**(502,706)**	(487,446)
Profit for the year		**2,553,195**	2,337,517
Attributable to:			
Equity shareholders of the Company		**2,536,249**	2,334,412
Non-controlling interests		**16,946**	3,105
Profit for the year		**2,553,195**	2,337,517
Basic earnings per share (RMB)	*12*	**0.366**	0.337

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2016

	Notes	**2016** **RMB'000**	2015 RMB'000
Profit for the year		**2,553,195**	2,337,517
Other comprehensive income for the year (after tax)			
Items that may be subsequently reclassified to profit or loss (after tax):			
Exchange differences on translation of financial statements of subsidiaries outside Mainland China		**38,268**	27,511
Available-for-sale securities: net movement in the fair value reserve	*10*	**2,392**	13,865
		40,660	41,376
Total comprehensive income for the year		**2,593,855**	2,378,893
Attributable to:			
Equity shareholders of the Company		**2,576,796**	2,375,752
Non-controlling interests		**17,059**	3,141
Total comprehensive income for the year		**2,593,855**	2,378,893

Consolidated Statement of Financial Position
At 31 December 2016

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

Consolidated Statement of Financial Position ***(Continued)***
At 31 December 2016

	Notes	**31 December 2016** ***RMB'000***	31 December 2015 *RMB'000*
Non-current liabilities			
Interest-bearing borrowings		**17,343**	34,455
Other non-current liabilities		**942,076**	865,780
Deferred tax liabilities		**12,268**	14,687
Total non-current liabilities		**971,687**	914,922
Total liabilities		**35,546,199**	32,703,717
Equity			
Share capital	*15*	**6,926,018**	6,926,018
Reserves		**19,647,411**	17,834,795
Equity attributable to equity shareholders of the Company		**26,573,429**	24,760,813
Non-controlling interests		**474,353**	448,796
Total equity		**27,047,782**	25,209,609
Total liabilities and equity		**62,593,981**	57,913,326

Notes:

1. STATEMENT OF COMPLIANCE

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

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current year of the Group. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior years reflected in these financial statements.

2. CHANGES IN ACCOUNTING POLICIES

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

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

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

3. SEGMENT REPORTING

The Group principally has one reportable segment, which is the provision of integrated telecommunications support services in the informatisation sector. Therefore, no additional segment information has been presented. Additional information about major customers and geographical areas of the Group has been disclosed in note 4.

4. REVENUES

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

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

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

For the year ended 31 December 2016, the Group's first three businesses that contributed to the overall revenues were construction, management of infrastructure for information technology and products distribution, the revenues from which amounted to RMB33,711 million, RMB10,685 million and RMB10,479 million, respectively (2015: The Group's first three businesses that contributed to the overall revenues were construction, products distribution and management of infrastructure for information technology, the revenues from which amounted to RMB28,784 million, RMB13,095 million and RMB9,756 million, respectively).

5. COST OF REVENUES

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

6. OTHER OPERATING INCOME

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

7. FINANCE COSTS

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

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

8. PROFIT BEFORE TAX

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

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

The selling expenses, general and administrative expenses and other expenses of the Group are RMB1,514 million, RMB7,286 million and RMB701 million (2015: RMB1,406 million, RMB7,264 million and RMB636 million), respectively for the year ended 31 December 2016. Research and development costs include RMB1,769 million (2015: RMB1,591 million) relating to staff costs, amount of which is also included in the staff cost disclosed in note 8(a).

9. INCOME TAX

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

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

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

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

Notes:

(i) The provision for income tax of the Group is calculated based on a statutory rate of 25% of the assessable profit of the Group as determined in accordance with the relevant PRC income tax rules and regulations for the years ended 31 December 2016 and 2015, except for certain domestic subsidiaries of the Group, which are taxed at preferential rates of 20%, 15% and 10%, where applicable; and for certain overseas subsidiaries of the Group, which are taxed at respective statutory rates.

(ii) The amount includes personnel and other miscellaneous expenses in excess of statutory deductible limits for tax purposes.

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

10. OTHER COMPREHENSIVE INCOME

Available-for-sale securities

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

11. DIVIDENDS

(a) Dividends attributable to the year

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

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

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

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the year ended 31 December 2016 of RMB2,536,249 thousand (2015: RMB2,334,412 thousand) and number of shares in issue during the year ended 31 December 2016 of 6,926,018 thousand shares (2015: 6,926,018 thousand shares).

13. ACCOUNTS AND BILLS RECEIVABLE, NET

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

(a) Included in accounts and bills receivable are amounts due from CTC Group, associates of the Group and associates of CTC Group of RMB18,393 million (2015: RMB16,155 million) as at 31 December 2016. The amounts due from CTC Group, associates of the Group and associates of CTC Group are unsecured, interest-free and are expected to be recovered within one year.

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

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

Note: Including revenues within the credit terms for contract work.

(c) Impairment of accounts and bills receivable

Impairment losses in respect of accounts and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against accounts and bills receivable directly.

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

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

At 31 December 2016, accounts and bills receivable of RMB1,322 million (2015: RMB1,421 million) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific impairment losses of RMB671 million (2015: RMB511 million) were recognised. The Group does not hold any collateral over these balances.

(d) Accounts and bills receivable that is not impaired

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

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

Receivables that were neither past due nor impaired mainly relate to major telecommunications operators for whom there was no recent record of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowances is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

14. ACCOUNTS AND BILLS PAYABLE

Accounts and bills payable comprise:

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

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

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

Included in accounts and bills payable are amounts due to CTC Group, associates of the Group and associates of CTC Group of RMB1,034 million (2015: RMB1,777 million) as at 31 December 2016. The amounts due to CTC Group, associates of the Group and associates of CTC Group are unsecured, interest-free and are expected to be settled within one year.

15. SHARE CAPITAL

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

	2016	2015
	Thousand shares	*Thousand shares*
At 1 January and 31 December	**6,926,018**	6,926,018

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

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Overview

In 2016, the Group upheld the management philosophy of "value-driven, seeking steady yet progressive growth and efficient development", firmly captured the opportunities from the domestic telecommunications operators market in network construction and upgrade, optimization of broadband quality and speed, tower construction and maintenance, and also continued to focus on the two new markets – domestic non-operator market and overseas market, thereby achieving continuous growth in revenue and net profit. Our business saw a "steady yet progressive growth with quality enhancement". Total revenues for the year amounted to RMB88,449 million, representing an increase of 9.3% as compared to 2015. Profit attributable to equity shareholders of the Company was RMB2,536 million, representing an increase of 8.6% as compared to RMB2,334 million in 2015. Basic earnings per share were RMB0.366. Free cash flow amounted to RMB4,361 million, representing an increase of 22.1% as compared to RMB3,573 million in 2015.

Total Revenues

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

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

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

	2016 *RMB'000*	2015 *RMB'000*	Percentage Change
Telecommunications Infrastructure Services			
Design services	**9,071,584**	7,638,658	18.8%
Construction services	**33,710,753**	28,783,754	17.1%
Project supervision and management services	**3,104,613**	2,786,855	11.4%
	45,886,950	39,209,267	17.0%
Business Process Outsourcing Services			
Management of infrastructure for information technology (Network Maintenance)	**10,685,045**	9,755,886	9.5%
General facilities management	**4,160,068**	3,768,734	10.4%
Supply chain[12]	**7,209,334**	6,394,092	12.7%
Sub-total of Core BPO Services	**22,054,447**	19,918,712	10.7%
Products distribution[12]	**10,479,155**	13,095,318	–20.0%
	32,533,602	33,014,030	–1.5%
Applications, Content and Other Services			
System integration	**4,808,799**	3,916,704	22.8%
Software development and system support	**1,687,084**	1,493,757	12.9%
Value added services	**1,654,394**	1,497,005	10.5%
Others	**1,878,527**	1,829,183	2.7%
	10,028,804	8,736,649	14.8%
Total	**88,449,356**	80,959,946	9.3%

Telecommunications Infrastructure Services

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

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

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

Business Process Outsourcing Services

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

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

Applications, Content and Other Services

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

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

Cost of Revenues

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

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

	2016	2015	Percentage
	RMB'000	*RMB'000*	Change
Direct personnel costs	**8,316,693**	8,731,020	–4.7%
Depreciation and amortisation	**455,215**	447,031	1.8%
Materials costs[13]	**8,281,024**	7,799,871	6.2%
Direct costs of products distribution[13]	**9,764,598**	12,652,927	–22.8%
Subcontracting charges	**41,016,647**	31,811,771	28.9%
Operating lease charges and others	**8,925,014**	8,129,685	9.8%
Total cost of revenues	**76,759,191**	69,572,305	10.3%

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

Direct Personnel Costs

In 2016, direct personnel costs amounted to RMB8,317 million, representing a decrease of 4.7% from RMB8,731 million in 2015. Direct personnel costs as a proportion to our total revenues was 9.4%, representing a decrease of 1.4 percentage points from 2015. With the growth in business volume in 2016, the Group consistently applied reasonable control over its total headcount and subcontracted its low-end businesses, and thereby minimized the staff costs. The Group also strictly complied with the newly-amended Labour Contract Law and employed dispatch workers in accordance with the relevant regulations to avoid related risks.

Depreciation and Amortisation

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

Materials Costs

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

Direct Costs of Products Distribution

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

Subcontracting Charges

In 2016, subcontracting charges were RMB41,017 million, representing an increase of 28.9% as compared to RMB31,812 million in 2015. Subcontracting charges as a proportion to our total revenues was 46.4%, representing an increase of 7.1 percentage points over 2015. The increase in subcontracting charges was mainly derived from the TIS and Network Maintenance businesses. Having considered its strategic development, effectiveness and efficiency, the Group continued to focus on high-end businesses and outsourced certain low-end tasks. Besides, as a result of the rapid growth in TIS business, and the sound development in Network Maintenance business, which is labour-intensive in nature and demands for more subcontracts, subcontracting charges grew rapidly during the year. As the scale of the Group's business continued to expand, the engagement of subcontractors enabled a more flexible utilization of external resources for the Group, and at the same time will lead to a more rapid growth in the Group's subcontracting charges.

Operating Lease Charges and Others

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

Gross Profit

The Group achieved a gross profit of RMB11,690 million in 2016, representing an increase of 2.7% over RMB11,388 million in 2015. The Group's gross profit margin in 2016 was 13.2%, representing a decrease of 0.9 percentage point from 14.1% in 2015. In 2016, the decrease in gross profit margin of the Group was due to various factors, including the decrease in service charge in certain businesses, the increase in labour-related costs, and low profit margin in the initial stage of expansion into new markets. At the same time, the Group also strived to optimize its business and customer structure and control its costs, thereby alleviating the impacts brought by the external environment on gross profit margin to a certain extent.

Selling, General and Administrative Expenses

The selling, general and administrative expenses of the Group in 2016 were RMB9,501 million, representing an increase of 2.1% as compared to RMB9,306 million in 2015. Benefited from the economies of scale in business development and effective cost control, the selling, general and administrative expenses as a proportion of our total revenues was 10.7%, representing a decrease of 0.8 percentage point from 2015.

Finance Costs

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

Income Tax

The income tax of the Group in 2016 was RMB503 million and our effective tax rate was 16.5%, representing a decrease of 0.8 percentage point from 17.3% in 2015. The difference between the Group's effective tax rate and the statutory tax rate was mainly due to the preferential income tax rate treatment enjoyed by certain subsidiaries, which are classified as new and high-technology enterprises, and the preferential policy of tax deduction before income tax for research and development expenses. In 2016, certain subsidiaries of the Group that fall under the scope of new and high-technology enterprises were entitled to a preferential income tax rate of 15%. Certain enterprises in the western China were entitled to the preferential policies for Western Development Program. Apart from these subsidiaries, the Company and other domestic subsidiaries of the Group were mainly subject to an income tax rate of 25%. The overseas subsidiaries of the Group were subject to different tax rates in various countries.

Profit Attributable to Equity Shareholders of the Company and Basic Earnings Per Share

In 2016, profit attributable to equity shareholders of the Company was RMB2,536 million, representing an increase of 8.6% over RMB2,334 million in 2015. Profit attributable to equity shareholders of the Company accounted for 2.9% of our total revenues, which remained stable as compared to 2015. Basic earnings per share of the Company were RMB0.366 (2015: RMB0.337).

Capital Expenditure

The Group implemented stringent budget management over capital expenditure, and made adjustments according to changes in market condition. In 2016, capital expenditure amounted to RMB721 million, representing an increase of 1.3% over RMB712 million in 2015. The capital expenditure in 2016 accounted for 0.8% of the total revenues, representing a decrease of 0.1 percentage point over 2015. The capital expenditure of the Group included the purchases of production facilities and equipment, machinery and meters, plant and office buildings, intangible assets and other operating assets.

Cash Flow

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

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

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

In 2016, net cash generated from operating activities was RMB5,265 million, representing an increase of RMB577 million from RMB4,688 million in 2015. The increase in net cash generated from operating activities was mainly attributable to the Group's "value-driven" principle and appraisal system, the strengthening of management of cash flow and accounts receivable, and effective accounts receivable settlement and collection work during the course of business expansion.

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

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

Working Capital

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

Indebtedness

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

As at the end of 2016, our gearing ratio[14] was 2.8%, representing a decrease of 0.6 percentage point from 3.4% as at the end of 2015.

Contractual Obligations

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

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

Exchange Rate

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

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

For the year ended 31 December 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

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

AUDIT COMMITTEE

The audit committee has reviewed the accounting principles and practices adopted by the Group and discussed risk management, internal control and financial reporting matters including the review of the annual report for the year ended 31 December 2016 with the management and the Company's international auditors, Deloitte Touche Tohmatsu.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

As a company incorporated in the PRC and listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company has not only complied with the relevant provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") but also has abided by the PRC Company Law and the applicable laws, regulations and regulatory requirements of Hong Kong and the PRC as the basic guidelines for the Company's corporate governance. Throughout the year ended 31 December 2016, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules to govern securities transactions by the directors and supervisors of the Company. The Company has made specific enquiries to the directors and supervisors, and each of the directors and supervisors has confirmed his/her compliance with the Model Code in connection with the transactions of the Company's securities in the reporting period.

CLOSURE OF SHARE REGISTER

1. Annual General Meeting

The H share register of members of the Company will be closed, for the purpose of determining shareholders' entitlement to attend the annual general meeting to be held on Friday, 23 June 2017 (the "Annual General Meeting"), from Wednesday, 24 May 2017 to Friday, 23 June 2017 (both days inclusive), during which period no transfer of H shares will be registered. In order to attend the Annual General Meeting, all transfer documents, accompanied by the relevant share certificates, must be lodged for registration with Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Tuesday, 23 May 2017. H share shareholders who are registered with Computershare Hong Kong Investor Services Limited on Friday, 23 June 2017 are entitled to attend the Annual General Meeting.

2. Proposed Final Dividend and Special Dividend

The Board proposes a final dividend of RMB0.1098 per share and a special dividend of RMB0.0220 per share, and the total dividend is RMB0.1318 per share (pre-tax) for the year ended 31 December 2016. The dividend proposal will be submitted for consideration at the Annual General Meeting. If such proposed dividend distribution is approved by the shareholders, the final dividend and special dividend will be distributed to those shareholders whose names appear on the register of members of the Company on Tuesday, 11 July 2017. The register of members will be closed from Thursday, 6 July 2017 to Tuesday, 11 July 2017 (both days inclusive). In order to be entitled to the final dividend and special dividend, H share shareholders who have not registered the transfer documents are required to deposit the transfer documents together with the relevant share certificates at Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong at or before 4:30 p.m. on Wednesday, 5 July 2017.

Dividends will be denominated and declared in Renminbi. Dividends will be paid in Renminbi for holders of domestic shares and holders of H shares (including enterprises and individuals) who invest in the H shares of the Company listed on the Hong Kong Stock Exchange through the Shanghai Stock Exchange or Shenzhen Stock Exchange ("the Southbound Trading") (the "Southbound Shareholders"), and dividends for H share shareholders other than the Southbound Shareholders will be paid in Hong Kong dollars. The relevant exchange rate will be the average of the mid-point rates of Renminbi to Hong Kong dollars as announced by the People's Bank of China for the week prior to the date of approval of declaration of dividends by the Annual General Meeting. The record date for entitlement to the shareholders' rights and the relevant arrangements of dividend distribution for Southbound Shareholders are the same as those for the Company's H share shareholders. The proposed dividends are expected to be paid on or about Friday, 18 August 2017 upon approval at the Annual General Meeting.

The Company shall be obliged to withhold and pay income tax on behalf of overseas non-resident enterprise shareholders and overseas resident individual shareholders of H shares whose names appear on the Company's H share register of members on Tuesday, 11 July 2017 according to the following regulations:

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

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

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

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

ANNUAL REPORT

The annual report for the year ended 31 December 2016 will be dispatched to shareholders and made available on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.chinaccs.com.hk) in due course.

FORWARD-LOOKING STATEMENTS

The Company would also like to caution readers about the forward-looking nature of certain of the above statements. These forward-looking statements are subject to risks, uncertainties and assumptions, which are beyond our control. Potential risks and uncertainties include those concerning the growth of the telecommunications industry in China, the development of the regulatory environment and our ability to successfully execute our business strategies. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. We do not intend to update these forward-looking statements. Actual results may differ materially from the information contained in the forward-looking statements as a result of a number of factors.

Beijing, PRC
30 March 2017

As at the date of this announcement, our executive directors are Mr. Sun Kangmin, Mr. Si Furong and Ms. Hou Rui, our non-executive director is Mr. Li Zhengmao and our independent non-executive directors are Mr. Zhao Chunjun, Mr. Siu Wai Keung, Francis, Mr. Lv Tingjie, Mr. Wu Taishi and Mr. Liu Linfei.